The future of affordable housing
Common ground or turf war?
A report on changing working relationships
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Foreword

Good strategy requires us to step back and take stock of the housing landscape from time to time. In a few short years, affordable and social housing organisations have been subject to a sector-wide restructuring arising from large scale policy, financial and social change. This report from Trowers & Hamlins is honest in its assessment that sector reform continues and that the dust is still settling. However, it is timely because it affords an opportunity to look to the future and re-imagine what the sector might look like and – most importantly – what it should achieve in the coming years.

The sector is not passively waiting to be told what its future might hold. It is proactively searching for new ways of working to address the needs of our housing market more effectively and to increase its capacity to build the homes we need at a time of national housing crisis. Interviews with over 240 professionals from across local authorities, ALMOs and registered providers, identified some insightful questions and answers to how we house those in need.

By introducing the idea of ‘Coalescence’ to describe how today’s landscape blurs the lines between traditional disciplines, the report suggests that this will have a profound effect on the application of national housing policy, in the context of ever more complex housing and land markets.

It makes a compelling case for more effective local housing partnerships, greater harmonisation between providers and products and for a central role for local authorities in driving this change and for more appreciation of the benefits of cooperation as opposed to a continued focus on competition.

For my part, I am particularly interested in the honest appraisal by organisations of their own future. An acceptance is emerging that in a more complex sector, with a mixed economy of providers, an organisation’s ability to ensure it has a clear purpose and offer, playing to its own strengths, will be the key to success. What makes us distinct, gives us advantage.

But the report also shows that some organisations are unsure whether competitive advantage is what they desire – some preferring collaboration to competition, in spite of the changed environment. I suspect this is why notions of ‘Coalescence’ are taking hold – a measure of, in the words of the report, a ‘mature housing sector’.

The solutions in the report should be read with care by Government, as part of the range of solutions to build the right homes in the right places. The level of support for removal of local authority borrowing caps remains – a mainstay of CIH proposals for increasing housing supply. What is encouraging is the clarity of purpose by organisations that subsidised housing requires subsidy – and the recent changes to the nature of this subsidy have not damaged the intention of organisations to ensure we still build homes for those most in need. This bodes well for the sector, and above all, for the people it serves.

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Introduction

The delivery of affordable housing has changed substantially in recent decades. This report explores the new landscape, what has altered, and what may happen next to enable a greater, much-needed supply of affordable housing.

The report draws on responses from more than 240 local authority, arms-length management organisation (ALMO) and housing association chief executives and senior directors/heads of service and a small number of housebuilders/developers to an online questionnaire; in-depth discussions with contacts and clients; plus Trowers & Hamlins’ expertise, drawn from decades of involvement in affordable housing.

What is ‘Coalescence’?

Since the 1980s, affordable housing’s principal players have moved away from their traditional, discrete positions. By adopting similar roles, local authorities, ALMOs and housing associations – as well as housebuilders/developers - have become part of a phenomenon Trowers & Hamlins dubs ‘Coalescence’.

“Coalescence is a good word because it does suggest that you’ve got areas of [business] demand that are overlapping.” (housebuilder/developer)

Coalescence has not been a planned development, though it is a consequence of Government policy and the economic crisis. It has happened without any obvious attempt to consider what it means and where it might go.

The main implications of Coalescence

1. Our research shows that most of the affordable housing market believes Coalescence to be both a reality and a permanent phenomenon, reshaping organisations’ operations and businesses across the whole housing sector.

2. However, questionnaire responses also indicate a sector in transition, adjusting to recent seismic changes in financing, delivery structures and policy direction.

3. The sector is having to adapt to a less centralist, more laissez-faire Government housing policy, focussing more on cost efficiency than social value.

4. Far from rebelling, the sector seems determined to build and shape its business models around this new landscape.

5. Survey responses indicate a mature, pragmatic and self-aware sector: alive to its weaknesses, prepared to live with operational constraints like the HRA debt cap (if it has to), and ready to advance radical thinking on how to promote affordable housing.

6. There is a strong desire to break down silos, find areas of compromise, and achieve/incentivise greater cross-sector cooperation. Cooperation, not competition, is believed to be the key to driving value in future affordable housing provision.

7. Broad agreement lies behind a search for a way to control land values and find a mutually beneficial way forward over planning and its associated cost pressures.

8. However, land and planning strategy are key areas where Government policy, clarity and intervention could enable the greatest progress.

9. There is consensus that housing at sub-market rents requires subsidy, but also better use of constrained public resources.

10. Fundamentally, the organic ‘accident’ of Coalescence has created the conditions for a new working model, which given the time to bed down and evolve, could generate much needed new housing supply.

11. As a model for closer cooperation, Trowers & Hamlins proposes the creation of flexible joint ventures, to be known as Housing Delivery Partnerships (HDPs).

