PARTNERSHIPS FOR AFFORDABLE HOUSING IN ENGLAND

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Introduction

As housing has become more expensive in England, and particularly in London and the south-east, the pressure of housing affordability has moved up the income scale. Housing—and particularly housing affordability for young people—is now the top political issue in London local politics. Middle-income groups that previously had no need to turn to the state for housing assistance now demand action, and London's businesses and politicians fear that the city's economy could suffer serious damage from a lack of affordable housing. The key question is, 'Affordable for whom?': it is not only very low-income households that cannot access housing, but even accountants and doctors. In London, the household income limit for some types of affordable housing is £90,000/year (150,000 CAD).

Who can build the enormous number of new homes needed? A generation ago, many local authorities boasted their own architecture departments and construction teams, but this institutional expertise has been almost entirely eroded in the decades since 1979. Housing associations are the obvious candidates; the largest associations are already among the country's biggest developers. Increasingly, public bodies and housing associations are entering into partnerships to produce affordable housing. These partnerships are based on their comparative advantages: the public bodies often supply low-cost land, while the housing associations bring development expertise. This chapter examines the elements of the English policy framework that—usually unintentionally—has permitted such partnerships to emerge.

What Is 'Affordable' Housing?

In writing about national housing systems, one of the potential snags is that words do not necessarily mean the same thing in every country—even in countries that share a language. We therefore start by exploring the meaning of the term 'affordable housing' in England.

In England, there have traditionally been three officially recognised tenures: owner occupation, private renting and social renting. Social housing¹ was owned by local authorities or housing associations and rented at (usually) below-market prices to (usually) low-income households. Until recently, affordable housing was simply a catch-all term for any low-cost accommodation, whether public or private. Since 2011, 'affordable housing' has been a government-recognised

category, but the official meaning of the term does not always align with its common usage, and may not correspond with the meaning of the term in other countries.

As defined in planning regulations and guidance, ‘affordable’ housing now spans a range from traditional social housing at very low rents (less than 50% of market in some areas) to homes renting for up to 80% of local market rates. In the past, social housing was synonymous with rented housing, but the wider affordable-housing offer includes various home ownership products including shared ownership and shared equity. Current national planning guidance suggests that at least 10% of homes on major developments should be affordable home ownership.

Officially recognised, affordable housing is almost always cheaper than market-price housing (though there are some exceptions in very low-cost areas of the country). However, not all of it is affordable for low-income households, nor is it designed to be. The so-called intermediate housing is targeted at middle- or even higher-income households (Figure 12.3), who face particular problems accessing housing in London and surrounding areas.

The Evolution of Affordable-Housing Provision in England

Early provision of affordable housing responded to the miserable conditions in the slums of London and northern industrial cities, documented by Charles Booth and fictionalised by writers such as Charles Dickens. The first providers were not public bodies but rather charitable organisations and wealthy philanthropists such as George Peabody, whose name lives on in one of the country’s largest housing associations. These efforts drew on even earlier private initiatives by industrialists to build model towns for their workers including New Lanark (built in the late 18th century for Scottish mill workers), Saltaire (built in the 1850s for textile mill workers in Yorkshire) and Bourneville (built by the Quaker owners of Cadbury Chocolates around 1900).

At the start of the 20th century, about 90% of English households rented their homes from private landlords; there was no social housing sector as we now know it. Although charitable institutions were the first providers of affordable housing, the 20th-century picture was dominated by council housing—that is, housing built and operated by local authorities (municipal governments). They started building homes in the 1920s for soldiers returning from the First World War. This housing was meant to accommodate low- and middle-income working people, not the very poorest, who typically lived in overcrowded, poor-quality homes rented from private landlords. After the First World War, but especially after the Second World War, local authorities became increasingly active in the provision of housing and were the country’s most important house builders by far for some decades after 1945 (Figure 12.1). Central government built no housing itself but provided generous construction and operational subsidies to councils.

Throughout much of the 1960s and 1970s, local authorities built most of the country’s new homes and carried out associated slum-clearance programmes. When these homes were built, they were considered modern, desirable, even aspirational. They later became stigmatised, and serious problems arose because of poor-quality construction, insufficient maintenance and high concentrations of vulnerable households. Some such estates are now being demolished and re-developed at higher densities as mixed-tenure communities.

