



## **Identifying and overcoming barriers for delivery in the North: Maximising Delivery of Affordable Housing**

### **Introduction**

The Northern Housing Consortium has been commissioned by the Housing Corporation to undertake a project exploring means by which affordable housing delivery can be improved across the North through better management of our land resources.

The Consortium is considering how effective housing organisations in the North are in the release of land for affordable housing and we are keen to support members to overcome obstacles hindering progress and to promote innovation in the development of new models to support opportunities to bring forward land for development.

This paper is the second in a series of discussion papers to be published during the project timeframe. Our aim in these papers is to disseminate issues and early findings from the project, seek feedback and input from Consortium members and wider housing community into the project and ensure that the full breadth of issues you are facing in the delivery of affordable homes will be tackled through the project.

The project is due to complete in March 2009 with the publication of our Land Assembly Manual.

If you have any comments on this paper, or would like to have further involvement in the project please contact:

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## **Research Approach**

The Northern Housing Consortium research has at its core a series of longitudinal studies of six “demonstrator” sites. Each demonstrator site is in the process of developing or delivering affordable housing through a variety of mechanisms.

The demonstrators were selected due the variety of methods and approaches they are deploying in their efforts to increase the level of affordable housing in the North.

The Consortium will engage with each demonstrator site at least every 2-3 months and track changes in the development process. The aim of this close interaction is to identify key barriers and delays to the development process. We then hope to bring forward structural and/or policy recommendations which will facilitate more effective use of land resources, assisting in meeting the delivery challenge of more affordable homes in the North.

Whilst the focus on the demonstrators provides us with a consistent longitudinal survey, we will be seeking regular qualitative opportunities to engage with other models being developed across the North. In addition we will be undertaking quantitative research across the broad Consortium membership to provide a robust evidence base to support and test out the implications of future policy recommendations. This quantitative element of the research will be undertaken in January 2008 and a revised version of this “barriers” paper will be circulated in March 2008 taking into account our findings from the research.

**Is your organisation facing a land supply problem in delivering affordable housing?**

**Have you quantified the land available in your locality for delivery ?**

**What approaches are you finding work for you in overcoming this supply barrier?**

## **Overview of Demonstrator Approaches**

As this paper focuses primarily on the initial learning from the demonstrator projects, it is worthwhile briefly highlighting the nature of each demonstrator.

### ***Demonstrator 1 – Derwentside Homes/Derwentside Council***

This project is exploring a range of approaches by which the delivery of much needed affordable homes in the locality can be provided with minimal call on public purse. The project will consider Community Land Trusts, cross subsidisation, planning fast tracking as potential avenues for delivery. The project is complicated through the progress of Local Government Review in the Durham sub region.

### ***Demonstrator 2 – Erimus Housing***

Erimus is exploring the creation of an asset backed vehicle to undertake regeneration and new build activities. The land available to the housing association will facilitate further development opportunities with “surpluses” and equity being utilised to roll forward into further developments.

### ***Demonstrator 3 – First Choice Homes Oldham***

The ALMO will be considering how they can “sweat their assets” through best use of land resources held by the council/managed by the ALMO – predominantly by drawing upon under used parcels of land on existing estates. First Choice anticipate being able to bring forward develop based on cross subsidisation of rental developments from home ownership products.

### ***Demonstrator 4 – Durham City Council***

Durham City Council has a 10 year old special purpose vehicle which provides affordable homes, regeneration, commercial and other development needs for the City. There is considerable early learning to be drawn from the Durham experience and they wish to refresh the model in line with changing expectations around Sub National Economic Review and the Housing Green Paper.

### ***Demonstrator 5 – Bradford Community Housing Trust***

BCHT are exploring the merits of creating a public private partnership vehicle to regenerate the city and provide affordable housing. This demonstrator will test the balance to be achieved between “oven ready” schemes for development and achieving strategic objectives for the city. The project is complex in its nature and will provide an excellent opportunity to “test” the land supply chain.

### ***Demonstrator 6 – Gentoo Group***

Gentoo is investigating how the Group can improve its position in the land market through innovative relationships with the institutional private finance sector. The Group are also considering how assets and resources can be maximised within a context of appropriate risk management.

## **Aims of Paper**

This paper follows on the Challenges discussion paper also issued in November 2007. "Challenges" sets the broad policy context for the North in which we are meet a step change in the outputs for affordable housing.

