social housing:

breaking new ground

Edited by Sir Andrew Foster

THE SMITH INSTITUTE

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Preface
Wilf Stevenson, Director, Smith Institute

The Smith Institute is an independent think tank which has been set up to undertake research and education in issues that flow from the changing relationship between social values and economic imperatives. In recent years the institute has centred its work on the policy implications arising from the interactions of equality, enterprise and equity.

Recently there has been an increased demand for social housing caused by demographic changes such as immigration, single households and an ageing population, but the supply of social housing has failed to keep pace as a result of policies such as the right to buy. Even those who may have been able to move out of social housing struggle to find affordable homes in areas where they can live and work.

The housing market imbalances continue to put pressure on the existing housing stock. This situation has been made more problematic by fixed tenure and by the £14 billion-a-year housing benefit system. To ensure that everyone in Britain enjoys in its continuing prosperity, the way social housing functions needs to undergo changes in planning, tenure, regulation and finance. One big policy challenge in this sector is how to ensure an improvement in the quantity and quality of social housing without harming the livelihoods of those already in tenure.

This collection of essays by key experts in the field offers a wide-ranging and thought-provoking account of the key issues surrounding the often neglected issue of social housing. The Smith Institute thanks Sir Andrew Foster (Deputy Chairman of Royal Bank of Canada Europe) for editing this collection and gratefully acknowledges the support of Royal Bank of Canada towards this publication and the associated seminar.

Introduction
Sir Andrew Foster, Deputy Chairman of Royal Bank of Canada Europe

Shelter and security are the most basic of human needs, and it would be unconscionable in a decent society, as well as socially dangerous, to neglect them. Yet we face a housing crisis: the challenges are truly formidable and there are many sensitivities, even fears. I believe the barriers are surmountable but prompt and decisive action must be taken: we need a new overall delivery model and specific reforms of regulation, registered social landlords, tenure and planning.

Over the past year, the Royal Bank of Canada arranged a series of discussions with leading figures working in or close to social housing. We wanted to see if those with different interests could find common cause and a deliverable way forward. The Smith Institute, which contributed to the discussions, invited us to assemble some of the reflections and ideas that emerged, as a contribution to the debate fuelled by Professor John Hills' report,[1] Professor Martin Cave's review of social housing regulation[2] and the wider housing analysis published recently by the National Housing & Planning Advice Unit.[3]

The essays published here have been written by some of those who attended our meetings, and both the essays and the individuals speak for themselves. Although this introduction mentions several of these contributions, and certainly reflects some of their common themes, it is not a summary. It draws upon the Royal Bank of Canada meetings as well as the essays, and also upon our own thinking at the Royal Bank of Canada.

Context
A storm is gathering, with need and demand for housing exceeding supply and the shortfall predicted to increase. As Adam Sampson argues, demand has been stimulated by immigration, an ageing population and relational breakdown. To complicate matters, this crisis of excess demand will play itself out in the context of decreasing affordability as the ratio of house prices to earnings increases. Moreover, there is an argument that we should not only meet need but seek a housing surplus: house prices are driven up in part by

1 Hills, J *Ends & Means: The Future Roles of Social Housing in England* (Economic & Social Research Council Research Centre for Analysis of Social Exclusion, February 2007)
2 Cave, M *Every Tenant Matters: A Review of Social Housing Regulation* (Department for Communities & Local Government, June 2007)
3 *Affordability Matters* (Department for Communities & Local Government, June 2007), available online at the DCLG website

excess demand, and achieving excess supply could halt or reverse the affordability trend, which is socially polarising.

To achieve this, government should stop talking up home ownership as the only solution and support the rapid expansion of the rented market, and social housing in particular.

But is the social housing sector itself, and the environment in which it operates, capable of rising to this challenge?

Fitness for purpose: a new model?

Anu Vedi rightly says that registered social landlords (RSLs) have, on the whole, delivered well, but there are significant concerns. The sector's objectives are unfocused, the raison d'être for the Hills report. RSL performance is markedly variable. Their constitutions limit their freedom to act. The work of RSLs, local authorities and private-sector providers is insufficiently integrated. Regulation is fragmented. There are untapped investment opportunities.

Social housing is a sleeping giant with unfulfilled potential. It has been largely untouched by what Vedi calls the great sweep of contemporary welfare reforms.

The question is: what must be done to give the sector its wings? A new model is proposed, capable of re-energising and liberating the sector, based on a restatement of objectives, the alignment of incentives, a commitment to plurality in funding and provision, the promotion of competition, the encouragement of investment and a reduction in administrative constraints on what can be done. The approach would resonate strongly with other public-sector reform programmes.

Purposes

First, it is for central government to enunciate its purposes and expectations clearly. Sir Robert Kerslake, Anu Vedi, and Lord Victor Adebowale and Museji Ahmed Takolia argue here (as does John Hills elsewhere) for a holistic view of housing. It should function as one element of a managed, integrated array of services that support individuals and families in achieving their potential, connecting with education and employment, developing their wealth and well-being and contributing to the functioning of the community as a whole. But Adam Sampson roots us in social and personal realities, and, like Hills, he stresses that the sector must continue to do well what it has always done: provide security for sometimes alienated people with chronic disadvantages and high levels of dependency.

The point to make is that these different takes on purpose are not incompatible, although they are sometimes seen to be so. What is needed is clarity that they must co-exist.

Sampson also reminds us that the notorious taper applied to housing benefit works against attempts to re-engage people in work and free them from dependence, including housing dependence. It creates an incentive for unemployment, rather than employment. By discouraging people from seeking low-paid work the taper contributes to the social housing crisis. We must provide incentives for honesty and work, protecting tenants from an otherwise rational fear that employment could have a net negative impact on their well-being.

The steepness of the housing benefit taper must therefore be addressed. This can, and ideally should, be done by central government but could equally be achieved by the regulator in a rent-structuring role or by an imaginative RSL.

Regulatory reform

An essential condition for reform is a reworked approach to regulation. Sir Ian Byatt proposes two key changes: regulation should be output- and outcome-based, not input- and process-based, and a single regulatory framework should cover all affordable housing, whoever produces or manages it, not simply RSLs. These changes would bring affordable housing regulation into line with other regulation in this country. More to the point, they would effectively enable a social housing market to function, with genuine competition between RSLs and the private sector – driving up creativity in the attraction and use of resources and in overall quality and performance, and perhaps stirring those who have nodded off.

In protecting tenants, the emphasis would shift away from the circumscription of what RSLs are allowed to do towards overall system management and performance assessment.

Regulation must be overhauled and applied on an output and outcome basis to all affordable housing, regardless of who provides it.

RSL reform

Many argue that RSLs should be opened up to possible takeover or rationalisation, a negative but powerful incentive to improve. They should also be permitted to change their legal status, for example allowing them to issue equity and repay grant: potentially a strong positive incentive. Fresh steps should be taken to attract the most able people to

RSL boards, and it must also be possible to amend the rules on conflict of interest, contributing to the enrichment of board capability.

RSLs would be encouraged by competition to manage their asset portfolios in more adventurous ways, taking advantage of all the legal opportunities they have: changing the configuration of stock, for example, by selling large or expensively sited properties and building greater numbers of the more necessary smaller units. RSLs should be motivated to behave less cautiously in seeking investment through borrowing. The value and safety of the RSL sector's assets and income make it attractive and what is possible, in scale and variety, far exceeds what is now provided. The challenge in general should be to maximise assets appropriately and the social value that an RSL generates from its assets.

RSLs must be treated as mature businesses and given freedom to change their structures and incentivise their management. They must take the opportunities that exist to attract investment and they must be prepared to compete with the private sector, a rising player in social housing.

Tenure reform

Regulatory reform, and the RSL reforms it would facilitate, leads us to the question of tenure reform. Ten to 15 percent of those occupying social housing rented stock no longer need it. This is neither economically intelligent nor socially equitable, and life tenancies limit RSLs' ability to manage their assets properly.

From an economic perspective, is it correct to pay now to buy affordable housing in perpetuity? Does anyone really know what the affordable housing demand will be in 10, 20 or 30 years' time in a particular area and, if not, should the public sector pay now for this possible, but unknown, need in the future? Is this value for money? James Coghill and Robert Grundy in their chapter, and Elliot Lipton and Richard Parker in theirs, set out just how much this policy is costing.

This is an argument at the societal level; Adam Sampson puts a countervailing argument at the level of the individual. For many people, their tenancy is the only stable aspect of sometimes chaotic lives, and this should not be threatened by the removal of life tenancies.

This is true, but there are still improvement possibilities. A simple reapplication for tenancy, say every five years, would ensure that those who remained eligible for the accommodation they occupied would stay in it. Others still in need might remain protected in tenure terms, but expected to move to a more appropriate (for instance, smaller) unit. Some whose circumstances had improved might be helped to find alternative accommodation or – perhaps a more socially coherent solution – a more appropriate tenure in the same accommodation. Less radically, tenancies could be granted for substantial but finite periods, say 30 years.

These measures would require law reform. An even less radical, and less contentious, approach might be to engage tenants systematically in regular (again five-yearly) reviews of their needs and position, offering constructive choices and guidance rather than laying down requirements. Anu Vedi illustrates the ways in which good management can motivate tenants to develop and move forward without the need to change the law.

What would we hope to see if we went down one of these routes? Those not in need of social housing would move on (in terms of either tenure or unit), and the occupation of affordable housing would reflect present rather than historic need: tenures once but no longer required would be freed up for those most in need.

A significant proportion of social rented housing stock is occupied by those who no longer need it. We cannot afford this, morally or economically, and it must stop. In addition, the doctrine of perpetual tenancies must be amended.

Planning reform

Planning is the fourth specific arena for change.

If local authorities, in their land management and development control roles, do not join the drive for innovation and delivery, the other reforms will achieve less. Alan Kilburn argues that local planning authorities should be required to set out housing plans that look ahead and attend to social and community need as much as land use. Sir Robert Kerslake shows what a fully engaged local authority can achieve through its leadership of local partnerships.

Local authorities must be allowed to set up the tenancy types most appropriate for their particular area with a view both to location and to need, and changing need, over time.

Section 106 should be rethought so that housing associated with a development can be provided in areas other than those to which the section 106 agreement relates. This is important on sites where prices are high and it is not obvious that affordable housing is needed.

Local authorities must use section 106 to the full. If they do, then logically there is no slack left for planning gain supplement.

Section 106 should be expanded and applied with freedom on a locally determined basis.

Central government

What should central government be doing? It must facilitate the above ideas. Other than that, I would argue that the answer, in a sense, is "less". It has been urged repeatedly, across the public sector, that the proper role of government is to set out its purposes and objectives, to enunciate its assumptions about and facilitate access to resources, to establish a delivery and regulatory framework – and then to stand back from the day-to-day management process, freeing the delivery system to achieve, and holding it periodically to account for doing so. Essentially, we have proposed a market mechanism to do what is required within this overall model. What we look to government to supply is leadership, especially in the early reform stages, but not on-going management. In the longer term what is required is clarity, commitment and (in eschewing frequent, politically motivated intervention and modification) constancy.

I hope very much that these papers will make a contribution to the thinking about this important subject and that a successful way forward will be found. The price of failure could be unbearable.

Chapter 1

Planning reform

Alan Kilburn OBE, Chairman of Affinity Sutton Group

Planning reform

In his recent report, *Ends & Means: The Future Roles of Social Housing in England*, Professor John Hills concluded that "there is no reason why social housing should not continue to play [its crucial] role" for nearly 4 million households in England, and this pamphlet is certainly not the place to argue with that! Hills went on to suggest four areas in which urgent debate over policy directions might achieve better outcomes.

Whilst I agree that a focus on outcomes is important, it assumes that these derive from a clearly thought-through strategy and process. My conclusion from a lifetime as a practitioner in the sector (over 50 years) is that there must be a better way of doing what needs to be done and that the better way must be found quickly. We face problems with both the strategy and the process – and both need to be addressed before we can talk about outcomes for households.

The need for new homes is not open to challenge. Research suggests that on average slightly more than 200,000 new households are expected to form each year for the next 20 years. We are producing around 170,000 new homes each year and of those only 37,500 are in the social housing sector (21,000 for rent and 16,500 for low-cost home ownership). There are 94,000 people in temporary accommodation, compared with 46,000 in 1995, and a staggering 1.5 million applicants are on social housing waiting lists. Overcrowding adds to the problem, and there are 200,000 instances recorded in the social housing sector. Of new tenants in the sector, 13% are full-time employed and 12% have part-time work. These figures speak for themselves.

Demonstrated here are the mega-problems that will require political will, creativity, and a boldness of approach to solve because they concern the essence of society – culture, attitude and politics. Indeed an alternative title for this piece could be *Politics, Prejudice and Planning*.

It all starts with planning

There are many reasons why housing development in general and social housing in particular have failed to keep up but, in common with many other people, I believe the planning system – or more accurately, perhaps, the way in which it is administered – is a major factor. Let's look at the key problems.

Politics and local nimbyism

Too often we have seen that planning agreements can be used to provide for amenities unrelated to housing. Using this avenue to facilitate non-housing development may be perfectly legitimate, but the output from those activity areas has to be significant if they are to outweigh using land for the provision of affordable housing. Some local authorities (perish the thought) may even prefer to find alternatives to the provision of social housing. That sounds like a kind of corporate nimbyism. This is said because there is an example of an authority, where social housing need is great, choosing to shun several million pounds of social housing grant along with a substantial input of private finance from a housing association, because "we do not need any social rented housing here".

I suggest this is not planning. It is at best politics and at worst prejudice; or maybe the two in this instance are related. Support for this view is provided in *Fact Sheet 3: Planning – Draft Planning Policy Statement 3*, published by the ODPM, where the following is found: "In high demand areas, local authorities are not always working to identify sustainable sites for the new homes their communities need. In some low-demand areas, house building is continuing at a pace that outstrips demand." What a nonsense that is, when the required supporting financial resource for the provision of affordable homes is as limited as it is.

Lack of feed-through from central policy to local housing policy

There is increasing recognition that the provision of housing is an important component of the national economy. Sufficient housing is also an absolute requirement for the creation and sustenance of social well-being. The generally positive relationship between housing and livelihoods is well understood, promoted as it should be by central government, yet it does not appear to filter down to, or rise from, a local government level in the context of planning for housing development. Here again we see a rise in nimbyism, increasing delays in decision making, and more political interference in decisions after technical approval. This is not good. It has to improve for all and in particular for those who cannot afford to buy and who have little opportunity of finding a place to rent that is within their means.

Given the role of central government, it is heartening to read and to repeat now the words of government relating to Planning Policy Statement 3: "PPS3 is designed to make planning more responsive to housing need and demand, ensuring everyone has the opportunity of a decent home, which they can afford, in a community where they want to live." That was a year or two ago. Consistency is found in the foreword to the white paper *Planning for a Sustainable Future*, published on 21 May 2007, which states: "We also need to build more houses so that people can afford decent homes." So there we have it. If it were as easy to deliver as it is to talk about, it would be wonderful.

Bureaucratic delay

Democracy is fine, but it has to work. People have the right to express opinions and make representations, but it appears that we can no longer rely on agreed processes for handling planning applications. As a result of these processes, development is impeded, risk is increased and people in need have to wait longer or go without. Processes are more bureaucratic, so they take longer, and often, frustratingly, when proposals have overcome all the technical hurdles they fall at the planning committee stage. This can occur for local political reasons.

It seems to me that if a planning authority has a development strategy, then it must be based upon the identified needs of the community and have a process for how the needs will be met and the strategy that must be followed. This brings me back to democracy. As a nation we seem increasingly unable to reconcile competing pressures or demonstrate joined-up thinking. Some may say this is the price of democracy; if that is so, then it is a price we cannot afford to pay. I contend that the current state of affairs is not in anyone's democratic interest, because by failing to do anything to correct matters we are in effect doing nothing. It may be comfortable to adopt what can be termed a "lowest common denominator" or "zero sum" approach, but it is not right. As Edmund Burke said: "No one could make a greater mistake than he who did nothing because he could only do a little."

Staying with democracy, it was interesting to read that, following the publication of *Planning for a Sustainable Future*, the chairman of the Local Government Association, Sandy Bruce-Lockhart, said:

The white paper offers a real opportunity to bring in a planning system which promotes economic growth and attractive environments, rewards innovation and vision and gives democratically elected local councillors the ability to create places where people can thrive.

