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FULL GUIDE

BUILDING BRIDGES

A guide to better partnership working between local authorities and housing associations.



Advisers



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Guide statement

The housing crisis is as serious as it has ever been and the economic, social and political landscape remains unstable and unpredictable.

In such an environment the pressure on local authorities and housing associations is profound, and effective joint working is crucial to make sure people in our communities receive the housing support they need.

Both sets of organisations share a strong common vision and purpose to provide much-needed affordable housing- and this guide highlights key areas to focus on to help them maximise what they can achieve together.

The recession and subsequent cuts to local authority funding leading to housing organisations taking on services traditionally provided by councils, the proposed sale of high value assets, the increasingly challenging funding environment- all of these things and more have put the relationship between local

authorities and housing associations under a significant degree of pressure at a time when the need for a positive working relationship is vital.

Meanwhile the government has recognised the need for all organisations to play a part in solving the housing crisis and the need for local authorities and housing associations to work together to deliver its vision to fix the broken housing market.

We think this is a crucial time to establish what the key challenges to the relationship between local authorities and housing association are, how changes in policy and practice could improve this and, crucially, to showcase best practice examples of these organisations working together.

It is very clear from the guide that the landscape remains a challenging one and that there are things that the government can consider to ease the pressure.

But the guide also showcases some innovative and extremely successful examples of partnership working

and highlights the potential of this work to meet housing need, in spite of the many challenges both sets of organisations face.

Thank you to the many people from across the housing sector who played a part in putting the guide together - your expertise, honesty and willingness to share your work made this guide possible.

We hope you find Building Bridges informative and useful.

Terrie Alafat



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Introduction

1. What is the purpose of this guide?

Local authorities and housing associations share a common purpose: to ensure that the communities they serve have access to good quality, affordable housing. By working together rather than apart, they can achieve far more.

How can they work together more effectively? The guide addresses this question in practical ways. Drawing on good-practice case studies, extensive discussions with practitioners and new proposals developed by the authors, it aims to assist councils and associations to build new partnerships or strengthen existing ones.

2. Who is the guide for?

The guide is aimed at:

- Local authorities – those who retain council housing and those who do not, including combined authorities and those with their own local development vehicles (local housing companies) or ALMOs.
- Housing associations – not just large developing associations but small, medium and specialist ones, including those focused on wider community development issues or supported housing, or working (for example) with minority ethnic communities.
- Trade and professional bodies (NHF, LGA, London Councils, NFA, ARCH and CIH).
- Government and the HCA – the social housing regulator – together with the GLA, in terms of how they can support the sector to foster good working relationships.

3. What will the guide cover?

Local authorities and housing associations vary in size, operation, and geography. They face different challenges and work in different ways to overcome them. The range of inter-related activities that take place between them on key housing issues is set out in the chart below. In addition, many housing associations support local authorities' place-shaping, economic development, public health and social care roles, not covered in this guide.

Our research suggests there are four key areas that determine whether local authority and housing association relationships are working well, and the guide focuses on these:

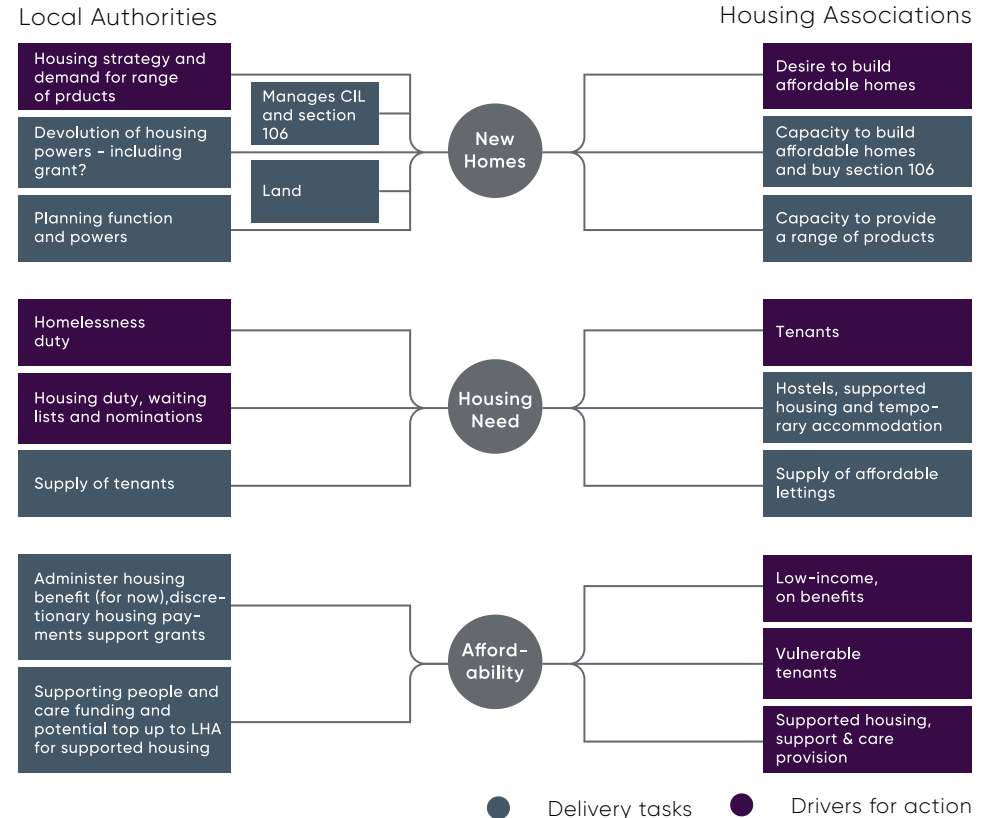
- leadership and partnership culture ([chapter 2](#))
- allocations and homelessness ([chapter 4](#))
- land and housing supply ([chapter 3](#))
- affordability and rents ([chapter 5](#)).

[Chapter 1](#) sets the context for the guide by describing the housing issues being faced by local authorities and housing associations in the current operating environment. [Chapter 6](#) contains a summary of all the guide's recommendations.

The guide only touches on welfare reform and care and support issues where they are relevant to its key topics. It does not cover modern methods of construction because this raises complex technical issues.

Finally, the guide focuses on England, although the case studies may well be relevant to other parts of the UK.

Key housing interactions between local authorities and housing associations



4. Why do local authorities and housing associations need to work in partnership today?

Successful and sustained partnerships between local authorities and housing associations from the late 1960s until the financial crash of 2008 demonstrated the logic of the two sectors working together. After 2008, and particularly after the implementation of coalition government housing policy in 2011, relationships have come under increasing strain. Despite a continued common purpose, there has been a growing gap between the urgent need of local authorities to house people in the greatest housing need and the ability of housing associations to build or let at rents that many of those in need can afford.

The pursuit of austerity in public services and welfare benefits from 2010 significantly reduced funding and investment in housing. The smaller pots of housing investment available have been redirected towards new build at higher rents or for homeownership. While many associations have continued to supply housing at social rents through cross-subsidy from their surpluses and market sales, there has been a significant change in the balance of the new supply they deliver.

Nevertheless, the ambition of housing associations to build has helped to sustain overall housing supply. Housing associations have also made a significant contribution to meeting a new and growing type of housing need – from working and middle-income households increasingly frozen out of homeownership by rising prices, tighter mortgage rules and the need for larger deposits.

The problem for authorities is that output at genuinely affordable rents is now substantially below what they need to meet their statutory housing responsibilities, forcing many to use the private sector in homelessness prevention cases or for temporary accommodation, and (particularly in London) to make ‘out of borough’ housing offers.

Relations have also been strained by government-led initiatives such as the conversion of social rent lettings to Affordable Rents, welfare reforms affecting tenants’ ability to afford social housing and the proposal to fund the voluntary right to buy by the sale of higher-value council homes (although this may not now go ahead).





Another source of tension has been cuts in day-to-day services. Both sectors have seen reductions in rental income, with the greatest impact on local authorities because their housing finances are more tightly constrained. Cuts in local authority General Fund spending have also affected the key planning and enabling functions on which housing associations depend to deliver new homes, causing frustration among those keen to boost housing delivery. But while housing associations have options to work in areas more favourable to their businesses, local authorities are geographically constrained. Part of the drive towards devolution comes from the recognition of the benefits to councils of working in partnership across wider areas, such as city regions.

Reduced revenue fund support, and the prospect of none whatsoever from 2020, has bred a more commercial outlook among authorities. They increasingly seek to sweat their asset portfolio and create commercial companies to generate revenue surpluses. One expression of this commercial ambition is the growing council interest in long-term joint ventures where they share risk and reward, lease land rather than sell it, share the benefit of rising land and property values, and generate a revenue stream to compensate for reduced government revenue funding. Another is that over 100 authorities have set up local housing companies (LHCs) to add to local housing supply and, in many cases, to secure a revenue return

from new housing. There is some concern among housing associations that authorities will in future direct much of their (limited) development land and planning gain arising from commercial development to LHCs, rather than to their traditional housing association partners.

In a number of areas, close working relationships have been undermined, creating tension and in some cases a loss of trust between authorities and associations. There are also many examples of effective partnerships and innovative ways to address the challenges which work for both councils and housing associations, and the guide highlights these throughout. Together, authorities and associations can manage and mitigate current difficulties and engender the new era of partnership working that the housing crisis demands.

5. How is the context of government policy changing?

The government is faced with a widening range of housing problems. Housing supply is still insufficient. Homelessness has increased substantially – especially in London and other large urban areas – and the pressures are evident in the use of temporary accommodation being at a record high. With static wages and rising rents, affordability is a huge issue: more than three million UK households spend over a third of their income on housing. At the same time, the stock of housing let at genuinely affordable rents is shrinking and current policies mean it will decline still further.

But there are also signs that government policy may be about to change.

In February 2017, the government’s housing white paper acknowledged that the housing market was ‘broken’ in terms of supply and affordability, affecting people in different income groups across all tenures. Although the housing investment plans inherited from the pre-referendum government largely remain in place, there has been a modest shift towards producing more housing for rent, and a stronger commitment to housing delivery by the full range of agencies and making greater use of the planning system to facilitate development. Nevertheless, the increasing mismatch between supply and affordability still needs to be addressed.

During the recent election campaign, the Conservatives promised to heal social divisions and tackle inequality. Labour produced a radical anti-austerity manifesto – attracting widespread popular support, especially from younger people affected by the housing crisis. Both major parties made promises to build one million homes by 2020 and half a million more over the following two years.

Labour went on to promise ‘at least 100,000 genuinely affordable homes to rent and buy a year by the final year of the next Parliament, including the biggest council housebuilding programme in more than 30 years’.

The election campaign changed the nature of the public debate on austerity, making it more difficult for the new Conservative minority government to press ahead with the previous austerity plans. Then the tragic loss of lives in the Grenfell Tower disaster – where most of the victims were poor and from BME, migrant or refugee backgrounds – raised public awareness of the inadequacy of state support for those in the greatest housing need.

This suggests that there is both an opportunity and an obligation to press for more investment in affordable housing. Given the considerable scale of government support for the private housing market, much could be achieved by a change of priorities. Although it remains to be seen whether there is any boost for social housing investment or a restoration of welfare benefit cuts in the Autumn Budget, these issues are now firmly at the centre of political debate.

Now, then, is the time for local authorities and housing associations to overcome the difficulties that have in many (but not all) cases impaired the effectiveness of their partnerships in recent years. There are new homes to be built, different products to produce to meet the housing needs of the unemployed, struggling working families and aspirant young professionals at rents or prices that are genuinely affordable. As this guide demonstrates, by working together, local authorities and housing associations can achieve far more.

This guide, drawing on existing good practice supplemented by new proposals, and aiming to assist councils and associations in building new or strengthening existing partnerships, is therefore most timely. Even if there is a boost in government investment for housing at social rent, current challenges are unlikely to disappear immediately or completely and trust must be rebuilt.



6. How was the guide compiled?

The prime material for the guide is case-study material based on discussions with local authority and housing association colleagues in different parts of the country and covering a variety of different local needs.

The guide has also drawn from the findings of a survey of practitioners; a set of regional round tables run by CIH in 2016 and 2017; other case study material held by CIH and the consultants Altair; legal insight from Trowers & Hamlins; and the extensive experience in this field of an advisory group and the authors.

The guide builds on and complements two additional CIH projects:

- A research project with the University of Sheffield exploring how the policy landscape, financial pressures and other challenges have affected how councils and housing associations work together to tackle homelessness. It is supported by the Crook Public Service Fellowships and the Economic and Social Research Council's Impact Accelerator Fund. Its results will be published soon.
- *Working together to meet housing need: local authority and housing association partnership in a changing environment*, published in June 2017, a short report looking at the benefits and challenges of joint working between local authorities and housing associations based on the round tables noted above.

The context – How the operating environment affects partnership working

For effective partnership working, local authorities and housing associations need a better understanding of each other's businesses, and the operating environment in which both are working.





The key issues are:

- supply and demand for housing across England
- housing need and homelessness
- how local authorities and housing associations can help to meet these needs
- challenges that social landlords face in raising their output while maintaining affordability of supply
- the contribution made by the private rented sector.

Statistical and policy evidence to explain these issues is presented in full detail (with sources and footnotes) in the [Appendix](#).

1. Supply and demand for housing across England

Simply to keep up with household growth over the next 25 years, England needs to build an extra 227,000 dwellings each year to 2024 and 199,000 thereafter. This level of output has not been achieved since before the recent recession. Over the five years since 2011, the cumulative difference between household growth and homes built has grown to 370,000.

Demand is lowest in the North East and highest in London. Some 26% of demand is accounted for by London alone and 55% is accounted for by London together with the South East and East of England. Nevertheless, all regions have a shortfall. CIH has argued that an annual target of 250,000 homes is now required to meet needs fully.

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What proportion of output needs to be 'affordable' housing? Recent assessments indicate that at least one-third of new homes need to be at sub-market prices, ie around 80,000 extra units per year for social rent, Affordable Rent, or intermediate housing (see [Glossary](#) for definitions).

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The required split of 'affordable' output will vary per local authority – as local needs will differ. Most areas still need more low-cost rental housing (social rent and, where set close to social rent levels, Affordable Rent – see Glossary). But most also need a balanced supply, with intermediate housing for those who cannot buy without assistance and/or need secure, better quality housing for rent at below market prices. Intermediate (and full market-price) housing can also cross-subsidise lower-cost rental housing.

Recent affordable output (2016/17) has been split between social rent (15%), Affordable Rent (58%), and affordable homeownership (27%). Social rent is now effectively debarred from most grant funding outside London. Instead, the HCA's current Affordable Homes Programme (AHP) at first focused on shared ownership and Rent to Buy, but has recently shifted again to include more Affordable Rent.

In London, roughly two-thirds of GLA funding is directed to intermediate rent (called 'London Living Rent', with grant of £28,000 per unit) and shared ownership, with the remainder for Affordable Rent but pegged to social rent levels (called 'London Affordable Rent', with grant of about £60,000 per unit).

2. Housing need and homelessness

The traditional way in which need for affordable housing was captured was via councils' housing registers (or waiting lists), but they no longer accurately reflect housing stress because so many councils have cut back their lists (see [Chapter 3](#)). There are several other measures that show the extent of housing need:

- *Overcrowding and under-occupation.* Some 678,000 households (3%), mainly renters, are overcrowded. Conversely, 8.5 million households, mainly homeowners, are under-occupying.
- *Homelessness.* At over 59,000, annual homelessness acceptances were about 19,000 (48%) higher in 2016/17 than seven years ago. In addition, more than 214,000 households are being helped to avoid homelessness each year.
- *Use of temporary accommodation.* Over 77,000 homeless households are now in temporary accommodation, 60% more than in 2010.
- *Rough sleeping and destitution.* The number of people sleeping rough has more than doubled since 2010, topping 4,000 for the first time. Destitution affected 668,000 households across the UK in 2016.

The biggest and fastest-growing cause of homelessness is the ending of a private sector tenancy. It represents 32% of acceptances compared with just 11% in 2009/10.



3. How are local authorities and associations helping to meet these needs?

The principal role of social landlords in housing supply is still to make homes available at prices affordable to those on low incomes, especially to those who cannot afford to buy.

There are three key tests of social landlords' output of new affordable housing:

- Are enough homes being built?
- As a result, are more households able to access new lettings?
- And are those lettings at genuinely affordable rents in the context of welfare reform?

We look at these in turn.

New affordable housing

The government has a target of 'delivering 275,000 new affordable homes between 2015 and 2020', or 55,000 per year. This is two-thirds of what is needed (see above) and actual output has fallen well short of the target, with just over 32,000 affordable completions each year in 2015/16 and 2016/17.

“

Government has a target of building 55,000 affordable homes per year. But the target should be 80,000 to meet the full range of needs. In the past two years, actual output was only 32,000.

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As might be expected, most of the current output is by housing associations, but around 10% is from councils. About four out of every ten affordable homes also rely on developer contributions through the planning system.

New lettings by social landlords

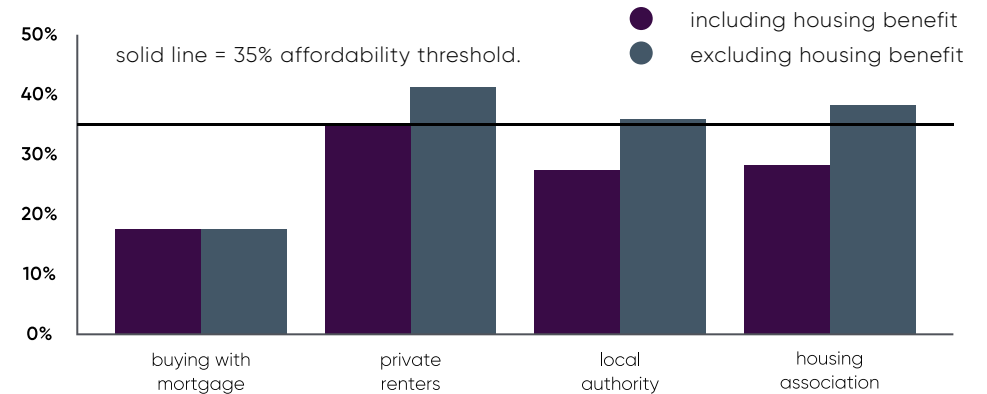
New units add to the annual supply of affordable lettings to new tenants in housing need together with relets from the existing stock. New lettings are now 9% below what they were a decade ago. Whereas in 2000 councils made two-thirds of all social lettings themselves, now they make just 39%.

The reasons for lettings going down while new supply is going up are complex. For example:

- only about 12% of lettings to new tenants are from new build
- existing tenancies are turning over more slowly, producing fewer relets
- stock is being lost through right to buy and 'one-for-one' replacement of those sold is not working.

Rents and affordability of new lettings

Figure 1.1 Housing costs as a percentage of household income, 2015/16



Another test of effective supply is that the new homes are let at rents that are genuinely affordable. Rent increases in social housing until 2016, and the introduction of Affordable Rent from 2011, mean that this is not a given. Figure 1.1 shows that social renters spend on average 28% of their income on rents and private renters some 35%. Excluding housing benefit, the average rises to 37% for social renters and 41% for private renters. Clearly, all tenants are vulnerable if there are further rent increases or benefit cuts, or a combination of the two.

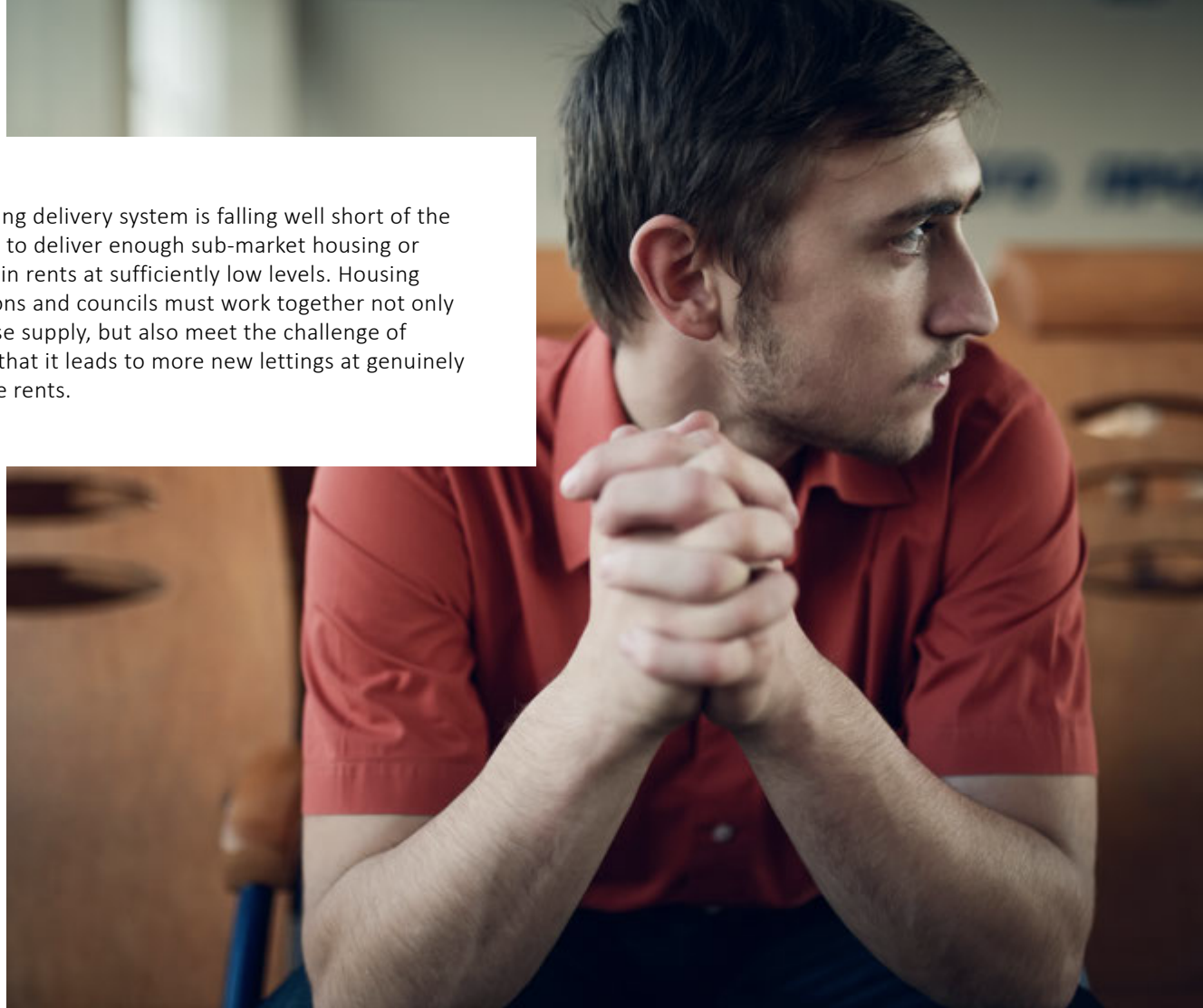
By April 2016 almost 170,000 housing association properties were let at higher, Affordable Rents, more than half of which resulted from conversions of existing social rented lettings (a pre-condition of HCA funding for Affordable Rent schemes). They now provide more than one in four of all new housing association lettings.

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Much of the current focus is on the lack of new social rented housing – but the loss of social rent housing as housing associations convert relets into Affordable Rent housing at higher rents is of equal or greater concern.

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The housing delivery system is falling well short of the challenge to deliver enough sub-market housing or to maintain rents at sufficiently low levels. Housing associations and councils must work together not only to increase supply, but also meet the challenge of ensuring that it leads to more new lettings at genuinely affordable rents.



4. What challenges do social landlords face in raising their sub-market output?

To build more homes, social landlords must access money, land at affordable prices and planning permissions, and have a regulatory framework that assists the delivery of affordable housing, including consistent and stable national policies on rents. Here are some of the obstacles they face.

New lettings by social landlords

Government investment plans

In the past five years, the government has become a massive investor in housing. Its programmes over the period to 2020/21 now total more than £40 billion in grants, loans and guarantees. However, some 79% of this is directed towards the private market and home buyers with the balance of 21% directed to Affordable Rent and low-cost homeownership. Rebalancing this investment in favour of genuinely affordable housing

would make a significant impact on tackling issues of supply and affordability without any additional cost to the Exchequer.

The approved output so far under the HCA's share of the current (2016-2021) programme outside London consists of nearly 40,000 units, none of which are for general needs social or Affordable Rent lettings (although 5,000 are for supported social lettings). However, extra funds announced at the end of 2016 will permit new bids for Affordable Rent units. The GLA's programme in London aims for 90,000 affordable housing starts by 2021.

At the time of writing, it is too soon to be certain about the impact on housing investment of the Grenfell Tower fire and the subsequent identification of deficiencies and investment needs in many tower blocks owned by local authorities and housing associations. So far, it appears that government will expect social landlords to meet the costs from their own resources – which effectively means paying them from rental income and potentially deferring other capital investment to do so. The government has indicated that it will consider requests for extra funding from landlords who cannot meet the costs in this way, but the outcome of the first such requests is unclear and may remain so until the Autumn Budget.

Frequent changes in rents policy

The sector's capacity has been seriously affected by changes in rents policy. The imposition of a 1% annual cut in rents for four years to April 2020 reduces the annual rental income of social landlords by £2.3 billion by 2020/21 and is expected to result in at least 14,000 fewer new homes being built. While the rent cuts are a move towards greater affordability, they have not been accompanied by grant increases or other measures to compensate for the lost income and resulting loss of capacity.

Lack of guidance on affordability

Successive governments have been reluctant to define affordability – the only current definition is the one that applies for planning purposes and includes starter homes for discounted sale. To understand government policy on affordability we would look at its policy on rents. However, this is problematic. On one hand, government has promoted the use of higher Affordable Rents and constrains grant from being used to build dwellings at lower, social rents. On the other, it has enforced annual rent reductions and imposed a range of cuts in benefits. As a result, rent levels are a critical factor in benefit claimants' ability to pay and in social landlords' ability to collect the rent.

The sector has also largely shied away from defining what level of rent is affordable (see [Chapter 5](#) for discussion of options and the Appendix for further detail).

The effects of welfare reform

All landlords have been affected by welfare reform, with tenants' ability to accept or sustain lettings being limited by:

- the bedroom tax
- the reduced benefit cap
- the capping of local housing allowance (LHA) in the private rented sector (particularly affecting London)
- the severe restriction of housing benefit for 18-21-year-olds under universal credit, and
- from April 2019, the LHA cap being applied to social sector lettings (including new supported housing, and including the application of the shared accommodation rate to under-35s).

Although the application of the LHA cap on social rents has been delayed until 2019, the continued uncertainty has affected new supported housing, with schemes being put on hold because of the sector's concerns about the proposed alternative funding arrangements. In Northern regions, moreover, there is less difference between private and social rents, making social rents potentially liable to the LHA cap.

In the 2017 white paper, the government indicated a willingness to discuss rent policy – possibly signalling an opportunity to restore the longer-term stability urgently required. It is vital that any review considers the affordability question and takes proper account of the impacts of welfare reform, particularly given the role of social landlords in housing vulnerable tenants. Furthermore, any review must acknowledge the vital part that rental income plays in investment in both new and existing stock. This issue is considered further in [Chapter 5](#).

Factors affecting housing associations

A secure supply of land at realistic prices is a key requirement in maintaining housing association contribution to affordable housing supply, and its absence is the prime constraint in many areas. Although some associations can buy land on the open market, most are reliant on a combination of council land, joint ventures and regeneration opportunities, developer contributions and small sites. Availability of low-cost local authority land is clearly limited because few councils can afford to buy more and some may have an agenda to develop themselves.

Developer contributions are a major source of affordable housing. They result from 'section 106' agreements, which usually require developers to sell a proportion of new homes at a discounted rate to housing associations as affordable housing and/or invest in site-specific infrastructure or pay cash to authorities to procure it.

There are other factors that affect housing associations' ability to finance affordable supply. These include their rental income and reserves, the cost of raising new debt, the need to make use of existing assets, either through sales or by converting relets from social rent to Affordable Rent, and the availability of grant and the conditions applying to it.

Many associations have sought to mitigate the cuts in rents required by government through efficiency savings, and will still seek to optimise their development capacity. But they may take more risks, which will impact on both credit ratings and regulatory judgements. A further round of rent reductions would mean not only further capacity reduction but a threat to viability too.

Factors affecting local authorities

Councils are building about 3,000 homes per year, about half financed through grant. However, since April 2012 the self-financing settlement that facilitated investment has been undermined via a range of government policy changes, several of which break promises made at the time. These include the 'reinvigorated' right to buy, rents cuts, the threat of having to sell 'higher-value' stock and the continuing impact of caps on council borrowing.

Many councils have curtailed or even abandoned new build programmes via the Housing Revenue Account (HRA), focusing instead on development via local housing companies (LHCs – see [Chapter 3](#)).

5. The contribution of the private rented sector

The private rented sector (PRS) has grown rapidly, from only 10% of the housing stock in 2000 to 20% now.

Because private rents are on average twice the level of housing association rents, more low-income households face high housing costs in the PRS: 73% of the poorest one-fifth of PRS households spend more than one-third of their income on housing. On top of this they face greater insecurity: some 40% of private tenants have been at their current address for less than 12 months. About a quarter of private tenants receive housing benefit (via LHA – local housing allowance) to help pay their rent. LHA was already below market rent levels when, from April 2016, a four-year freeze on LHA levels began.

Leadership and partnership culture

1. The context

Many local authorities and housing associations need to reset their working relationships. The actions proposed in this chapter are not easy to achieve in an operating environment focused on efficiency, but they are vital if:

- the solutions proposed in following chapters are to be successfully executed
- authorities and associations are to embrace the future through new models of joint working that remedy or at least mitigate current difficulties.

Research for this guide demonstrates that the effectiveness of partnership working relies heavily on the time and effort put into fostering good working relationships.

A common view among the authorities and housing associations consulted for this research is that if the leadership is effective, problems can be solved and new opportunities secured. However, as we explain below, this will require all parties to adopt a new approach to leadership and partnership culture.

As we explain in this guide, several factors have weakened previously effective partnership working.

The reduction in government revenue support for councils has resulted in:

- significantly reduced staff resources, with ‘housing enabling officer’ and similar posts being deleted in many councils – particularly in LSVT authorities
- even in stock-retained authorities, housing departments have been subsumed into larger corporate departments, sometimes covering more than a single council
- the strategic lead on housing is often a corporate director who may not have significant housing expertise. Even where this is not the case, corporate directors have less time to engage on housing issues than hitherto
- liaison with partner housing associations becoming focused around specific opportunities, rather than the planning and execution of broader strategy
- loss of knowledge about housing and planning, and of experience in working with partner housing associations.

At the same time, housing association consolidation (via mergers) has resulted in:

- business plans that are no longer focused on a single or small number of local authorities
- senior executives having to engage with more authorities than they can manage effectively
- reduced capacity to engage with individual authorities – at both corporate and political levels
- loss of local knowledge about these authorities and their needs and objectives.

As a result, softer relationship-building and contacts have diminished and with them an understanding of mutual business drivers.

The formation of Local Enterprise Partnerships and (in some cases) devolution of powers or programme agreements to combined authorities have also brought new stakeholders into the equation, with whom relations need to be built – stretching available capacity still further.

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If leadership is effective, problems can be solved and new opportunities secured

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Devolution arrangements

There are currently 11 active devolution deals in England outside London, covering some of the key cities and regions (case studies of the Greater Manchester and Sheffield city regions are included in this chapter). Where they operate, devolution deals have re-energised and changed the shape of relationships between authorities and associations.

All the devolution deals involve the transfer to a combined authority of powers, funding and accountability for policies and functions previously undertaken by central and individual local government bodies. Housing features, to a varying extent, in all 11 of the deals. The housing elements include:

- creation of land commission/joint assets boards to influence decisions about the disposal of public assets
- provision of a combined, authority-wide planning framework or strategy
- creation of mayoral development corporations to assist with complicated regeneration schemes
- greater CPO powers
- greater local direction of HCA housing investment
- land remediation funding or pooling existing pots to act strategically
- transport and infrastructure funding to unlock housing sites.

On funding, Greater Manchester has been granted a £300m Housing Investment Fund, a repayable loan from DCLG for investment in residential property development. The Cambridgeshire and Peterborough deal gives the combined authority control over 15% of the HCA funding for the area to 'achieve the right tenure mix for the area, which could include affordable rental homes as well as affordable homeownership'.

While there is a commitment to housing growth in all the current deals, the devolution of housing to combined authority or city region areas is less advanced than other policy areas, notably transport. Currently, deals on housing do not match the GLA's housing powers. However, devolution is an ongoing process: Manchester is already on its sixth deal, so it is likely that further devolution developments are to come.

Even without any further devolution of powers, the creation of combined authorities and city regions has provided a larger, more energised body for stakeholders to engage with. This has led to new and stronger relationships being built between these new devolved bodies and housing associations. To better engage with devolved bodies, associations have formed new partnerships themselves. In some areas, this has been driven by the devolved body requesting a single point of engagement with all associations operating in its area. In other areas, associations have proactively joined together as they feel a combined voice gives them a stronger platform on which to engage with and influence the new devolved body.

Partnership working has also been undermined by political tensions created by the proposed funding of the planned extension of right to buy to housing association tenants from the compulsory sale of local authority higher-value assets; and by the reduction in housing association development of locally-affordable rented housing due to the lack of AHP grant availability and grant conditions (outside London) that require relet conversions from social to Affordable Rent.

However, research for this guide and the feedback from the CIH round table events programme confirm that although relationships between councils and associations have been under strain in many local authority areas, there is genuine mutual commitment to remedy this situation. The aim of this guide is to help them succeed.

This will require council and housing association leaders to develop new skills and behaviours. Perhaps the greatest impact of the changing operating environment is that authorities are increasingly looking to associations for long-term development and associated economic regeneration deals at scale that involve mutual sharing of risk, revenue and surplus from future uplift in capital values. This is a different world from the former and simpler model where an authority sold (cheap) land to housing associations in return for nominations to resulting new housing developments.

Research for this guide suggests that some local authority and housing association leaders are highly competent in handling complex multi-party, long-term development deals. However, many others (particularly but not exclusively in local authorities) need to 'upskill' in this area. As a result, the operating environment (particularly in development or regeneration at scale) increasingly favours private developers who can out-perform their local authority clients and housing association competitors when configuring complex commercial deals.

As Dick Sorabji, of London Councils, commented as part of this research, ‘effective leadership involves inspiration and communication, not instruction’. The forward-looking leaders, in both the councils and housing associations interviewed for this research, recognise this and are looking to reset relationships through:

- visibility, clarity and accountability
- empathy and problem solving
- compromise and flexibility
- pooling and sharing resources
- closer working between authorities at a local or sub-regional level and (at the same time) between housing associations working in these areas
- shared sense of purpose

These are discussed below.

2. Visibility, clarity, and accountability

Effective partnerships – whether day-to-day management initiatives or large-scale joint ventures – are built and maintained via trust. Continued and sustained engagement is essential at both senior officer/ executive and political/board level.

Our research demonstrates that, for relationships to be effective, this engagement needs to be led from the top. Council leaders and association CEOs need to visibly recommit to, and refresh, their partnership.

Although public strategic agreements are not essential, they can be very helpful in focusing partners on shared objectives and setting out delivery expectations. Strategic agreements – underpinned by Memoranda of Understanding (as, for example, in the Sheffield city region and Greater Manchester) – can ensure that, through a ‘shared sense of strategy’, the partnership’s objectives align with those of the individual organisations that form part of it. If there is no clearly-shared view on the aims of the partnership, each organisation might develop its own expectations, leading to misunderstandings that undermine the process.

Our research identified that a critical factor is strong civic leadership. Political direction from the mayor or council leader is required to set out the ‘big picture’ for the area in terms of housing, infrastructure and economic development. Political leadership from a leader who believes in the importance of housing development is required to persuade or defeat local opposition. Corporate direction from the council chief executive is equally important, particularly to ensure that the operational priorities of all council departments are aligned.

A brief outline of the organisations

Manchester City Council is a key authority within GMCA – the Greater Manchester combined authority which covers Bolton, Bury, Manchester, Oldham, Rochdale, Salford, Stockport, Tameside, Trafford, and Wigan.

The Greater Manchester Housing Provider Partnership (GMHPP) is a partnership between 24 housing associations, three ALMOs and one stock-retained council housing service. The GMHPP has a direct relationship with the GMCA through a Memorandum of Understanding, which enables its members to influence GMCA policy on housing, health and social care. GMHPP members have created a formal commercial joint venture called Athena through which any contractual relationships can be managed. A further residential development joint venture is being developed.