This "Barriers" paper will set out some of the early obstacles that the demonstrators and broader interaction with Consortium members have identified in their development approaches. Given the early stage of the project, this report is not in a position to bring forward a series of policy recommendations to overcome these obstacles, rather we see this paper as a means by which to widen the debate around land assembly obstacles and seek further contribution, insight, suggestions and guidance to direct the further stages of the study.

The nature of this project means that barriers can be examined from a variety of viewpoints. The categorisation of barriers is therefore problematic and difficult to convey. The following key headings of barriers are used in this paper.

### **1 "Moving on Up"**

How is the public sector able to position itself effectively in the land supply chain?

### **2 "Sale of the Century"**

Managing resources, balancing budgets and delivering for the community – how public land resources are deployed.

### **3 "Legal Man"**

Formulating a structure or partnership – key concerns

The project is also exploring issues around cross subsidisation and the impact of the planning system, however, at this stage in the project we are not in a position to identify key barriers around these themes and so will address these in our March 2008 paper.

## **1. Moving on Up**

The preceding “Challenges” paper outlined the need for the North to engage in open market competition for land, given the relatively lower levels of surplus public sector land. Our initial learning suggests that accessing the supply chain is problematic for the public sector. Three key areas of concern have been highlighted.

- a) Land-banking**
- b) Land valuations**
- c) Market Competition**

Recent research by the Home Builders Federation has attempted to quantify the level of land-banking undertaken by the top 10 homebuilders across the country. We will be seeking to carry out a similar exercise to ascertain the level of land-banking evident in the North held by private developers.

The project will also explore the level of land banking activity taking place by housing associations, the type and location of land being banked and how these business approaches are integrated into the new Housing Corporation investment approaches.

More information on the barriers to this process will be available in March 2008.

The project has identified that RSLs are increasingly being squeezed in the market for land. A key competitor for land are the private developers, but increasingly members’ are reporting local business/entrepreneurs are seeing land value increases as a potential investment opportunity and are therefore entering the marketplace.

Project partners report that the entrance of local entrepreneurs is both a potential opportunity and a threat. Having a local presence and, presumably, an interest in the community may make land holding entrepreneurs more open to partnership working through joint venture vehicles – if their commercial concerns are addressed. The process of engaging with land holding entrepreneurs is reported as sensitive and with a significant impact on time, but associations feel this is a necessary part of the process and see the land holdings (especially when located in key strategic sites as key to unlocking further development activity in their locality) as worth the investment in resources and time.

At the other end of the spectrum, some developing bodies are reporting these smaller land holding investors, often community based, have a lack of awareness and suspicion about the development process which can have a negative impact on the potential of sites being brought forward.

#### **Policy Action Point**

- a) **How is the sector engaging with a new group of speculative community based land holding investors?**
- b) **How can such parties be brought into the sphere of joint venture vehicles more effectively.**

The “Challenges” paper provided statistical information on the rate of increase in land valuations across the North. Project partners are also reporting concerns with hikes in land valuations which are jeopardising the viability of some schemes.

#### ***The Valuation Challenge***

A 2 acre site in one of the demonstrator areas is currently being marketed for £1million. It was purchased by the current owner for £1/4million.

The demonstrator partner feels they should not pay more than £3/4million for the site given the remediation action required on the land.

However, the site is strategically important for wider economic objectives as well as being identified as key for additional housing provision.

As a body responsible for public funds, the demonstrator must consider whether meeting anywhere near the market assessment for the land (as set out by the owner) represents effective value for money or whether not purchasing will have a disproportionate impact on economic development objectives.

#### **Skill Development/Skill Purchasing/Governance**

Several project partners have reported on the need for a new approach to land purchasing within their organisations.

Many organisations have identified a skills gap regarding strategic land purchasing approaches. In the current climate with rapidly rising valuations, organisations have advised of the need to learn from the private sector.

Several project partners report they are currently recruiting land and/or planning managers into their organisations. Frequently these recruits are

coming from the private sector and organisations acknowledge the need to pay for this skill import.

As organisations are undertaking a more strategic approach to land assembly and given the climate they face, this will have an impact on their governance structures. To date the project has not explored the changing approach to risk within governance structures around land – but this will be addressed in the coming months.

### **Potential Avenues – Financial Sector Capacity**

An area for further exploration is the capacity of the financial sector to support investment in land purchase. If land investment strategies are attractive to the finance sector, can this interest be harnessed and diverted to include the provision of additional affordable housing.

At least one demonstrator is exploring the potential of this route and further information on the challenges and barriers around this will be available over the coming months.

