



**All Party Urban Development Group**  
promoting sustainable development and urban renewal

# Delivering urban homes

The role of the public and private sector



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**A report delivered by the officers**

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## About the All Party Urban Development Group

The All Party Parliamentary Urban Development Group (APUDG) is a cross-party Parliamentary body of MPs and Peers committed to progressing urban renewal and sustainable development in the UK.

The group was formed to raise the profile and understanding within Parliament of the urban regeneration process and the role that can be played by the private sector, particularly the property investment community.

The group's remit is to take a holistic approach in the examination of all the constituent elements that bring about truly sustainable communities, and to review policies that will increase the quality and pace of urban renewal and sustainable development nationally.

## About this report

This report looks at what needs to be done - by both the public and private sectors - to deliver an improved and enhanced urban housing offer. It focuses on three key delivery issues: institutional reform (focusing on the Homes and Communities Agency), local delivery vehicles and housing management. In particular, it examines the potential for greater private sector investment and a stronger private rented sector in the UK residential market.

The report draws on a range of evidence, including:

- A formal inquiry session, held in the House of Commons on 3 December 2007. A full transcript of the session, including testimony from a range of public and private sector witnesses, can be found on the APUDG website: [www.allparty-urbandevelopment.org.uk](http://www.allparty-urbandevelopment.org.uk).

- Written submissions, to the APUDG from a range of key stakeholders. These were received from 15 groups, including private sector developers, property consultants, urban regeneration companies, regional assemblies, and other public agencies.
- Semi-structured interviews, with 12 stakeholders, including representatives of central and local Government, the private rented sector and property developers, conducted on behalf of the APUDG by Catherine Glossop and Max Nathan at the Centre for Cities.
- Desk-based research, conducted on behalf of the APUDG by Catherine Glossop at the Centre for Cities.

## Acknowledgements

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Thanks are also due to all who took part in the interview process, submitted written evidence, and especially to the witnesses who volunteered to testify before the inquiry. A list of witnesses, interviewees and organisations that submitted written evidence can be found at the end of this report.

## Further information

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# CONTENTS

Executive Summary	4
Introduction	6
Section 1: Understanding the housing policy context	7
Section 2: Case studies: housing challenges for the north and the south	12
Section 3: The urban housing offer – key delivery challenges	16
Section 4: Conclusions and recommendations	23
References	26
Annex 1: Local delivery vehicles: guidance for cities	28
Annex 2: Acknowledgements	30

# EXECUTIVE SUMMARY

The present policy focus on numerical housing targets needs to be supported by policy initiatives that enable practical delivery on the ground. Research undertaken by the All Party Urban Development Group (APUDG) finds significant practical barriers to delivering an enhanced and improved urban housing offer, with barriers varying from place to place. Unless these challenges are addressed, the Government is unlikely to achieve the aspirations espoused in the Housing Green Paper, largely because towns and cities will not have the capacity to deliver the type of housing offer that is required.

This APUDG report examines three key delivery issues that need to be addressed in order to deliver a better urban housing offer: institutional reform (focusing on the Homes and Communities Agency), new local delivery vehicles and housing management. Reflecting on perceptions gathered from a range of stakeholders, this report looks at the barriers facing central Government, local Government and key private sector players and makes clear recommendations for change.

The officers of the APUDG, together with the secretariat, have deliberated extensively and have identified the following recommendations:

## **The Homes and Communities Agency**

### **Recommendation 1: the Homes and Communities Agency will need to deliver locally specific housing solutions - not a national programme**

There is a risk that the Homes and Communities Agency (HCA) will 'nationalise' housing delivery and deliver the wrong type of homes in the wrong places. In the south east, the HCA will need to concentrate its efforts on addressing the challenges that growth creates. In parts of the north, the HCA will need to carefully tailor the offer to complement local housing market conditions and link this to regeneration of the wider area.

### **Recommendation 2: the HCA has a key role to play as a 'ringmaster' and 'expert adviser' to support local housing growth**

The HCA should support local authorities and help them fulfil their new role in delivering the urban housing offer - building local capacity by facilitating working partnerships and sharing expertise across local authority boundaries. The HCA therefore has a crucial role to play as 'ringmaster' to create an environment in which all partners can work successfully together, and as an 'expert adviser' where additional support is required.

### **Recommendation 3: the HCA has an important role to play in joining up delivery across the Thames Gateway**

Ensuring the success of the Thames Gateway project should be a key priority for the HCA. There is a clear role for the HCA to manage the delivery chain, speed up housing delivery and oversee the design and implementation of local delivery vehicles - ensuring sufficient land is brought forward and that the housing offer meets local need. Nevertheless, care needs to be taken that the Gateway does not subsume all of the HCA's capacity.

### **Recommendation 4: until the HCA is in place, existing institutions need to sustain delivery momentum**

The HCA will not be in place until April 2009, at the earliest, and this has the potential to create a period of uncertainty. Government and existing institutions will need to ensure that interim delivery arrangements are sufficiently robust to guard against delivery drift.



*'This report looks at the barriers facing central Government, local Government and key private sector players and makes clear recommendations for change.'*

## **Local delivery vehicles**

### **Recommendation 5: local delivery vehicles will not be viable everywhere**

Different towns and cities face different barriers to delivering an urban housing offer. New local delivery vehicles will work well in some areas, but not in others. If it is not clear what added value a new delivery vehicle will bring, cities should not expend resources entering into one. In areas where delivery vehicles are not viable, the Government will need to give greater thought to what other tools will be required.

### **Recommendation 6: the Government needs to provide a more flexible framework for local housing companies**

The type of urban housing required varies between towns and cities. Guidance issued by English Partnerships to local authorities interested in establishing local housing companies requires a 50% minimum affordable housing target. In parts of London and the south east, this target may be necessary if demand is to be met. In Manchester and other northern urban areas however, a target of 20% may be more appropriate.

## **Housing management**

### **Recommendation 7: manage places, not individual properties**

Local authorities and private sector partners need to move away from managing individual properties and move towards a more comprehensive understanding of managing places. The Government should provide guidance regarding the optimal structures, but ultimately it will be up to local authorities and their private sector partners to raise management standards and to innovate.

### **Recommendation 8: incentivise long term private sector investment in residential property and the development of a strong private rented sector**

If the private rented sector is to be developed as a genuine alternative to affordable housing and housing for private sale, a longer term investment perspective will be required. Options include: revisiting the real estate investment trust (REIT) model; equity shares in management companies; and the use of leasehold disposals, recycling profits back into the local area. A stronger professional private rented sector could provide both affordable new housing and better long term management - both of which are critical ingredients in strong urban housing markets. It is hoped that these issues will be discussed in the Government commissioned review of the private rented sector (Rugg and Rhodes, forthcoming 2008).

# INTRODUCTION

Since his arrival at Number 10, Gordon Brown has transformed housing into a major political priority. The subsequent Housing Green Paper has raised the Government's ambitions dramatically, while the 2007/08 Housing and Regeneration Bill was developed to drive forward the commitment to deliver three million new homes by 2020.

However, the focus on numerical housing targets has obscured another critical issue - the practical difficulties encountered by both public and private sector players working to deliver an expanded and improved urban housing offer. These vary from place to place, with northern cities and industrial towns facing different challenges to urban areas in the greater south east.

This report examines these delivery barriers, using the perceptions of a range of public and private sector stakeholders. It goes on to suggest policy changes affecting central Government, local Government and key private sector players. The focus is on three key delivery issues: institutional reform (focusing on the Homes and Communities Agency), new delivery vehicles and housing management.