What are you trying to achieve?

As part of the ongoing ‘devolution deal’ between central government and the GMCA, and following the early successful Manchester ‘city deal for housing’, the GMCA is seeking a bespoke ‘housing investment deal’ for the whole Greater Manchester area. This new deal between the GMCA and the government will involve all public authorities in the GMCA area, the GMHPP associations, the HCA, One Public Estate, and the NHS.

GMCA has secured £300 million direct funding from DCLG in the form of an ‘investment fund’ – distinct from HCA funding. The fund is managed by the GMCA and provides development finance on a revolving repayable basis.

As part of the GMCA ‘devolution deal’, Manchester City Council is also seeking HCA agreement for greater flexibility in the allocation of future AHP capital funding for the GMCA area. Under this arrangement, GMHPP providers will be able to switch sites, products, and priorities with HCA approval – with

the actual programme balance being determined, on a rolling basis, by land market availability and price and local assessment of need. Specifically, the HCA is requested to redirect funding from build to rent to shared ownership and to release all grant for major developments in tandem – allowing shared ownership and market sale to be ‘built out’ at the same time.

Manchester City Council believes that, together, the GMCA authorities can release £280 million value of brownfield sites in the next five years to support the programme. GMCA hopes to attract a significant tranche of the government’s £2.3bn housing infrastructure fund.

What will you do?

A land commission has been established – linked to the work of One Public Estate – with HCA, DCLG and the GMCA represented on its strategic panel. The land commission will identify potential new build sites and ensure that they are brought forward for development as part of a large programme. A digital database has been established to help all district councils in the GMCA to input information on developable land.

Although the development of brownfield land will be the primary initial target of the ‘new deal’, it’s availability is finite. Helpfully, NHS Greater Manchester has agreed to work in partnership with GMCA and GMHPP in terms of land release. However, Manchester believes that the use of some ‘green belt’ land is inevitable if supply targets are to be met and will be seeking government support for this as part of Greater Manchester Strategic Framework negotiations.

To help maintain existing social housing supply, GMHPP members have agreed that when selling housing assets, they will first offer to sell to other associations, then market for sale to first-time buyers and only when these options have been exhausted (as demonstrated by six months elapsed time) will they homes be sold on the open market - most likely to investors.

What are the target outcomes?

Under a Memorandum of Understanding, the GMCA and GMHP have agreed a new build target of at least 2,000 homes per annum for five years, but with an ambition to deliver more.

Extra care is a priority, with four major Manchester sites having been earmarked for extra care schemes. One has already been developed and two have HCA funding approval but progress has stalled because of uncertainty around the funding of such schemes when rents are subject to the LHA cap in 2019.

A balanced portfolio of market sale, shared ownership, and Affordable Rent accommodation – with actual rents being set in relation to average household incomes by local area within the GMCA area.

Social care ‘hubs’ which allow local communities to access health, housing, and social services – available in an integrated manner. In general, planning for supported housing and social care is now being undertaken at GMCA level – in line with the now fully devolved health and social care budgets following devolution.

What did you learn?

Strong civic leadership has – particularly between leader Sir Richard Leese and Sir Howard Bernstein (now succeeded by Joanne Roney) – been fundamental to the regeneration of the city of Manchester over the last decade and more. The visible aesthetic renewal and commercial success of the city – combined with the scale of its ambition – has led from 2014 (ongoing)

Case Study - Manchester City Council/Greater Manchester Combined Authority: Strong civic leadership

to a range of devolved powers and an elected GMCA mayor (Andy Burnham), plus close and willing engagement with DCLG, HCA, One Public Estate, and the NHS.

The scale and leverage of a combined authority, particularly with devolved powers, can make a bigger impact than authorities working alone or through bi-partisan arrangements.

The greater the scale of development ambition, the track-record of previous delivery, and demonstrable knowledge of the market, the more the HCA and others will back an authority's proposals. The GMHPP, chaired by Jon Lord of Bolton at Home, can see the scale of opportunity is being created by the GMCA and devolution and are increasingly committed partners.

Strong civic leadership can also refresh and galvanise relationships with housing associations and encourage further ambition and compromises where objectives vary. However, if this opportunity is to be realised, it requires a 'coalition of the willing'. Manchester City

Council housing director Paul Beardmore (now working closely with GMCA mayor) has worked hard for several years to secure this consensus with the HCA and the GMHPP associations.

What 3 tips would you give to someone who was looking to implement a similar approach/ scheme?

- All partnerships need to start from a point of common understanding and common purpose. What is the vision? What are the issues – based on hard evidence? How can each partner respond - accepting that not all will be able or want to?
- No one partner has all the answers to everything and people need to follow as well as lead
- Identify the 'do-ers' and spend your time and energy with them

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It is equally important that housing association executives are visible in the local authority areas in which they work. This means having regular meetings with the council leader and chief executive, and having their numbers on ‘speed dial’. It means having key senior management points of contact for local housing issues and, in large authorities working with a large number of associations, a mechanism whereby the council leaders can avoid having to have the same conversation with every association. For example, the Greater Manchester Housing Provider Partnership selects different chief executives to speak to the combined authority on specific topics on behalf of all associations (and ALMOs) working in that area.

Visibility also means that the housing association chief executive intervenes personally, visibly, and effectively where things go seriously wrong – in terms of either development or local housing management. This intervention ensures that local councillors and the local media appreciate that the association is taking local issues seriously, fosters trust and helps to ensure that the ‘brand reputation’ of the association is maintained with the council. Housing associations should regularly attend council scrutiny committees, where these exist, and ask authorities to convene annual joint meetings with associations, councillors, and local MPs. Political support is essential for effective partnership working but can be undermined when associations fail to respond effectively to councillor enquiries.

Our research suggests that one measure that helps to overcome major obstacles during partnership working is for each partner to have a named senior management ‘champion’ or ‘trouble-shooter’ with whom they can be in regular contact and address problems as they arise.

“ To ensure that both the council and its partner associations understand each other’s pressures, priorities and business drivers, senior executives need to meet regularly to agree strategy and monitor delivery around supply, lettings and affordability. ”

For this to work, local authority leaders need to ensure that any restructure does not remove the key liaison officers upon which housing associations depend. Bristol is an authority that recognises this problem and, despite further staff cuts, is *increasing* its investment in enabling staff and activity.

At an operational level, middle managers will also need to build inter-organisational relationships. A range of issues, such as hospital discharges, homelessness prevention, housing benefit payment, nominations and anti-social behaviour, will be solved more quickly when staff from councils and associations meet periodically. In our research, those involved in this work said that picking a single issue of mutual priority, such as the health and wellbeing of older people, was a helpful way to ‘kick start’ a new approach to joint working.

Task and finish working groups are a good way of resolving issues and of demonstrating that partnership working is improving. This guide will demonstrate the need for such working groups to review affordability, letting policies, nominations, making best use of local housing stock and so on. Authorities and associations can together invest in innovation, good practice research or in joint grant applications for additional funding.

For any partnership to work, whether a major development initiative or in respect of housing management issues, there is a need for a shared understanding and clarity on:

- why joint working will achieve more
- what it plans to achieve
- what the process will involve
- who are the key players within the partner bodies, and
- how it will be monitored from the outset and evaluated at agreed intervals.

A partnership protocol should be developed showing detailed responsibilities and expectations about staff time being dedicated to it, which builds in sufficient preparation time to set up systems, train staff etc, and includes the details of monitoring arrangements (especially where these will require each partner to collect data in a common format).

It is self-evident that the more local authority areas an association works within, the more challenging it is to maintain this level of visibility and engagement. All larger associations should ask the question: how many authorities can we collaborate with effectively? One emerging, and positive, trend is for larger housing associations to review and rationalise the number of local authority areas in which they operate. Although the primary driver is often to improve the efficiency of housing and asset management, this process makes it far easier for housing association executives to engage visibly with remaining partner authorities. This is not to suggest that exit will be easy – the sale of assets requires another willing housing association buyer and the transfer of care and supported housing schemes can be particularly problematic.



Case Study - West Berkshire Council and Sovereign: Sustaining partnership working

A brief outline of the organisations

Sovereign began life in 1989, when West Berkshire Council (WBC) transferred 7,000 homes in what was just the third LSVT in the country. Over the years, Sovereign expanded across the south and south west of England, growing to become the sixth largest housing association in the country with over 56,000 homes.

West Berkshire Council is located in the South West of England, with Newbury as its county town. WBC's strategic plan requires 10,500 new homes by 2036 – and has a pressing target of 1,000 new affordable homes by 2020. Private land is expensive and WBC has little land of its own. Creative thinking and new delivery models are required and WBC is at an early stage of considering whether to set up a joint venture.

What are you trying to achieve?

Both organisations acknowledged their respective commitment to improving affordable housing delivery in the district. Equally they recognised the value of each other's skills, expertise and knowledge but acknowledged that over time these had been increasingly diverted towards other agendas not fully aligned to affordable housing delivery.

Early rapid expansion of Sovereign and changes to central government funding meant that the historically close relationship began to change as Sovereign, in common with other registered providers, had become more commercial in its approach. For some years, Sovereign's strategy had been to consolidate stock within a tight geographical spread, investing in those core areas, building homes and relationships. It had made a long-term commitment to investing in the district and the community, building successful partnerships and much-needed new homes, but this was becoming increasingly difficult in West Berkshire.

The council had set an ambitious target to build 1,000 new affordable homes over a five-year period and this signalled to Sovereign a clearly-defined intent to take a different approach.

Both organisations had reached a point where it had become clear that their respective aspirations for more housing in the district could not be achieved in isolation. Using their long-term relationship as the starting point, discussions were opened up across senior management to determine if there were ways they could work together to bring forward new affordable housing developments and other opportunities.

What did you do?

The renewed relationship started at the top, as chief executives Nick Carter (WBC) and Ann Santry (Sovereign) came together to discuss individual objectives and concerns and work towards a common purpose.

They brought together relevant employees to secure commitment and resolve any differences that were impeding progress. The partnership between WBC's housing lead and head of service for care commissioning, housing and safeguarding (June Graves) and Sovereign's strategic asset management director (Roger Keeling) was critical to success.

Key to rebuilding and sustaining trust has been a mutual understanding of each other's priorities, expectations and business drivers and how these were shifting in response to a rapidly changing policy environment. This understanding enabled partners to focus on common objectives, reducing potential conflict and enabling the early identification of opportunities.

With this foundation built, the WBC head of housing engaged with other council departments, such as finance, economic development and planning, to explain the value of the collaboration with Sovereign to the delivery of the authority's local and other strategic plans and help 'join up' the discussion. For example, Sovereign is the third largest employer in the area and has a key role in economic development.

It was equally important to get the support of elected councillors. Successful early meetings were held between the WBC CEO/head of service and both the council leader and the portfolio member for housing. Partnership working received a further boost when the portfolio member became leader. The political leaders were so effective in building a consensus of support that a planned presentation to councillors by the CEO of Sovereign and WBC to explore some of the tensions and the opportunities that could be delivered by working more collaboratively was shelved as not being required.

What were the outcomes?

Sovereign invested time and resources in the relationship and valued the opportunity to contribute to WBC's strategic planning discussions. With a better understanding and empathy for the council's objectives and challenges, Sovereign has committed to a significant new development programme in the area that aligns with WBC's strategic priorities.

This open relationship quickly led to other tangible outcomes, such as improved strategic planning and working together to alleviate homelessness.

WBC has a shortage of permanent and temporary accommodation available at social rent. Sovereign made a principled business decision not to convert any of its relets from social to Affordable Rent, which was well received by the authority as a clear sign of shared objectives.

Case Study - West Berkshire Council and Sovereign: Sustaining partnership working

Similarly, by offering around 20 development voids a year to be used as temporary accommodation (TA) for homeless households, Sovereign helps WBC meet its objectives, manage costs and avoid relying on neighbouring local authorities.

As well as physical resources, Sovereign and WBC shared insight and expertise. For example, Sovereign has developed a GIS mapping tool to record its property and land holdings across its areas of operation. The Sovereign team, at no cost, added the council's assets to create a joint land mapping resource. This has both improved working relations and enabled Sovereign and WBC to easily identify possible opportunities by combining land and assets.

An immediate focus is an urgent need for a large extra-care home facility, and WBC is looking at six possible sites for Sovereign to develop.

What did you learn?

West Berkshire

The process of identifying where we had successfully worked together to deliver individual projects gave us the confidence to consider doing something more substantial and longer term.

We considered our respective strategic plans and found that they were broadly aligned and therefore could have confidence in our ability to form a shared set of aims and objectives that both organisations could work to.

We took time to look at examples of where our working relationship had not been productive and why this might have been. This provided an insight into how both organisations work and was beneficial almost immediately.

Sovereign

Together, we're able to have a much greater positive impact on our communities. Really getting to know each other's objectives and challenges means we can take a big-picture view and co-create solutions. This has ranged from sharing data and insights to inform a strategic development plan to using empty homes awaiting regeneration as temporary housing to alleviate homelessness.

Case Study - West Berkshire Council and Sovereign: Sustaining partnership working

What three tips would you give to someone looking to implement a similar approach/scheme?

West Berkshire

- It is critical to build or rekindle personal relationships at strategic and operational levels
- Build mutual confidence by focusing on what has worked well in the past and aligning future plans
- Successful partnerships depend on people who are pragmatic and can sensibly work together – most important tip

Sovereign

- Over the years, it has been getting harder for housing associations and local authorities to deliver their aspirations – together, we're better able to make more of a difference where we work
- Having a shared vision, with open and honest conversations, means that partners can take a strategic approach, rather than dealing with plans and issues on an ad hoc basis.
- Partners can share resources and expertise, such as working together to assemble land for development, providing temporarily empty homes to help alleviate homelessness or combining data to inform better policy.

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3. Empathy and problem solving

Respondents to our research were unanimous – relationships will improve if there is a better mutual understanding of the business drivers of both parties.

Empathy requires a mutual understanding of risk and its practical implications, in terms of:

- abortive work
- viability
- reputation
- return on investment

Empathy also involves understanding what issues or actions are likely to upset the other party and seeking to avoid these where possible. Behaviours to avoid include:

- Associations failing to alert authorities about plans for future stock disposal.
- Associations actively selling stock – for example by auction – in a local authority area and reinvesting the receipts in other council areas.

- Associations converting relets from social to Affordable Rent, without consulting authorities to determine (for example) whether existing s106 arrangements permit this.
- Councillors making critical statements about housing association performance for political purposes before associations have had the opportunity to respond to their concerns.
- Council leaders failing to be clear and transparent about how they will select partners in future – including the balance of opportunities that may be directed to an LHC or ALMO where they exist.
- Councils forming new partnerships with associations who have little or no prior connection to the locality, sometimes without offering local associations the chance to bid.

The most constructive way to reset relationships is first to identify areas of common ground or mutual interest. In our research, respondents cited the following areas where common ground exists or can be re-established:

- understanding housing need and affordability at a local level
- understanding and mitigating the impact of welfare reform at a local level
- homelessness prevention and temporary accommodation (TA)
- supported housing
- development and cross-subsidy
- market analysis
- area and estate regeneration
- efficient management of combined social housing stock
- tackling cross-tenure issues such as welfare benefit support, mutual exchanges, and anti-social behaviour
- dealing with councillor complaints about housing association local management issues.

Focusing first on what the partners can do together on these matters will create a better environment for subsequent discussion of more problematic issues.

An annual, 360-degree, externally facilitated, qualitative audit of the relationship between an authority and an association – or between an authority and all its association partners – will provide an objective appraisal of whether partnerships are working effectively. The results of this qualitative audit should be of interest to councils and housing association boards. They can help ensure that partnerships remain relevant, are not just paper exercises and deliver tangible benefits (or are reviewed if they do not). If the partnership is not working, is that due to internal obstacles or external factors?

For some issues, and particularly where devolution arrangements apply, cross-boundary or regional compacts have a major role to play.



A brief outline of the organisation

Sheffield City Region (SCR) operates across nine local authority areas and has established a Combined Authority (CA) which works together to grow its economy. The CA has a formal membership of four 'primary' local authorities and five 'non-constituent' member authorities. The SCR executive team leads on policy, strategy and commissioning for a small number of key workstreams. Reporting to the CA, the team has dedicated posts dealing with housing, one of which was originally funded by housing providers but is now jointly funded by SCR and providers.

The SCR Housing Compact has been developed by housing providers working closely with the CA, demonstrating a collective commitment to work together. More than one fifth of all homes in SCR are owned or managed by partners in the SCR Housing Compact (35 housing associations and four ALMOs, in addition to the nine councils). Together they form the SCR Housing Providers' Forum responsible for overseeing the workstreams of the compact; two-way communication and reporting exists between the forum and SCR's housing executive board.

What are they trying to achieve?

The motivation for the compact was to work more effectively to deliver housing supply, especially social housing supply, as well as responding to the voluntary right to buy and providing a collective framework for allocations. The region has no shortage of development land – the issue is viability of new build and achieving higher levels of sustainable supply.

What did they do?

The compact developed from the work of the SCR Housing Providers' Forum and aimed to create a common set of principles that all major landlords could agree to, together with an action plan relating to a number of workstreams. This work took place during April-November 2016 and the compact was launched in December 2016.

What were the outcomes?

Although the focus is on delivering new supply, the compact covers the range of contextual issues set out in [Chapter 1](#) of this guide (loss of social rented stock, constraints on development, challenges such as the rent reduction policy, homelessness, welfare reform etc). Signatories agree to a range of principles, such as partnership working, openness and information sharing. The compact builds on other joint working eg the Sheffield Housing Company (a partnership between Sheffield City Council, Keepmoat, and Great Places Housing Association). Collaborative working has subsequently led to a joint submission to the DCLG Accelerated Construction programme to bring forward up to 2,568 homes across 41 sites in SCR by the end of 2019/20 (widened from the programme's normal remit of covering just local authority land).

Case Study - Sheffield City Region Social and Affordable Housing Compact 2017-19

The compact's main outcome so far is the 'More New Homes' bid to the HCA, which received a promising response. SCR and HCA now have an agreed way forward:

- The bid submitted in April 2017 seeks a devolved fund of £23 million to deliver at least 1,360 new affordable homes per year, including shared ownership, rent to buy and starter homes, plus 200 homes for sale at market prices.
- A range of collective 'asks' in the bid covers (for example) increased grant levels, an exit strategy over use of shared ownership funding if supply exceeds demand, the ability to switch units between providers, ability to flex the terms of rent to buy to reflect market conditions in SCR, combining HCA funding and HRA/RTB receipts on the same scheme etc. The HCA responded positively to most of the asks and partners are now looking to utilise the flexibilities.

- On land, SCR sought collaboration with HCA in the purchase of large sites that cannot be developed by a single landlord – the HCA have encouraged partners to come forward to discuss land opportunities.

Other important points of agreement through the compact have been:

- On planning, there is a commitment by the nine LAs to a streamlined and consistent approach to applications for housing development.
- On shared ownership and market rent, which have not traditionally had much take up in SCR, providers are collaborating to develop new approaches to marketing.
- On the overall devolution agenda, dialogue continues with the DCLG and Treasury.

The primary focus of the compact has been on the housing growth agenda but the group of providers want to ensure other important issues are not overshadowed or forgotten. This includes responding to homelessness, which the housing executive board has asked providers to look at specifically.

What did you learn?

The main lesson so far is that collaboration, rather than competition, can create a new type of leadership, which focuses on the joint mission of making the city region attractive to incomers and to investors.

What three tips would you give to someone looking to implement a similar approach/scheme?

- Terms of reference need to be sorted out quickly. Be very clear that people need to contribute and get involved, no sitting on the side lines – the partnership is still working at this. In the early days, it did a lot of facilitated work, which was good at getting started and thinking about issues, and it then moved quickly on the HCA bid, but the wider workstreams are taking longer to gel.

- Accountability and communications are key. Making sure those who attend are sufficiently briefed and able to make decisions for the provider they are representing and that there is a clear line of communication to and from the SCR housing directors and housing executive board, which is now in place.
- Having a funded post to oversee things and this person being plugged into the SCR office has been critical; without this the partnership would have struggled.

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4. Compromise and flexibility

Unless there is substantive change in government policy, many of the underlying issues that make partnership working difficult will continue. While this guide sets out mitigating actions, most of these issues will remain in (at least) the short and medium term.

Our research found that leadership is about many things – strategic thinking, effective communications, innovation, taking people with you, resilience in adversity, etc. It is also about recognising that nothing gets done without compromise and flexibility. Most important, leaders need to have a strong desire to work in partnerships and the relationship development skills to manage problems that impact on joint working.

Compromise involves open and honest conversations about matters of concern – and flexibility on both sides to resolve them. Our research indicates that local conversations can involve some variants of the following ‘trade-offs’ – amalgamated here from extensive interviews with partners in various regions.

An (example) local authority-led discussion:

- LA - We need new supply at a locally-affordable rent
- HA - We can't get grant for that, but we could finance some supply if you discount the cost of land and/or allow us to cross-subsidise from market sales in mixed developments
- LA - We aren't happy with you selling stock in our authority and investing the receipts elsewhere
- HA - We will give the council first option to buy and if that isn't possible we will ensure that the council gets nominations to new lets in the authority where the receipts are spent
- LA - We are not happy at the rate you are converting social rent lettings to Affordable Rent
- HA - We are doing as much as we can to avoid this. We only convert lettings where we specifically need to do so to fund a development. We can evidence this and tell you how many conversions we plan and where on a rolling basis, as we make funding bids
- LA - We need xx new supply, with a proportion of yy at a locally-affordable rent. If you can't deliver this, we may need to work with other partners (including an LHC)
- HA - Fair enough, but your LHC will only deliver 30% of what you need. You still need to work with housing associations like us. Let's work out how we and the LHC can dovetail delivery to best meet your needs
- LA - We could just as easily work with a private developer. We get the point that associations reinvest their surpluses in new supply but if that new supply is in another authority, what's the advantage in working with you?
- HA - We already own 1,000 homes in your area, including three extra care schemes. We have established systems with you in respect of provision of TA, nominations, chains of moves, homelessness prevention etc. What private developer is going to offer you that?

An (example) housing association-led discussion:

- HA -** We want to invest in your area but we need to have planning certainty and to know what opportunities are likely to arise
- LA -** Agreed. We are updating our Local Plan and will let you know
- HA -** But that could take two years for you to complete. We need some answers before that
- LA -** We've cut the planning department by 40% in the last three years. We have capacity constraints
- HA -** We can help you there. You can use our digital mapping system to map existing development, monitor current developer site progress and identify new sites. We've spoken to your other three housing association partners and we are willing to jointly fund an additional member of staff for the next 12 months to focus on strategic site identification
- LA -** Thanks! But there is also the problem of you over-bidding for s106 opportunities
- HA -** Yes, we know that is counter-productive. But the ball is partly in your court. You can manage the s106 process better. And if you gave us greater certainty about future sites we wouldn't need to scramble for every s106 opportunity on developer terms.

5. Pooling and sharing resources

Even at a time when resources are tight, working together can drive efficiencies for all partners and/or better outcomes. This guide will demonstrate a wide range of opportunities for authorities and associations to share the following resources:

- skilled staff
- technology
- research/data
- market analysis
- analysis of housing need and affordability
- joint ventures.

In some cases, this will involve housing associations sharing their investment in research and technology with more cash-strapped local authorities. In other cases, associations can access council expertise in (for example) leasehold and right to buy management or digital service delivery.

6. Closer working relationships between authorities, and between housing associations at a local authority or sub-regional level

A recurrent theme amongst those interviewed for this research is the need for local authorities and associations to work more closely not only with each other but with their peers at a local or sub-regional level.

The case for closer working amongst local authorities rests on the need to share scarce resources, capacity and skills, to access development opportunities at scale and to respond to demand for new housing in a more co-ordinated manner that recognises wider housing market areas.

For authorities, this can involve (for example):

- city region combined authorities
- sub-regional planning strategy
- influencing the direction of HCA/GLA investment
- new development or regeneration
- standardised viability assessments
- allocations and mobility schemes
- sharing of technical capacity (such as procurement)
- infrastructure provision.

The case for closer working amongst housing associations rests primarily on the need to be able to respond to new opportunities at scale while avoiding unnecessary competition, to influence the direction of local or sub-regional planning policy and infrastructure investment and to engage effectively with councils who have secured devolution agreements with central government.

For associations, this can involve (for example):

- co-operating rather than competing in the development process
- combined regeneration bids
- managed liaison with city region combined authorities
- securing development finance
- sub-regional lobbying and research
- joint funding of council enabling posts
- sharing of development capacity.

7. Rediscovering a shared sense of purpose

Relationships and culture remain crucial to partnership working. In the words of CIH chief executive Terrie Alafat:

“ If we are to truly tackle the housing crisis, housing associations and councils will need to rediscover their shared sense of purpose ”

Underpinning the successful partnerships between councils and associations is the recognition that, despite policies that often appear to set the two sectors in competition, their people – councillors, officers,

tenant representatives, board members and association staff – are committed (usually passionately) to helping those needing homes. That passion needs to continue to be harnessed, and a shared sense of strategy is a good place to start.



8. Recommendations

Bringing together the points made in this chapter, the guide makes the following recommendation.

Key recommendation to the sector 1:

Local authorities and housing associations should increase their level of engagement in fostering good working relationships. Our research found the common features of an effective working relationship are:

- Visibility, clarity, and accountability - This requires visible commitment to joint working, at the highest level. Regular, planned and well-structured meetings between leaders are essential, as are specific named senior contacts available to act as 'trouble shooters' when things go wrong at a local level.
- Empathy and joint problem solving. Councils often know little of the pressures on associations, and vice versa. Where parties do not understand each other's challenges in-depth, actions may appear inexplicable or hostile. Ongoing bilateral work at senior and middle management levels can remedy this difficulty and is best focused on tackling issues of mutual concern – such as allocations, rent affordability, managing the impact of welfare reform and so on.
- Compromise and flexibility. Joint problem-solving will involve negotiation in which each party will need to protect its interests. Frank and honest (and sometimes difficult) conversations, leading to mutual compromise and trade-offs underpin all successful partnerships.
- Pooling and sharing resources. Both councils and associations have limited resources relative to the demands upon them. Sharing resources can, for example, involve joint-funding of local authority enabling posts, shared technology, data, market analysis, regional land availability studies, and so on.
- Closer working relationships between authorities, and between housing associations at a local authority or sub-regional level. This can, for authorities, involve city region combined authorities, sub-regional planning strategy, infrastructure provision and so on. For associations, it can involve combined regeneration bids, sub-regional lobbying and research and the sharing of development capacity.
- Shared sense of purpose. This needs to involve councillors, council staff, tenant representatives, housing association board members and staff – and where possible external agencies such as the DCLG, HCA, GLA, NHS and so on. A shared sense of strategy is a good place to start.

Land and housing supply

1. Context for the supply of new housing

Local authorities and housing associations are committed to helping solve the housing crisis. They can do so separately but – as this guide demonstrates – can achieve more by working together.

Better relationships between councils and housing associations – and between authorities themselves – would enable development of a co-ordinated housing vision for an area or region and alignment of resources for acceleration of new housing supply.

As set out in the recent government white paper, local planning authorities need to ensure that more land is available for housing development via:

- privately-owned land
- local authority land (where available)
- other public land

Authorities will wish to ensure that an appropriate proportion of land brought forward for development provides housing that meets the needs of low-income households. The affordability of new homes was not tackled in the white paper. This chapter will therefore focus on how authorities and associations can work together to increase the supply of genuinely affordable housing.



However, the chapter also recognises the importance of both the ‘intermediate rental’ market and housing for sale – as a source of cross-subsidy for affordable housing and as a means of addressing a broader spectrum of housing need.

The private land market inhibits new housing development.

The land market presents a problem for government, local authorities and housing associations alike.

The planning system seeks to provide a rationed supply of land for development but delivery continues to fall short of need – partly because authorities have only limited ability to influence the land market.

There are few if any incentives for landowners to sell land at any scale for less than market value. General rises in land and property values create ‘hope value’ for landowners and this encourages retention of land until its value has increased.

Developers often hedge their bets by buying options on land – not completing its purchase until full planning permission has been secured. Planning permission inflates land value but this ‘uplift’ rarely accrues to the planning authority.

Section 106 of the Planning Act 1990 (s106) ‘planning gain’ arrangements with private developers are often the primary source of new affordable housing. Typically, s106 is used by authorities to secure ‘developer contributions’ of site-specific infrastructure and the sale of a proportion of the development to housing associations to provide affordable housing.

The impact of s106 varies. In buoyant housing markets, section 106 has worked well for many years – although, for obvious reasons, it is more popular with authorities and associations than with developers. In depressed housing markets, the increase in value when land is designated for housing can be much less and so s106 can deliver fewer affordable homes. Overall, however, s106 still delivers 45% of annual housing association output.¹

Unfortunately, changes in government policy have reduced the impact of s106 and threaten to do so further.

First, in 2010, DCLG introduced a time-limited six-year provision allowing developers to challenge existing s106 agreements following a ‘viability assessment’. This policy change reflected the real drop in property values following the 2008 financial crash, developer concerns that agreements made ‘pre-crash’ were no longer affordable and government worries that new development might therefore be at risk. But it gave insufficient weight to the vital contribution s106 makes to the supply of new homes by housing associations.

In practice, this ‘appeal’ process has given developers licence to reduce or eliminate affordable housing provision or to charge housing associations more for the units, particularly in London and the south east. There have been reports of developers over-estimating

their build costs and under-estimating their sales receipts, thus squeezing out the surplus that could have been used to fund affordable homes. However, as the specific provision to challenge s106 was time-limited and expired in 2016, there should be fewer problems going forward – although the government’s National Planning Policy Framework (NPPF) retains viability assessments as a permanent planning feature.

Second, the ability of authorities to maximise affordable rent via s106 may reduce further when, as promised in its white paper, the government amends the NPPF to introduce a clear policy expectation that housing sites deliver a minimum of 10% affordable homeownership units.

Third, also in 2010, the government introduced the Community Infrastructure Levy (CIL) which provides a mechanism for authorities to accrue planning gain that is not site-specific or linked to affordable housing – with those elements continuing to be covered by s106 agreements. Typically, CIL rates are fixed locally as a percentage of development value and are based on the authority’s overall (rather than site-specific) infrastructure priorities. However, as CIL schemes are complex to develop and sustain but not mandatory, and council planning staff numbers are reducing, fewer than half of local planning authorities have set one up.

There has been concern among authorities and associations that CIL effectively competes with s106 for developer contributions. However, early research indicates that even where a CIL is in place there is no conclusive evidence that it, in itself, has reduced s106 affordable housing numbers.²

Before the election, ministers were considering merging s106 into a refocused CIL. The rationale was that a refocused CIL would avoid protracted viability negotiations, based around two overlapping planning gain mechanisms, and thus speed up the planning process. The previous housing minister said, ‘there would be the potential to have a national system that captured infrastructure and affordable housing’. This suggestion followed a different but aligned proposal in the DCLG’s January 2017 review of CIL. DCLG recommended a mandatory Local Infrastructure Tax for all new developments, based on a centralised methodology but charged and collected locally. Whatever the mechanism the government might deploy, it is unclear how a national government-sponsored CIL methodology can properly reflect local development values or the issues arising from specific sites.

¹NHF (2017) How many homes did housing associations build in 2016/17? London: NHF.

²Burgess, G. & Monk, S. (2013) The changing delivery of planning gain through Section 106 and the Community Infrastructure Levy. Cambridge: Cambridge Centre for Housing and Planning Research.

Significantly, research by the Cambridge Centre for Housing and Planning Research indicates that, rather than the mechanism applied, the primary factors determining the extent of affordable housing provision on private sector-led developments are:

- how much the developer paid for the site
- how much the housing association is prepared to pay the developer for the units
- viability assessment methodology
- % of affordable units sought by the local authority – councils should be realistic (taking market conditions into account)
- extent of CIL payments being sought by the authority
- existence of local planning strategies that support development of affordable housing.

Effective planning authority management of these factors, coupled with realistic planning gain objectives, will remain important even if the new CIL subsumes s106.

The supply of local authority land is limited

Many authorities only have limited land holdings, whether held under the Housing Revenue Account (HRA) or the General Fund. Consequently, most authorities are rationalising their use of offices, depots, garages, and small parcels of undeveloped land to maximise land available for development. A significant proportion of local authority HRA land is on or adjacent to existing council estates and, in such cases, it may make more sense for the authority to develop it directly. In some places, authorities still have resources to acquire land voluntarily or via CPO, but primarily where they can still fund the acquisition by recycling receipts from sales of other assets.

LSVT authorities are in a particularly difficult position. While retaining their statutory housing responsibilities they have often transferred much of their HRA land to the LSVT association – although the transfer agreement may provide for ‘clawback’ arrangements allowing the council a share of the increased development value of that land. In many cases, however, these LSVT associations have become subsumed within larger regional or national associations resulting in a loss of local authority influence over their development programmes.

As we note below, where authorities have land to sell for housing development they are increasingly doing so on a leasehold basis – seeking a long term commercial return on the asset.

Access to 'other public land' can be problematic

The difficulty in securing a supply of private land – particularly at values that support affordable housing – combined with limited availability of local authority land, increases the importance of developing on sites held by other public bodies. This might be land held by the NHS, MOD, other government departments, county councils in two-tier authority areas and so on.

Until recently, county councils have been less likely than housing authorities to sell land for housing development. However, given the increased pressures on their social care budgets, several are now stepping into direct housing delivery via LHCs or partnerships with housing associations. The key priorities for the counties are provision of additional supported housing supply and a revenue stream to alleviate pressure on budgets.

It has been, and still is, very difficult for authorities to ensure that other sources of public land are brought to market – let alone that such land is sold at values that support affordable housing. Three government initiatives provide some encouragement:

- HCA purchase of land held by government and its agencies – with the HCA then aggregating that land into development parcels for sale to authorities, associations, and developers.
- The One Public Estate programme – a collaboration between the Local Government Association (LGA) and the Cabinet Office's Government Property Unit, now focused on encouraging partnerships between NHS organisations and councils to support housing delivery and generate receipts or revenue for a cash-strapped NHS.
- GLA work with Transport for London, the Metropolitan Police, and the London Fire Brigade to release land for affordable housing.

One Public Estate aims to expedite the sale of NHS land for homes by offering funding of between £50,000 and £500,000 to help NHS organisations and councils draw up disposal and development strategies. The programme started as a pilot in 2013 in 12 local authority areas in England. Since then it has expanded to a further 127 councils and the government has announced £37 million of funding to support it. Several One Public Estate programmes have enabled public land to be sold in return for affordable housing. However, current research by the New Economics Foundation suggests that One Public Estate could do more to ensure that other public land is sold on a leasehold rather than freehold basis, thus securing more affordable housing supply.³

³ Martin, A. (2017) Making the case for affordable housing on public land. London: NEF (see <http://neweconomics.org/2017/07/affordable-housing-public-land/>).

Local authorities are exploring a broad range of housing delivery mechanisms

Authorities have a range of options when seeking to deliver new affordable housing:

- Direct provision – within the HRA where the authority has retained its own housing stock.
- Local housing company – often wholly-owned by the authority.
- Housing association – via council land, or s106 agreements on private land, or in regeneration schemes combining council and private land, often via a joint venture.
- Private developer – primarily via s106 agreements but also in regeneration schemes with an increased focus on helping SME developers build on smaller sites.
- Private rented sector – indirectly via encouraging institutional investor landlords to build, or directly through council or housing association management of existing PRS supply.
- Community self-build – including Community Land Trusts – particularly helpful in developing smaller sites.

Most authorities are deploying several of these options. Authorities are becoming increasingly willing to respond flexibly to external proposals.

Often, the choice of delivery partner is site-specific. Infill sites, for example, tend to be most suitable for smaller housing associations, direct build via the HRA, LHCs, small or medium enterprises (SMEs) or self-build. Conversely, where an authority is seeking to diversify the tenure of an area and/or regenerate large brownfield or town centre sites, partnership with larger associations or commercial developers may be more appropriate.

When selecting a delivery channel, as we explain below, authorities are increasingly keen that their support and investment produces a revenue stream return that can mitigate the pressure on the General Fund.



Legal insight from Trowers & Hamlins

Selecting housing association partners without a competitive procurement process

There is scope for local authorities and housing associations to enter arrangements of co-operation that are not captured by the Public Contracts Regulations 2015 (the Regulations). The Regulations are essentially concerned with contracts concluded for monetary interest that have, at their heart, the execution of works, the provision of service or the supply of products. They are not intended to capture arrangements that fall outside those parameters.

