

# Double or Quits: The influence of longer-term grant funding on affordable housing supply

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Report commissioned by the Consortium of Associations in the South East (CASE),  
the National Housing Federation and Shelter



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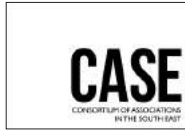
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## Contents

Foreword	5
Key Findings	7
Introduction	8
A brief history of Government funding for new affordable housing in England since the late 1980s	11
Mixed funding model (from 1989)	11
Approved Development Programme (2004-06)	12
National Affordable Housing Programme (2006-08)	13
National Affordable Housing Programme (2008-11)	13
Case Study: A counter-cyclical role for affordable housebuilding	14
Case Study: Investment Partnership Plus - an early precursor to strategic partnerships	15
Affordable Homes Programme (2011-15)	15
Affordable Homes Programme (2015-2018)	17
Shared Ownership and Affordable Homes Programme (2016-2021)	18
Homes England Strategic Partnerships (July 2018-)	19
Affordable Homes Programme (2021-26)	20
Levels of delivery over time	23
Interview Analysis	28
Thoughts on the current system for allocating grant	29
Views on a move to longer-term funding	31
The effect on housing associations' land purchasing behaviours	31
Case Study: Alton Road (Optivo)	33
Case Study: Barking Riverside (L&Q)	35
The effect on housing associations' partnerships with others	37
Case Study: Evera Homes: The role of joint ventures in increasing the scale and pace of delivery	38
The effect on housing associations' investment in skills and organisational development capacity	39
The effect on housing associations' investment in Modern Methods of Construction	40
Thoughts on the optimum design of a longer-term programme	41
Conclusion	43
Bibliography	47

## Foreword

This report was commissioned under very different circumstances to those we find ourselves in now. In one way or another Covid-19 has impacted every single one of us and every sector of the economy, with housebuilding no exception. The temporary closure of housebuilding sites across the country, ongoing need for social distancing and reduced demand for market sale homes are likely to slow the pace of building considerably. At the same time, the demand for social and affordable housing will undoubtedly grow given the prospect of mass unemployment as Government's job retention scheme draws to a close.

Any growth in the need for social and affordable housing will only add to that which has already built up in recent decades as the pace of new supply in this area has spectacularly failed to keep up with demand. This failure is why there are now more than one million people languishing on social housing waiting lists, why more than 280,000 people in England are homeless and why millions more are trapped in expensive and unsuitable private rentals. For families up and down the country, the reality of this failure is to make their lives harder and to reduce their ability to put down the strong foundations that we all rely on.

Looking forwards, the latest estimates are that 218,000 fewer homes will be built over the next five years as a result of the pandemic<sup>1</sup>. Those include 41,000 affordable homes, of which 4,600 would have been for social rent. Compare that to the at least 90,000 homes for social rent estimated to be required annually in England before the pandemic<sup>2</sup> and you have some idea of the scale of the housebuilding challenge we now face.

That's why this research is so timely. It adds to a growing body of evidence showing that long-term funding would benefit not only housing associations and their future residents, but also the housebuilding industry and the taxpayer. A long-term commitment would boost the productivity and resilience of the sector; enabling counter-cyclical investment to support construction jobs, stimulating investment in modern methods of construction and new skills, and securing savings through the planning process.

Government's current approach – announcing new funding every five or so years – is highly inefficient and generates unnecessary friction and waste. With only short-term certainty over the future availability of grant, housing associations are sometimes understandably reluctant to commit to long-term development programmes. A lack of certainty can lead to pronounced peaks and troughs in delivery. This 'lumpiness' drives up per unit costs and has the knock-on effect of preventing innovation and investment in the housebuilding supply chain.

The effect is compounded when the end of an Affordable Homes Programme coincides with a downturn in the housing market as we are seeing now. Housing associations have shovel-ready sites, but development is being delayed by an absence of firm details about the 2021-26 programme. That uncertainty is undermining housing associations' ability to build homes in the bad times as well as the good.

1. Bibby, J., & Bhakta, T. (2020). Rescue, recovery and reform: housebuilding and the pandemic. Shelter.
2. Bramley, G. (2018). Housing Supply Requirements Across Great Britain: For Low Income Households and Homeless People.

## Foreword

Our proposed solution is for Government to increase the duration of Affordable Homes Programmes from five years to ten and commit to additional funding to boost the programme on a per unit and per annum basis. Doing so would have a transformative effect on housing associations' development capacity. It could embolden them to purchase more sites without planning permission and use the potential savings to supply greater levels of affordable housing. It would lead them to take on larger and more complex sites, such as Barking Riverside where L&Q's involvement will increase the proportion of affordable homes from 28% to as high as 50%. It will lead to greater investment in internal development capacity so housing associations are better able to manage larger and more ambitious land-led development programmes. And it will accelerate a growth in partnership working across the industry, including fuelling the growth of joint ventures with benefits for the pace and scale of housebuilding.

Right now we undoubtedly need an emergency package of measures to help prevent job losses in the construction industry and its supply chain. But the housing crisis is a long-term problem requiring short and long-term solutions. Doubling the duration of Affordable Homes Programmes from five years to ten, with additional grant funding to support the creation of a ten-year fund, would mean a more efficient use of public funds and an increase in the delivery of affordable housing. It isn't just a question of how much money we spend on affordable housing, it's how we spend it.



A handwritten signature in black ink, appearing to read 'Elizabeth Austerberry'.

**Elizabeth Austerberry**  
Chair of CASE and  
Chief Executive of Moat



A handwritten signature in black ink, appearing to read 'Kate Henderson'.

**Kate Henderson**  
Chief Executive  
National Housing Federation



A handwritten signature in black ink, appearing to read 'Polly Neate'.

**Polly Neate CBE**  
Chief Executive  
Shelter England

## Key Findings

- The Affordable Homes Programme (AHP) – Government’s principal method for grant funding new affordable housing – has typically lasted for three to five years, offering housing associations only short-term certainty over the availability of grant. Successive programmes have had widely differing levels of overall funding, funding per home and the selection of tenures for which grant is available.
- This lack of predictability has inevitably contributed to a more cautious approach by housing associations when it comes to building their development pipelines and limited the number of affordable homes they have been able to deliver. Amongst other things, it has affected their land purchasing behaviours, the nature of sites they have taken forward and their ability to collaborate with others. This has been reflected in pronounced peaks and troughs in delivery, with completions skewed towards the end of Programmes, which has had knock-on consequences for development costs, build-quality and the productivity of the housebuilding industry.
- A move to longer-term funding, specifically doubling the duration of Affordable Homes Programmes from five years to ten, would address many of these problems. If administered flexibly and accompanied by adequate grant rates across a variety of tenures including social rent, it could have a transformative effect on housing associations’ development capacity.
- Ten-year Affordable Homes Programmes would enable housing associations to:
  - i. Purchase more sites without planning permission more confidently and use the savings on land price to supply greater levels of affordable housing
  - ii. Take on larger and more complex sites, increasing the proportion of affordable homes delivered and the pace of delivery
  - iii. Invest in their in-house development teams so they are better resourced to take the lead role in development and make the most of their place-making skills, rather than acquiring homes from private developers
  - iv. Intensify existing relationships including joint ventures and forge new ones with building contractors, local authorities and private developers with benefits for the pace and scale of housebuilding.
- Combined, these changed behaviours suggest the introduction of longer-term funding could help unlock a substantial – if as yet unquantifiable – increase in the delivery of homes across all tenures including those for Affordable and social rent.
- A move to long-term funding would also increase housing associations’ ability to fulfil their traditional role in continuing to build through housing market downturns (sometimes known as counter-cyclical delivery). It would do so by accelerating the trend for greater levels of land-led development, whereby housing associations act as the lead developer on sites rather than acquiring homes from private developers more subject to buyer demand. And it would enable housing associations to build up longer and more consistent pipelines of development sites, which would help avoid some of the pronounced peaks and troughs in delivery that have been associated with previous Affordable Homes Programmes.

## Introduction

**Government capital grant plays a critical role in enabling housing associations to deliver affordable housing. Although grant has reduced on an overall and per unit basis since the late 1980s, it continues to support the delivery of affordable housing by bridging the shortfall between the total cost of construction and housing associations' private borrowing and cross-subsidy.**

Since the introduction of the Housing Act 1988, Government has largely allocated grant to the sector on a short-term basis. The Affordable Homes Programme, which has been the primary mechanism by which Government has funded new affordable homes since 2011, has provided funding on a three- to five-year basis.

Debate about the relationship between duration of grant funding and affordable housing delivery has been ongoing. A number of prominent housing organisations (e.g. the Chartered Institute of Housing, National Housing Federation and Shelter<sup>4</sup>) have made the case that a longer-term approach – for example with grant allocated over a period of 10 years – could offer improved delivery and better value for money. It has been argued that a longer-term approach could, amongst other things, enable housing associations to acquire sites without planning permission more regularly, take on larger sites, and invest more in skills and supply chains. All of which could potentially translate into an increased level of delivery from the sector, including of the most affordable tenures such as social rent. More recently, there have been calls for the Treasury to provide 10-year funding guidelines for major policy areas including housing to maximise the efficiency of public spending (Bailey, Hughes, Judge, & Pacitti, 2020). HM Treasury's own 2010 Infrastructure Cost Review found that the stop-start nature of investment planning and lack of long-term funding certainty led to increases in unit costs of 10%-20% across different suppliers and sectors.

Since 2018, housing funding policy has shifted – at both a national and regional level in London – in ways that suggest policy makers have been influenced by these arguments. Three important funding changes were made in 2018.

Firstly, in July Homes England introduced a new marginally-extended approach to grant funding through the strategic partnership model. Based on the model pioneered by the Greater London Authority in 2017, this has shown that even a limited degree of extra certainty, combined with a programme approach to delivery can unlock considerable additional new supply (National Housing Federation, 2019). Homes England's strategic partners have collectively agreed to supply almost 40,000 additional affordable starts by March 2022 on top of their existing commitments.

Secondly, in its Social Housing Green Paper published in August, the Ministry of Housing, Communities and Local Government (MHCLG) recognised the challenges for delivery imposed by its short-term approach to grant funding:

4. National Housing Federation. (2019, June 26). £12.8bn needed every year to end the housing crisis.



## Introduction

*“The Government has delivered capital investment in social housing for many years, but the stop-start nature of programmes has led to peaks and troughs in delivery. Housing associations and others tell us this makes it more difficult to plan ahead over the longer timeframes needed to build more affordable homes. This affects the risk appetite of their Boards and slows down the pace of delivering new homes”*  
(MHCLG, 2018, p. 62).

Thirdly, in September 2018 Prime Minister Theresa May announced the introduction of 10-year funding deals for some housing associations for the first time:

*“Under the scheme, associations will be able to apply for funding stretching as far ahead as 2028/29 – the first time any Government has offered housing associations such long-term certainty. Doing so will give you the stability you need to get tens of thousands of affordable and social homes built where they are needed most, and make it easier for you to leverage the private finance you need to build many more”*  
(HM Government, 2018).

The move was welcomed across the housing sector, with the National Housing Federation praising it as a *“total step change”* (Evans & Hughes, 2018). In June 2019 Homes England confirmed that half of the £2bn made available by Theresa May would be used to extend the end-point of selected strategic partnerships from 2024 to 2029, meaning a small number of housing associations will soon benefit from genuinely long-term funding. Its press release again referenced how long-term certainty would enable the delivery of a greater number of affordable homes:

*“The £1bn in additional grant funding will give our strategic partners more flexibility and longer term funding certainty so that they can build the affordable homes their communities need over the next 10 years”*  
(HM Government, 2019).

With Government now taking significant steps towards long-term funding, it appears an opportune time to explore what level of additionality such an approach might generate. To do so we agreed three research questions:

1. Have the duration and conditions attached to previous grant funding settlements had a discernible impact on housing associations' delivery?
2. All else being equal, would a 10-year grant settlement deliver greater value for money than two equivalent five-year settlements?
3. How exactly would longer-term funding enable housing associations to increase delivery?