The ability to do this is there now. As I said earlier, the problems could be little more than administrative. However, if the proposed changes act as a revitalising force, then that will be good. What is needed now is action from every local authority to provide strategy, direction and implementation. I see implementation as an executive function. For this to be successful requires a sound administrative system in which the executive planning officers have the resources and the power to execute the policies of the authority without reference to the planning committee. This would speed up the process!

Every step a new challenge

I hope fervently that local government will rise to the challenge by acting responsibly in making decisions that meet need. Decisions are sometimes shirked for what the cynic might say are "ballot box" reasons. It does not help the cause of local governance to have planning permission refused and the applicants told, "Never mind, you will win it on appeal." It appears to many in the social housing sector that this applies more to applications for affordable housing than for housing for sale.

A question of resources or skills?

If there is an abdication of responsibility and matters are left to the Planning Inspectorate, then that provides support for those who advocate that all planning submissions should be dealt with in this way. That would be a pity, when properly resourced and administered local governance should be the preferred option. However, there are question marks over the available resources and skills of local authority planning officers and the developers interacting with them. Whilst we might expect, but not accept, a difference in culture, the often poor general skills base of both is an impediment to efficient decision making. This is probably exacerbated by a lack of public/private dialogue, which allows ignorance and suspicion to fester. I have heard it said that there was no consultation between government and developers on the contents of the white paper.

Towards a solution

These problems are difficult but not impossible to overcome, so the maxim "every little helps" is very much in play. Politicians and policy makers must be encouraged to respond to the challenging situation made clear by John Hills, Kate Barker and others in reports and comments. True, debate may help, but we don't have time for procrastination: words commend action. Action requires execution, and that comes from the practitioners and from those who support and incentivise the practitioners. The "little" that Burke urges to be done can lead to something that is great. The message is: "Do it now."

Kate Barker, in her two reviews – the first on housing supply and the second on land use[1] – drew attention to the problems we face and presented solutions. If she had done

1 Barker, K *Delivering Stability: Securing Our Future Housing Needs* (HM Treasury, March 2004); Barker, K *Barker Review of Land Use Planning: Final Report – Recommendations* (HM Treasury, December 2006)

nothing else, she made people think. Hers was a timely intervention, highlighting, as it did, the need to make our housing more affordable and pointing out that to bring our price increase trend down to the EU average level of 1.1% would require an additional 120,000 new homes each year. In the social sector an additional 23,000 homes are needed each year, costing annually an additional £1.6 billion. Planning gain supplement (PGS) was suggested as a means to ensure that the uplift in value arising from the grant of planning permission would not go solely to the landowner or developer.

I will say here that I would have welcomed something more in the Barker reviews on the use of public land. Affordable housing needs land at the lowest possible price, and that takes one to the landholder. When land holdings are examined we find that 30% of previously developed land in England that is suitable for housing belongs to central and local government and other public bodies.[2] That land could deliver 295,000 homes. It would be nice for government to set an example and release some of this. Did someone say something about mouth and money?

Changes to planning obligations

This was the title given to a recent consultation on PGS, and the proposals are of great importance to the social housing sector as the changes affect section 106, which was introduced by the Town & Country Planning Act 1990, as well as the proposed introduction of PGS.

Section 106 has had tremendous impact and its use has increased greatly over the years. Indeed, affordable housing has become heavily reliant on it, with 61% of new homes being delivered through this route – the figure was 28% in 2002. In London, the South East, the South West and the East Midlands the figure is even higher, at 70%. There is no doubt that without the benefit of section 106 agreements the social housing output would be much less. Not all is positive; the developer drive for greater densities, allied to planning authority requirements and government guidance that encourage the same, has led to a larger proportion of flats than would be ideal. We could be building tomorrow's problems today.

Section 106 is good, but it can be improved. It needs to be more fully utilised and to a certain extent "standardised". It is currently applied to different extents and in different ways by different local authorities. Flexibility in meeting local needs is key, but we are

2 *Previously Developed Land That May Be Available for Development: England 2005* (Department for Communities & Local Government, August 2006)

seeing wide variation in interpreting the guidelines. And in the era of the free market, perhaps it is time to explore tradability as a means of delivering development to the point of greatest need.

We need to see smarter planning – each authority could develop a housing plan as part of its manifesto. Such a plan should be informed by a local assessment of need and embrace an understanding of what is available now and what might be needed in the future to deliver a mixed but balanced community. That plan could then be voted upon as part of the local democratic process and be agreed with the Department for Communities & Local Government to pre-empt the types of corporate nimbyism or short-sightedness I described above. A side benefit of this approach might be an improvement in professional skills amongst planning officials, leading to a greater degree of specialisation, which might also speed up the bureaucratic process.

This "planning over time" approach could also allow local authorities to bring in new types of tenure to meet demographic changes, and section 106 could be used to promote different mixes, thereby achieving some of the social goals of vibrant, sustainable community development whilst unlocking some of the value that could incentivise future development.

Clearly, we have to guard against change that would inadvertently provide fewer affordable homes than are obtained through existing practice. This is a point strongly made by the National Housing Federation in its response to the consultation paper. It also correctly warns against a danger that section 106 and PGS may not work well together; it could happen that a developer could use one system to avoid the other. An example suggests that private developers are most likely to opt to pay full PGS liability in order to avoid making affordable housing contributions on site. This is said because, while the provision of housing will reduce PGS liability for the developer, the cost of providing affordable homes is likely to be significantly more than PGS levy.

The National Housing Federation is concerned that, where local authorities are not committed to securing affordable homes, there is a risk that those authorities will seek to increase their revenues through PGS levies rather than stipulate the provision of more costly homes as part of the development. Having said that, the federation – which is sometimes described as the "housing association trade body" – welcomes the proposals in general.

The other major lobby argues that social housing provision should be exempt from the PGS levy. They suggest that the imposition of the PGS levy in such cases would work against the whole purpose of the levy and that it would reduce the number of affordable homes provided. Some work done for the National Housing Federation indicates that as many as 5,000 homes could be lost each year in this way.

The housing association as developer

Housing associations are alive and well, and they are well placed to do more. The asset base is strong and there is tremendous potential to be realised. This piece began with reference to recent work from John Hills, and here I will again reference his work, but from the year 2000. He contributed to the Institute for Public Policy Research report on social housing, the key proposal of which was that social housing should be transformed into community housing: providing greater choice and opportunity to respond to people's aspirations; it should be run by organisations that were financially independent and able to encourage inventiveness and innovation, resulting in communities that were diverse and sustainable, with housing management integrated into neighbourhood management, and barriers between tenures reduced. Hills' recent utterances are similar in their thrust and equally welcome.

It has to be remembered that housing associations are not-for-profit, and their successful operation has led to reinvestment of surpluses to enable affordable housing provision at a time when there is (and has been for many years) downward pressure on grants allied to the introduction of rent capping by government. The sector has moved from an almost solely grant-funded operation to one in which there is now over £30 billion of private finance borrowings, all of this in the last 20 years. It is therefore surprising that the nature of the sector as a social enterprise (and perhaps as the best example of social enterprise) is not recognised or understood. Understanding needs to come before recognition. That is something for us all to work to achieve.

As independent businesses, housing associations have the ability to respond to the call to arms encapsulated in what John Hills said then and what he says now. Housing associations are not clones of one another. That should be demonstrably recognised. They should be afforded flexibility to use the strengths that some have in assets, financial and human resource, to do much more than is being done now. They can borrow more.

When North Housing Association (now named Home) was first to go to the City in 1987, it raised £66 million. A second share issue produced £34 million. More than 2,000 rented homes were provided, in 14 local authorities. In addition to the £100 million there were other ingredients: "free" land from the local authorities in return for letting nomination rights; a guarantee arrangement that was acceptable to all parties, including government; and an input from North Housing of £12 million. It is sad that, not long afterwards, government barred the use of "free" land and the guarantee element suffered the same fate. That was then. Now housing associations have operated successfully with lenders for 20 years, and a guarantee should not be required. Housing association financial input is now the norm. "Free" land is needed and it is feasible to say that the value of letting nomination rights equates to the land value.

Given the strength of some of the larger associations, there must be a financial instrument waiting to emerge that harnesses the income stream constancy of the housing association to the City's liking and support for the sector – certainly for the most effective performers in it. There is nothing wrong with profit; how the profit is used is the important factor. The challenge for the non-profit distributing operation is to find a way of becoming ever more business-like in terms of governance, risk and reward.

It is not beyond the wit of man to find a way. It could be privatisation. It could be a variant of that. The sector has to move on. When the move is made the sector, or some in the sector, will be better armed to respond to the demands and needs that planning for the future will require. For housing associations the best is yet to come, and the benefit of the sector moving on will be seen in the communities we help to create and sustain. A good first step would be to remove the restrictive practices between registered social landlords and local authorities in some areas.

Another Barker proposal worthy of mention was the recommendation for the creation of a community infrastructure fund. In the 1920s Father Basil Jellicoe, who did sterling work in the St Pancras area and founded the St Pancras Humanist & Housing Association, had as his mantra the phrase "housing is not enough". How right he was then, and how right those words still are today. Jellicoe's pioneering work provided clubs for children and their parents, nursery schools, loan clubs, a shop for low-cost furniture and furnishings, a community centre, country holidays for deprived children and, to show his vision, the improvement of two public houses. I do not think he would have used the term, but he was creating a sustainable community.

Land for community and social facilities is to remain within the scope of the new section 106, and interestingly the National Housing Federation is asking HM Treasury to consider a "pump priming" fund to enable local authorities to underwrite housing associations and other lead developers in building at risk those facilities essential to the development of community.

If an example is needed to show to what the community infrastructure fund should aspire, then it is found in Jellicoe's work and achievements. Communities improve as a result of the will of the people in the community for improvement and from their input into the improvement. Sometimes all that is needed is a starter. A catalyst for change could be the community infrastructure fund or some other stimulus, such as that sought by the National Housing Federation. Whatever the incentive, it should be for the long term, as regenerative change cannot be effected quickly. There is always a danger that financial support could cease before the task is completed. Financial incentives should be specifically for the task and should not be capable of being redirected to some other use.

Conclusion

Planning and land are never far apart. They need to be together for the outcome we seek. Much more land with planning permission is required to provide the additional social housing that is needed. Central and local government are major landholders, and they should make land available free or at a discount to market value to enable the provision of social housing to rent. This should be targeted to areas of high demand. Communities England – the merger of English Partnerships and the Housing Corporation – has a real opportunity to take a lead. It is a pity that the apparent need for legislation could delay the merger until 2009. Surely a way can be found to have the new organisation sooner?

Housing associations have done well during a long period of downward pressure on grant rates and rent regulation. That pressure appears set to continue. The Housing Corporation's *Unlocking the Door*, published in February 2007, posed two questions:

- How much further can the costs of new supply be reduced?
- How much further can we shift the balance between subsidy and private finance?

Those words are not promising.

Regulatory controls should flex to allow diverse housing activity, including housing for sale and middle-market renting. A profitable housing-for-sale programme would provide cross-subsidy for the provision of affordable homes. Middle-market rents would meet the need of those for whom renting is the preferred option and those for whom home ownership is just out of reach. A "can do" attitude is needed from government and the Housing Corporation. This, aided and abetted by planning authorities, will provide fertile ground ideal for the encouragement of innovation and initiative.

In Burke's terms, doing nothing is not an option. What are needed now are enablers and doers as well as talkers.

Chapter 2

Regulatory reform

Sir Ian Byatt, Senior Associate of Frontier Economics

Regulatory reform

The legacy of the past

The existing regulation of social housing stems from the policies of the past; it needs an overhaul. It is too detailed, too intrusive and overly concerned with regulating inputs rather than with what is delivered to tenants, prospective tenants and the wider public. It fails to mobilise the full scale of finance that is now available on good terms to expand the supply of social housing. This paper takes into account the excellent review and suggested reforms in the recently published Cave review of the regulation of social housing,[1] which provides an analysis of the regulatory issues in social housing. In addition, the work of the Hills report on social housing[2] and the Lyons review of local government finance[3] also provides an opportunity for radical reform to align regulation with emerging policy objectives.

Regulation should be a servant and not a driver of policy.[4] Policy changes are needed to make better use of the stock of social housing and to increase gearing to take advantage of the availability of low-cost finance. Policy, including policy on housing benefit, needs to be better focused to provide good and responsive housing, with related services and amenities, for all those whose personal circumstances, including their location, make it difficult for them to meet their housing needs in the open market – that is, for potential as well as existing tenants.

Existing institutional regulatory arrangements are confusing. The proposed merger of the Housing Corporation and English Partnerships within a new organisation, Communities England, provides an opportunity for reform.

Regulation needs to be concerned with achievements, be proportionate to the task and allow proper incentives to efficient behaviour. But first we should ask why we need it at all, and, if we do need it, what kind it should be.

1 Cave, M *Every Tenant Matters: A Review of Social Housing Regulation* (Department for Communities & Local Government, June 2007)
2 Hills, J *Ends & Means: The Future Roles of Social Housing in England* (Economic & Social Research Council Research Centre for Analysis of Social Exclusion, February 2007)
3 Lyons, M *Place-shaping: A Shared Ambition for the Future of Local Government* (Department for Communities & Local Government, March 2007)
4 Other chapters in this pamphlet, in particular those by Anu Vedi and by Lord Victor Adebowale and Museji Ahmed Takolia, argue the case for wider and more outcome-oriented policies.

Why do we need regulation – and what kind?

There are already inspectors and the machinery of land use planning. Social housing is not a monopoly; current problems may result more from regulatory failures than from market failures. But help is needed for those who cannot meet their needs in the market. Tailoring support payments to them, for example through means-tested housing benefit or taxed housing vouchers, may not be sufficient to meet their requirements and the requirements of governmental social policy. At present, for example, demand exceeds supply, especially in London and the South East, where building land is scarce. Rental policies are geared to the control of public expenditure as well as meeting social need. Market forces may need to be harnessed and consciously directed by a form of regulation. Regulatory reform could facilitate a substantial increase in the supply of social housing.

Such regulation should start with the objectives, and the current provision, of housing and related services, both to existing tenants and to potential tenants. Satisfying customers should be the bedrock of policy.[5] How can their leverage at different parts of the value chain be increased? How can housing policies help to increase their work incentives? How should policy take account of changes in tenants' circumstances? This requires greater clarity on social and economic objectives, on the provision of proper information, on the establishment of proper incentives and mechanisms for contestability and on systematic monitoring of what is achieved. Regulation can help to make markets work better; but its role must be to guide markets, not to try to supersede them with detailed management and control.

Identifying objectives in this area is not straightforward. Objectives for social housing spread widely into neighbourhood issues; housing is not just about bricks and mortar but about communities, about security, good neighbours and opportunities for employment. Social housing can also contribute to wider objectives by providing housing for key workers. Planning policy is also crucial, particularly in London and the South East, where house and land prices are driven by scarcity for all and high incomes for some.

The importance of local factors in the housing market points to an approach that is both top-down and bottom-up. There are national objectives, such as achieving decent housing standards and enhancing community life. And there are local objectives and local priorities that differ in differing neighbourhoods. It is neither appropriate nor sensible to expect providers of social housing to juggle a variety of objectives or to submit them to a battery of targets.

5 See chapter by Anu Vedi in this pamphlet.

Where national objectives are concerned, central government should set incentives, financial or otherwise, and not try to dictate exactly what happens on the ground. Similarly, local authorities should work in a two-way relationship with providers of social housing, in particular by providing land in return for a degree of influence in the provision of social housing. In return, social housing providers should account for their actions to meet central and local governmental objectives, particularly where they are in receipt of government grants.

Social housing arrangements should also promote local choice. Full account must be taken of the interests of tenants – existing and potential – in a local situation. Opportunities must be available for innovation, including local initiatives. There must also be scope for experimentation and for learning. That must be the main route for sustainable progress in the development of both policy and regulation.

Achieving the aims of social housing may involve a variety of agents – inspectors, land use planners and local community bodies, including law enforcement and social care bodies. There is a strong case for establishing a domain regulator that can take overarching responsibility across the sector, including all providers of social housing. This would allow housing associations to change their legal structure without prejudicing the interests of tenants.