This report finds that much remains to be done if the public and private sector are to work effectively together to deliver the type of housing offer our towns and cities require. In particular:

- institutional reform, principally the Homes and Communities Agency, will need to be responsive to the varying needs of different places;
- effective working relations between local public and private sector partners will be fundamental to successful delivery, but measures should be in place to provide delivery support in towns and cities where capacity is more limited; and

- stronger incentives also need to be made available to lever greater private sector investment in housing and its long term management. If this can be achieved, the private rented sector could play a much bigger role in relieving pressure on supply.

The APUDG has considered these issues in detail. The remainder of the report sets out the evidence from stakeholders and the formal inquiry session, the group's thinking and recommendations for change.

The report has four sections:

- section 1 sets out the policy framework and initiatives that govern the delivery of the urban housing offer;
- section 2 examines the housing challenges for the north and the south;
- section 3 takes a closer look at three key delivery challenges: institutional reform, local delivery vehicles and the private sector's role in housing management; and
- section 4 sets out the APUDG's conclusions and recommendations to central Government, local councils and private sector partners.



# Section 1

## Understanding the housing policy context

The Government has embarked on a thorough review of the housing delivery chain - from the Barker Review of Housing Supply to the Callcutt Review of Housebuilding Delivery. This section of the report sets out the key

policy frameworks and initiatives that affect our cities' housing offer: housing policy, the planning system and wider economic development initiatives. The key documents and strategies are set out in Box 1.

### Box 1: Housing policy

#### Housing

Sustainable Communities Plan (2003) - the plan aims to tackle housing supply issues in the south east, low demand in other parts of the country, bring all homes up to the Decent Homes Standard by 2010, protect the countryside and improve the quality of public space.

Growth Areas - the Sustainable Communities Plan announced the designation of four Growth Areas: the Thames Gateway, Milton Keynes - South Midlands, London-Stansted-Cambridge-Peterborough, and Ashford. Combined with London, the aim is for these areas to 'sustainably' provide 200,000 additional homes above previously planned levels by 2016. Barker Review of Housing Supply (2004) - Barker was commissioned by HM Treasury to examine housing supply. The review sets out a range of policy recommendations for improving the functioning of the housing market.

Housing Market Renewal Evaluation (2007) - the National Audit Office examined the Government's programme of housing market renewal, and established to tackle low demand for housing. Although it is too early to judge the success of the programme, which is expected to run for a further ten years, the report concludes that low demand is now less severe in the nine pathfinder areas. However, the extent to which the pathfinder intervention led to improvement is unclear.

Housing and Regeneration Bill (2007/08) - establishes the Homes and Communities Agency, to oversee housing delivery, and a new social housing regulator, the Office for Tenants and Social Landlords (Oftenant), to replace the Housing Corporation's regulatory function. The bill will also give local players more freedom to play a direct role in affordable housing provision.

HMT Review of Infrastructure Supporting Housing Growth (2007) - looks at infrastructure provision for housing growth. The findings were fed into the 2007 Comprehensive Spending Review.

Callcutt Review of Housebuilding Delivery (2007) - was established by Gordon Brown in late 2006 to look at the role of the house building industry, and how this shapes the nature and supply of new homes in England. The review identified measures that could improve the supply of housing and it informed the Housing and Regeneration Bill.

OFT Review of the House Building Industry (forthcoming 2008) - will look at how competition and the planning system affect the supply of new homes, and homebuyers' levels of satisfaction with new housing.

Independent review of the private rented sector (2008) - will look at the impact of the increase in buy-to-let and student tenancy on the private rented sector, the quality of homes and who the users of the sector are. It will also examine the impact of demographic and social change on future demand and supply. The industry has high hopes that the review will look into ways of raising levels of professional investment over the long term, by creating a more favourable investment environment (such as reforming stamp duty).

*'Although complex, the new policy framework delivers greater clarity on the Government's strategic house building agenda.'*

## Box 1 continued

### Planning

Planning Policy Statement 3 (PPS3) Housing (2006) - sets out the national planning policy framework for delivering the Government's housing objectives. PPS3 reflects the Government's commitment to improving the affordability and supply of housing and highlights the need for a more responsive approach to land supply at the local level.

Barker Review of Planning (2006) - is an independent review of land use planning, focusing on the link between planning and economic growth. The review sets out a series of recommendations to speed up England's planning system, to provide the land supply needed for economic growth and to meet housing needs.

Planning White Paper (2007) - sets out detailed proposals for reform of the planning system, building on Kate Barker's recommendations for improving the speed, responsiveness and efficiency in land use planning. It also contains proposals to speed up major infrastructure planning to support housing growth.

Planning Bill (2007/08) - builds on the consultation of the Planning White Paper and takes forward proposals for reform, with measures to streamline the planning system, including the establishment of the Infrastructure Planning Commission to speed up decisions on larger infrastructure projects. The bill also gives councils more freedom to make their own planning decisions and helps to fund the infrastructure they require through imposing a new planning charge, the Community Infrastructure Levy, on development in their area.

### Economic development and governance

Local Government White Paper (2006) - aims to create 'strong, prosperous communities' and deliver better public services through devolving more power and responsibility to local Government and the communities themselves. The white paper sets out a reduction in national targets, increases local accountability and puts in place new measures to ensure local services are more responsive to their communities.

Sub-National Review of Economic Development and Regeneration (2007) - considers how to strengthen economic performance in regions, cities and localities and how to respond more effectively to tackling pockets of deprivation. The review outlines the Government's plans to refocus power and responsibility, devolve more power to local Government and RDAs, encourage local authorities to work together more effectively and sharpen the focus of central Government departments to provide better support.

### The Housing Green Paper and related policy developments

The 2007 Housing Green Paper is at the heart of the Government's new thinking on housing policy (CLG). The paper proposes a further rise in house building:

two million new homes by 2016, and three million by 2020 - in addition to three billion pounds for affordable housing between 2008 and 2010.

New building will be largely in the greater south east, although northern towns and cities can, for the first



*'The key outstanding issues are around delivery.'*

time, bid for a second round of New Growth Points (CLG, 2007). Growth Areas and New Growth Points are a crucial part of the Government's ambition to increase levels of housing supply. The New Growth Points initiative is designed to provide support to local communities that wish to pursue large scale and sustainable housing growth outside of the Growth Areas, through a partnership with the Government.

Northern towns and cities will also be able to bid for the new Eco-Towns initiative, which will create new settlements, of between 5,000 and 20,000 homes, intended to meet the highest sustainability standards. The Government has recently doubled the proposed number of Eco-Towns from five to ten, with at least one in every English region. The green paper also announced that the housing market renewal programme will be refocused to concentrate on the areas with the greatest structural problems. Despite speculation, the Government has continued to emphasise the importance of the programme and in October 2007 stated its intention to commit a further one billion pounds over 2008-11.

The Housing Green Paper has also given local Government a more strategic role in planning and delivering housing. Local incentives have been changed to promote increased housing supply. Key proposals taken forward include:

- local housing companies: joint venture companies for local authorities, working with private sector partners, to develop public land for affordable housing. Each will provide around 1,000 new homes with a minimum of 50% affordable housing provision;
- retaining council house rents: where local authorities directly finance affordable housing, they will be able to keep the rents and reinvest any surplus into further housing provision;

- Housing and Planning Delivery Grant: a £500 million fund to be used to reward pro-growth authorities, and withheld from local authorities that turn down new developments;
- planning inspection: inspectors are more likely to overturn council decisions against new housing growth;
- housing management: the green paper encourages social landlords to seek new approaches to housing management, with a view to delivering higher quality stock; and, critically,
- English Partnerships, the Housing Corporation's investment function and parts of CLG will become the HCA, which will oversee delivery of new housing and communities from April 2009. The HCA will play an important role providing advice, financial support and technical assistance to local authorities.