12. The suggested model is based on a HDP board with sufficient governance solidity to coordinate the efforts of all partners, joining forces to deliver new multi-tenure housing within or across local authority areas.
A way forward

The market has accepted recent change: now it needs time to refine, develop and deliver.

If local authorities, ALMOs, housing associations and housebuilders/developers are left alone, the resultant space and stability is likely to allow an increasingly coalesced affordable housing market to deliver more and better affordable housing – whether through Housing Delivery Partnerships (Trowers & Hamlin’s proposed mechanism – see pages 22/23) or alternative methods.

The remainder of this report delves into the market feedback and viewpoints which have led us to these observations and conclusions.

A glance back

What has brought us to the current position?

Until the 1980s, social housing was almost exclusively a matter for local housing authorities. Then came three significant changes:

1. The introduction of the right to buy substantially reduced the proportion of social housing owned by local authorities.
2. The introduction of private finance for housing associations (following the Housing Act 1988) saw substantial funding from banks and building societies, supported by capital grant, directed towards housing associations. Local authorities virtually stopped building new homes.
3. Stock transfer accelerated the trend. New housing associations took ownership of the stock owned by many local authorities.

It took until the early part of this century for council housing to be ‘structurally’ reinvigorated, when decent homes funding (and other considerations) led many authorities to establish ALMOs.

Then came ‘self-financing’ in 2012, giving councils long-sought-for freedom, through the reform of the Housing Revenue Account (HRA) subsidy system.

In addition, the social housing regulator allowed other new players to acquire ‘registered provider’ (RP) status, permitting them and others access to Government grant funding.

These and other developments over the past four decades have led to convergence and coalescence between local authorities, ALMOs, housing associations and, indeed, housebuilders/developers.

Has this led to common ground or turf war? And does the result address the nation’s pressing affordable housing needs? This is what we set out to discover.
The politics of housing

Coalescence has been born of changing Government policy and economic crisis. It is an established reality: rolling back recent progress is strongly opposed by local authorities and ALMOs.

For example in Figure 1, when asked if local authorities should act as pure facilitators (rather than providers) of social housing, the response was strongly negative from local authority and ALMO respondents.

Housing associations, by contrast, were generally in favour of the proposition.

"It is bonkers that we have spent twenty-plus years winding down local authority development teams and building up the expertise in housing associations for it to start being watered down again!" (housing association)

All commentators recognised the importance of national and local political decision-making.

"Existing HRA and RP resources can already be delivering significant additional housing, given enough local political will. Localism has done nothing to improve this and has added to the inertia created by the uncertainties born of the recession." (ALMO)

There was general emphasis on the need for greater overall strategic clarity.

"[We require] a clearer national framework for providing the housing the country needs [and] clarity about what housing is provided for whom [and] at what price points." (housing association)

One housing association respondent referred to political differences nationally and locally as being the “real problem.”

These comments indicate a need for collaboration across the sector and a legislative framework which does not skew the market. Housing association commentators suggested several radical and specific policy proposals, such as:

- Reversing recent Section 106 regime relaxations
- Halting the reinvigorated Right to Buy
- Removing taxation related constraints on charitable housing associations’ activities i.e. with no tax to pay on homes developed for sale if the proceeds subsidise affordable housing
- Stock transfers, mergers, etc. to “take place more easily and free the resultant organisations to borrow prudently and act as non-profit distributing housing businesses”
- “Stop any reference to social housing; remove borough/district boundaries for decisions on housing allocation; five year statutory forward land supply; mandatory stock transfer of LA retained stock; RPs [to have] open waiting lists and stop LA control of housing registers; put onus on households to secure housing, not LAs”

More radically still, one housing association proposal encouraged the removal of local authorities and ALMOs from social housing, while another offered the following manifesto: “Abolish the notion of social housing and all the paraphernalia that goes with it and instead set limits on what housing benefit the Government will pay. Then allow everyone to get on with it.”

Key points

- Radical though some of these proposals are, signs of prejudice or bias were the exception
- The real focus was on the difference between national and local politics and, crucially, whether the delivery of adequate levels of housing supply across the country is promoted or prejudiced by the Localism policy
- Overall, it was felt that the focus on Localism impeded rather than promoted national housing supply
Common ground or turf war?

Figure 1 - Local authorities should be facilitators rather than providers of social housing
A wider housing strategy?

Figures 2 and 3 reflect how a significant proportion of respondents agreed that Coalescence is an established reality and a long-term trend.

Some ALMOs appear not so sure, but local authorities and housing associations are particularly convinced that the direction of travel is set and momentum is established. This hints at acceptance of the need to adapt to the changed landscape, irrespective of whether or not this is deemed to be a good thing.

Comments from across the provider spectrum, however, concerned the pressing need to join up housing strategy and delivery. One local authority respondent suggested that “There should be an agreed strategy per local authority area about how many and who should be providing what housing, to prevent the waste of organisations competing against each other.”