Such a regulator would not be a policy-making body. Its main function would be to ensure that the various bodies acted broadly in concert with each other, following the interests of tenants and potential tenants and overarching government policies at central and local levels. It would be investigative and advisory with limited executive powers. It could be created from existing bodies, but its style of operation should differ from past practice. It must operate with a light touch, concentrating on the achievement of good outcomes, not detailed prescription or control of activities. It must not be excessively risk-averse.

It would also be responsible for establishing the relevant facts in an objective and, where appropriate, quantified way, bearing in mind the particular context of individual situations. It would be focused on the use of the stock of social housing – not, as hitherto has largely been the case, on increments to the stock. It could also be expected to monitor relevant developments, particularly on the provision of finance for this sector, and the way that housing developments can be linked to the supply of land.

It is important to distinguish between outcomes, outputs and inputs. Regulators can set up and operate arrangements that begin with high-level *outcomes* desired by tenants and potential tenants and by government, and relate them to what needs to be done on the ground to achieve them (*outputs* from suppliers of housing services) and ensure that the delivery of these outputs is properly monitored. Regulation should focus on the delivery of outputs, not on the details of exactly how they are delivered. As always, special care needs to be taken to identify how these outputs should be measured. The particular measurements used will inevitably drive actions and expectations. Issues concerning the way in which *inputs* are used are best left to suppliers of services.

Key outputs for social housing would be matters such as space standards and the quality of building, management and maintenance quality, and the adjustment factor for rents. The adjustment factor for rents might need to be related to the housing benefit taper in order to protect and provide adequate incentives for work.

This approach would follow the successful pattern of regulation developed in the utilities, both publicly and privately owned, where regulators exist to promote the interests of customers and to ensure that wider objectives can be financed. Such a regulatory body should, as in the case of utility regulators, be given statutory responsibilities and expected to report annually to parliament on the discharge of its functions.

The responsibilities of a domain regulator

The objectives of social housing need to be mapped with what can sensibly be regulated by an appointed (non-elected) body. In order to ensure a level playing field, regulation should relate to the whole sector, covering all suppliers of social housing services, and any further entrants. It should operate through incentives and market forces, seeking to ensure that the supply of housing services is contestable and is responsive to the preferences of tenants and potential tenants.

Contestability, risk and governance

It should be a duty of the regulatory body to consider how private finance could be made available to enhance significantly the supply of social housing in order to meet the objectives of the Barker review.[6]

It should also consider how social housing can be made more contestable, to give tenants and potential tenants more choice by allowing for fair competition among suppliers to

6 Barker, K *Delivering Stability: Securing Our Future Housing Needs* (HM Treasury, March 2004)

satisfy their wishes and priorities. Greater contestability would, however, involve taking some risks. How can tenants be protected while allowing for innovation and initiative?

At present, risk of failure is minimised by regulations limiting the behaviour of housing associations, by tenant allocation policies (nomination of tenants is made by local authorities, who may be expected to maximise the number of tenants on housing benefit to the exclusion of other potential tenants) and by tight controls on the finance of new building. This has led to a risk-averse culture, restricting the volume of new building.

The regulator should be responsible for arrangements that would ensure that a failing housing association could be administered by a professional body (on the lines of the special administrator provided for under utility legislation) that would have a responsibility to existing tenants and a mechanism for arranging for takeover by another provider of social housing.[7]

Contestability also implies a wider need to expose existing providers to takeover, should other registered social landlords (RSLs), local authorities or the private sector be able to provide better housing services or finance them more economically – a powerful stimulus to sleepy associations. Supervision would be necessary to ensure that the interests of existing tenants were properly protected. This should be a function of the regulatory body. Such supervision need not be detailed and onerous; public policy criteria need to be established.

The regulatory body should also exercise some surveillance over the governance arrangements adopted by RSLs. Many housing associations are failing to respond to a changing environment. Where it had good reason to think that an association board – or any other provider receiving public money through grants – was failing to meet the objectives of the sector, the regulatory body might need to intervene. The Housing Corporation has powers, as has Monitor in relation to foundation hospitals, to remove individuals or whole boards should they be seen to be failing, although the situation might be better dealt with by allowing takeover by another provider. It must not be the aim of the regulator to dampen initiative. Entrepreneurship and responsible risk taking are essential ingredients of a successful policy.

The regulatory body should also ensure that administrative arrangements for grant and other applications are consistent with a level playing field.

7 There is some ambiguity about the ownership role for housing associations. This needs to be clarified.

Information, analysis and advice

A regulatory body would be responsible for ensuring that the interests of tenants and potential tenants are properly identified, through instruments such as market research and opinion surveys. It would be responsible for collecting and collating information on the aspirations, preferences and ability to pay of tenants and prospective tenants, and on the costs and performance of suppliers of social housing.

A key part of the regulator's job would also be to ensure that ministers define the outcomes that they wish to achieve and are aware of the resources, public and private, that would be involved in achieving them. This would require work by others, for example existing inspectors, while the regulatory body should have the responsibility for ensuring that the task is regularly undertaken.

The necessary information to carry out these tasks should be collected regularly: annually in some cases, in others less frequently. For it to be properly comparable, the regulatory body should specify the desired format. An example would be a standard for financial accounting that allowed for a proper comparative evaluation of the balance sheets of RSLs, including current valuations of assets, as well as of their performance on current account.[8] Assessments of performance should cover both delivery to tenants (and potential tenants) and financial performance. Were management and ownership to be separated, assessments of performance should cover the two functions separately.

The regulatory body should also collect and collate comparable evidence of suitability and serviceability of the stock for tenants and potential tenants, and of levels of provision for maintenance. It should also monitor relevant developments in financial markets and tenure/ownership arrangements.

In looking at financial performance, it would be desirable to assess the overall subsidy, both explicit and implicit, provided to tenants through the tenancy arrangements. The regulatory body could be given a duty to advise ministers on the consequences of their policies on rents for the achievement of their objectives for the sector – and on beneficial changes. This could be of particular importance in London and the South East, where land supply is a critical issue.

The regulator should pay particular attention to the interests of potential tenants.

8 See James Coghill's and Robert Grundy's paper in this pamphlet.

Systematic analysis of waiting lists would provide crucial market information, particularly on pressures in different parts of the country and on the need to ensure satisfactory land allocation policies. Where local authorities hold stocks of land, public expenditure controls can constrain their financial interest in releasing it to expanding housing associations. Changing their incentives could give local authorities a strategic role in their area while avoiding duplication in regulation.

The regulatory body would be expected to provide regular reports to parliament and the public. It would need to work with other responsible bodies, such as the Audit Commission.

What deregulation is possible?

These new responsibilities should not simply be added to the responsibilities of existing bodies. The opportunity should be taken to deregulate certain activities, especially those related to controls over inputs – notably those concerning the financing of new building, such as advice about limits to the maturity of loans.

There have been important developments in capital markets in the last decade, especially in bond markets. These provide a competitive supply of finance at low cost for new and refurbished social housing. This makes it unnecessary and undesirable to regulate borrowing as hitherto. Where government grant is involved, there is a need to prevent the waste of public money, but attempts to eliminate risk to lenders by regulation may mean that they will not exercise their proper function of estimating the risks of project finance. The regulatory body should confine its activities to checking, by exception, the position of housing association balance sheets in the format of the recommended financial accounts.

Local authorities would remain under the fiscal controls of the public sector, although, again, compliance with the regulatory accounts recommended by the regulatory body would provide a check on any overextension of borrowing and the potential to borrow within overall public expenditure constraints. Monitoring by a regulator, independent from local authorities, would enable some liberalisation of borrowing for social housing.

Existing regulation has become detailed and onerous, inhibiting change and imposing disincentives. Better regulation would seek to encourage the entry of new providers. To do this successfully would involve examining the minimum surveillance necessary in today's world for an entrant that could increase or improve the supply of social housing services.

Vigorous pruning is needed to cut back the existing regulation of inputs. This is a matter of both culture and content. Detailed rules should be replaced with a more widely focused, incentivised, risk-based system. This should be directed to a better use of the whole stock of social housing for the benefit of tenants and, perhaps even more importantly, of prospective tenants, rather than concentrating, as now, on new buildings and their financing.

Chapter 3

Tenure reform

Elliot Lipton, Managing Director of First Base, and Richard Parker, Partner at PricewaterhouseCoopers

Tenure reform

This chapter examines the opportunities to improve the delivery of social housing by tenure reform. In the first half, Elliot Lipton examines the opportunities to reform intermediate housing. In the second half, Richard Parker examines social-rented tenure reforms.

Part I: Intermediate housing

Background

In addition to a reform of social rented housing, we believe there are significant opportunities to reform intermediate housing. This section summarises the intermediate housing market, comments on existing intermediate tenures, introduces the key issues addressed in a new tenure structure being pioneered by First Base, and concludes with a summary of the opportunities and challenges that face intermediate housing over the next few years.

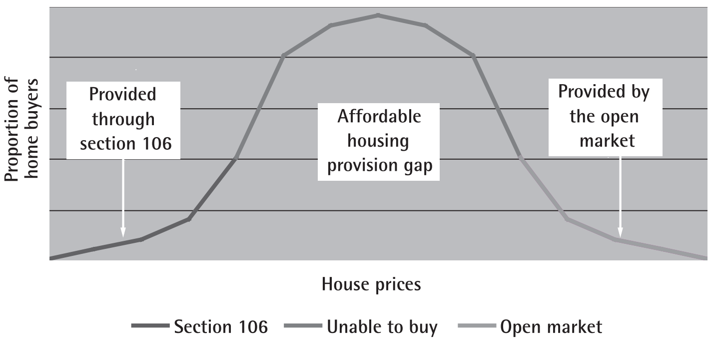
One of the government's stated objectives, with cross-party support, is to promote home ownership. The argument is that a high level of home ownership increases pride in a community and brings related security and health benefits. There is also evidence that home ownership encourages households to invest in and secure their financial future, as well as procuring other economic benefits; for instance there is a link between home ownership and enterprise (as readily accessible equity in houses can be used to launch or fund new business).

With demand for housing rising and only a gradual increase in supply, house prices have continued to rise at rates well above wage inflation, meaning that home ownership and even market rents have become unaffordable for a significant number of households. This imbalance has resulted in the establishment of "intermediate" housing, which offers households with lower to middle incomes the opportunity to buy or rent homes at prices that they can afford.

Affordability issue is worsening

But even since the emergence of the intermediate housing sector, the affordability problem has worsened. Affordable housing policy and the planning system are encouraging new residential developments that cater for the top end of the market and, through section 106 arrangements, the bottom end of the market, but entirely ignoring the middle market. As section 106 agreements tend to focus on the lowest income earners, developers either cross-subsidise from market housing (or commercial development) or are reliant on grant funding or subsidy. This "housing provision gap" is particularly acute in London and is demonstrated in figure 1.

Figure 1: The housing provision gap – profile of London home buyers



This gap is widening and, as a consequence, putting more pressure on supply at the top, as households overstretch themselves to buy a home, and at the bottom as households are unable to move from social-rented accommodation. However, recent research has demonstrated that up to 30% of households in social-rented accommodation could afford one of the intermediate housing solutions.

Variety of intermediate housing products

So as the gap widens, the need for a solution becomes more pressing. A range of intermediate housing products has been used, with varying degrees of success. The key objectives of an intermediate housing product should be:

- Accessibility – the purpose of intermediate housing is to bring the option of home ownership within the financial reach of more households, therefore the entry price needs to be affordable and the transaction costs kept to a minimum.
- Affordability – once in occupation, the home owners need to be able to afford the housing related costs, whether in the form of mortgage payments, rent or service charge; whilst the established target for housing costs is a third of gross household income, this should be applied flexibly to take into account local incomes and to reflect levels of disposable income.

- Perpetuity – the scarcity of affordable intermediate homes is a long-term, not a short-term solution and therefore the home should remain affordable for as long as possible.
- Low levels of subsidy – the intermediate sector at the moment relies on cross-subsidy, whether in the form of public-sector grant, developer contribution or access to lower-cost land (either from the public sector or as a result of planning policies).

There are numerous affordable housing products in existence, often responding to particular local issues, such as inner-city or rural employment priorities. By far the most popular intermediate housing tenure has been shared ownership, where home buyers will buy a percentage of the home, paying rent on the proportion of the home that they don't own. They then have the opportunity to buy further chunks of equity as their financial position improves (known as "staircasing").

This tenure type has proved relatively popular, as it is simple to understand and is easily adapted to different affordability levels. However, shared ownership as now structured fails to tackle two of the key objectives highlighted above.

First, as home buyers borrow as much as they can afford in order to maximise their equity share, and then pay rent on the remaining portion, the tenure is by definition unaffordable. For example, if a household borrows £120,000 to buy a 50% interest in a £240,000 home, and then pays rent at, say, 2.75% on the balance, this latter expense will typically push up housing-related costs as a proportion of gross household income from a third to nearly a half. To compound this, the rental element is often either stepped up, or linked to RPI plus a percentage. Second, the concept of staircasing means that the home is only likely to be affordable in the short term. Once a household has bought the remaining balance of equity, the home will trade on the open market, and no longer be "affordable".

More recently, policy has been focused on Social Rent HomeBuy, New Build HomeBuy and Open Market HomeBuy. The latter tenure has been popular as buyers are able to select the home of their choice, as happens in the open market. However, this scheme has come under particular criticism for contributing to the affordability problem rather than helping to solve it. By effectively increasing demand for a home whilst leaving supply unaffected, the tenure has an inflationary impact on housing that exacerbates the affordability problem for everybody else.

This latter example highlights the ineffectiveness of demand-side initiatives that aren't supported by increased supply. The issue of affordable intermediate homes is a long-term, not a short-term problem, and demand-side initiatives are almost inevitably short-term. As well as creating a tenure that is attractive to purchasers, it is important that any such initiative also be attractive to landowners and developers, so that new homes can be available for the households for whom intermediate housing becomes a possibility.

Ideal tenure

So what is needed to start filling the affordable housing gap identified above?

First, the solution needs to be targeted at the supply rather than the demand side – in other words, encourage developers to increase the supply of new homes. At present the treatment of intermediate housing in planning permissions is often restrictive, discouraging innovation and creative thinking.

We must also provide liquidity in the market. A wide range of products is needed to provide choice for intermediate households and to avoid trapping households in a home or tenure that no longer suits their social or economic circumstances. The ability to trade up and down between tenure types will offer the flexibility necessary to make intermediate housing sustainable. As illustrated in the chart earlier in this section, income levels in the intermediate housing sector vary widely, and different products are needed to appeal to households at different stages of life or with particular requirements.

There also needs to be a critical mass of intermediate properties to create an efficient market that can function as the open market housing one does.

Taking the above approach to the solution, and seeking to adhere to the key objectives of a successful intermediate housing product, we believe that now is an opportune time to look at new intermediate tenures that seek to address the key issues surrounding existing options, namely:

- broadening the targets for intermediate housing;
- reducing the need for public-sector subsidy;
- attracting private-sector finance; and
- maintaining, not destroying, land value.

We believe that these issues can be tackled by providing an affordable housing tenure with the following characteristics:

- Accessibility and affordability – home buyers' total finance costs should be considered in setting affordability levels. If high mortgage repayments are required then no rent should be paid on the unsold equity. This can cut household expenditure related to accommodation by a third, allowing the product to be focused on households with lower income levels (allowing some who are currently in social-rented to move to intermediate tenures) and prioritise sales to match local needs.
- Perpetuity – the tenure needs to restrict the terms of staircasing so that the homes will trade at a discount to the open market value in the long term.
- Reducing subsidy – the lower the subsidy/grant or cross-subsidy from the developer, the higher the level of affordable housing that can be provided.

First Base has developed a tenure that addresses these issues, and whilst not solving the issue of land supply, begins to allow intermediate housing to compete commercially with other land uses, including open-market housing.

Internationally, the use of private-sector financing to fund intermediate housing tenures is well established. The UK just needs to provide a platform to allow a similar solution to apply here. Pension funds and other long-term investors are interested in diversifying their property portfolios into intermediate housing. Introducing a new source of funding has the potential to significantly increase the amount of affordable housing delivered, by allowing the public-sector grant (or developer cross-subsidy) to be focused on social rented housing. There are one or two barriers to this; the most significant is the need for private investors to achieve a return on their investment (through staircasing receipts).