To explore these and related questions, the report examines Government grant funding for affordable housing since the late 1980s. It shows that three- to five-year Affordable Homes Programmes have produced discernible stop-start trends in housing associations' output. Completions have tended to peak at the end of programmes, followed by a distinct drop-off in the early stages of their successors.

## Introduction

There has also been significant variation in the conditions attached to grant funding. Key variables have included to what extent grant payment has been split between the start and completion of construction and the selection of tenures for which grant funding has been made available. Our analysis shows that these changes – together with variations in the overall quantum of grant and grant rates per home – have exerted a strong influence on the number and tenure mix of homes housing associations have been able to deliver. Political choices and decisions by officials on the most effective way to administer grant have had very tangible and rapid consequences for the nature of housing associations' delivery.

The report then goes on to detail the results of semi-structured interviews with development directors and chief executives from 13 of the country's leading developing housing associations. Interviewees were first asked to consider how a longer-term grant settlement would influence their organisation's development activity. Questions covered potential impacts on land purchasing decisions, procurement behaviours, propensity to enter into joint ventures and whether long-term funding would encourage investment in skills and training.

A recurring theme was that housing associations would be more likely to purchase land earlier in the planning process if grant were made available over longer periods. Interviewees thought that this would enable associations to secure significant savings, which could be used to provide a greater volume of affordable housing.

Secondly, interviewees were asked for their thoughts on the optimum design of a new longer-term approach to grant funding. Key areas for consideration included whether to link grant draw-down primarily to starts or completions, tenure flexibility and whether it would be preferable to adopt a scheme-by-scheme or programme approach to delivery.

The results provide helpful insights into how a longer-term grant settlement would enable housing associations to increase development activity – including of the most affordable tenures – and how future Affordable Homes Programmes might be designed to maximise delivery.

## A brief history of Government funding for new affordable housing in England since the late 1980s

Central Government investment in affordable housing<sup>5</sup> in England has taken many forms since the late 1980s. While the duration of Affordable Homes Programmes has remained relatively static, with a period of three to five years being most typical in recent times, the conditions attached to grant funding have varied significantly. At one level this reflects variation in political priorities with successive Governments arriving at different conclusions about the selection of tenures and rental products for which grant funding should be made available. And at another it reflects the administration of grant by the Housing Corporation, Homes & Communities Agency and now Homes England. Key variables have included to what extent grant should be paid upfront or on completion and how applications for grant are assessed and prioritised. As the summary below shows, variability in these factors – together with the overall quantum of grant and grant rates per home – has had a profound effect on the number of affordable homes housing associations have been able to build. One finding stands out, the more flexibly Government and its delivery agencies have deployed grant, the more affordable homes housing associations have been able to deliver.

### Mixed funding model (from 1989)

The current mixed funding regime – whereby housing associations supplement Government grant with their own private borrowing – was formally introduced through the Housing Act 1988. Until this point housing associations' capital development costs had (with a few exceptions) been met almost entirely from public funds (CLG Committee, 2009). That was first in the form of annual subsidies and then, following the Housing and Planning Act 1974, up-front capital grants (Whitehead & Williams, 2009). Some commentators (e.g. Hills, 1990) argued that this system was inefficient and created perverse incentives including through its absorption of cost overruns and scheme deficits. To encourage housing associations to assume greater responsibility for their own affairs – and maximise the number of dwellings provided by a given amount of public funds – the Housing Act 1988 required associations to combine Housing Corporation grants with private sector loans or reserves. It was a classic example of the economic neo-liberalism of the Thatcher era (Gulliver, 2013), reducing state subsidy and expanding private sector financial input into the development of social housing. From April 1989 Housing Association Grant (HAG) was mainly provided as a fixed proportion of projected scheme costs, payable in tranches during the development period (National Audit Office, 1993). Grant was allocated among associations on the basis of local housing need indicators and rates varied according to location and house type (Whitehead, 1999).

To coincide with the launch of the mixed funding regime the Housing Corporation launched a new 'tariff approach' to funding. Rather than awarding grant on a scheme-by-scheme basis, this involved selected housing associations agreeing a three-year programme of development activity with the Housing Corporation (Cope, 1990). Associations had only to specify the overall number and type of units to be provided rather than break down the details of individual schemes. This tariff approach meant housing associations took on greater development risk since grant was provided as a fixed cash sum, which would not be flexed to cover higher than expected outturn costs. But, in some respects, it was an early precursor to the programme approach to delivery only just reintroduced through Homes England's strategic partnerships. Development funded through the tariff was not subject to

5. As defined in Government's National Planning Policy Framework

## A brief history of Government funding for new affordable housing in England since the late 1980s

detailed project approval. Instead, the Housing Corporation subjected associations to quarterly and annual reviews in which progress, grant required and any revisions to agreed delivery had to be detailed (Cope, 1990).

Housing Association Grant and latterly Social Housing Grant (SHG) was delivered through successive, mostly annual, Government funding programmes (known as ‘Approved Development Programmes’) for the next 17 years. Initially the national average for grant levels was around 75% of total scheme costs (Balchin & Rhoden, 2002). But by 1997-98 this had already fallen to 56% (Gibb, Munro, & Satsangi, 1999), transferring much greater borrowing risk to housing associations. The final Approved Development Programme ran between 2004 and 2006 and is described below.

### Approved Development Programme (2004-06)

The final iteration of the Approved Development Programme lasted for two years and was made up of £3.3bn from the Office of the Deputy Prime Minister (National Audit Office, 2005). Capital grant investment was split as follows:

- Activities to add to the stock of properties for social rent: £2.2bn
- Activities to increase the number of affordable houses for purchase or for low-cost home ownership schemes (excluding key worker schemes): £0.4bn
- Activities to increase the availability of affordable housing for key workers for purchase: £0.5bn
- Activities to increase the availability of affordable housing for intermediate rent (including those for key workers): £0.1bn

In a shift in approach, over 80% of the funding was allocated to just 70 ‘Investment Partners’, through the Housing Corporation’s pilot Investment Partnering programme (Wilson & Anseau, 2006), down from 400 recipients in 2003/04 (National Audit Office, 2005). Government’s stated aim was to concentrate public subsidy on a small number of ‘*the best performing associations*’ to secure better value for money for the Corporation’s investment (Riverside Housing Association, 2016). Non-partner housing associations were encouraged to work with Investment Partners to form consortia of housing associations working together on new developments, with the claim being that joint-working would secure economies of scale and more efficient procurement. Investment Partners were selected according to a range of criteria including overall competence, financial capacity, management competence, efficiency and their development track record (National Audit Office, 2005).

During the evaluation of the programme, questions were raised about whether a longer funding settlement would produce better outcomes. In assessing the efficacy of the 2004-06 programme, the National Audit Office (NAO) suggested extending the funding cycle to three to five years (as opposed to the current two) would:

*“create a better basis for business planning, providing further potential for housing associations and developers to build capacity, to realise efficiency savings in their procurement, to achieve economies of scale and to provide more homes more quickly”* (Chartered Institute of Housing and Tribal HCH, 2005).

## A brief history of Government funding for new affordable housing in England since the late 1980s

### National Affordable Housing Programme (2006-08)

Launched under the third Blair Government, the first National Affordable Housing Programme significantly increased levels of capital funding for affordable housing. It followed the Barker Review of 2004, which had identified a need to increase the supply of social housing by 17,000 homes each year above existing provision (Wilson & Anseau, 2006). Administered by the Housing Corporation, the 2006-2008 programme consisted of £3.9bn in grant funding and aimed to deliver 84,000 affordable homes, as well as supporting the refurbishment of some existing stock and market renewal initiatives (Housing Corporation, 2006). Just under £1bn was allocated with the aim of delivering 35,000 homes for low-cost home ownership (LCHO), with most of the remainder used to fund 49,000 new social rented properties (Wilson & Anseau, 2006). The national average grant per unit was £62,000 for rented homes and £27,000 for LCHO (Housing Corporation, 2007). Planned output was 25% higher than over the preceding 2004-2006 programme with much of the growth achieved by a 17% increase in the output of social rented homes (Wilson & Anseau, 2006).

Bidding for the NAHP 2006-08 began in 2005 through a pre-prospectus setting out Government's priorities for delivery and the Housing Corporation's approach to investment. Bids were subject to a three-stage assessment process covering conformity with the bidding process and adherence to minimum build quality standards; a newly-developed Grant Index tool producing a value-for-grant rating for each proposed scheme; and the judgement of regional teams (Laxton's, 2006). Ratings produced by the Grant Index tool included an adjustment for the time of delivery (with early delivery encouraged) (Smyth, 2015).

### National Affordable Housing Programme (2008-11)

The next National Affordable Housing Programme was launched in 2006 with the main round of bids occurring during 2008-11 at the peak of the global financial crisis (see box below). A flagship policy of the third Blair Government, it was delivered through the Housing Corporation and then the Homes and Communities Agency (HCA) following the agency's creation through the Housing and Regeneration Act 2008. Between them the two agencies spent £8.9bn (Wilcox, Perry, Stephens, & Williams, 2016) over three years with the initial aim of building 155,000 new homes (National Audit Office, 2012). Final outturn statistics collated by the CIH reveal the programme over-achieved with 173,900 homes delivered, of which 54% were for low-cost rent (principally social rent) and 46% were for low-cost homeownership (Wilcox & Pawson, 2011).

Funding allocations were made to eligible Investment Partners on the basis of quarterly bidding rounds (CLG Committee, 2009), before a move to scheme-by-scheme assessment (Smyth, 2015). Grant, which averaged £60,000 per unit (Griffith & Jefferys, 2013) and covered roughly 40% of total scheme costs (CLG Committee, 2009), was initially paid 50% at start-on-site and 50% on completion (Housing Corporation, 2007), although moves were later made to pay 60% at the start and 40% upon completion (CLG Committee, 2009).

## CASE STUDY

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# A counter-cyclical role for affordable housebuilding

**Counter-cyclical delivery – housebuilding that falls out of sync with housing market cycles – has historically been a strength of housing associations.**

Following the global financial crisis of 2007/08, Government introduced a package of emergency measures to protect the housing market and provide a stimulus to the construction industry. The sudden reduction in the availability of loans across all of the economy, often referred to as the ‘credit crunch’, had a profound effect on the housing market with housing starts, transactions and prices all falling. With grant rates reduced compared to the early 1990s, housing associations were more exposed than in previous downturns, their cross-subsidy models impacted by a combination of falling demand and more stringent borrowing conditions.

In response to the crash Government increased the HCA’s investment programme by £1.7bn (Chartered Institute of Housing, 2016). Significantly, this did not require large values of new borrowing. As analysis by the CIH highlights, two-thirds of the total £1.7bn package came from underspending in other departments and one-third from reallocating Department for Communities and Local Government (DCLG) spending (ibid).

Funding was made available through various initiatives including the Kickstart programme, Building Britain’s Future fund and latterly the Get Britain Building campaigns. Combined, the effect of these programmes for housing associations was to enable them to:

- convert unsold shared ownership homes to rent through the provision of extra grant
- deliver more new affordable housing by way of additional grant allocations through the NAHP
- purchase unsold developer stock for open market sale and convert it to affordable tenures.

These measures helped to prevent any reduction in the sector’s output. In fact, 2010/11 saw over 61,000 affordable completions across the housebuilding industry, the sixth highest level of output over the period 1991/92 to 2018/19 (Ministry of Housing, Communities and Local Government, 2019).

However, the purchase of unsold developer stock was not without its problems. Many housing associations purchasing homes through this route reported markedly higher maintenance costs driven by a number of factors including lower build quality and the use of unusual materials and components (National Housing Federation, 2008). Homes developed by housing associations must also meet significantly higher environmental and space standards than those required of private developers.