The 2007/08 Housing and Regeneration Bill builds on the consultation of the Housing Green Paper and represents an important step towards bringing housing and regeneration closer together. The bill legislates for the creation of the HCA, with planning and compulsory purchase powers, to oversee affordable housing provision. It also gives local players more freedom to play a direct role in affordable housing provision. Some councils will be able to opt out of the Housing Revenue Account system and keep the rents from the new council houses they build, to be recycled back into provision, while red tape will be reduced for the best performing housing associations to allow them to concentrate on new housebuilding. The bill also establishes a firmer stand on housing management, introducing a new independent social housing regulator, Oftenant. The new regulator is expected to be more tenant focused as per the recommendations of the Cave Review (2007), with a stronger suite of powers to intervene and drive up standards. In addition, local authorities are given new powers to tackle antisocial tenants.

The slow and unresponsive planning system is often cited as one of the major causes of delay in the provision of housing and supporting infrastructure. The 2007/08 Planning Bill sets out reforms to streamline the planning system and is expected to enable more timely and predictable decisions on infrastructure projects. The bill establishes the Infrastructure Planning Commission to speed up the planning process for the delivery of major infrastructure. Councils are also given more freedom to make their own planning decisions and to help fund supporting infrastructure developments through fixed planning charges - the Community Infrastructure Levy - on new development in their area. The levy is to sit alongside existing Section 106 agreements and represents a concrete step towards financial devolution. It is hoped that these reforms will help housing to be delivered more quickly and will give private sector developers greater confidence to invest.

Looking forward over the longer term, the Department for Communities and Local Government (CLG) and other departments are taking forward proposals from the Sub-National Review of Regeneration and Economic Development (HMT et al, 2007). The review provides regions, and cities, with potentially powerful new place shaping tools, and new flexibilities to plan local housing in particular. At the regional level, the review proposes phasing out regional assemblies from 2010. Regional Development Agencies (RDAs) will take over spatial planning and housing strategies, as part of setting a single integrated strategy for their region. At the local level, cities are encouraged to band together as city-regions, or sub-regions, working through multi area agreements, and to take forward the place shaping role envisaged in the Local Government White Paper (CLG, 2006).

### **Policy evaluation reveals weaknesses in delivery mechanisms**

Although complex, the new policy framework delivers greater clarity on the Government's strategic house building agenda. The key outstanding issues are around delivery. The Housing Green Paper and recent policy developments have set out clearly how much new housing the Government would like to see and the preferred building locations, but it is much less clear on how this is going to happen, specifically, how new funding streams, delivery tools and agencies will operate.

More broadly, private sector stakeholders interviewed during the course of this inquiry are clear that the local planning system still has to speed up and make land available faster. By contrast, the public sector view is that developers and builders should increase building rates.

For Whitehall, the ongoing challenge will be to manage the tension between the national goals espoused in the green paper, and the need to give local Government the right tools and sufficient financial freedom to deliver housing that fits local market needs. The key institutions involved in delivery are set out below.

#### **Box 2: The institutional landscape**

Department for Communities and Local Government (CLG) - is responsible for the coordination of national housing, building regulations and planning in England. Many of its functions are carried out by separate agencies, which will soon be taken over by the Homes and Communities Agency.



*'For Whitehall, the ongoing challenge will be to manage the tension between the national goals espoused in the green paper, and the need to give local Government the right tools and sufficient financial freedom to deliver housing that fits local market needs.'*

## Box 2 continued

### **New agencies:**

Homes and Communities Agency (HCA) - the new HCA, part of CLG, is expected to form in April 2009 to take over the role formerly carried out by English Partnerships, the investment function of the Housing Corporation and some of CLG's regeneration and housing delivery functions. The HCA will for the first time bring together responsibility for land and money to improve the supply, quality and affordability of housing (including responsibility for shared ownership deals), community facilities, infrastructure and, more broadly, to secure the regeneration of land. It is also expected to work with local councils on some of the ten new Eco-Towns.

Office for Tenants and Social Landlords (Oftenant) - the Housing and Regeneration Bill (2007/08) establishes a new social housing regulator, 'Oftenant', to replace the Housing Corporation. The regulator will reduce red tape for high performance housing associations (less paperwork and no routine inspections), allowing them to concentrate on building new housing. Oftenant will also have new powers to step in and penalise landlords that are not giving a good service, such as not doing repairs.

National Tenants Organisation - proposed in the Cave Review to give social housing tenants both a voice and expertise at the national level. Its role (subject to consultation) is to: research tenant related issues and evaluate the impact of policies and practice; represent tenant interests; promote good practice and support national tenant representative organisations. In addition, the requirement for registered landlords to operate as a not-for-profit organisation is likely to be re-examined, after increasing pressure from various groups.

### **Agencies they will be replacing:**

Housing Corporation - the national agency responsible for funding new affordable housing and for regulating housing associations. The Housing Corporation has a dedicated Centre for Research and Market Intelligence with the remit to produce quality research, analysis, innovation and good practice.

English Partnerships - the national regeneration agency. Key areas of responsibility include: identifying strategic sites for development; providing advice on brownfield sites; ensuring surplus public land is used to support the Sustainable Communities Plan; and helping to create communities where people can afford, and want, to live.

### **Other Government agencies:**

Commission for Architecture and the Built Environment (CABE) - advises the Government, house builders, designers, architects and others on urban landscape, building design, and public space. CABE's mission is to increase people's quality of life through the use of good design standards, including the design of housing schemes.

National Housing and Planning Advice Unit (NHPAU) - was established in response to Kate Barker's Review of Housing Supply (2004). The NHPAU provides expert independent advice to Government and the regions on addressing long term market affordability and housing supply, and on the implications for the level and broad distribution of future house building. It is an independent body accountable to Parliament and sponsored by CLG.

## Section 2

### Case studies: housing challenges for the north and the south

The Housing Green Paper argues that England's key housing challenges are to increase supply and affordability across the country (CLG, 2007). In almost every region, household growth is expected to outstrip current levels of housing supply, and the north-south affordability gap is starting to close (Wilcox, 2007). Furthermore, recent analysis by the NHPAU (2007) shows that the Government's new housing targets will need to be increased further if the affordability gap is not to significantly worsen. Both north and south need more mixed communities, better quality and environmentally friendly housing, with improved infrastructure delivery to support growth.

However, the 2003 Sustainable Communities Plan laid out two distinct housing strategies - supporting growth in the south, and regeneration in the north (ODPM, 2003). Stakeholders interviewed during this inquiry offered some support for a growing convergence between the housing challenges being faced in different parts of the country. One housing expert said, "10 years ago there was seen to be a massive divergence in terms of the north-south housing market challenges being faced. They have equalised to a degree but not to the extent that all the places are the same."

Nevertheless, it is clear that local needs and priorities vary. The crude labels, 'north' and 'south', mask a wide variety of related, but distinct, housing challenges between, as well as within, regions. A better understanding of the intra-regional and inter-regional housing market dynamics is required. Research conducted for this report finds that simply increasing supply will not be the answer across the country.