Other key factors

A number of other factors need to be addressed to reach the levels of supply required to compensate for the years of pent-up demand.

- Land – more land, whether public- or private-sector, needs to be made available for new houses. The government has already begun to make land available for development and this is helpful, but further land is needed from the public sector.
- Planning – there is clearly a demand for more social-rented and intermediate housing. However, we believe that by providing genuinely affordable homes, the opportunity to make better use of existing social-rented homes will arise, as local authorities are

able to target some of the intermediate homes at households in social rented accommodation. This will undoubtedly prove to generate heated debate.
- Policy – it is also going to require a change in policy to introduce a new tenure type, which may or may not be given priority on new schemes. This could happen at a central government or regional level, but intervention is probably needed if significant advances are to be made quickly.

These factors, when combined, can be used to actively encourage the provision of land to deliver more housing, and thereby provide the supply balance to counteract the existing demand.

If each of these aspects can be tackled, we can foresee a situation where high-quality 100% intermediate housing schemes that will remain affordable in the long term are delivered by developers encouraged by lower planning and sales risk, without the need for public-sector subsidy.

Conclusion

We believe that intermediate housing has an important role to play in bridging the affordability gap in home ownership in the UK. However, we also believe that intermediate tenure reform is required to create a true market where the private sector can make a significant contribution. There are strong alternative solutions available, and First Base is focused on developing and delivering them. When combined with other factors, the opportunity to significantly reduce the UK's affordable housing problem is within our grasp.

Part II: Tenure reform

We face a range of complex and interconnected social housing issues – ranging from supply shortfalls and investment backlogs to concentrated deprivation in communities that have been left behind. There are no easy answers to these housing challenges, but our experience working with local authorities, housing associations and the private sector suggests that adopting a more flexible approach to tenure and asset ownership could, in the right circumstances, increase the supply of affordable housing.

One of the biggest challenges facing the new Brown government is to work out how it can most effectively intervene in the housing market and use its strategic powers and considerable resources to increase supply. The government already spends more than

£2 billion a year on social housing, but with demand and costs continuing to rise, it is all the more critical to explore new ways of achieving more from less.

PricewaterhouseCooper's housing team has looked in some detail at the supply-side benefits that would accrue if the government were to relax the requirement that new social housing funded by grant (or a section 106 agreement) were to remain as social housing in perpetuity. We examined the funding and delivery dynamics that would occur if housing initially built as social housing were to be sold on the open market at some point in time in the future (say after 20 or 25 years).

Part of the reasoning behind this alternative approach to housing tenure is that the taxpayer has been burdened by the escalating cost of rectifying the design, delivery and allocation failures of council housing in the post-war era. Councils (encouraged by central government) previously built social housing for one type of tenant, and assumed that tenants' circumstances would be constant and that the demand for social housing would remain equally predictable. Local and central government got it wrong, and as a consequence we have been left with a legacy of inadequate, substandard housing. Although much of the council housing stock has been made decent (or demolished), many estates carry significant debt, and, most importantly, in many places this type of social housing remains unattractive to people with choice. So as not to repeat these mistakes, we need to ensure that we create assets that meet the needs of today and those of future generations. So how do we do it?

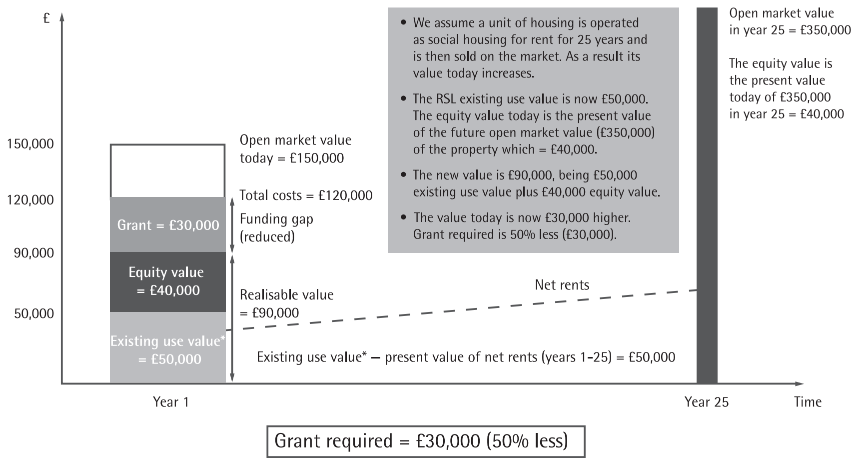
Our approach assumes that a proportion of new social housing is built on the basis that it is sold at a market price at a future date, which would allow government or housing delivery agencies to double the supply of social housing with existing resources. Housing, particularly in London, has moved between tenures (thousands of street properties in north London, for example) so the concept is not new. But an approach that achieves balanced and mixed communities over time by design would require a change in the regulatory environment.

Our baseline assumption is that a unit of social housing costs £120,000 to build (the figures are for illustrative purposes only) and that it is used as social housing in perpetuity. Its value on the open market might be £150,000 but its existing use value as social housing is £60,000. This gives rise to a funding gap of £60,000, which would normally be met through housing grant.

If we assume that this same unit of housing were to be operated as social housing for rent for, say, 25 years, and then be sold at the prevailing market price, its value as social housing today is £50,000 (because of the reduced term in this use) but its future value increases. If we assume a modest level of house price rises of on average 3.5% a year over 25 years, the value of the home rises to £350,000 in 25 years' time. If a third-party investor (or housing association) were to get the benefit of this asset appreciation, it would (all things being equal) be prepared to invest £40,000 of the build cost today (on the basis that it would be prepared to take a return of 9%).

Under this scenario the funding gap that needs to be met by housing grant is only £30,000 (build cost less existing use value and equity contribution), compared with £60,000 under the "in perpetuity" assumption – a reduction of 50% in the grant contribution. Figure 2 illustrates the value gain that results from a relaxation of the "in perpetuity" assumption.

Figure 2: Value gain from abolishing the requirement that social housing must remain such in perpetuity



Our analysis indicates that if new units of social housing were funded on this basis, twice as much social housing could be delivered for every £1,000 of grant. Of course, it might not be right or appropriate to use this tenure-limited approach in every instance. Some tenants may require rented accommodation for a longer period than we have modelled. But why not apply it to a proportion of new stock, with say 20% or 30% of a new social housing development being sold when it becomes vacant or when local circumstances change? Similarly, the period that a unit is used as social housing could be flexed.

In this way, a tenant's right to security would remain unaffected and the balance of communities could be better managed and shaped over time to reflect changing local needs. Moreover, if future circumstances were such that there were requirements for stock to be used as social housing beyond the period anticipated, "hand-back" arrangements could be agreed using valuation tools that are widely used in public-private partnership contracts.

Our analysis is only the start, but demonstrates that if we invest in creating good-quality mixed-use housing today (housing that can move between tenures as the aspirations and needs of a community change), then there is real value to be unlocked, both for today and in the future. Furthermore, this equity-led approach could also be applied to government-backed regeneration projects as well as local authority-sponsored schemes that demand no public funding. In addition, we believe such an approach would attract new investors to the market and move financing risk away from government – which may provide for even greater efficiencies.

Chapter 4

Registered social landlord reform

Anu Vedi CBE, Chief Executive Officer of Genesis Housing Group

Registered social landlord reform

A time of opportunity

Registered social landlords (RSLs) are moving into an almost unprecedented period of opportunity. The landscape in which they work is changing quickly, with the merger of the Housing Corporation and English Partnerships and the emergence of Communities England, probable further changes at the Department for Communities & Local Government, and the publication of Professor Martin Cave's review of the funding and regulatory functions for social housing.[1]

More widely, changes in political leadership, the Lyons review of local government[2] and the continuing central focus on reducing the bureaucratic burden all help to generate a great potential for change and improvement. It is essential that RSLs grasp their opportunity to shape the direction of travel in these changing political and administrative conditions.

Confidence, competence and concepts

Generally speaking, RSLs face this changing context with a great deal to be confident about and, in the shape of Professor John Hills' recent *Ends & Means* report on the future of social housing,[3] a good conceptual and analytic framework for moving forward.

Why confidence? Particularly since the 1988 Housing Act, RSLs have delivered admirably. They vary in the quality of their performance, of course, but, taken in the round, they have served the community well. They have delivered for different governments, against changing legislative and regulatory requirements, in different social and economic conditions. In great part because of their own vision and determination, they have developed an effective model of social enterprise that achieves what is required through sound governance. Collectively, RSLs have the intellectual, leadership and managerial capacities and capabilities to grasp new and greater challenges (and to shape them). It might be argued that the sector has not always experienced or evinced the confidence its performance warrants, that it has undersold itself and its potential. In the public interest, this must change.

1 Cave, M *Every Tenant Matters: A Review of Social Housing Regulation* (Department for Communities & Local Government, June 2007)
2 Lyons, M *Place-shaping: A Shared Ambition for the Future of Local Government* (Department for Communities & Local Government, March 2007)
3 Hills, J *Ends & Means: The Future Roles of Social Housing in England* (Economic & Social Research Council Research Centre for Analysis of Social Exclusion, February 2007)

The fundamental policy issue for the future is the nature of the task. Are RSLs to be social housing developers and landlords? Or are they to play a wider role in the great sweep of contemporary welfare reforms? Hills, in his recent report for the Economic & Social Research Council's Research Centre for the Analysis of Social Exclusion, argues that RSLs should at least continue to play the former role well, giving many families a measure of stability and security, providing better housing than low-income tenants could otherwise afford, and helping to renew and regenerate some of the most deprived places.

But he also urges that the "offer" or menu should be more varied and flexible, recognising that those with housing and related needs do not all have the same needs, and that needs may change with time. He would like to see stronger policy and practice links between housing and employment, so that flexible housing, tailored to individual needs and linked to other support through good management at the individual case level, can better address problems of immobility and worklessness as well as housing stress, and make improved use of both housing and human resources. This can contribute to the success of individual households as well as the community more widely.

How is this change to be facilitated? There are various interacting success factors, addressed in what follows.

Customer focus and consultation

There is near-universal recognition, across different sectors of activity, that an understanding of consumer aspirations and views is the bedrock of success. Why should it be any different for RSLs? Yet there is a sense that some are paternalistic or even patronising. Again, this has to stop. RSLs must engage with their actual and prospective residents and local communities, understanding what they think and want and enhancing transparency and accountability.

The Housing Corporation is looking to see this in practice, so the direction of travel is established; but is the pace fast enough?

Genesis Housing Group is conducting a "social audit" with several thousand of its residents. This will establish the facts about and aspirations of its clients as a foundation for planning, opening a window on to their needs, fears and hopes. This will give the organisation an ever more authoritative platform for national influence and a mandate for local change.

New contracts with consumers

The social housing product has to be varied, as are the individual needs and aspirations it sets out to meet, and it should promote the overall economic and social well-being of the community as well as of tenants.

Barriers arise from the right to permanent tenancy, which is enshrined in law. It impedes the sector's efforts to use its housing resources imaginatively, equitably and cost-effectively. It opens the way to the abuse of public resources, with (for example) large, valuable units occupied by small numbers of individuals who, socially and economically, no longer need them – whilst smaller units are overcrowded.

It is recognised that root-and-branch reform of the tenure rules is sensitive, but there are ways in which the rules could usefully be amended. It would be a significant step forward if the right to a home were not tied to a single property, thereby improving tenant mobility and work prospects and enabling accommodation resources to be targeted more appropriately. In this context, given that greater co-ordination between RSLs will allow for greater tenant mobility, is there a case for some system of national sorting house, either for matching tenants or, more efficiently, a lettings trading scheme?

Although law reform would facilitate improvement, many steps can be taken in the right direction without it. The key is that RSLs must think and behave creatively, pushing at the limits of their powers rather than occupying the traditional comfort zones.

Many RSLs already offer arrangements that provide incentives for socially acceptable behaviour (denying access to those with antisocial behaviour orders), clean rent accounts and the acceptance of shared responsibility for maintenance. Some are going much further, however, developing exciting new models that offer tenants great opportunities – the Genesis Housing Group's "Your Place" initiative, for example. The benefits can include progressive equity sharing and ultimately home ownership, and advice and support in relation to education, training, employment, personal finance and much else besides. The essence is a new kind of voluntary contract that offers customers major opportunities for whole-life improvement, wealth generation and independence. Such schemes are the practical manifestation of the "wider menu".

Regulation

The style of overarching regulatory arrangements is more important than its form or structure. The starting point must be a commitment to the concept of regulation as outcome- rather than process-driven. There should by all means be tight definition of what it is intended that social housing enterprises should achieve, with an orientation to Hills' "more varied menu", and challenging measures of achievement. But if creativity and innovation are to be released, as they must be if objectives are broadened into new territory, it is counterproductive to focus closely on the precise management processes by which they are achieved.

The Housing Corporation has made good progress with this, but changing circumstances suggest there is more to be done.

Governance

The main dimension of process that *should* be tested is strategic governance rather than management. There is an argument that the most effective RSLs, as well as organisations in other sectors, are defined in part by the quality of their board-level governance: by the people involved, and by corporate attitudes and expectations.

It is essential to attract the most able people to trustee roles: the changing roles and required style of RSLs will demand the very best non-executive advice that is available. The remuneration of trustees, now an option for RSLs by agreement with the Charity Commission, is a significant help with this. It also enables RSLs to place greater expectations on trustees in terms of their accountability and the extent and quality of their contributions.

The effect of the conflict of interest rules – set out in schedule 1 to the 1996 Housing Act together with the Housing Corporation regulatory approach surrounding this schedule – whilst set in place for wholly necessary reasons, unfortunately has the effect of keeping some of the most highly skilled individuals away from our boards. Experts earn their living by doing business in their fields of expertise. If such an expert sits on an RSL board, he or she will no longer be allowed to act for that RSL or will have to disqualify their employer from tendering.

Thus the most active accountants, valuers, lenders, house builders and developers – the people whose expertise we surely need – cannot afford to join our boards. Even if they gave us free advice, they would still risk being in breach of the regulations. The corporate world has learnt how to handle such conflicts of interest. RSLs are well able to and should now be allowed to.

To enable highly skilled and experienced people to join the boards of RSLs it is suggested that associations should develop their own codes of conduct, so that conflicts are managed through declaration of interests procedures, additionally relying on professional people to abide by their own professional standards and to either withdraw from decisions, arrange for other partners to carry out the work or withdraw from contracts as appropriate.

Staff skills

Failure and success are usually achieved by people, not structures. As in other sectors, it is increasingly important that RSLs should be able to attract and retain able and experienced staff, especially senior staff. Sometimes this means hanging on to what you have, but it can also mean attracting from elsewhere and (maybe as a strategic commitment) exchanging staff more systematically on development and secondment initiatives with other sectors, to improve all-round effectiveness.

An element of this skills imperative is reputation management. The RSL sector does not do nearly enough to communicate what it does, its social importance, or the scale of its operations. There may be room for an industry-wide public relations initiative as well as positive local action.

Related to this is the issue of incentivisation. Under our current structure there is greater risk (individually and corporately) in making a bold move and being wrong than there is reward for making a bold move and being right. Innovation and advancement need pioneers, and it must be said that, despite the lack of obvious incentive, a number of RSLs have a history of breaking new ground. How, though, can we motivate the whole RSL industry to take appropriate risks? Should we, for instance, be equity issuers – repaying our historic grant and more able to take up new opportunities – or, more negatively, should we be more obviously open to takeover by another RSL or even by the private sector?

Partnership working

RSLs in future must be free to extend and deepen their partnerships with other public, third-sector and private organisations. The most important links will be with local and regional government, including employment and workforce agencies, and with relevant voluntary organisations. A cultural shift is required that will increase RSL receptiveness to the experiences of others and facilitate step increases in operational co-operation and collaboration. This requirement goes with a desirable broadening of role to emphasise choice, mobility and the wholeness and overall well-being of consumers.

"Boldness be my friend": funding and risk

The capital funding streams for RSLs, mainly from institutions and high-street banks, are traditional, low-risk, conservative. There is no doubt that the sector, with its almost gilt-edged income streams, is far more attractive to lenders than its actual borrowing behaviour reflects. It should appreciate this and move towards a greater willingness, within a regulatory framework focused on outcomes, to embrace greater (but still modest) risk in the interests of innovation and experimentation.