Over the course of the 20th century, the tenure composition of the housing stock changed, with a long-term decline in private renting accompanied by a growth in owner occupation (both trends that were later reversed). By 1979, when Conservative Prime Minister Margaret Thatcher took office, 57% of English households owned their own homes. Within the rented sector, private renting had fallen to 12%, while 31% of homes were rented from social landlords—mainly local authorities (Figure 12.2). Housing associations were minor players, controlling just 2% of the housing stock.

FIGURE 12.1 New Home Construction in England by Type of Developer, 1946–2019.
Source: MHCLG Live Table 244: Permanent Dwellings Started and Completed by Tenure, England.

FIGURE 12.2 Housing Tenure in England, 1977–2019.
Source: MHCLG Live Table 104: Dwelling Stock by Tenure, England.

Under the British constitution, local authorities can only carry out those functions for which the parliament officially grants permission—and the parliament can at any time rescind or change those permissions. Mrs Thatcher believed that home ownership should be radically expanded and that local authorities should not be major housing providers; her government therefore made two radical changes to local-authority powers and responsibilities for housing.

First, sitting tenants in council-owned properties (but not housing association homes) were given the right to buy their homes at a discount. Local authorities were required to remit the sales receipts to central government rather than using them to build new homes, and restrictions

on their use of other funds made it almost impossible for them to build new homes to replace those sold.

Second, local authorities were required to hold tenant ballots on whether to transfer their stock to housing associations. In practice, this usually meant hiving off part of the local-authority housing department to create a new housing association. Many authorities transferred some or all their stock, and now a number of local authorities own no housing at all.

These changes meant local authorities were no longer major builders of new housing. As Figure 12.1 shows, since the early 1990s, most new social homes have been built by housing associations (the remainder were mainly built by private developers who then sold them to housing associations—see below). The proportion of social rented homes in the housing stock has been in decline since 1979 (Figure 12.2), as the loss of stock through right to buy has not been entirely made up for by new construction.

Importantly, the traditional tripartite tenure distinction between owner occupation, private renting and social renting no longer captures the increasingly nuanced housing system, as a number of new forms of ‘affordable’ housing sit uncomfortably across these definitions. However, official statistics are still based on the three main tenures and fail to capture many of the newer variations of affordable housing.

Current Varieties of Affordable Housing

Historically, construction of most new social and affordable housing was subsidised with government grant. The amount of grant available has been reduced since 2011, and that which remained was redirected to ‘affordable rent’ and home ownership products rather than social housing. Figure 12.3 illustrates these trends: a fall in overall grant funding, and a change in targeting.

FIGURE 12.3 New Affordable Housing Units Built with Government Subsidy, 2009–2017.

Source: MHCLG Live Table 1012: Affordable Housing Starts and Completions Funded by Homes England and the GLA.

In 2016/2017, some 42,200 new ‘affordable homes’ were constructed or rehabilitated in England (MHCLG live table 1011), or about 19% of all new additional dwellings that year. Just 14% of new affordable homes were at social rents, so traditional social housing, with its low rents and tenure security, now represents only a small proportion of new affordable housing. Some 58% were at officially designated affordable rents, a category introduced in 2011.

While common usage of the word ‘affordable’ relates cost to a household’s ability to pay, England’s affordable rents are benchmarked to market rents rather than to tenant income. Affordable-rent homes can be let at up to 80% of market rates, although providers and local authorities can agree to lower proportions. Affordable-rent homes are legally regarded as social housing, but unlike traditional social homes, they are let on fixed term rather than indefinite leases. Recognising the Newspeak overtones of the term ‘affordable rent’, some providers and local authorities have developed their own ‘genuinely affordable’ products that fit within the legal definitions of affordable rent, for example, London Living Rent and London Affordable Rent. Wilson and Barton (2018) provide a good summary of the current meaning of affordable housing in England.

The Main Partners

Until 1980, councils were the main providers of affordable housing, but the Thatcher government’s policies ended their dominance, and subsidies for new social housing were redirected to housing associations. Since then, the associations have dominated the market for *new* social housing, although many local authorities retained the housing they already owned. The two groups thus operated in parallel, but largely separately.