Consequently, while the purchase of unsold developer stock may help to support the housebuilding industry in the event of a downturn, it is not an ideal tool for achieving counter-cyclical delivery of affordable housing. As our analysis below suggests, the provision of long-term funding for housing associations is likely to be a far more reliable method for maintaining the delivery of affordable housing during downturns in the housing market.

## A brief history of Government funding for new affordable housing in England since the late 1980s

### CASE STUDY

## Investment Partnership Plus - an early precursor to strategic partnerships

In its 2007 funding prospectus, the Housing Corporation proposed a new form of Investment Partner status, *Partnership Plus*, which bears some similarity to the strategic partner status now awarded to a select group of housing associations by Homes England. Plus Partners were to be able to discuss the potential for support for forward land acquisition and different funding options, including more flexible use of grant as equity. They were also to be offered the flexibility to make substitutions, up to an agreed level, without scheme-by-scheme agreement from the Corporation.

Proposed eligibility criteria included:

- a stretching of financial capacity to minimise grant
- delivery of high quality homes across all of an organisation's affordable housing schemes
- a record of timely delivery and limited change to agreed programmes
- a record of excellent service delivery to residents of completed homes, whether by the Partner itself or by the final managing or owning organisation for the stock

### Affordable Homes Programme (2011-15)

The 2011-15 Affordable Homes Programme was first announced in the 2010 Spending Review under the Conservative and Liberal Democrat coalition Government. The Review introduced a package of deficit reduction measures in response to the continued fallout from the global financial crisis.

DCLG's annual housing-related programme budget was cut by approximately 60% to £4.5bn over the four years starting 2011/2012, of which only £1.8bn was assigned to the Affordable Homes Programme (National Audit Office, 2012). The Review made it clear Government's policy priority was to fund homes with "*rent levels between current market and social rents*" (HM Treasury, 2010, p. 8).

DCLG officials were faced with a difficult choice – maintain the grant rates of the 2008-11 NAHP and deliver considerably fewer homes, or cut grant rates and hope to limit the reduction in output through other means. In the end DCLG opted for the latter, generating 35% of the annual output of the 2008-11 NAHP, but with average grant rates down from 39% to 14% of total scheme development costs (Capital Economics, 2014).

## A brief history of Government funding for new affordable housing in England since the late 1980s

In order to achieve that level of delivery DCLG introduced some drastic changes. Most significantly, reflecting Government's new policy direction, the new £1.8bn programme removed virtually all grant funding for social rent (National Audit Office, 2012). Eligibility was restricted only to '*limited circumstances*' including where decanting existing social tenants into new homes was necessary (CLG & HCA, 2011).

Instead, the "*principal element of the new supply offer*" (CLG & HCA, 2011) was a new rental product named Affordable Rent. Housing associations were able to charge up to 80% of comparable market rents inclusive of service charges. Government's intention was to partly offset its reduction in capital grant subsidy with an enhanced rental revenue subsidy to boost housing associations' borrowing capacity. However, since that rent was paid for by residents – many of whom are reliant to some degree on housing benefit – this strategy would inevitably have knock-on consequences for affordability and the housing benefit bill. One estimate suggested the introduction of Affordable Rents would increase housing benefit payments by £1.4bn over 30 years (Committee of Public Accounts, 2012). As Smyth (2015) highlights, there were understandable concerns Government was merely shifting support for social housing from the Department for Communities and Local Government to the Department for Work and Pensions.

Other measures to compensate for the reduction in grant included an expectation housing associations would convert an agreed number of existing homes from social to Affordable Rent to maximise the sector's borrowing capacity. And additional freedoms to dispose of social housing units to increase cross-subsidy.

As mentioned above, substantially less grant per home was made available per home – £20,000 compared with £60,000 under the 2008-11 National Affordable Housing Programme outside London (London Councils, 2012). In London, with housing investment devolved to the Greater London Authority (GLA) with effect from April 2012, the reduction was particularly marked. Grants reduced from around £90,000 to around £26,000 per home (Committee of Public Accounts, 2012).

Government's prioritisation of the Affordable Rent product led to a substantial shift in the nature of homes delivered by housing associations. Final output figures collated by the CIH reveal only 10% of the total homes delivered during the period were for social rent, compared to 70% for Affordable Rent and 20% for low-cost homeownership.

In common with earlier programmes, providers (including housing associations) were required to bid for grant funding (Wilson, 2020). But in a new move reflecting the reduced role of grant, funding decisions were made on the basis of a whole stock assessment for each bidder over a four-year period rather than on a scheme-by-scheme basis. In practice this meant the HCA would assess how housing associations would manage their existing assets and capacity – including conversions to Affordable Rent and stock disposals – to maximise the number of affordable homes delivered with Government funding.



## A brief history of Government funding for new affordable housing in England since the late 1980s

There was also a new pragmatism about the level of detail sought for schemes likely to be started in the later years of the programme. The HCA's framework acknowledged that bids over the four-year period would include a mixture of identified schemes in years one and two and indicative proposals for years three and four – and requested a commensurate level of detail for each.

The Agency now paid 75% of total grant to housing providers starting development by March 2012, with the remainder to be paid on completion (Committee of Public Accounts, 2012). Its stated aim was to encourage providers to start-on-site earlier, thereby avoiding a lag in delivery following the 2008-11 AHP. Delivery was reviewed on a *“transparent and open book basis, to secure best value across the whole of the provider's programme”* (CLG & HCA, 2011).

### Affordable Homes Programme (2015-2018)

An extension of the Affordable Homes Programme was announced as part of the Spending Round 2013. £2.9bn in capital funding (HCA/ Homes England £1.75bn; GLA £1.2bn) was available over 2015-18 to support the delivery of 165,000 new affordable homes (55,000 homes per year) (Homes & Communities Agency, 2014). Bids for grant funding were again assessed on a *“something for something basis”* (Wilson, 2020) – Government expected housing associations to make full use of property sales and conversions to Affordable Rent to *“maximise their own financial contribution”* (Wilson, 2020). The average grant per unit increased slightly to £24,280 including London (Stephens, Perry, Williams, & Young, 2019).

Building upon the predecessor programme's newfound pragmatism about firm and indicative schemes, bidders could now choose to follow either a 'mixed route' (a combination of firm and indicative schemes) or a 'firm scheme only' route (Smyth, 2015). As Smyth points out, the intention was to identify earlier the schemes more likely to be delivered. This was reinforced by an assessment methodology weighted 50% to delivery, which aimed to encourage early progress:

*“...to promote a continued pipeline and prevent any hiatus between programmes, the Homes and Communities Agency wants to encourage bidders to bring forward schemes which can be built out early in the programme period. ...we will aim to do so by advantaging bids in our assessment that can demonstrate both starts and completion of schemes in the early part of the programme”*

(Homes & Communities Agency, 2014).

But that intention was partly undermined by a decision to revert to splitting grant payment equally (50%:50%) between start-on-site and practical completion, once again on a per scheme basis.

Housing associations had previously been able to secure 75% of grant upon starting on site if they had done so in the first year of the 2011-15 AHP.

## A brief history of Government funding for new affordable housing in England since the late 1980s

The programme was undersubscribed both inside and outside London with low grant rates and '*onerous conditions*' (Wilcox, Perry, & Williams, 2015, p. 67) blamed by a number of housing associations (Apps, 2014). These included;

- an almost total absence of funding for social rent
- a requirement for a further round of conversions to Affordable Rent
- further sales of vacant properties that would otherwise be re-let including evidence to justify why the level was not higher

The programme also coincided with the beginning of an enforced reduction in housing association rents by 1% annually from 2016/17 to 2019/20. Announced in the July 2015 budget, these would have prompted some housing associations to reappraise their development programmes. Indeed, the Office for Budget Responsibility forecast the policy could result in 14,000 fewer affordable homes being built (Office for Budget Responsibility, 2015). Figures collated by the CIH suggest a likely completion total of 85,601, well below the targeted 165,000 (Stephens, Wilcox, Perry, Williams, & Young, 2018).

### Shared Ownership and Affordable Homes Programme (2016-2021)

The SOAHP ran in parallel with the 2015-18 AHP for two years. When first announced during the latter stages of the Cameron Government, it was intended to achieve '*a decisive shift*' (Homes & Communities Agency, 2016, p. 4) towards support for homeownership with over £4bn earmarked for low-cost homeownership in the form of help to buy: shared ownership, rent to buy and Affordable Rent.

But the arrival of Theresa May as Prime Minister in 2016 brought a greater focus on low-cost rented housing and – significantly – the return of grant funding for social rent. The Autumn Statement 2016 announced an additional £1.4bn to be shared between the HCA and Greater London Authority to deliver 40,000 extra housing starts by 2020/21, including provisions for Affordable Rent (Wilson, 2020). Then in October 2017, the Government announced a £2bn increase in funding for the SOAHP, later confirmed in the Autumn Budget 2017. This included funding for social rented homes (albeit only in areas of '*high affordability pressure*') (Homes & Communities Agency, 2018) and took the total budget for the 2016-21 SOAHP to £7.7bn (Stephens, Perry, Williams, & Young, 2019). The resurgence of funding for social rent appeared to have been dealt a blow when the draft version of the National Planning Policy Framework (NPPF) launched in March 2018 removed all reference to social rent. But sector concerns were soon allayed when a revised version launched shortly afterwards specifically referenced social rent in the glossary definition of affordable housing.

In common with the 2015-18 AHP, housing associations can bid for grant funding for either firm or indicative schemes, with a stated preference for the former in the initial bid assessment. And in another similarity to the predecessor programme, value for money (50%) and delivery (50%) are the sole factors considered in the assessment process (although there are many sub-categories beneath them). Successful bidders enter into a standard form contract with the HCA and are subject to quarterly contract reviews.

## A brief history of Government funding for new affordable housing in England since the late 1980s

The original prospectus for the programme indicated payment would be split equally between 50% at start-on-site and 50% upon practical completion, once again on a per scheme basis. However, in January 2020 Inside Housing reported that housing associations bidding to the conventional SOAHP typically received 40% of available grant upon purchasing land, 35% at start-on-site and 25% on completion (Heath, 2020). A new scheme launched early in 2020 also allows selected housing associations to access 95% of available grant funding at the land acquisition stage, with the remaining 5% being paid on completion.

The practice of converting existing homes from social to Affordable Rent to generate additional borrowing capacity to support new build is now only permitted to support the delivery of Specialist Homes for Rent (Homes & Communities Agency, 2016).

As reported in the 2019 edition of the UK Housing Review, Homes England now has a £4.25bn share of the SOAHP for use outside London, with a target of starting at least 130,000 affordable homes by the end of March 2022, including 12,500 for social rent (Stephens, Perry, Williams, & Young, 2019). Grant funding outside London is markedly higher than it was under the 2015-18 AHP, with an average of £33,911 per unit compared with £24,298. Nevertheless, in common with predecessor AHPs, grant is seen as a residual element, with bidders expected to “take all reasonable measures to minimise the grant requested” (Homes & Communities Agency, 2016), including through maximising cross-subsidy through market sales and disposals.

### Homes England Strategic Partnerships (July 2018-)

2018 saw a significant change in Government’s approach to administering grant for affordable housing. In July 2018 Homes England – founded earlier in the year as part of the separation of the HCA’s investment and regulatory functions – announced a first set of new strategic partnerships with eight housing associations. The press release described the deals as a *‘first step towards a new way of working between Homes England and its partners, adopting a programme approach to delivery, with plans to explore how adopting this approach across Homes England’s land, funding and powers can further generate additional supply.’* (Homes England, 2018). Unlike other grant regimes, such as the continuous market engagement used under the Shared Ownership and Affordable Homes Programme, strategic partners are awarded grant for an entire development programme, rather than on a scheme-by-scheme basis. Associations specify how many homes they intend to start over a five-year period, an estimated spending profile, and indicative details on tenure and location. Once these details are agreed, associations then have the

flexibility to use their strategic partnership grant how they like, subject to periodic review.