RSLs should therefore revisit traditional measures of financial capacity and gear up to further meet their objectives.

Asset management and access

RSLs should be more effective in taking relatively recent opportunities to manage their asset base so as to deliver the greatest quantum of benefit. Putting it crudely, "sell one, build five" might be a viable strategy much more frequently than its actual adoption suggests. There are many individuals who might benefit more from the RSL's resources than some of those who now do so, and their benefit might be the whole community's. This is a practical issue, admittedly an ethically complex one at times, and not simply theoretical: if social equity is important, so is this.

A related issue is the RSL sector's access to assets. As Kate Barker has argued, demand for social housing exceeds supply and will continue to do so. The availability of the land asset is crucial to narrowing or at least controlling the shortfall. At present, a great deal of publicly owned land is acquired, when it comes on the market, by private developers. Is there a case for Communities England to ensure that land is made available first to social housing providers? There is no necessary implication that it should sell more cheaply, but a potential benefit can bee seen in reusing a public resource for the public good.

Configuration

The present organisational configuration of RSLs may not best serve the community. A good deal of consolidation has already taken place but perhaps there is room for more.

Some of the key arguments are about efficiency: that larger bodies have greater procurement power, can achieve cost improvements across a broader base, can manage and exploit information resources more effectively, can encompass a wider range of management skills, may attack wasteful bureaucracy more authoritatively, and so on. However, there are also arguments around performance.

Specialist local RSLs should prosper, but perhaps there are some underachieving organisations that might benefit from amalgamation, by whatever means, with others that have shown themselves to be more adventurous and effective. The regulatory framework is clearly crucial here, and the present "market rules" should be revisited and tested against considerations of local social benefit and value for money.

Other sectors, notably perhaps the NHS, have sometimes experienced organisational change as a resource-gobbling distraction, mainly when politically inspired and imposed universally. But there are instances where, on a principled case-by-case basis, change should be permissible and permitted, and the discomfort it can bring accepted as the pain without which there can be no gain.

Chapter 5

A local authority perspective

Sir Robert Kerslake, Chief Executive of Sheffield City Council

A local authority perspective

Professor John Hills' review of social housing[1] set out to answer fundamental questions about the purpose of social housing. While Hills' report raises important questions to be answered, it does not close the debate. This brief paper looks, from the perspective of a large local authority, at the role social housing can play in modern society.

Sheffield has a proud housing history. We have always been at the forefront of social housing innovation. Our grade II* listed building Park Hill was one of the first "streets in the sky". The role imagined by the architects and planners for Park Hill was that the estate would not just provide housing but would maintain the community spirit of the streets that it replaced.

A changing picture

Housing is once again an issue of great public and political interest. If the media are a barometer, you have only to consider the number of property buying or makeover shows, or headlines on house prices or key worker accommodation, to appreciate the public's fascination. From *Relocation, Relocation* to *House Doctor* and *Grand Designs*, there is a housing show on TV every day of the week, and daily news headlines are the norm. Place this alongside changes to housing legislation during the last decade and recent speeches by ministers, and it becomes clear that housing has not had such a prominence for a generation. Sheffield, like other cities in the UK, is feeling this change.

Yet the picture was quite different only 10 years ago. In 1997 we were faced with an over-supply of council housing, an ageing tenant base and falling demand as younger people aspired to own their own home. Much of our stock needed modernising and some of it was obsolete and could not meet the needs of current residents. Our research at the time indicated that we would have an oversupply of 10,000 units by 2006/07. Social housing was not a tenure of choice in 1990s Sheffield.

In response to these findings, the council established a stock reduction programme to tackle low and falling demand for its stock and to stave off the abandonment of properties being experienced in other Northern cities. We focused on the stock where the economics of reinvestment were least viable. The amount of social stock available has significantly reduced through this programme and the previously high level of right-to-buy sales.

1 Hills, J *Ends & Means: The Future Roles of Social Housing in England* (Economic & Social Research Council Research Centre for Analysis of Social Exclusion, February 2007)

But recent years have seen significant economic, social and consequent strategic changes in Sheffield, and these have altered the levels and balance of supply and demand for social housing. Housing price inflation is now making property unaffordable for a significant proportion of the population. Demographic change means we have an increasingly elderly population. An increase in single-person households has led to a rising demand for affordable housing in the city.

Sheffield's response

The housing green paper launched in 2000 noted the challenges that social landlords faced. Some of its key recommendations were that stock conditions, in both the private and public sector, needed improving; that local authorities should take a more strategic approach to housing provision; and that lettings policy should promote more choice and reduce homelessness.

In Sheffield we still hold to the values of the planners of Park Hill, in particular the belief that housing is not just about the bricks and mortar that people live in. It shapes community and the character and quality of a place, significantly influencing people's life choices, linking them to social, educational and employment opportunities. It is this philosophy that we have applied to the challenges facing social housing today.

Sheffield was the first place in England to undertake extensive consultation through neighbourhood commissions, involving our residents in the future investment options for getting our stock up to decent homes standard. The 10 area commissions resulted in a mixed approach being adopted for housing investment, with some areas choosing transfer but the majority of areas opting to retain the council as their landlord.

Sheffield Homes (our arm's-length management organisation) took over the management of our stock in 2004. It has provided an excellent housing management service, achieving a three-star rating at both Audit Commission inspections. Sheffield Homes manages approximately 45,000 households and delivers the largest decent homes programme in the country. Nearly £700 million has been invested in modernising our stock. To date we have completed work on 15,489 properties, and we aim to have around 64% of our stock up to decency standards by the end of 2007/08.

Delivering good-quality services to our tenants and the residents of Sheffield is at the heart of our philosophy as a city council. To achieve this, we set up a joint venture company with Kier in 2003. Kier Sheffield is an award-winning limited liability partnership, created to provide a repairs and maintenance service for the city's social housing, public and private buildings. As the UK's largest partnering contract of its kind, Kier Sheffield maintains our arm's-length managed stock and other public buildings such as libraries, schools and social services establishments.

We do not view improvements to stock in isolation, but rather as part of a whole-neighbourhoods approach. For us that means working with our partners, including other social housing providers, and our housing market renewal pathfinder Transform South Yorkshire to ensure that investment in areas is co-ordinated. This has included environmental works to ensure the effective management of public spaces. In Manor Park, a consortium has been established with the RSLs to ensure that there is a standard and consistent approach to grounds maintenance, providing value for money and improved services to residents.

We have not just concentrated on public-sector housing. We know that to be an active and vibrant city we need to ensure that all areas are able to provide choice for people and contribute to the overall performance of the city. Working with Transform South Yorkshire, we are seeking to develop plans and interventions that improve areas and allow them to play a vital role in the housing offer and the economy of the city. Since March 2004 Transform South Yorkshire has invested £91 million in Sheffield to bring about significant market change in our weaker housing market areas.

We have taken on the challenge of ensuring that appropriate housing is available for our current and future residents. In doing so we are embracing our community leadership role and our enhanced strategic housing role. We see our function not just as managing housing but as leading and co-ordinating planning for our neighbourhoods and communities. Our partnerships have been successful, but this success has not come easily. They have required us to have a vision about what we want to create, and we have had to ensure that our partners share that vision and to argue our case, when necessary, with tenacity.

The future

At the beginning of this article, I posed the question: "What role can social housing play in a modern society?" We all know that housing is a fundamental part of people's lives. It should give them a sense of place and security, and the opportunity to pursue educational, social and economic goals. The lack of a decent place to live leads to insecurity and creates barriers to engaging with society and potential employment. Social housing has a role to play in enabling people who would otherwise struggle to find accommodation and a decent, secure home. In our submission to the Hills review we argued that social housing can help to promote mixed communities. It can also contribute to the economic development of areas, by providing people with affordable renting while they are establishing their careers or forming families.

To illustrate: the current mean graduate salary for Sheffield is £17,355[2] and the mean income for the city is £21,824. The average house price is £148,935.[3] This puts the affordable ratio for graduates at 8:58 and at 6:82 for those with the mean income. The provision of social housing could, clearly, enable graduates to take up jobs in the city at a rent that they could afford, thereby encouraging them to stay in Sheffield and put down roots here. As their financial circumstances improve, they can go on to add to the economic vitality of the city.

The city region development programme set out how we aim to improve the economic performance of our city regions. Social housing is a key component in economic success. Economies are layered, with high-level businesses needing support and service industries to operate effectively. Social housing has a key part to play in meeting these needs, providing good-quality, affordable accommodation for those who need it and thereby supporting the enterprises that need those people.

Social housing also has a role to play in creating and sustaining mixed communities. Areas that are polarised and contain only one type of tenure offer little choice, are not sustainable and do not actively contribute to the economic vitality of the area. Social housing contributes to the mix of an area by ensuring that people from a range of backgrounds and social circumstances are able to find accommodation in areas from which they would otherwise be excluded for financial reasons.

There are a number of flagship projects in Sheffield that demonstrate this holistic approach to housing regeneration. With Park Hill, we and our partners are committed to developing a transformational scheme that will bring inward investment to ensure an attractive and contemporary usage for Park Hill, and complement the regeneration of Sheffield's city centre by creating successful neighbourhoods. Our proposals will create a mixed-tenure, mixed-use complex, which will be financially viable and further the regeneration of the city centre. The range of housing is currently limited, with the vast

2 Higher Education Statistics Agency (2006) estimate
3 2005 data – Association of Graduate Recruiters and Land Registry

majority of stock being council rented. Following the redevelopment, the tenure will be mixed to include stock let by a registered social landlord, units to buy through a shared-ownership scheme and market-value units for purchase. These will be complemented with offices, retail, educational and employment-based units to ensure that community facilities are available to the residents and wider neighbourhood.

Sheffield is proud of the changes it is making. Walk around the city centre today and you will see regeneration in action: the Winter Gardens, the Peace Gardens and the Station Gateway are all examples of outstanding design. In the city we are applying this spirit of innovatory design and regeneration to our housing areas. The innovative and award-winning Fox Hill development was showcased at the Venice Biennale architectural exhibition in 2006 and, in Parsons Cross in the north of the city, we are creating neighbourhood centres and a garden city for the 21st century.

The population of the city is set to grow by some 4.5%[4] by 2021 and we will need to provide housing for these additional people. If house prices continue to grow we will be faced with a worsening affordability position. Social housing is a vital element of the housing options we have at our disposal to address this issue. In Sheffield we believe it is essential to provide affordable housing for sale and rent across all tenures.

In summary

Our investment strategy ensures that we link bricks-and-mortar improvements to wider infrastructure. We are ensuring that areas can function well, that they are attractive and that they give people better life chances. Social housing within this context allows tenants to play a vital role in the economy and the community of our city. Social housing is an important safety net for the vulnerable, but it can also provide and facilitate opportunities for those less well-off to have a stable and decent home from which they can be active members of society. Social housing is a tenure of choice for some, and provides a housing option that makes a valuable contribution to the lives of millions of people.

Ultimately, the agenda should be focused on housing of choice and providing people with opportunities to contribute to our communities, not about defining someone by the tenure of their home.

4 Office for National Statistics estimate

Chapter 6

A developer's perspective

Nigel Hugill, Chairman of Lend Lease Europe

A developer's perspective

That Stratford is capable of bidding for – and ultimately winning – the right to host the Olympic Games in 2012 appears incontrovertible evidence that we continue to inhabit a world where anything is possible.

Just as well. Those of a more pessimistic disposition might look with trepidation at housing output statistics since the war, and conclude that London coming out ahead against four other world-class candidate cities last year was a racing certainty, rather than a genuine challenge.

The volume of new housing contributed by the UK private sector has run at about 200,000 units per year, every year, almost since the Second World War. The narrow limits of standard deviation around that figure defy replication in any other meaningful UK social statistic. It is an output that has shown itself capable of shrugging off every vacillation in the level and extent of intervention by government, every statute direction and redirection, every fiscal incentive (or penalty), that successive generations of policy makers have sought to throw at it.

The suggestions for reform set out in companion papers challenge the boundaries of current practice. There is an underlying coherency of view, which allows a series of practical recommendations to be put forward. I would like to promote a number of those recommendations a little further here.

First a caveat: the apparent immutability of the 200,000 figure ought, if nothing else, to caution us. With that in mind, I want to start by stretching the Olympian analogy, perhaps beyond breaking point, in inviting readers to follow a triple jump through a more basic sandpit.

The Stratford bid was notable, not only for its eventual success, but also for the strength of purpose in contemplating a wholesale re-evaluation mid-campaign. There are times when one has to recognise that in order to reach for the stars, it might just be necessary to sit down, reflect and regroup. My view is that we find ourselves at an equivalent juncture with respect to housing policy. There seem to me clear signs that the continuing drive to make owner-occupation available to all is acting to inflate house prices, making the objective correspondingly harder to reach. As a minimum, each percentage point increase in home ownership hereafter will become disproportionately more expensive for the UK Treasury to subsidise. In short, the cross-party commitment to increasing home ownership has reached the point of becoming its own worst enemy.

What are the statistics really saying?

The starting hop behind this contention requires a second look at the housing statistics to see that they may be saying something rather different from the conventional interpretations. The collapse of public-sector output, in combination with our faithful 200,000 privates, has highlighted two popular, if fallacious, arguments:

- that the public sector must build more. No. The private sector could take the slack from the public sector.
- that the private sector should take up the slack and sell more. Not necessarily. Try as developers might, there is a finite number of residences on any site that will sell in any year to owner-occupiers and individual investors.

The key lies not in who builds the houses, but in the purpose for which they are being built.

The significance is not the nature of post-war construction, which acted to double annual output, on the basis of being undertaken by local authority workforces to the design of municipal architects. Nor is lack of capacity a real issue. The UK construction industry remains a principal beneficiary of our inherently open economy, having drawn upon successive generations of skilled immigrant labour. First and foremost, the importance of all that post-war public-sector housing output was that it was built for rent, not for sale.

Current policy is distorted by an evident confusion between the presumed definition of housing affordability and the expectation and requirement of a right to buy – that is, the affordability of housing versus the affordability of buying. The latter has been successful, most certainly, in spreading ownership amongst former council house tenants. It has also produced a number of unintended negative corollaries, particularly in South East England – not least a level of domestic market rents that, in absolute terms, are amongst the highest in the world.

I would like to reassert the proposition that the continued push for increased home ownership is acting to inflate house prices. Every attempt to make housing more affordable to the owner-occupier pushes prices up further. The structural fault is that government's only mechanism for improving affordability becomes price subsidy, not price reduction.

We already have 73% home ownership in the UK. Should we now be asking whether 100% is a feasible, or even desirable, result? Might the current 100% ownership target be seen in due course as similar to John Major's 0% inflation target – only arguably desirable in theory but, in any event, ultimately unachievable other than at unacceptable cost?

Restoring a sense of balance

To restore a necessary sense of balance and to get output numbers really moving, a key test of affordability and accessibility has to be seen as the cost to rent. Our priorities must cease to be associated mainly or solely with extending the right to buy but should come to embrace a properly structured rental provision across social, key-worker and private housing, as well as facilitating mobility between these subsectors. Above all else, we should want to make renting relatively cheaper. The alternative is to deny any rational choice and leave us with the housing conditions we deserve.

Prioritising rentals also enables us to challenge other shibboleths. There is much comment at present that the type of units being built is inappropriate – "too many flats are being built and not enough houses". As illustration, in 2005/06, 46% of new dwellings completed in England were flats, compared with 26% in 1991/92 and 15% in 1997/98.

The number of small households is continuing to rise. Flats work well as rentals so it should come as no surprise to learn that the proportion of housing stock comprising flats in the UK is internationally low. The most recent survey of English housing found that, in 2004/05, 82% of people lived in a house or bungalow and 17% in a flat or maisonette. Given that two-thirds of households do not have dependent children (2001 census for England and Wales), is 17% really too high a number for the proportion of flats?

The subjective assumption that we have "too many flats" ought not be allowed to influence the planning debate in, say, town-centre areas that naturally lend themselves to flats for single people or young, childless couples.