One ALMO respondent felt local authorities “should be more proactive in deciding regional and local housing strategies and then working with the various participants to ensure delivery” and “Local authorities should be required, as part of their wider community leadership roles and their responsibilities, to establish broad-based housing strategies for their local areas, to bring together and facilitate joint working between all ‘coalescent’ partners…Local authorities need to put something into the ‘pot’ as an incentive for other sector partners…to actively engage.”

Another housing association respondent said that they would “Strengthen the coordinating role of local authorities.”

A further housing association respondent proposed that “Local authorities should be encouraged to set up housing joint venture not-for-profit vehicles with a mixture of Government and local authority funding and guarantees, and these vehicles could work in partnership with RPs and ALMOs to provide additional housing over a wide area, with all parties taking an ownership stake in the vehicle.”

This general interest in what one ALMO respondent called “effective local housing partnerships” was widespread.

Several respondents advocated the adoption of a national strategy and a more centralist approach.

Figure 2 - Housing associations, local authorities, ALMOs and housebuilders/developers are, or at least are being seen as, fulfilling the same or similar roles in the provision of social housing
to housing, at odds with the current approach of central Government. One housing association respondent even suggested that the State should control land supply.

There was a striking absence of unconstructive complaints about the rules favouring one sector over another. There were instead some thoughtful observations that a degree more harmonisation between providers and products would be beneficial.

“The playing field is always skewed between public and private sector because of the different statutory requirements that would have to be adhered to, especially by local authorities. Some legislation contradicts other, making it complex and confusing to follow and implement. Tidying this up and being clear about requirements and responsibilities would resolve many of the existing problems and remove the potential to misinterpret [the] differing interpretations that currently exist.” (local authority)

Key points

- The need for effective strategies – especially driven by local authorities – was emphasised in terms which reflected a measured, non-partisan approach
- A notable emphasis was placed on working (better) together
- However, a number of commentators hinted at mistrust between participants whilst acknowledging that more could be delivered through cooperation
- This was accompanied by creative ideas to stimulate the provision of affordable housing

"The playing field is always skewed between public and private sector because of the different statutory requirements..."

Figure 3 - Coalescence is a short- rather than long-term phenomenon, and social housing "players" will resume their traditional roles when market conditions stabilise
Cooperation vs. competition

The determination to favour cooperation over conflict is underlined in Figure 4 by significant support for the following statement:

*Any risks inherent in Coalescence (through overlap or competition) are outweighed by the benefits.*

Comments from respondents indicated that ‘for-profit’ RPs were not overwhelmingly regarded as alien. This is borne out by responses in Figure 5 to the following observation:

*For-profit RPs will play a valuable long-term role in the provision of new social housing.*

“I think I feel pretty relaxed about saying that it is OK for for-profits to become RPs if they want to. I think we look incredibly protectionist and backward looking and unable to handle competition if we take that line!” (housing association)

Some housing associations were less convinced. This could be attributed to wariness about future competition, or the fact that the current low numbers of ‘for-profit RPs’ and their comparatively small size call into question the extent of their potential impact on the volume of future provision.

Encouragingly, most feedback showed a recognition that the adversarial and somewhat mistrustful nature of relationships between participants needs to change: “you need to recognise...what people are good at and once you have built the relationship with them, you invest in their success - knowing that you are going to benefit from it as well.” (housebuilder/developer)

One local authority respondent commented: “we need to move on and look at new ways of doing things, which may be different.” Another observed that “Housing associations are often viewed with mistrust by local authorities. Both parties need to become better at understanding their respective businesses and associated pressures if they are to become more effective at building new housing for people on lower incomes.”

**Figure 4 - Any risks inherent in Coalescence (through overlap or competition) are outweighed by the benefits**
These views were echoed by housing associations: “There is a need for a new partnership with local government as there is limited/no Government money going into new supply, yet all the old controls and expectations remain in place.”

Another added: “We do not get in the same room and talk to each other. The whole issue about profit means there is an area of secrecy and this is affecting RPs now. Open book working needs to be applied with more trust.”

A housebuilder/developers’ comments were more robust: “Local authorities need to engage more with RPs and developers … to bring more sites forward, to pump prime difficult sites for affordable [housing], to be more imaginative.”

Interestingly, a common theme expressed by all sectors was that competition is one of the greatest barriers to increasing supply, given its tendency to drive up land values and inflate construction costs.

We currently have too many individual players, of which many do not have the financial muscle to deliver large-scale social housing projects.

“If land value is always being pushed up by local authority land owners, of course those competing will take a view and try to reduce affordable housing provision on site and maximise receipts”. (housebuilder/developer)

A parallel housing association commentator’s view was that “Local authorities should do more to facilitate the release of land to local RPs…. and discourage Dutch Auctions”.