We would be keen to hear from other members who are engaged in similar discussions.

### **Potential Avenues – Equity Investment**

The Local Asset Backed Vehicle approach provides a further opportunity to boost purchase power for land supply. Erimus is exploring this approach and we will provide further updates on the barriers to this as the project moves forward.

The Housing Green Paper signalled the piloting of a series of “Local Housing Companies” whose structure is not dissimilar to the LABV model. We have begun to engage with the Northern LHCs and will feed the learning from this development model into our next series of papers.

As the Housing and Regeneration Bill moves through parliament it is important that the new Homes and Communities Agency is empowered with the correct tools required to deliver new homes and equity investment responsibilities will be key to this – we look forward to working with members to ensure the Bill is adequately framed.

#### **Next Steps:**

- a) Quantitative survey of NHC membership exploring extent of valuation gap between capacity and market demands.
- b) Feedback from the Local Housing Companies
- c) Explore potential of LABV models in more detail
- d) Support progress of Housing and Regeneration Bill

## **2 Sale of the Century**

The previous section outlined some of the key barriers facing development of new homes when engaging in open market land competition. This section of the paper will consider the initial learning when public land resources are the focus of attention.

The Government and agencies such as the Housing Corporation, English Partnerships have rightly set out concerns that grant funding is supporting market valuations of land held by public bodies. They argue that where public subsidy, whether through inclusion of land as an asset or through grant funding should be minimised.

Many of the project partners support this approach in theory but do encounter problems in the application. This view is further reinforced by wider discussions amongst the sector.

There are two key elements to this barrier that the research project will continue to explore:

- 1. Land availability/Land designation**
- 2. Budget reconciliation**

### **1. Land Availability/Land designation**

The government is keen for surplus land held by public bodies, including Local Authorities be tracked on the land use database. However, authorities are reporting lack of certainty over the definition of “surplus”.

Local Authorities are reviewing their land availability assessments through the Strategic Housing Land Availability Assessment guidance recently introduced by government. We will be seeking opportunities to work with strategic authorities and sub regional groupings to consider the value of this approach.

We have also recently been advised that at planning appeal stage designation usages are being overturned – ie land that was being held for employment use is now being given planning permission for housing development. We anticipated the Housing Green paper to lead to such activity but have been surprised at the speed by which these changes are taking place. We will consider this in more detail throughout the project.

## 2. Budget reconciliation

At the heart of the dilemma around release of land for less than market value is the concern of the public land owning body to secure a capital receipt for the land that meets their value for money requirements and provides resources for other elements of their corporate strategy.

Two illustrative examples are provided to demonstrate the impact of this budget reconciliation approach.

### **Revenue v Capital**

A sub regional arrangement is considering how the land owning body can both provide for affordable housing and also meet its own financial regulations around value for money and ensure other corporate objectives are delivered.

The body is considering two options:

- a) take the financial hit on the capital budget and release the land at less than market value (to an agreed formula) as affordable housing provision is key to corporate objectives
- b) seek to lessen the financial impact on the land owning body by reducing revenue expenditure to strategic partnerships/community based activity

### **Sub Market Rents – political impact**

A developing body was seeking to use council owned land to develop new affordable homes. This was originally envisaged to be within the framework of the council supplying land at minimal values and the development supported through borrowing and through a rent setting policy which brought the properties outside of Rent Restructuring and enabled the developer to charge a sub market rent.

The Local Authority were nervous about the political implications of this sub market rent and were ultimately not able to put in the land at original valuations.

The development is still proceeding but is now being submitted to NAHP for consideration. The project will be subject to HC value for money considerations, but crucially as moved from being a “ready to go” scheme to one which will now be part of the NAHP process framework.

### **Potential Avenues – Valuation Guidance Protocols**

A jointly agreed approach to valuation may be a useful tool in this instance. For example, the Durham Villages joint venture vehicle now employs an independent valuer to assess the valuation of local authority owned land going into the company.

Durham City report that whilst they accept there is no open market competition for the land, they are more than compensated by the reassurance that the schemes are more likely to proceed. They outsourced this element of the project as they felt they faced an internal skills gap to undertake this activity.

We understand that the LGA are working on Valuation Guidance and we will engage with this document when available, furthermore the Housing Corporation’s Northern Enterprise project addresses this concern and we will seek opportunities to build on this emerging good practice.

### **Potential Avenues - Overage Reviews**

There are opportunities for local authorities to retain a stake in the land value of a development, these include participation in joint venture vehicles or through overage arrangements.