For example, partnership arrangements crystallised using a consortium or joint venture agreement, setting out the constitutional, commercial and operational relationships between all the relevant parties in relation to the ownership and operation of the

consortium or joint ventures, would not typically be captured by the Regulations. Such agreement could set out the mutual obligations for, for example, site assembly and other matters to assist in a regeneration but would not provide for any payments for works/development to be made (other than investments, loans or land transfers – see the paragraph below) as such payments could constitute works or services that would need to be procured.

The sale of land on its own, without any specification as to build out requirements, does not fall within the Regulations. Regulation 10(1)(a) provides that contracts for the acquisition of interests in land are exempted. However, case law has provided clarification that disposals of land are also exempt if they do not create enforceable obligations to undertake works by the transferee. This would mean that the parties may not specify works or exercise any decisive influence on the works that may be undertaken when making a transfer of land, although it is permissible to include an obligation to comply with planning requirements.

The transfer of land (without associated works obligations) by a local authority to a joint venture in respect of which it was a member or shareholder would not, therefore, fall within the scope of the Regulations. Such an arrangement entitles the disposing authority to influence the use of the land in its capacity as a member of the joint venture (relative to the extent of its interest) without imposing obligations as part of the terms of the transfer. Clearly, such an arrangement requires a degree of trust between joint venture members but, in practice, local authorities will not dispose of land unless they have sufficient certainty over the purposes and benefits of the joint venture.

To the extent that trust is still building between the parties, a number of local authorities are considering imposing conditions on land disposals that entitle the land to be repatriated in circumstances where, for example, development of a specified nature has not commenced within a prescribed period.

Even if the parties' contractual arrangements do fall within the ambit of the Regulations, there are certain exemptions that may be relevant. For example, Regulation 12(7) provides an exemption where two contracting authorities (eg a local authority and a housing association) work together 'with the aim of ensuring that public services they have to perform are provided with a view to achieving objectives they have in common'. This would allow a local authority and a housing association to come together to form a joint venture vehicle without the need for an EU-compliant procurement exercise. Under the exemption, no more than 20% of the activities carried out by the vehicle can be on the open market (with 80% being in the public interest). This would restrict the market-facing elements of the partnership – for example, market renting or market sale activities – to 20% of the annual turnover of the partnership.

Authorities need housing delivery – associations need development opportunities

Despite this array of delivery mechanisms, many authorities will be unable to meet housing demand, and fulfil their statutory homelessness and social care responsibilities in an economic manner, without new housing association supply.

Equally, housing associations are unlikely to meet the government's new build targets for the sector without continued access to local authority land and/or through new provision via s106 agreements. Although some larger associations can secure sufficient land on the open market to build up 'land banks', this is not the case for many.

Moreover, there is a strong case for local authority and housing association partnerships around stock acquisition and interventions in the private rented sector – see below – both of which can secure 'quicker wins' in terms of housing supply than new housing development.



A brief outline of the organisations

South Gloucestershire District Council, located between Gloucester and Bristol, the Severn Estuary and the Cotswolds, is part of the new West of England Combined Authority. Its location and proximity to the City of Bristol present several cross-boundary opportunities and challenges. Just over 102,000 homes are needed in the sub-region by 2036, of which 32,200 need to be affordable, and a Joint Spatial Plan is being developed to take a strategic approach to meeting this challenge. South Gloucestershire is a mix of long-established urban communities, market towns, small villages and substantial new areas of development, and therefore offers considerable potential for sustainable growth.

Sovereign began life in 1989, when West Berkshire Council (WBC) transferred 7,000 homes in what was just the third LSVT in the country. Over the years, it expanded across the south and south west, growing to become the sixth largest housing association in the country with over 56,000 homes.

What are you trying to achieve?

With work getting underway on around 1,600 new homes last year, South Gloucestershire is one of the most ambitious growth areas in the country. With a unique combination of well-located sites and an attractive affordable housing ‘package’, it has established itself as an area where housing associations actively wish to invest.

Given the opportunities and the forward-thinking approach from the council, Sovereign made South Gloucestershire one of its top priority local authority areas, as part of its strategy to focus growth and investment in a tight geographic footprint.

From the council’s perspective, a primary objective is to deliver homes at pace that are genuinely affordable in the context of local incomes and house prices, and therefore we must attract top-performing partners such as Sovereign. However, what makes our relationship so successful is the high degree of synergy between the organisations’ strategic objectives and values, and the commitment from the top to work together to make things happen.

What did you do?

Recognising the potential of working together, chief executives Amanda Deeks (South Gloucestershire) and Ann Santry (Sovereign) spent considerable time developing their relationship. This has included regular ‘blue sky thinking’ sessions and the ability to have confidential – and frank – discussions at a senior level.

An effective working relationship has grown from a shared purpose. Both organisations have much in common and are committed to building genuinely affordable homes – demonstrated by Sovereign’s decision not to convert homes from social rent to the higher Affordable Rent, despite the financial cost, and by South Gloucestershire’s insistence that each s106 agreement must deliver a majority of social rented homes.

What were the outcomes?

With a stable, experienced and skilled team on each side, trust has developed over time. As challenges have arisen, the partners have been able to discuss a range of possible solutions openly and be clear about the implications of strategic-level decisions.

With a common purpose, Sovereign can be a trusted housing expert, investment partner and critical friend, to help South Gloucestershire deliver its ambitious growth plans. Together, South Gloucestershire and Sovereign will enable and build much-needed, truly affordable homes and create thriving and successful communities.

With an extensive track-record on delivering section 106 sites, Sovereign invested in a toolkit and direct training for developers on how it manages its stock in mixed housing developments to address specific problems on multi-phased developments that build out over time. The result has been housebuilders have a better understanding of, are more confident

in, Sovereign's management approach and are better able to sell private homes next to Sovereign rented or shared ownership homes.

Sovereign's strategy team shared insights from their detailed research programme, including the projected impact of welfare reform in the area, to help the council understand the implications and plan more effectively. The development team is happy to share useful intelligence on market values, development viability and financial modelling to assist the council, and this proved invaluable in helping to fight two major public inquiries.

With a history of partnership working and trust, partners are more able to reach commercial arrangements that deliver for everyone. For example, Sovereign was prepared to make an indicative forward financial commitment to South Gloucestershire to help it prepare bids for funding as part of the government's continuing devolution agenda.

What did you learn?

South Gloucestershire

There are huge benefits from building a trusted relationship at senior level that will percolate down through the organisations. The benefits of developing a shared agenda are obvious – placing value on understanding what will not work and why, and being able to re-plan accordingly.

Sovereign

Local authorities and housing associations have so much in common. They often have similar cultures and ways of working, as well as a shared purpose. It's worth investing in developing an open and honest relationship, both strategically and operationally, as the benefits to both the organisations and our communities are well worth the time and effort.

Case Study - South Gloucestershire DC and Sovereign: Sharing development insight and resources

What three tips would you give to someone looking to implement a similar approach/scheme?

South Gloucestershire

- A personal connection at chief executive level is invaluable – invest time in cultivating this
- Establish a culture of openness and honesty with a ‘safe space’ for conversations that are constructive even if not necessarily what the other wants to hear
- Be aware of the role key housing association partners can play alongside the local authority in leadership of and commitment to local communities, and the powerful message that a shared approach will send.

Sovereign

- Invest time to understand the challenges faced by local authorities and think creatively about how the knowledge and skills housing associations have can help
- Be frank and honest in discussions on policy and procedure
- Recognise the areas where you’re the expert. Housing associations may have insights into local markets or issues that can really help local authority partners achieve better outcomes in their work.

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Local authorities are seeking new commercial arrangements with housing providers

Given the constraints on HRA development (set out below), the availability of AHP funding and the limits on the products to which it can be applied, and the increasing need to generate revenue to offset cuts in government General Fund support, local authorities are increasingly looking at other ways of investing in new housing provision.

In the past, authorities have generally been content to sell land to housing associations (on a freehold basis) for new development in return for nomination rights to the lettings that arise. In such circumstances, the association is the sole beneficiary of any future increase in the capital value of the land and property.

Increasingly, however, authorities are looking at a different commercial arrangement, whereby the land is sold:

- on a leasehold basis
- to a joint venture between the authority and one or more partner associations
- generating a share of surplus revenue (from lettings) to the authority
- accruing to the authority a share of any capital uplift in the value of the land and property over time
- granting the authority nomination rights to the lettings arising from the development
- maintaining the ability of the authority to use this land for future infrastructure provision.

Generally, these joint venture arrangements operate on the basis of shared risk and reward. By their nature, these arrangements involve greater risk for the association than traditional land sales in return for nominations.

Where the authority is seeking development at scale, for example through large regeneration projects undertaken on a phased basis over time, the joint venture arrangements may be complex and may involve more than a single association and one or more commercial developers.

Several of the case studies in this guide, notably the Brighton and Hove/Hyde, the Hastings/Optivo and the Eastleigh Borough Council/VIVID examples, are based on joint ventures involving some (or all) of the commercial provisions referred to above.

2. Constraints on local authority and housing association development

There are well-known constraints on authorities and associations that currently limit their ability to deliver new affordable homes at the scale required, summarised below. These are additional to the constraints identified in [Chapter 1](#).



2.1 Constraints on local authorities

Planning

In many parts of the country more homes need to be built. Planning targets need to reflect current and future demand, including a significant added contingency to reflect unimplemented planning permissions, and infrastructure needs to be funded and delivered.

As of April 2017, only 41% of councils have a NPPF-compliant Local Plan in place, even though the NPPF is now five years old. The authorities that have been being slow to implement up-to-date Local Plans are also the ones who are failing to plan for enough homes. Research by Savills indicates that some 61 authorities have lost planning decisions at appeal in the year to April 2017 due to not having a five-year land supply. A further 61 authorities have a published land supply of less than five years.⁴

The primary cause of delay in adopting Local Plans is the debate about housing numbers, particularly in areas with a high proportion of Green Belt or other protected land (Areas of Outstanding Natural Beauty and National Parks). Half of all plans found by planning inspectors to be sound have been required to adjust their housing numbers upward before becoming compliant. In many cases, particularly in rural areas, effective ‘nimby’ campaigns have stopped much-needed housing development. There is also evidence that the neighbourhood planning process has been taken up in more affluent areas as a way of stopping growth.

Local authority planning departments have been subject to major cuts in recent years and there is concern that planners do not have the time or expertise successfully to challenge developer appeals against s106 requirements and/or viability assessments.

The National Housing Federation is urging the government to introduce standardised formats for viability assessments on the basis that a consistent approach would make the process more transparent and reduce the risk of developer challenge. Some authorities are doing this voluntarily on a regional basis.

Investment

Authorities can encourage and/or subsidise new development through capital grants and/or loan finance for associations by:

- Recycling capital receipts from right to buy⁵ and land sales for affordable housing development.
- Borrowing – primarily via the Public Works Loan Board (PWLB) and serviced by the HRA or General Fund – for direct build or ‘off balance sheet’ joint ventures with housing associations.

- Specific use of New Homes Bonus – for example, to de-risk supply by guaranteeing to buy unsold homes in new developments.

⁵ Authorities cannot give RTB receipts to a body in which they have a controlling interest. This would include most LHCs and ALMOs.

Legal insight from Trowers & Hamlins

Standardisation of viability assessments

A more consistent approach to viability would be welcome. Currently the London Plan specifies a preferred ‘toolkit’ for a viability assessment, which has had some success in harmonising the approach in London; standardisation across the country is likely to bring wider benefits. In the meantime, there is nothing to prevent individual local authorities, or

groups of authorities working together, standardising an approach within their supplemental planning documents in advance of any national standardisation. Any viability assessment mechanism introduced would need to be subject to robust methodology and consultation to ensure it meets the desired aims and is not vulnerable to challenge.

However, there are constraints upon the availability of these funds:

- Authorities can only retain a proportion of right to buy receipts (with the rest being claimed by HM Treasury), and receipts recycled for new build must be applied within three years.
- Capital receipts from land sales depend on the availability of council land, whether the land value is being discounted and whether the authority prefers an ongoing revenue return to a capital receipt – though these options are not necessarily mutually exclusive.
- HRA or General Fund borrowing is limited by prudential borrowing rules, and HRA borrowing is limited by the headroom within each council's borrowing cap.
- Government-imposed rent cuts (which will last at least until 2020) have greatly reduced HRA capacity to borrow in most authorities.
- Higher rent arrears following welfare reform and the continuing loss of stock via right to buy sales also impact negatively on income and hence on borrowing capacity.
- The New Homes Bonus was never a significant sum and is to be further reduced by government.

Government grant is now available again for local authority development for authorities that choose to apply. In London, the GLA share of the AHP is available for development of London Affordable Rent (set close to social rent) and London Living Rent (an intermediate rent based on one third of local average household incomes). However, outside London, HCA AHP grant is, at present, only available for the development of Affordable Rent, homeownership products or rent to buy.

2.2 Constraints on housing associations

Planning

The problems for associations lie primarily in the complexity of the planning application process and the lack of certainty that future sites will be made available for housing association development.

Associations are also suffering reduced opportunity to acquire property via s106 agreements, following developers' challenges to existing agreements that reduce or eliminate their contribution.

Associations often feel compelled to compete with other associations to access developer-led s106 opportunities. This forces up the price of the acquired units, making it more difficult to let them at a genuinely affordable rent. Moreover, it depletes the resources available to associations for future development.

Investment

The lack of HCA AHP funding for (in particular) social rent housing impacts equally on housing associations. Even if grant were to be available, grant rates are usually too low to facilitate development for social rent. This problem has been recognised by the GLA, and now needs to be resolved for the rest of England. At the end of this chapter we make a recommendation to government on this issue.

In its share of the AHP, the GLA is offering grant of about £60,000 per home for 'London Affordable Rent' schemes, subject to conditions, to deliver rents close to social rent levels. Even this level of grant will require significant cross-subsidy from housing associations before homes can be built. The GLA has set a target of 90,000 new homes in the capital by 2021. The GLA has made an initial allocation of funds for the first 50,000 units – of these, 35% will be at London Affordable Rent levels.

Without grant, associations are employing cross-subsidy from market or low-cost homeownership sales to maintain some form of social rent programme. L&Q, for example, has plans to provide the largest social rent programme of any association in London and the South East, funded partly from cross-subsidy from surpluses created from homeownership sales.

There are limits to the amount of operating surplus that housing associations can deploy to cross-subsidise social rent housing- local land market values permitting - without undermining investor confidence and limiting their ability to borrow for further investment.

Land values, and hence market prices and rents for new homes, are significantly higher south of a line from the Severn to the Wash. North and west of this line, the increase in value when land is designated for housing can be much less and so s106 can deliver fewer affordable homes. Similarly, the scope for cross-subsidy from market sale and rent to social rent or Affordable Rent is reduced as the differences between values are smaller.

A combination of these factors has constrained the forward programme of homes to be let at social rent. In 2016/17, for example, there were 4,775 social rent completions out of a total of 38,000 new housing association units. Half of associations' total output is now accounted for by Affordable Rent dwellings. Significantly, almost 75% of new homes for social rent were funded from housing associations' own cross-subsidy, not from the AHP, and this proportion is growing.⁶



⁶ Data from NHF quarterly survey of housing associations. Official (DCLG) statistics for 2016/17 may diverge from these when they appear. The total output of 38,000 includes 5,700 units for market rent/sale that will not appear in DCLG figures. See NHF (2017) How many homes did housing associations build in 2016/17? London: NHF.

3. Overcoming these constraints – a range of solutions

We must assume that many of these constraints will continue in the short or medium term. A minority may be relaxed through effective lobbying of government.

Others may be tackled at a local level. This is the primary focus of this chapter. The solutions available are structured as follows:

- actions for local authorities
- actions for housing associations
- joint actions.

3.1 Actions for local authorities

All authorities need up-to-date and effectively applied Local Plans

Local Plans are a key building block in ensuring that regional or sub-regional plans promote housing and related infrastructure. In addition to having robust Local Plans, authorities need to be proactive in bringing sites to the market and ensuring enough sites have planning permission to meet Local Plan targets.

In its February 2017 white paper, the government proposed the introduction of a national standardised housing delivery test. This will highlight whether house building is meeting housing requirements and, from November 2018, apply ‘the presumption in favour of sustainable development’ (under which planning applications which meet NPPF criteria are automatically granted) if delivery falls below 25% of housing requirement. The threshold rises to 65% from November 2020. Each authority’s record of delivery will be assessed as a rolling average over three years, with the first assessment period being 2014/15 to 2016/17. Clearly, the housing delivery test measures (if delivered by the DCLG, post-election) will put greater pressure on local authorities to deliver.

If they have not already done so, authorities should put in place an NPPF-compliant Local Plan that contains a comprehensive and objective assessment of housing needs and a five-year land supply for new homes. A strong, up-to-date, Local Plan:

- increases the likelihood of planning authority success where ‘nimby’ campaigners appeal against planned developments.
- creates a framework that underpins and justifies s106 planning or CIL requirements and enhances the likelihood of planning authority success where developers appeal against them.
- encourages future development by setting out strategic council objectives and future land supply.
- helps to ensure that key council departments – housing, finance, planning, property and economic development – work together to ensure that master planning, site assembly, infrastructure provision, investment and land disposal are optimised.



Housing associations consider that they could build at greater volume and speed if local planning authorities took the following steps:

- allocate sites for (at least) five years of future development of social housing
- increase supply by implementing the ‘permission in principle’ provisions in the Housing and Planning Act on selected sites (ie approving a site as suitable for residential development ‘in principle’ ahead of the second ‘technical details consent’ stage when the detailed development proposals are assessed)
- follow the GLA’s lead and ‘fast-track’ planning approvals that meet the authority’s development standards and affordable housing targets
- work closely with associations to minimise delays in securing full planning permission.

These approaches remove a significant amount of cost and risk from housing associations – particularly in respect of abortive planning application costs – and can encourage them to make significant forward investment plans for an area.

However, there are limitations to single planning authority plans:

- variation in land capacity even between adjoining local authorities
- economic/housing markets straddle authority boundaries
- provision of infrastructure, commercial centres and so on for new developments has cross-boundary impacts.

Councils with different appetites for development need to reach effective agreement when producing joint core strategies to address the housing or infrastructure needs of a region or sub-region.

Case Study - Plymouth Housing Development Partnership: secures five-year affordable housing supply via a housing association partnership

A brief outline of the organisations

Plymouth Housing Development Partnership (PHDP) is a partnership of 11 housing associations, Plymouth City Council (PCC) and the HCA. RentPlus UK, a company providing rent to buy homes, joined PHDP in July 2015. The partnership does not have legal status. Partners pay an annual fee and a levy of £250 on every affordable home built to support PCC's strategic housing capacity and other initiatives to support affordable housing delivery.

What are you trying to achieve?

The partnership's main purpose is 'to increase the amount of good quality affordable housing in and around Plymouth through a collaborative, innovative and efficient partnership'. The 'Plan for Homes' was launched by PCC in November 2013 and refreshed in March 2016 with the ambition to deliver 5,000 new homes over five years. It provides the framework for housing delivery in the city. PHDP is the key delivery vehicle and is building out many 'Plan for Homes' sites.

What did they do?

- PCC has acquired three large sites to deliver approximately 480 new homes, of which approximately 25% are starter homes (subject to government regulations being finalised).
- PCC and the HCA have established a land acquisition fund and are currently exploring the acquisition of three stalled sites.
- Through the partnership, the PCC allocates available sites resulting from s106 or from release of PCC's own land.
- PHDP funding supports staffing capacity in the council's housing delivery team to facilitate affordable housing delivery.
- Several open-air awareness events have been held in the city centre to promote affordable housing options.
- PHDP has funded specialist reports or temporary staff eg to review public land holdings, produce a detailed report on affordability and develop assessable material explaining low-cost homeownership options.
- PHDP provides a key consultation body for Plymouth's Joint Local Plan, housing strategy and planning policy.
- An integrated 'downsizing' approach is being explored among PHDP partners.
- In consultation with PHDP, PCC has agreed to provide affordable loan funding to support new build. To date this has not been taken up, although the first loan application is being considered.
- PHDP is monitoring the quality of new affordable homes delivered, via customer satisfaction surveys.
- PHDP is promoting local employment and training in construction schemes.

What were the outcomes?

PHDP has operated successfully for several years, recently supported by a part-time co-ordinator funded by the partnership to oversee delivery of the agreed PHDP action plan. There are quarterly meetings with a 12-month revolving chair and an annual away-day to share success and agree future priorities. Members work collaboratively to maximise opportunities and resources, and to avoid duplication and competition.

By supporting the housing delivery team, PDHP has accelerated the delivery of public land. Commissioning specialist reports has helped focus partners' attention on key future housing needs in the city. Housing associations working together have provided extra capacity so that planners can take a stronger position with private developers on s106 opportunities.

Specific outcomes were:

- PDHP has a strong track record of delivery of new affordable housing: since 2006, about 35% of all new homes in city (often more than 300 per year) have been affordable, and PHDP's role has been critical.
- PDHP has an excellent track record of securing and investing HCA funding in affordable housing – £94 million in HCA grant since 2008.
- PCC has released over 138 acres of council land for housing to deliver about 1,650 new homes, of which 50% are affordable.
- Many partners have been successful in securing these sites for development, with housing propositions considered on a 'best value' rather than 'best consideration' basis.
- Future PCC site acquisitions will help provide further opportunities for PHDP partners.

What did you learn?

PDHP has shown that it can deliver more by being willing to share information and through learning and working together.

What three tips would you give to someone looking to implement a similar approach/scheme?

- An open and willing partner is needed in the local authority if any partnership is to work.
- All partners need to be able to contribute and benefit.
- Partners should take turns to share leadership of the partnership.

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Local authorities can manage s106 arrangements more proactively to secure more genuinely affordable housing

By resetting and clarifying Local Plan s106 obligations, authorities can help to ensure that landowners will be more realistic about the price of their land, that developers are less likely to overpay for it and then find they cannot meet S106 obligations, and that where there is a planning-related land-value uplift the authority captures a share of it.

Authorities can also elect to defer s106 or CIL payments until development is completed and even (where the development involves homeownership products) until all homes are sold. This approach can be particularly helpful in 'de-risking' development by smaller housing associations and SME developers.

Authorities can be proactive in terms of site assembly – particularly for regeneration

Authorities can, and should, do more in terms of site assembly. In the past, councils have primarily used CPO powers for regeneration schemes but more are now willing to use such powers to build up strategic land holdings for future development. Although the use of CPO powers can add up to two years to the development process, at significant cost and officer time, authorities have found that the mere prospect of a CPO can stimulate landowners to sell.

Legal insight from Trowers & Hamlins

Capturing s106 developer planning uplift

The most common method for capturing 'lost value' or increased developer profitability from initial viability assessment to the sale of units is to have obligations in section 106 agreements that require viability re-assessments.

A section 106 agreement could contain a mechanism for a future review(s) of viability, taking into account any increases in gross development value or decreases in costs. This often includes a mechanism

to fix the land price to address this concern.

This would capture all or a share of developer profit over what was predicted at application stage. This surplus could be paid by the developer as a financial contribution towards affordable housing or, if practicable, used by the developer to provide more affordable housing.

Site assembly in the form of brownfield or town centre regeneration schemes is often the only route for providing new development at scale in major urban areas. Although regeneration is a lengthy process, through master planning exercises authorities can secure the construction of (say) 1,000 homes within a single planning application rather than (say) via individual applications for ten schemes of 100 units each. Master planning exercises therefore reduce the impact of nimbyism while securing development on a transformative scale.

Site assembly at scale can also play a critical role in (for example) the development of new towns or urban villages or the redevelopment of existing town centres. It can, and should, be underpinned by local authority land availability studies – sometimes referred to as ‘land commissions’. These studies can be undertaken on a single or multi-authority basis and often discover more potentially developable land than was previously apparent – for example, by specific analysis of car park utilisation. Housing associations can, and should, invest resources in local authority land availability studies – for example, by sharing digital land mapping tools (see case study on Sovereign Group and West Berkshire DC).

Compulsory purchase has a role, too, in rural housing supply. For example, Hastoe Housing Association built 13 affordable homes on a rural exception site in Brede that was compulsorily purchased by Rother District

Council. The scheme and the CPO were justified by a housing needs survey, and without council support would not have been built.

In its white paper, the government promised to consult on enhancing local authority CPO powers. One key reform would be to put caps on the uplift in value that can be claimed by the owner of development land that is subject to a CPO.



Authorities can be flexible in how they secure value from land disposal

As noted, land value is one of the primary constraints on the development of affordable housing. Simply put, the cheaper the land the less public subsidy (or cross-subsidy) is required to build affordable homes.

Many authorities are becoming more flexible in how they achieve economic gain through land disposals. These authorities are often increasingly commercial in their outlook, seeking to compensate for loss of central government grant, and have a good understanding of how to work their assets.

Authorities have several options:

- recoup a capital receipt on the sale of the land
- lease the land to a social or commercial developer – to secure a deferred capital receipt, calculated as a percentage of developer profits from market or low-cost sale
- lease the land to a social or commercial developer – to secure an ongoing revenue stream for the General Fund based on ground rent and/or rental surplus.

Clearly, there are some sites where the value is so high that it is only logical to sell to the highest bidder. On these sites, it may simply be impossible to sell at a value that would enable affordable housing development.

However, authorities can and do sell land at undervalue (often now on a leasehold basis), on the basis that ‘best consideration’ can comprise the cash price offered as well as other benefits that have an economic value (see overleaf), particularly for schemes that mix a revenue return for the General Fund with a higher level of affordable housing.

For example, Dacorum District Council sold a small council-owned rural exception site in Great Gaddesden to Hastoe Housing Association at a percentage of agricultural value, which with council grant enabled four affordable homes to be built to Passivhaus standards. Nottingham City Council has provided nil-value sites in inner city areas to associations in return for a commitment to build affordable housing on outer sites.

The consent framework for disposals of land and/or property at ‘undervalue’ are complex and explained by solicitors Trowers & Hamblins as follows.



Legal insight from Trowers & Hamlins

Sale of LA land at undervalue

Whether working through contractual consortium arrangements or joint venture vehicles, the need to observe and comply with the legal rules on local authority land disposals and to secure necessary ministerial consents (specific or general) is critical to project success. The text below offers a summary of the key concepts, but particular care needs to be exercised in navigating the legislative requirements and identifying the correct consent from an overlapping range. The consent position can influence the validity (or otherwise) of a disposal, so suitable legal advice should always be sought in advance.

HRA land

A local authority has the power to transfer land held in its HRA, on a freehold or leasehold basis, in accordance with section 32 of the Housing Act 1985. To do so it must obtain consent from the Secretary of State.

The Secretary of State has issued the 'General Housing Consents 2013' which allow for local authorities to dispose of land, subject to conditions specified in the consent – explained further below.

In accordance with this general housing consent, local authorities may dispose of 'vacant land' for any price to any person. Vacant land either does not have properties built on it, or any properties have been demolished/are no longer capable of human habitation and are due to be demolished.

Local authorities may dispose of land with properties on it at market value to any person. However, they cannot do so if the land is subject to a secure, introductory or demoted tenancy and it is being

transferred to a non-local authority body. If the disposal is to a body in which the local authority owns an interest, the local authority is limited to five disposals to such a body in each financial year.

General Fund land

A local authority can dispose of General Fund land in accordance with section 123 of the Local Government Act 1972. This allows the council to dispose of land held within its General Fund in any manner so long as it is for the best consideration that can reasonably be obtained. If a local authority wishes to dispose of land for less than best consideration it must obtain consent from the Secretary of State.

The Secretary of State has issued a General Disposal Consent in relation to General Fund land. This allows land to be disposed of at an 'undervalue' (less than best consideration) if the difference between the unrestricted value of the land and the consideration for the disposal does not exceed £2 million and the local authority's purpose in making such a disposal is to contribute to the economic, social and

environmental well-being of the authority's area and/or its residents.

The local authority must verify the market value of the land in question through a qualified independent surveyor.

Financial assistance

A local authority, with consent from the Secretary of State, can provide financial assistance (which includes the disposal of land at an undervalue) to another body or person using section 24 of the Local Government Act 1988. The financial assistance must be for the purposes of, or in connection with, the acquisition, construction, conversion, rehabilitation, improvement, maintenance or management (whether by that person or by another) of any property which is or is intended to be privately let as housing accommodation. This would include properties let by housing associations.

General consents have been granted. 'General consent A' allows vacant land (or land with dwellings to be demolished) to be transferred to a housing

association at an undervalue if it is for development of properties to be let by the housing association. This consent is subject to certain conditions, including that the properties will be let on either a periodic tenancy, as a shared ownership lease or lease for the elderly, as temporary accommodation for the homeless, or to be used for as a hostel for those with mental illness or a handicap. Any development needs to be completed within three years of the disposal.

'General consent B' allows for a disposal of a vacant dwelling house (not having been demolished), under similar conditions as 'General consent A', to a housing association in which the local authority does not have an interest. 'General consent AA' allows for the disposal of HRA land for development as housing accommodation, provided, among other things, that any dwellings on the land are demolished and the development is completed within three years. This consent is not restricted to disposals to a housing association.

There are additional general consents in relation to disposals of hostels and care homes.



In its recent white paper, the government proposed to consult on a general consent for HRA disposals and to review the £2 million maximum threshold per disposal of General Fund land. At the end of this chapter we make a recommendation to government on this issue.

Authorities can find new ways to invest in the development of affordable housing

Because of the funding constraints identified above, many authorities are investing in LHCs or joint ventures with associations, neither of which are constrained by HRA rules (see [Chapter 1](#) for more detail on HRA-related constraints). In these cases, the authority will often on-lend Public Works Loan Board (PWLB) loan funding to the LHC or joint venture, using the General Fund rather than the HRA, within corporate prudential borrowing rules and with loans being serviced from LHC or joint venture income.

More authorities are now willing to share the risk on new development – for example by investing in joint ventures with housing associations – in return for additional supply and a future income stream.

Authorities seeking to encourage development are willing to defer the capital receipt or s106 payments until, for example, all post-development sales have been completed – thus reducing the risk for the developer and the likelihood of stalled sites.

Where this flexibility is agreed, it is far easier for housing associations to deliver affordable housing.



Aspect – joint venture housing development company

A brief outline of the organisations

VIVID was formed in April 2017 from the merger of First Wessex and Sentinel housing associations. VIVID owns and manages 30,000 homes, located across 20 local authority areas, but primarily in Hampshire and Surrey. It is the largest provider of affordable homes in Hampshire.

Eastleigh Borough Council (EBC) is a local authority located in Hampshire. It is currently revising its Local Plan to set a target of 16,000 new homes to be built by 2029.

As an LSVT authority (1996), Eastleigh Borough Council does not have an HRA and therefore no longer directly owns any housing stock. The authority recognises that

if it is to accelerate housing delivery in the Borough and achieve the right mix of tenures to meet local need, this requires intervention in a failing housing market. EBC doesn't own much land for development and does not wish to establish an HRA so its strategy needs to be creative.

The strategy, developed by the council's CEO Nick Tustain, comprises four key elements:

- land options – bringing sites to market (including private sector stalled developments)
- accelerating infrastructure – including land assembly where appropriate
- improving viability of schemes by injecting low cost finance
- expanding the local private rented sector - to meet demographic and economic development targets
- ownership of stock - via the Aspect joint venture (JV) – which generates an annual revenue return

This case study will focus on the Aspect joint venture.

What are these partners trying to achieve?

EBC launched the concept of a housing development company in 2009. In 2013, EBC invited First Wessex (now VIVID) to become one of the founding partners in this new enterprise. First Wessex shared the vision and aspirations of the council and committed to developing an operational/legal structure at its own cost/risk – and procured the services of solicitors to provide technical support. The JV – entitled Aspect Building Communities Ltd – was incorporated in January 2015 and the first SPV (Woodside Avenue) was incorporated in July 2016.

EBC is keen, through Aspect, to leverage its access to low cost PWLB borrowing in an 'off balance sheet' arrangement – the finance for project-specific SPV's that sit underneath the JV is secured by a 'repayable grant' from EBC. VIVID is attracted to the JV as it will enable growth in its portfolio of fee-earning managed properties with minimal call on its development/borrowing capacity. An off-balance-sheet arrangement, as suggested by EBC, is therefore attractive.

Case Study - Eastleigh Borough Council/Fareham Borough Council and VIVID/Radian Group:

The objectives of Aspect are to:

- increase and accelerate housing supply with a mix of tenures to meet local housing needs
- bring forward housing developments that may otherwise stall due to market conditions
- boost the local economy through development
- enable the council to own housing stock without establishing an HRA
- provide a commercial financial return

What did you do?

Both EBC and VIVID recognised the advantages of avoiding 'legal control' over the JV. The legal thresholds for the 'control test' are 25% shares (local authority) and 50% shares (housing association). It made sense, therefore, to secure the participation of two further partners in the Aspect JV – neighbouring

council Fareham Borough Council and fellow Hampshire association Radian Group. This was achieved and the local authority partners now hold 24% and the housing association partners 26% shares in Aspect. No single member is in control.

A limited liability partnership (LLP) model was selected because it:

- allows overall control to be shared by the partners while protecting their individual economic interests
- allows equality of interest in the JV
- accommodates the objective that all SPV schemes are self-financing – this enables Aspect to be protected from the risk associated with the individual SPV's
- permits flexibility in 'economic participation' in the SPV's – for example, in the Woodside Avenue scheme, the funding is being provided on a ratio of EBC 90% and VIVID 10%

Aspect is not captured by HRA controls or those imposed by the HCA. As such, property developed is not subject to regulatory rent control.

Any return from the SPV's goes back to the SPV partners. The Aspect partners take no risk or return from the SPVs. EBC plans to invest its return in a 'revolving development fund' to secure future provision. No HCA grant is required to fund the developments and there are no plans for Aspect to become an HCA registered provider.

Case Study - Eastleigh Borough Council/Fareham Borough Council and VIVID/Radian Group:

What are the outcomes?

Aspect is considering several SPV initiatives – the most advanced are as follows:

Woodside (EBC and VIVID - 94 homes)

- EBC land – transferred to SPV on a leasehold basis
- land value - market price (after planning requirements were taken into account)
- new build scheme – now in development
- SPV constituted and operating – small, low risk scheme, will prove the effectiveness of the JV/SPV arrangement before other schemes are developed
- 94 homes will comprise 36 Affordable Rent and 58 market rent
- Affordable Rent homes to be managed and maintained by VIVID (on an initial 5-year contract)

- risk on rent is borne by the SPV
- risk on responsive repairs borne by VIVID

Hatch Farm (EBC and Radian Group - 98 homes)

- pilot scheme discussed, nothing agreed
- EBC land - transferred to SPV on a leasehold basis
- mix of Affordable Rent, market rent and outright sale

Romsey Rd (EBC and developer - 55 homes)

- consortium deal involving voluntary sector and developer/land owner
- establishing a Community Hub – made possible by construction of flats

Stoneham (EBC and VIVID and developer - 1100 homes)

- a joint venture with a local promoter comprising 1100 homes plus major infrastructure improvements
- Aspect to own 146 private rented properties

What did you learn?

Eastleigh Borough Council

It's not about legal structures. It's about having a shared vision and aspirations.

VIVID

Not two propositions are the same. While the flow of the transaction is similar, the documents cannot be largely replicated.

Case Study - Eastleigh Borough Council/Fareham Borough Council and VIVID/Radian Group:

What 3 tips would you give to someone who was looking to implement a similar approach/scheme?

Eastleigh Borough Council

- Understand what you want to achieve and your attitude to risk.
- If you are really serious about increasing and accelerating housing delivery you have to be pragmatic and innovative in finding solutions.
- As a local authority, ensure that you have got the right skills (or be prepared to buy them in).

VIVID

- Ensure early engagement on project proposals before any commercial terms are agreed. This allows for all the economic participators to fully understand the projects and confirm the fit with their individual objectives.

- Allow time to conclude the documents. There is often third-party pressure to rush the development set-up process

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3.2 Actions for housing associations

Housing associations need to flex their offer to housing authorities

Local housing companies (LHCs) create new competition for housing associations. However, many of the authorities setting up LHCs are also involved in joint ventures with associations. The reality is that authorities are seeking a broader range of new supply delivery vehicles.