Other barriers to cooperation mentioned included the perceived adversarial and uncooperative approach to planning by some local authorities; competition for the same, limited sources of public funding; and the sheer plurality of providers operating in the same space, where one local authority commented that “We currently have too many individual players, of which many do not have the financial muscle to deliver large-scale social housing projects.”
Respondents recognised that no one class of provider can unilaterally make the changes necessary to stimulate greater housing supply. Long-term change can only be effectively delivered through a holistic but fair approach: “The private sector needs to share risk, rather than expect to enter partnerships where the LA/RP take all the future risk on rental income, voids, etc. We should look at longer-term partnerships, taking on debts to build quality homes, and sharing the risk on future maintenance and management.” (ALMO)

A number of respondents saw value in public bodies adopting a brokering role, to foster a more integrated approach: “Perhaps the GLA and London Councils can bring together all the parties to find an agreed way forward.” (housing association) “I think one or more of the housing bodies should help to promote working together. Maybe CIH, Nat Fed or another. That would give some impetus and encourage innovation.” (ALMO)

The stakes are high. “A whole generation could be excluded from having access to new affordable homes unless we work together to prevent this.” (ALMO)

Key points

- Most respondents acknowledge the benefits of a mixed economy of supply
- However, participants do not work together as well as they could, inhibiting supply
- It will be interesting to see whether the undeniable logic of greater cooperation will overcome embedded reservations amongst sector participants. “Alliances are always better than wars” (ALMO)
- One could infer from feedback that Localism (whilst useful in other areas) prejudices the volume delivery of affordable housing
Incentivisation

The market seems ready to acknowledge the need to cooperate more closely. How, then, to move forward?

Prescription is often unpopular, so it was perhaps unsurprising that propositions which suggested that affordable housing provision should be segmented or otherwise allocated to the different players were seen as retrograde.

Local authorities should focus on the first rung of the housing ladder, with housing associations and others focusing on other housing options and products. (Figure 6)

“I think everybody has a right to be in the mix if they want to be, provided they do it at the right price and provide the right quality.” (housing association)

Yet the following proposition received a mixed response:

Developers should focus on market housing and local authorities and housing associations should focus on affordable housing. (Figure 7)

These responses may reflect a sector finding its feet in the changed landscape of much reduced capital subsidy, welfare reform and self-financing. Alternatively, they could be interpreted as reflecting a lack of certainty about a long-term vision for affordable housing delivery and each player’s respective role.

Is there, therefore, a need for direction at a strategic level about how the affordable housing sector should interact, operate and coalesce? Or do the participants simply need time to absorb, consolidate and let market forces and industry expertise drive them forward?

In either case, there is a need for a more joined up and coordinated approach to housing, both at the strategic and delivery level.

Cross-provider partnership was clearly identified as the potential key to unlocking additional supply. However, some local authorities were definitive in rejecting mandated partnerships and unsure about compatibility: “the various participants are strange bed fellows … [you would require some] incentive to enable each participant to contribute with sufficient clarity about available resources, need and the nature of the client base to be served.”

Figure 6 - Local authorities should focus on the first rung of the “housing ladder”, with housing associations and others focusing on other housing options and products
As for the nature of the incentive, “if you want more of something, do you incentivise performance by sticks or carrots? The truth is at present the Government has precious few carrots - so if it wants to do it, it probably would need to do it with sticks.” (housing association)

One way forward is indicated by the next proposition we suggested to participants:

As a condition of further HRA freedoms, local authorities should be required to work with housing associations to deliver off balance sheet solutions. (Figure 8)

This question polarised opinion, with local authorities and ALMOs in one camp and housing associations in the other.

Some respondents did indeed favour a dirigiste approach to promoting cooperation - the inference that central Government intervention is desirable raises interesting questions about how well Localism can and does operate in the context of a national requirement for housing.

Advocates suggesting incentivisation by stick rather than carrot called for:

- External pressure on local authorities to compile actionable practical strategies for housing delivery
- Government funding being contingent on collaboration arrangements being in place
- Compulsory measures to free up empty homes as potential sources of new supply

• “Section 106 agreements challenged successfully by developers should [lead to] a requirement to commence development within 12 months.” (housing association)

• “stock-holding LAs and RPs to draw up a plan to build more homes and make this a regulatory requirement.” (housing association)

One of the few voices advocating a carrot approach suggested the provision of “Some form of incentive (e.g. higher grant rates) if there is explicit partnership-working taking place with a demonstrable value added (e.g. additional homes achieved).” (housing association)

Key points

- Perhaps a right to suspend or, more radically, cancel the operation of user and planning restrictions, nomination arrangements and contractual obligations would free up housing associations to use their assets more effectively?