Strategic partners are expected to provide at least 1,000 new homes by March 2022, increase housing starts by at least 25% and include some social rent. In return, all Homes England strategic partners are provided with additional flexibilities:

- an additional year’s funding beyond the SOAHP 2016-21
- the ability to use funding flexibly across their development programme in response to the ebb and flow of progress on individual sites
- the ability to determine the tenure of affordable homes closer to completion following negotiations with Homes England (Homes England, 2018).

Following a succession of further deals, the current number of Homes England strategic partners now stands at 23 with a total of 28 housing associations. These partners have been granted more than £1.74bn to deliver an additional 39,000 new housing starts by March 2022 (Simpson, 2019).

## A brief history of Government funding for new affordable housing in England since the late 1980s

### Affordable Homes Programme (2021-26)

The first concrete details of the next Affordable Homes Programme emerged in the 2020 Budget. £12.2bn has been allocated to fund affordable housing for five years from 2021/22 to 2025/26.

This includes £9.5bn of new funding, £700m of unspent money from the current SOAHP, and the £2bn affordable housing package announced by Theresa May in September 2018 (Inside Housing, 2020). At £2.44bn the overall quantum of grant per year is higher than that allocated through the 2016-21 SOAHP. But it is still below the levels seen under the 2008-11 National Affordable Housing Programme (almost £3bn per year), even before allowing for inflation (Birch, 2020). Further details emerged in early July 2020 when it was confirmed the programme will fund 180,000 homes, most of which will be completed by 2026 (Inside Housing, 2020). Previous announcements have suggested that £1bn of the total funding (half of the £2bn affordable housing package announced by Theresa May in 2018) will be administered to selected Homes England strategic partners to extend their existing deals from March 2024 to March 2029 (Homes England, 2019). As the Prime Minister's statement at the time suggested, this marks "*the first time any Government has offered housing associations such long-term certainty.*" (HM Government, 2018)

Government has indicated rented homes built with grant funding under the new programme could be subject to a new shared ownership right to buy, whereby residents are to be able to purchase a share of their home starting from as little as 10% of the property value (Heath, 2019). This is a significant new form of conditionality since it could impact on housing associations' ability to borrow money from lenders. Lenders view low-cost rented accommodation in a favourable light as it produces a reliable income stream. The prospect of unpredictable switches in tenure between low-cost rented and shared ownership accommodation – perceived by some to be a riskier form of security – could mean an increase in borrowing costs for housing associations receiving funding through the new programme (Simpson, 2019). A number of strategic partners have already said the new conditionality may force them to alter the number of and tenures of homes included in their current strategic partnership bids (Heath, 2019).

Details of the allocation of funding by tenure are expected to be announced in autumn's 2020 Spending Round, with the housing secretary signalling ambitions for a "*significant*" increase in the number of homes for social rent (Brady, 2020).

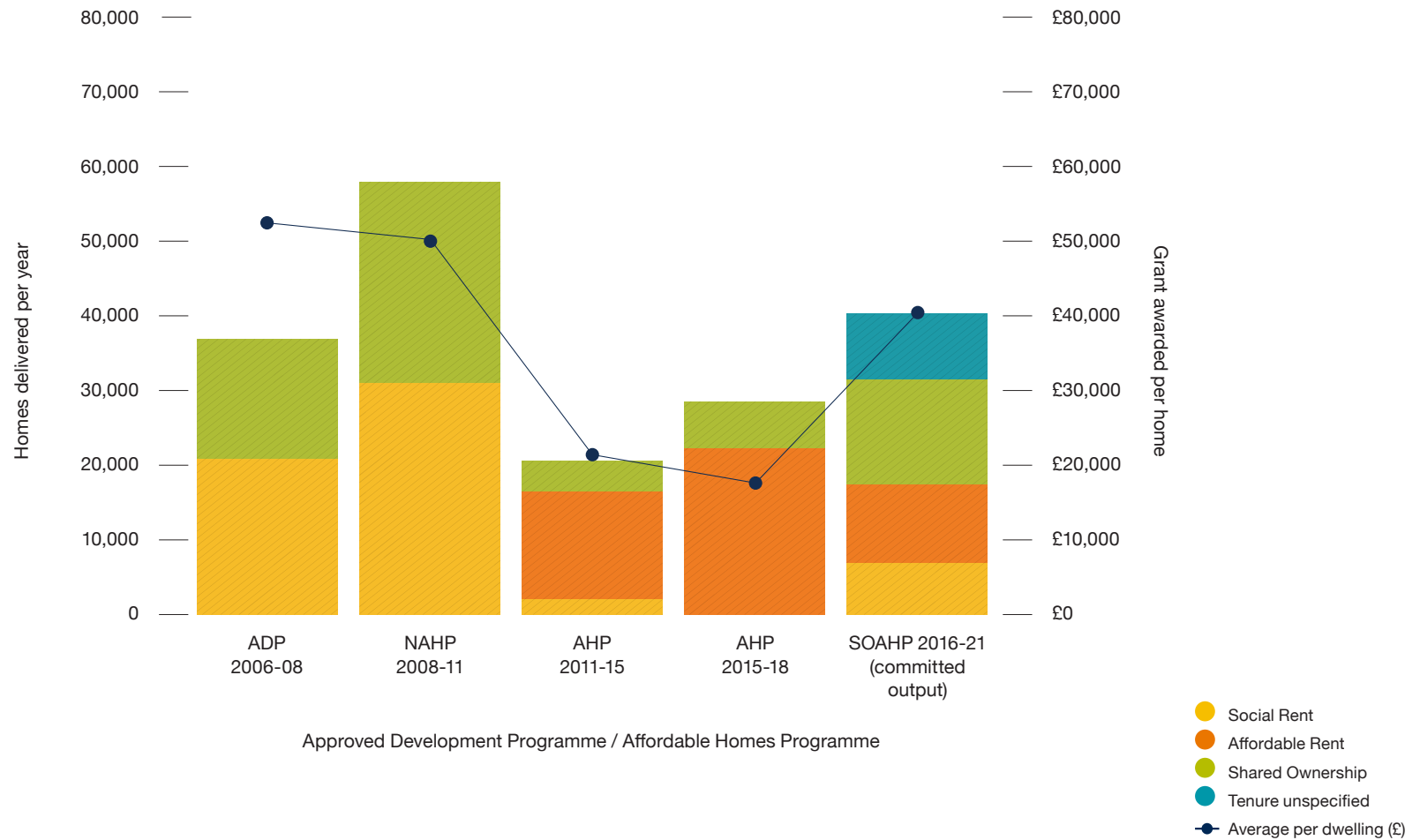
**Table 1:** Summary of recent Affordable Homes Programmes

Programme	Key conditions	Total dwellings delivered/planned					Grant			
		Social Rent	Affordable Rent	Shared ownership and other	Tenure unspecified	Total	Annual Total	Total (£ bn)	Annual average (£ bn)	Average per dwelling (£)
NAHP 2006-08	<ul style="list-style-type: none"> <li>Scheme-by-scheme assessment</li> <li>Bids subject to a three-stage assessment process covering:                             <ol style="list-style-type: none"> <li>conformity with the bidding process and adherence to minimum build quality standards</li> <li>a newly-developed Grant Index tool producing a value-for-grant rating for each proposed scheme</li> <li>judgement of regional teams.</li> </ol> </li> </ul>	41,645	0	32,078	0	<b>73,723</b>	<b>36,862</b>	3.9	1.95	52,901
NAHP 2008-11	<ul style="list-style-type: none"> <li>Scheme-by-scheme assessment</li> <li>Grant paid 60% at start-on-site and 40% upon completion.</li> </ul>	93,200	0	80,700	0	<b>173,900</b>	<b>57,967</b>	8.9	2.97	51,178
AHP 2011-15	<ul style="list-style-type: none"> <li>Overall funding decisions made on the basis of a whole stock assessment</li> <li>But grant still allocated on a scheme-by-scheme basis</li> <li>Removed virtually all grant funding for social rent</li> <li>Bids could consist of a mixture of identified and indicative schemes</li> <li>Housing providers starting development by March 2012 received 75% of grant on start-on-site with the remainder paid on completion.</li> </ul>	8,471	57,414	16,230	0	<b>82,115</b>	<b>20,529</b>	1.8	0.45	21,920
AHP 2015-18	<ul style="list-style-type: none"> <li>Bidders could choose to follow either a 'mixed route' (a combination of firm and indicative schemes) or a 'firm scheme only' route</li> <li>Grant payment split equally between start-on-site and practical completion.</li> </ul>	0	66,897	18,704	0	<b>85,601</b>	<b>28,534</b>	1.5	0.49	17,08
SOAHP 2016-21	<ul style="list-style-type: none"> <li>Funding for social rent reinstated for areas of 'high affordability pressure'</li> <li>Bidders can choose to follow either a 'mixed route' or a 'firm scheme only' route</li> <li>Grant typically paid 40% upon purchasing land, 35% at start-on-site and 25% on completion.</li> </ul>	34,298	52,991	70,250	43,782	<b>201,321</b>	<b>40,264</b>	7.8	1.55	38,519

Sources: UK Housing Review editions 2016, 2018, 2020; House of Commons Library - Affordable housing in England research paper 06/41 18 August 2006; Author calculations.

## Annual output and grant rates associated with recent Affordable Homes Programmes

**Figure 1:** Sources: UK Housing Review editions 2016, 2018, 2020; House of Commons Library - Affordable housing in England research paper 06/41 18 August 2006; author calculations



## A brief history of Government funding for new affordable housing in England since the late 1980s

### Levels of delivery over time

Delivery through successive Affordable Homes Programmes inevitably overlaps to some degree since homes funded towards the end of one programme can coincide with delivery funded in the early stages of its successor. The degree of overlap has varied over time with different programmes linking the provision of grant to starts or completions to different extents. Nevertheless, the graph below clearly shows the impact of the different approaches to the provision of affordable housing grant. Given the number of factors at play – e.g. the overall quantum of grant, grant rates, fluctuations in the state of the economy, funding conditions – it is impossible to reliably isolate the role of any given variable. But the profile of delivery in more recent years suggests the short duration of Affordable Homes Programmes has had an impact. Since the 2010s especially, there are pronounced peaks and troughs in delivery with the most notable including:

- A significant reduction in starts in 2011/12 (reflected in the fall in completions ending in 2013/14) as the 2008-11 AHP drew to a close. Starts were particularly subdued in the early stages of the radically different 2011-15 programme with its much lower grant rates, introduction of the Affordable Rent product and initial proposals to pay providers 100% of agreed funding on completion
- A pronounced peak in completions at the end of 2014/15 as the 2011-15 programme – paying housing associations 25% of grant on completion – came to an end
- A dramatic drop in completions between 2014/15 and 2015/16 as the 2011-15 AHP was replaced by the 2015-18 iteration. As discussed above, despite Government's desire to "*minimise the risks presented by a heavily back loaded programme*" (Homes & Communities Agency, 2014, p. 25), this was an unpopular programme with many housing associations due to its conditions on tenure and further stipulations about maximising borrowing capacity through conversions.

This stop-start pattern in delivery is problematic in several respects.

Firstly, it encourages synchronicity in the sector's development behaviour, with many housing associations simultaneously seeking to acquire sites and secure building contractors at similar points in the programme, potentially driving up costs. Secondly, it can lead to rushed construction and handover of homes, resulting - in some cases - in higher levels of building defects and higher ongoing maintenance costs (Greater London Authority, 2019). Thirdly, it acts as a significant constraint on the productivity of the housebuilding supply chain. Research published by the Cast Consultancy and Harlow Consulting (2020) suggests the short duration of Affordable Homes Programmes combined with the volatility of the housing market, discourages building firms from investing in capital equipment, resources, skills and training. It concludes the provision of 10-year funding deals for housing associations would give building firms the reassurance of a long-term pipeline of work, which could in turn lead to productivity gains of up to 70%. By offering a reliable pipeline of work, a 10-year Affordable Homes Programme would also build resilience into the housebuilding industry and prevent the damaging loss of construction workers that has followed previous market downturns. One estimate suggests the current stalling of housebuilding caused by Covid-19 could result in the loss of 171,000 jobs in the construction industry and its supply chain by 2020/21 (Bibby & Bhakta, 2020).