Recently though there has been an increasing trend towards partnership. This has been driven by a strong political imperative, both nationally and locally, to increase affordable housing provision, and by the recognition by the public sector and housing associations alike that they have complementary strengths. Other public bodies such as hospitals, transport authorities and prisons may also form partnerships with housing associations, especially where the public sector owns land. Profit-seeking private companies, including for-profit developers, private landlords and financial institutions, may also participate but usually require incentives—either carrots or sticks—to do so, as almost by definition building affordable housing is not a profitable activity (although operating it subsequently can be).

Local Authorities

Local authorities in England own 1.6 million homes which they must maintain and operate. They have other legal duties in regard to housing: they must find housing for local homeless families, and they are given government targets for the number of new homes to be built in their areas, of which a proportion must be affordable.

Councils of all political colours take seriously their responsibility for ensuring enough affordable homes are built. In post-war Britain, providing good-quality housing for working people was a proud achievement of the welfare state. Up to the 1970s, most new low-cost housing was built by councils, but the Thatcher reforms put an end to this model. Almost all new affordable housing is now built by the private sector (whether for-profit or not-for-profit).

While local authorities’ existing housing stock is mostly let at low social rents to low-income households, some authorities have recently set up companies to build market-priced housing. This is a reflection of the financial pressures on municipalities. England’s highly centralised system of government affords local authorities very little fiscal autonomy: most of the tax revenue they collect is remitted to the Treasury and is redistributed to local authorities based on a

formula. The amount of central funding for local government has been radically reduced in the last decade, but authorities' statutory responsibilities have not; this has created a strong pressure for them to look for new revenue sources. Recent changes in the law have opened the possibility for councils to generate funds from some commercial activities including developing housing on their own land. The so-called local housing companies (LHCs) are legally and financially separate from the authorities' housing departments and do not build social housing. In these cases, there is a tension between developing affordable housing and maximising profits. Some LHCs are pure profit maximisers, trying to generate money for other local-authority services (especially adult social care, which is hugely costly); other local authorities have prioritised affordable housing (Hackett 2017).

Housing Associations²

As of September 2018, the government recognises 1681 housing associations in England (officially known as 'registered' providers). Most are tiny organisations that operate only a handful of homes and do not build new housing (e.g. the Polish Retired Persons' Housing Association or the Reverend Rowland Hill Almshouse Charity). At the other end of the spectrum, consolidations over the past few decades and a recent wave of mergers among the larger players has resulted in a few mega organisations. Clarion, the biggest, has 12,500 units across much of England; L&Q merged with East Thames and has 90,000 units, mostly in London; and the Peabody/Family Mosaic merger owns 111,000 homes. Members of the G15, an association of London's largest housing associations, build a quarter of London's new homes.

The operations of English social landlords—housing associations as well as councils—are subject to strong government control. Regulations channel and constrain their activities in myriad ways. Central government dictates how social rents are set, how councils may spend rent receipts and what types of leases must be used. For local authorities, this degree of control is a given; as creations of the Parliament, they can only carry out those activities that the Parliament permits, in housing as in any other field. Housing associations by contrast are in principle private bodies.

The public/private distinction is in fact not clear-cut. In 2015, the Office of National Statistics reclassified housing associations as public-sector organisations, citing the degree of government control over their activities.³ In the most dramatic exercise of that control, the government decreed in 2015 that all social landlords would be required to cut rents by 1% per annum for four years until 2020. This abrogated a formal rent settlement allowing for CPI + 1% rent increases that had been agreed only the year before. The rent cut had nothing to do with housing policy; the goal was to reduce the government's expenditure on housing benefit (some 59% of social tenants receive housing benefit, according to the English Housing Survey 2016/2017, and most housing-association revenue comes from government). Housing associations pointed out that the reduction in rents had a knock-on effect on their ability to borrow to finance new development, and an official government analysis indicated that 14,000 fewer social rented properties would be built by 2020/2021 as a consequence of the rent cut (OBR 2015). In 2018, the government indicated it would allow rents to rise after 2020 to better support housing association borrowing against future income (MHCLG 2019).

The post-2011 cuts in grant forced housing associations to modify their business models, and many of the larger associations have become more commercial and market-facing. Those associations that build new homes (a minority) now rely more on bank loans, bonds and cross-subsidies from market activities than on government grants (Manzi & Morrison 2018).