Even where an authority has an LHC, there remain many reasons for maintaining existing partnerships with associations and creating new ones:

- investment available to LHCs will be insufficient to meet overall local supply targets
- associations bring additional investment to the authority, enabling more homes to be built
- it may take time for an LHC to consolidate its expertise and scale up its output to significant levels

- associations can build at transformative scale and faster than LHCs
- associations can combine landholdings with those of authorities as part of master-planning site assembly
- associations can share the commercial risk of new development with authorities.

Although most authorities continue to recognise the value of partnerships, associations are concerned that LHCs may command greater council attention and thus preferential access to local authority land and investment. Some associations are also concerned that LHCs might 'buy up' s106 opportunities that they have traditionally taken up.

Faced with this increased competition, housing associations need to reflect on their offer to authorities. As valid as the above arguments are for housing associations as partners, it is necessary for associations to understand why authorities are increasingly setting up delivery vehicles that they control (LHCs):

- investment not constrained by HRA rules
- revenue stream to mitigate cuts in government funding support
- greater control over development mix and costs to tenants and owners.

The challenge for associations is therefore to bring new opportunities to authorities that match or exceed delivery benefits via LHCs.

Authorities are also reviewing which associations they work with. Some are keen to reduce the number of housing association partners and want to focus on those who will supply housing at a locally-affordable rent. Others are seeking new partners who have greater capacity to build at volume and assume risk, provide a broader mix of housing products, and share development risk and surplus with the authority.

If individual housing associations want to remain ‘partners of choice’, they need to understand better the varying priorities of the authorities within which they operate, precisely what offer each authority requires and why many authorities are now working with a broader range of delivery partners.

They need to adapt to this new local authority environment by flexing their offer and making a compelling case for co-operation. This means proactively proposing development that meets the long-term commercial requirements of authorities (as set out above) and involves sharing of risk and reward. In most cases, this will be through joint ventures.

This strategy will be most effective where associations bring ‘worked up’ proposals to local authorities – as in the Hyde/Brighton and Hove case study below – demonstrating the tangible benefits of collaboration.

It may also be wise for housing associations to offer development services to LHCs – particularly given the risk for authorities (set out above) that their LHC will have insufficient skill and capacity to deliver at scale in a timely manner. If the LHC still runs into difficulty, the association is well placed to suggest that it is transformed into a joint venture rather than remaining wholly owned by the authority.

Housing associations have an established record of providing development services for specialist supported housing and BME providers, so the provision of similar services to an LHC is entirely practicable. For example, Nottingham Community HA provides development services to the local ALMO, Nottingham City Homes, which develops on behalf of its local authority.

Acquiring land for new homes at 'tailored' affordable rents

A brief outline of the organisation

Brighton & Hove City Council's housing register is growing (now 24,000 households) and it has 1,800 households in temporary accommodation. Its city plan requires a minimum of 13,200 new homes by 2030. The authority's ambitions for affordable new build are constrained by the HRA borrowing cap, housing associations are no longer building significant amounts of affordable rented housing in the city and the HCA has removed 'local connection' from its homeownership programme criteria.

The Hyde Group is a housing association owning and managing over 50,000 homes in London and the South East of England, of which the majority are affordable

homes and builds 1,500 new homes each year of which broadly 2/3 are new affordable supply for both rent and shared ownership. Hyde is one of the largest developers in Brighton and the recently established Greater Brighton City Region.

What are they trying to achieve?

The council has decided to enter a joint venture with The Hyde Group. The initiative has been formulated using a corporate structure known as a Limited Liability Partnership (LLP).

Brighton & Hove CC's objectives are:

- meeting housing need
- generating economic development
- creating a revenue stream for recycling into future provision.

Hyde Group's objectives are:

- delivering 1,000 new affordable homes in the Brighton & Hove area via the joint venture
- developing a tailored rent model that genuinely meets local needs of low income working households – a Living Wage rented housing model
- generating a revenue surplus for re-investing in affordable housing

The partnership will acquire sites in the Brighton & Hove area – including some council General Fund sites but also sites to be acquired on the open market. The partnership will then develop this land for the provision of sub-market rent and shared ownership products. The rented homes will be priced linked to the Living Wage. Homes will be let or sold to people with a connection to Brighton & Hove.

Case Study - Brighton City Council and Hyde Group:

The project aims to provide genuinely affordable housing for rent outside the HRA, for low-income working households who cannot afford to live in the city or currently have to commute to work. After detailed discussions about affordability between Brighton and Hyde, it was agreed that rented homes will be let at an average of 37.5% of the gross take home pay for households earning the National Living Wage.

The initiative is anchored in Brighton's housing strategy and local plan.

What are they doing?

The partners will each contribute 50 per cent of the capital (up to £60 million each) required by the LLP to purchase the sites and develop the homes. Council investment will be a combination of equity from receipts from general fund sites supplemented by PWLB borrowing. The borrowing will be used to fund the equity investment in the partnership, with borrowing costs being met via revenue and capital surplus generated by the partnership.

Brighton & Hove CC will sell the partnership sites at 'best consideration'.

What are the planned outcomes?

The Living Wage Project aims to deliver 1,000 low-cost homes for rental and sale over a five-year delivery period, including:

- 500 low cost rented homes for working Brighton and Hove residents earning the new National Living Wage (assumed introduction 2019)
- 500 shared ownership homes that are affordable for Brighton and Hove residents to purchase on average incomes

Wider social and economic benefits should include:

- 700 opportunities for education, training, and apprenticeships
- an average of over 400 FTE construction jobs supported each year for five years
- 4,500 direct and indirect jobs supported
- estimated Gross Value Added to the local economy of £350 million over five years
- increased council tax revenues and new homes bonus
- £6 million of direct investment into new civic and community infrastructure through s106 planning gain.

Case Study - Brighton City Council and Hyde Group:

What has been learnt to date?

Brighton and Hove:

- Scale is required for the benefits of partnerships to balance costs and risk
- Partners have differing perspectives, requiring mutual clarity about each organisation's objectives, flexibility and willingness to compromise
- Successful partnerships involve ambition, agility and commitment from both sides to get over the line

The Hyde Group:

- There is significant alignment between each organisation's objectives, although partnership requires flexibility and willingness to compromise to achieve both parties' ambitions

What 3 tips would you give to someone who was looking to implement a similar approach/ scheme?

Brighton and Hove:

- Authorities need to get political support at an early stage – housing associations need to understand and engage with the political process.
- Ensure that all corporate departments – regeneration, housing, planning, property teams – act in a committed and co-ordinated manner.
- Need to act as a 'strong client' – challenging experts where necessary.

Hyde Group:

- It is imperative that officers have trust in your social purpose, financial acumen and genuine desire to provide quality, affordable homes for those that need them.

- Cross party support, anchored in a long term strategic plan for the Joint venture will breed confidence.
- All parties agreed with the principle of a Joint Venture where for every pound spent by the Council, another pound is spent by us, ensuring value for money, and getting the right legal framework in place for this very simple concept to flourish is the absolute key.

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Housing associations can share resources with council planning and housing services

Local authority planning departments have borne a disproportionate share of General Fund spending cuts, which have impacted on the development of robust Local Plans, a local CIL and effective responses to developer challenges to s106 viability assessments.

At the same time, to better target their investment, larger housing associations have invested in capacity to undertake strategic housing need, viability and affordability assessments and in digital land/property mapping technology.

Housing associations can do more to help authorities meet their planning obligations by providing support for the improved housing needs assessments and digital mapping of site availability and construction progress on sites with planning permission.

There is a strong business case for associations to share resources with authorities. This can often be done at marginal cost. The payback is closer working relationships with those authorities, earlier identification of opportunities and the chance to get involved in discussion of local planning policy at an early stage.

There are examples of cost-sharing of ‘enabling’ posts in Plymouth and Yorkshire (see case studies) and Hampshire (where a local authority group, the Hampshire Alliance for Rural Affordable Housing, works with a consortium of five housing association providers).

A successful rural enabling scheme

A brief outline of the organisation

The York, North Yorkshire and East Riding Strategic Housing Partnership consists of nine district councils, one county council, two national park authorities, the HCA, housebuilders and housing associations. One specific aspect of its work is the Rural Housing Enabler (RHE) network, which was created to secure more affordable housing development in small rural settlements.

What are the partners trying to achieve?

The RHE network aims to confront and overcome the difficulties that stand in the way of new affordable housing provision in rural areas by creating a team to bring together the skills and interests of local authorities in planning and housing strategy with

those of housing associations that want to find and develop suitable sites. The team also works closely with landowners, agents, parish councils and communities to bring forward the development of new homes to meet local need.

What did they do?

The network began in 2011. It funds a rural housing enabler team of one part-time post in each of eight local authorities, managed by the housing strategy manager. The team works to secure sites and affordable housing delivery through mechanisms including rural exception sites, s106 and 100% affordable housing developments.

To fund this, the eight authorities make an annual contribution plus in-kind support. The county council and national parks also contribute, as do 16 housing associations via a financial model jointly developed with them (with a 50% fixed-retainer element and 50% based on delivery in the previous financial year). Contributions therefore vary year-on-year, dependent

on numbers of completions (the current contribution is about £320 per unit). Partners can give 12 months' notice to leave the network.

The network shapes the enabler programme and monitors performance. It meets quarterly, chaired by a councillor. It reports directly to the wider York, North Yorkshire and East Riding housing board, established in 2007.

What were the outcomes?

In 2016/17, the enabling work led directly to 23 schemes, totalling 174 new rural affordable homes, with 544 future homes with planning permission in the pipeline. The network has delivered over 750 new homes in the past six years.

Many rural parishes now have new affordable housing to meet local need as identified through rural housing needs surveys and specifically helping people with local connections.

Case Study - York, North Yorkshire and East Riding Strategic Housing Partnership:

“

If modest costs are shared between a large number of partners, including housing associations, a housing enabling service can be reconstituted via the provision of specialist staff

”

The network also received funding from the Nationwide Foundation in 2016 to research the potential for community-led housing in rural areas. It now plans to work closely with the 12 pilot schemes identified through that work via the government's community housing fund.

The network brings wider benefits to members to maintain its momentum, such as its annual rural housing conference and a royal opening for a recent scheme.

What did you learn?

Rural enablers were funded in many rural areas but have disappeared with local authority funding cuts in most areas. However, if modest costs are shared between a large number of partners, including housing associations, such a service can be reinstated and be very focused in its service delivery.

What three tips would you give to someone looking to implement a similar approach/scheme?

- Governance arrangements are crucial. The formal structure and the fact that the staff team reports to the governing board means the partners have ownership of the scheme.
- Partners pay for the staff team, which gives them leverage over what it does (ie their role is not just advisory), making the governance arrangements stronger and the staff conscious that they are delivering a paid-for service.
- The fact that a partner can exit with 12 months' notice gives reassurance that they will not become trapped in a scheme that is not delivering.

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3.3 Joint actions

Authorities and associations can manage the private rented sector together to influence supply

Many housing authorities are now reliant to some extent on using the PRS in preventing homelessness, or as a source of temporary accommodation where prevention has been unsuccessful.

Much current PRS accommodation is of mixed quality, let at full market rates and provides little security of tenure. There is renewed vigour among some authorities in regulating the PRS at a local level. But much more can be done.

Councils, acting alone or in partnership with associations and/or private investors, can become a major provider of PRS accommodation in areas where the market is not maturing on its own and/or market churn is high. For example, the London Boroughs of Newham (via the Red Door initiative) and Barnet (via its trading company The Barnet Group and its subsidiary Let2Barnet) directly let and manage properties on short-term but high-quality assured tenancies. In the case of Red Door, the properties are built or acquired and in the case of Let2Barnet leased from the local PRS. Such vehicles can also provide a mechanism where housing associations can secure income from market sale or market rent property where demand has been less than forecast.

Councils can also engage with the government's build to rent initiative, aimed at increasing the supply and quality of PRS accommodation by attracting long-term institutional investors (including pension funds) into the PRS market. Councils can follow the lead of the GLA in making support for build to rent conditional on agreed rent levels, longer-term tenancies, and high-quality management services.

Authorities should take a strategic approach to the PRS in their housing strategies:

- Proactively acquiring homes from buy to let landlords negatively impacted by the tightening of tax and lending for that sector – for example, a growing number of authorities are targeting former right to buy properties on council estates.
- Setting up their own PRS lettings agencies – via an LHC or an ALMO – where they can control the price, quality and security of accommodation while simultaneously dampening the overall market price of PRS accommodation in their area.
- Acquiring or developing market rent properties as part of a broader product portfolio or working directly with housing associations (such as South Yorkshire Housing Association) that have set up their own PRS subsidiaries.
- Bringing institutional PRS investment into their area (see above) – as with Kensington and Chelsea and Grainger PLC.

Where these PRS initiatives can be co-ordinated in a strategic manner – with authorities and associations working together rather than separately as a present – they can either add new supply or ensure that more accommodation is available at rents within LHA caps. Even where this is not possible, the cost of temporary accommodation can still be reduced, alleviating pressure on the General Fund.

Ideally, a PRS strategy for an area would involve the following elements:

- attracting institutional investment via the build to rent scheme
- maintaining better properties in the PRS through accreditation or licensing schemes
- improving access through lettings schemes such as Adullam's (see case study in [Chapter 4](#)), and
- direct supply via leasing or outright purchase of PRS accommodation.

Housing associations can be involved in the last two and could help develop the overall strategy.

Property acquisition programmes can offer quick wins

The significant advantage of acquisition programmes is that they can bring homes into use more quickly than via new development – there is no elapsed time while planning permission is secured and sites are built out.

Some argue that resources would be better spent on initiatives that create new homes but the popularity of acquisition programmes reflects the need for councils to boost affordable supply as quickly as possible while regenerating neighbourhoods blighted by poor quality PRS accommodation.

An increasing number of authorities are acquiring property as part of their housing strategy – notably as a source of temporary accommodation for homeless people. Oxford and Croydon, for example, have set up joint ventures with private investors.

Under this type of arrangement, the investor provides much (but not all) of the capital for acquisition in return for a guaranteed commercial return. The local authority then manages the accommodation.

Housing associations can play the role of the investor just as well as the private sector by entering joint venture 'property acquisition initiatives' with authorities.



Coastal Space – a joint venture acquiring and regenerating poor-quality private rented sector homes

A brief outline of the organisations

Optivo is a housing association that manages 44,000 homes and houses 90,000 people in London, the South East and the Midlands.

Hastings Borough Council (HBC) is in East Sussex, centred on the coastal resort of Hastings.

The Coastal Space initiative is a joint project between the council and Optivo, with additional grant funding from the HCA.

What are you trying to achieve?

St Leonards is the most deprived ward in the South East of England with high benefit dependency and anti-social behaviour. Some 50% of homes are privately rented; many are unlicensed and sub-standard houses in multiple occupation.

The aim of the Coastal Space project is to acquire, redevelop and relet the worst private sector accommodation as social housing for local people. Aligned with linked CPO enforcement by the council, it has had a major regeneration impact in this deprived location.

What did you do?

The project has been jointly funded by Optivo and Hastings Borough Council on the basis of shared risk and reward.

Many the homes in phase 1 came via proactive CPO work by Hastings Council, with Optivo buying

the property in a back-to-back deal. Optivo achieved cost efficiencies and ensured scheme viability by borrowing via the council at a preferential interest rate through the Public Works Loan Board (PWLB). There was no risk to Hastings as Optivo assumed the responsibility to repay the loan in full – this was the first scheme in the country to be funded in this way. Aside from the loan, the council matched Optivo's investment and, in return, will own 50% of the properties once Coastal Space's initial 30-year financial appraisal term ends.

Scheme budgets allowed for considerable empty homes enforcement and a dedicated community development officer, providing employment and training and health and wellbeing support to local people.

The refurbished properties have been let at an Affordable Rent with letting priority given to households in full-time education or employment (16 hrs+).

Case Study - Optivo and Hastings Borough Council:

What were the outcomes?

Over 700 private properties were targeted and inspected by Hastings Borough Council and 116 properties improved by the enforcement officer team directly employed by Coastal Space. Phase 1 delivered 38 newly refurbished homes between 2013 and 2015. Phase 2 is now on site and will deliver another 30 homes. Coastal Space has recently secured South East LEP funding towards the cost of a phase 3.

Coastal Space has won two national awards, the National Place Making award for best regeneration scheme (Phase 1) and the National Home Improvement Council (NHIC) homes improvements with community benefit category (phase 2).

All properties were refurbished to a high standard via a 'specification charter' with an emphasis on driving down fuel costs for residents by improving the building fabric.

Coastal Space commissioned three local SME contractors to do all the works and all contractor staff were local people from a 10-mile radius of St Leonards.

Over 400 local St Leonards residents were engaged on skills and learning projects to improve their employability skills.

Ten apprentices and trainees worked on the phase 1 refurbishment.

Since the initial letting of the 38 phase-1 refurbished properties only four original residents have moved out. In effect, Coastal Space has reduced tenancy turnover in a place previously known for a transient population. This has created a community with people beginning to value their local area and feel safer in their homes.

What did you learn?

- Setting the right goals at the outset is critical. Coastal Space has had to rejig and refine these as the initiative has progressed. Its project board owns the output key performance indicators (KPIs). Other agencies involved in the regeneration of the area (police, local business groups, NHS etc) are working with Coastal Space and monitor their own aligned KPIs. This co-ordinated approach has ensured equal buy-in and project ownership – enabling, for example, Coastal Space to target and signpost residents to support their need.
- Consider the implications of success. In this initiative, the redevelopment has contributed to rising property prices in the local area. This will make the viability of future phases of the regeneration programme more challenging as properties will become more expensive to acquire.

Case Study - Optivo and Hastings Borough Council:

- Targeted action is a key catalyst for change. The improvement in the physical appearance of the redeveloped properties is the most visible impact but the enforcement and training aspect of the scheme is equally important. Taken together, these outcomes have galvanised the local community
- Getting board and council approval to proceed and invest in innovation can be difficult. In the case of Coastal Space, approval for an untypical funding model was secured, but it took some time. Always be willing to try different things – innovation is rarely easy.

What three tips would you give to someone looking to implement a similar approach/scheme?

- The absolute key to the success is partnership working. Coastal Space benefits from good project

governance via a project board. This is supported by an officers' operational group, which includes staff from the council's planning and housing departments. Optivo has an excellent relationship with Hastings BC, but do select your main partner carefully – ensure your aims are aligned.

- Combining the technical knowledge and financial strength of a housing association with the local housing powers and expertise of a council is a strong union. Use the available knowledge to consider all facets of the scheme you hope to deliver
- Retain a degree of flexibility in the development/regeneration programme. Coastal Space originally targeted the most blighted properties, which, once improved, would deliver the biggest impact on the locality. However, other long-standing vacant properties are often burdened with difficult issues that take longer to resolve – like complex ownership, un-co-operative vendors and viability challenges given the additional works

costs required. So, to maintain the pace and viability of the overall regeneration, as well as continuing with CPO acquisition, Coastal Space has also bought individual homes on the open market that can be improved and relet more quickly.

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4. Recommendations

Bringing together the points made in this chapter, the guide makes four key recommendations, two to the sector and two to government.

Key recommendation to the sector 2:

Planning should be reframed and re-energised to deliver effectively more affordable homes in partnership. To do this the following actions need to be taken:

- All planning authorities should produce Local Plans compliant with the NPPF to facilitate new housing and better equip the authority to resist inappropriate development.
- Planning authorities should manage section 106 and Community Infrastructure Levy (CIL) more proactively to secure more genuinely affordable housing – and housing associations should cease to compete with each other over section 106 opportunities, so as not to drive up development costs.
- There is a pressing need for standardisation of Strategic Housing Market Assessments (national) and viability assessments (regional).
- More joint plans are needed among planning authorities to address:
 - variation in land capacity, even between adjoining local authorities
 - economic/housing markets that straddle authority boundaries
 - provision of infrastructure, commercial centres and so on for new developments with cross-boundary impacts.
- Councils with different appetites for development need to reach effective agreement when producing joint core strategies to address the housing or infrastructure needs of a region or sub-region.
- Housing associations should provide resources to support local authority planning and enabling functions – for example, by sharing viability assessment skills, digital tools for mapping site availability and research on housing market affordability, or joint funding of enabling posts.
- Authorities should be more active in assembling sites and commissioning masterplans, and more prepared to use CPO powers to do so.
- Authorities should invest more in partnership activity, and – to improve rent affordability – be more flexible on sale of land at undervalue and how they extract a return from joint ventures.

Key Recommendation to the sector 3:

Housing associations should flex their new supply offer to local authorities – making it more relevant to the needs of each partner authority – embracing competition from new local housing companies in a positive manner. To deliver this, associations should:

- Increase the level of cross-subsidy from rental surplus or sales income to improve the supply of housing affordable to low-income households.
- Engage proactively with authorities on long-term development joint ventures that share risk and reward.
- Intervene to improve the supply, quality and affordability of the local private rented sector – with councils also encouraging market entry by institutional investors.

Recommendations to government

To achieve higher levels of supply at genuinely affordable rents, local authorities and housing associations also need the support of government in two key areas: the first is land disposal.

Key recommendation to government 1:

Amend the constraints on disposals of local authority land so that councils have more freedom to facilitate affordable housing supply.

How should this be done?

- Broadening the scope of what a local authority can determine to constitute "best consideration" for the purposes of section 123 Local Government Act 1972 in relation to the disposal of General Fund land, where the relevant disposal is to be used to facilitate housing development; and/or
- Widening the applicable general consent regimes, for disposals of HRA and General Fund land, to allow local authorities more flexibility to contribute land to development projects.
- Specific consent for General Fund land should, in this context, only be required where the disposal is within the highest decile of site values.

The second issue where government support is needed is in providing extra grant resources so new homes can be built at lower rents. The fact that almost four-fifths of government housing investment is directed towards supporting the private market gives an opportunity to do this by redirecting part of this funding.

Key recommendation to government 2:

Re-align current government housing budgets and the HCA's programme to increase the proportion invested in affordable housing and review grant rates, so that more homes with genuinely affordable rents can be provided.

How should this be done?

- Re-balance grant resources so new homes can be built at lower rents. Up to 2021, almost four-fifths of government housing investment is allocated towards support for the private market; there is scope to provide higher grant levels for social housing by redirecting part of this wider funding so that overall supply is not reduced.
- The HCA should offer grant for social rented homes, following the lead of the GLA, via such a reallocation of government funding.
- Grant levels for social rent outside London should be set at an indicative level of £40,000 per unit, but with some flexibility to increase or decrease this to take into account land costs, scheme mix, and opportunities to cross-subsidise.
- As a corollary, the HCA should follow the GLA's lead in ending re-let conversions from social to Affordable Rent.

Allocations and homelessness

1. Context

Allocations and homelessness have, in recent years, become areas of contention between local authorities and housing associations. The primary root of the problem lies in government decisions to refocus the HCA's programmes towards shared ownership, intermediate rent and Affordable Rent and the consequent sharp decline in social rent availability. As we explain in [Chapter 1](#), conversion of relets from social rents to Affordable Rents has more than exacerbated this.

Local authorities are managing what in many places feels like a crisis, in which demand is growing, households are increasingly unable to solve their own housing problems and yet councils have fewer lettings and less access to other ways of providing help.

In many areas, it has become difficult to balance the need of local authorities to accommodate the most vulnerable and lowest-income households with the needs of housing associations to limit the risk that applicants cannot pay Affordable Rent and to reach new customer groups who can afford low-cost homeownership.

While housing associations are still committed to assisting people in acute housing need, some have a stronger focus on the wider housing market, so that offering homes at sub-market rents is only part of their role. A small number of associations have specifically questioned whether, given their current business model, they can still contribute to meeting the needs of the most vulnerable. However, for many associations, the shift towards market opportunities – delivered by non-charitable subsidiaries – is in part a means of cross-subsidising the development of affordable housing, an objective to which they remain committed.

Our research also indicates a broader range of issues in respect to allocations:

- In many cases, authorities are keen to develop an ‘intermediate market’ and persuade better-off council tenants to move into homeownership to trigger what we will explain below as a ‘chain of moves’. In other cases, such as Manchester, there is a sufficient supply of social rent housing and authorities are keen to broaden the tenure mix to create sustainable communities. In such circumstances, the current housing association offer aligns with council strategic priorities.
- There is evidence that arrangements for housing registers, choice-based lettings and nominations

require an overhaul if they are to meet the current needs of authorities and associations. As explained below, the system is struggling to match applicants with available properties, to ensure that applicants can afford new housing association lettings, and to make the most efficient use of existing stock. The latter point is particularly important as relets typically outnumber new-build lets by seven to one in any given year.

- Finally, in respect of tackling homelessness, the nature of activity has changed significantly in recent years. There is increased use of prevention methods, which will be further emphasised by the Homelessness Reduction Act 2017 – expected to come into force in 2018. Falling numbers of local authority and housing association relets have made authorities reliant on PRS lets to resolve more than one-third of cases in their homelessness prevention work (although their reliance on the PRS is less than it was). There has been a disturbing growth in use of B&B as temporary accommodation and out-of-authority placement has become common practice in London. Temporary accommodation, at an economic cost, has become the most pressing housing commodity for many authorities.

This chapter is about how, by working together effectively, councils and associations can find better ways of meeting these challenges.



2. What local authorities need from housing associations

In the context of this chapter, local authorities need the support of housing associations to meet housing demand and tackle homelessness in several different ways:

- associations receive nominations of households from the housing register or accepted as homeless
- associations house people directly from their own lists
- associations can participate in local lettings plans that assist mobility
- associations meet more specialised housing needs in partnership with the voluntary sector (for example, work to sustain tenancies in jeopardy due to the risk of rent arrears, or with migrants and refugees, or with victims of domestic violence)
- associations help to provide or manage temporary accommodation.

3. What housing associations need from local authorities

Housing associations need actively-managed and up-to-date local authority housing registers and nomination arrangements.

Associations need a steady stream of nominations, aligned to the mix of housing products they hold within a local authority area. They need these nominees to be able to afford the products to which they are nominated, if necessary with support, so that they can sustain their tenancy or homeownership.

Associations also need the help of authorities in triggering these 'chains of moves' that are essential in making the most efficient use of existing stock.



4. Constraints on closer working

Legal requirements and current practice

All local authorities are required, by Parts 6 and 7 of the Housing Act 1996 (as amended), to maintain an allocations scheme that determines the respective priority between eligible applicants for housing, and to follow this scheme when allocating housing – either via direct lettings or via nominations to housing associations. In practice, authorities secure applicants for their allocations scheme via housing registers (sometimes called waiting lists).

Council allocation schemes are subject to statutory guidance. For example, the local authority must, when determining priority for allocations, include those accepted as homeless. Otherwise, councils have a degree of discretion in how they administer housing registers and allocation schemes.

The Localism Act gave councils more choice about which applicants they admit to housing registers, provided that this did not reduce their ability to give reasonable preference to statutorily defined groups outlined in section 166 of the 1996 Act. In practice, this policy change has resulted in ‘localism’ being more about excluding categories of people than promoting different products to different groups.

Many authorities have used Localism Act powers to severely trim their lists – for example, restricting applications to those who have lived in the area for minimum periods. Those authorities consider that the refocused housing registers are a more accurate reflection of housing need in client groups for which the council has identified some level of reasonable preference for housing.

Housing associations are required by the Housing Act 1996 (s170) ‘to co-operate to such extent as is reasonable in the circumstances’ in offering accommodation to people with priority under a local authority allocation scheme, including those accepted as homeless and who as a result have ‘reasonable preference’ (even though authorities can also meet their homelessness duty through the private rented sector). The regulatory requirement on associations is for ‘assistance’ with authorities’ homelessness duties and an ‘obligation’ to adhere to nomination agreements. Where nominations agreements only capture a proportion of housing association lettings, the remainder of the lettings can be undertaken as the association sees fit.

There are four specific problems for housing associations – and, to an extent, councils themselves:

- Housing registers need to be kept up-to-date by councils because household data often changes during long waiting periods, and this can reduce the speed of letting.
- Curbs on housing registers reduce the overall supply of applicants for authorities and associations.
- Most significant, registers tend to focus on applicants for social rent lettings and often fail to reflect the new range of products on offer (and collect information relevant to them).
- As such, they do not generate the steady stream of appropriate applicants for housing association Affordable Rent, intermediate and market rent, and homeownership products.

A minority of associations are now advertising Affordable Rent and homeownership products on commercial lettings sites to secure a supply of applicants ‘in work’.

Finally, meeting housing demand – for example for homeownership and market rent – is often most effective when undertaken on a sub-regional basis. Individual council waiting lists may not contain the required spread of applicants.



Nomination arrangements

Nomination agreements should reflect the policies of the authority making the nomination and the association receiving it. They should take account of the association's objectives and policies, striking a balance between the duty to co-operate and an association's right to refuse a nomination that is not 'reasonable' from its point of view.

In practice, nomination arrangements have been increasingly undermined by pressures of demand, the reduced supply of new lettings and shifts in priorities by both councils and associations.

Housing associations feel that some local authorities are nominating households who cannot afford their homes and are therefore set up to fail – the council exports a problem without offering something in return. Moreover, where authorities have narrowed eligibility for their housing register, this increases the proportion of nominees at risk in terms of arrears or requiring intensive housing management. Housing associations also find that some authorities fail to understand the 'new reality' – that associations are under pressure to deliver without grant, carry a much higher proportion of costs on their balance sheets and assume much greater risk.

As a result, many associations are introducing 'affordability assessments' of applicant households before they accept a council nomination – including an assessment of their actual and potential benefit status as government welfare reform continues.

In one sense, these 'affordability assessments' are a common-sense response to the problem. They are already employed by authorities that directly promote homeownership and are likely to be adopted by LHCs where new development involves a mix of tenures. Where a nominated applicant needs some form of support package to sustain, for example, a housing association Affordable Rent tenancy, this can be put in place as soon as the applicant moves in. Some authorities are assisting with 'affordability assessments' by providing rent references and pre-allocation information on applicants. In other cases, where housing associations require new tenants to make a rent payment at the start of their tenancy, authorities are supporting this through discretionary housing payments (DHPs) or by providing interest-free loans.

Where, however, nominations are refused on grounds of affordability, these 'affordability assessments' are highly controversial and their design and use need to be discussed and agreed with the authority at a strategic level. Authorities are concerned that refusals on affordability grounds are increasing and may grow further when universal credit is widely introduced.

Legal insight from Trowers & Hamlins

Nature of nominations agreements

Most nomination agreements are subject to ‘carve out’ provisions allowing associations to refuse applicants where they are clearly inappropriate for the letting. For example, applicants who are minors and do not have a guarantor and trustee appointed; applicants who would not be eligible to be housed under the housing association’s charitable constitution; or even, simply, applicants who do not qualify for housing under the current allocations policy of the association.

However, few if any nominations agreements specifically provide for refusal on grounds of affordability. Therefore, associations need to be certain, when refusing council nominations, that in doing so they do not become subject to judicial review

on the grounds that the refusal to assist the authority in the discharge of its duties is ‘unreasonable’. Where the nominations agreement relates to a specific s106 requirement, associations need to ensure that refusals on grounds of affordability are permitted or that they receive a specific waiver from the authority. Similarly, where a local authority seeks to enforce existing nominations arrangements against a housing association, it should first check the position of any applicable contractual exceptions to its nomination rights (and, indeed, in the case of ‘ongoing’ updates to a housing association’s allocations policy over time, whether the alterations and consequent refusal to house applicants amounts to an unreasonable refusal to cooperate under statute).

It is vital that nominations agreements are made to work – not least because many are binding on both parties in perpetuity. Indeed, in terms of whether a housing association can end its nomination obligations with a council, this will depend on the terms of their particular arrangement:

- Transfer agreements negotiated at the time of LSVTs tend to have ongoing nominations arrangements that are only suspended when a replacement choice-based lettings arrangement is entered into (or perhaps a local lettings plan has been agreed). In the absence of a suspension event, the nomination rights persist (although in practice they tend to evolve away from the original written terms as working practice develops).
- General nominations agreements negotiated between councils and housing associations (whether or not within the framework of a s106 agreement) vary – some provide explicit break clauses allowing termination and/or set contractual durations, while others are silent (these agreements would appear to persist, much like the LSVT arrangements, unless the parties agree to end them).

- Joint venture nominations agreements have similar variations in their drafting, although they will involve a second layer of complication in that they will be entered into between the JVC and the local authority, rather than by the local authority and an individual housing association. As well as potentially being terminated by the exercise of a break clause or the ending of a contractual term within the nominations agreement itself, an individual housing association pulling out of a JVC structure would likely cease to be bound by the nominations agreement.

However, ‘refusals’ are just one factor in the reduced take-up of council nominations by associations. More association lettings (40%) now go to direct lettings than eight years ago (27%). This trend may result from:

- new output under the AHP consisting of Affordable Rent lettings, which may not be appropriate for many housing register applicants, and may be targeted at working households able to pay higher rents.
- fixed-term tenancies (FTTs) offered by many associations being unattractive to housing register applicants – although FTTs of two-to-ten years in length will be obligatory for new local authority tenancies in due course.
- associations refusing to let to households whose ability to pay rent is, or could be, affected by welfare changes eg the benefit cap.

Allocation schemes

An authority must, by law, consult associations on its allocation scheme and any revisions to it. The regulatory expectation is that associations will consult authorities in a reciprocal manner about their allocation scheme.

In terms of current practice, this mutual consultation is often cursory. The primary reason for this is that many associations now operate in multiple local authority areas – often each with its own distinct allocation scheme – and it can be difficult to adopt a different approach to lettings in each council area. The consequent, and increasing, lack of alignment between association lettings and local authority priorities is a major problem.

The issue goes further than alignment. There is a sense that choice-based lettings schemes – commonly used by both authorities and associations – need an overhaul if they are to work effectively. A minority of authorities have abandoned choice-based lettings and returned to the former system of direct allocations – often as a cost-cutting exercise. There is, however, a sense that this is a false economy – with reduced running costs being exceeded by the increased cost of defending applicant appeals against direct council lettings or nominations.

At the same time, some housing associations have widened the scope of their own allocations schemes to cover a range of tenures and offered councils the opportunity to join in (eg see Midland Heart's Homes Direct case study below) while seeking to reduce the proportion of allocations made directly to local authority nominees.

Mobility

Government wants to promote more mobility both within social housing and between social housing and other tenures, especially where people need to move for a job. Social landlords want to promote mobility to get a better fit between households and their stock so it is used more efficiently. Associations want options to offer to those coming to the end of fixed-term tenancies (FTTs). Tenants may want to move for job or family reasons, to downsize because of the bedroom tax or because as they get older they need less space, or conversely because they need more space for a growing family.

Mobility suffers when there are insufficient new lettings and where allocation priority is primarily focused on housing new applicants. The position could be made worse if the right to buy is extended to housing associations and local authorities are forced to sell high-value homes, as both reduce the pot of new

lettings becoming available. Scarcity of other affordable housing options compounds this problem. For older people, lack of suitable housing (ie accessible, or with support options) makes it difficult to downsize.

Changes in benefits rules are having a haphazard effect on demand for different types of dwelling. For example, one-bedroom flats may have been in higher demand because of the bedroom tax but demand may soon be reduced by the benefit cuts affecting under-35s. Larger properties may be in low demand in some areas because of the benefits cap. LHA caps will also have varying effects as they are designed for the PRS, not for the different tenure mix in social housing.



Social landlords are struggling to deal with the unplanned changes in demand brought about by welfare reform, which can suddenly affect their ability to let groups of properties that have, after all, probably been built with public funding and remain in 'demand' but cannot be let solely because of benefits changes. Such effects should be explicitly considered by DWP in consultation with DCLG because they represent a real cost to offset any potential benefits savings.

In general, there is evidence that authorities and associations often act independently in making efficient use of their stock and tackling these issues, when they could achieve better results by working together in a more co-ordinated manner.

Homelessness

Councils have statutory responsibility for tackling homelessness and they find increasing difficulty in discharging it. In a recent Inside Housing survey, two-thirds of authorities observed that it is difficult to house homeless young people and large families, and 85% said they struggle to help single people aged 25-34. As noted in [Chapter 1](#), the loss of a PRS tenancy is now the primary cause of homelessness. Councils are experiencing intense pressures from higher levels of homelessness and difficulty in accessing suitable temporary accommodation (TA).



A brief outline of the organisation

Bristol City Council is a unitary authority in the South West of England. Over the past few years the number of households presenting as homeless has risen significantly and 74 people were recorded as sleeping rough in Bristol on the last annual DCLG street count in November 2016.

What are you trying to achieve?