Without this more nuanced view, there is a risk of nationalising housing delivery. At its starkest, in the greater south east the broad priority is still how to address the particular challenges that growth creates. In many parts of the north, meanwhile, a remodelling of the housing offer is often required, where the challenges are to deal with remaining areas of deep seated deprivation, and to bring together new housing and wider area regeneration initiatives.

The case studies below illustrate the housing market challenges and how these are being addressed in two distinct areas: Ebbsfleet in the Thames Gateway ('south') and New Islington in East Manchester ('north').

#### Box 3: Ebbsfleet Valley, Thames Gateway ('south')

The Ebbsfleet Valley encompasses 420 hectares of brownfield land, is located between the north Kent communities of Swanscombe and Northfleet, and falls within the local authority areas of Dartford and Gravesham.

Ebbsfleet Valley is one of the Thames Gateway redevelopment zones designated as having potential to act as a catalyst for the regeneration and growth of the area, helping to alleviate some of the growth pressures on London and the south east. The main housing problems faced in the Ebbsfleet area have been an undersupply of stock and affordability issues.

Over the next twenty years a mixed use community will be developed, comprising up to 10,000 new homes and approximately 400 acres of open space, lakes and parkland. There will be a business district of about 5.51 million square feet of commercial space, as well as retail, leisure and community facilities, with 20,000 new jobs expected.



## Box 3 continued

### Delivering the housing offer

Delivery in the Thames Gateway is being led by a plethora of partnerships and organisations, including the Thames Gateway Development Corporation and the Kent Thameside Delivery Board, which is responsible for Ebbsfleet and contains members from all the local regeneration partnerships in the Kent area, including Dartford and Gravesham Borough Councils. Kent County Council, Dartford and Gravesham Borough Councils, CLG (which sponsors the regeneration partnerships and funds some key projects), and the Department for Transport (which provides funding for transport), all have a role in the decision making process. Several agencies are also involved, including the South East England Development Agency (SEEDA), the Government Office for the South East (GOSE), the Dartford Gravesham and Swanley Primary Care Trust, and the Highways Agency. Private sector stakeholders are far fewer in number and include Land Securities (the land owners, who are the appointed developers at Ebbsfleet), National Grid (which owns part of the Ebbsfleet Valley), and Countryside Properties (which has been appointed by Land Securities as a partner developer for the first phase at Springhead).

### Key issues:

- **Development layout and regeneration:** negotiations are currently taking place between public and private sector partners to ensure high quality housing design, optimal layout of open space and the provision of community facilities to help address emerging quantity/quality tensions. A new business district is being developed around Ebbsfleet international railway station, on the Channel Tunnel Rail Link, where the focus is on providing jobs and training for local people. In the words of one private sector stakeholder, "this is a fantastic opportunity...the first time a site has been developed where the infrastructure has been there first."
- **Funding supporting infrastructure:** although there remain significant funding shortfalls (for example, funding additional road capacity and supporting community facilities), some of these challenges are being overcome locally and collectively through local partners working with private sector developers. Existing developments have been subject to Section 106 contributions, which are financing supporting infrastructure. In addition, a fixed planning charge (the 'Ebbsfleet tariff') has been successfully designed to front fund road expansion in line with the rising population. The tariff involves Department for Transport (DfT) and CLG putting forward £74 million, Land Securities has put forward £40 million to cover properties in the Eastern Quarry and there will be a £5,000 tariff on all houses that do not yet have planning permission. However, despite these developments, there is still uncertainty over whether there is enough money available to fund the necessary additional infrastructure.
- **Housing mix:** while progress is being made, there are concerns over the number of one and two bedroom flats, with particular concerns over affordability issues and the lack of planned social rented housing. There are fears that if the layout of the housing development is not managed properly, it could fail to integrate different housing types and tenure, and not create the mixed communities desired by the Government.

#### **Box 4: New Islington, East Manchester ('north')**

New Islington, located in Ancoats, East Manchester, is a 29 acre site chosen as the location for the third Millennium Community in 2001. This initiative was part of English Partnerships' national programme, established to pioneer new forms of sustainable development.

The area previously suffered from de-industrialisation and de-population, high rates of crime and antisocial behaviour exacerbated by a lack of connectivity within the city centre. Taken together, these factors resulted in low investor confidence (Canniffe and Stone, 2007). The challenge is to address these wider causes of housing market failure and kick start a new 'city edge' market - through focusing not only on housing, but place-making, and attracting new residents into the area, including higher income groups (SDC, 2006a).

Development plans include the provision of 1,700 new homes, new waterways, community facilities (including a primary school, crèche and health centre), new urban amenities and one million square feet of park and gardens.

#### **Delivering the housing offer**

Delivery is being led by Manchester City Council (which has donated the bulk of the land), English Partnerships (forward funded £18.5 million to pay for demolition, remodelling and remediation, in addition to the infrastructure to support the development), and Urban Splash (the lead developers and dominant investors who expect to invest £200 million). A strategic regeneration framework has been developed to present future thinking and boost investor confidence, with regeneration of the area led by the urban regeneration company, New East Manchester.

#### **Key issues:**

- **Development layout and regeneration:** planning the layout has been a priority, with substantial input from the community, while adhering to the principles of sustainable development, including designing out crime, ensuring high quality open space and creating a distinct character for each individual development. Design is being used to raise confidence and help New Islington break away from its industrial past. Working with New East Manchester, efforts are being made to integrate housing within the context of wider economic regeneration, which will include the establishment of a city academy nearby to equip residents with the skills to access the construction job opportunities arising from new developments.
- **Funding supporting infrastructure:** effective relationships between the public and private sector have resulted in the use of innovative delivery vehicles - including public private partnership (PPP) models such as the Manchester, Salford and Trafford NHS Local Improvement Finance Trust (MaST LIFT), which has funded a health care centre.
- **Housing mix:** efforts are being made to mix both housing type and tenure. Development, to date, includes a proportion of social housing provision and units set aside for shared equity. However, the overall proportion of affordable housing provision is likely to be small, with the majority of housing for open market sale.



*'...delivery arrangements will need to be flexible and responsive to geographical nuances.'*

The adjacent case studies illustrate the different challenges in different parts of the country. If delivery arrangements are to address these issues, they will need to be flexible and responsive to these geographical nuances.

In Ebbsfleet the onus is on housing supply numbers, affordability issues and ensuring timely infrastructure provision to support housing growth. There may be a potential role for the HCA to simplify the current plethora of partnership arrangements currently overseeing delivery across the Gateway. There may also be a role for local delivery vehicles to help release public land and address reported shortfalls in social housing provision<sup>1</sup>.

By contrast, in New Islington the emphasis is on quality of place, raising confidence in the area and attracting higher income groups. The HCA may need to facilitate further private sector investment and kick start economic and physical regeneration. Key to attracting and retaining high income groups will be long term private investment in managing communities, housing and the wider public realm. However, local delivery vehicles such as local housing companies, may have less viability.

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<sup>1</sup> A local delivery vehicle is currently being piloted in Barking and Dagenham. Stakeholders are keen to see how this develops, as the success of this vehicle is likely to influence the adoption of similar models across the Gateway.

# Section 3

## The urban housing offer – key delivery challenges

Ebbsfleet and New Islington demonstrate how housing objectives and delivery tools can vary from place to place. This section builds on the above analysis by bringing together a range of evidence from stakeholder interviews, the formal inquiry session and written submissions, to take a closer look at some of the key challenges to delivering an improved and enhanced urban housing offer. The focus is on the role of institutional reform (in particular, the Homes and Communities Agency), new local delivery vehicles and stronger housing management.