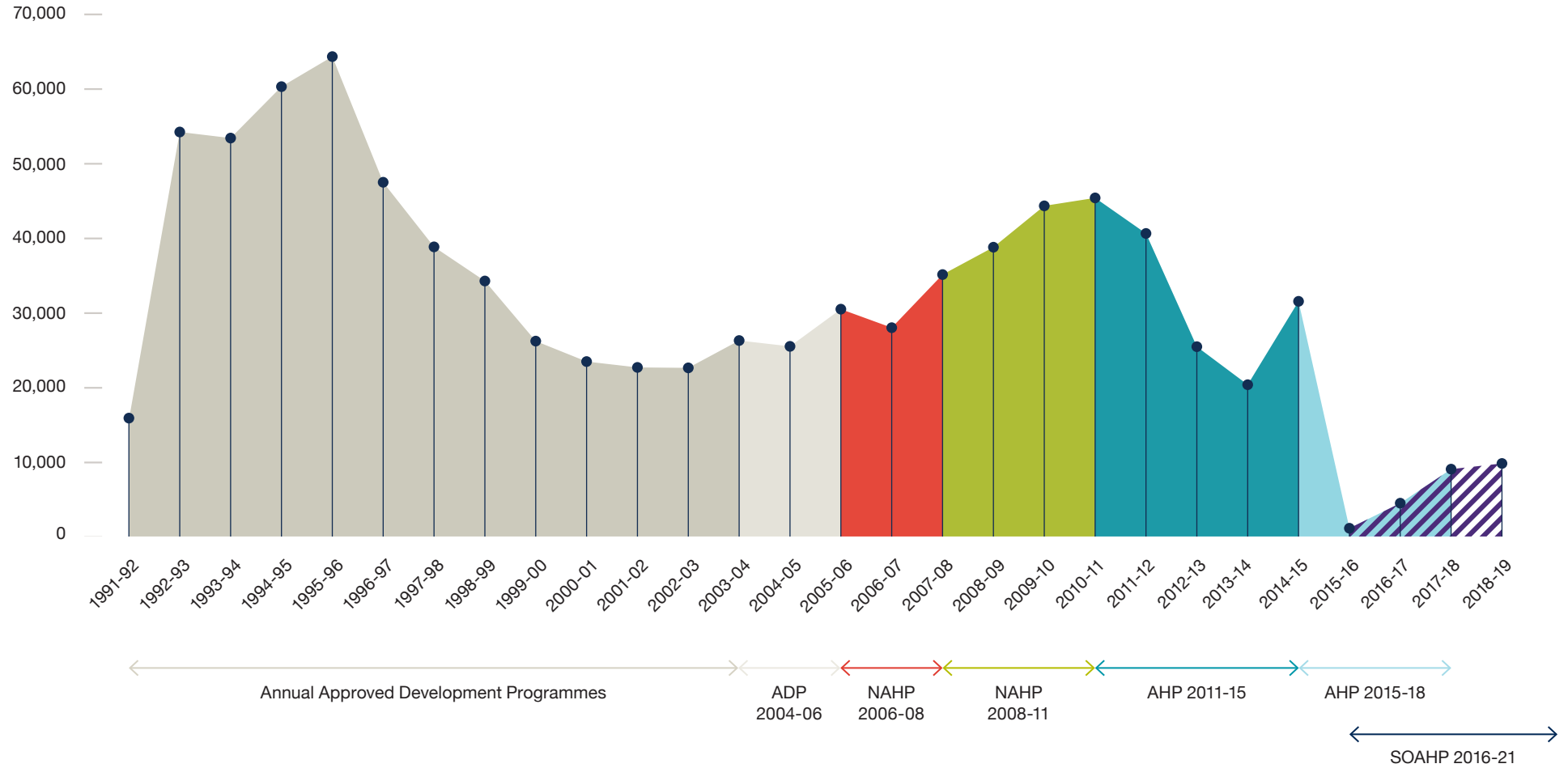
## A brief history of Government funding for new affordable housing in England since the late 1980s

There is also evidence to suggest that the stop-start nature of Government funding can significantly reduce the efficiency of public spending. For instance, Bailey et al. (2020) argue that the high volatility in year-to-year spending in the UK (the second highest in the G7), together with a lack of transparency over the selection of projects and highly centralised investment spending, means the UK loses 10% of the potential value of its public investment relative to the most efficient advanced economies. They cite HM Treasury's 2010 Infrastructure Cost Review, which found that the stop-start nature of investment planning and lack of long-term funding certainty led to increases in unit costs of 10%-20% across different suppliers and sectors. To maximise the efficiency of public spending and provide better value for money for the taxpayer, the authors call on Treasury to provide 10-year funding guidelines for major policy areas including housing. Given that for every £1 invested by Government in affordable housebuilding, housing associations have historically invested another £6 from their own resources (funded in large part through private borrowing) (National Housing Federation, 2017) such an arrangement would also have the added benefit of increasing the flow of private finance into the provision of new homes.



## Private Registered Providers' Homes England / GLA funded affordable completions

Figure 2: Source MHCLG Live Table 1000



## A brief history of Government funding for new affordable housing in England since the late 1980s

Since the turn of the century we have seen various Governments attempt to modulate these peaks and troughs in delivery. Strategies have included rebalancing payment schedules towards starts-on-site and tweaking assessment methodologies to favour proposals promising early starts and completions.

But these are tweaks rather than wholesale changes to a model that inherently produces a stop-start approach to delivery. With Affordable Homes Programmes typically lasting three to five years, housing associations have had only very short-term certainty over the level and nature of future grant funding. Such concerns have been raised in relation to the end of the 2016-21 Shared Ownership and Affordable Homes programme, with sector figures claiming housing associations are now facing a “cliff-edge”, which would “inevitably lead to a delay in building new affordable homes” unless details of the 2021-26 are announced imminently (Heath, 2020).

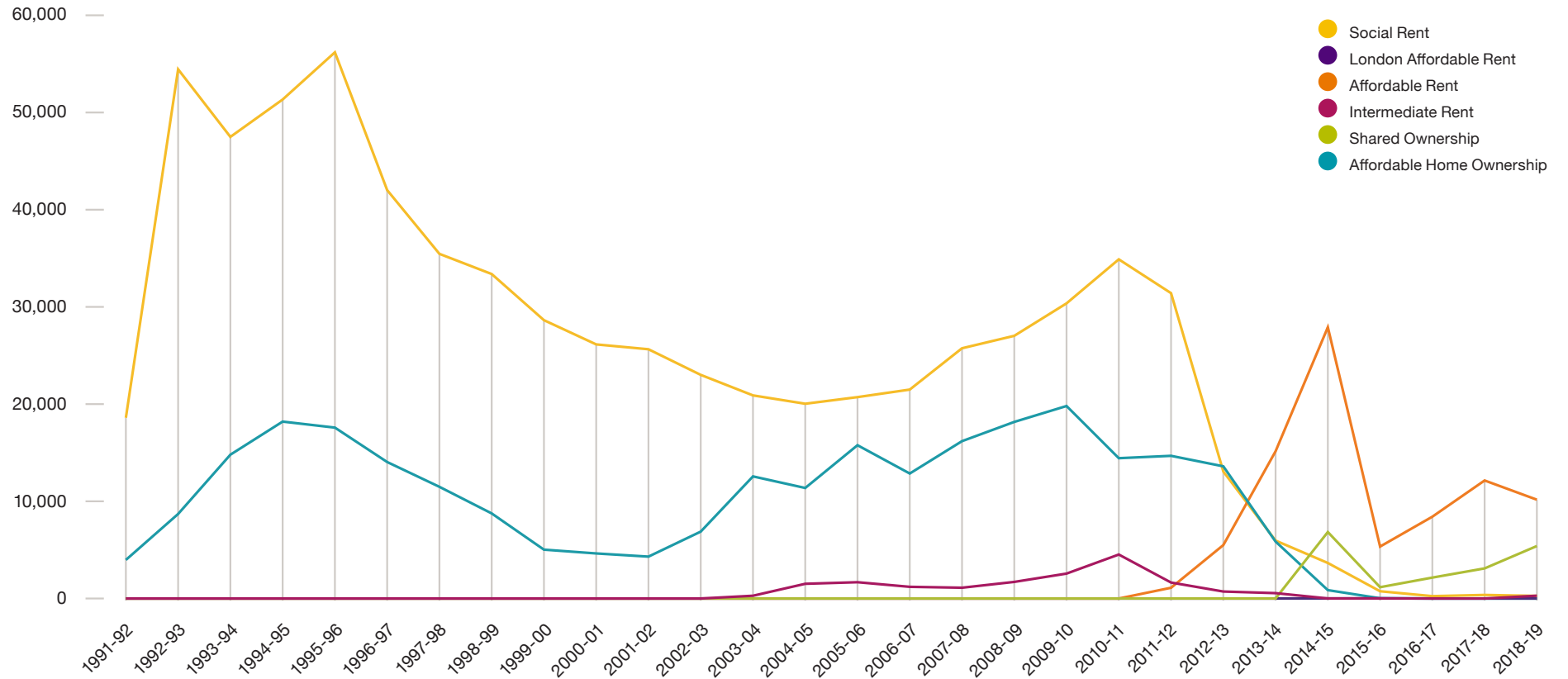
That is why – from a housing association perspective – the recent introduction of moderately longer-term funding, first by the Greater London Authority and now Homes England, is especially positive since this starts to address the fundamental cause of the problem. Moderately long-term funding is currently only available to the respective agencies’ strategic partners (totalling 40 or so housing associations). But, as our interviews below demonstrate, there may be a case for broadening access to long-term funding beyond the strategic partnership model, given strategic partnerships are most suited to larger providers.

What is also clear when the figures are broken down is the impact of different programmes on tenure. Grant funded completions of homes for social rent have dropped off markedly since the introduction of the 2011-15 AHP, which restricted funding for social rent to “limited circumstances” (CLG & HCA, 2011). Grant funded completions fell from almost 35,000 in 2010/11 to a low of 242 in 2016/17, although some housing associations have continued to fund a modest amount of additional delivery through a combination of borrowing on private markets, drawing upon reserves and cross-subsidy. Over the same period the delivery of homes for the Affordable Rent product – introduced through the 2011-15 AHP – has increased significantly, although not to such an extent to return overall levels of grant funded output to anywhere near the levels of 2010/11. This growth of Affordable Rent at the expense of social rent runs counter to many assessments of housing need (e.g. Bramley, 2018; Savills, 2017; Shelter, 2019). Bramley’s study suggests a requirement for 145,000 affordable homes annually in England each year, of which 90,000 should be for social rent and 30,000 for intermediate rent (including Affordable Rent), to address years of undersupply.

The profile of grant-funded shared ownership delivery mirrors that for Affordable Rent, albeit on a much reduced scale. Again that reflects funding decisions for the 2015-18 and 2016-21 AHPs, which have placed greater emphasis on home ownership. From 2018 the latter programme has also seen the return of grant funding for social rent, albeit restricted for the time being to areas of “high affordability pressure” (Homes & Communities Agency, 2018). Figures released by Homes England in February 2020 suggest this provision is yet to be reflected in an appreciable increase in delivery, with homes for social rent accounting for just 4% of overall delivery (Heath, 2020). But they do not include delivery by strategic partners and cover a period ending only a short while after grant funding for social rent was reintroduced.