Nor should we imagine that behavioural impacts are beyond more fundamental shifts once we unleash the full force of lower market rentals. Increased house prices bring about, in effect, a wealth transfer from the young to the old. We should expect and encourage reverse flows enabled by a higher proportion of the elderly electing to rent. My mother will not be embarrassed by being described as in her 70s and, sadly, widowed. She lives in a four-bedroom house in County Durham, 270 long miles away from her three children and eight grandchildren, all of whom were born in London. She looked at selling up and renting a small London apartment but declared the rental costs too high and the prospects for increase too uncertain. An individual contribution to a more logical pattern of domestic housing occupation was lost in the process.

Lady Thatcher often made the observation that widened home ownership helped consolidate the sense of citizenship and social responsibility. That may be true amongst those that have never owned, but it would be tough to make the connection via a sale, and subsequent renting, by my mother. She is a former headmistress.

What seems more obvious is that historic attempts at mass municipal high-rise housing were so uniformly terrible as to obscure the real economic benefit being arbitrarily conferred. This raises a quite different dilemma for those resigned to seeing affordable subsidies reaching ever higher levels. The private sector is now building better-quality affordable housing than ever before. In turn, the implied capital receipt is becoming better understood, at least by the recipients.

I cannot think of a more compelling example of the essentially self-fulfilling nature of "predict and provide" than that of well-developed, high-quality affordable (and, by extension, underpriced) housing in the core of our capital. If we allow the quantum of that benefit to continue to grow, it has to bring the concomitant risk that we will see an extension of entirely artificial patterns of behaviour – most likely, ironically, amongst the economically astute.

I have three sons, all born in Chelsea & Westminster Hospital. If they were to take low-paid employment at the hospital, I am not clear that it should be an obligation of the borough to provide them with affordable accommodation. I am equally unclear as to who would have any better claim. The Machiavellian middle-class parent might even encourage a two-year stint as a porter ahead of Voluntary Service Overseas, simply in order to qualify for such accommodation. He would no doubt work out the figures on after-tax income and conclude that it was quite the most remunerative way of stepping on to the housing ladder.

Imagine now that the Hugill boys all go on to be property developers. At present, a one-off need for affordable housing would qualify each of them to a rented unit for life. This has led, on various estimates, to a level of 10-15% of the social rented stock being occupied by those who no longer need it, a condition that is neither socially equitable nor economically rational. This alone should underpin the argument for tenure reform made elsewhere within these papers. Invidious as it undoubtedly is, it must also be right to address the issue of means testing of rents. We should also comfort ourselves that a trending down of market rents over time has a further advantage of reducing the capitalised benefit of the saving in cost over social renting, thereby relieving at least some of the incentive.

Access to capital

Given a sufficient level of political will, I am convinced that better rental affordability can be secured. The intermediate skip that joins that conviction with an anxiety for rapid action comes from a belief that the capital markets are running for us. The current softening of prices outside the Knightsbridge stratospheres invites the creation of a properly structured private rental sector. This, in turn, would help facilitate the introduction of a level of external institutional capital, not previously available, for investment in housing. Low 20- and 30-year swap rates (albeit no longer historically low) are the real determinants of yields across other classes of property investment, but conspicuously not residential, where the emphasis is much shorter-term.

We go back to the sense in removing those distortions that result directly from the presumption that affordable housing is to be provided for a minority of the market to buy. It is a disjunct that causes convoluted designs in high-density housing, with separate entrances, and undermines the ability to mix tenure in the same block. Conversely, well-designed large-scale rental accommodation, specifically not seen as municipal provision, would allow a range of different pricings within the same block without the complications associated with mixing purchasers.

A block of housing built solely for rent would readily incorporate a proportion of apartments that enjoy a discount to market rents in perpetuity. Key workers would be able to receive a correspondingly reduced rate of rental. Moreover, a model might be structured whereby the public sector's contribution could be to provide the land and the government be able to get its money back over the longer term through a participation in the rental stream.

Continuity of income is a prerequisite to access capital markets at the tightest margins and help force down market rents. One of the conditions for properly harnessing long money would be a clear understanding that rental income flows securitised in this fashion could not be subject to the right to buy. If rents are structured so they can be easily securitised, investors could look to satisfactory equity returns on a suitably geared, and low-yielding, rental portfolio. Lower rents across the market as a whole would, as corollary, bring about real savings to the Treasury via reduced housing benefit commitments.

The advantages of this approach are not confined to harnessing cheaper long-term institutional capital. Were a proportion of residential development to take on the characteristics more typically associated with commercial development, a number of problems associated with the market provision of affordable housing could be mitigated. One of the paradoxes at present is that there is no real incentive on residential developers to provide quality product or quality management, nor to spread life-cycle costs of property sold or handed over as affordable. Rather the imperative upon developers is to sell the affordable provision off-plan to a registered social landlord (RSL) and the market housing to individuals at the first opportunity. If the developer is to become the owner, or at least an on-going player as part-owner and facilities management provider, there will be a natural incentive to build for long-term financial efficiency, not simply a quick return.

Regulation of affordable housing has constrained our ability to compete with the established RSL sector. We would welcome a system that creates incentives for RSLs to adopt a more commercial approach. At present they are safe so long as minimum performance targets are met, but there does not seem much recognition of outperformance. Sir Ian Byatt's suggestion of output-related regulation on a level playing field for all affordable housing providers is to be welcomed. Why should the private sector not bid for estate transfers and challenge the level of gap funding being demanded? Why should we not be enabled, even encouraged, to take over and strengthen a languishing RSL? This would seem a logical extension of the government's encouragement of the private sector to put itself forward as a direct recipient of housing grant. If local authorities also commit to working on a level playing field, as between RSLs and the private sector, so much the better.

For the high jump

Now for the big jump, putting my money (or at least that of my employer, Lend Lease) where my mouth is. We are working hard on proposals to rentalise the athletes' village at Stratford. I should concede that the justification is partly pragmatic. The size of the village is likely to exceed the equivalent of 4,000 homes, or approximately 2% of national new-build output. Private sales would require a rate of absorption enormously beyond that previously ever achieved elsewhere in this country.

Just as much, our determination stems from the conviction that progress on the large brownfield sites such as Stratford – on which so much store is being placed by the government to deliver housing numbers – can only be made with a massive injection of institutional capital. In turn, such an injection can only come by financial institutions embracing residential rentals as a new asset class.

Those institutions will require that there is sufficiency of product and that the quality and management of the product is good. Developers producing for this market will have an economic incentive to ensure the quality of construction, public realm, management and full life-cycle costs. Over time, a structured incentive to manage the rented property would ensure that the flats are kept occupied. Efficient housing associations may well be best placed to manage the estate. This incentive would be locked in during the early years of development, in which the rental income helps establish an estate holding. Just as much as was the case with Broadgate or Canary Wharf, the extended time horizons on the better-balanced brownfield schemes now being proposed sit more comfortably with institutional investors.

That is how we see the new piece of city at Stratford, once the athletes have departed. There will certainly be some private sales, to maintain a mix, but we aspire to a stable, long-term community with a majority of affordable private rental. It is not a naive aspiration; there are a number of comparables, not least in the candidate cities with which London competed. A revitalised rental sector will certainly help us achieve our objectives, but it might just also prove the solution to a much broader challenge facing government.

Chapter 7

Implications for valuations

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Implications for valuations

Regulation and the links to value

In simple terms, the value of housing is a function of the flow of rent, management cost and the property cost – this last factor being in turn linked to standards. In order to understand the potential impact of deregulation in the housing sector, we should first seek to understand the impact of deregulation on the above factors, which drive value.

The effect of regulation is a suppression of rent levels. Clearly, this in turn reduces value. Social housing – that is, direct tenancies by registered social landlords (RSLs) and local authorities to tenants at rent levels subject to the rent restructuring regime – probably features the lowest values in the sector. Based on the average value of a property in London, with a market value assuming vacant possession of £323,000,[1] the corresponding existing use value for social housing could be in the region of £50,000 – roughly 15% of the market value, with potentially 85% of latent value. This suggests – one way or another – that the government is forgoing on average £273,000 to buy a perpetual rented tenancy in London.

The impact of regulation on the sector, in terms of management cost, comes through the additional roles and services required of affordable housing providers and the additional costs incurred as a result of the required regulatory annual returns and the auditing and inspection procedures in place.

In comparison the private sector, with less regulation, is able to drive down management costs by simply providing a basic housing service and not having to submit annual returns to the regulatory bodies. Regulation of this kind can be taken as both a tax on affordable housing to deliver publicly desirable benefits, and financial insulation to avoid insolvency situations.

The property costs associated with this regulation are primarily driven by standards such as the decent homes standard for existing stock and scheme development standards for new stock. The decent homes standard is not really an imposition. Any reasonable landlord would want to maintain the quality of their property to maintain demand and value. However, the scheme development standards for affordable housing providers are much higher than in the private sector, not only in terms of space standards but also from an

1 Source: Land Registry house price index May 2007

environmental perspective. Compared with the private sector, affordable housing providers incur significant additional cost as a result of such standards.

The common factor that links these functions of value together is risk. Through regulation we are able to reduce risk and this is reflected by the low costs of funds available to RSLs in the market. It has been suggested by the Housing Corporation that the combined impact of regulation in terms of the cost of funds equates to about a 1% reduction. By reducing regulation and increasing risk, are we likely to increase the cost of funds?

The cost of funds in the affordable housing sector has reduced significantly over the last 15 years. Admittedly, the economic climate has also changed, with lower interest rates and lower inflation. However, the funding market is highly competitive and there remains increasing demand from the banking sector for investment opportunities in residential properties. With such demand and competition between funders, perhaps lending rates will not be significantly affected.

Valuation and tenure

The level of private investment in the sector is in part restricted by the value of housing. The relative values of the various tenures of affordable housing compared with market values are principally driven by the ability of the owner/funder to access market value or market rent. The range of tenures within affordable housing therefore present a range of value with varying discounts from market value.

The basis of valuation for affordable housing, namely the existing use value for social housing (EUV-SH), is now well established. The methodology adopted, using discounted cash-flow techniques to arrive at the net present value, is a measure of future net income flows generated from affordable housing based on affordable rent levels and subject to regulatory requirements.

The principal factors affecting value are therefore income and expenditure levels, but ultimately, the most suppressing element on value is the rent level assumed within such an appraisal. Where properties are restricted to affordable housing uses through mechanisms such as section 106 agreements and stock transfer legislation, the level of value on the basis of EUV-SH is significantly lower than a valuation produced by a more market-driven appraisal. Whilst some funders have sought to access the potential latent value through special assumptions, adopting potential sales programmes of vacant properties, those fundamental restrictions on use in perpetuity have restricted financial investment in the sector.

Compare this with the owner-occupied market, where we see up to 100% financial investment (mortgages) to the value of the property. There are also a variety of other tenures between these two extremes, forming the intermediate tenure market, which also hides a certain level of latent value.

We understand that of the 180,000 net new additions to the housing stock in England during 2005/06, only 18,000[2] (10%) were grant-funded social rented properties and only 13,000 (7%) low-cost home ownership properties or intermediate tenures. Information on the supply of intermediate tenure properties is limited where homes have not been provided through the social housing grant mechanism.

However, with year-on-year increases in house prices, these intermediate market products are beginning to lose their effectiveness, and one could begin to question whether they will remain affordable housing products in the longer term.

For example, shared-ownership initial equity shares have reduced significantly in recent years. First-tranche shares historically were 50%-75% of the market value assuming vacant possession, and a subsidised rent paid on the unbought share. Shared owners now find themselves typically only able to finance a 25% initial share and have little prospect of obtaining further shares whilst remaining in the property. Many RSL business plans for shared-ownership properties rely on occupiers buying further shares. These historic assumptions may well be questionable over the coming years as they will increasingly rely on shared owners doing back-to-back sales, vacating the property and the property moving into the owner-occupied market. Other forms of intermediate tenures will only succeed if they are affordable for a sustained period of time.

In terms of the overall range of products and values, there appears to be a lack of connectivity from social rented, through the range of intermediate tenures and up to the open market. With these steps missing from the staircase, people are unable to increase their equity as their financial circumstances improve. If the range and supply of intermediate tenure products were improved and widened, increased values in these areas would enable additional financial investment overall.

2 Source: Housing Corporation regional annual monitoring reports

The shared-ownership tenure attracts financial investment not only from the domestic mortgage of the occupier but also the equity share retained by the RSL. Whilst the income can be valued, historically there has been a value attributed to the potential capital receipts from future staircasing. This element carries more risk, but increasingly it is becoming more common for occupiers to staircase up to 100% and move out, rather than staircasing up and remaining in situ.

Discount rate and risk

As suggested earlier, one of the overriding factors affecting valuations will be the discount rate applied to future net income. The level of discount rate is a reflection of the cost of funds, but also of the risk inherent within the portfolio. The level of discount rate assumed in a valuation is ultimately down to the interpretation of the valuer using skill and judgment and based on his or her assessment of the relative strengths and weaknesses of the subject properties.

Even this factor is regulated in the case of stock transfers where a government "hurdle rate" is imposed on the valuations. The receiving association will apply its own rate. Assessing the market value or sale price of stock transfers using a government-prescribed discount rate, and not a rate driven by the market, is potentially undervaluing stock transfers and therefore limiting investment. Typically these "soft" transactions are valued more highly when independently appraised for loan security purposes.

In most cases the value of affordable housing properties for loan purposes has substantially been assessed on the relatively low risk associated with a heavily regulated sector of non-for-profit organisations. Funders, to an extent, have based funding rates on the assumption that RSLs would be supported by government or the rest of the sector were a borrower to get into financial difficulties. However, it is technically possible for a funder to take possession of the stock in the case of a default by an RSL.

At present, RSLs are able to borrow funds on some of the lowest margins in the banking world. If regulation were to be reduced and RSLs were to get into financial difficulty, the borrowing margins are possibly likely to increase, resulting in a higher cost of funds to the sector overall. Any deregulation should therefore consider those areas of most risk, but also maintaining attractiveness to the banking sector. In order to increase private financial investment and therefore quality and capacity in the sector, should we not therefore look at the range of products in the sector, their relative risks, and how these products present scope for enfranchisement for residents?

The financial viability of mixed-tenure schemes, with the right mix of tenures in the right proportions to match a sustainable community, needs to be capable of being delivered through the planning system. There is considerable variation in the interpretation of what constitutes affordable housing. The focus from government should be on understanding the various forms of tenure and the identification of further products. These can be brought into the intermediate tenure range, thus enhancing viability and deliverability.

New funding models are being delivered all the time, such as Local Space's "temporary to permanent" model. This in effect diverts public money in the form of housing benefit from going to private-sector landlords into properties used as affordable housing, and ultimately social housing. This is possible as a result of the lack of a perpetuity-type restriction. Were those restrictions in place, the value of the stock would be considerably less and restrict the amount of funding into the business plan.

One of the key areas in unlocking the latent value in affordable housing will be in dealing with the perpetuity issues. As residents' circumstances change, the housing sector should be able to offer a more flexible approach to tenure change without the necessity for residents to move house as a result or to occupy subsidised housing when they could afford market prices. Conversely, a wider range of products with a more portable nature would greatly assist residents who need to move house, but not necessarily tenure. These products should also be designed to bring equity to the occupier, to enable progression up the tenure ladder. Both flexibility in type of tenure and the application of portable tenure will add value and increase investment.

Conclusion

From the regulation perspective, most impact on the valuation for affordable housing is likely to emerge on the social housing tenure, where heavy regulations and support are needed to allow funders the comfort required to adopt such low margins. Clearly, there is a trade-off here that needs to be considered. Elsewhere, such as intermediate tenure models, where a more market-driven approach is already adopted and where demand significantly outstrips supply, values and funding are unlikely to be effected. It is where low demand for property exists and there are ultimately higher risks inherent in housing stock that, whatever the tenure type, valuers and funders alike are likely to adopt a much more cautious approach as a result of a lower likelihood of government support when required.

A key theme to consider would be whether housing assets are inside or outside the regulatory framework. RSLs are able to provide a housing service without actually owning the property. If we can divorce the ownership of the property from the operation of housing providers, we can create an environment that can attract additional investment. Furthermore, through effective asset management and a wider remit to trade assets, RSLs or other affordable housing asset owners are better placed to ensure that housing assets are used effectively and to attract optimised investment levels. With the creation of new classes of affordable assets there would be more scope to match the supply of housing tenures to demand and increase investment overall.