The Housing and Planning Act 2016 contained a number of policies that would have damaged housing associations' balance sheets and ability to plan (Scanlon 2017). However, the

government has since rethought these proposals as part of the national re-examination of attitudes to social housing brought about by the June 2017 fire at Grenfell Tower, and the expectation now is that these provisions will never be implemented.

How Policy Shapes Partnerships

In principle, housing associations should need no external incentives to develop affordable housing, because providing such housing is the main reason they exist. But many things have changed since the original housing associations were established; while their mission statements may refer to housing poor people,⁴ the direction of incentives is not so clear. Some of the established truths of a few decades ago have been overturned, and the recent government policy has created a muddled tangle of incentives. These sometimes contradictory policy directions reflect the different priorities of different government departments, which have not been satisfactorily resolved.

Housing associations have for the last 30 years been the main developers of new affordable housing. Such development was previously supported by rather generous government grants, but these have been whittled away (especially in the post-crisis period since 2010) and redirected towards affordable rent homes rather than social homes. This gradual withdrawal of government subsidy has forced associations to rework their financial and operational models: with less government grant available, associations that want to build new affordable homes must find subsidy elsewhere. There are two main possibilities. The first is to cross-subsidise from their own profits, and this strategy has led many of the larger associations to become major developers of for-profit homes (Manzi & Morrison 2018). The other way to replace the lost subsidy is to work with public-sector partners, especially those with access to low-cost land. We look at four case studies of this approach in the following section.

Partnerships between Public Bodies and Housing Associations: Four Case Studies

The following case studies look at four partnerships between public bodies and housing associations in England. Housing partnerships are very much in vogue in the English housing-association sector: one professional body recently published a handbook about how to make them work (Fraser et al. 2017). The word ‘partnership’ should not disguise the fact that the various actors can have rather different motivations and priorities, and there is always some tension in the relations. Even so, the goals of the public sector and housing associations are largely aligned, in that the affordable housing is a key goal for both.

The first case study highlights the importance of national policy (see Fraser et al. 2017 for more details). In the English system, central government policy shapes much of what can be accomplished locally. Partners with ambitious ideas often cannot move straight into development but first must prepare the ground with central government departments and agencies. Local authorities and housing associations feel their voice is stronger if they work together.

For several decades, since they stopped being major builders themselves, local authorities have worked with housing associations to produce affordable housing. Typically, the local authority sold land to a housing association at less than market value, in exchange for nomination rights to the resulting housing. However, this meant housing associations alone benefitted from any subsequent increase in capital values, so local authorities now increasingly enter into joint ventures or long-term leases. This enables them to retain some control over their assets and benefit from the income stream they generate. The second case study describes a joint venture partnership between a local authority and a major housing association to produce affordable homes

BOX 12.1: GREATER MANCHESTER HOUSING PROVIDERS

Partnership between Metropolitan Authority and Housing Associations Strengthens Voice at National Level

Greater Manchester is one of a handful of city regions that has been granted greater powers of self-government under England's ongoing policy of local devolution. The Greater Manchester Combined Authority (GMCA) was created in 2011 and is now led by elected Labour Mayor Andy Burnham. Each 'devolution deal' is individually negotiated, and greater Manchester has secured additional powers over housing and particularly over housing investment. GMCA has been granted £300 million in direct funding from central government as an investment fund to support development of affordable housing on a revolving, repayable basis.

The new authority has formally established a partnership with housing associations working in the area. Greater Manchester Housing Providers, set up in 2012, is a partnership between 24 housing associations, three arms-length management organisation (non-profit bodies that manage council housing) and one local-authority housing department that still owns stock. Together, the members house one in five people in Greater Manchester. In 2016, GHMP signed a memorandum of understanding with GMCA. This memorandum formalised some existing joint working arrangements and set out new areas for work. The partnership has set up a joint venture called Athena to deliver commercial activities, job training and apprenticeships, and is working on a residential development joint venture. The group has been able to influence on the authority's policy on housing, health and social care, and joins GMCA in lobbying national government about these issues.

Having secured the £300 million investment pot, the GMCA is also seeking more control over the allocation of central government funding for affordable housing within its area (these funds are controlled nationally, except in London). They propose that GMHP housing associations in receipt of grant through this programme should be permitted to switch sites, products and priorities with prior approval, allowing flexibility to respond to changes in land availability, land price and local need. To make the case for greater local control and additional money, they need to demonstrate that they have ambitious and achievable plans for housing delivery. The local-authority members have land (together they could release about £280 million worth of brownfield sites for housing in the next five years), but the housing association members have the development expertise; in recent years, they have been responsible for about 40% of new homes across greater Manchester. Strong partnership with housing associations is central to achieving the GMCA's delivery plans, which are only possible with their enthusiastic participation.