- There is a need for direction (rather than further change) at a strategic level about how the affordable housing sector should interact, operate and coalesce
Figure 7 - Developers should focus on market housing and local authorities and housing associations should focus on affordable housing

Figure 8 - As a condition of further HRA freedoms local authorities should be required to work with housing associations to deliver off balance sheet solutions

“Section 106 agreements challenged successfully by developers should [lead to] a requirement to commence development within 12 months.”
The land issue

Land supply and valuation are the heart of affordable housing provision. Consistent agreement met the following proposition:

*Most developers will provide affordable housing for local authorities and housing associations rather than own or have a long-term stake in it.* (Figure 9)

All recognised the importance of accessing land and ensuring it is priced at the required level to subsidise affordable housing. Obviously, however, “Housebuilders are commercial enterprises so will only contribute where there is profit” (housing association) and they will not contribute to affordable housing if the price of the land is not low enough.

Another housing association respondent expressed the problem in terms of “a lack of subsidy in the form of local authority/public sector land" going on to add that “ways need to be found to revalue based on the current market. LAs can, must and do enable and facilitate development.”

Explanations for inflated land prices cast different players in the role of villain.

“If land value is always being pushed up by LA land owners, of course those competing will take a view and try to reduce affordable housing provisions on site and maximise receipts. How sustainable is it to continue to push sales values and onsite affordable housing supply?” (housebuilder/developer)

Yet a local authority respondent believes “housebuilders still expect the same % profit as in boom times, resulting in less or no affordable housing provision.”

Or is competition between housing associations to blame? One local authority respondent advised that developing housing associations shouldn’t try to “outbid each other for land, which in turn hikes up scheme costs.” Another pointed to “increasing evidence of housing associations aggressively competing for the same sites, leading to inflated prices paid for land and/or homes.” This also highlights the fact that local authorities with land could themselves contribute to reducing the cost of affordable housing development, by fixing their own land prices.

As to the solution, housing association respondents in particular offered several ideas:

- “[we] need a mechanism which enables LAs to transfer land as investment so [they] can continue to show value on balance sheet, without needing payment from [the] RPs.”

- “There should be a default requirement for all public land to be made available for affordable/social housing development … [improving] land supply, particularly that owned by Government and LAs, and introduce land price caps similar to Europe.”

Figure 9 - Most developers will provide affordable housing for local authorities and housing associations rather than own or have long-term stake in it
For one housing association respondent, the answer lay in a kind of franchising system: “The State, directly, indirectly or through “public bodies”, should hold or acquire land and make this available on a long lease basis to build on and be managed by RPs.”

A number of local authority and housing association respondents proposed various forms of capping: “Cap the level of profit that can be taken out of a scheme and identify a statutory minimum amount of social and affordable housing that has to be delivered (subject to economic viability).” (local authority)

“Fix building costs per square metre across the sector in an attempt to reduce regional differences.” (local authority)

Such comments highlight tensions between (on one hand) a local authority’s duties to achieve best value for asset disposals and its fiduciary duties to council taxpayers - and (on the other) its wider practical imperative to deliver or facilitate affordable housing.

Could such fiduciary duties be suspended (definitely or indefinitely) – or at least reinterpreted? Such an approach is economically similar to permitting developers to seek to reduce the affordable housing obligations imposed on them through previous Section 106 arrangements.

Commentators noted barriers to more efficient land use, including a local authority’s obligations to ensure best consideration; the national Localism policy; the need for housebuilders/developers to generate shareholder return; the need for housing associations to grow their businesses; and the importance of housebuilding to overall national economic output.

Key points

- Radical ideas to promote land supply can only flourish if the subject rises up the Government’s agenda and a clear, long-term strategy emerges
- Pricing is of fundamental importance – with local authority landholders directly able to influence scheme pricing
- This is one area where turf wars could impede cooperation and where clarity and intervention from the Government could drive positive progress
Planning - solution or problem?

All categories of respondent are close to the planning system, as colleagues of planning officers or (in the case of housing associations and housebuilders/developers) as consumers.

Opinions revolved around three central themes, reinforcing views previously expressed:

- The need for a more pragmatic and collaborative approach
- The use of planning (particularly through Section 106 agreements) to regulate competition and influence land and development costs
- The use of planning to incentivise housing delivery

There was a strong view that the current planning system acts as a barrier to delivering affordable housing, particularly in terms of speed.

“Local authorities need to understand that slow, uncooperative planning departments are the biggest barriers in the development of new housing.” (housing association)

“The planning process [should be overhauled] to fast-track decisions on social housing.” (housing association)

Those applying for planning permission ask for greater understanding amongst planners of the real commercial cost of planning. They yearn for “fewer refusals and accelerated process.” (housing association)

Of course this is a two-way street. One local authority respondent records that “I get upset when housebuilders deceive Development Control about what they can afford and how many affordable homes are to be provided on a project.” Another believes that affordable housing is “a quick buck by developers to meet obligations such as [Section] 106.” (housing association)

The consequences of this tension are obvious. In one part of the country, planning was deemed to be the “biggest barrier to the development of new housing.” (housing association)

So how do we move forward? One housing association suggests a potential collaboration between local authorities and housing associations which would seem to offer benefits for both: “Relax Section 106 constraints on existing housing to facilitate sales of existing housing to fund new development, provided that more new affordable housing is created than is lost from the sale.”