Bristol CC is planning to re-commission the integrated provision of over 1,000 units of temporary accommodation and support for single homeless people. In this exercise, it is developing a new commissioning framework, which requires the procured service to be delivered by partnerships of housing associations and managing agents (utilising housing association stock).

In doing so, the council is seeking a more integrated pattern of service delivery than had previously been achieved by competitive tendering of individual

contracts with a range of different providers for specific client need categories. The accommodation previously offered was at the high hostel support level or at medium or lower support levels rather than under a more integrated pathway approach.

What did you do?

Bristol CC decided to work with the local housing associations and managing agents with existing service provision and commitment to this client group. The authority is looking to retain a diversity of providers/provision but within a more co-ordinated partnership approach.

When devising the strategy, the council worked closely with housing associations and specialist managing agents to develop a sustainable commissioning framework – thus avoiding ‘us’ (commissioner) and ‘them’ (providers) tensions that had inevitably characterised the previous competitive tendering processes, and by removing competition from the process, creating the conditions for genuine partnership working among different providers.

The commissioning strategy is focused on homeless single people, or childless couples, with support needs. The commissioning framework requires housing association partners and the specialist managing agents they work with to submit a joint proposal whereby they work in partnership to deliver an integrated service within four distinct pathways:

- male only
- female only
- mixed couples
- substance misusers

Each ‘pathway’ provides a route to move clients from high support hostels into lower support accommodation (for example, a shared house, one-bedroom accommodation etc) while being provided with support to address needs. The target for each client is a successful eventual move out into settled accommodation/independent living.

Under this framework, all members of the successful partnership bid will agree to:

- operate under Bristol's standardised pathway specifications
- let the homes at the lower support levels at rents close to the LHA rent cap
- let to Bristol CC referrals – via Bristol's housing support register
- deliver an increased percentage of move-on accommodation (outside of/on top of the existing social housing allocation)

What were the outcomes?

The strategic commissioning framework has now been approved by councillors and agreed with all housing association and managing agent partners.

The new, agreed, commissioning framework:

- provides greater transparency on commissioning criteria and partner selection
- creates opportunities for sharing resources, good practice and expertise within each pathway
- supports housing association partners by guaranteeing local authority support for provision and minimising abortive bids
- secures greater consistency on commissioning outcomes – such as day-to-day service delivery, shared paperwork, risk assessments and outcome targets
- provides the opportunity for an integrated service for clients – for example, by limiting the number of times a client needs to tell their story – building on the relationships/support established earlier in the pathway

- involves a significant increase in resources, knowledge and skills being shared across each pathway
- the combination of national and local associations and managing agents generates a comprehensive mutual understanding of the issues/pressures for each provider and how providers and the authority can support each other to overcome these challenges
- facilitates enhanced access to move on accommodation through the larger housing association general needs supply
- establishes joint responsibility for outcomes leading to fewer refusals, evictions, and abandonments.

What did you learn?

Don't underestimate the work required at the local authority level to persuade finance and procurement colleagues that this 'co-ordinated commissioning' approach delivers best value for the local authority as well as for service users, and that the approach represents a risk worth taking.

Delivering a positive and collaborative service improvement approach is more feasible if the authority is not also imposing significant funding cuts at the same time.

The case for working in partnership with existing providers (rather than a fresh retendering process) was stronger because existing providers had previously been selected through a competitive process.

Providers will work together and share their good ideas if they are not competing – competition is a barrier to collaboration.

What three tips would you give to someone looking to implement a similar approach/scheme?

- Start working on a partnership approach to service delivery with existing providers at an early stage – eg running joint training events, sharing and transparency around performance data
- Be clear on what added value you feel a partnership can bring (eg shared training resources, access to move-on accommodation through the larger housing association general needs supply etc) and build that into your service specification.
- Make sure that you understand your market, so that you can understand the risks involved in this approach and the potential for collaboration.

Contact

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In tackling homelessness, some councils are prioritising homeless applicants in their allocations, particularly where they want to reduce the use (and cost) of temporary accommodation. Most, in contrast, are limiting the use of their own stock and/or of housing association nominations for rehousing homeless households – focusing equally on meeting other priority needs and on building balanced communities. This probably explains the relatively low proportion of total new lettings going to homeless households despite rising homelessness acceptances (see Appendix for further detail).

Authorities still make significant use of the PRS to prevent statutory homelessness occurring, although this has declined as rents are often above the LHA cap. Their use of the PRS might be expected to increase under the Homelessness Reduction Act where LHA caps permit.

Authorities have a pressing need to expand local supply of temporary accommodation (TA) available to applicants within the LHA cap and in terms of ‘nightly paid’ TA, at an economic cost. More ‘out of area’ TA placements are being made, especially by London boroughs, which cause hardships to families, and can lead to conflict between the ‘receiving’ and ‘sending’ local authorities.

Clearly, the reduced availability of social rent lettings from associations makes it more difficult for authorities to meet their statutory responsibilities to homeless people and increases the cost of temporary accommodation to the General Fund. This explains why authorities are pressing associations to provide more temporary accommodation as part of their strategic offer.

The Homelessness Reduction Act will, from 2018, impose new responsibilities on authorities to prevent and relieve homelessness without the provision of significant extra resources. Associations point out that letting property to applicants who cannot afford the rent does not align with homelessness prevention. Conversely, authorities would like more assistance from associations in terms of prevention.

Benefits withdrawal, rough sleeping, destitution and refugees

Young people under 35 are often unable to afford PRS accommodation because if they need housing benefit they only get a lower 'shared accommodation rate' and not the full amount for a one-bed flat. Those aged 18-21 are now ineligible for the housing cost element of universal credit, except in limited circumstances.

Private landlords are increasingly reluctant to make offers to young people, even those in work, as they perceive the risk of arrears to be high.

Housing associations may have difficulty in responding for different reasons:

- the paucity of existing shared accommodation
- the lack of logic in undertaking costly conversions of one-bed/bedsit units into shared accommodation (for which there would be little demand if benefit availability improves)
- the cost and difficulty of managing shared housing, and
- the fact that shared housing is not appropriate for many vulnerable young people.

While these are valid concerns, if associations do not respond to the issue, who will house those young people who cannot stay in their parents' homes or access PRS accommodation?



Shared housing for under-35s in the private rented sector

A brief outline of the organisation

Adullam Homes is a specialist provider of housing and support services, catering for about 1,000 people at any one time. In partnership with High Peak and Staffordshire Moorlands District Councils it provides a range of services for landlords, people looking for accommodation, and existing PRS tenants.

What are they trying to achieve?

The aim is to overcome barriers faced by vulnerable people, especially those who are non-priority homeless and cannot get a social letting, in trying to access the PRS and sustain their tenancies. The barriers include low self-confidence, a negative track-record, lack of funds for rent in advance and usually being benefit claimants.

What did they do?

The limited housing options for single homeless people led to a bond scheme being established, using local charity money, and work with landlords to widen the opportunities for this client group. High Peak DC then began to fund the scheme, providing funds for the bonds and bond administrators. As the scheme grew, it was extended to families, so a minimum six-month assured shorthold tenancy is offered to singles/childless couples and a 12-month tenancy to families, both with a bond equivalent to one month's rent.

The bond service includes a period of initial tenancy support covering fundamentals such as housing benefit set-up, utility accounts, change of address, furniture etc. Support can be ongoing or picked up at any point during the tenancy if issues arise. Landlords are contacted at certain points (after four or ten months depending on tenancy) to check their intentions about extending the tenancy. An end-of-tenancy service includes a property check and, if necessary, payment of claims against the bond.

A website (www.privatesectorhousing.org.uk) makes the service accessible to both landlords and prospective tenants.

Nevertheless, some people 'fall through the net' and are unable to use the bond scheme – eg those with a track-record of failed tenancies or who lack the ability to work through the processes. To address this – and with funding from the council – Adullam has added a 'Prepare to Place' one-to-one service prior to a tenancy, aimed at breaking the cycle of repeated tenancy failure.

What were the outcomes?

The scheme has enabled access to safe, quality private rented accommodation with oversight of tenancy standards, which has improved quality and security for tenants. It has also reduced the use of B&B for temporary housing and broadened options and speed of housing for families. It has resulted in fewer 'failed tenancies' and instances of repeat homelessness.

Case Study - Adullam Homes, High Peak DC and Staffordshire Moorlands DC:

Over the five years to March 2017, the scheme provided bonds to 467 households (332 singles/childless couples and 135 families). The 'Prepare to Place' service helped 136 people.

What did you learn?

Active recognition of landlords' needs and concerns is paramount in getting their commitment to offer accommodation to these client groups. The scheme has this firmly in mind, including assessing the affordability of the rent and overseeing HB claims, playing a proactive role in ensuring the tenancy is progressing smoothly.

Working with local authorities, we are together achieving:

- improved access to accommodation and quality support services for local people
- best use of local resources, working positively with local landlords

- fulfilling local authority strategic objectives, especially around homelessness prevention.

What three tips would you give to someone looking to implement a similar approach/scheme?

- ensure there are excellent working relationships with the local authority
- equally important, develop excellent working relationships with PRS landlords
- ensure clarity of purpose, with clear lines of communication, and establish confidence and credibility by delivering quality, responsive services based on a real and equal understanding of the needs of all parties, including, of course, service users.

Contact

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Many local authorities are still formally committed to the coalition government's 'No Second Night Out' promise to those sleeping rough – but more people are becoming street homeless, living in informal accommodation (such as 'beds in sheds') or 'sofa-surfing' with friends or relatives. The number of bed spaces in night shelters and hostels available to the single homeless, which would alleviate these problems, decline year-on-year.

Some rough sleepers may be destitute because of benefit sanctions. Others are denied benefits under immigration rules and cannot be directly accommodated by local authorities. Increasingly, they are forced to rely on food banks and in extreme situations to sleep rough. When this happens, councils are often under public pressure to respond to the issue.

Another category of vulnerable people is refugees. Those accepted in the UK fall into two groups:

- the minority (average about 2,000 per year) accepted via special resettlement schemes like the one for Syrian refugees, and
- the majority (about 10,000 per year) who come to the UK individually, apply for asylum and may eventually be accepted.

Unlike the first category, who get accommodation organised in advance and help with resettlement, asylum seekers who receive a positive decision are at risk of homelessness because:

- there is only a very short move-on period during which they must leave their Home Office asylum accommodation and find their own home, and
- most are now granted only limited leave to remain, and suffer discrimination from landlords who question their entitlement to housing.

5. Overcoming these constraints – a range of solutions

These issues cannot be resolved by social landlords working in isolation, but require collaboration to identify problems and joint solutions. Local authorities and associations should have a strategic discussion about responding to the current climate, the respective needs/expectations of both sides and what realistic commitments might be made.

Allocations schemes and housing registers

It is often argued that allocation schemes that place strong emphasis on those in the greatest need can undermine the creation of sustainable communities and make it more difficult for people to move for job or family reasons. As we have noted, the factors reported as causing such problems include restricted housing registers (where those with more limited housing needs have been removed), local connection rules and a perception among some groups that they would not be housed, so they do not join the register. Social landlords operating in areas with unpopular stock or high turnover should ensure that allocations and nomination arrangements are sufficiently flexible to prevent such problems being exacerbated.

There is a persuasive argument in favour of a new technology-driven system for allocations that covers different streams of applicant:

- applicants who can only afford social rent
- applicants who can afford an Affordable Rent
- applicants who might be suitable for private rented accommodation (not including PRS temporary accommodation)
- applicants seeking low-cost homeownership.

The rationale for doing so is as follows:

- making best use of available stock – for example, via closer matching of allocation schemes and local letting plans to available property
- reduced risk of tenancy failure or rent arrears
- clearer identification of likely demand for new development by product
- a ready stream of applicants minimises risk around homeownership or market rent products.

For this reason, we make the following new and innovative proposal.

Key recommendation to the sector 4:

Authorities and associations should work together at a local or sub-regional level to develop a new and more dynamic system for managing allocations and lettings. A new system, using recent IT developments, could provide separate but interlinked registers for social rent and Affordable Rent, and for low-cost homeownership, and market sale or rent.

For the new system to be effective:

- Multi-agency letting schemes should be refocused to tackle job mobility, downsizing and overcrowding, including through identifying and facilitating chains of moves.
- Authorities and associations should work together to act as a gateway to other tenures e.g. into the private rented sector.
- The new, reshaped housing allocation system should:
 - Interface with the local authority statutory register or subsume it.
 - Secure a steady stream of suitable applicants for different products.
 - Match allocation schemes and local letting plans more closely to available property.
 - Make more efficient use of existing stock.
 - Reduce risk of tenancy failure or arrears.
 - Help to meet demand for products such as market sales/rent and shared ownership.
- Housing associations should share the cost of this new system with partner authorities and could offer to manage the new system where authorities lack the capacity to do so.

“

Authorities and associations should work together... to develop a new and more dynamic system for managing allocations and lettings

”

As noted, councils could retain a separate statutory list and ensure that it interfaces with non-statutory registers for other products, such as shared ownership – all kept up-to-date. Alternatively, the statutory register could be subsumed into the new integrated system. Ideally, income information would be collected for the non-statutory registers, to enable applicants to be guided towards products affordable to them.

In some cases, authorities working within a geographical sub-region already share their waiting list databases to maximise applicant demand/identification and (as we discuss below) mobility. Where such arrangements do not exist, they should be introduced.

Where authorities – for example, district councils – lack the capacity to co-ordinate these activities, a regional housing association may be well placed to take a lead role. This happens with Homes Direct (see case study below), and there are long-standing examples of particular associations operating as ‘agents’ for HomeBuy, shared ownership and mortgage rescue schemes for groups of social landlords seeking HCA/GLA funding for these products.

Whoever takes the lead, the costs of developing and maintaining the non-statutory housing registers should be shared between the authority, partner associations and, where they exist, the LHC and ALMO.

The exercise will also help the authority and its housing association partners to achieve a better understanding of each other’s business priorities in the context of allocations.



Homes Direct – a regional allocation scheme in partnership with local authorities

A brief outline of the organisation

Midland Heart is a Birmingham-based housing association owning approximately 32,000 homes across the Midlands. Homes Direct, which started in 2012, is a stand-alone, choice-based lettings (CBL) scheme, mainly for general needs rented homes, but also used to advertise other tenures such as intermediate rent, shared ownership, outright sale, private rented etc.

What are they trying to achieve?

Midland Heart initially developed the scheme to bring a level of consistency for its staff and customers across 54 local authority areas where it operates. It also looked to reduce its allocations costs in terms of administration, advertising and lost rent, and reduced void turnaround times.

Local authority partners then joined Homes Direct, wanting a scheme that was easy to use and understand for their customers and partners, embraced the latest technology and offered web-based solutions, could deal with policy changes quickly, could advertise and let multiple tenures, and would be more cost-effective than managing their own teams and IT systems.

What did they do?

Midland Heart looked at different options, including continuing with a traditional housing register, or joining a CBL scheme with another organisation, before opting to develop its own. Key benefits include

online application, automatic calculation of priority bands, applicants being able to register and start bidding for homes in approximately 30 minutes, assessments being undertaken at point of offer, handling multiple allocations policies, having a built-in housing advice tool, and a mutual exchange tool linked to the Ukhomeswap scheme.

Currently, Midland Heart has 12 housing association and six council partners. Five of the latter use Homes Direct as their only housing register/CBL scheme; one uses it only for mutual exchanges. It has homelessness contracts with two of the councils, carrying out the housing options/statutory homeless assessments on their behalf.

Homes Direct currently has over 34,000 applicants on its register and in total allocates about 5,000 vacancies annually, receiving over 250,000 bids each year.

Case Study - Midland Heart:

What were the outcomes?

Midland Heart achieved a reduction in void turnaround times, administration and advertising costs, and high levels of customer satisfaction.

Newcastle-under-Lyme Borough Council, a partner in the scheme, receives housing options, homelessness and CBL services from Midland Heart. Since joining the council has had regular input into developing and improving the scheme. The council carries out annual customer and partner surveys, and overall the results have been very positive. The main advantage is that the scheme allows customers to search and bid for properties almost immediately on making an application. They can bid for properties in other areas, giving them added choice and flexibility in finding a housing solution.

For the scheme overall:

- 15% of applicants re-housed through the scheme say they are statutory homeless (so it assists councils by rehousing their homeless cases)

- 20% of applicants are re-housed in private rented homes
- 33% of applicants move between local authority areas, thus increasing mobility – this would not be possible with local authority schemes due to local connection requirements
- 9% of applicants rehoused have been under-occupying their homes (many would have been affected by the bedroom tax).

What did you learn?

Communication is key – the need to communicate with staff and customers at every stage of project development.

We assumed that customers would find online applications difficult but found that over 90% had no issues; we offer support to those who need help.

What three tips would you give to someone looking to implement a similar approach/scheme?

- have a business plan that sets out clearly the objectives of the project
- visit and learn from other organisations operating similar schemes
- engage customers and staff in the testing and delivery of the scheme.

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Local or sub-regional allocation schemes can aid mobility by widening people's choices geographically and between social landlords. These should involve authorities and associations but might, for example, be extended to institutional private landlords and so on. When an allocations scheme draws in new landlords as members, choice widens and so does the potential to encourage mobility.

Allocations schemes can be updated to reflect changes in benefit entitlement as government welfare reform continues, with specific focus on the needs of (for example) 18-34 year olds who cannot access the PRS, or for supported housing (depending how this is eventually funded).

Local authority allocations schemes – particularly where they involve nominations to housing associations – then need to be reflected in local lettings plans, which ensure that the objectives of the allocations scheme are realised in practice. Local lettings plans require agreement between all partners on mutual allocation, transfer and mutual exchange criteria and arrangements.

Where, as in most cases, there is a lack of alignment between property availability and meeting housing need, local lettings plans can achieve better use of the available stock in the following ways:

- encouraging older tenants to downsize – both to provide them with less costly/more manageable accommodation and to free-up larger properties for families (eg the Elmbridge BC 'Perfect Fit' scheme with Elmbridge Housing Trust).
- taking larger properties out of normal allocations schemes and widening the market for them where they have become difficult to let because of the bedroom tax.

- providing accommodation for young single people whose housing benefit is limited to the shared accommodation rate eg acquiring or converting some larger properties to make them suitable for shared use (albeit they are likely to have higher management and maintenance costs), or allowing shared tenancies – see Thirteen Group case study below.
- using portable discounts to encourage tenants who might exercise the right to buy from councils or (later) housing associations to buy from the private sector.
- having separate allocations arrangements in rural areas – if, for example, sheltered schemes in villages become difficult to let because waiting lists have been cut back and there is no longer a registered demand for them.
- creating different arrangements for properties in low demand – for example, Wakefield MDC and its stock transfer association Wakefield District Housing have a distinct 'immediately available homes' offer where there is no waiting list, no fixed tenancy term and lettings are made on a first-come, first-served basis.
- building flexible housing – ie that can change configuration to meet changing needs.

Most of these practical objectives are reliant on 'chains of moves' – which can be stimulated by proactive working. For example, LB Wandsworth offers a portable discount of up to £80k to council tenants who might otherwise exercise the right to buy. As the cost of replacing that council home would be a minimum of £280k, this makes economic sense to the authority. It can also stimulate a 'chain of moves' where under-occupying, overcrowded or other tenants in need can secure a transfer. Where these chains of moves involve housing associations, opportunities widen and so does the potential to encourage mobility.

Nomination arrangements

Nomination schemes could be restructured so that they provide a better fit with the housing available. Authorities and associations could share applicant databases (subject to the provisions of the Data Protection Act 1998) to facilitate more effective nominations with a higher chance of success and that take account of applicants' special needs. Where databases already exist, this may require the authority and associations to seek specific permission from housing applicants. New databases should be designed to seek applicant approval for sharing data when applicants register.

Existing choice-based lettings schemes could be adapted to guide applicants towards the most relevant housing products without removing choice and transparency from the allocations process.

Authorities should take a more proactive approach to ensuring that applicants nominated to a property are suitable ie have not had a material change in household circumstances, can afford the property, and want to live there.

The criticism made by associations that nominated tenants are often unable to sustain a tenancy can be mitigated by agreed support arrangements to tenants in their new accommodation. 'Tenancy sustainment'

typically involves help with moving and settling into a new home, assistance with utilities, help with budgeting and benefits and (potentially) arrears, and access to other support services such as health and training/getting into work. Activities are geared down as support needs reduce.

There will clearly be additional cost to councils that follow this approach. Associations should be willing to meet a proportion of these added costs, as they will benefit equally from tenancy sustainment support. Support arrangements should be mutually agreed, with provision for monitoring and review to ensure they continue to meet changing requirements or patterns of need.



Key Step – shared accommodation for under-35s and ex-offenders

A brief outline of the organisation

Thirteen Group is a housing association operating predominantly in Teesside, managing 34,000 homes. The Group's focus is on affordable homes for rent and sale, combined with a range of support services. Thirteen also manages Middlesbrough Council's homelessness service.

In the autumn of 2016, Middlesbrough Council, on behalf of the four other local authorities in the Tees Valley as well as itself, asked Thirteen to lead and develop a bid for the DCLG Homeless Prevention Trailblazer fund. Working with Middlesbrough,

Hartlepool, Stockton, Darlington and Redcar and Cleveland councils, and Coast and Country housing association, Thirteen developed the model and became the lead delivery agency for the project.

Branded as Key Step, the initiative is one of 27 DCLG Homeless Prevention Trailblazers and has secured £710k of DCLG funding over three years from January 2017. Thirteen 'match funds' part of the DCLG investment by aligning some of its key support services to the project.

What are you trying to achieve?

Key Step aims to bring about a paradigm-shift in the early identification and prevention of homelessness throughout the Tees Valley region, by responding to housing need through a co-ordinated pathway to independence.

The target audience are three discrete – but inter-linked – single client groups:

- at risk of homelessness – or already homeless
- under 35 years old
- discharged from prison – via the 'Through the Gate' service

A key driver for the initiative is the forthcoming roll-out of the LHA cap to social housing in 2019, which will restrict under-35s to the shared room rate – effectively making most housing options unaffordable. Key Step aims to identify clients at risk of homelessness and through the provision of shared accommodation and tailored support to prevent them becoming homeless. Working with its partners, Thirteen Group plans to provide 150 new shared housing properties for Key Step clients over the next two years, based on two sharers per property. These properties will include hard-to-let three-bedroom houses on estates, allocated outside the choice based lettings (CBL) framework. Key Step will also seek to provide support to enable current under-35 tenants to remain in their own homes.

Case Study - Thirteen Group working with Middlesbrough Council and other Tees Valley authorities:

Thirteen Group has analysed its customer base and found that around 600 of its 34,000 tenancies are at risk following the introduction of the LHA cap – ie the tenant will be under 35 and will no longer be able to afford to pay the full rent if on benefits. Should all these tenancies fail, the cost to Thirteen will be around £3 million – based on an average of £5k per lost tenancy (rent arrears chasing, eviction costs, void loss etc). For Thirteen, as with its partners, Key Step is therefore an ‘invest to save’ initiative.

What did you do?

Key Step is based on a regional ‘pathway model’ where partner authorities and associations and other agencies refer a client who is homeless or at risk of homelessness. The client is assessed via a triage process and if suitable for shared accommodation is matched with another similar client, provided with housing under a fixed term tenancy and a ‘personal housing plan’ including a flexible package of support for up to six months. To promote independence, if the fixed-term tenancy is successful, the client will then be

offered ‘move on’ permanent shared accommodation – in the property with their current sharer or in other shared accommodation.

The DCLG grant – and partner match-funding – will be applied to making properties suitable for shared accommodation and providing the support services. Properties will be let semi-furnished and support services include employment, training, health, and wellbeing support – all based on existing provision but now co-ordinated by Key Step for its target client group.

All parties recognise that shared accommodation incurs higher-than-normal management costs, particularly given Key Step’s thorough approach to matching potential sharers and helping them to bond in the first few months of the new tenancy – via mediation if required.

However, these added costs are – and this will be tested as part of DCLG evaluation – more than outweighed by savings in reduced turnover and

arrears, void loss and works costs and by increased income through the allocation of formerly hard-to let two or three-bedroom properties. Moreover, clients are entitled to a higher rate of housing benefit for three months where a support package is in place.

What were the outcomes?

Key Step is the first example of cross-authority joint commissioning in the region in respect of homelessness prevention.

The Key Step team is managed by Karen Kenmare at Thirteen and includes two triage caseworkers, four independent living caseworkers (including one ex-offender specialist), a financial inclusion officer, an employability caseworker and a senior administrator.

Key Step went live in April 2017 and 27 shared homes have now been (or are in the pipeline to be) let – with personal housing plans in operation.

Case Study - Thirteen Group working with Middlesbrough Council and other Tees Valley authorities:

What did you learn?

Shared housing is commonplace in the private rented sector but rare in social housing. This needs to change, and will, if the issue of housing affordability for under-35s is to be tackled by the sector.

Developing a forensic business case, based on a cost-benefit analysis, was vital in securing the buy-in of all partners and to prove to Thirteen's board (and to the regulator) that risk is manageable and that Key Step will be viable after DCLG funding ceases. For example, if Thirteen charges two shared room rates for one property, the overall net rent will be marginally higher than the normal rent for the property, this is especially pertinent if the tenant is subject to 'bedroom tax'. Therefore, there is a sound business case for Thirteen to develop this offer.

Do not re-invent the wheel in terms of existing support services – the role of Key Step is to co-ordinate the delivery of current employability services and so on for this specific client group.

Proper investment in skilled case-workers and a dedicated lettings team is required to manage shared housing for vulnerable client groups – it cannot be managed effectively under current management operations. To ensure that the referral process works effectively, triage caseworkers are co-located in local authority homeless teams.

What three tips would you give to someone looking to implement a similar approach/scheme?

- A successful 'matching process' will be central to the success of the initiative – hence the significant investment made by Key Step in profiling and educating clients and providing early-months support.
- Upstreaming services ahead of tenancy failure or homelessness is another critical success factor.

- Associations and authorities should – in general terms – be planning services against future contingencies two years ahead. By doing so they can pre-empt 'future shocks' to provision – in this case an expected 'spike' in homelessness among under-35s.

Contact

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Homelessness

Councils' advice, housing options and homelessness prevention services are under intense pressure. They may wish to use the coming imposition of new prevention duties to review working arrangements with housing associations, including nominations agreements, to secure maximum collaboration between frontline/advice staff and have agreed protocols for prevention work. Some associations, especially LSVTs, assist in developing homelessness strategies and in a minority of cases undertake homelessness assessments or provide prevention services on behalf of the council.

Key recommendation to the sector 5:

Local authorities and housing associations should work more closely to address and prevent growing levels of homelessness, by doing the following:

- Jointly collect data on street homelessness and increase their engagement with agencies that support vulnerable homeless people, migrants, and refugees.
- Pool resources to provide more local emergency accommodation.
- Increase and share investment in tenancy sustainability schemes.
- In addition, housing associations should train staff on homelessness prevention and how to advise direct applicants on housing options.

Housing associations can contribute to homelessness prevention – for example, in ensuring that their own tenants at risk of arrears are supported to prevent unnecessary eviction. They should have pre-eviction protocols in place to notify council homelessness teams when one of their tenants reaches an advanced stage of possession proceedings. They could have local panels – composed of managers from the association and the relevant authority – to ensure that all measures have been taken to support tenants to remain in their homes to avoid eviction.

Associations can help deliver advice and prevention services by:

- Equipping their own frontline staff with the knowledge to discuss a wider understanding of housing options – making them more than mere ‘gatekeepers’ to the association’s own stock.
- Joining schemes to manage debt and arrears so that tenancies can be sustained.
- Providing office space for others to provide advice services eg those giving advice to migrant households, possibly including services in relevant locally-used languages.
- Developing charitably funded initiatives (eg via the BIG lottery) to get applicants ‘tenancy ready’.

- Offering prevention services to one or several councils for a fee (eg New Charter HA in Tameside).
- Facilitating access to sustainable tenancies in the PRS eg through their own leasing or management schemes, or by direct provision.
- Working with councils and local charities to assist refugees into permanent housing.

Some associations provide supported temporary accommodation for homeless households – for example, on the old ‘short-life housing’ model where a property is licensed for occupation pending the commencement of improvement works. For example, Roseberry Housing Association provides temporary accommodation in the boroughs of Epsom and Ewell, Crawley, and Guildford. Each borough nominates homeless households and Roseberry manages the tenancy. Another example of the provision of housing association short-life housing for temporary accommodation is in the Sovereign/West Berkshire case study in [Chapter 2](#).

Mobility

Partnerships between authorities and associations can make measures to promote mobility more effective – for example, by:

- Ensuring that multi-agency CBL or allocations schemes make mobility moves as easy and attractive as possible (such as the multi-agency Kent Home Choice, which has made a number of changes to improve access to its CBL and aid mobility).
- Matching and comparing tenant insight data with data on occupation of the existing stock to assess demand and what types of household want to move into what locations/property types.
- Facilitating cross-tenure mutual exchanges between under-occupying and overcrowded tenant households.
- Looking for potential chains of moves that can minimise rent loss and result in a new relet, possibly facilitated by staff who can develop expertise in setting up chains and have access to financial incentives to assist moves.
- Use the increased flexibility in allocations schemes to give priority to under-occupiers who want to downsize.



Benefits withdrawal, rough sleeping, and destitution

Partnerships between authorities and associations can assist in the following ways, likely to be boosted by the Homelessness Reduction Act:

- Reviewing street homelessness needs, based on street counts and liaison with organisations working with rough sleepers.
- Developing and/or maintaining close relationships within the voluntary sector to provide specialist accommodation for homeless people, especially for those with specific support needs (eg relating to alcohol or substance abuse, providing for ex-offenders, etc).
- Providing emergency accommodation eg contributing to ‘No Second Night Out’ programmes to tackle rough sleeping via night shelters and refuges.
- Exploring options for joint working, including the willingness of associations to use their own resources eg when rough sleepers have no access to benefits.

- Working with charities to provide property (eg a house for nil rent) to allow them to provide accommodation and meet basic living needs for those not entitled to benefits, as happens with the Hope project in Birmingham.

A growing number of associations are tackling street homelessness via the Housing First initiative – where clients are immediately offered secure housing aligned with a range of floating support to ensure tenancy sustainability. This model eliminates the need for hostel accommodation and any requirement for the client to demonstrate that they are ‘ready’ to assume the responsibilities of a tenant. Homeless Link, which is leading the initiative, claims that, compared to traditional models, Housing First has better outcomes for the chronically homeless population, with complex needs, in the areas of tenancy sustainment, health and wellbeing, quality of life and client satisfaction – and is less expensive than providing temporary accommodation for the same period.

Case Study - SLH Group tackles street homelessness

A brief outline of the organisation

South Liverpool Homes is a housing association that is part of the SLH Group and currently manages around 3,700 homes, predominately in the Speke and Garston areas of South Liverpool. The SLH Group is the collective term for South Liverpool Homes, SLH Regeneration and SLH Projects (its development arm).

What are you trying to achieve?

SLH believes that social landlords can and should end street homelessness, which is increasing dramatically in Liverpool.

This view has been reinforced by SLH's ongoing involvement in the independent Paper Cup Project - a weekly outreach team that hands out food and clothes to homeless people in Liverpool city centre. The food is provided by Fair Share, the food distribution charity linked to major food companies and supermarkets. Paper Cup engaged with over 50 people sleeping rough on the night observed for this case study.

Paper Cup Project volunteers include:

- active members of the local community – including Michelle Langan (project initiator)
- a number of SLH staff, including CEO Julie Fadden, head of neighbourhood management Julie Marsh, and senior enforcement officer Justin Guy
- Robbie – a tenant who was rehoused directly from the street via Paper Cup in 2016, who provides the 'back story' on his former peers, defuses any tension and demonstrates what rehousing can achieve for the individual

Each week, the Paper Cup Project wheels carts through the city centre, stopping to greet each rough sleeper and offering:

- hot and cold food and soft drink
- clothes and shoes
- advice (where sought)
- enquiries about their health, and
- (when the time is right) permanent accommodation.

Paper Cup also provides dog food for the sizeable proportion of rough sleepers for whom a dog is an essential companion, security while they are sleeping and a source of warmth when the weather turns cold.

Case Study - SLH Group tackles street homelessness

What did you do?

SLH decided to help tackle rough sleeping by providing three routes into permanent accommodation.

Direct from the street

During Paper Cup Project rounds, if SLH staff see someone homeless and from talking to them consider they are ready, SLH takes them off the streets there and then. If SLH doesn't have accommodation immediately available it gives the homeless person a free mobile phone with SLH's number in and with credit to keep in touch and be advised when a flat is ready.

Via referral

Referrals for permanent housing come from a range of organisations – Liverpool City Council, a local homeless charity, the Whitechapel Centre, or an agency such as Crisis.

Via a hostel

SLH regularly asks local hostels which of their clients can be rehoused. SLH finds this the most difficult route as some hostels resist 'giving up' their clients and can be reluctant to provide referrals. Others, however, are very good at building good working relationships for the benefit of the individual.

What were the outcomes?

When the homeless client agrees to be rehoused, SLH completely furnishes the flat – furniture, bedding, curtains, carpets, household goods, clothes, food, electrical goods – at a cost of between £500 and £800 per flat, from its own funds. The homeless client can keep their dog, if they have one.

Once rehoused the former rough sleeper receives ongoing intensive tenancy support, for which SLH makes a £30 per week service charge (covered by housing benefit). SLH 'weans them off' the support service when they can pay the rent from their own wages. SLH ensures that the right support is provided to help the tenancy succeed.

SLH invests £100,000 a year in REACH, its own jobs and training service for its tenants. This support helps get homeless people into training and employment when they are ready. SLH also has an affordable warmth service to help avoid fuel poverty and provides advice to get the applicant on the right benefits from day one.

So far over 20 homeless people, including many former rough sleepers are sustaining tenancies with only six showing signs of reverting to begging etc, which SLH is trying to prevent as it undermines public support for homeless people. SLH has commissioned an independent evaluation of the programme.

Although SLH's work is not formally part of the Housing First initiative (which it pre-dates) it shares many Housing First characteristics. Housing First works by providing homeless people with high needs with a home (without conditions such as having to access support services first), as well as wrap-around flexible support to help them maintain their tenancy.

Case Study - SLH Group tackles street homelessness

What did you learn?

Tackling street homelessness by rehousing them directly into a tenancy is perfectly feasible – it just needs the will to do it. Risk assessments are undertaken to ensure that rehousing is in the most appropriate location for the client, rather than as a reason not to rehouse.

Tenancy sustainability depends on getting things right from the beginning – by providing furniture, a TV and/or radio, food in the cupboards, clothes and an appropriate support package.

The biggest challenge is access to health services for the homeless people rehoused. Local GPs are reluctant and often unwilling to take on patients with a methadone prescription – which means that clients have to access this from medical centres in the city centre. This is not ideal as it can lead to clients re-mingling with other drug users rather than breaking away from temptation.

What three tips would you give to someone looking to implement a similar approach/scheme?

- Keep it simple – we have the property, we furnish it to make it a home and provide food and clothes.
- Be prepared to take a chance on a homeless person. Disregard all those reasons why they might not be tenancy-ready – don't judge. Remember they are like us, they just have not received the life opportunities we have.
- Ensure that every individual is treated with respect and receives the personalised support they need.

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Affordability of housing costs

1. The context – why affordability is crucial

Addressing the current housing crisis requires building more homes and using those we have more efficiently. But these measures alone will not solve the problem. A key part of the crisis is the mismatch between the cost of housing and people's ability to pay for it, with more than three million UK households spending over a third of their income on housing. There is only limited merit in a social housing new-build programme that fails to provide homes for those in the greatest need.

While affordability is not a new problem, the current manifestations of it – described in Chapter 1 and the Appendix – are relatively recent. For just over a decade, at national level social rents have increased steadily as a percentage of earnings. Affordable Rents, created six years ago, have been set at much higher levels than social rents across most of southern England (although not in northern regions.) They have also been offered to much the same client group as would have been offered lower, social rents, with similar proportions eligible for benefits. And the wider range of products now on offer from social landlords and via government financial incentives is not aimed at those on the lowest incomes. The biggest factor of all in worsening affordability has been that many low-income households have no choice but to pay high rents in the private rented sector, due to lack of alternative affordable housing. Finally, the longstanding dependence by tenants on housing benefit to ensure that rents are affordable has been eroded by welfare reforms that have accelerated over the past two to three years.

This combination of factors is relatively recent and is set to get worse. This means that the affordability problem cannot be ignored and is arguably just as important as the problem of under-supply. Assessment of affordability should apply equally to new lets and relets.