In summary, from a valuation perspective and to enhance the delivery of quality affordable homes, the regulation of the housing sector should address the issue of unlocking the latent value in affordable housing and the creation of a broader range of affordable housing tenures that have flexibility and portability for residents.

Chapter 8

Implications for private finance

Adrian Bell, Chairman of Royal Bank of Canada Europe

Implications for private finance

For all the other issues and concerns over the social housing market today, finance categorically isn't one of them. It can be argued that social housing has seen the most successful application of private finance for the delivery of public services to date. This paper seeks to dispel some myths around social housing finance, to set out why investment is strong and how the issues discussed in this monograph could affect these underlying drivers and hence future market appetite and pricing.

The current market

The Housing Corporation estimates that there is some £38.7 billion[1] of committed funding in the registered social landlord (RSL) sector, with £29.5 billion drawn or, in other words, not far short of £10 billion of committed but undrawn funds. In 2005/06 £6.7 billion[2] of new facilities were arranged, but a reasonable proportion of this will be refinancing. All the indications are that this market is set to continue to grow.

The Housing Corporation's paper *Unlocking the Door: Financial Capacity*, published in February 2007, set out an expectation of additional capacity of £4.6 billion, rising to £6.8 billion if property disposals are included.[3] The market's appetite for lending is evidenced by a tightening of banking margins to 25-30 basis points for 30-year loans. The Housing Corporation further forecasts that by 31 March 2011 debt in this sector will have exceeded £46 billion.

This is an attractive market. Whether the investor is a bank or an institutional investor, the underlying credit is viewed as strong:

- Housing benefit payments, originating from government, underpin rental cash flows if the tenant is unable to pay. Loans therefore provide stable long-term cash flows.
- Loans attract a 50% risk weighting, which will fall further with the introduction of the Basel II banking reforms. (The knowledge of this further fall has already led to a tightening of margins.)
- Loans are secured on properties within RSLs, which in turn are regulated by the Housing Corporation.

1 Annual review of RSL private finance, March 2007, as at 31 March 2006.
2 Ibid
3 This analysis is based on a prevailing interest rate of 7%.

- Properties pledged as security can be sold on the open market, subject to existing tenancies, should an RSL default.
- In practice, the regulatory regime has ensured that any weak or failing RSL is absorbed into another, stronger RSL, with the result that there is immense confidence among lenders in the regulatory regime.

Despite these attractive features, the perception remains in some quarters that this is a highly geared sector, with very few banks willing to lend, suggesting that the financing of RSLs is in some way fragile. Royal Bank of Canada considers this view fundamentally misguided. All indicators point to a robust and healthy market:

- margins are around 25 basis points over Libor;
- banks are prepared to lend 30-year money, which is not seen in the corporate sector; and
- there is considerable further capacity for debt, given that the capital markets have hardly been tapped.

RBC's analysis suggests that the sector is in fact significantly under-geared, with a wealth of potential entrants for the provision of further RSL finance.

Given this positive picture, we believe that there is considerable capacity for growth and that the sector can afford to make a number of changes, even some with a potentially negative impact on creditworthiness, before finance is endangered. The implications therefore of the four areas of reform discussed in this monograph are considered below.

RSL reform

Anu Vedi's paper sets out a number of key RSL reforms. Let me say straight away that we welcome the RSLs' social agenda and applaud the added value that RSLs can give to their tenants and their communities. But within that, as Vedi says, there is an opportunity to be more commercial – to manage assets better (in the sense of "sell one, build five" as he puts it), to improve governance and to gear up. The first two of these will only strengthen the RSL credit. With regard to gearing up, we consider there is plenty more room in many RSLs before the lending community should start to worry – if that were not the case, margins would not be at 25 basis points.

Let me turn, then, to Vedi's comment that RSLs might seek to change their capital structure. The prevailing capital structure has been driven by the regulatory requirement that, to receive grant, an RSL must not distribute profit to shareholders. While this has a number of beneficial effects, it can lead to a lack of incentive for innovation as there are no shareholders with vested interests in the RSL's performance (beyond, of course, a social interest), nor are they subject to the threat of takeover. More positively, by RSLs being able to issue equity, opportunities for expanding the business are likely to be more numerous.

Grant[4] could be repaid through the issuance of dividend-earning share capital. This would introduce a robust governance structure and open up new opportunities for growth and perhaps for consolidation.

However, the removal of direct government investment in the form of grant could lead the market to conclude that the government was no longer motivated to step in (a key component of market confidence) and hence affect its view of the underlying credit. We would argue, however, that the removal of grant need not lead to this conclusion, as the government, through the new Communities England, will remain fully motivated to keep affordable housing assets in the affordable housing sector and to keep them well managed and maintained, at an appropriate rent and so on. Whether grant is invested or not, headlines regarding tenant evictions and service failure will remain strong incentives.

Of course, if Sir Ian Byatt's suggestions are taken on board, an RSL becoming an equity-issuing company would not remove it from the affordable housing regulatory regime, and it is on this that the lending community is primarily focused.

Others have suggested the separation of asset ownership and management. Where RSLs are not actively managing their assets (as distinct from their tenancies), is there a case for them becoming tenancy managers, not asset owners? Should the three related activities of asset management (that is, balance sheet and portfolio management), unit management (maintenance of the asset) and tenancy management be owned separately?

The separation of asset management from ownership is considered to weaken the credit story and, if RSLs, as currently structured, are the only beneficiaries of the 50% risk asset weighting, this will appear to be the case. However, the strength of the RSL credit is that a portfolio of properties (rather than an RSL specifically) is able to service the debt. The lender assumes that, if the RSL (arguably simply the property manager) defaults, another manager will take over its role and the original portfolio will continue to service the debt.

4 The liability on the balance sheet relating to grant is for the historic sum paid; it is in effect a zero-interest, zero-inflation, nominal instrument.

The lender is relying on the properties and on the government's desire to protect those properties from being sold by the lender (and thus lost to the public sector) to make good a defaulted loan. The lender is not, ultimately, relying on the RSL as anything more than a good, well-regulated manager. Once this principle is understood, it is clear that the credit is equally strong wherever the asset is held, particularly if all affordable housing managers are regulated, as Sir Ian Byatt suggests.

Regulation reform

If we adopt the proposals set out in Byatt's paper, the RSL reforms discussed above need not affect the provision of finance at all. Byatt's proposals would rationalise the sector's regulation, improving transparency and hence attractiveness to funders. They also, crucially, move the focus of regulation away from inputs and on to outputs.

By regulating the provision of social housing, rather than focusing on organisations in receipt of grant, RSLs choosing to adopt the equity model discussed above would remain under the regulatory framework, and hence the rationale for increasing the risk weighting from 50% to 100% falls away. A genuinely mixed economy of provision would be feasible, as regulation would encompass all providers, and not just those in receipt of grant funding. This would have the added potential advantage of reducing the risk weighting on non-RSL providers from 100% down to 50% – or lower under Basel II – potentially opening up the provision of finance still further.

The key issue will be to ensure that regulatory reforms are amended without damaging the confidence of the lending community. Reputations take years to build and seconds to lose. In 1995, a draft housing bill came close to ending all investment in the sector by suggesting that the pledges of security by RSLs would be made void. This was rapidly amended, as the immediate consequence was a widening of bond margins by some 20-30 basis points and a statement by the Association of British Insurers in an informal meeting that they would no longer support private finance initiative schemes.

The City believes that RSLs will be protected by the regulator, in the sense that a failing RSL will be taken over by a stronger one. For 20 years this has been the case and it has led to funds being lent at Libor plus 25 basis points for 30-year maturities. It is the reason for recent ratings upgrades from Moody's and results in a 50% risk asset weighting (and lower under Basel II). A new regime must give investors equal confidence that the good management of affordable housing portfolios will be maintained and that a failing asset manager will be replaced by an effective one.

Tenure reform

The proposals set out in Elliot Lipton's paper, and touched on by Anu Vedi, for the removal of permanency of tenure can only increase the funding available. The ability to manage a portfolio more efficiently and to increase the potential value of a proportion of the security (by creating scope in the future for market value rents) should increase the available debt. The G15 group of RSLs have said that an increase of RPI plus 1% on their portfolios, as opposed to the RPI plus 0.5% they are currently allowed, would result in them providing an additional 30,000 units. This is simply what RSLs could do. If the financial markets have access to some level of residual value, they will readily lend against it, allowing more debt to be raised per unit than is currently achievable.

At present, lenders are lending against the lowest common denominator – a perpetual affordable rental stream. Any changes to tenure that give rise to a future increased rental stream or residual value will open up the sector to further funding.

Planning

Given that changes to the planning regime will be aimed at opening up new sites for development rather than changing the nature of the sector or its credit strength, I should merely end where I began by saying that the City is ready to lend and, other than a loss of confidence in the regulatory regime, we see no reason why substantial further funds should not be forthcoming.

Chapter 9

Implications for tenants

Adam Sampson, Chief Executive of Shelter

Implications for tenants

Professor John Hills' review of social housing has injected some much-needed fresh thinking and analysis into a sector that is long overdue for reform.[1] Maintaining the status quo is not an option, but we need to strike a balance between review and reform – no need to throw the baby out with the bathwater. None the less, far from being a threat, a well-constructed package of reform for social housing would provide a welcome framework for a renewed and reinvigorated sector fit for the 21st century. At the same time, we must not underestimate the magnitude of the implications for tenants of current debates around the future of social housing, and it is vital that we ensure their interests are at the forefront of any reform programme.

Who lives in social housing?

Almost one in five households live in social housing in England today, and demand far outstrips supply. There are over 1.6 million households on local authorities' housing registers, an increase of over 600,000 households since 1997, and the huge increase over the last decade in the number of households on housing waiting lists clearly reflects significant unmet demand.[2] Moreover, changing patterns of household formation – as a result of relationship breakdown, an ageing demographic, and inward migration – suggest that this demand will continue to increase.

Limitations on supply within the social rented sector – prompted by the decimation of the stock through the 1980s and 1990s as a result of the right to buy, combined with low levels of investment in social house building – mean that the profile of social housing tenants has changed significantly over the last quarter-century.

In the 1960s and 1970s tenants in social housing had a much greater range of incomes. Today, provision is more closely focused on those in greatest housing need. Overall, social tenants are now much more likely to be on low incomes and not in employment – 70% of social tenants have incomes within the poorest two-fifths of the overall income distribution, and the proportion of social tenant householders in paid employment fell from 47% in 1981 to 32% in 2006.[3] This means that social housing has significantly higher proportions of tenants with disabilities, lone parents, older people, and black and

1 Hills, J *Ends & Means: The Future Roles of Social Housing in England* (Economic & Social Research Council Research Centre for Analysis of Social Exclusion, February 2007)
2 Department for Communities & Local Government website – table 600: "Rents, lettings and tenancies: numbers of households on local authorities' housing waiting lists, by district, from 1997"
3 Hills, op cit

minority ethnic groups.

This equates to a concentration of deprivation and additional support needs within the social housing sector that make it not a *last* resort for residents, but the *only* resort. Why do so many people clamour to be housed within the social rented sector? Why do people sign up to local authority housing registers, when waiting times can be three, four or even five years? Why do people stay in substandard temporary accommodation for months, even years at a time, waiting for a permanent social rented home? The simple answer is that there is nowhere else for them to go.

The more pertinent question is this: how do we reform the social housing sector so that it can meet these people's needs more quickly and effectively, and at the same time open up a range of genuine choices across other tenures so as to achieve a more integrated housing market?

Housing in the 21st century: directions for reform

Supply and delivery

The supply-side delivery of new social housing must be an integral part of future housing policy. There is a growing political consensus that recognises the need for government investment in new supply, not just in the 2007 comprehensive spending review but for the next decade at least. Government funding must provide the cornerstone of investment in social housing supply, but there is scope for renegotiating the way that social housing is financed and built overall – are there opportunities, for example, to lever in private-sector investment, or to think more creatively about how to engineer a quantum leap forward in rates of social house building?

Alongside new ways of financing in the sector, we need to review the delivery mechanics of supply in order to translate new investment into real bricks and mortar. There are a number of obstacles in the way of housing delivery, not least the complexities of the planning system, local opposition to house building, and the weakness of existing levers to ensure that enough social rented housing is built. There is certainly room for further reform of the planning system to streamline the planning process and facilitate delivery on the ground, and the government has indicated its willingness to push forward this agenda through the planning white paper.[4] We would also look to both local and national government to provide the leadership necessary to drive through new supply, in particular

4 *Planning for a Sustainable Future*, white paper (Department for Communities & Local Government, May 2007)

to ensure that affordable housing provision is weighted towards social rented housing rather than low-cost home ownership.

Ownership and management of social housing stock

Hills highlights that tenants are keen to see changes in the way that social housing delivers for them. His consultation with tenants – as well as the messages from the Tenant Involvement Commission in 2006[5] – suggests that more could be done to improve social housing management. Tenants rate as important a range of factors, including greater involvement in decision making, more choice about how services are delivered, and greater accountability of social housing landlords. Combined with the need to ensure best use is made of resources that will always be limited, there is a growing case for reviewing who ultimately owns and manages the stock, and how they are held to account so that tenants receive a first-rate service.

Employment

There must be a clear expectation that the social housing sector can and should do more for its tenants beyond meeting their housing needs, in particular through enabling them to access employment. The twin benefits of affordability and security that are so essential to the provision of social housing *should* help people to make the transition into and sustain employment. However, even controlling for all other factors, Hills highlights that there are higher rates of worklessness in social housing than there are in other tenures.

Notwithstanding the need to reform the system of housing benefit tapers as outlined below, there are a range of ways that social housing could play a more constructive role in enabling its tenants to access employment. These include closer integration of housing and employment advice and support, and the promotion of employment within local communities by social landlords as well as by local public-sector employers.

Mixed communities

It is vital that social housing is integrated within mixed communities, which to date has been a particular problem – the majority of social housing today is still on monolithic, mono-tenure estates, which serves to compound problems related to concentrations of deprivation. Ensuring that there are residents with a mix of incomes on new developments is relatively straightforward, in theory at least – although private developers seem to be far too good at shirking their section 106 responsibilities in more affluent areas.

5 The Tenant Involvement Commission was set up by the National Housing Federation in March 2006, and focused on how tenants see their housing associations and what tenants want from them.

However, there is more of a challenge in addressing social polarisation on existing estates. Hills suggests a number of ways to tackle this, from wholesale demolition and remodelling through to diversifying the social rented stock and retaining higher-income tenants. Fundamentally though, we return to the need to tackle worklessness and improve tenants' incomes, in order to generate mixed-income neighbourhoods from within the existing tenant population.

Choice

In his review Hills spells out in no uncertain terms that social housing is not delivering the outcomes that are expected – and indeed necessary – to justify its future. What is missing from his analysis, however, is consideration of the role that other tenures play in the overall housing market. Social housing is only one of a number of housing options available, and in order to ensure that it is put to best use, it is important to look at reform across other tenures, as well as at ways of putting the power to choose in the hands of the consumer rather than in the hands of providers.

We accept the principle of giving would-be and existing social housing tenants the choice to decide which of a range of options is right for them. However, all too often "housing options" are used as a proxy for diverting people from social housing into – usually – the private rented sector. In order to make good the promise that housing choice offers, there is a need to develop a range of more sophisticated options and to ensure that it is the consumer making a genuine choice. These options must take into account affordability, location, opportunities for equity share, and support needs.

Social housing in the 21st century: core principles

Clearly, there are a number of ways in which we can and must make the social housing sector more flexible, more responsive, and more integrated within the overall housing market. The Hills review provides a clear mandate for reform, and it is only right that we take this opportunity to ensure that social housing plays as effective a role as possible in 21st-century housing policy. However, we need to recognise that social housing is different – and is different because its focus is and must remain *social* as well as *housing*. In order to deliver for tenants, the principles that underpin social housing's most important benefits must remain at the heart of any future settlement: affordability, security of tenure, and decent standards.