### A) Institutional reform – helping cities to deliver

#### Local Government

Central Government has repositioned local Government by giving councils a direct role in delivering future housing supply, with new freedoms and tools to do so. There are two elements to this:

- The Lyons Review, Local Government White Paper and Sub-National Review of Economic Development and Regeneration set out a clear place-shaping mission for local Government; and
- The Housing Green Paper and Housing and Regeneration Bill set out new housing related initiatives and tools – New Growth Points, Eco-Towns, local housing companies, Community Infrastructure Levy and the freedom to retain receipts from new house building undertaken directly by councils.

Stakeholders interviewed as part of this inquiry were clear that place-shaping should include housing and the wider neighbourhood offer, but that to work effectively across housing markets, local authorities would need to work at the city-regional level and include housing goals in multi area agreements. The decision to enable local authorities

to keep capital and rent receipts from the housing they build was also supported, as long as a share of this went towards the provision of new affordable housing.

Stakeholders felt that these developments signalled a more devolutionary approach to central Government's relationship with local Government, but were uncertain whether the new freedoms and tools would be enough to deliver more and better housing in cities. Private sector stakeholders warned that local authorities' capacity to use the new freedoms and tools was highly variable. Some developers were clear that they carefully selected public sector partners and were unwilling to work with local authorities that they viewed as ineffective. Smaller local authorities – with small teams and limited experience – were identified as the most likely to need external support.

#### The Homes and Communities Agency

Stakeholders welcomed plans for merging English Partnerships with the Housing Corporation's investment function. Most felt that the HCA would have an important role in setting the priorities and brokering solutions at the urban level – providing greater “negotiating clout”, amalgamating previously fragmented funding streams, ensuring more streamlined delivery and providing a much needed interplay between housing and regeneration.

Both public and private sector stakeholders were clear that the HCA should not concentrate purely on increasing housing numbers. Its key role should be to enable and facilitate housing delivery where local authority capacity is limited and to enable the private sector to play a greater role in more marginal developments<sup>2</sup>.

English Partnerships' experience and expertise was identified as most fundamental to the merger, including its well established relationships with RDAs.

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<sup>2</sup> Marginal developments could include contaminated sites, areas where land is under multiple ownership, or where land values may not be rising in the way that they are in the south east.



*'The HCA will need to be responsive to local market conditions.'*

The Housing Corporation was perceived as the subsidiary partner. However, stakeholders felt that splitting up the Housing Corporation's investment and regulatory function, between the HCA and the new social housing regulator respectively, would result in higher standards of management and help to establish a more level playing field between different providers. Stakeholders were also in favour of the HCA's stronger suite of planning powers (including compulsory purchase), which was viewed as fundamental if the HCA was to play an effective role in land assembly and speed up delivery.

In addition, proposals for the HCA to take on some of CLG's roles were welcomed. Most interviewees felt that the HCA had the potential to greatly improve delivery. The functions to be transferred from CLG to the HCA include Housing Market Renewal (HMR) Pathfinder, housing growth (including Eco-Towns and the New Growth Points), Decent Homes, private financial initiatives (PFIs) for new supply and the Academy for Sustainable Communities.

In addition, several stakeholders felt that the HCA should also encompass the Thames Gateway Development Corporation to minimise the numerous partnership arrangements currently overseeing delivery.

However, other stakeholders cautioned that the HCA's remit would be too broad - working at the national, regional and local level - and questioned whether this scope was "realistically deliverable". Under a tight Comprehensive Spending Review framework there is the risk that resources may be focused in key headline areas, such as in the Growth Areas and Eco-Towns, with insufficient attention paid in more marginal areas also in need of support, such as many northern towns and cities. There was also concern over the lack of clarity on how the HCA would work with local partners on the ground to achieve its objectives, and how affordable housing targets are to be set. All stakeholders interviewed stressed that the HCA will need to be responsive to local market conditions.

### Summary of written and oral evidence: institutional reform

"...there is a clear understanding of the need to amalgamate housing and broader regeneration outcomes in order to deliver a genuinely place based and spatially focused approach. If that can be delivered, then I think we would welcome the new agency with open arms" (local authority witness).

#### Key points:

- Witnesses at the inquiry session were confident that the HCA's remit represented a more joined up approach, "from the start of the supply right through to long term stewardship" (local authority witness).
- The written and oral evidence received for the inquiry revealed strong consensus that, by bringing expertise together in one centre, the HCA would be in a good position to set clear quality standards and to raise capacity to deliver across the board. Key to this would be helping the public and private sector to work together more effectively, particularly across local Government, where witnesses felt there was a shortage of skills amongst planners and regeneration officers.
- Witnesses recognised that the new institution would be more powerful than its predecessors, with planning and compulsory purchase powers. This was viewed as fundamental if the HCA is to encourage a more proactive culture towards development, iron out political differences and ensure a more comprehensive approach to place making (such as bringing together sites under multiple ownership).

- However, at the same time witnesses urged that the HCA will need to be careful not to “undermine the skills and capacity and powers which exist within existing frameworks” and should be “clear of the needs of the specific places” (public sector witness), rather than just a national remit with a regional presence. In London, it was felt that the emphasis should be on ensuring sufficient social housing provision, not just handing out shared equity deals. However, the HCA would need to “navigate with care in the context of the northern cities”, in particular with regard to the nature of provision, where the emphasis was on ensuring quality of place (local authority witness).
- The timeframe for institutional reform was also identified as a key risk in moving forward. With a transition period of up to two years, witnesses felt this has the potential to create uncertainty. In the interim, the onus will be on existing institutions to step up to the challenge and guard against delivery drift.

## **B) Local delivery vehicles - building local capacity**

The Housing Green Paper advocated that local authorities and the private sector should develop a more direct role in housing delivery. There is growing interest in the creation of local delivery vehicles, such as asset backed partnerships and local housing companies, to help them achieve this.

### **Local delivery vehicles and asset-sharing**

Local delivery vehicles were viewed by stakeholders interviewed for this inquiry as one of the main tools to raise local capacity, providing the framework for local authorities to work across boundaries, with private sector partners, sharing resources, risk and expertise. However, there is no clear evidence on the best format and powers (Hackett, 2005). Stakeholders had divided views – some welcomed the strategic powers of the urban development corporation model, while others preferred a weaker model that lacked statutory powers and instead emphasised convening and building consensus between public and private sector partners.

Several stakeholders were experimenting with asset backed partnerships to deliver both housing and regeneration.

The added value was identified as providing access to a team of experts – local authorities bring knowledge of the local area and level of need, developers bring expertise in large scale building projects. Asset backed partnerships provide critical mass, in terms of land assets, and can help to instigate new ways of working – pushing local authorities to use public land and proactively seek development partners. It was agreed that benefits would be maximised if local delivery vehicles were applied at the city-regional level, but so would some of the risks, including capacity to work across multiple boundaries and issues of political stand off.

A number of other challenges were identified, including: varying levels of skills and capacity; adverse perceptions of the private sector; fear of risk and local authority attachment to the asset base; difficulties in compiling a decent land portfolio; and in phasing the release of land to finance each development stage. Stakeholders raised particular concern over the viability of asset backed models in more marginal housing markets, where the uplift in land value was more variable, or where the abnormal costs of brownfield development was too high.