A local authority respondent felt that “Local authorities, through planning and influence on rental level, should be able to influence housing supply to meet the needs of their local market.”

Suggested solutions from housing associations include tighter panels: “the number [of those with] preferred partners status for Section 106 developments should be very much smaller for each local authority and the developer required to use one of the partners.”

Others demanded up-front clarity ... “The first step is to make sure we have a common planning platform to deliver land for housing.” (housebuilder/developer)

... accountability ... “Where local authorities failed to deliver agreed housing numbers, future decisions should be taken out of their hands.” (housing association)

... and consistency: “Local authorities should be required to set and achieve targets for promoting housing supply that are reflective of the actual needs of their communities and to grant planning consents [in] support.” (housing association)

There was a corresponding demand from local authorities that, once granted, planning permissions should be implemented. One local authority respondent urged it may be recalled: “create a rule in legislation that for every year a planning permission is not built out, the affordable housing requirement - whether through direct provision or Section 106/CIL - increases.”

Key points

- There is a need and desire for greater mutual understanding – not just of the legislative and procedural constraints applicable to local authorities but also of the cost pressures faced by housing associations and housebuilders
- There is a significant need for housing associations to get their local authority housing counterparts to understand the difficulties reportedly created by ‘uncooperative’ development control departments
Local authority financing

To assess market views of Localism and self-financing, we gauged agreement with the following statement:

*The additional freedoms for local authorities through Localism and self-financing will help significantly with the provision of new social housing.* (Figure 10)

Local authorities and ALMOs were in broad agreement, whereas housing associations were split in their views.

Such disparity is perhaps explained in part by local authorities and ALMOs being closer to the HRA settlement than housing associations. It may also reflect a degree of uncertainty amongst housing associations about how those freedoms will contribute to the provision of large-scale additional supply in practice.

Comments here included: “In some cases, new build is a small-scale ‘vanity’ [project, for local authorities]” (ALMO) and “we have got examples on our patch where [local authorities] are sending out press releases saying that they have built a dozen homes on their land but actually if they gave us their land we could probably do more with it.” (housing association)

We saw much greater alignment in responses to a proposal about the HRA debt cap:

*The Housing Revenue Account debt cap should be removed and future HRA surpluses released.* (Figure 11)

Responses to this statement provided a consistent message that the debt cap should be removed and HRA surpluses released.

Many said simply that the self-financing freedoms would not work or help unless the HRA borrowing cap is removed or at least made more flexible: “The single most effective measure [to increase the provision of social housing] would be the removal of the borrowing cap on local authorities and the widening of the role of local authorities as developers and owners of new housing.” (local authority)

Interestingly, only one local authority or ALMO comment cited a level playing field as justification for removing or relaxing the debt cap. Perhaps the Government’s repeated signals that it is not planning to remove the debt (wholesale) anytime soon has led local authorities and ALMOs to deal with the rules as they stand, rather than try to change them.

The overall response to the next proposition was positive:

*The advent of Housing Revenue Account self-financing means that local authorities should be subject to the same or similar regulation as housing associations.* (Figure 12)

Housebuilder/developers’ comments were also very strongly in agreement, though with specific observations:

“The primary benefit of regulation for me seems to be around creating the conditions that encourage confidence for investment.” (housebuilder/developer)

One housebuilder/developer had particularly trenchant views on regulation, noting that “The only positive reason for regulation is to give the banks comfort. RPs should be allowed to fail because that’s the best form of regulation there is …and let’s face it, those properties would be swept up by local authorities or other RPs.”
The single most effective measure [to increase the provision of social housing] would be the removal of the borrowing cap...
Our next proposition also found broad support:

The differences between secure and assured tenancies should be removed. (Figure 13)

However, sizeable minorities in all three sets of respondents were not convinced. Perhaps the local authorities and ALMOs were concerned about secure tenancies moving towards assured ones - and housing associations vice versa?

Respondents recognised, however, that active stock rationalisation was a sensible economic proposition. The complexity of dealing with the statutory rights of affected tenants was identified as a barrier to further stock rationalisation and thus to improved future asset management efficiency.

Key points

- HRA debt is seen as a significant problem which needs to be addressed
- There is strong support for removing the debt cap and releasing HRA surpluses
- There is an equally strong argument that differences between secure and assured tenancies should be removed as a means of facilitating asset management strategies and potentially extending them to span local authority/housing association boundaries
The need for housing subsidy

The sector recognises that sub-market rent controls ensure that, in the absence of subsidy, volume delivery of affordable housing is commercially unsustainable. One housing association respondent commented: “Grant, LA/public sector land, etc. [is] needed to supply housing for sub-market rents. The sums don’t add up and until this is recognised the levels of social housing delivery will remain inadequate.”