Affordability is also a commercial issue, particularly for housing associations. In terms of rental products, where rents are set at affordable levels this will reduce the likelihood of arrears and their impact on business plans. There will be less need for tenancy sustainability work, which itself carries a cost for the landlord. Equally, exposure to risk regarding homeownership or intermediate market products is directly linked to their affordability.

These issues apply to any local authority development – direct via the HRA or via an LHC – that involves cross-subsidy of social rent from Affordable and/or intermediate rent or from homeownership sales. Indeed, the proposals being discussed with DCLG for pilot deals by local authorities to encourage more development all involve an element of cross-subsidy, and in some cases flexibility to raise social rents.

The affordability issue has political ramifications. The National Housing Federation is seeking to persuade government to end its control over rents and to allow associations the flexibility to set their own rents. We discuss this in section 8 below.

Simply put, when the government and the social sector are addressing the supply problem they need to pay equal attention to affordability. There are strong ethical, commercial, and political reasons for doing so. Priorities urgently need to be rebalanced and this can best be done – as we recommend in this chapter – via a joint approach by local authorities and housing associations that creates solutions workable for all social landlords in an area.

This will require:

- The joint development of a Local Housing Affordability Framework (LHAF) for each local area, a new and innovative solution, described later in this chapter.
- Associations modelling their new supply targets to reflect the guidelines set out in such a framework, rather than setting Affordable Rents at the maximum permitted within LHA caps.
- Local authorities and associations setting rent policies and pricing of homeownership products within the guidelines of each LHAF for the areas where they work (see Riverside case study).
- Associations considering the extent to which they can follow the lead of Family Mosaic (now merged with Peabody) – see case study – and cross-subsidise local rents from overall surpluses.
- Authorities and associations being willing – resources permitting – to cross-subsidise development via the mechanisms outlined in [Chapter 2](#) to ensure that new lets and relets are locally affordable.
- Authorities adopting the GLA ‘incentivisation’ approach, which fast tracks planning permission for developer-led proposals that guarantee a minimum proportion of affordable housing on sites that will be developed within two years of an award of planning permission.

In addition, the following changes are needed at national level:

- As recommended by CIH (and has been done by the GLA), the DCLG and HCA should rebalance the AHP to allow increased grant rates and ensure that sufficient new development is genuinely affordable.
- As a corollary to increased grant rates, the HCA should follow the lead set by the GLA in not allowing further relet conversions from social to Affordable Rent.
- A stable rents policy is urgently required at national level. To be sustainable it must properly balance affordability objectives with the need to sustain landlord incomes. It must also take account of the welfare benefit impacts, including foreseeable future changes in benefits that could affect rent levels and the ability to collect rent.
- National rent policy is under review. Affordability, properly defined, must be central to any new policy.

These points are explored in more detail below.

In the meantime, some of the most effective forms of partnership working between councils and associations to address the consequences of rents becoming unaffordable involve:

- Joint assessments of the strategic impact of welfare reform and how to respond to it – for example, by making best use of discretionary housing payments.
- Joint tenancy sustainability work – an activity that has intensified as the effects of welfare reform have accelerated.
- Joint tracking of forthcoming changes (eg roll-out of Universal Credit) and planning for their likely effects.

2. Constraints and issues in dealing with affordability

Lack of consensus on what 'affordability' means

At its simplest, government defines affordability as 'a measure of whether housing may be afforded by certain groups of households'.⁷ However, as discussed in Chapter 1 and the Appendix, no 'measure' of affordability is prescribed by government or by the HCA, so a decision on how to make any such measurement must be made by individual providers, preferably at local level (as explained below).

The broad choice is between setting a maximum ratio of income that should be taken up by housing costs (typically 30-35%) or a minimum residual income that a household must retain after paying for its housing, in order to meet its other living costs (see Appendix for discussion of these).

Whichever is chosen, a decision will then be required on the geographical area and, ideally, the sub-areas for which consistent data can be provided, monitored and updated. The geographical area may be a local authority but ideally would be a wider housing market area. Additionally, there are likely to be significant differences within such an area – for example, where housing costs and incomes vary between an urban town centre and surrounding villages – hence the need to do a sub-area analysis. This approach has been adopted in several local studies, most notably by the GLA – which assesses affordability by electoral ward across London and plans to update this data on an annual basis.

The data to be collected to assess affordability will include:

- housing costs by tenure/product
- the profile of household incomes across the area
- LHA and other limits on housing benefit assistance.

Briefly, and without going into detail, below are the key factors that social landlords need to consider about how to collect these three types of data for use in their affordability assessments.

Dealing with housing costs is not straightforward

Housing costs vary according to a range of factors, but given that social landlords have a defined range of products it is sensible to take each product/tenure separately and include (for comparison) private sector costs and LHA levels. Weekly costs should be inclusive of service charges, where these apply, although there is a persuasive case that the higher service charges for supported/extra care schemes remain distinct and separate.

⁷ DCLG (2011) Planning Policy Statement 3 (PPS3): Housing, London: DCLG.

Total housing costs may then be identified for different property sizes in the following tenures:

- social rent (local authority or housing association)
- Affordable Rent
- intermediate rent or rent to buy (where available)
- shared ownership

and these can be compared with:

- market rents (available from commercial databases, such as Hometrack)
- relevant LHA rates
- costs of buying with a mortgage.

Dealing with different-sized houses is not straightforward, however, because of pressures created by the benefits system that we discuss below.

Affordable for whom? – the need to agree on target populations

Different approaches and levels of sophistication can be adopted in analysing household incomes, which will determine which groups of households are considered when affordability is assessed:

- Using average household incomes. Manchester, for example, tests the affordability of all available tenures/products against average household income for the city. In London, the GLA has set the London Living Rent at a third of local average household incomes in the capital.
- Using earnings of lower-income groups. The NHF/JRF ‘living rents’ report⁸ used lower quartile earnings for each council area. The ONS’s national affordability assessment compares social rents with the earnings of a far smaller group – the lowest decile of earners.
- Compare different sized properties with incomes of different-sized households. In Blaby DC, in Leicestershire, an assessment of the affordability of Affordable Rent compared rents of one-bed flats with earnings of single people aged over 25, two-bed flats with earnings of childless or one-child couples, larger houses with earnings of families with children, etc.
- Set different target income groups for different products. Different assumptions might be made for affordable housing products aimed at higher income groups. For example, the Resolution Foundation work on low-to-middle-income households excludes the bottom decile of earners and focuses on households in deciles 2-5. For most of these households, a conventional mortgage is unaffordable but shared ownership is affordable in most local authority areas.⁹
- Base decisions on median earnings of households in particular tenures. This means obtaining income data split by tenure so that housing costs can be compared to the incomes of those already paying those costs. Note that this will only permit broad distinctions between social renting, the PRS and owner occupation, not between different affordable housing products (unless local data can be specifically collected).

⁸ Lupton, M. and Collins, H. (2015) Living Rents – a new development framework for Affordable Housing. London: JRF, NHF and Savills

⁹ Alakeson, V. and Cory, G. (2013) Home Truths: How affordable is housing for Britain’s ordinary working families? London: Resolution Foundation.

Taking account of continuing benefits changes

From 2019, housing benefit for social and Affordable Rent tenants will be capped at the same LHA levels that currently limit benefit for PRS tenants. LHA levels are set by 'broad rental market area' and are currently frozen. Council rents rarely exceed LHA levels, but housing association rents do so in almost two-fifths of local authority areas. Within those figures, by far the biggest impact will be on single people aged under 35.¹⁰

Most authorities and associations are already taking this into account when setting future rent strategy, but fewer are modelling for the risk that government may abandon the 'LHA freeze' policy and cut levels still further. Should this happen, current affordability problems will be exacerbated with a consequent increase in arrears.

Authorities and associations therefore need to hedge against this risk by either creating more headroom between rents and current LHA levels or modelling for a parallel reduction in rents should LHA levels be cut. Given the pressure on the sector to increase supply, and assumptions underpinning current and future borrowing, this will be difficult to achieve. However, failure to hedge against this risk will create other pressures on business plans, related to increased arrears, costs of eviction or prevention of eviction and longer void periods.

There are also technical difficulties in respect of the relationship between rents on smaller and larger properties and LHA levels.

Ideally, government should consider fundamentally reviewing LHA levels. In any event there is a need for a range of reforms. For example:

- There is a strong argument for revaluation of LHA based on real local rents (ie the level which represents the lowest 30% of today's market rents). LHA levels had been raised in line with the consumer price index (CPI) or by 1%, for three years prior to the current four-year freeze. Already there are very few areas where LHA still covers the bottom 30% – it therefore does not reflect real market rents.
- CIH has called on the government not to proceed with its plans to impose an LHA cap on social sector rents in 2019, including (but not restricted to) supported housing rents.
- In particular, the government should reconsider its plan to apply the LHA shared accommodation rate to young people in social housing – when there is virtually no shared accommodation in the sector and sharing arrangements can be more costly and lead to higher turnover.

¹⁰ Wilson, W. and Barton, C. (2017) Local Housing Allowance caps and the social rented sector. London: House of Commons Library.

Other aspects of welfare reform that providers may need to consider in rent-setting, depending in part on local circumstances, are:

- The effects on demand for medium and larger properties resulting from:
 - the bedroom tax
 - the reduced benefit cap for out-of-work households
- The effects on demand for smaller units caused by:
 - the extension of the shared accommodation rate (SAR) to all single people under 35
 - the restrictions on housing benefit for 18-21-year-olds under universal credit.

These effects vary considerably from area to area and can be significant. For example, CIH assesses the benefit cap as affecting 116,000 families across the country, of whom 60% are in social housing.¹¹

However, as a growing number of providers and commentators are now pointing out, there is a conceptually simple way of avoiding these issues and making a positive impact on affordability in general. Simply put, rents (on both new and relets) could be set at levels that maximise the number of households who can pay their own rents without needing benefits. A policy to keep rents below levels where working tenants become eligible for housing benefit requires more detailed assessment of incomes data, but in principle it makes sense, especially as entitlement to benefits becomes more restricted.

This was the basis of the NHF/JRF ‘living rents’ research and (for example) research commissioned by Affinity Sutton.¹² Reports by SHOUT and John Healey MP have also argued that making rents affordable for working households without any dependence on HB should be a major policy objective, and this would deliver long-term savings in public spending.¹³

Of course, this cannot be achieved without significantly increased levels of capital grant, and the capital cost to government will accrue before long-term savings in benefits are eventually achieved. As CIH has pointed out, this will require a rebalancing of government expenditure priorities now to deliver benefits savings later. The government might find it useful to monitor and assess the impact of the GLA’s recent attempt to do just that – the strategic authority has now raised grant to c£60,000 per unit for London Affordable Rent schemes. Ideally, an increase in grant levels and the need for social rent output would be considered when the HCA’s AHP is next reviewed. This is particularly urgent in the home counties around London, which have big gaps between social and Affordable Rent levels yet do not benefit from GLA policy to encourage building for letting at social rents.

¹¹ CIH (2016) The likely impact of the lower overall benefit cap. Coventry: CIH.

¹² Ellis, K. and Whitehead, C. (2015) Affordability: A Step Forward: Establishing principles for rent setting. London: Affinity Sutton.

¹³ See www.4socialhousing.co.uk

Key recommendation to the sector 6:

Local authorities and housing associations should work in partnership to develop a Local Housing Affordability Framework (LHAF) to cover new lets and relets, homeownership products and referrals to the private rented sector. In order to do this:

- The LHAF should identify the required tenure/product mix and agreed output targets, both numbers of homes and range of charges, for each tenure - considering available resources (e.g. grant, cross-subsidy from sales, cross-subsidy from rental surplus, discounted land, recycled capital receipts, borrowing capacity).
- The LHAF should be an active partnership between councils (individually or sub-regionally) and their partner associations with costs shared accordingly.
- Each LHAF should provide:
 - An agreed, common definition of affordability to which all partners strive to work, based on local household incomes - not a percentage of market prices/rents.
 - Affordability assessed by tenure or product, including service charges where appropriate.
 - A mutually-agreed framework for affordability assessments of applicants.
 - A review of the required tenure/product mix – including relets – to identify:
 - a target range of incomes that each tenure should meet
 - numbers of households with unmet need in each target group
 - the extent to which current products meet the target income ranges
 - ideal target costs for each tenure/product.
 - Agreed output targets (numbers of homes and range of charges) for each tenure, taking into account available resources
 - An agreed tool which is embedded into local planning and housing policies, and other areas of local decision-making (e.g. Discretionary Housing Payments), and then implemented consistently and robustly on a voluntary basis.

Costs of developing and maintaining the LHAF should be shared between the authority, partner associations and, where they exist, an LHC or ALMO. The exercise will also help the authority and its housing association partners to achieve a better understanding of each other's business priorities in the context of rent setting.

Research conducted for this guide demonstrates concern among housing associations that local authorities might attempt to respond to proposals for rent flexibility by seeking control of association rents. This is not the intention of the LHAF proposal, which is about partnership rather than control. Nor (as associations are independent businesses) would council control of rents be feasible in practice. Consequently, where an LHAF is put in place, associations would still be able to set their own rents. The anticipated difference is that associations will be better informed about the likely local impact of rent policy in terms of business risk and the expectations of partner authorities. Decision-making on rent setting will therefore be more transparent and all partners, including councils and housing association boards, will be more publicly accountable for their decisions.

The LHAF can also be applied flexibly. For example:

- special consideration may be required for supported housing schemes, which vary in cost far more than standard affordable housing projects
- to ensure new supply, authorities may be prepared to allow associations to reduce the proportion of affordable homes on one site in return for an increased proportion in another
- where the LHAF is embedded in local planning policies, this is likely to recognise the need for a proportion of new intermediate rent or homeownership development.



Linking affordability to Strategic Housing Market Assessments

Should the LHAF form part of the local Strategic Housing Market Assessment (SHMA), which is required by the National Planning Policy Framework? The NPPF guidance on assessing housing development needs¹⁴ recognises the need to assess both the backlog and future requirements for affordable housing, and although it does not directly advise authorities to break this down between different housing products, it does not prevent them from doing so.

For example, the Oxfordshire SHMA assesses affordable housing need based on the numbers of households in each district who cannot afford to rent or buy (whichever is cheaper) in the private market, based on a maximum ratio of housing costs to incomes of 35%. It then breaks down this overall need according to which households can afford different products – so that, for example, of households in need in Oxford itself, 50% can only afford social rent; 45% could afford Affordable Rent or intermediate rents; and 5% can afford shared ownership.

The SHMA is principally a planning policy instrument rather than one intended to influence investment decisions by social housing providers. So, for example, it takes existing housing costs (eg social and Affordable Rent levels) as givens, rather than being policy issues that are subject to review. However, the potential clearly exists for a LHAF to feed into the SHMA and to influence investment and rental policy decisions by social landlords.

¹⁴ See www.gov.uk/guidance/housing-and-economic-development-needs-assessments

¹⁵ Davis, S. and Sinn, C. (2016) Shared Ownership 2.1 Towards a fourth mainstream tenure - taking stock. Coventry: CIH and Orbit.

Affordability assessments for particular tenures or products

Partial market affordability assessments are already undertaken by many landlords. One reason is that in marketing products such as shared ownership, housing associations need to understand likely demand and how this relates to the price of their product. CIH has shown how the affordability of shared ownership can be assessed at local authority level, giving a potential demand across England of up to 60,000 units annually.¹⁵ Shared ownership providers often do local market assessments using evidence from housing registers, other providers and the private market, and on local income levels etc, to establish the size of the market for potential schemes.

The growth of Affordable Rent as a product has also led to a number of councils and housing associations conducting market affordability assessments to determine at what percentage of market rents Affordable Rent would actually be 'affordable'. For example:

- Various district councils have undertaken their own assessments of the viability of Affordable Rent. One in Blaby DC, in Leicestershire, by consultant Bob Line concluded that 70% of emerging households in housing need could afford Affordable Rent, and that an acceptable mix of lettings (new lets and relets) in Blaby would be 46% social rent and 54% Affordable Rent.¹⁶
- Affinity Sutton commissioned research on what levels of Affordable Rent would be affordable to tenants on typical local incomes. On this basis, the association revised its Affordable Rent levels – for example, setting the rent for a one-bed property in London at a level affordable to someone on the London Living Wage.¹⁷

¹⁶ Available at www.blaby.gov.uk/about-the-council/strategies-plans-policies/housing-strategies-and-policies/affordable-rent/. A similar assessment was done in Charnwood but is not available online.

¹⁷ Ellis, K. and Whitehead, C. (2015) *Affordability: A Step Forward: Establishing principles for rent setting*. London: Affinity Sutton.

- Family Mosaic’s research looked at the impact of Affordable Rent on 50 new tenants, concluding that even at 60% of market levels Affordable Rent would create significant affordability issues. For this reason, the association completely changed its rents policy (see case study).

The key differences between the proposed LHAF and these exercises are that the LHAF is a more comprehensive partnership exercise and it will be regularly reviewed. It brings together the council(s) and associations in a local authority or (preferably) housing market area, to consider affordability across the social housing sector. It will cover all affordable housing products and influence both rent levels and levels of output. And it will be monitored and reviewed, having a direct bearing on a range of local policies.

The LHAF is also intended to be framed so as to draw the attention of local authorities and associations to the full range of products they should consider. For example, in many areas of northern England the encouragement of shared ownership has been little explored until recently. The LHAF should provide the vehicle for exploring different options between the council and local providers, and give an opportunity to learn from elsewhere.

4. Other key affordability issues

Affordability and rent policies

Neither councils nor associations have a free rein on rent setting due to government policy. Both must operate in a sometimes-contradictory national rent-setting context. Both are constrained by legislation and regulation, and funding agreements with the HCA, GLA and lenders. Housing associations working in London are obliged to work within GLA rents policy for schemes that are grant-aided but those outside London are not under any obligation to consult local authorities, and joint working on rents and affordability is rare.

Many social landlords’ own rent policies do little more than repeat national policy on social rent and Affordable Rent levels, often merely pointing out that Affordable Rent can be up to 80% of market rents without explaining how the landlord will set an actual percentage (except saying that rents will stay within appropriate LHA levels).

Of course, rent policies do much more than address affordability – they determine landlord incomes and therefore how much can be spent on services and invested in new and existing stock.

Rent policies need to be balanced – driven by the need to generate income to support landlord business plans but also embracing a better understanding of how rents relate to tenant incomes so that they remain affordable in the long term. This guide argues that these two objectives are not at odds with each other, since for landlord income to be sustainable it must be derived from rent levels that tenants are able to pay, taking due account of current and future welfare benefit availability. Nevertheless, we recognise that trade-offs will be made: the aim of the LHAF is not to rule them out, but to make them open and transparent.

How should an LHAF relate to landlords’ rent policies? The LHAF should guide actual rents set within rent policies, so that they can be shown explicitly to be affordable for target household groups. It should also guide decisions about conversion of existing lettings from social to Affordable Rent to generate new income. This should be explicitly covered in the LHAF, so that landlords are aware of the extent (if any) to which they can undertake conversion without damaging affordability objectives. Ultimately, however, LHAF participants will have the final say on how they set their rents.

Affinity Sutton (now Clarion)’s research led to a checklist being created against which to check a rent policy (figure 5.1). Alignment of a rent policy with the appropriate LHAF would enable several of the boxes below to be ‘ticked’. Indeed, to be used properly, the checklist requires the careful analysis the LHAF would provide, including the assessment of future risk due to the LHA caps and other likely welfare reform developments.

Figure 5.1 Example rent policy ‘checklist’

Is it legal?	<input checked="" type="checkbox"/>
Does it discriminate against households with any protected characteristics?	<input checked="" type="checkbox"/>
Is the rent determined by the property type, size and location (legal) as opposed to the resident (illegal)?	<input checked="" type="checkbox"/>
Does it fit with our charitable objectives? Can we prove it?	<input checked="" type="checkbox"/>
Is it affordable to those we want to be able to house? Can we prove it?	<input checked="" type="checkbox"/>
Does it support our business plan?	<input checked="" type="checkbox"/>
Does it look sensible (i.e. a 1 bed is not more expensive to rent than a 2 bed in the same area)?	<input checked="" type="checkbox"/>
Are we sufficiently limiting our exposure to future welfare changes?	<input checked="" type="checkbox"/>
Is the data adequate?	<input checked="" type="checkbox"/>
Can it be easily understood by residents and other stakeholders?	<input checked="" type="checkbox"/>
Is it operationally simple to implement?	<input checked="" type="checkbox"/>

A brief outline of the organisation

Riverside is a group of complementary businesses driven by a clear social purpose, with a charitable housing association at its core. Established nearly 90 years ago, Riverside has grown to become a major provider of affordable housing, care and support services in England and Scotland, with over 52,000 homes in management. Operating at scale across more than 160 local authorities, its vision is to transform the lives of the 90,000-plus people it houses and revitalise the neighbourhoods in which they live. Some 83% of Riverside's general needs housing is concentrated in 14 key local authority areas.

What are you trying to achieve?

The content of this case study represents what Riverside considers 'work in progress'.

Until recently, Riverside had a complex approach to rent setting and variation, reflecting the historic growth of the association and the range of rent

regimes that have been implemented. Due to a combination of this history and Riverside's operating geography, the range of rents it charges for a particular property type varies significantly, even in a single location, being influenced by factors such as:

- property age and condition
- whether there has been a local authority stock transfer
- whether the stock has been acquired through merger
- whether there are very long-standing tenancies let under the 'fair rent' regime
- whether Riverside has been building new homes in the areas as part of the Affordable Rent regime.

Riverside recognised that it needs to develop a new approach to rent setting and variation that is rational and consistent and takes affordability into account at a local level.

In 2015, Riverside commenced a programme of research to establish objective 'rent benchmarks', with a view to extending an approach already being used for Affordable Rent setting. These benchmarks were intended to identify the maximum rent Riverside could charge by property type and area – above which rent would no longer be genuinely 'affordable' to those in receipt of benefit and on low wages. Despite the inbuilt variation, provided rents sat below the benchmark, Riverside could be assured they were affordable.

However, the introduction by DCLG in 2016 of the four-year 1% annual rent cut further constrained Riverside's ability to flex its rents and it was agreed that a decision on a new rent policy would be aligned with the (expected) new post-2020 settlement.

Two central principles underpinned the research:

- There should be a relationship between local incomes and rents, though not at an individual household level. It is impossible to consider ‘affordability’ without considering incomes.
- To a certain extent, market forces should be considered when determining rents. In general, tenants should pay higher rents for larger properties in areas of higher earnings.

Riverside quickly established that it is relatively straightforward to establish affordability benchmarks based on the benefits system operating at any particular time (LHA being an obvious example). Consequently, the research focused on the primary issue:

What is the maximum level of rent we can charge for each type of home, above which low income working households cannot afford to pay, either because they have insufficient money to meet other living costs or because they would have to rely on benefit to top up their income, and thus suffer a disincentive to work more?

What did you do?

Riverside’s project was influenced by the work of Affinity Sutton (now Clarion) and Christine Whitehead of the Cambridge Centre for Housing and Planning Research (CCHPR).

Workshops were held to discuss the concept of rent affordability and gain feedback from tenants, board members and relevant staff. The workshops were well attended and lively.

Capturing local income data

This is problematic. DWP Annual Survey of Hours and Earnings data is insufficiently granular for this exercise. Accordingly, Riverside modelled two approaches to determining the income data of ‘typical’ households used within the model.

- Living wage (original JRF definition) – this assumes a household occupying a typical two-bedroom house has one adult working 37.5 hours per week and a second adult working 20 hours per week (allowing for childcare responsibility), both earning the new national living wage at its introductory level.
- CCHPR data modelled to provide income distributions for working households by household size in Riverside’s key local authorities.

For both approaches, the appropriate tax, tax credit and benefit calculations are made to give a final net household income, which can then be used to calculate a level of affordability for rents.

Developing affordability benchmarks

The model considered two separate approaches – residual or proportional - to determine the point at which rents become affordable/unaffordable for typical working households. Both approaches ensure that typical working households either:

- do not have to claim housing benefit given their income – Riverside call this the residual method and it identifies the rent point at which a tenant on a typical income no longer requires housing benefit; or
- do not have to spend more than a reasonable proportion of income on rent – the proportional method. There is no agreed method for determining what proportion of income should be used for this calculation. However, based on previous research 30% of net income was adopted.

Both approaches ultimately calculate a maximum point at which Riverside rents become unaffordable for each property size.

Riverside is still reviewing the methodology but may opt for the residual method, adopting the National Living Wage as a proxy for income. This would set maximum rent benchmarks to ensure that a household earning the new National Living Wage can afford to live in a Riverside home whatever its location without having to rely on housing benefit to top up their income.

One complication is that when either of these methods are used in their purest form, they produce irrational results. For example, benchmark rents for larger properties are lower than those for smaller properties in the same area – ie they ‘buck’ the market. To overcome this issue, Riverside has employed an ‘equalisation’ methodology whereby rents are based on its most common property type (generally a two-bed house) per area and are then weighted for smaller and larger properties to reflect the local market.

What were the outcomes?

Only a tiny proportion (0.09%) of current Riverside homes in the key 14 local authorities have a rent and service charge higher than the affordability benchmarks under the residual method. These homes are all in the only London borough that is in Riverside’s 14 key authorities. On average, the combined rent and service charge for these properties breach the cap by around £20 per week and there is a strong argument for reducing them.

However, Riverside is aware that affordability is a ‘moving picture’ – impacted by reductions in benefit levels and wages falling in relation to CPI – and needs to be monitored on an ongoing basis, as will Riverside’s matrix.

What did you learn?

Housing associations can't solve the problem of low income areas or influence how the benefit system impacts at a local level. While it is important to take account of local incomes in determining rent affordability, social landlords can only go so far. At some point the issue is one of low wages rather than unaffordable rents. That is why Riverside has considered the residual method in determining the maximum point at which a rent becomes unaffordable, since it makes an assumption about the reasonable earning potential of a fully-occupying household based on a nationally acceptable wage benchmark.

The benefit system, and its local impact, often skews rent policy away from rational principles. For example, the benefits system can render some types of property more or less affordable depending on the client group to which they are let.

The current legislative rent settlement is such that there is limited opportunity to manage individual rents

up or down to create a more rational distribution, although a new post-2020 approach to rent flexibility may change this. For this reason, the proposed approach involves the setting of affordability benchmarks as 'caps' to future rent increases or rents on relet.

What three tips would you give to someone looking to implement a similar approach/scheme?

- Talk to your customers and board members. Involve them in establishing a set of principles, which should underpin your rent policy.
- Understand local income distributions in detail – local authority level should be sufficient. Modelled data, to understand income levels for different household sizes and compositions, is very useful, and there may be a case for sector bodies commissioning and updating this data at local authority level on a regular basis.

- Be prepared to review frequently – local wages, markets and benefit rules change frequently.

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Affordability and cross-subsidy

Unless government policy in terms of AHP conditions and grant rates changes, in many areas meeting LHAF output targets will require cross-subsidy for social rent, given that grant is not available outside London. Indeed, the National Housing Federation regularly shows that associations already cross-subsidise most of the social rented new build they can still produce.¹⁸

Developers may argue that s106 agreements should not favour social rent, but instead higher-value products such as Affordable Rent or shared ownership, since this will raise the development's value and the developer's income. Nevertheless, the agreed LHAF targets should strongly influence s106 decisions. It will, of course, be up to the planning authority to decide whether the need for new development in a particular case overrides the guidance provided by the LHAF.

Local authorities can help achieve LHAF targets while ensuring new local supply by providing cheap land, linked to agreements about its development according to those targets, as described in [Chapter 3](#). Authorities can provide financial support for social rent dwellings, as well as building themselves through their HRA or via a LHC. Councils and associations can generate surpluses to support social rent output through market rent and sale activities.

A brief outline of the organisation

Family Mosaic merged with Peabody on 3 July 2017. Prior to this, Family Mosaic managed around 25,000 homes in London and the South East, of which 3,000 were shared ownership. Most of its activity outside London – Essex, Hampshire and Kent – is care and support; in London, it is mainly general needs housing.

Both Peabody and Family Mosaic have a long track record in offering genuinely affordable housing for Londoners in the centre of the capital. This shared commitment underpinned the merger. This case study reflects the pre-merger work of Family Mosaic.

What are you trying to achieve?

When the coalition government reduced grant rates in 2011 and directed the bulk of its AHP investment towards affordable rent and homeownership, Family Mosaic decided to research the likely medium and long-term implications of this policy before deciding on its strategic response.¹⁹

Family Mosaic reviewed the profile and income of its most recent 50 successful applicants for social rent lettings and modelled the impact of the switch to Affordable Rent on the likelihood of these applicants taking up the offer of accommodation under the new (higher) rents – taking the availability of housing benefit into account. This research indicated that 90% of these applicants would be unable to take up an Affordable Rent tenancy without being over-dependent on housing benefit, putting both the tenant and the landlord at risk of future welfare reform changes.

Family Mosaic decided to develop a revised rent policy that reflected the new operating environment but allowed the association to fulfil its mission of housing low income households while maximising support for local authorities. The association was clear that it did not want Affordable Rent to become intermediate rent in all but name.

What did you do?

Family Mosaic took a policy decision to continue with the formula rent model (social rent) even when developing new homes under the Affordable Rent regime. It noted that while the government's assumption was that Affordable Rent would be set at 80% of the market rate, there was no proscription on letting these properties at a lower rent.

This policy decision meant significant increased cross-subsidy – equivalent to £30k per new rented home under Family Mosaic's 40-year development appraisal model.

To maintain overall business plan viability, this meant reducing the proportion of rented housing and increasing the provision of housing for sale – see overleaf. Lenders supported this new strategy as they were increasingly concerned that housing benefit would not underpin the new (higher) Affordable Rents – a perspective that was to prove prescient (see [Chapter 2](#)). For lenders, the risk around increased sales outweighed the risk of bad debt and rent/welfare reform uncertainty.

¹⁹ See Lupton, M. (2011) *Mirror, signal, manoeuvre: our drive to provide more social housing*. London: Family Mosaic (www.familymosaic.co.uk/download/292331/).

What were the outcomes?

The association's development programme profile changed to 33% rent, 33% low cost home ownership and 33% market sale. Although the volume of rental development reduced, rent levels continue to be affordable to Londoners in housing need and thus aligned to the needs of London boroughs.

In its Affordable Rent AHP application declaration, Family Mosaic modelled rents at 60% of market rent but in practice the association capped new rents at 50%.

Family Mosaic's decision to restate its commitment to lower rents has been warmly welcomed by local authorities and has opened up new opportunities for strategic discussions with London boroughs regarding future development and the management of housing need. For example, this rent policy was a significant factor in enabling Family Mosaic to co-design a housing strategy for the Heathside and Lethbridge regeneration scheme with LB Lewisham (now known as Parkside).

Family Mosaic's principled adherence to its social mission has made its partner local authorities more likely to support the association's applicant affordability assessments and to make discretionary housing payment income supplements to help marginal applicants sustain a tenancy.

What did you learn?

Don't mistake tactics for strategy. Don't shift strategy too much in line with the latest current government policy.

The government policy on rents was driven by a short-term desire to maintain new supply while shifting the funding burden from capital grant to housing association revenue income. In even the short- to-medium-term, it was clear to Family Mosaic that this policy was unsustainable and likely to be modified.

Unlike the many associations that switched strategy to align with the government's objectives, Family Mosaic took a longer view that adherence to its social mission

was more important and – in practical terms – a sounder business strategy.

What three tips would you give to someone looking to implement a similar approach/scheme?

- Invest in research – consider the long-term implications of any change in strategy and ensure that policy making is evidence-based.
- Look to your own values and how to deliver them. Do not be diverted from this course to deliver short-term political objectives.
- Be mindful of all stakeholders in making decisions about rents and affordability – do not neglect the views of partner authorities and tenants in your decision-making.

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The implications for flexibility in rent setting

In the housing white paper, the government indicated a willingness to discuss rent policy, and the Conservative Party manifesto explicitly stated a wish to ‘give greater flexibility to housing associations’, but does this in the context not of linking rents to affordability but to allow HAs ‘to increase their housing stock’. DCLG are also exploring deals with stock-retaining authorities, assisted by CIH, NFA and ARCH, which would involve various measures including relaxing the annual reductions in rents, to aid new housebuilding. Labour has not commented on future rents policy but calls for the building of new homes for ‘living rent’, with rents capped at a third of local incomes.

The National Housing Federation and others have called for social landlords to have flexibility in rent setting from 2020, when the current policy of cutting rents ends and a new national rents policy would take effect.

On one level, flexibility is a good thing – providers would have more freedom to adapt their rent policies to meet local affordability frameworks and associations; LHCs and councils can use surpluses from higher rents to build more homes.

On another level, it creates a risk that associations will prioritise income over affordability when

exercising rent flexibility. Savills have argued that most associations treated Affordable Rent as an opportunity to set the highest possible rents, to enhance their financial capacity and maximise new supply. They suggest (although their argument is disputed by NHF) that the same could potentially happen with social rents, as they calculate that 88% could be raised and still be within local LHA levels.²⁰ This risk is generating concern, particularly in local government, that the result of any flexibility will be rents that are even less affordable than they are now.

Much therefore depends on the willingness of associations to demonstrate that they will adopt rent flexibility in a manner that reassures authorities and communities that rents will be affordable. Associations can do so by working within Local Housing Affordability Frameworks, so that a landlord’s mix of products remains affordable and takes account of the increasingly important welfare benefit impacts.

If rents do rise following the adoption of rent flexibility, the housing benefit bill will grow further. As Savills have pointed out, this may encourage the government to set LHA caps even lower, thus creating a ‘double whammy’ for tenants.

The more that associations can engender trust about how they will execute rent flexibility, the greater the likelihood that rent flexibility will be adopted. This will require all associations to demonstrate an active commitment to affordability and a willingness to flex business plans and local rent setting to achieve it. Conversely, arguments in favour of rent flexibility that do not demonstrate a strategy for mitigating the impact on affordability and on housing benefit are less likely to be persuasive.



²⁰ Buckle, C. (2017) Is Rent Freedom a Silver Bullet? London: Savills.

5. Recommendations to government

This discussion leads to the guide's two recommendations to government on affordability issues.

Key recommendation to government 3:

Adopt a primary housing policy objective that rents should be genuinely affordable to those on low incomes.

How should this be done?

- Affordability should be a central aim of rents policy.
- Government should set principles for genuinely affordable rent levels:
 - that they take no more than one-third of earnings from those on below-average incomes, as assessed for local housing market areas
 - that, wherever possible, rents should be at levels payable by all working households without needing to claim housing benefit.

- A new rents policy should restore the long-term financial stability promised to social landlords in 2012 and which also underpinned the local authority housing finance settlement.
- As well as assessing overall housing need at national level, government should assess the proportion of the total needed for affordable housing for households that cannot pay market prices (whether to buy or to rent).
- Government should promote and support the development of Local Housing Affordability Frameworks (see glossary for explanation) at a local or sub-regional level

Key recommendation to government 4:

Ensure that welfare reform measures align with housing policy on affordability, and particularly that they do not prevent low-income households from having access to sub-market housing.

How should this be done?

- Government should urgently review the effects of the benefits cap on the ability of non-working tenants to pay rents.
- Government should not proceed with the planned application of the LHA cap to social sector rents from April 2019.
- For private sector rents, the LHA should be based on local rents (ie the level which represents the lowest 30% of today's market rents).

Summary and recommendations

This chapter summarises key points from the guide and brings together in one place the recommendations for action by local authorities and housing associations and, at the end, policy recommendations for government.

1. The 'state of play'

Local authority and housing association partnership working sits in a complex and shifting operational context. The 'state of play' in respect of the key issues that local authorities and housing associations are attempting to tackle is this:

- Housing supply, of both new build and new lettings, failing to keep pace with demand – to do so, production must exceed current central government targets by 50%.
- Insufficient investment in homes affordable for the lowest income groups – 79% of government housing investment is currently directed towards the private market.
- Loss of existing social rented housing – due to the combined impact of right to buy, demolitions and relet conversions to higher rents.
- Increases in homelessness, rough sleeping and destitution – councils face pressures to find temporary accommodation and to intensify their efforts to prevent homelessness.
- Affordability as a worsening problem for all renters – both private and social.
- Social rent cuts – have marginally improved affordability for tenants not claiming benefits but have led to investment cutbacks, especially by local authorities.
- Welfare cuts – low-income households, under-35s and lone-parent families in particular face increasing difficulties in meeting their housing costs, even in the social housing sector.
- Private renting fills the gap – but is much less affordable and the loss of a private rented tenancy is the fastest-growing source of homelessness.