*'It is important that local authorities carefully consider the options and the added value new vehicles can bring.'*

### **Local housing companies**

Local housing companies, proposed by the Housing Green Paper, are a new type of asset backed vehicle to be led by local authorities. Under this model, councils would use public land and engage the private sector or registered social landlords to build homes, with technical and financial assistance from the HCA. The council takes on the 'master developer' role, keeping a stake in the land and sharing in both capital and revenue gains from any housing built with partners. Local authorities would also benefit from the increasing value of land on the site that could be ploughed back into providing more affordable homes.

Although stakeholders revealed support for local housing companies, each would only have the potential to build up to 1,000 new homes - a meagre contribution towards the Government's target of 240,000 net annual additions. Furthermore, several interviewees felt that the minimum 50% affordable housing target would still be too high in many areas and may fail to create a sufficient mix of different income groups. This could risk stigmatising communities and act as a disincentive to private investors. Additionally, there was concern that local housing companies would require significant resource commitments - councils will need to invest

in economic modelling, personnel, and long term management structures to get it right. Effectiveness was again perceived to be largely dependent on local authority capacity and rising land values to capture the uplift. Stakeholders expressed further concern over the lack of clarity around how local housing companies should be used alongside other local delivery vehicles and several private sector interviewees felt that the delivery landscape should be kept as simple as possible.

If local delivery vehicles are to be used to deliver or enable urban house building, further thinking may be required as to the best format and powers, including how to minimise bureaucracy and maximise flexibility. These delivery vehicles will not be right for every area and only 14 local authorities have shown an interest so far. It is important that local authorities carefully consider the options and the added value new vehicles can bring. A recent report by the Centre for Cities, *City Solutions: Financing Local Growth*, looked specifically at the role for local asset backed vehicles in financing economic development and regeneration projects and outlined the main barriers that need to be tackled if England's towns and cities are to successfully implement these arrangements (Harrison and Marshall, 2007).

### **Summary of written and oral evidence: local delivery vehicles**

"It has got to be the right type of homes in the right locations and that cannot be a quick fix" (private sector witness).

#### **Key points:**

- Witnesses at the inquiry session emphasised the different problems being faced by different partners in driving up supply - "RSLs point to the lack of land coming forward at an affordable price...Developers point to the problems of local planning authorities...Local authorities think land holding and land banking by developers is the problem" (local authority witness). Local delivery vehicles can help overcome these different types of perceived market failure.
- One of the most significant delivery challenges identified in the written and oral evidence received for this inquiry was providing the full range of housing types, in terms of tenure and value, to attract the optimal mix of households and create the mixed communities desired by Government. It was felt that delivery vehicles, such as local housing

companies, could help by releasing the often significant land holdings of local authorities, providing a clear entry point for private investors, encouraging investment over the longer term and recycling funds back into affordable housing provision.

- Nevertheless, some witnesses felt that greater flexibility would need to be built into the model if it was to be responsive to local housing need and market conditions. The minimum 50% affordable housing target was perceived as too high for many northern cities, such as Manchester, which already had a preponderance of social housing across large parts of the city, but more appropriate for London due the high cost of land in the south east.
- Written evidence pointed to a clear role for the HCA to develop a more responsive local delivery vehicle through working closely with local authorities and the private sector. However, witnesses cautioned against the proliferation of too many delivery vehicles, given the resources required in setting up a new organisation - "Where existing partnerships are already tied into clear strategic frameworks...it may be that the same outcomes can be delivered without recourse to new vehicles," (local authority witness). The case for any new delivery vehicle will need to be clearly made if it is to help deliver urban housing effectively and efficiently.

### **C) Housing management - a sustainable urban housing offer**

This section of the report looks at the management challenges associated with urban housing. Research conducted for this inquiry revealed that insufficient attention is being placed on the management of the urban housing stock after it is built and there is the need for a much stronger role to be played by the private sector in managing both housing and communities.

#### **Housing management and the role of the private sector**

There is no standard model for housing management; functions can range from maintaining the physical environment and the quality of stock, to tackling antisocial behaviour and ensuring effective use of existing stock. Stakeholders interviewed during the course of the inquiry stressed that good management will be even more important in mixed communities, particularly where there is a stronger private rented presence.

Poor standards of housing management can compound many of the other problems affecting disadvantaged neighbourhoods, increase levels of dissatisfaction and drive more mobile households out of an area.

During the interview process, stakeholders presented the private rented sector both as part of the problem, and the solution. The sector has traditionally received a negative press in the UK, with recent concern over buy-to-let and a disequilibrium between supply and demand in some cities for smaller flats. According to Leeds City Council figures, in August 2007 at least 20% of flats in the city centre were empty. Similar issues have been reported in Manchester and Birmingham. Many stakeholders felt there were limits to the role the private rented sector could play outside London, with particular concern over transient communities, fragmented ownership and absentee landlords, posing challenges to effective management. Nevertheless, some private sector developers interviewed for the inquiry encouraged a proportion of private rented housing in their development as an integral part of a mixed housing offer.



*'If managed well, the private rented sector could be developed as a genuine alternative to both social housing and housing for private sale (private sector stakeholder).'*

Stakeholders also emphasised the private rented sector's potential role in relieving overall pressure on supply. The sector, which has expanded rapidly over the last 10 years alongside expansion of the buy-to-let mortgage market, provides much needed rented accommodation in many towns and cities, meeting the needs of a flexible workforce, as well as those who cannot afford or do not wish to buy. Moreover, recent analysis conducted by Hometrack reveals that the cost of renting a house in England and Wales is significantly cheaper than the cost of buying it with a mortgage (Wilcox, 2007). However, it was widely felt that if the sector was to meet the urban housing needs of different towns and cities, greater attention would need to be paid to providing the right type of product - moving away from the current over supply of smaller flats to provide a variety of housing types, including family housing. Critically, levels of investment would have to be substantially raised over the longer term and channelled into higher standards of management.

In the words of one private sector stakeholder, "if managed well, the private rented sector could be developed as a genuine alternative to both social housing and housing for private sale, as it is in many other northern European countries." However, the management of housing and communities has rarely been a priority when funding and partners are initially put together. Private sector stakeholders identified capacity and resource constraints across the sector, which many argued was being stifled by an increasingly complex regulatory framework. Despite recent expansion, private rented housing currently represents only 12% of the housing stock in England and there is growing uncertainty as to how the recent credit crunch and potential macro-economic downturn will affect the sector (Wilcox, 2007).

The private rented sector remains dominated by small landlords and is in need of long term professional investment and management. The interview process for the inquiry revealed disappointment that real estate

investment trusts (REITs) - companies whose income is primarily from the rent of properties and which have converted to a REIT for its tax benefits (HMT, 2005) - had not been forthcoming in the residential sector. However, virtually all of the current UK REITs have come from the conversion of existing commercial property companies. Few new REITs have been created, and none specialising in residential development. This is because of several technical barriers, in addition to high set up costs accentuated by institutional investors' stamp duty treatment and difficulties in bringing together new property portfolios from scratch. Debate is taking place around how to encourage and extend wider adoption of the REIT model. However, stakeholders saw little potential for REITs to deliver housing unless the model was revised to better suit the residential sector.

Fundamentally, the lack of any appreciable Government strategy for the private rented sector, perhaps soon to be addressed by the Government commissioned private rented sector review (Rugg and Rhodes, forthcoming 2008), is seen as unhelpful; the current policy void ensures that policy across Government often supports individual rather than institutional investment.