The GMHP itself is bullish about what it can offer—its ambition is to double the delivery of new homes for greater Manchester, and according to its website:

We know that we can be the 'go to' partners to tackle some of the key challenges facing the region and play a major role in delivering the 227,000 more homes needed across the city region over the next 20 years. We have the capacity, determination and infrastructure to build even more homes, create more jobs, tackle homelessness (and) connect health and housing... Together we can achieve our city region's ambitions for housing. Supporting the right conditions for collaboration is key, and we are committed to continuing the positive relationships we have developed.

.... Only we can provide the future homes that people can truly afford and that meet everyone's needs. ***The key to unlocking this ambition is land.*** We want to work in partnership with all public sector agencies to explore new and equitable ways to allocate land to housing associations in Greater Manchester (author's emphasis). (Greater Manchester Housing Providers 2020)

Source: Greater Manchester Housing Providers, 2020.

The third case study describes a partnership between a housing association and a forward-thinking hospital to provide accommodation for its workers. Healthcare workers in high-cost areas face huge problems accessing housing. Given the pressures on the National Health Service to retain staff, this sort of partnership would seem an obvious solution, but, to date, there are only a few examples in operation.

BOX 12.2: HOMES FOR THE CITY OF BRIGHTON AND HOVE

Brighton City Council and Hyde Group Joint Venture to Produce New Homes at Affordable Rents

Brighton, a lively coastal city 60 miles south of London, has one of the most pressured housing markets in southern England and a severe deficit of affordable housing. The city plan looks for at least 13,200 new homes by 2030. The local authority, Brighton & Hove City Council, would like to maximise the amount of affordable housing within this total, but national restrictions on how local authorities can spend certain funds mean the council cannot build affordable homes itself, and housing associations have not recently built much affordable rented housing in the city.

In December 2017, the council entered a joint venture with the Hyde Group, a housing association that owns and manages more than 50,000 mostly affordable homes in South East England. Hyde builds about 1,500 new homes each year and is one of Brighton's largest developers. The two organisations' aims dovetail: both want to meet housing need and generate revenue to enable more house-building in future. The council wants to generate economic development, and Hyde hopes to develop a rental model that works for local low-income households.

The joint venture will acquire sites in the area (including some currently in council ownership) and build homes for sub-market rent and shared ownership. Rents will be income-linked, averaging 37% of gross take-home pay for households earning the National Living Wage, and homes will be let or sold to people with a connection to the area. The five-year goal is to provide 1,000 genuinely affordable homes for employed people who currently cannot afford to live in the city or must commute to work: half for rent and half shared ownership. Each partner will contribute up to £60 million to enable the joint venture to buy sites and build housing. The council's share will come partly from the sites (some will be offered on a first-refusal basis to the partnership at 'best consideration'—market value, roughly speaking), and partly from borrowing from the Public Works Loan Board, which lends at

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favourable rates to public-sector borrowers. The council will use the loans to fund its equity investment in the partnership and make repayments out of the partnership's earnings. The joint venture partners are open to the idea of institutional investment in the vehicle in future (Bevan Brittan 2018).

Lessons

The structure of the partnership responds to the particularities of UK constitutional framework; the legal device of the joint venture allows councils to skirt around central government restrictions on some types of local-authority expenditure and activity. In most federal systems, these restrictions would not be present, so a different type of partnership vehicle, or a different relationship altogether, might be more appropriate.

Source: Bevan Brittan, 2018.

BOX 12.3: THAMES VALLEY HOUSING AND FRIMLEY HOSPITAL

Building Housing for Medical Workers on NHS Land

Because most public-sector workers are on pay scales that do not vary geographically, key workers in expensive areas like southern England are often seriously affected by the lack of affordable housing. At the same time, many of their employers (hospitals, prisons, transport providers) own large amounts of under- or unused land. This public-sector land could be given or sold cheaply to housing associations, who could build affordable housing for workers at the sites.