### Private Registered Providers' Homes England / GLA funded affordable completions by tenure

Figure 3: Source MHCLG Live Table 1000



# Interview Analysis

## Background

This section of the report details findings from semi-structured interviews with development directors and chief executives from 13 of the country's leading developing housing associations. Participating housing associations were primarily drawn from the Consortium of Associations in the South East (CASE) with additional interviewees selected from across the country to offer a more nationally-representative sample of opinions. A full list of associations from which interviewees were drawn is shown in table two. Associations were chosen because of the scale of their development programmes and, while this makes them atypical of the housing association sector as a whole, it also means our interviewees are particularly well-positioned to judge the impact of long-term funding on development capacity.

Housing associations represented by the interviewees collectively own more than 500,000 homes across the country or roughly one in five housing association homes in England. In 2018/19 they were responsible for over 12,000 of the 45,604<sup>6</sup> completions registered by the National Housing Federation through its quarterly development survey. All have medium to large development teams and deliver a substantial proportion of their new homes through land-led delivery (as opposed to through section 106 agreements with private developers). A majority are strategic partners either of Homes England or the Greater London Authority.

Participating housing association	Total homes owned <sup>7</sup>	Completions 2018/19 <sup>8</sup>
Curo	13,255	155
Great Places	16,991	281
Home Group	51,882	1,660
Hyde	41,602	1,006
London & Quadrant	86,678	2,862
Longhurst	22,746	580
Metropolitan Thames Valley	51,916	1,037
Moat	17,977	500
Optivo	43,753	985
Paradigm	14,280	350
Sovereign	57,109	1,543
The Guinness Partnership	63,331	501
Riverside	51,005	600
<b>Grand Total</b>	<b>532,525</b>	<b>12,060</b>

**Table 2:** Participating housing associations

6. National Housing Federation. (2019). How many homes did housing associations build in 2018/19?

7. Regulator of Social Housing. (2019, October 29). Statistical Data Return 2018 to 2019

8. Hollander, G. (2019, June 28). Top 50 Biggest Builders 2019. Inside Housing.

## Interview analysis

The aim of the interview process was three-fold. Firstly, interviewees were asked to appraise their current arrangements for receiving grant, whether that be through conventional short-term scheme-by-scheme funding or through a longer-term programme approach associated with a strategic partnership (or a combination of both). Secondly, to understand how a longer-term grant settlement might impact on their development activity, respondents were asked a series of questions to explore how their association would respond if it were to receive grant over 10 years rather than the current norm of five. Interviewees were encouraged to consider the impact across a range of business behaviours including land purchase, procurement and investment decisions. To isolate the impact of long-term grant certainty from the monetary value of grant payments, interviewees were asked to assume the overall quantum of grant and grant rates were broadly similar to current levels on a per year and per unit basis. Interviewees were also encouraged to consider the impacts purely from their own organisational perspective rather than speculate on what longer-term funding might mean for the sector at large. Finally, to help inform the design of any future longer-term approach, interviewees were asked to consider how an extended settlement might maximise value for money. Questions included how best to deal with inflation risk and whether grant should be administered on a scheme-by-scheme basis or across an association's entire programme (a programme approach). Interviewees were also encouraged to consider how a longer-term programme could be designed from scratch to enable the sector to deliver more or better outputs for a fixed grant input.



Moat's land-led development at Wickham Grange (West Wickham, Bromley) comprising 60 homes; 24 for outright sale, 22 for shared ownership and 14 for Affordable rent.

All interviews were conducted in January and early February 2020 before the spread of Covid-19 had had any material impact in the UK. Results from the interviews were anonymised – this was made clear in advance to interviewees – in order to enable as honest an appraisal of current arrangements and potential alternatives as possible.

### Thoughts on the current system for allocating grant

Interviewees were strongly supportive of the strategic partnership funding programmes provided by Homes England and the Greater London Authority. Interviewees particularly welcomed the enhanced flexibility offered by strategic partnerships, with the move away from a scheme-by-scheme system for grant allocation to a programme-wide approach a particularly valued feature. Unlike conventional grant programmes in which associations apply for grant funding on a scheme-by-scheme basis, strategic partners receive funding for their entire programme. Grant can be drawn down on a quarterly basis provided partners have made adequate progress against pre-agreed delivery commitments. Interviewees mentioned that this programme approach to grant enabled them to respond in a much more agile fashion to development opportunities as and when they arose. Interviewees also highlighted that the programme approach provided additional confidence by enabling them to allocate grant flexibly in response to differential progress on individual sites.

Interviewees strongly welcomed the additional flexibility over tenure provided by strategic partnerships. Subject to agreement with Homes England, strategic partners can determine the tenure of affordable homes prior to practical completion. This enables them to respond to changing market conditions, such as those experienced following the Brexit referendum and the spread of Covid-19, in ways unavailable to non-strategic partners. For example, homes for Affordable Rent can be switched to Shared Ownership or vice versa depending on likely demand

## Interview analysis

at the point of completion. Some interviewees saw this flexibility as playing an important role in reducing sales risk.

Overall, interviewees saw the strategic partnership model as a welcome reflection of a more trusting relationship between Homes England as an enabler of affordable housing delivery, and housing associations as trusted delivery partners. The consensus was that the strategic partnership model conferred greater autonomy on housing associations, with a focus on outcomes (number, tenure mix and date by which homes are delivered) compared to the more granular, hands-on approach experienced under conventional programmes.

Significantly, some interviewees also claimed that the short-term approach to grant associated with earlier Affordable Homes Programmes had constrained their land purchasing decisions. As we have seen, recent Affordable Homes Programmes have typically committed grant over three- to five-year periods. But the process of getting homes built, from finding sites to securing planning permission and completing construction, can take closer to seven. Some participants had, therefore, been discouraged from taking on larger sites – for which the gap between site acquisition and occupation is longest – and were instead targeting smaller sites with planning permission. With planning risk already having been borne by another party, these sites are invariably more expensive than those secured without planning permission, with higher land costs constraining the number of genuinely affordable homes viably built on site.

The most commonly cited limitation of Homes England's strategic partnerships was the limited degree of extra funding certainty provided. Strategic partners receive only one additional year's funding beyond the current spending review settlement. For some this meant a continued emphasis on achieving short-term targets rather than necessarily taking the most considered approach to addressing housing need in conjunction with planning authorities.

Some interviewees also remarked that a programme approach to delivery meant they were effectively taking a 'leap of faith' that they would be able to fulfil delivery expectations. By committing to delivering thousands of additional affordable homes without necessarily knowing where, when and for what price land opportunities would arise, nor the likely state of the housing market on completion, some respondents remarked that there was, in some respects, a loss of certainty. That especially applied to the tenure mix as, without firm sites, partners were unaware of the local authorities with which they would be working and their own specific tenure expectations. Despite that, there was a clear consensus that a programme approach to funding was the way forward and a return to scheme-by-scheme funding would be a retrograde step. Respondents welcomed the opportunity to review progress against delivery targets with Homes England to discuss any potential deviation from agreed tenure forecasts or delivery profiles.

Finally, some interviewees said they had experienced a more forensic approach to programme management than they had expected when entering into strategic partnerships. Some remarked that officials were still attempting to micro-manage delivery, with the level of detail sought more fitting of a scheme-by-scheme approach to project management. On some occasions it would appear there is a misalignment between the agency's ambitions for a more hands-off approach to programme management with on-the-ground administration by officers. Those

## Interview analysis

representing organisations who were strategic partners of both Homes England and the Greater London Authority suggested that the latter agency's approach was less interventionist and seemed more outcome-focused.

### Views on a move to longer-term funding

On the issue of a move to longer-term funding there was a clear consensus. All 13 respondents said they would welcome a move to increase the length of Affordable Homes Programmes from five years to 10. Two interviewees suggested longer-term funding would only be effective if coupled with an increase in grant rates (grant as a proportion of total scheme costs), especially for social rent. In their eyes, low grant rates imposed a significant constraint on the number of affordable homes they were able to build irrespective of funding duration. Some interviewees also pointed out that 10 years should be applied as a minimum in order to encourage housing associations to take on land without planning permission. With the end-to-end process of housing construction taking several years in some cases, they suggested associations would still be looking to purchase land early in order to confidently complete within the 10-year cycle.

### The effect on housing associations' land purchasing behaviours

Interviewees felt that the provision of long-term grant funding would have a significant effect on their associations' land purchasing behaviours, all of which could be conducive to an increased supply of affordable housing.



Paradigm's design & build site at Caleb Close in Luton. Caleb will deliver 224 affordable homes with a mix of rent, shared ownership and outright sale.

The most often cited benefit concerned an enhanced ability to acquire land earlier in the planning process and invest the savings into greater provision of affordable housing.

A majority of (eight out of 13) participants would be more likely to purchase land without planning permission if Government were to introduce a 10-year funding settlement. Interviewees said long-term funding would provide greater confidence to take on the development risk of taking land through planning, as they would have certainty that grant funding would continue to be available on current terms at practical completion. Under the current short-term approach, sites taken through planning – a process that can take years – during one Affordable Homes Programme may in fact receive funding under another, for which grant availability and rates are less certain. That uncertainty can cause housing associations to take a more cautious approach, purchasing more expensive consented land, or entering into package deals where intermediaries or partnership developers have already extracted value. Interviewees noted that savings secured through purchasing land further 'upstream' were considerable and would enable additional housing supply across all tenures, including homes for social and Affordable Rent, reflecting housing associations' desire to address all forms of housing need.

Shelter's Grounds for Change report<sup>9</sup> illustrates the extent to which the cost of land – and our approach to land value capture more generally – limits the provision of affordable housing. Based on land value estimates collated by MHCLG, it finds agricultural land in England becomes around 120 times more expensive simply by virtue of receiving residential planning permission. When London is included, the premium rises further, with land becoming up to 275 times more expensive. Since land typically accounts for 70% of total build costs<sup>10</sup>, this uplift in value

9. Grayston, R. (2019). Grounds for Change: The Case for Land Reform in Modern England. Shelter.

10. Ibid.

## Interview analysis

acts as a considerable barrier to the provision of affordable housing. Although our interviewees reported smaller premiums – one interviewee suggested the premium for non-agricultural land granted planning permission was as high as 40% on a per unit basis outside London – it was clear that the ability to secure land without planning permission would generate significant savings, which would be reflected in a tenure mix skewed more heavily towards affordable tenures. As one interviewee put it, “*the cheaper the land, the better the tenure mix*”.

While a shift towards purchasing land more regularly without planning permission was the most often cited consequence of long-term funding, a number of other potential benefits were also highlighted by interviewees. This included a number of interviewees suggesting that long-term funding could impact on the nature of sites they seek to develop. A longer-term settlement would lead to some taking on more complex sites where an element of land assembly is required or remediation and enabling works are necessary for development to commence. Others suggested the provision of long-term funding would increase their appetite to take on larger sites – possibly with development options – or multi-phase regeneration projects where confidence over the continued availability of grant is particularly important.



West Kent’s senior living scheme at Woodland Court in Swanley featuring 22 one-bedroom and 9 two-bedroom rented flats for older people

Again this diversification of the nature of sites housing associations take forward points towards an increased supply of affordable housing. In the absence of housing association interest, larger and more complex sites would be taken on by private developers focusing on a narrower range of tenures. The case study below of L&Q’s joint venture with the Greater London Authority to regenerate Barking Riverside is a case in point. Reflecting its charitable mission, the association has increased the proportion of affordable homes set to be delivered from 28% to 35%. This could rise to as much as 50% subject to the provision of additional grant funding and viability reviews. As the Letwin Review (Letwin, 2018) and subsequent research by planning consultancy Lichfields (Lichfields, 2020) has shown, this enhanced level of affordable provision (combined in our case study with L&Q’s infrastructure investment) is likely to accelerate the pace of delivery since the demand for affordable tenures, most of all social rent, is “*virtually unlimited*” (Letwin, 2018). By contrast, an emphasis on market housing encourages private developers to match build-out rates to local market absorption rates in order not to suppress demand and prices. Thus if long-term funding does encourage housing associations to secure larger and more complex sites more regularly, it is reasonable to assume an increased supply of affordable housing and an acceleration in the rate of new supply.