The primary advantages that are lost in not having a professional rented sector are good management standards and the greater interest that long term investors would have in place making. Nevertheless, there is growing private sector interest in other forms of housing management, with increasing recognition that smart investment in housing and communities will generate higher returns. "The private sector thinks in commercial terms. We need to demonstrate to them that by investing in housing and communities well, this will generate higher returns for their investment over the longer term," (public sector stakeholder). Many private sector stakeholders regarded central Government's role as incentivising and providing guidance regarding the best structures.

The call was for a unified community management model, which would act as the interface with the community and oversee different service providers regardless of tenure, ensuring similar outcomes for affordable and market housing tenants. This would enable the development of common systems and maximise scope for PFI, public private partnership (PPP) contracts, as well as the commercial management of social and intermediate

housing. Different models currently being tried by the private sector include the transfer of housing stock and risk to registered social landlords, joint management vehicles and cross tenure neighbourhood management contracts. The challenge is how to encourage wider adoption of these best practice models, so that they can be used to keep local housing both desirable and responsive to economic and social needs.

### Summary of written and oral evidence: housing management

“It is very, very important that we think about the management of places...It is not simply about managing individual tenures in places, it is about a much more holistic and overall integrated approach which is focusing on the needs of that locality” (local authority witness).

- The written and oral evidence received for the inquiry pointed to the benefits of a more comprehensive approach to housing management, where a single organisation oversees the full range of provision, regardless of tenure, and maintains the quality of the wider area.
- However, the existing buy-to-let model in many city centres was viewed as particularly problematic, largely due to the private sector's short term profit model. This needs to be addressed by looking towards vehicles which lock in private investment and take a longer term approach to housing ownership and management.
- The private sector was also keen on creating a new planning class purely for intermediate renting - where local authorities put in public land on a long lease, retaining overall ownership, and the private sector finances the housebuilding, profiting from the rental receipts. This would increase affordable housing provision and create stronger incentives for better management, guarding against buy-to-leave, as the intermediate rental value is the only return the private sector receives. However, other stakeholders felt that such a mono-tenure arrangement would not create the desired housing mix.
- During the inquiry the onus was not just on the private sector, but also on local authorities to bring private sector partners in much earlier on in the development process, ensuring that management arrangements are in place when disposing of public land. Witnesses also suggested encouraging local authorities to use long leasehold disposals, rather than sell freehold. This would ensure long term influence over private developments, where ground rents are used to fund management arrangements and investment is recycled back into the local area.
- The written evidence submitted also emphasised the need for stronger management arrangements over existing housing stock and revealed concern that this was being sidelined by the emphasis on new housebuilding. Overall efforts to deliver an improved housing offer will depend on higher standards in housing management and on the role the private sector plays in this area.



# Section 4

## Conclusions and recommendations

The focus on numerical housing targets has diverted attention from delivery on the ground. Government has made some steps in the right direction: institutions have been realigned, local Government has been given new freedoms and tools, and policy attention has started to turn to the challenges of housing management. However, the APUDG has identified significant barriers to delivery, and these vary from place to place. Much remains to be done if the public and private sector are to work effectively together to deliver the type of housing the country's towns and cities require.

This report recommends that priority be given to creating an institutional architecture that is responsive to the varying needs of different places. Effective working relations between public and private sector partners, as well as across local authority boundaries, will be fundamental to successful delivery. This report finds that some places will need more help than others. Measures will need to be in place to provide delivery support in towns and cities where capacity is more limited. The inquiry also raised the issue of housing management. Key to this will be incentivising greater private sector investment over the longer term. If this can be achieved, the private rented sector in UK cities could become a key player in improving housing supply and relieving market pressures.

The officers of the APUDG, together with the secretariat, have deliberated extensively and have identified the following policy recommendations:

### **The Homes and Communities Agency**

#### **Recommendation 1: the HCA will need to deliver locally specific housing solutions - not a national programme**

It will be crucial that the HCA is responsive to the needs and priorities of different places. Without this nuanced view, there is a risk that the HCA will 'nationalise'

housing delivery and deliver the wrong type of homes in the wrong places.

In the south east, the HCA will need to concentrate its efforts on addressing the challenges that growth creates. In particular, enabling land to come forward at an affordable price to ensure sufficient social housing provision, and ensuring that growth is supported by timely infrastructure provision. However, at the same time, the HCA will need to ensure that its capacity does not become monopolised by a few key growth areas if it is to ensure that the urban housing needs of many northern towns and cities are also to be met.

In parts of the north, the HCA will need to prioritise quality of place over housing numbers by carefully tailoring the offer to local housing market conditions and linking this to regeneration of the wider area. Key to this will be the nature of provision that is put in place; for example in cities such as Manchester, there may be a greater need for intermediate housing products, rather than new social housing provision.

#### **Recommendation 2: the HCA has a key role to play as a 'ringmaster' and 'expert adviser' to support local housing growth**

The HCA will be a powerful institution. The ongoing challenge will be to manage the tensions between a top down approach and the need to ensure local players have enough freedom and capacity to deliver the housing offer. The HCA should support local authorities to take up new financial freedoms and tools and to build capacity by encouraging partnership working - where local authorities' knowledge of local housing need is pooled with private sector expertise in large scale housebuilding. Most housing markets are sub-regional and extend well beyond a city's administrative boundaries. The HCA will need to help local authorities to build cross boundary housing delivery mechanisms to share expertise. Emerging multi area agreements may provide vehicles to accomplish this.

*'Effective working relations between public and private sector partners will be fundamental to successful delivery.'*

The HCA therefore has a crucial role to play as 'ringmaster', to create an environment in which all partners can work successfully together, and as an 'expert adviser', where additional support is required. For example, smaller local authorities with less experience may need particular assistance to work across boundaries, where there may be issues of political stand off. Local authorities in more marginal areas, where land values are not rising in the way that they are in the south east, are also likely to require support to compile a land portfolio that is attractive to private investors.

**Recommendation 3: the HCA has an important role to play in joining up delivery across the Thames Gateway**

Ensuring the success of the Thames Gateway project should be a key priority for the HCA. There is a clear role for the HCA to manage the delivery chain and streamline the current number of partnership arrangements.

The HCA will need to speed up the delivery of housing supply and oversee the implementation of the local delivery vehicles that will enable development land to come forward. Crucially, the HCA will need to ensure that the mix of different types of housing meets local need, with particular regard to levels of affordability not just shared equity and other intermediate products. It should ensure sufficient social housing and family housing are provided. Nevertheless, care needs to be taken that the Gateway does not subsume all of the HCA's capacity or this will risk sidelining the housing needs of more marginal, northern areas also in need of support.

**Recommendation 4: until the HCA is in place, existing institutions need to sustain delivery momentum**

The HCA will not be in place until April 2009 at the earliest and this has the potential to create a period of uncertainty. Government and existing institutions will need to ensure that interim delivery arrangements are sufficiently robust to guard against delivery drift, including delivery arrangements in the Thames Gateway.

**Local delivery vehicles**

**Recommendation 5: local delivery vehicles will not be viable everywhere**

Different cities face different barriers to delivering an urban housing offer, ranging from skills and capacity to the size and quality of their land portfolio. Consequently, local delivery vehicles will work well in some areas, but not in others. Local players should first be clear on their desired outcomes and how the vehicle will help achieve them. If cities are not clear what added value a new delivery vehicle will bring, they should not expend resources developing one. Guidance can be found in Annex 1 to assist cities and private sector partners seeking to decide whether a local delivery vehicle offers an advantage to delivering housing growth. In areas where delivery vehicles are not viable, local and central Government will need to give greater thought to the other approaches that will be required. For example, particular assistance may be needed to help cities unlock the value of marginal brownfield sites, which are high risk investments for the private sector (such as sites where remediation costs are high).