Whilst none of the respondents who raised the issue of affordable housing subsidy advocated a return to grant levels enjoyed during previous better economic cycles, there was a common acceptance that subsidy was a necessity to further supply. One housing association respondent commented “Social housing is currently loss-making and by definition so, as it is based on sub-market rents”. Another housing association respondent agreed stating “Affordable housing needs subsidy… not sure self-financing solves this.”

This was not an exclusively housing association issue. The availability of grant (and its contribution to additional supply) was seen by a number of the local authorities as a positive means of reducing the nation’s welfare bill: “[we need] more bricks and mortar subsidy/grant to LAs and RPs, removing the pressure on Housing Benefit.”

There was also a feeling that access to subsidy should be restricted to those that can demonstrate efficiency, ability and a willingness to collaborate: “Grant should only be provided to entities that meet efficiency and delivery thresholds.” (housing association)

Respondents from each of the groups recognised the role that affordable rents have come to play in reducing the amount of direct subsidy required.

Whilst there was a lingering unease (particularly amongst local authorities) at the impact which the affordable rent regime has on the delivery of ‘true’ social housing, the comparatively low level of commentary on this issue from local authority respondents suggests that antipathy is waning in the face of limited alternative funding options.

Figure 14 - Notwithstanding the recent concerns, the Regulator should encourage not-for-profit housing associations to continue to develop market housing (for rent or sale)
The following proposition received similar responses across the spectrum:

Notwithstanding the recent concerns, the Regulator should encourage not-for-profit housing associations to continue to develop market housing (for rent or sale). (Figure 14)

Clearly the need for more affordable housing counterbalances concerns arising from recent regulatory difficulties. The figures also demonstrate that housing associations are generally seen as offering products which cross the housing spectrum.

Key points
• Local authority and ALMO respondents were determined not to be confined to a ‘mere’ affordable housing role, let alone a restricted facilitating role
• Nor do they regard housing associations as simply providers of affordable housing (with developers looking after market housing)
Conclusions

A broad consensus among more than 240 chief executives and senior directors/heads of service confirms that today’s affordable housing landscape blurs the lines between traditional disciplines.

With housing high on the agenda for political parties, it is vital to maximise the participation of local authorities, ALMOs, housing associations and housebuilders/developers.

Participants in each camp are unconstrained by their usual roles. They have moved on from a delineated market to something far more fluid.

The sector seems constructive and even-handed, with the majority of participants wanting to ensure the right organisation carries out the right activity rather than defending their respective corners.

Respondents suggest/urge a ‘mix-and-match’ approach to housing provision, with local authorities, ALMOs, housing associations and housebuilders/developers all having an important role to play.

The above observations help answer the subtitle to this report: Coalescence seems to be a case of common (or at least shared) ground – not turf war.

Calls for action include removing the distinction between secure and assured tenancies and dispensing with (or relaxing) the HRA debt cap.

Government intervention has most to gain through finding the ‘sweet spot’ in land strategy and costing – and in speeding up planning.

The clearest conclusion from our research is that, with Coalescence here to stay, we need a future characterised by cooperation over competition. A call for participants in the sector to ‘build trust’ and establish a greater understanding of each other’s commercial drivers was evident throughout the research findings.

By developing common ground, the potential for new affordable supply can be maximised: a heartening prospect from a mature housing sector.

The Trowers & Hamlins view: what should happen now?

We believe a new mechanism is needed, to harness the desire for joint working (so strongly expressed in this research) and convert it into practical progress. Our thinking, based on our research and its conclusions, is as follows:

• We expect and welcome the continued exploration of new roles for local authorities, ALMOs, housing associations and housebuilders/developers – i.e. the phenomenon which reflects and causes Coalescence.

• This is likely to entail local authorities exploring avenues for new council homes and housing associations developing market products.

• These trends will go too far if the result is to undermine everyone’s respective strengths – local authorities’ powers and ‘covenant’, housing associations’ financial flexibility and development expertise; and housebuilder/developers’ profit-focus and market intelligence.

• Local authorities have a statutory responsibility to procure in an even-handed way. Some have shown a desire to keep housing associations at arm’s length, but, just as housing associations are rationalising their stock to re-focus their businesses, so local authorities should think carefully about encouraging chosen housing associations with long established development expertise to forge long-term relationships with them.

• Cooperation and joined-up thinking should help replace historic wariness of housing associations with an affinity for those housing associations who demonstrate a commitment to a local authority’s aims and objectives.

• Many housing associations now appreciate that, following self-financing, local authorities have regained the freedom and power which they appeared to have lost following the introduction of private finance into social housing in 1988. The attractions of a new form of relationship will be obvious to these potential housing association partners.
The attraction to Government should be the potential for enhanced supply deriving from more collaborative arrangements.

The nature of new relationships between local authorities and housing associations will vary from area to area but there needs to be a degree of formality involved, to generate confidence. We do not believe that this necessarily involves rigid legal constructs, although such arrangements may suit particular local arrangements. Instead we envisage a new form of joint venture.