Our initial findings suggest that both avenues are currently limited in use but may have potential for the future.

*Overage:* Project partners and wider Consortium membership advise that overage arrangements ceased to be used in the recent past as land valuations were so low and therefore not a concern. Now that we see land prices rising rapidly and Authorities (or other public bodies) may be concerned to release land at the risk of not securing full valuations. We are keen to work with members to explore the potential take up of overage arrangements and identify any barriers or obstacles to this process.

#### **Next Steps**

- a) explore limitations/potential of overage arrangements for local authorities
- b) consider the merit of a whole life cost benefit analysis for the delivery of affordable housing to underpin LA decisions to release land at less than full market value and consider how this approach feeds into the new Comprehensive Area Assessment
- c) Review valuation guidance for the North.

### **3. Legal Man**

A key concern for us as we progress this research is the extent to which duplication of effort is occurring. We feel there is considerable scope to facilitate better structures around land assembly through better application of best practice and current exemplars.

#### **Joint Ventures/Local Housing Companies**

The Local Housing Companies promoted through the Housing Green Paper are supported by English Partnerships to the extent that EP will be providing structural, technical and legal support to the 14 pilots. This common framework provides efficiencies of scale, but should still allow for local “tweaking” as appropriate.

This model of joint working at scale is something we would like to progress as part of the project to identify common agreement structures for the creation of new delivery vehicles. We have seen in the arena of Section 106 delivery that model, standardised agreements are becoming commonplace and are supporting delivery and we feel there is merit in wider application of this principal.

In our discussions with existing joint venture vehicles we were surprised that other organisations in the locality were not seeking to “buy in” to the existing arrangement (or re-create as a wider body) as this would appear to be best use of resources and removes the potential for abortive learning. We intend to do further qualitative work to better understand the reasons for the desire for stand alone companies rather than sub regional or regional entities.

The wider remit of joint venture vehicles following the launch of the sub national economic review should also be considered – we have illustrative examples of such bodies that operate across regeneration, commercial development and housing provision and this may be a useful model to further explore.

#### **Procurement Approaches**

Although this was not originally identified in our project brief several Consortium members have raised issues around procurement of affordable housing provision – especially where it is linked to regeneration initiatives as most of our demonstrator sites are.

Concerns include:

- ◆ the “take over” of procurement approaches away from the housing/regeneration lead to a specialist procurement department
- ◆ the applicability of procurement approaches to regeneration
- ◆ lack of knowledge around other approaches

The project will go on to consider how procurement approaches can better support the delivery of affordable housing. One of our demonstrators has used the “Competitive Dialogue” method to engage with the private sector to develop and scope a project delivery programme. Initial feelings from the demonstrator suggest that the process was lengthy but that they hope it has put the project on a surer footing from the beginning and development partners are better engaged in the project, thereby minimising potential for conflict or misunderstanding later on in the process. We intend to take a regular temperature check on this approach and its longer term value as a methodology for delivering large scale regeneration and new housing.

#### **Next Steps**

- a) Seek to understand the differing values of creating new stand alone joint venture vehicles as opposed to recreating existing ones to take on more project partners.
- b) Identify key obstacles in setting up legal structures and consider what benefit there may be in a model agreement approach
- c) Monitor and assess the value of differing procurement approaches

## **Conclusions**

This paper has had two purposes: to share initial findings from the first element of the research project and to test the validity of these findings and secondly to open up the debate to a wide cross section of Consortium Members.

Our early work in the project has identified barriers around:

- a) Accessing land supply in open market**
- b) Land Valuation processes**
- c) Financial impacts**
- d) Legal structures**

Cross cutting these themes are a host of softer issues which the project is seeking to address including:

- a) Partnership working**
- b) Skills**
- c) Governance and Risk**
- d) Innovation**

Furthermore, we anticipate we will bring forward analysis of additional barriers around use of equity and assets and the planning system.

This paper should be seen as an early identification of this range of issues, we have sought to illustrate the concerns through reference to the project partners and wider Consortium membership, but we are keen to broaden our knowledge and understanding of these issues and would welcome feedback from other consortium members who are addressing these concerns.

In the body of the paper, we have indicated the follow up work we are intending to carry out to further quantify and understand the impact of the barriers outlined here. A revised version of this paper including further quantitative assessment will be produced in March 2008 and the March paper will see a further development of policy recommendations to overcome the barriers highlighted.

If you would like to comment on the paper or the project in general please do not hesitate to contact us.

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