### **Recommendation 6: the Government needs to provide a more flexible framework for local housing companies**

If delivery vehicles, such as local housing companies, are to create the type of housing towns and cities require, they will need to be responsive to varying levels of need and housing market conditions. For example, too high a proportion of social housing may attract insufficient private investment and risk stigmatising areas. However, what constitutes 'too high' a proportion will vary between places.

Guidance issued by English Partnerships to local authorities interested in establishing local housing companies requires a 50% minimum affordable housing target. In London, this target was deemed necessary, given high land values, if there was to be a sufficient supply of social housing to meet demand. In Manchester and other northern urban areas however, a target of 20% was deemed more appropriate, due to the preponderance of social housing across large parts of the city. Any new delivery vehicles introduced and backed by Government, but in particular local housing companies, will need to avoid prescriptive targets and frameworks. Otherwise they may not contribute to the development of stronger urban housing markets or deliver the types of housing different cities and towns need.

## **Housing management**

### **Recommendation 7: manage places, not individual properties**

A more comprehensive approach to the management of urban housing needs to be encouraged, particularly in mixed communities where there is a large private rented presence. Local authorities and private sector partners need to move away from managing individual properties and move towards a more comprehensive understanding of managing places.

Best practice examples are emerging, including overarching community management models, where day-to-day management is by the same provider regardless of tenure. Government should provide guidance regarding the optimal structures. However, ultimately it will be up to local authorities and their private sector partners to raise management standards and to innovate, as they will see the returns.

### **Recommendation 8: incentivise long term private sector investment in residential property and a strong private rented sector**

Issues around buy-to-let reflect the prevalence of the private sector's short term profit model and a lack of incentive to invest in the long term management of urban housing. However, if the private rented sector is to be developed as a genuine alternative to affordable housing and housing for private sale, with scope to relieve pressure on overall supply, a longer term investment perspective will be required. Options include: revisiting vehicles such as REITs, through close working between the private sector and the HMT Treasury; encouraging equity shares in management companies to generate longer term interest and move away from the buy-to-leave model; and the use of long leaseholds when disposing of public land to ensure long term influence over private developments, recycling investment back into the area.

A stronger professional private rented sector could provide affordable new housing and better long term management - both of which are critical ingredients in strong urban housing markets. Central and local Government will need to work together to tackle the barriers to long term private sector residential investment and to area based community management.

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## Annex 1

### Local delivery vehicles: guidance for cities

It is vitally important that councils and their private sector partners consider their options carefully before deciding whether a local delivery vehicle, such as an asset backed vehicle, is right for them. Local delivery vehicles, including local housing companies, can require in-depth project appraisal, feasibility studies and master planning, all of which require significant financial and time commitments from local authorities.

In order to assist cities seeking to decide whether local delivery vehicles offer an advantage to deliver local growth, the table below sets out a series of guiding questions. These are drawn from a recent report by the Centre for Cities 'City Solutions: Delivering Local Growth' (Harrison and Marshall, 2007).



### **Step 1 - What does our authority want to achieve?**

It is vitally important that local authorities have a clear focus on why they are setting up a delivery vehicle in the first place. They will need to be able to answer a series of key questions before deciding whether the model is right for them. These include:

- what are our principal housing/regeneration aspirations?
- could we pursue these goals directly as a council or through some other existing delivery vehicle, e.g. development agreement, joint venture company, PPP?
- if not, how could a local delivery vehicle help to deliver aspirations and create additional value?

### **Step 2 - Do we have the asset portfolio needed to secure investment?**

Do we have a workable pipeline of land assets to attract private sector partners and investors? Local authorities also need to consider very carefully which assets to place in the delivery vehicle. Ensuring a good mix between sites that are attractive to the market and other surplus, undervalued, or underdeveloped land is critical and will help ensure a wider area is regenerated.

### **Step 3 - What types of finance and partners can we attract?**

Local authorities should be clear regarding the type of partners required to make the local delivery vehicle a success. In order to do this, local authorities should:

- evaluate the resources and skills they require;
- target specific private sector groups that are likely to be interested in their particular assets;
- ensure the aims of the local delivery vehicle link well with existing economic development and regeneration plans and strategies;
- be clear on the role of the public sector in the governance of the delivery vehicle;
- consider the level of risk they are willing to take on, and expect their partners to share; and
- display a high level of public ambition, and strong civic leadership, ensuring that there is sufficient cross party support for the local delivery vehicle and its underlying aims to be achieved over the medium to long term.

Those authorities with a track record in delivering housing programmes are likely to find attracting partners easier than others.

### **Step 4 - What governance structure should we propose for the local delivery vehicle?**

Councils and private sector partners will need to work carefully together to devise the necessary governance structures that will allow all parties to achieve their short and long term aspirations. This will require local authorities and interested financial and delivery partners to consider the following questions:

- what projects will the delivery vehicle undertake?
- how will the overall ownership of the vehicle be arranged?

- how will the returns and risks be split between different partners?
- will partners be able to extract profits from the vehicle at different times?
- will the value of the assets and revenue contained in the local delivery vehicle be borrowed against?

**Step 5 - Once established, how can specialist delivery partners be brought in?**

Any number of specialist partners can be introduced once the structure of the delivery vehicle is agreed.

Delivery partners can include any of the following organisations:

- developers - operational or specialist;
- infrastructure delivery companies;
- contractors; and
- other public/private sector bodies.

Local delivery vehicles are unlikely to be suitable for every city. Even if local authorities can successfully work through these steps, a series of legal, technical and

financial challenges will still be overcome in order for the local delivery vehicle to bring housing growth.

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## Annex 2

### Acknowledgements

**Witnesses, APUDG inquiry session,  
3 December 2007**

Emma Appleton,  
Head of Enabling, CABE

Alan Benson,  
Head of Housing, Greater London Authority

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John Coles,  
Director, Evenbrook Group Ltd

Steve Douglas,  
Acting Chief Executive, Housing Corporation

Malcolm Harris,  
Chief Executive, Bovis Homes PLC

Mark Ryder,  
Chief Executive, Isis Waterside Regeneration



## Stakeholder interviews

<b>Company</b>	<b>Position</b>	<b>Date of interview</b>
Kent Thameside Delivery Board	Chief Executive	31/07/07
Countryside Properties	Chairman	02/08/07
Places for People	Chief Executive	16/08/07
Urban Splash	Deputy Chief Executive	21/08/07
Institute for Public Policy Research	Senior Research Fellow	20/08/07
Communities and Local Government	Team Leader for Policy on Homes and Communities Implementation	23/08/07
Manchester City Council	Deputy Chief Executive	03/09/07
Communities and Local Government	Head of New Growth Areas Division	07/09/07
Regenter Ltd	Director of Housing Investment	10/09/07
Town and Country Planning Association	Vice President	18/09/07
Evenbrook Group Ltd	Director	10/10/07
English Partnerships	Chief Executive	26/11/07

## Written submissions

Arnold White Estates	Joseph Rowntree Foundation
CB Richard Ellis	King Sturge
Campaign to Protect Rural England	Mature Times
Chief Executives' Group of Urban Regeneration Companies	National House-Building Council
Council of Mortgage Lenders	North West Housing Forum
Environment Agency	North West Regional Assembly
ISIS Waterside Regeneration	PhD Researcher, University of Glasgow
	Prupim Real Estate Investment Management



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