A number of interviewees also mentioned a move to longer-term funding would enable them to build up more of a strategic pipeline of sites to support delivery into the future. Some of the largest housing associations in our sample have already taken proactive steps to ensure a long-term supply of land for future programmes. But for others, the short duration of Affordable Homes Programmes mitigates to some extent against the acquisition of pipeline sites given the uncertainty over the availability of grant once building work starts and concludes. Long-term funding could, therefore, play a role in addressing the stop-start profile of the sector’s output by encouraging greater forward planning in the purchase of sites.



## CASE STUDY

# Alton Road (Optivo): additional affordable housing secured through land-led development

Optivo's 74 Alton Road is a 100% affordable land-led scheme adjoining Richmond Park in the London Borough of Wandsworth. Scheduled for completion in late 2021 – subject to delays associated with Covid-19 – it will provide 95 affordable homes in an area where rents and house prices are amongst the highest in England. Forty-one will be one-bed Extra Care flats, a form of sheltered housing specifically requested by the borough's care and commissioning team to help meet significant unmet demand. These will be available to local residents over the age of 55 and let at Capped Rent – a form of Affordable Rent introduced whilst Boris Johnson was Mayor of London. The remaining 54 one, two and three bedroom apartments will be for shared ownership, allowing eligible buyers to purchase a minimum 25% equity share, substantially reducing deposit and mortgage requirements.

The estimated total scheme cost is in the region of £30.6m and will be funded through GLA Homes for Londoners 2016-21 grant, shared ownership sales receipts and Optivo private finance. The absence of homes for open market sale – which would conventionally provide further cross-subsidy – was made possible by Optivo's hands-on role in securing a competitive price for the land and taking the scheme through planning.

The 0.56 hectare brownfield site was previously owned by the Thomas Pocklington Trust, a housing association specialising in providing support and accommodation to the visually impaired. Pocklington Court,

the sheltered housing complex which stood on the site had been identified by the Trust as no longer fit for purpose. In 2015, the Trust approached a number of housing associations inviting them to purchase the site and assist with re-housing the remaining residents to more suitable homes in Wandsworth and Richmond. Originally it had hoped to receive a capital receipt of £10m to £12m for the site in the belief a new development would comprise only 50% affordable housing. But, a combination of the borough's determination to secure a 100% affordable development and Optivo's readiness to deliver one, meant the Trust accepted a significantly lower price. Given a lack of interest from other housing associations, had Optivo not pursued its interest the site would almost inevitably have been sold to a private developer. That would have resulted in considerably fewer affordable homes being gained through s106 planning obligations and certainly not the level of Extra Care provision achieved with Optivo.

Optivo purchased the land in 2016 and was granted planning permission in July 2018 to demolish Pocklington Court and start work on the 95-home development. The scheme won the Best Scheme in Planning (30+ units) category at the National Housing Awards 2019 with judges commenting that "*making elderly/ extra care work as part of an overall scheme is difficult and brave, especially when land values favour easier types of development*". 74 Alton Road was also named Inside Housing magazine's Development of the Week in November 2019.

Optivo's 100% affordable Pocklington Court scheme featuring 41 'Extra Care' homes and 54 one, two and three bedroom apartments for shared ownership



## CASE STUDY

# Barking Riverside (L&Q): the potential for long-term funding to supply additional affordable housing and increase build-out rates

Barking Riverside, a joint venture between L&Q and the Mayor of London, is one of the largest regeneration projects in the UK. Located on the northern banks of the River Thames, the 443 acre site was previously occupied by the Barking Power station and a large landfill site, which had lain dormant for over 35 years. Bellway Homes purchased the site in 1994 and received outline planning permission to build 10,800 homes in 2007. But progress in building out the site was slow – as of July 2016, 734 homes had been built, with a further 414 under construction, owing in large part to a failure to improve transport links to the rest of the capital.

In March 2016 L&Q bought out Bellway's 51% stake, replacing the private developer as the Greater London Authority's joint venture partner. L&Q's involvement in the regeneration has enabled a substantial increase in the proportion of affordable homes to be delivered on site. Bellway's original masterplan had specified that 28% of the 10,800 new homes delivered would be affordable. The reworked masterplan approved in September 2016 provides for a minimum of 35% affordable from the outset, with provisions to raise this to 50% over time through additional grant funding and viability reviews. That translates to between 756 and 2,376 additional affordable homes compared to the original plans.

Not only that, L&Q's involvement will also enable a more than quadrupling of the speed of housebuilding to 600 homes each year. This stems in part from L&Q's £0.5bn investment in infrastructure, £182m of which will go towards the extension of the Gospel Oak to Barking London Overground line and a new station at Barking Riverside, thereby addressing one of the historic barriers to faster construction. And in part from its much broader market and affordable housing offer, which previous research (e.g. Letwin, 2018; Lichfields, 2020) has shown is associated with faster build-out rates given the “*virtually unlimited*” demand for social housing.

As part of L&Q's commitment to place-making, in addition to a new TfL Overground station, the project will feature:

- Land for seven schools including five primaries, one secondary, and one for special educational needs
- A new centre with 65,000 square metres of commercial, retail and leisure space, including a 2km riverside walkway, an ecology centre and new country park space
- A combined health care and leisure facility
- A cycling hub
- Two local retail and dining hubs

Barking Riverside will also be London's first and only NHS Healthy New Town, which will embed health into design and living.

L&Q's purchase of a 51% stake in Barking Riverside will increase the proportion of affordable housing delivered from 28% to at least 35%



## Interview analysis

### The effect on housing associations' partnerships with others

Most interviewees suggested that a move to longer-term funding would accelerate the trend for greater partnership working, enabling an intensification of existing partnerships with building contractors, local authorities and private developers and encouraging the development of new ones across the housebuilding sector. Homes England strategic partners indicated they had already been able to strengthen their industry partnerships on the back of their longer-term funding deals.

Interviewees saw long-term funding as playing a particularly important role in encouraging the recent growth in joint ventures. Over recent years, housing associations of all sizes have entered into joint ventures with local authorities and private developers, especially on larger sites or major regeneration projects where working in partnership is seen to be particularly valuable. By enabling a sharing of expertise, skills and risk and reward, joint ventures enable development to go ahead where it might not otherwise be possible if the various parties were to act in isolation, which for housing associations – especially smaller ones – often means the potential for taking on much larger or complex multi-phase developments. Interviewees suggested joint ventures were invariably long-term arrangements, not only because they tend to be associated with developments of greater size and/or complexity, but also because upfront costs are high and lend themselves to longer relationships. A move to longer-term funding would, therefore, offer very clear benefits for housing associations looking to enter into further joint ventures. Interviewees also mentioned that private developers would be more likely to enter into joint ventures in the knowledge partnering housing associations were in receipt of long-term grant funding.



New residents at Hyde's Heron Fields development in Sittingbourne, Kent

## CASE STUDY

# Evera Homes: The role of joint ventures in increasing the scale and pace of delivery

Launched in late 2018, Evera Homes is a Limited Liability Partnership (LLP) created by Flagship Group, Hyde Group, Longhurst Group and Cross Keys Homes. Its aim is to start 2,000 new homes in the Cambridge and Peterborough combined authority area by 2023, with an ambition to double this target over the longer-term in conjunction with others. Each of the four organisations involved are equal partners, having put in the same level of resources to establish the joint venture. The quartet will combine resources, expertise and local knowledge to deliver larger schemes than typically delivered in the region and accelerate the pace of housing delivery. The LLP's focus will be on larger, phased projects from 250 to 1,000 homes, which – with the exception of Hyde – would be more challenging for the four members to achieve in isolation. Any schemes brought

forward by the new partnership will be in addition to development done by the individual associations and management will be transferred to the participating housing association with the largest concentration of stock in the vicinity. The LLP started work on its first development, 'De Havilland Gardens' (pictured below) in 2018 and has secured in excess of 1,200 plots including a site in East Cambridgeshire. Both the aforementioned sites (De Havilland and that at East Cambridgeshire) will deliver above policy-compliant levels of affordable housing. The group's intention is to maximise housing supply through partnership working with local authorities, community land trusts and house builders/contractors of all sizes including through further joint ventures.



Evera Homes' first development, 'De Havilland Gardens', will offer above policy-compliant levels of affordable housing, with 24 of the 60 homes classed as affordable.

## Interview analysis

### The effect on housing associations' investment in skills and organisational development capacity

A majority of interviewees said the provision of long-term funding would encourage their organisations to increase investment in internal development capacity. This was seen as essential to support an increase in land-led development, whereby housing associations act as the lead developer on sites, rather than acquiring homes from private developers through s106 planning obligations. Interviewees also saw such investment as being critical in enabling the sector to deliver larger mixed-tenure developments better showcasing housing associations' place-making skills and aptitude in creating sustainable communities.

To support these objectives, a number of interviewees said long-term funding would encourage their organisations to recruit staff with land acquisition skills and those with a history of overseeing large land-led projects with a long-term approach to place-making.

Interviewees suggested the current short-term approach to funding discouraged investment to some extent by failing to give housing associations reassurance over the quantum, availability and conditions attached to future grant. For some – especially the smaller associations in our sample – this lack of certainty meant there was a risk of assembling and training a large development team, only to be forced to downscale were the next Affordable Homes Programme to be substantially less generous. As one participant remarked, “*a short-term programme drives short-term outcomes*” and only a long-term settlement would encourage them to invest additional resources into the “*proper place-making*” associated with housing association land-led delivery.

Prior reports (e.g. National Housing Federation, 2019) have shown that strategic partnerships struck with Homes England and the GLA have already enabled housing associations to invest in their development teams. One Homes England strategic partner in our sample had recently recruited several development managers to increase the number of development projects it could undertake at any one time, with the extra certainty conferred by the deal cited as a contributory factor.

Interviewees did caution, however, that recruiting individuals with the necessary skills and experience may prove challenging given current trends in the construction industry. Even before the Brexit referendum, the construction industry was struggling to recruit and retain a sufficient number of workers (Dromey, Morris, & Murphy, 2017). Now, with the supply of EU workers likely to be substantially reduced by a more restrictive immigration policy (exacerbated by reduced freedom of movement to prevent the spread of Covid-19), it faces a severe recruitment challenge. The most acute shortages are for those workers directly involved in construction. For instance, in his independent review of build out rates, Sir Oliver Letwin highlights a requirement for an additional 15,000 bricklayers (one quarter of the existing number) to enable the construction of 300,000 homes each year (Letwin, 2018). However, housing associations, including those in our sample, have also reported difficulties recruiting to their development teams with a shortage of candidates for project management positions.

## Interview analysis

Over the long-term, there is evidence to suggest the provision of 10-year funding deals could start to remedy some of these skills shortages. For example, a recent report commissioned by the National Housing Federation (Cast Consultancy and Harlow Consulting, 2020) suggests the introduction of 10-year Affordable Homes Programmes would enable housebuilding firms to establish a longer pipeline of work, less vulnerable to housing market cycles. This, in turn, would enable much greater investment in upskilling, training and apprenticeships – including in modern methods of construction – thereby addressing some of the skills gaps and skills shortages in the construction sector.

### The effect on housing associations' investment in Modern Methods of Construction

Modern Methods of Construction (MMC) – from small simple pre-assembled panels at one extreme to fully volumetric construction at the other – are seen by some as having a potentially transformative effect on housebuilding due to their high levels of precision and much reduced labour requirements (e.g. Farmer, 2016).