We suggest these joint ventures be known as Housing Delivery Partnerships (HDPs).

HDPs would not have to have the formality of a joint venture structure (limited liability partnership, company limited by shares, or otherwise). Instead we propose a facilitating model, not necessarily involving a separate legal entity.

The suggested model is based on a HDP board, giving sufficient governance solidity to ensure that all partners – local authorities, ALMOs, housing associations and housebuilders/developers – can make best use of their respective resources and expertise to deliver new housing in the area.

When specific schemes and projects emerge, there may well be a place for formal joint ventures. Until then, attempts to lock in the partners or commit their assets to a formal legal structure might discourage HDPs from getting established.

An HDP of this kind will become a facilitating model, enabling engagement from all interested parties and fostering greater cooperation and coordination.

The level of participation in our questionnaire and thoughtful input to our telephone discussions underline the need for joined-up thinking and closer cooperation within the affordable housing world.

There is a strong case to be made for HDPs: Trowers & Hamlins will be working with those interested in developing this concept over the coming months and relaying the results of these endeavours to our clients and contacts.

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Glossary

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tbody>
<tr>
<td>ALMOs</td>
<td>Arms Length Management Organisation – established by some local authorities which have retained their stock</td>
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<tr>
<td>CIH</td>
<td>The Chartered Institute of Housing</td>
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<tr>
<td>CIL</td>
<td>Community Infrastructure Levy</td>
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<tr>
<td>CLG</td>
<td>Department for Communities and Local Government</td>
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<tr>
<td>For-profit registered provider</td>
<td>RP which distributes profits</td>
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<tr>
<td>GLA</td>
<td>Greater London Authority</td>
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<td>HRA</td>
<td>Housing Revenue Account</td>
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<td>HA</td>
<td>Housing Association</td>
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<td>HCA</td>
<td>Homes and Communities Agency</td>
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<td>LAs</td>
<td>Local authorities</td>
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<td>LEP</td>
<td>Local Enterprise Partnership</td>
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<td>NHF</td>
<td>National Housing Federation</td>
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<td>RP</td>
<td>Registered Provider</td>
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<tr>
<td>RSL</td>
<td>Registered Social Landlord</td>
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<tr>
<td>s106 Agreement</td>
<td>Planning agreement</td>
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<tr>
<td>Section 151 officer</td>
<td>Local authority officer with statutory financial administration powers</td>
</tr>
<tr>
<td>Self-financing</td>
<td>The reform of the HRA subsidy system introduced in April 2012</td>
</tr>
<tr>
<td>Stock rationalisation</td>
<td>Transfers of tenanted stock between housing associations</td>
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</tbody>
</table>

Methodology

This research project set out to consult all those involved in this marketplace to see whether local authorities, ALMOs and housing associations – as well as housebuilders/developers – see themselves as fulfilling the same or similar roles. We have called this convergence ‘Coalescence’.

In order to test whether Coalescence exists, Trowers & Hamlin’s partners made contact with clients and contacts. Following emails, telephone conversations and formal interviews, it became clear that Coalescence was both a reality and worthy of analysis.

For the purpose of such analysis, we asked chief executives and senior directors/heads of service at local authorities, ALMOs and housing associations to complete an online questionnaire in late 2013.

We supplemented this research by asking housebuilders/developers for their views; their observations have been included to add perspective to the core findings.

Initial questions invited responses on a range of agreement and disagreement; the second tranche asked respondents to choose between agree, disagree or don’t know.

A total of 241 completed questionnaires were received. These broke down as follows:

<table>
<thead>
<tr>
<th></th>
<th>Number</th>
<th>%</th>
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<tbody>
<tr>
<td>Local authorities</td>
<td>66</td>
<td>27</td>
</tr>
<tr>
<td>Arm’s Length Management Organisations (ALMOs)</td>
<td>34</td>
<td>14</td>
</tr>
<tr>
<td>Housing associations</td>
<td>141</td>
<td>59</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>241</td>
<td>100</td>
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Acknowledgements

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Kevin Dodd, Chief Executive – Wakefield and District Housing

Helen Evans, Chief Executive – Network Housing Group

Matthew Fox, former Chief Executive – Viridian

Charlotte Graves, Chief Executive – Hackney Homes/Housing Director – Hackney Council

Ashley Green, Chief Executive – Gloucester City Homes

Geraldine Howley, Group Chief Executive – Incommunities

Helen Jaggar, Chief Executive – Berneslai Homes

Brian Johnson, Chief Executive – Metropolitan Housing Group

Chris Jones, Head of Housing Strategy and Development – Wandsworth Borough Council

Ken Jones, Divisional Director of Housing Strategy – London Borough of Barking and Dagenham

Susan Jordan, Chief Executive – St Leger Homes

Ashley Lane, Group Partnerships Director – Persimmon Homes

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