It seems an obvious win-win arrangement, but in practice few such partnerships have been created. There are two main reasons for this: first, asset rationalisation has historically not been a high priority in many public sector organisations, some of which have portfolios of land that date back generations or even hundreds of years. This is now changing: austerity has exacerbated the financial pressures on these bodies and driven them to look forensically at how they could realise the value of their assets. Land disposal is an obvious strategy, and outright sale to the highest bidder is the default approach: financial imperatives often favour capital receipts. In addition, most public bodies have a legal responsibility to secure 'best value' for any asset they sell, and lawyers often interpret this to mean the highest monetary value, even though the courts have made clear that wider social and environmental values can also be taken into account.

One example of successful partnership between a public-sector landowner and a housing association is at Woodbridge, near Frimley Hospital, in an upmarket and high-cost area of Surrey, southwest of London. Thames Valley Housing Association converted a former children's centre building that was owned by the hospital but had been vacant for some time. The new homes include both self-contained flats and 'cluster homes', where residents rent a bedroom and bathroom, and share kitchen and living space with other tenants. The cluster flats and some of the self-contained flats are let out to doctors, nurses and other workers at Frimley Park Hospital, and the remainder are for market sale. This is one of the nine relatively small joint projects between TVHA and hospitals in London and southern England.

The final case study looks at how Transport for London (TfL), the capital's metropolitan transport body, developed a partnership framework with developers, including four housing associations, to build on its land. The resulting schemes will include at least 50% affordable housing; this high proportion is required by mayoral policy for land in public ownership.

BOX 12.4: HOUSING ASSOCIATIONS IN PARTNERSHIP WITH TRANSPORT FOR LONDON

Major Public-sector Landowner Partners with 13 Developers, Including Four Housing Associations

TfL, the transport authority for greater London, is one of the city's biggest landowners with a portfolio of 5,700 acres. TfL is facing financial pressures and needs cash to make up for the budget shortfalls left by long-term withdrawal of government transport subsidy. Its large financial team is focused on maximising the value of its assets and generating extra revenue. As discussed earlier, many public-sector landowners have little incentive to sell their surplus land to affordable housing providers, since they could maximise receipts by selling to the highest bidder (normally a speculative developer).

London Mayor Sadiq Khan was elected in 2016 on a manifesto that emphasised provision of affordable housing. As well as being mayor, Khan is chairman of TfL's board. After taking office, Khan changed TfL's incentive framework by decreeing that in future, an average of 50% of the new homes built on former TfL land would have to be affordable. This had the effect of reducing the capital value of TfL's developable land, as the gross development value of schemes with 50% affordable housing is lower than that of standard speculative schemes (which in London generally are required to provide 20–35% affordable housing). This change made it more likely that TfL would decide not to sell the land outright but rather would enter into joint ventures and retain an equity stake, and would look to housing associations, rather than for-profit developers, to partner for development.

In 2016, TfL announced that it had appointed a panel of 13 developers (out of 50 applicants) to its Property Partnership Framework (Transport for London 2016). Four of the final framework partners are housing associations: L&Q, Notting Hill Housing, Peabody and Hyde. These developers will serve as a short-list of approved potential partners for new schemes on TfL land. One criterion for selecting developer partners was that they had net assets of at least £100 million, which excluded smaller players. Each framework partner will be eligible to bid to work with TfL in individual joint ventures to develop specific sites; in the first year, 75 sites were to be released. TfL will rely on the expertise of the successful partner to secure detailed planning permission, consult with local communities and so forth.

These (potential) partnerships may turn out to be tremendously productive, given the extent of TfL's landholdings and their location, and the clear strategic aim of maximising the quantum of affordable housing produced. But it is early days: as of December 2020, five residential sites were under construction and planning permission had been secured for a further six (Transport for London 2020), but none were yet completed. The history of major

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developments on public land in London shows that even relatively straightforward schemes can become enmeshed for decades in political, legal and financial wrangles.

One of the first concrete plans to emerge from the framework agreement was at Kidbrooke Station Square. The scheme will be built on 1.7 hectares of redundant TfL land adjoining a rail line in southeast London; the housing association partner is Notting Hill Genesis.

Lessons

TfL is one of London's biggest landowners, and only the largest and best resourced housing associations can work with it because of the time and resources required to prepare the framework bid, the uncertain timeline for eventual developments and the requirement for framework members to prepare 'mini bids' for specific projects. The specific framework mechanism fulfils the requirements of European Union procurement rules [known as OJEU (Official Journal of the European Union)]. Such a mechanism would not necessarily be appropriate elsewhere (see also London Assembly Housing Committee 2016).