2. Leadership and partnership culture

Successful partnerships depend heavily on good relationships between key leaders in authorities and housing associations and their staff. This chapter outlines how local authorities and housing associations can reset their working relationships. Where associations are relatively small, working in fewer local authority areas, it is easier to maintain strong personal relations. Today, the majority of associations work across wide areas with multiple local authorities. For councils, tighter resources and time pressures on staff mean that relationship-building has fallen in priority. The actions proposed are not easy to achieve in this context, but they are vital if the guide's proposals are to be successfully adopted.

Key recommendation to the sector 1:

Local authorities and housing associations should increase their level of engagement in fostering good working relationships. Our research found the common features of an effective working relationship are:

- Visibility, clarity, and accountability - This requires visible commitment to joint working, at the highest level. Regular, planned and well-structured meetings between leaders are essential, as are specific named senior contacts available to act as 'trouble shooters' when things go wrong at a local level.
- Empathy and joint problem solving. Councils often know little of the pressures on associations, and vice versa. Where parties do not understand each other's challenges in-depth, actions may appear inexplicable or hostile. Ongoing bilateral work at senior and middle management levels can remedy this difficulty and is best focused on tackling issues of mutual concern – such as allocations, rent affordability, managing the impact of welfare reform and so on.
- Compromise and flexibility. Joint problem-solving will involve negotiation in which each party will need to protect its interests. Frank and honest (and sometimes difficult) conversations, leading to mutual compromise and trade-offs underpin all successful partnerships.
- Pooling and sharing resources. Both councils and associations have limited resources relative to the demands upon them. Sharing resources can, for example, involve joint-funding of local authority enabling posts, shared technology, data, market analysis, regional land availability studies, and so on.
- Closer working relationships between authorities, and between housing associations at a local authority or sub-regional level. This can, for authorities, involve city region combined authorities, sub-regional planning strategy, infrastructure provision and so on. For associations, it can involve combined regeneration bids, sub-regional lobbying and research and the sharing of development capacity.
- Shared sense of purpose. This needs to involve councillors, council staff, tenant representatives, housing association board members and staff – and where possible external agencies such as the DCLG, HCA, GLA, NHS and so on. A shared sense of strategy is a good place to start.

3. Land and housing supply

Although housing shortages vary around the country, all authorities need to secure an increased supply of new housing. Some of this will be for market rent or sale, or low-cost homeownership, but in most areas the greatest need is for low-cost rented housing. This chapter therefore focuses on how authorities and associations can work together to increase the supply of genuinely affordable housing.

Planning and enabling functions in many authorities are not delivering private or public land at the pace or price required to meet demand. The challenges include managing the limitations of the current statutory planning system, most particularly:

- current weaknesses of section 106 and the Community Infrastructure Levy (CIL), which inhibit councils and associations from maximising and accelerating the production of affordable housing
- a substantial number of authorities have been slow in producing Local Plans compliant with the National Planning Policy Framework (NPPF)
- shortages of staff and other resources in planning and housing enabling departments.



Key recommendation to the sector 2:

Planning be reframed and re-energised to effectively deliver more genuinely affordable homes in partnership. To do this the following actions need to be taken:

- All planning authorities should produce Local Plans compliant with the National Planning Policy Framework (NPPF) - to facilitate new housing and equip the authority to resist inappropriate development.
- Planning authorities should manage section 106 and Community Infrastructure Levy (CIL) more proactively to secure more genuinely affordable housing – and housing associations should cease to compete with each other over section 106 opportunities, so as not to drive up development costs.
- Strategic Housing Market Assessments (nationally) and viability assessments (regionally) should be standardised.
- More joint plans are needed between planning authorities to address:
 - variation in land capacity even between adjoining local authorities
 - economic/housing markets that straddle authority boundaries
 - provision of infrastructure, commercial centres and so on with cross-boundary impacts.
- Councils with different appetites for development need to reach agreement when producing joint strategies to address the housing/ infrastructure needs of a region or sub-region.
- Housing associations should provide resources to support the local authority planning and enabling functions – for example by sharing viability assessment skills, digital tools for mapping site availability and research on housing market affordability, or joint funding of enabling posts.
- Authorities should be more active in assembling sites and commissioning masterplans and more prepared to use CPO powers to do so.
- Authorities should invest more in partnership activity, and – to improve rent affordability – be flexible on sale of land at undervalue and how they extract a return from joint ventures.

Key recommendation to the sector 3:

Housing associations should flex their new supply offer to make it more relevant to local authorities – embracing competition from new local housing companies in a positive manner. They should:

- Increase the level of cross-subsidy from rental surplus or sales income to improve the supply of housing affordable to low-income households.
- Engage proactively with authorities on long-term joint-ventures that share risk and reward.
- Intervene to improve the supply, quality, and affordability of the local private rented sector – with councils also encouraging market entry by institutional investors.

4. Allocations and homelessness

Local authorities need the support of housing associations to meet housing demand and tackle homelessness. Given that new build only supplies 12% of new lettings annually, management of lettings of current stock is crucial in addressing needs. Yet the traditional model for allocation and letting of social housing – with housing association lettings being largely via local authority nominations – is under strain. Existing partnership arrangements are struggling to cope with the misalignment of need and supply and the widening of the range of products on offer because:

- Statutory housing registers are geared towards allocating applicants to local authority or housing association social rented housing, whereas applicants' requirements might be met by a wider range of products and services.
- Housing registers are in most areas limited to the relevant local authority area, whereas applicants may view their housing market in wider terms.
- The criteria used in operating registers focus largely on acute housing need and do not necessarily aid mobility or the creation of sustainable communities.
- Housing registers in their current form do not provide a useful tool for applicants, councils and associations to match people with homes or housing solutions (such as advice and support), or for best use of stock (eg streamlined letting of lower-demand stock or incentivised downsizing).

- As a result, direct lettings by housing associations are more prevalent in many areas than five years ago.
- For local authorities faced with increased housing demand, this reduction in their access to affordable housing has occurred at the same time as problems in securing temporary accommodation to meet homelessness obligations, dealing with changes such as the planned capping of benefit for under-35s and responding to pressures to reduce rough sleeping, house refugees and assist other marginalised groups.

Key recommendation to the sector 4:

Authorities and associations should work together at a local or sub-regional level to develop a new and more dynamic system for managing allocations and lettings. A new system, using recent IT developments, could provide separate but interlinked registers for social rent and Affordable Rent, and for low-cost homeownership, and market sale or rent.

For the new system to be effective:

- Multi-agency letting schemes should be refocused to tackle job mobility, downsizing and overcrowding, including through identifying and facilitating chains of moves.
- Authorities and associations should work together to act as a gateway to other tenures e.g. into the private rented sector.
- The new, reshaped housing allocation system should:
 - Interface with the local authority statutory register or subsume it.
 - Secure a steady stream of suitable applicants for different products.
 - Match allocation schemes and local letting plans more closely to available property.
 - Make more efficient use of existing stock.
 - Reduce risk of tenancy failure or arrears.
 - Help to meet demand for products such as market sales/rent and shared ownership.
- Housing associations should share the cost of this new system with partner authorities and could offer to manage the new system where authorities lack the capacity to do so.

Key recommendation to the sector 5:

Local authorities and housing associations should work more closely to address and prevent growing levels of homelessness, by doing the following:

- Jointly collect data on street homelessness and increase their engagement with agencies that support vulnerable homeless people, migrants, and refugees.
- Pool resources to provide more local emergency accommodation.
- Increase and share investment in tenancy sustainability schemes.
- In addition, housing associations should train staff on homelessness prevention and how to advise direct applicants on housing options.

5. Affordability and rents

Many of the challenges discussed in the guide are rooted in issues of affordability: the ability of customers in all tenures to meet their housing costs without undue pressure on their household finances. Yet there is very little joint working between authorities and associations on this vital question, even though a shared understanding of how affordability is to be defined and achieved is crucial to successful partnerships.

This is not an easy task. Achieving affordability without benefit dependency would be ideal. However, councils and associations both have business plans to fund.

Associations, to stay financially robust and remain credible to lenders and investors, must be alert to their loan covenants. Delivering affordability therefore requires a balance between the needs of the provider and the consumer, and must respect the fiduciary responsibilities of association boards.

If the government were to follow the GLA's lead by increasing grant rates and ending the conversion of social rent relets to Affordable Rent, then affordability would improve. In the meantime, councils and associations could do more to achieve a better balance within the current operating environment.

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Local authorities and housing associations should work more closely to address and prevent growing levels of homelessness

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Key recommendation for the sector 6:

Local authorities and housing associations should work in partnership to develop a Local Housing Affordability Framework (LHAF) to cover new lets and relets, homeownership products and referrals to the private rented sector. In order to do this:

- The LHAF should identify the required tenure/product mix and agreed output targets, both numbers of homes and range of charges, for each tenure - considering available resources (e.g. grant, cross-subsidy from sales, cross-subsidy from rental surplus, discounted land, recycled capital receipts, borrowing capacity).
- The LHAF should be an active partnership between councils (individually or sub-regionally) and their partner associations with costs shared accordingly.
- Each LHAF would provide:
 - An agreed, common definition of affordability to which all partners strive to work, based on local household incomes not a percentage of market prices/rents.
 - Affordability assessed by tenure or product, including service charges where appropriate.
 - A mutually-agreed framework for affordability assessments of applicants.
 - A review of the required tenure/product mix – including relets – to identify:
 - a target range of incomes that each tenure should meet
 - numbers of households with unmet need in each target group
 - the extent to which current products meet the target income ranges
 - ideal target costs for each tenure/product.
 - Agreed output targets (numbers of homes and range of charges) for each tenure, taking into account available resources
 - An agreed tool which is embedded into local planning and housing policies, and other areas of local decision-making (e.g. Discretionary Housing Payments), and then implemented consistently and robustly on a voluntary basis.

Policy recommendations for government and government agencies

Primary responsibility for better joint working between local authorities and housing associations rests at local level, but we also recommend that government takes action to facilitate and remove obstacles to partnership working.

The guide's four policy recommendations for government are:

Key recommendation for government 1:

Amend the constraints on disposals of local authority land so that councils have more freedom to facilitate affordable housing supply.

How should this be done?

- broadening the scope of what a local authority can determine to constitute 'best consideration' for the purposes of section 123 Local Government Act 1972 in relation to the disposal of General Fund
- land, where the relevant disposal is to be used to facilitate housing development; and/or
- widening the applicable general consent regimes for disposals of HRA and General Fund land to allow local authorities more flexibility to contribute land to development projects.
- specific consent for General Fund land should, in this context, only be required where the disposal is within the highest decile of site values.



Key recommendation for government 2:

Re-align current housing budgets and the HCA's programme to increase the proportion invested in affordable housing and review grant rates, so that more homes with genuinely affordable rents can be provided.

How should this be done?

- Re-balance grant resources so new homes can be built at lower rents. Up to 2021, almost four-fifths of government housing investment is allocated towards support for the private market; there is scope to provide higher grant levels for social housing by redirecting part of this wider funding so that overall supply is not reduced.
- The HCA should offer grant for social rented homes, following the lead of the GLA, via such a reallocation of government funding.
- Grant levels for social rent outside London could be set at an indicative level of £40,000 per unit, with some flexibility to increase or decrease this to take into account land costs, scheme mix and opportunities to cross-subsidise.
- As a corollary, the HCA should follow the GLA's lead in ending re-let conversions from social to Affordable Rent.



Key recommendation to government 4:

Ensure that welfare reform measures align with housing policy on affordability, and particularly that they do not prevent low-income households from having access to sub-market housing.

How should this be done?

- Government should urgently review the effects of the benefits cap on the ability of non-working tenants to pay rents.

- Government should not proceed with the planned application of the LHA cap to social sector rents from April 2019.
- For private sector rents, the LHA should be based on local rents (ie the level which represents the lowest 30% of today's market rents).



Glossary

The glossary is in two parts, covering general terminology and terminology specifically on rents.

1. General terminology

Affordable housing

Social rented, Affordable Rent and intermediate housing, provided to eligible households whose needs are not met by the market.

Affordability tests

Tests undertaken by social landlords to determine whether housing applicants can – in the context of their earnings or benefit entitlement – afford the rent on property for which they have applied or have been nominated for by a local authority.

ALMO

Arm's length management organisation – a company owned by the local authority, set up principally to manage its council housing stock, under an agreement or contract.

Affordable Housing Programme (AHP)

The Affordable Housing Programme is the HCA's investment programme for registered providers. The

current version is also known as the Shared Ownership and Affordable Housing Programme.

Area of Outstanding Natural Beauty

An area with statutory national landscape designation, the primary purpose of which is to conserve and enhance natural beauty. AONBs are designated by the Natural England.

ARCH

ARCH (Association of Retained Council Housing) is an association of councils in England who have retained ownership and management of their council homes.

Brownfield land

Previously developed land which is or was occupied by a permanent structure, including the curtilage of the developed land and any associated fixed surface infrastructure.

Build to rent

The Build to Rent Fund was a fully recoverable investment where the government shared risk or bridged finance to help schemes to be built, managed and let in the private rented sector. Developers sold on their interest or refinanced and repaid the investment once a scheme was fully let.

Capital receipt

Proceeds from the sale of capital assets (e.g. land, buildings and equipment). Deferred capital receipts represent amounts derived from the sale of assets which will be received in instalments over agreed periods of time.

Choice-based lettings (CBL)

Choice-based lettings schemes are designed to allow an element of choice for people applying for council and housing association homes and existing tenants who want a transfer. As properties become available for letting, full details are advertised on a dedicated website and applicants assessed as needing to be rehoused can bid for available properties.

CIH

The Chartered Institute of Housing (CIH) is the independent voice for housing and the home of professional standards.

CIL

The Community Infrastructure Levy (CIL) allows local authorities to raise funds from owners or developers of land undertaking new building projects in their area. CIL is designed to fund infrastructure

(but excluding affordable housing) that is not site-specific. Site-specific infrastructure and affordable housing obligations continue to be covered by s106 agreements. CIL rates are set locally and take the form of a sum payable per square metre of floor space. The rates are based on the authority's overall (rather than site-specific) infrastructure priorities, and should be set at a level that maintains the financial viability of development.

Combined authority

A combined authority exists where two or more existing local authorities, on a voluntary basis, merge activity and governance for some or all of their services. This can take place as part of a 'devolution deal' (eg Greater Manchester Combined Authority or Sheffield City Region) or informally through 'sharing' arrangements (eg the London Boroughs of Richmond and Wandsworth). Formal combined authority status allows councils to work more closely together in relation to economic development, housing, regeneration and local transport, while each individual organisation operates in accordance with the statutory instrument by which it was created.

CPO

A compulsory purchase order (CPO) is an order issued by the government or a local authority to acquire land or buildings for public interest purposes without the

consent of the owner. Affected owners have rights of appeal and to compensation for the value of the land, set locally by the district valuer.

Development plan

A document setting out the local planning authority's policies and proposals for the development and use of land and buildings in the authority's area. This includes adopted Local Plans, neighbourhood plans and the London Plan, and is defined in section 38 of the Planning and Compulsory Purchase Act 2004.

Discretionary housing payments (DHPs)

A DHP is an extra payment at a local authority's discretion, to help people who claim housing benefit (or similar help under universal credit) and are struggling to pay their housing costs.

General Fund

The main local authority revenue fund from which the costs of all local services (except council housing) are met.

Green Belt

A designation for land around certain cities and large built-up areas, which aims to keep it permanently open or largely undeveloped. Green Belts are defined in a local planning authority's development plan with changes only being permissible in exceptional circumstances as part of a Local Plan review.

HCA

The government agency which provides funding for affordable housing and regulates housing associations and other registered providers. The HCA is shortly to be renamed Homes England and its regulatory role is to be transferred to a dedicated social housing regulator.

Homelessness acceptances

Households which a local authority has a legal duty to assist under Parts 6 and 7 of the Housing Act 1996 (as amended).

Housing benefit

Financial help given to local authority, housing association or private tenants whose income falls below prescribed amounts. It is being progressively replaced by universal credit.

Housing register

A local authority's list of people applying for social housing including housing owned and/or managed by the authority, an ALMO or housing associations.

Housing Revenue Account (HRA)

An account, administered by local housing authorities, used to record the income and expenditure related to council housing. It is ring-fenced and cannot subsidise or be subsidised by other activities. Where a council has undertaken an LSVT it is unlikely to maintain an HRA.

HRA borrowing caps

Government imposed limits on the total debt which a local authority may incur, that is supported by HRA revenues.

Infill development

The development of a relatively small gaps between existing buildings.

Landbank

A stock of land held by a local authority or developer, usually with planning permissions, where development has yet to take place.

Large scale voluntary transfer (LSVT)

Where a local authority transfers all or most of its tenanted property to another organisation – always to an HCA-registered provider, normally a new or existing housing association.

Local housing companies (LHCs)

Companies which are (usually) wholly-owned by a local authority and are created to enable the authority to undertake commercial activities (including but not limited to housing supply).

Local Enterprise Partnership

A body designated by the Secretary of State for Communities and Local Government and the

Department for Business Innovation & Skills, established for the purpose of creating or improving the conditions for economic growth in an area.

Local Housing Allowance (LHA)

The name for housing benefit when it is paid to tenants of a private landlord.

Local Housing Affordability Framework

New, innovatory mechanism recommended by this guide and described in [Chapter 6](#).

Local planning authority

The local authority or council that is empowered by law to exercise planning functions in a particular area, often the local borough or district council. National Parks and the Broads authority are also local planning authorities. County councils are the authority for waste and minerals matters as well as traffic and public roads.

Local Plan

The plan for the future development of the local area, drawn up by the local planning authority in consultation with the community and subject to an examination before an independent Planning Inspector.

Low cost homeownership

Schemes intended to help those who cannot afford to buy a home on the open market to get onto the

housing ladder, normally via shared ownership - buying a part share in a property owned by a housing association or local authority.

Master plan

A type of planning brief outlining the preferred usage of land and the overall approach to the layout of a developer. To provide detailed guidance for subsequent planning applications.

National Living Wage

The National Living Wage is an obligatory minimum wage payable to workers in the UK aged over 25 which came into effect in April 2016.

New Homes Bonus

Central government funding paid to local authorities in accordance with the number of new homes of all tenures built in their area each year.

NHF

The National Housing Federation is trade body that represents independent non-profit housing associations in England.

Nominations agreement

A nomination agreement is an agreement between a local authority and a housing association for the purposes of an allocation of housing to a specific

applicant, covering the procedures for their nomination and their acceptance or (where necessary) refusal by the association.

NPPF

The National Planning Policy Framework sets out the government's planning policies for England. Development plans must be prepared so as to accord with the NPPF, and the policies within the NPPF are material planning considerations of significant weight to be taken into account in the determination of planning applications.

Permitted development

Permission to carry out certain limited forms of development without the need to make an application to a local planning authority, eg house extensions up to a certain size.

Planning appeal

The process whereby a planning applicant can challenge an adverse decision, including a refusal of planning permission, failure to make a decision or the imposition of an enforcement notice.

Planning gain

The benefits secured by way of a planning obligation as part of a planning approval and usually provided at the developer's expense, eg affordable housing or community facilities.

Planning obligations

A legally enforceable agreement entered into under section 106 of the Town and Country Planning Act 1990 to mitigate the impacts of a development proposal that cannot be controlled through the imposition of planning conditions.

Planning permission

Formal approval sought from a local planning authority allowing a proposed development to proceed. Permission may be sought in principle through outline planning applications, or be sought in detail through full planning applications.

Planning permission 'in principle'

Permission in principle is an alternative way of obtaining planning permission which separates the consideration of matters of principle for proposed development from the technical detail of the development. The first stage establishes whether a site is suitable for residential development and the second stage is when the detailed development proposals are assessed.

Planning viability assessments

A concept in the NPPF that provides for an assessment of the financial viability of a development for which planning permission is being sought which can be used to assess the reasonableness of Planning Obligations.

Obligations should not be imposed where they would make a development financially unviable.

Prudential borrowing

Rules that allow local authorities to borrow without specific permission from central government. Councils must demonstrate that they can afford to service the debt from their own resources according to a 'Prudential Code' which is set nationally.

Public Works Loan Board (PWLB)

A central government agency, now part of the Debt Management Office, that provides loans to local authorities at favourable rates. The amounts of and purposes for which PWLB loans can be obtained are controlled by rules set by the government.

Rent to buy

Rent to buy is a government scheme designed to ease the transition from renting to buying a home by providing subsidised rent. Under the scheme, tenants rent a newly built home at approximately 20% below the market rate, generally, for up to five years. During that time period, the tenant has the option to buy the property or to buy part of the property on a shared ownership basis. When the time-period expires, the tenant either has to buy part of the property equity or leave.

Right to buy

A scheme under which most council tenants and some housing association tenants may buy their homes at a lower price than the full market value. Only certain types of property are exempt. People qualify for a discount on the basis of the number of years that they have been tenants.

Section 106

A legal agreement under section 106 of the Town & Country Planning Act 1990. Section 106 agreements are legal agreements between a planning authority and a developer, or undertakings offered unilaterally by a developer, that ensure that certain site-specific extra works related to a development are undertaken and/or requiring the sale of a proportion of the development to housing associations to provide affordable housing. Section 106 arrangements with private developers are often the primary source of new affordable housing.

Shared accommodation rate (SAR)

A limit placed on housing benefit (or the housing element of universal credit) on the assumption that the applicant is only paying for shared, not self-contained, accommodation.

Strategic Housing Market Assessment (SHMA)

A study of the way the housing market works in any particular area. It looks into the type of households

living in the area, where they work and what sort of housing they live in. It attempts to estimate future housing needs across the area, broken down by tenure and size of housing

SME (small or medium sized enterprise)

An independent business managed by its owner or part owners and having a small market share either by number of employees or turnover.

Temporary accommodation (TA)

Housing such as bed and breakfast (B&B), hostel or privately leased accommodation that councils may use to accommodate households who are homeless.

Viability assessment

A viability assessment examines whether different types of development are likely to prove financially viable when taking into account a range of different factors such as location, type of site, size of scheme and scale of contributions to infrastructure and facilities.

Universal credit

The new benefit system being progressively introduced, which combines various benefits (including housing benefit) in a single payment.

2. Terminology related to rents

Social rent has historically been the norm for any social letting, on average set at less than 50% of market levels and often referred to as ‘target rent’. The calculation of social rents generally excludes service charges.

Prior to 2002, there were wide differences in social rent levels, even between adjoining authorities. The government aimed for ‘rent convergence’, whereby these differences – and the differences between councils and housing associations – would be gradually removed over ten years. Social rents were rebased on a formula that varied locally, and was 30% dependent on property values and 70% on average incomes. Rents would ‘converge’ on the target or formula rent, which would be raised in line with inflation.

Unfortunately, the definition and the convergence process have been left in limbo by policy changes made in the last few years, culminating in the current four-year reduction of social rents by 1% annually from April 2016. ‘Convergence’ has been suspended, although policy from 2020/21 is still to be decided. Social rents are therefore closer together than in 2002 but still not consistently applied at local level.

Affordable Rent was introduced in 2010 and first took effect in 2011. An Affordable Rent is simply defined as a rent at up to 80% of local market levels, taking account of property size and including service charges. In practice, Affordable Rent levels have been close to 80% of market rents outside London but much lower (currently averaging 56%) in London. Paradoxically, the definition of Affordable Rent takes no account of income levels, so the extent to which a rent is actually 'affordable' depends on whether a landlord takes incomes into account in deciding where on the scale to set Affordable Rent for its properties. In London, and much of the South East, Affordable Rent has varied considerably in how much it exceeds social rent levels. In the North of England, Affordable Rent is generally close to social rents as the gap between market and social rents is much smaller. In London, from 2016, Affordable Rent set by the GLA is called the 'London Affordable Rent'. It does not include service charges and is pegged at the level of target rents close to social rent (see above).

Intermediate rents are typically set at up to 80% of market levels. They include 'rent to buy', which is an intermediate rent product expected to lead to the tenant purchasing as a shared owner after five years. In London, intermediate rent set by the GLA is called the 'London Living Rent'. It includes service charges and is set at one third of local average household incomes.

Note that intermediate housing includes both intermediate rent, shared ownership and other low-cost homeownership products, but does not include Affordable Rent. The housing white paper proposes a new product, affordable private rent, which is similar to intermediate rent but is part of the PRS. Rents can be set at up to 80% of market levels, excluding service charges.

All the above (subject to consultation in the case of affordable private rent) are included in the government's definition of affordable housing for planning purposes.

Market rent is quite simply a rent set at the market price of an equivalent letting in the private sector, applied by a social landlord to units that it lets on the open market (often to provide revenue income or to cross-subsidise social rent output).

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Altair

Altair is a leading housing consultancy bringing together sector experts with a wealth of experience. Our clients cover a range of organisations working within the housing sector, including registered providers, local authorities, ALMOs, private developers, contractors, the Homes & Communities Agency and representative bodies. We provide leading-edge strategic advice and support at a senior level. Our core services cover the following areas:

- Strategy & Governance – covering board and governance reviews, risk management, special management, mergers and group structures, options reviews, and IT strategy and options
- Finance – covering financial modelling, health checks and reviews, VfM and efficiency, local authority self-financing, funding, and Brixx implementation and review
- People – covering organisational excellence, processes and systems, service reviews, executive resourcing, talent management, and people advisory
- Property – covering development, asset management, project management, stock rationalisation, bid support for stock transfers, and regeneration.

Trowers & Hamlins

Trowers & Hamlins is an international law firm committed to helping businesses and governments build stronger, more integrated and ultimately more sustainable and economically successful communities. We have over 40 years' experience of advising a full range of clients engaged in the delivery, funding and policy of homes both nationally and internationally. This includes acting for over 500 housing associations and local authorities as well as private developers, contractors, joint venture companies and institutional investors.

From build-to-rent, to landmark regeneration projects we advise across investment, development, construction, planning, environment, corporate, tax and dispute resolution. This work notably includes creating and advising on joint venture structures using different types of corporate vehicles and we have the breadth of experience that can help navigate the cultural, economic and political niceties of all sides.

Appendix: Housing needs and homelessness – the evidence base

This Appendix presents the statistical and policy evidence base for the main report, and is summarised in [Chapter 1](#). The Appendix is provided for those readers who want more detail, including statistical sources. It covers:

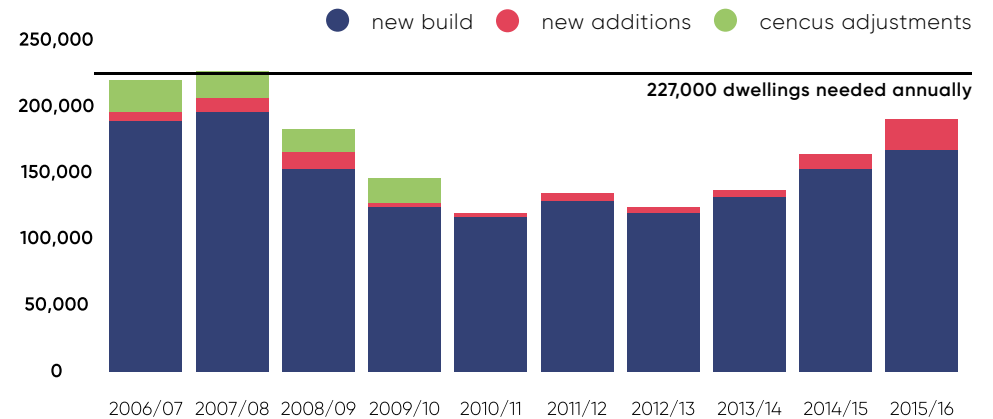
- supply and demand for housing across England
- housing need and homelessness
- how housing associations and local authorities help to meet these needs
- challenges that social landlords face in raising their output
- the contribution made by the private rented sector.

Much of the statistical information is from the UK Housing Review, published annually by CIH and recommended to readers who want more detailed analysis of the issues covered.

1. Supply and demand for housing across England

Simply to keep up with household growth over the next 25 years, England needs to build an extra 227,000 dwellings each year to 2024 and 199,000 thereafter.¹ This level of output has not been achieved since before the recent recession. Housebuilding is gradually recovering, but in 2015/16 it still fell some 37,500 below the output required now. In previous years, the difference has been much greater (see Figure A.1). Over the five years since 2011, the cumulative difference between household growth and homes built has risen to 370,000.²

Figure A.1 Recent new homes and household growth



¹Wilcox, S. et al (2017) UK Housing Review 2017, commentary chapter 2.

² National Audit Office (2017) Housing in England: overview.

In addition to household growth, any new build target should allow for England's 1.8 million second homes and vacant properties, which are unavailable to new households at any one time. Allowing a three per cent margin for these, Figure A.2 shows how many houses need to be built each year in the English regions to 2031. Demand is lowest in the North East and highest in London. Some 26% of demand is accounted for by London alone and 55% is accounted for by London together with the adjoining South East and East regions. Nevertheless, all regions have a shortfall, and of course tenure and affordability issues vary widely between regions.

Figure A.2 New homes needed annually in each region to meet household projections

Region	Homes needed annually 2011-31	
	number	% age of total
North East	6,000	3%
North West	20,000	9%
Yorkshire and The Humber	15,000	7%
East Midlands	17,000	7%
West Midlands	19,000	8%
East	28,000	12%
London	60,000	26%
South East	39,000	17%
South West	22,000	10%
England	227,000	100%

Source: Calculation for CIH by Neil McDonald.

³Holmans, A. (2013) New estimates of housing need and demand in England, 2011-2031. London: TCPA.

⁴ See for example Savills (2015) Living Rents – The number of homes required. London: Savills.

⁵ Note that the housing white paper proposes a new product, 'affordable private rent', which will have rents of up to 80% of market rent but excluding the service charge. This is designed to be offered by build to rent developers.

CIH has argued that an annual target of 250,000 homes is now required to meet needs fully, including catching up with the shortfall in recent years. Neither of the building targets set by the two main political parties prior to the election would reach this level of output by 2020/21, but both proposed to reach it over the subsequent two years.

What proportion of output needs to be 'affordable' housing? Recent assessments indicate that at least one-third of new homes need to be at sub-market prices, ie around 80,000 extra units per year for social rent, Affordable Rent, or intermediate housing (see Glossary for definitions).³ However, there is no consensus on how this output should be split. There is a case for lower-cost rental housing (social rent and, where set at well below market levels, Affordable Rent) forming at least half of output.⁴ A balanced programme should also include intermediate products for those who cannot buy without assistance and/or need secure, better quality housing for rent at below market prices. Intermediate (and full market-price) housing can also cross-subsidise lower-cost rental housing.⁵ Less work has been done on demand within the intermediate market, although there is guidance on individual products such as shared ownership.⁶

Recent affordable output (2016/17) has been split between social rent (15%), Affordable Rent (58%), and shared affordable homeownership (27%).⁷ Social rent is now effectively debarred from most grant funding outside London. Instead, the current Shared Ownership and Affordable Homes Programme (SOAHP) at first focused on shared ownership and rent to buy (which is an intermediate rent product intended to lead, after five years, to shared ownership). Policy has recently shifted again to include more Affordable Rent.

⁶Davis, S. and Sinn, C. (2016) Shared Ownership 2.1 Towards a fourth mainstream tenure – taking stock. Coventry: CIH and Orbit.

⁷ NHF (2017) How many homes did housing associations build in 2016/17? London: NHF.

In London, roughly two-thirds of GLA funding is directed to intermediate rent (called ‘London Living Rent’, with grant of £28,000 per unit) and shared ownership, with the remainder for affordable rent but pegged close to social rent levels (called ‘London Affordable Rent’, with grant of c£60,000 per unit).

One calculation of the average income of households unable to afford to rent or buy at market prices is that it is just £20,000 (or £60,000 in London).⁸ However, shared ownership, the government’s Starter Homes programme and financial incentives such as Help to Buy are aimed at helping those earning up to £90,000 to buy their first home. It has been pointed out that the proliferation of schemes to help first-time buyers is confusing, because the target income groups overlap, leading the Council of Mortgage Lenders to conclude that it is ‘unclear how the different schemes fit together’.⁹

⁸ Savills (2015) *The Future of Sub-Market Housing*. London: Savills.

⁹ Clarke, A., Williams, P. & Heywood, A. (2016) *Shared Ownership: Ugly sister or Cinderella? The role of mortgage lenders in growing the shared ownership market*. London: CML.

2. Housing need and homelessness

If we fail to build enough homes, including enough affordable homes, this helps push up house prices. But it has many other consequences too. It prevents new households from setting up home, makes it more difficult for people to move for jobs or family reasons and reduces choice. It means that those who lose their home risk becoming homeless. It leads to unnecessary overcrowding or sharing. Paradoxically, it also leads to under-occupation if – for example – older households have limited opportunities to downsize.

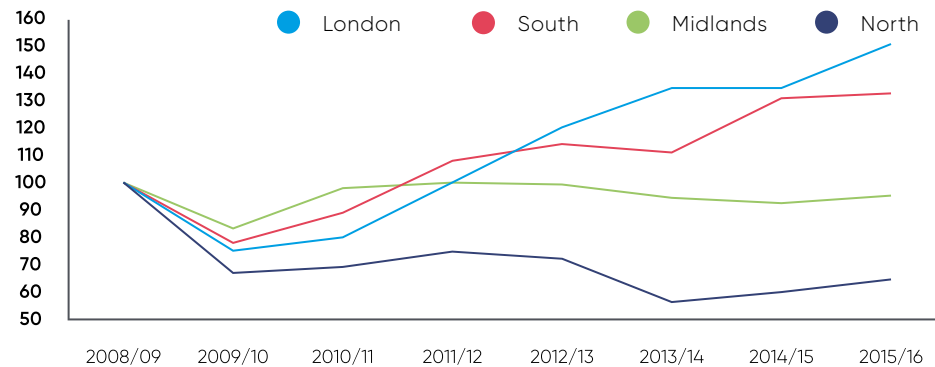
Failing to build enough homes has wider consequences as well. It means that many people spend too much of their income on rent, which impacts on the health of the wider economy. It impacts upon the NHS, because not enough homes of the right type have been made available to those who are in hospital but no longer need medical care. It also impacts on community cohesion if there is excessive competition for housing in particular areas, high levels of multiple occupation and even, in some areas, people forced to live in ‘beds in sheds’.

The need for affordable housing was traditionally captured via councils’ housing registers (or waiting lists). Indeed, it is still common to read that a city or town’s register has ‘reached’ so many thousand households. If insufficient homes are built, fewer new lettings are available and, all things being equal, lists will become longer. However, in practice housing registers have been shortening, not lengthening. In 2012, they were at their highest level nationally (1.8 million) since the 1990s, but they have fallen every year since, to 1.2 million now. This is not because of falling demand but because many councils are using new powers under the Localism Act to exclude people from their lists who do not meet new local connection rules or who are deemed to have little or no current housing need. Some London boroughs have cut their lists by as much as 95%. Housing registers have therefore become an unreliable measure of housing need nationally.

There are several other measures that show the stresses caused by insufficient affordable housing being. For example:

- Overcrowding and under-occupation. Some 678,000 households (3%) are overcrowded, mainly in the rented sectors. Conversely, 8.5 million households are under-occupying, when measured against the very restricted and old-fashioned ‘bedroom standard’. The clear majority (88%) of under-occupiers are homeowners.¹⁰
- Homelessness acceptances. At over 59,000, annual homelessness acceptances were about 19,000 (48%) higher in 2016/17 than seven years ago.
- Homelessness has grown most rapidly in London and the South, while in the Midlands and North it is still at or below the levels of 2009/10 (Figure A.3). However, even within those regions places such as Nottingham report rapid recent growth in homeless acceptances. In addition, there are consistently around 20,000 non-priority homelessness cases annually, likely to be mainly single people who are not considered ‘vulnerable’.

Figure A.3 Trends in homelessness acceptances in England by region (2008/09=100)



Source: UK Housing Review 2017

¹⁰ DCLG (2017) English Housing Survey Headline Report, 2015–16. London: CML.

¹¹ Crisis (2017) The homelessness monitor: England 2017. London: Crisis.

¹² Wilcox, S. et al (2017) UK Housing Review 2017, commentary chapter 5

¹³ For definitions and more detail, see Fitzpatrick, S. et al (2016) Destitution in the UK.

¹⁴ Crisis (2017) The homelessness monitor: England 2017.