Affordability

Subsidised rents in the social sector make housing genuinely affordable for those on the lowest incomes. The contrast with the private rented sector is stark – on average, social rents are somewhere between 40% and 60% of equivalent private-sector rents, with variation according to geographical location. In the context of a housing market where affordability for owner-occupiers has significantly worsened, Hills makes the case that the existence of social housing has allowed its tenants to be protected from the impact of worsening affordability elsewhere.[6]

The difference between social and private-sector rents is also a critical factor in relation to housing benefit. In theory, housing benefit should ensure that people on very low incomes have their housing costs paid in full. In practice, however, there are a number of problems with housing benefit which means it cannot – and should not – be relied on as the only solution to housing affordability.

Firstly, not everyone entitled to housing benefit claims it; just over a 10th of those who are eligible fail to claim it, and this proportion is higher amongst private-sector tenants.[7] Secondly, private-sector tenants are eligible for a maximum level of benefit which is determined by the local authority's calculations of: a) what is "reasonable" in the area for the size of property the tenant is considered to need for their family; and b) the local reference rent.[8] Many private-sector tenants therefore end up with a shortfall, and have to supplement this out of their remaining income – no mean feat if you are already scraping by on a tight budget.

Finally, the steep withdrawal of housing benefit as incomes rise – the taper system – has particularly adverse effects for tenants in the private sector, where rents are higher. Overall, the complexity of the housing benefit system and the speed with which it tapers is a major disincentive to work for those in receipt of it. In addition, for those in employment Hills illustrates clearly that the way tapers work mean that the net gain from increasing incomes is substantially reduced for those on average private-sector rents, compared with those on average social-sector rents. Reform of the housing benefit system would be a welcome step towards facilitating the take-up of employment, and also towards establishing greater parity between the private and social rented sectors in terms of affordability.

6 Ibid
7 *Income Related Benefits: Estimates of Take-up in 2004/05* (Department for Work & Pensions, October 2006)
8 The mid-point between highest and lowest rents for similar properties in the area

Security

Security of tenure has been an unbending principle underpinning the provision of social rented housing for decades – and with good reason. It provides stability and security: a base from which tenants can plan for their own lives and contribute to the wider community. This leads to positive knock-on effects in a range of other areas, including educational continuity for children, improved physical and mental health, increased community participation, and better cared-for and maintained housing.

These benefits are particularly significant for the most vulnerable social tenants, whose lives have often been characterised by disruption, trauma and insecurity. It is important to remember that these tenants may have no other security in their lives – no security in their employment, no stability in their relationships, no safety net of family and friends on whom to rely. For these people, fashionable policy priorities around choice, empowerment and opportunity are all too often meaningless concepts. Without the income, education or support to make choices, security of tenure in social housing plays a vital – but frequently undervalued – role, giving people a secure base from which to then take other decisions about their life.

Conversely, removing security of tenure would serve to destabilise individuals and families as well as neighbourhoods and communities. For the most vulnerable groups, gaining a secure tenure is the first step towards stabilising their lives, without which they would be likely to stay in a chaotic cycle of disruption. For more successful tenants to be threatened with the ending of their tenancy if their economic circumstances improved would disincentivise people from seeking employment (or higher-paid employment), and would also increase social polarisation if higher-income tenants were forced to move out.

However, given Hills' comments about the limitations facing social housing tenants wishing to move for job-related reasons, there is perhaps a need to explore further the concept of portability within a secure tenancy. This could have the benefit of enabling tenants to move much more freely within the sector for employment, and could also help to address under-occupation. However, before investigating this as a serious option, we would need to understand more fully which aspect of a secure tenancy has the most impact – the guarantee of permanent housing, or the guarantee of a particular house – and what safeguards would need to be in place to protect the benefits of security of tenure. There would also need to be further work done on engaging housing associations and local authorities across the board to facilitate genuine choice and mobility.

Decent standards

People on low incomes clearly have limited means with which to make choices about their housing. In market conditions, this often equates to these people living in the cheapest – and therefore the worst – housing. However, the existence of the social rented sector means that those on the lowest incomes are able to access decent-quality housing. Indeed, the social rented sector is the most successful of all tenures in ensuring that the poorest in society live in decent homes – within the poorest fifth by income, only 27% of social tenants lived in non-decent homes in 2004, compared with 31% of owner-occupiers and 44% of private tenants.[9]

Decent housing is about much more than a quick paint job. Living in a home that is well-insulated, effectively heated, and in a good state of repair has positive effects on residents' physical and mental health, not to mention its positive financial impact through reducing their heating bills. Physical standards in social housing have improved significantly since 2000, when the government set a target that by 2010 all social rented homes must meet the decent homes standard.[10] Although by no means perfect, landlords in the social sector are also better at undertaking repairs and maintenance than those in the private sector – more than half of social tenants say that their landlord "nearly always or often" provides a good standard of repairs and maintenance, compared with only a third of private tenants.[11]

Conclusion

The Hills review has prefigured a very necessary debate about one of the key elements of the post-war welfare state settlement. Until Hills there had been no debate about housing to parallel those about crime, education or health; the debate has been long overdue. Hills illustrates all too clearly what the flaws are within the current social housing system, in particular the high levels of worklessness among social housing tenants and the increased polarisation of communities.

Clearly, we need to take a fresh look at how social housing delivers – for its tenants, for the taxpayer, and for the country as a whole. But let's also remember that, despite his criticisms, Hills came down strongly on the side of both security of tenure and protected rents – and no wonder. Given that few, if any, social tenants would be able to buy, their

9 English housing condition survey 2004
10 A decent home is defined as one that: meets the current statutory minimum standard for housing; is in a reasonable state of repair; and has reasonably modern facilities and services including adequate thermal comfort and efficiency.
11 British social attitudes survey 2005/06

alternative destination – the unaffordable, unregulated and unstable private rented sector – would make their problems worse, not better, and it would be a huge betrayal of the most vulnerable and disadvantaged people in our society if we used this opportunity to do away with the very elements of social housing that give them the stability and security they need.

By all means, let's implement reforms that make social housing more efficient, more effective, and more integrated within the overall housing mix. But let's also take this opportunity to step back and look at how the whole housing market, not just the social sector, delivers for people on low incomes and those who are vulnerable in other ways; a review of the private rented sector might be a good place to start.

Chapter 10

Developing the role of housing associations in creating sustainable communities

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Developing the role of housing associations in creating sustainable communities

Housing associations (HAs) in their present institutional form look and feel outdated. Overall, the policy framework in which they operate provides few incentives to work towards the sustainable communities agenda. As a result, many HAs are risk-averse, and the government and communities are not getting the full value from the sector. There are few opportunities for practical joining up of thinking and policy to create programmes that have a holistic or integrated impact on community needs, and HA assets are not used optimally to facilitate partnerships and collaborations with community and third-sector organisations.

However, we believe the sector can be reformed and that HAs in their localities can act as catalysts to make the jigsaw of providers work more effectively and efficiently. But, to achieve transformational change on a scale that can make a difference, there needs to be a radical shift in thinking about the sector's future.

What housing associations do now

HAs, with other partners, have undoubtedly contributed a tremendous amount to the regeneration of neighbourhoods over the past 30 years. However, their energy, focus and resources have been primarily targeted at "place", on the understanding and assumption that this would have a consequential impact on the lives and wider opportunities of the communities in these areas.

iN business for neighbourhoods, the sector-change programme launched in 2003 by the National Housing Federation, and other similar initiatives (such as the Institute for Public Policy Research's work on the "brand" of social housing) have helped to raise awareness about the work HAs do in neighbourhoods, and has encouraged the sector to do more. However, the programme has failed to attract the attention of stakeholders outside the sector and has therefore not achieved its ambition to put HAs centre stage in neighbourhood activity. That situation can change, and there remains an opportunity to develop the work of HAs further, if the sector could be galvanised to do so.

The terms "registered social landlord" (RSL) or even "housing association" are not particularly helpful in this context. They no longer accurately describe the work of HAs and are becoming narrowly understood terms. Many associations have tried the labels "social regeneration agency" or "community investment agency", but these also do not seem to have had a significant impact on how the sector is largely viewed by stakeholders.

Beyond housing

Despite numerous attempts through inquiries, think tanks and government-initiated discussions, HAs have on the whole failed to create an environment where the empowerment and development of people and communities is seen as central to their work, rather than just the development of new homes.

The recent reviews of social housing by Professor John Hills[1] and of housing regulation by Professor Martin Cave[2] provide a fresh opportunity to reform the sector. However, it is vital that policy makers and politicians fully understand the limitations and barriers to change. The main issue to be addressed are:

- The regulatory regime positively discourages the moving of assets to community-driven projects. HAs are therefore generally risk-averse, encouraged by the Housing Corporation to develop a narrow definition of risk.
- The sector is diverse and in many organisations there is not a culture that puts people first.
- Working with physical development and "place" is relatively easy to measure. Working with people is seen as soft and less tangible, with success measured in outputs and needing longer-term intervention.
- HAs too often approach problems from a housing/place perspective, which stops them from taking a broader view
- We don't really know what we mean by mixed (or sustainable) communities. Interventions to date have been short-lived and not sustained.
- Some HAs have become highly bureaucratic, centralised institutions, not nimble enough on their feet to respond to the dynamic nature of communities. This is despite the fact that in some communities they are among the richest organisations.

The relationship between HAs and local stakeholders (in particular local authorities) could also be much improved. There are real and perceived institutional boundaries that stop collaboration and creative problem solving on the ground. HAs need to minimise these without fear of a loss of autonomy or independence.

1 Hills, J *Ends & Means: The Future Roles of Social Housing in England* (Economic & Social Research Council Research Centre for Analysis of Social Exclusion, February 2007)
2 Cave, M E*very Tenant Matters: A Review of Social Housing Regulation* (Department for Communities & Local Government, June 2007)

Community regeneration

There is growing evidence of the community regeneration work being done by HAs in many parts of the country. However, the sector has largely failed to convince its stakeholders that it is interested not only in the development of housing units but also, genuinely, in the regeneration of communities. HAs therefore need to demonstrate that they can (and are willing and able to) do more, and are committed to the continuing development of initiatives that work for people as well as place.

HAs need to become people- and place-focused organisations able to sweat community assets in the interest of creating sustainable communities, with people at the centre of their endeavours, to develop housing provision that addresses needs and aspirations – rather than being driven by funding restrictions[3] – and that takes account of the transient nature of communities in some parts of the country.

There are a number of good examples of community-based regeneration models, but these are mainly in estate-based affordable housing. It has proved difficult to replicate this elsewhere, particularly in inner-city areas.

The impending merger of the Housing Corporation with English Partnerships may provide a further catalyst for looking afresh at what we are here to do. It is a potentially unique opportunity to widen the role and remit of HAs as community regeneration agencies by making better use of land, development solutions and partnerships for neighbourhood-based change.

There are also opportunities to get more value out of HAs by empowering communities through the provision of financial resources so that they can make real decisions about where and how money is spent and can benefit from this spend. HAs would then be more confident about sweating their financial assets for the benefit of the community.

Leveraging partnerships and finance

A recent Housing Corporation report revealed that the iN business for neighbourhoods programme has provided a catalyst for social action programmes. It found that in 2005 almost 20% of HAs were responsible for about 80% of neighbourhood activity in the sector. These, mostly large HAs, were engaged in various "near housing" activities, including neighbourhood regeneration programmes.

3 See latest London Housing Federation report on delivering family homes for Londoners: *Think Big: Delivering Family Homes for Londoners* (London Housing Federation, November 2006)

Many HAs are uniquely placed to leverage partnerships and finance for wider community benefit. Their relationships can span across all providers, including community, health, social care, voluntary sector, public services and private-sector organisations. The sector is thus well positioned to provide local leadership and work with both the public and private sectors to provide more financially sustainable and healthier communities, working across all tenure types.

The sector holds total assets of around £40 billion, total reserves of around £11.8 billion, and cash reserves of some £5.5 billion. There is substantial scope for the sector to attract leverage using these assets, not least by:

- addressing the core need of developing more homes by leveraging further funding;
- using a percentage of our assets to leverage public and private finance for regeneration and community (re-)investment;
- devising a requirement whereby a percentage of assets must be used for longer-term sustainable communities outcomes; and
- acting as a catalyst for economic sustainability to provide opportunities for social enterprises to make neighbourhoods financially viable and healthier through partnerships with health partners or through the provision of the resources from which bespoke health and social care services can be provided.

However, it should be noted that the distribution of assets across the sector varies, with 65% of all HA assets being owned by the largest 150 associations – and many of these are based in London and the South East.

Delivery on the ground

HAs are uniquely placed to deliver customer-driven solutions in an environment where they are fully accountable for their actions. Such accountability (both locally and to the national regulatory bodies) is vital in order to protect community assets from being misused. However, there are few (if any) credible vehicles for helping HAs deliver sustainable communities in a coherent way on the ground.

There is a plethora of bodies at the national, let alone local, level that are involved in delivery. The number of so-called delivery agencies is often bewildering, which in part explains why so little progress has been made. What is required is a cadre of organisations able to build community from the people up. HAs are already anchored in community and voluntary traditions and can play a major part in stimulating this shift.

The development of the model village Poundbury (receiving the patronage of HRH Prince Charles) is an example of the wholesale development of an area led by the needs of the people who are going to live there, including decent housing, health facilities, community safety and so on. The major difference between this and what we envisage is, in the main, that our focus is on opening up more opportunities for mixed communities, including people from lower-income groups.

What is the big idea?

An Opportunity Waiting to Happen is the title of a recent joint publication from the National Housing Federation, the Housing Corporation and the Housing Associations Charitable Trust, written by Chris Wadhams Associates. The report draws on information from over 300 HAs and voluntary and community groups, many of which are already working together in a rich diversity of partnerships anchored in the community by HAs.

It states:

The case for the joined up agenda is overwhelming, regardless of the current fashions in Whitehall. Many housing associations and voluntary and community organisations share the same goal of renewing neighbourhoods and communities. Working together they can improve their service delivery and create neighbourhoods where people want to live.

We believe that the time is right for a fresh look at institutional forms, relationships, purpose, finance and regulation. The recent Lyons inquiry into local government[4] and the Hills housing review provide an opportunity to create a policy framework that lets the genie out of the bottle: an opportunity to be people-led, not place-led.

HAs are perfectly placed to access people, including the excluded, the hard-to-reach and hard-to-hear communities. Their first and primary ambition ought to be to understand what communities and customers want and then to provide it.

Some of the larger HAs have the resources, clout and boldness to move ahead without waiting for a government white paper and a succession of policy reviews. However, they recognise that in order to achieve transformational change on the necessary scale it is desirable, and indeed necessary, to work in partnership with government and other stakeholders.

It is worth noting that over recent years the growth in the community development

4 Lyons, M *Place-shaping: A Shared Ambition for the Future of Local Government* (Department for Communities & Local Government, March 2007)

movement (through the community development associations) also provides a model for achieving the vision outlined in this paper. Although such associations are in their infancy, they represent a possible point of synergy between the present focus of many HAs on place and the critical need for organisations that can deliver "sustainable" people and places.

Our "big idea" is to encourage the development of a new form of third-sector organisation – the community regeneration agency – that is tasked to develop integrated solutions for integrated outcomes, leveraging asset wealth to spread prosperity and opportunity. The purpose of such an agency would be to deliver hard, measurable outcomes in respect of housing, health, community safety, educational attainment, employment and more. These goals require a fundamental redesign of institutional forms and boundaries.

Conclusion

We believe that the time is right to think of creating vehicles for sustainable development that deliver wholesale change on behalf of communities, in partnership (or under contract to) local authorities. We are talking about the need to sweat HAs assets (including housing) to create resources for investment on behalf of a community's whole needs and to meet outcomes defined with that community and local authority – monitored through long-term contractual relations if necessary.

Regulation in this context would be about the viability of the over-arching strategy and business plan(s) and the accountability to and relationship with community stakeholders in order to protect community assets from being misused. The time is right for such a regulator with the arrival of Communities England.

HAs are among the most successful public/private/community partnerships in recent times. They can and should take their basic strengths to unlock greater regeneration opportunities in communities, resulting in:

- creative, innovative and independent third-sector leadership;
- a focus on strong and diverse communities;
- provision of excellent services to meet complex interrelated needs through holistic solutions;
- the use of privately held and well-maintained assets for a wider public good; and
- most importantly, a sector that is truly putting the community first.

This essay represents the personal views of the authors.