Source: Consultation documents for Kidbrooke Station Square, September 2018.

Planning Gain: Partnership or Quid Pro Quo?

Much new affordable housing in England is produced through a system known as 'planning gain'. This shares some features with inclusionary zoning in the USA and Canada, although the mechanism is very different, reflecting the different bundles of rights conferred by land ownership in these countries. Ownership of land in England does not confer the right to develop that land: development rights were nationalised in 1947, so almost all new construction or major modification of existing structures requires permission from the relevant planning authority (usually the local authority). Canada's planning system is based on zoning system, with defined spatial areas that that give *a priori* permission for certain types of construction; in England, by contrast, planning authorities negotiate permissions individually with developers based on principles set out in the statutory local plan.

Planning permission covers the uses, size and design of the proposed development. Because there is no automatic right to develop land, the granting of planning permission confers (sometimes enormous) value. In return, local authorities almost always require some *quid pro quo* in the form of 'developer contributions' (usually known as S106 contributions, for the relevant provision of the 1990 Town and Country Planning Act). Developer contributions may include new schools, improved transport facilities, doctor's surgeries, improvement of local parks and so forth, but the main element is normally affordable housing.

Currently, 43% of all new affordable housing and nearly half of new social rented housing is built by private developers as a condition of planning permission for private residential or office schemes. Such homes may or may not benefit from government subsidy (Table 12.1). The resulting new affordable homes are then generally purchased by housing associations. New social housing is thus largely a by-product of commercial development; looked at another way, it is funded by a tax in kind on developers and landowners.

TABLE 12.1 New Affordable Housing Units by Lead Producer, 2016

<i>Totals by Lead Producer</i>	<i>Number</i>	<i>Percentage</i>
Section 106 without grant	18,219	43
Housing associations with grant from central or London government	10,810	26
Local authorities	4,108	10
Housing associations without grant from central or London government	1,310	3
Other	7,776	18

Source: MHCLG live tables 1000 and 1011; author's analysis.

The current national document governing planning policy is the National Planning Policy Framework, which sets out the expectations for how local plans should treat the question of affordable housing in new developments. It says:

Plans should set out the contributions expected from development. ***This should include setting out the levels and types of affordable housing provision required***, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure). Such policies should not undermine the deliverability of the plan. (author's emphasis)

(MHCLG 2018)

All new residential developments of ten units or more are expected to include some affordable housing, as a condition of receiving planning permission. Broadly speaking, new residential schemes in England are expected to include at least 20% affordable housing. The guidelines are more demanding in London; Mayor Sadiq Khan has indicated that developers who agree to provide 35% affordable housing (or 50% if the scheme is on public land) should have their applications fast-tracked (Mayor of London 2017). The details—the proportion of affordable housing, the breakdown between different types of affordable product, the location within the scheme—are matters for negotiation between planning authority and developer. Planning authorities usually push for the maximum amount of affordable housing and will treat planning applications from housing associations the same as those from for-profit developers, with similar requirements for affordable housing. The difference is that while for-profit developers generally want to minimise the amount of affordable housing provided, housing associations usually look for ways to maximise it.

Section 106 channels resources from private developers to affordable housing and is therefore basically a hypothecated (ring-fenced) tax on development. Taxes like this are in principle borne by the landowner—that is, the price of the land should fall to reflect the eventual tax on the finished development. However, this is the case only if the market can correctly forecast the final S106 affordable housing requirement. In practice, these forecasts have large margins of error because affordable housing contributions are negotiated rather than fixed (although there are signs that the Mayor's threshold of 35% affordable housing is starting to be priced into land in London).

In the period before the global financial crisis, many schemes were granted planning permission with ambitious affordable housing contributions. Developers agreed to these in the expectation that house prices would continue to rise and that profits from the high-price units would be sufficient to subsidise the affordable homes. But when house prices turned down, profits were squeezed. Many developers argued that providing the original amount of affordable housing

would reduce their profits unacceptably, or even result in losses. Until 2016, the government therefore permitted renegotiation of some S106 agreements on ‘viability’ grounds.