- Homelessness threatened. In addition, over 214,000 households are being helped to avoid homelessness each year. Crisis argues that a broader picture of homelessness is given by adding this figure to that for homelessness acceptances, with over 270,000 households losing or at risk of losing their homes each year.¹¹
- Use of temporary accommodation. Over 77,000 homeless households are now in temporary accommodation, 60% more than in 2010. Around three-quarters of these are from London. London councils also made most of the 28% of temporary placements that are ‘out of area’, which might mean in an adjoining borough or as far as perhaps 100 miles away.
- Rough sleeping. Numbers of people sleeping rough have also been increasing over the last eight years, and have topped 4,000 for the first time.¹²
- Destitution. Although destitution is not measured officially, a one-off study assessed it as affecting 668,000 households across the UK in 2016.¹³ Rising numbers are using foodbanks: the Trussell Trust helps over one million households annually with three-day food packs.

The biggest cause of homelessness is losing a private sector tenancy (32% of cases compared with 11% in 2009/10), which has grown rapidly as a factor while others (like marital breakdown) have not.¹⁴ Behind the unsustainability of private tenancies are rising rents and the growing impact of welfare reforms on tenants’ ability to pay them (see overleaf).

Croydon and Bristol provide examples of the impact of high rents and loss of private sector tenancies on local authority homelessness and advice services.

Case Study - growth of homelessness in Croydon

Croydon Council says that 26,000 residents have so far lost over £31 million in benefits since April 2013 because of government welfare reforms. As a result, the number of homeless households in temporary accommodation because they cannot afford their rent has almost doubled. By early 2017, the council had helped more than 1,700 families avoid homelessness, over 2,000 people to become more financially independent, and more than 1,500 with personal budgeting support.

Between 2011 and 2015, rents of one-bedroom flats in Croydon rose by 14%, and rents of two, three and four-bedroom homes rose by 20%. There is a £300 gap between the amount of local housing allowance (£900 pcm) and the average rent (£1,200 pcm) for a two-bedroom property. Market rent is currently increasing by about 3% each year but the local housing allowance is frozen until 2020. Fewer and fewer lettings are eligible for it and Croydon is experiencing increasing difficulty in providing adequate temporary accommodation locally.

Restrictions on benefits mean that once people are accepted as homeless and placed in temporary accommodation, it is difficult to find them a more permanent home that they can afford. Over 13,000 housing benefit claimants renting privately in Croydon are expected to face difficulties in keeping their homes. Loss of private tenancies is already the fastest rising cause of homelessness.

From November 2016, the benefit cap has been reduced from £26,000 to £23,000. This has affected 1,044 Croydon claimants, of whom 599 are on housing benefit and 445 on universal credit (UC). The council has no details about UC claimants, but out of 599 claiming housing benefit, the average loss is £74.19 per week.

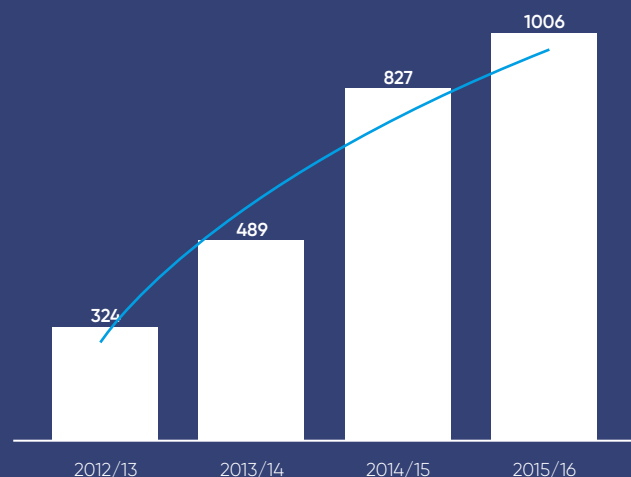
Croydon has over 14,000 council tenants, of which 1,250 are now in receipt of UC. Prior to roll out of UC, rent collection was 98%. The rate has dropped to 72% for UC claimants, which in total now contributes to 38% of overall arrears

although they are only 8.9% of Croydon tenants. The council has trained over 300 employees in welfare, housing, resident services and benefits to provide basic budgeting support to people while exploring key services to provide money-saving support and debt guidance.

Case Study - growth of homelessness in Bristol

The number of households presenting as homeless in Bristol has more than tripled since 2013 (see chart). The main causes are loss of a PRS tenancy, closely followed by 'told to leave' by family or friends. Many cases could be prevented if an affordable PRS or other tenancy could be secured.

Figure A.4 Rapid growth in Bristol's homelessness acceptances



Any benefit-dependent household now finds it very difficult to secure a PRS tenancy, even with assistance via rent in advance, deposit bonds, interest free loans or incentive payments to landlords. Some 55% of those in temporary accommodation have benefits as their sole income.

The private market in Bristol is increasingly unaffordable. House prices are about 18% above the UK average and have risen by almost 50% in a decade. The PRS is now the destination tenure for younger households and those on median and lower incomes who cannot afford to buy. However, average two-bed market rents exceed the LHA by £200 or more per month.

New social lettings in Bristol run at around 2,000 per year, but have been affected by the recent doubling of applications for right to buy and a tripling of sales.

Welfare reform has affected homelessness in Bristol. In addition to the serious issues created by low LHA rates, in April 2017:

- 624 households were affected by the benefits cap
- the total loss in housing benefit reached £2.2 million per year, or an average loss of £3,578 per household
- 96 households have lost all HB (except for 50p per week).

The council expects considerable problems of affordability, tenancy sustainability and access to housing when universal credit rolls out fully from March 2018. Work to mitigate the effects of welfare reform, including DCLG funding for homelessness prevention, has enabled Bristol to:

- work directly with more households on benefit issues
- provide more courses for homeless households to help them manage a future tenancy
- engage in outreach work with PRS households in receipt of benefit.

The council has also set aside grant funding of £59 million to help associations deliver 200 new affordable homes each year up to 2021/22.

3. How are housing associations and local authorities helping to meet these needs?

Until recent years, there was consensus that the principal role of social landlords in housing supply is to make homes available at prices affordable to those on low incomes, especially to those who cannot afford to buy. They do this both by increasing supply and by making available new lettings in existing and new stock.

It has been argued that housing associations now have a wider remit that includes providing homes for those on moderate incomes, including homes for outright sale (usually through subsidiaries). The case is made that:

- associations must be seen to address the government's wider priorities
- the bigger HAs are now property developers in their own right
- they should have a wider customer base, and
- in financial terms, declining government grant means that associations must generate surpluses to enable them to continue to build affordable housing.

Moreover, an increasing number of local authorities are interested in securing a mix of housing development, especially in regeneration schemes. For some, this is due to current over-supply of social rented housing vis-à-vis local demand for other housing products. For others, there is a clear objective of expanding homeownership and/or a quality private rented sector to retain economically active households in the local area and to ensure sustainable communities. For all, there is often the incentive of creating a long-term income stream to partly offset losses of government revenue grant.

There are three key tests of social landlords' output of new affordable housing:

- Are enough homes being built?
- As a result, are more households able to access new lettings?
- Are those lettings at genuinely affordable rents in the context of welfare reform?

We look at these in turn.

New affordable housing

The government has a target of 'delivering 275,000 new affordable homes between 2015 and 2020', or 55,000 per year. This is two-thirds of what is needed (see above). Even then, actual output falls well short of the target, with just over 32,000 affordable completions in 2015/16 and, according to NHF surveys, a similar number in 2016/17.¹⁵ There is also increasing doubt as to whether the outcome of government policies will be genuinely affordable housing, given that (for example) private rented housing at 80% of market rates would count as 'affordable' for planning purposes.

As might be expected, most of the current output is by associations, but around 10% is from councils. About four out of every ten affordable homes also rely on developer contributions¹⁶, agreed when local authorities give planning permission for private housing development. Some of the output also results from the release of council land for affordable housing at less than market price, although statistics on how much are not kept. This includes not just undeveloped land but regeneration schemes.

¹⁵ DCLG Live Table 1000; NHF quarterly surveys of housing association output.

¹⁶ The proportion can be up to 80% in areas where the local authority has little or no land to sell to housing associations

Providing sufficient affordable housing is not therefore solely about housing associations being able to finance new supply; it also depends on a successful relationship between associations and local authorities, with both working to maximise the potential output.

New lettings by social landlords

The supply of new units only helps to meet demand once they are let. These add to the annual total of affordable lettings to new tenants in housing need, which include relets from the existing stock. Across England, new lettings rose to a peak in 2010/11 but have since fallen almost continuously year-on-year, so they are now 9% below what they were a decade ago. In four regions (North East, London, East Midlands, and the North West) the fall has been greater, with new lettings now 15-20% lower than in 2005/06.

New council lettings are now down to only a little more than one-third of their levels 15 years ago, while associations have increased their new lettings by 12% over the same period. Whereas in 2000 local authorities directly controlled two-thirds of all social lettings, now they control just 39%.

The reasons for lettings going down while new supply is going up are complex. The main ones are:

- in any one year, only about 12% of lettings to new tenants are from new build, with the rest being relets from existing tenancies
- existing tenancies are turning over more slowly as tenants who want to leave the sector have more difficulty finding affordable alternatives to social housing
- older rented stock is being lost through right to buy and the government's promised 'one-for-one' replacement of those sold is not working.¹⁷

¹⁷ Only about one in six homes sold over the four years since April 2012 are set to be replaced – a shortfall of almost 40,000 against government commitments. See Wilcox, S. (2017) 'Some reflections from 25 years of the UK Housing Review' in Wilcox, S., Perry, J., Stephens, M. and Williams, P. 2017 UK Housing Review. Coventry: CIH.

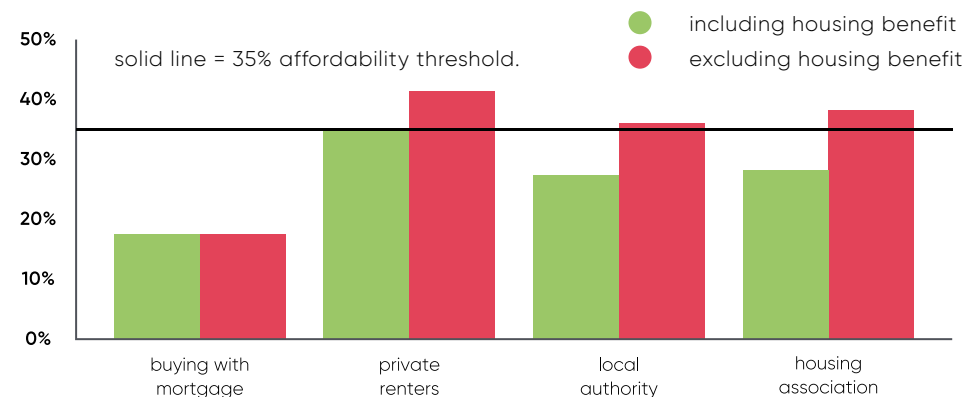
These are issues that can partly be tackled through joint working – reducing churn, incentivising downsizing and setting up chains of moves.

Rents and affordability of new lettings

Another test of effective supply is that the new homes are let at rents that are genuinely affordable. Rent increases in social housing until 2015, and the introduction of 'Affordable Rent' from 2011, mean that this is not a given. While definitions of what is affordable vary (see below), one yardstick is that a household earning an average income is in danger of hardship, rent arrears and getting into debt if their housing costs exceed 30-35% of their income.

Figure A.5 shows housing costs, with and without housing benefit, for owners with a mortgage and for renters from private landlords, councils and housing associations. Social renters on average spend 28% of their income on rents and private renters 35%. Excluding housing benefit, the average rises to 37% for social renters and 41% for private renters.

Figure A.5 Housing costs as a percentage of household income, 2015/16



The housing costs of council and housing association tenants are kept below a 35% affordability threshold by housing benefit, but are nevertheless close to it. Clearly, all tenants are vulnerable to rent increases or benefit cuts, or a combination of the two. Already, the lower overall benefit cap introduced in 2016 means social rent is no longer likely to be affordable for larger families in many parts of the country. With the cuts in housing benefit for universal credit recipients aged 18-21 from April 2017, added to the introduction of the shared accommodation rate for under-35s from April 2019, younger people and single households are also struggling to afford social rents. We explore these issues further in the chapter on rents and affordability.

We distinguish between social rent, Affordable Rent,¹⁸ intermediate rent and market rent. We explain these in the Glossary. However, it is important to recognise that an Affordable Rent is not actually ‘affordable’ in many areas as it has been set in relation to the local market, not local incomes.

These distinctions are even more important as Affordable Rent lettings come to dominate new supply. Already by April 2016 almost 170,000 housing association properties were Affordable Rent lettings, more than half of which resulted from conversions of existing social rented lettings.¹⁹ At the same time, the supply of properties at social rent has fallen by 122,000 in four years, through a combination of changes in government funding priorities, conversions to Affordable Rent lettings, and sales. Affordable Rent lettings now provide more than one in four of all new housing association lettings.

In 2015/16, some 47 per cent of new Affordable Rent general needs lettings went to working tenants, compared with 39 per cent of general needs properties let at social rents, so to some extent the aim appears to have been met. However, the overall proportions of tenants in new lettings who were eligible for housing benefit (70 per cent for Affordable Rent lettings; 69 per cent for social rent lettings) are virtually the same. So, while more tenants in Affordable Rent lettings are in work, the proportions whose incomes qualify them for some benefit support are very similar.²⁰

Our conclusion must be that the social housing system is, at present, falling well short of the challenge to deliver enough sub-market housing or to maintain rents at sufficiently low levels, whether this is against a national assessment such as the one quoted or the government’s more limited target to 2020. Housing associations and councils must work together not only to increase supply, but also meet the challenge of ensuring that it leads to more new lettings at genuinely affordable rents. Without housing association supply, councils are unlikely to meet targets for affordable housing.

4. What challenges do social landlords face in raising their output?

Obviously, to build more homes, social landlords must access the resources they need. While the primary resource is money (whether through grant, or raised through their own income or borrowing against assets), they also need land at affordable prices, planning permissions and a regulatory framework that assists the delivery of affordable housing, including consistent and stable national policies on rents.

All social landlords face obstacles and limitations that prevent them from building as much affordable housing as they would ideally aim to do. Here we look at some of the key factors that hold back development.

¹⁸ Like many in the sector, the authors are obliged to use the government’s term ‘affordable rent’ while recognising that it is misleading. To assist the reader, we call it ‘Affordable Rent’ when we are referring to the government term and use ‘affordable housing’ or ‘genuinely affordable housing’ when we are commenting more widely.

¹⁹ See Wilcox, S. et al (2017) UK Housing Review 2017, Commentary [Chapter 4](#).

²⁰ See Wilcox, S. et al (2017) UK Housing Review 2017, Commentary [Chapter 5](#).

Factors affecting all social landlords

Government investment plans

To meet the challenge of building sufficient homes at affordable rents, social landlords need the support of government. In the past five years, the government has become a massive investor in housing, with programmes growing to more than £40 billion in grants, loans and guarantees over the period to 2020/21. However, some 79% of this is directed towards the private market and home buyers, with the balance of 21% being primarily directed to Affordable Rent and shared ownership schemes. Despite some switch of emphasis in the chancellor's Autumn Statement 2016, there is still an overall decline in affordable housing investment since 2010/11, combined with grant levels falling from an average of over £50,000 per rental unit then to about £25,000 per rental unit now (the average is £33,000 in London, but this will increase as higher grant levels take effect – see above).²¹

These changes have been accompanied by a policy to switch output from social rent to Affordable Rent, so that numbers of social rented homes built with AHP grant have fallen across England from two-thirds of completions in 2010/11 to as low as three per cent in 2016/17.²² Outside London, most social rented homes are now built without grant, via cross-subsidy from other rented stock or from reserves or sales.

In 2015, there was a further policy switch towards shared ownership, partly reversed by some extra funding for rented output in the Autumn Statement 2016. However, such policy switches take time to work through the system, so that (for example) the approved output up to September 2016 under the HCA's share of the current (2016-2021) programme outside London consisted of nearly 40,000 units, none of which are for general needs social or Affordable Rent lettings (although 5,000 are for supported social lettings).²³ However, extra funds announced at the end of 2016 will permit new bids for Affordable Rent units. The GLA's programme in London, which takes account of this extra funding, aims for 90,000 affordable housing starts in the

period to 2016-21.²⁴ The initial allocation of funds supports the building of 17,500 homes for letting at the GLA's 'London Affordable Rent' and 32,000 split between 'London Living Rent' and shared ownership.²⁵

At the time of writing, it is too soon to be certain about the impact on housing investment of the Grenfell Tower fire and the subsequent identification of deficiencies and investment needs in many tower blocks owned by local authorities and housing associations. There are three broad scenarios:

- No government grant (or insufficient grant) for remedial works. Social landlords would have to finance the remedial works from their own resources. The extent to which a 'no grant' solution is viable will also depend on relaxation of other constraints, such as borrowing caps on local authorities and the 1% rent reductions. Any solution that is partly or wholly funded from a landlord's own resources will be a cost to rental income, and inevitably affect the potential to fund other investment, whether new build or in the existing stock, including remaining levels of building for social rent.
- Grant for remedial works is available but is financed from the existing AHP. This outcome would represent a potentially large diversion of funding from new build to renovation. If, as a result, it meant that the rest of the AHP could only cover current commitments, it would undermine the changes made in the Autumn Statement 2016 and the GLA's Homes for Londoners, affecting particularly new build for rent.
- Extra grant is made available to cover 100% of the cost of remedial works. Clearly this is the ideal scenario as it would leave the current AHP intact. However, any shortfall in grant (ie if it is not 100%) will inevitably have an impact on other investment because it will have to be sustained from rental income.

The eventual outcome may not be known until the Autumn Budget 2017, or perhaps even later.

²¹ Wilcox, op.cit, Commentary [Chapter 4](#).

²² DCLG live table 1012.

²³ Wilcox, op.cit. HCA figures are only so far available up to September 2016.

²⁴ GLA (2016) Homes for Londoners Affordable Homes Programme 2016-21 Funding Guidance. London: GLA.

²⁵ See GLA (2017) Mayor strikes deal for 50,000 new affordable homes. Press release, 13 July. London: GLA.

Frequent changes in rents policy

The sector's capacity has been seriously affected by changes in rents policy. CIH drew attention to the effects of changes (in a joint report with L&Q) in 2012, saying that a new policy on rents was required given that the current one was about to expire, Affordable Rent had been introduced, housing benefit cuts were being made and 'pay to stay' was being considered for tenants on higher incomes.²⁶ CIH argued that ad hoc decisions affecting rents and affordability should be replaced by a comprehensive review, with the government aiming to set a long-term social sector rents policy.

Subsequent developments have been summarised by the Institute of Fiscal Studies:²⁷

'Recent policy on social rents displays a worrying lack of consistency. The July 2015 Budget announcement of four years of rent reductions came after just one year of increasing rents by CPI + 1% – a policy that the coalition government had said would apply for 10 years with the stated aim of providing certainty. Rent reductions for existing social tenants also sit awkwardly with the ongoing policy of allowing for substantially higher rents for new social tenancies under the Affordable Rent model. A case can be made for higher or lower social rents. But a lack of stability and clarity of purpose creates unnecessary uncertainty for tenants looking to plan their budgets and it risks undermining the ability of social housing providers to plan their investments...'

By far the biggest change was the imposition of a 1% annual cut in rents for four years starting in April 2016. This will reduce the annual rental income of social landlords by £2.3 billion by 2020/21. The Office for Budget Responsibility has said that, consequently, 14,000 fewer social sector properties will be built by 2020/21.²⁸ Of course, in other respects the rent cuts are a welcome move towards greater affordability. The problem was that they were not accompanied by grant increases or other measures to compensate for the lost income and resulting loss of capacity.

In the Autumn Statement 2016, the government partially recognised this by allocating an extra £1.4 billion for 40,000 additional units for sub-market renting, but this is expected mainly to lead to Affordable Rent (rather than social rented) lettings, except in London. The SHOUT Campaign for Social Housing's report by Capital Economics shows, in an alternative approach, that by investing in 100,000 social rented homes each year the Treasury could save up to £1,000 billion over a 40-year period by slowly shifting the revenue spent on housing benefit (currently £26 billion a year) into capital investment.²⁹

Lack of guidance on affordability

Successive governments have been reluctant to define affordability in any detail. The only current definition is the one that applies for planning purposes. This is essentially based on a range of products, each of which may be affordable to different groups (ranging from those who can afford a starter home at one extreme to those who can only afford social rent on the other). Even then, there appears to be no evidence base for thresholds that are set (for example, that up to 80% of a market rent is 'affordable'). The housing white paper has promised a review of the definition.

Normally, a key method to understand government policy on affordability would be to look at its policy on rents. However, this is problematic. On one hand, government has required landlords to charge higher Affordable Rents for most new build and for some re-let properties, and constrains grant from being used to build dwellings at lower, social rents. This is despite Affordable Rent not actually being 'affordable' in southern England, where the premium above social rent can be one-third to a half.³⁰ On the other hand, the government has started to pull back from 'letting housing benefit take the strain', breaking the historic relationship between social rents and levels of housing benefit. It has enforced annual rent reductions and imposed a range of cuts in benefits.

²⁶ Shimili, L. (2012) Future options for rents and rent setting. Coventry: CIH and L&Q.

²⁷ Adam, S., Chandler, D., Hood, A. and Joyce, R. (2015) Social rents policy: choices and trade-offs. London: IFS.

²⁸ OBR (2015) Economic and Fiscal Outlook, July. London: OBR.

²⁹ Capital Economics (2015) Building new social rent homes: An economic appraisal. London: SHOUT.

³⁰ See Wilcox, S. et al (2017) UK Housing Review 2017, Table 74d.

It has to be admitted that the sector has also largely shied away from defining what level of rent is affordable. The question has a range of possible answers, with a degree of subjectivity involved (for example, in judging what proportion of income it is 'reasonable' to spend on housing costs). A 2012 CIH study on rents and affordability identified four approaches to defining affordability (see Figure A.6).

Figure A.6 Approaches to defining affordability

Affordability measure	Description	Pros	Cons
Rent-to-income ratio	Rent should be no more than 25% of gross income or 35% of disposable income	Easy to use	Does not relate to the actual amounts of money a household needs to live on
Residual income after housing costs	An amount of income that should be available after housing costs as the minimum standard of living	Gives a more realistic measure of rental affordability for low income households	More difficult to work with as requires detailed household income data
Poverty line standard / Budget standard	Levels of disposable income after housing costs should not be below 60% of national median income or 120% of income support levels	Easy to measure as pegged to general incomes	Does not reflect that when general incomes decrease the lowest income households are disproportionately affected by changes in income and get deeper into poverty even though the ratio may stay the same
Minimum income standard	Disposable income after housing costs should be at or above a socially defined level of income needed to participate in society	Promotes a level of income that would allow full inclusion in society, and takes account of increases in consumption prices to reflect when more income is needed to fulfil the same needs	It can be difficult to gain political support for assisting people to achieve residual incomes that are higher than the rent-to-income ratio and the poverty line

Each of these approaches has 'pros' and 'cons' (set out in the diagram). The first approach, setting a rent-to-income ratio is most frequently used. For example, the NHF/JRF report set a target level of a 'living rent' at 28% of average earnings, while Shelter suggests that the level should be 35%. The CIH report, in contrast, favours the second, 'residual income' measure as one that prioritises what disposable income a household would have, in practice, after it has paid its rent. In the absence of national policy, local decisions are needed on how to assess affordability, taking into account local income levels, benefit availability, the need to recover costs and the need to invest.

The effects of welfare reform

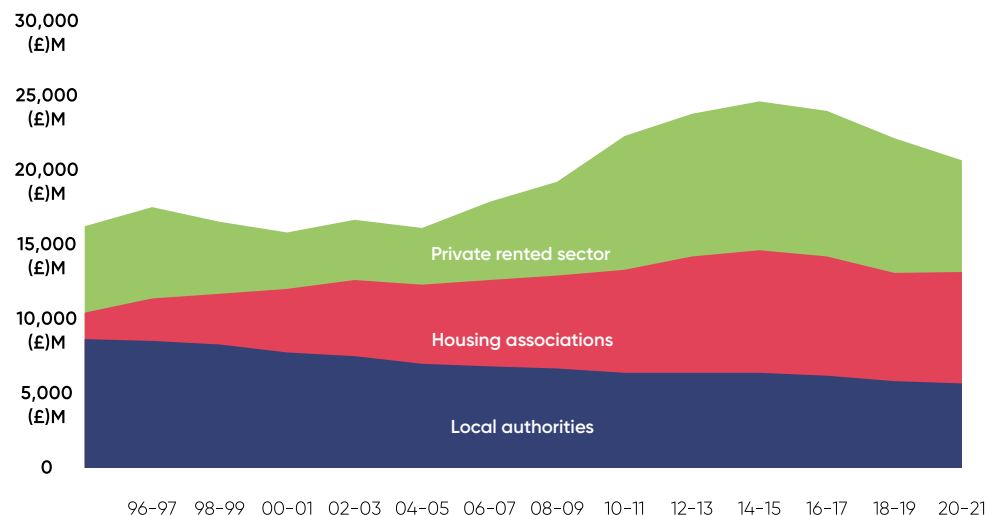
All landlords have been affected by the escalating consequences of welfare reform, with tenants' ability to accept or sustain lettings being affected variously by:

- the bedroom tax
- the reduced benefit cap
- the capping of local housing allowance (LHA) in the PRS (particularly affecting London)
- the severe restriction of housing benefit for 18-21-year-olds under universal credit
- from April 2019, the LHA cap being applied to social sector lettings (including new supported housing), and the application of the shared accommodation rate to under-35s.

The benefit cap will now impact across a very wide geographical spread and even 'average' two- or three-child households living in modestly priced homes are likely to be affected. As more tenants move off housing benefit onto universal credit, the very different payment systems are causing higher levels of rent arrears, which are bound to affect development capacity if they persist.

Although the application of the LHA cap on social rents has been delayed until 2019, the continued uncertainty has had a particularly marked effect on supplies of new supported housing, with schemes being put on hold because of the sector's concerns about the proposed alternative funding arrangements and their short-term nature.

Figure A.7 Forecast levels of housing benefit expenditure



Source: UK Housing Review 2017

Figure A.7 shows that, while expenditure on housing benefit is expected to fall, it will remain at historically high levels in 2020/21. Furthermore, despite the growth in the take-up of benefits by PRS tenants, social sector tenants remain the biggest recipients of housing benefit in cash terms. This suggests that there is likely to be

continued pressure to reduce the housing benefit budget, manifested either through further welfare 'reforms' or suppression of social sector rents, or both.

A return to a coherent policy on rents and affordability?

In the 2017 white paper, the government indicated a willingness to discuss rent policy – possibly signalling an opportunity to restore the longer-term stability that (as argued above) is urgently required. It is essential that any review considers the affordability question and takes proper account of the impacts of welfare reform, particularly given the role of social landlords in housing vulnerable tenants. Furthermore, any review must acknowledge the vital part that that rental income plays in creating sustainable businesses that can invest in both new and existing stock.

Factors affecting housing associations

In addition to the factors noted above, the prime constraint on housing association new build in many areas is the availability of land at prices that facilitate affordable development. Although some housing associations can buy development land on the open market in competition with large developers, many are reliant on a combination of council land, joint ventures, regeneration opportunities and developer contributions. Availability of low-cost council land is clearly limited because few can afford to buy more and some may have an agenda to develop themselves. Joint ventures and regeneration schemes provide opportunities to develop more on local authority sites than a council may be able to do unilaterally or, in some instances, to combine landholdings and increase overall supply. Arrangements of this type have potential for growth and replication.

Developer contributions are a major source of affordable units, often provided on land brought forward by the private sector. They result from 'section 106' agreements (s106), which usually require developers to sell a proportion of new

homes at a discounted rate to housing associations for the provision of affordable housing and/or invest in site-specific infrastructure (eg new roads, drainage, etc) or pay cash to councils to procure the same. Most homes delivered via s106 are now built without any grant funding. However, as we note in [Chapter 3](#), supply via s106 has diminished in recent years and the future of this mechanism is uncertain.

A secure supply of land at realistic prices is a key requirement in maintaining housing associations' contribution to affordable housing supply, whether the source is the open market, land provided by the local authority or on sites that result from developer contributions.

There are other factors that affect housing associations' ability to finance affordable supply. These include the size of their rental income and of their reserves, the cost of raising new debt, the need to make use of their existing assets either through sales or by converting relets from social rents to Affordable Rent, and the availability of grant (which since 2011 has only been available to build new units for Affordable Rent lettings or for low-cost homeownership).

In short, it is ever more the case that an association's ability to invest in new stock (and in maintaining its existing stock) depends on its financial strength. This can create conflict with its own aims of meeting housing need – and friction with local authorities over nomination arrangements – as is explained in [Chapter 4](#).

Factors affecting local authorities

Until 2009 local authorities were only building a few hundred new homes per year, but their output grew to over 3,000 in 2015/16. The main reasons for this were, first, that from 2010 onwards they had proper access to HCA grant, alongside housing associations. Second, from April 2012, the self-financing settlement with the Treasury gave them control over their HRA finances and – within borrowing caps – of

their investment. And third, also from April 2012, they have had more receipts from right to buy sales. Although their contribution is still small compared with housing associations, and (like associations) is about half financed through grant, they have increased their output ten-fold in only six years.

It is not easily possible to assess how much of councils' new build is directed towards lettings at Affordable Rent as opposed to social rent. However, the total stock of Affordable Rent lettings held by councils at April 2016 was some 8,400 (or half of one per cent of their stock), compared with 170,000 held by housing associations (see above – about six per cent of their stock).

However, since April 2012 the self-financing settlement has been progressively undermined via a range of government policy changes, several of which break promises made at the time:

- the right to buy has been 'reinvigorated', leading to increased sales, but with only 30% of the receipts able to be reinvested in new homes and various other restrictions applying
- rental income has been affected by various policy changes, culminating in the cut in rents of 1% annually that began in April 2016
- councils remain under threat of having to sell their 'higher-value' stock from 2017/18 to finance the voluntary right to buy for housing associations, currently being piloted.³¹

Added to these, some councils are severely restricted by the borrowing caps that were imposed as part of the settlement. These different factors have together radically reduced councils' capacity to invest. Many stock-retaining councils have curtailed or even abandoned new build programmes via the HRA, focusing instead on development via Local Housing Companies (LHCs).³²

³¹ For examination of the effects when the policies were announced, see CIH (2015) *Selling off the stock*.

³² For more detail of the effects, see CIH and CIPFA (2016) *Investing in council housing: The impact on HRA*.

These LHCs are either wholly owned by the authority or in some cases are joint ventures with HAs or private developers (which may not be regarded as LHCs by the government). Such companies can build outside the HRA and are not subject to HRA borrowing caps. On the other hand, the costs of development by the company cannot be spread over the pooled rental income from the HRA, which means that they depend on a combination of cheap land, receipts, house sales or market rents to subsidise sub-market units. Over 100 councils have set up such companies so far and more are expected to do so.³³ But clearly the need for sub-market rented dwellings will only very partially be met via LHCs and many will still look to housing associations to provide as much affordable new housing as possible.

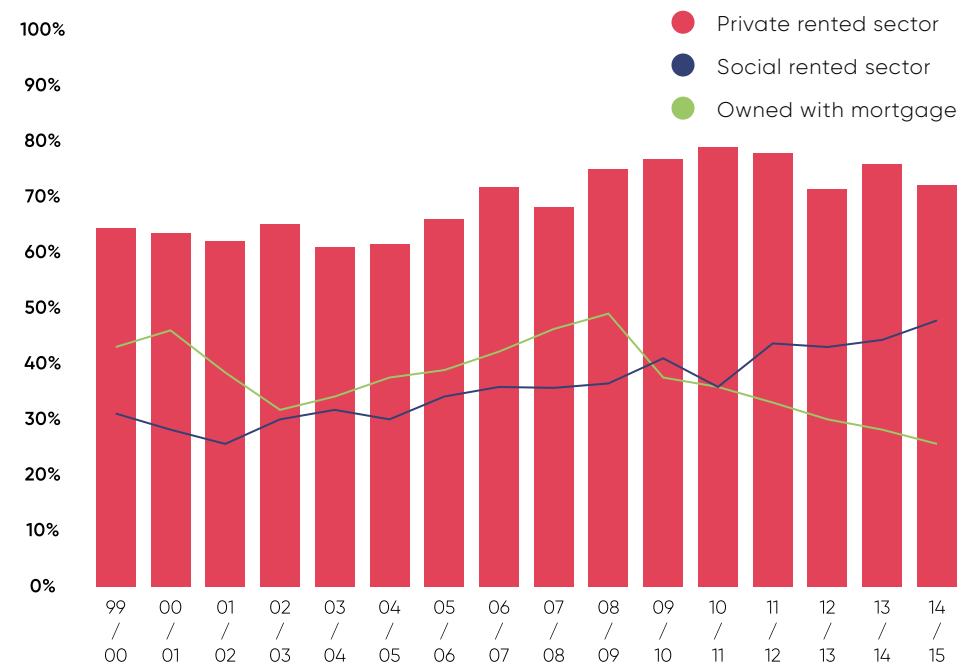
5. What contribution is made by the private rented sector?

The private rented sector has grown rapidly, from only 10% of the housing stock in 2000 to 20% now, housing more households than the social sector. It is particularly important in housing young people. In 2004, 24% of those aged 25-34 lived in the PRS; by 2014 this had risen to 46%. Over the same period, the proportion of 25-34 year-olds buying with a mortgage fell from 54% to 34%. In other words, younger households aged 25-34 are more likely to be renting privately than buying their own home. Over the same decade, levels of younger households in the social rented sector stayed the same.

As well as catering for those on average incomes and above, the past few years have seen a marked shift towards poorer households living in the PRS. Whereas at the turn of the century, for every poor household in the private rented sector three lived in social housing, now almost equal numbers live in private renting, social housing, and owner occupation.

However, because private rents are on average twice the level of housing association rents, more low-income households face high housing costs in the PRS than in the social sector: 73% of the poorest one-fifth of households living in the PRS spend more than one third of their income on housing. This compares with 48% for those in the equivalent group in social housing and 27% for in owner-occupiers (Figure A.8). On top of this, of course, they face more insecurity: some 40% of PRS households have been at their current address for less than 12 months.³⁴

Figure A.8 Proportion of poorest fifth of households facing high housing costs



Source: Resolution Foundation

³³ APSE (2017) Building homes, creating communities. London: APSE.

³⁴ www.cih.org/news-article/display/vp/pathDCR/templatedata/cih/news-article/data/Growth_of_private_sector_renting_and_poverty_closely_linked

High housing costs in the PRS are not a recent phenomenon. That 73% compares with more than 60% around 15 years ago (the top line in the chart). So, while high costs and unaffordability are worse in the private rented sector than they were in the early 2000s, poor people have always fared worse in the PRS than in the other sectors.

About a quarter of private tenants (1.2 million households) receive housing benefit (local housing allowance, or LHA) to help pay their rent. LHA is already below market rent levels, and from April 2016 there is a four-year freeze on LHA rates. Over the period to 2021, tenants therefore face the combined effects of frozen LHA amounts and cuts to other working-age benefits, now accompanied by the prospect of higher inflation. This is expected to reduce the value of those benefits by 6%, and housing benefit will often no longer cover rent increases faced by low-income private renters. In fact, real incomes are projected to fall between 2014–15 and 2021–22 for the poorest 15% of households, on average, after they have paid their housing costs.³⁵

This puts poorer households in a difficult situation. Despite the current limitations of the PRS in terms of short-term tenancies, unpredictable rent rises and the need for a deposit, poor households increasingly have to rely on it because there are insufficient options in other sectors. And because social rents have risen and new social lettings have fallen in number (see above), social housing provides less of a safe refuge for those low-income families who do access it than it did 15 years ago.

Despite these problems, social landlords increasingly recognise the importance of affordable, secure, and well-managed PRS lettings as a crucial contribution to increasing local supply (including provision of temporary accommodation for homeless households). Consequently, they are intervening in the PRS to try to shape it into a product suitable for those on lower incomes. An increasing number of social landlords are (sometimes in partnership) setting up management vehicles or special purpose vehicles to procure supply from PRS landlords and to let it at rents that are either below the LHA cap or, if not, at least at levels far cheaper than otherwise available locally. This can also provide an income to LAs to help offset cuts in revenue grant.

³⁵ IFS (2017) Living standards, poverty and inequality in the UK: 2016–17 to 2021–22.

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