English planning policy strongly favours mixed communities, with affordable units located within or directly adjacent to market-price blocks. The NPPF says,

Where a need for affordable housing is identified, planning policies should specify the type of affordable housing required, and expect it to be met on-site unless: a) off-site provision or an appropriate financial contribution in lieu can be robustly justified; and b) the agreed approach contributes to the objective of creating mixed and balanced communities.

(MHCLG 2018)

A Triumph of Policy Design?

There is an increasing number of well-functioning, productive relationships between local authorities and private partners—mostly housing associations—around affordable housing. But these partnerships have generally not come about in response to specific policy initiatives at central or local level. Many varieties of partnership started as small-scale, local innovations; the policy and planning framework permitted such partnerships to exist but was not designed with that in mind. In fact, the policy that contributed most to the formation of partnerships in recent years was a negative one: the reduction in grant funding for affordable housing. This forced organisations to pair up to take advantage of each other’s strengths, rather than trying to go it alone. Even S106, the inclusionary zoning-type mechanism that forces private developers to build affordable housing, was not conceived of primarily as a housing tool: the original intention was that developers should be required to mitigate any negative effects of their schemes on their immediate localities (by, say, paying for expanding local schools). Only later did it become focused on affordable housing

Partnership working has enabled the various actors to do more than they could individually, and enthusiasm for the approach is spreading; indeed, some housing associations are now advertising for local-authority partners (see for example Hyde undated). From a fiscal point of view, the gradual reduction of housing-construction subsidies has arguably led to more efficient use of the public money that does remain. Pushed by the tighter funding situation, housing associations have become more professional and tightly run, and are better leveraging the substantial value of their existing stock to borrow funds to build more. The implicit government guarantee allows them to access market funding at very low interest rates, reducing the requirement for public funds. On the other hand, the biggest associations, driven by the logic of cross-subsidy, have become increasingly market-focused, and some critics say there is now little to differentiate them from major commercial housebuilders.

There are different degrees and types of partnership, depending largely on the degree to which partner organisations’ overall interests are aligned. Because their housing goals are largely shared, local authorities and housing associations are natural partners. Councils’ relationships with profit-seeking organisations, on the other hand, usually involve straightforward commercial transactions (e.g., where councils contract with private landlords to accommodate homeless households) or requirements that the private actor might prefer to avoid but cannot (S106).

Of course, for partnerships to be formed, there must be a pool of suitable partner organisations, and English housing and planning policy has (largely unintentionally) created such an ecosystem. There can be a sort of symbiotic relationship: local authorities have planning authority, housing responsibilities and land, but not much money and little ability to build; housing

associations have development expertise and access to money but need planning permission and sites.

The characteristics that allow housing associations to be effective partners did not develop overnight: many of the biggest organisations were founded more than 100 years ago (the Peabody Trust, for example, dates from 1862). The major associations have substantial asset bases underpinned by decades of generous government subsidy and employ teams of well-qualified finance and development professionals. The largest groups have reached a critical mass and would be able to function and indeed thrive without any external subsidy at all. But if these organisations did not exist already, it is very unlikely they would develop under the current regulatory and financial system.

On the other hand, the emergence of mega-associations has made partnerships with councils more challenging in some ways. Until recently, most housing associations had strong local ties, having been founded originally to deal with poor housing in a specific place. The recent wave of mergers and consolidations has loosened local bonds and local knowledge within housing associations. It can be difficult for local authorities, especially small ones, to engage at high level with an association that covers the whole country. Conversely, local authorities do not have the staff or resources to deal separately with large numbers of housing associations operating on their areas. One recent study concluded that ‘Unless there is substantive change in government policy, many of the underlying issues that make partnership working difficult will continue’ (Fraser, Perry, and Duggan 2017, p. 40).

Internationally, England and the Netherlands stand out for having housing associations that effectively function like major corporations. But in many countries, housing associations are typically small, poorly resourced local organisations. In these places, partnerships will inevitably take a very different form from that seen in England.

Notes

- 1 The term ‘social housing’ is little used outside the housing sector; the general public tends to refer to ‘council housing’ even when the homes in question belong to a housing association.
- 2 This section draws heavily on Scanlon 2017.
- 3 The government quickly made changes to its supervisory framework to ensure the reclassification was reversed.
- 4 In fact, not all do—see Scanlon, Whitehead and Blanc 2017.

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