One barrier to their more widespread adoption is believed to be the lack of volume and continuity of demand to justify the up-front capital investment necessary to build factories to manufacture new housing or component parts (London Assembly, 2017). For that reason, some (e.g. Greater London Authority, 2019) see the provision of longer-term funding for housing associations as potentially increasing the use of modern methods as it could make demand more predictable. However, our interviews offered only limited evidence to support this theory. Despite widely recognising the benefits of MMC (especially increases in precision and thermal efficiency), interviewees still believed there were substantial barriers to its adoption that would not be addressed by long-term funding. These included continued uncertainty over mortgageability, the use of MMC homes by housing associations and homeowners as collateral and concerns that modern methods may continue to prove more expensive than traditional equivalents until a critical supply and demand threshold is reached. Thus, while the provision of longer-term funding may eventually facilitate the more widespread adoption of MMC, there are still more barriers to overcome if it is to be embraced by the sector.



The Guinness Partnership's 950 home mixed tenure development at Bromley-by-Bow, East London



## Interview analysis

### Thoughts on the optimum design of a longer-term programme

In the final part of the interview, interviewees were asked to consider the optimum design of a longer-term approach to grant. Interviewees were encouraged to consider how a longer-term programme could be designed from scratch to enable the sector to deliver more or better outputs for a fixed grant input. Their responses suggest a strong desire for any long-term deal to mirror the ‘whole programme’ approach currently available to strategic partners, with the following emerging as key factors:

- **A high degree of tenure flexibility:** interviewees representing the strategic partners among our sample believed the ability to switch tenures up to practical completion was a highly useful feature of their agreements and should be incorporated into any future long-term programme. Some suggested this could be supported through the provision of “*tenure-blind*” grant rates – provision of the same level of grant irrespective of tenure – which is already awarded to some strategic partners. A number suggested it would be helpful if there was flexibility to deviate slightly from the overall tenure breakdown agreed through their Homes England deals. Current strategic partners have the ability to switch tenures, but the overall tenure mix and grant rates must match that specified in the original bid. One proposed solution was to agree upper and lower bounds for the delivery of different tenures with Homes England in order to maximise responsiveness to changing market conditions. Others suggested targets should reflect the degree to which associations fulfil housing need, rather than purely pre-agreed delivery numbers. They argued that, with delivery targets agreed before many development sites are confirmed, associations may not know which local authorities’ tenure requirements they will be required to meet until later in the process. Thus it would be useful to link delivery milestones at least partly to how effectively housing associations are addressing housing need in partnership with local authorities.
- **A commitment to honest and transparent partnership working:** interviewees from our sample of housing associations said they were committed to working on an open-book basis and to making investment decisions in partnership with Homes England. Strategic partners were appreciative of Homes England’s move away from a forensic approach to project management under its strategic partnerships, but suggested housing associations should be granted further autonomy under a long-term funding deal. That would involve a genuinely outcome-focused approach to programme management with housing associations trusted to deliver on their targets, while still providing appropriate progress updates to Homes England.
- **Flexibility over grant draw-down:** The overwhelming consensus was that a whole programme approach should be adopted, with housing associations receiving funding across the entirety of their development programmes rather than on a scheme-by-scheme basis. Some respondents suggested grant draw-down should be linked to actual development expenditure rather than delivery milestones to maximise flexibility. Allocating grant on a scheme-by-scheme basis was seen as too restrictive and interviewees noted the potential for poorer workmanship if grant was skewed too heavily towards practical completion.



Radian's Oakfield Grove development in Bishopstoke, Eastleigh. It features 16 two-, three- and four-bedroom homes for Shared Ownership and Affordable rent.

## Interview analysis



Metropolitan Thames Valley's Clapham Park development comprising 132 one- and two-bedroom homes for shared ownership

- **The availability of long-term funding to a wide range of housing associations:** interviewees suggested long-term funding should be made available outside of the strategic partnership model, which, given expectations about housing delivery (Homes England Strategic partners are expected to provide at least 1,000 new homes by March 2022), is currently best suited to larger providers. They also cautioned that the introduction of long-term funding should not preclude the availability of scheme-by-scheme finance for housing associations with smaller or more opportunistic development programmes.
- **A mechanism for sharing inflation risk:** without some degree of indexation a move to longer-term funding increases inflation risk for housing associations since grant rates remain static, while development costs – the cost of land, labour and materials – are subject to inflation. This makes it very challenging for associations to accurately account for inflation in bids and can lead to over-estimates in order to appropriately manage future risk. All interviewees believed this heightened inflation risk should be shared to some degree with Homes England. The preferred mechanism for doing so was to link grant to some measure of build cost inflation – perhaps the new housing dimension of the Office for National Statistics' Construction Output Indices – rather than, for instance, a measure of house price inflation as the former was deemed more specific.
- **A mechanism for enhancing the counter-cyclical role of housing associations:** with grant rates down from 75% of scheme costs in the 1990s to just 12% now, housing associations' capacity to continue building during market downturns has been significantly reduced. One measure of this is the growing proportion of the sector's output delivered through section 106 planning obligations. Fifty-four percent of affordable completions by housing associations in 2018/19 were delivered through such obligations (National Housing Federation, 2020) up from 45% in 2016/17 (National Housing Federation, 2017). Since section 106 delivery is inherently pro-cyclical, that means at least half of housing associations' output is vulnerable to downturns in the market. Indeed, annual completions through this route fell 50% between 2006–09 and 2009/10 during the global financial crisis (Savills, 2018). Interviewees proposed variations on a mechanism by which the sector's historical counter-cyclical role could be restored by linking grant to the overall health of the housing market. Broadly, this would involve associations receiving reduced grant at points in the housing market cycle when prices are high, as associations are better able to generate cross-subsidy from market sale homes. Conversely, more grant would be provided at points in the down cycle when prices are falling, enabling housing associations to smooth the entire housebuilding industry's level of output over the longer-term and achieve better value for money. This would be predicated on the trusting relationship between housing associations and Homes England described above and mean that housing associations' cross-subsidy model is stretched and relaxed with the waxing and waning of the housing market.

## Conclusion

With Government taking first steps towards the introduction of longer-term grant funding, significant questions remain over how and to what extent this will enable housing associations to increase their housebuilding activity.

This report sought to explore these questions and, in doing so, provide insights to inform the design of future grant funding settlements. It set out with three objectives. These were to determine:

1. Whether the duration and conditions attached to previous grant funding settlements have had a discernible impact on housing associations' delivery?
2. All else being equal, would a 10-year grant settlement deliver greater value for money than two equivalent five-year settlements?
3. How exactly would longer-term funding enable housing associations to increase delivery?

### **The short duration of Affordable Homes Programmes has had clear impacts on the timing of housing association delivery**

Our review shows that the short duration of Government's Affordable Homes Programmes has had clear impacts on the timing of housing association delivery. There are discernible stop-start trends in the sector's output of affordable homes with completions tending to peak at the end of one programme, followed by a distinct drop-off in activity in the early stages of its successor. Early indications are that this could be repeated at the beginning of the 2021-26 programme given a lack of advance notice about grant rates and the tenures eligible for grant funding.

Our interviews with senior sector leaders and recently published research suggests this stop-start profile is unproductive in at least three respects. Firstly, it drives up unit development costs by encouraging synchronicity in the sector's development behaviours, with many housing associations simultaneously seeking to acquire sites and secure building contractors at similar points in the programme. Secondly, it can lead to rushed construction and handover of homes as programmes draw to a close. In a small number of cases this has historically resulted in higher levels of building defects and higher ongoing maintenance costs. Thirdly, it acts as a significant constraint on the productivity of the housebuilding supply chain. Research shows the short duration of Affordable Homes Programmes, combined with the volatility of the housing market, discourages building firms from investing in capital equipment, resources, skills and training. This reduces productivity by up to 70%, with knock on consequences for unit development costs.

### **The selection of tenures for which grant funding is available has had a profound effect on housing associations' new-build tenure mix**

Interviews with senior sector figures certainly give reason to believe long-term funding could enable an appreciable increase in the delivery of affordable homes, including those for social rent. Savings secured by taking land through the planning process and the purchase of a wider range of sites (including larger sites), which would otherwise be taken on by private developers, are certainly suggestive of an increase in the supply of the most affordable rental products. However, our review of past Affordable Homes Programmes shows that the driving factor behind the sector's new-build tenure mix is the selection of tenures for which grant funding is available. That is shown most clearly by the 2011-15 Affordable Homes Programme where the introduction of the Affordable Rent model and withdrawal of grant funding for social rent led to a significant change in the sector's new-build tenure profile.

## Conclusion

Given the historic correlation between grant availability and the sector's new-build tenure mix, it would be unrealistic to expect long-term funding alone to enable housing associations to address the chronic undersupply of the most affordable tenures. To achieve the necessary step-change in the delivery of affordable homes – most of all those for social rent – grant must not only be provided over longer timeframes, but also be made available specifically for this tenure and at adequate rates per home.

### **A 10-year funding programme could offer significantly better value for money**

No firm conclusions can be drawn about the precise level of additionality made possible by a move to longer-term funding on the basis of our research. As our interviews demonstrate, housing associations' behaviours would be affected in myriad ways were they given a longer-term grant settlement, meaning any modelling is likely to be highly complex and associated with high degrees of uncertainty. The 40,000 additional starts committed to by Homes England's 23 strategic partners certainly suggest a clear link between moderately long-term funding (accompanied by extra flexibilities over tenure, geography and grant draw-down) and additional supply. But those partnerships also feature a distinct form of conditionality through which prospective partners must commit to delivering at least 1,000 affordable starts on top of existing commitments in order to strike a deal with Homes England. So while these partnerships ostensibly support the hypothesis longer-term funding would facilitate additional supply above existing plans, they do so with a particular set of conditions attached.

However, there is a growing body of evidence to suggest a 10-year grant settlement would indeed deliver better value for money than two equivalent five-year settlements. The aforementioned study by the CAST consultancy suggests 10-year Affordable Homes Programmes could enable productivity gains in the housebuilding industry of up to 70%. Secured through encouraging investment in modern methods of construction, resources, skills and training across the housebuilding supply chain, these productivity gains would likely result in lower unit costs and the prospect of additional supply across all tenures.

On the basis of CAST's research it is also reasonable to conclude that a 10-year Affordable Homes Programme would build resilience into the housebuilding industry by offering builders (especially SMEs) a reliable pipeline of work less vulnerable to the state of the housing market. In doing so it would facilitate greater counter-cyclical supply, preventing the damaging loss of construction workers that has followed previous downturns and giving rise to the prospect of quicker V-shaped rather than W-shaped housebuilding recoveries. Longer-term funding would also increase the sector's ability to fulfil its historic role in offering counter-cyclical delivery by accelerating the shift away from s106 delivery, which is highly susceptible to housing market downturns.

Moreover, there is now evidence from outside the sector to suggest that 10-year funding deals for housing would increase the efficiency of public spending. Research by the Resolution Foundation shows long-term funding certainty could reduce unit costs by 10%-20% across different suppliers and sectors. As Government pours billions into the economy to stimulate growth following the economic damage inflicted by Covid-19, it is vital that spending is done in such a way to maximise the return for the taxpayer. The extension of Affordable Homes Programmes from five

## Conclusion

years to 10 fits this bill, especially as it would help unlock further public and private investment into affordable housebuilding many times the value of the initial grant injection.

### **The provision of long-term funding would enable substantial changes in housing associations' development behaviours conducive to an increased supply of affordable housing**

The provision of long-term funding would enable substantial changes in housing associations' development behaviours – all of which would be conducive to an increased supply of affordable housing. All 13 participants would welcome a move to increase the duration of Affordable Homes Programmes from five years to 10 and suggested this would enhance their development capacity in various ways. Four stand out.

Firstly, with grant certainty over a decade participants said that they would move upstream on land acquisition, purchasing land without planning permission more regularly rather than acquiring consented land, or entering into package deals where intermediaries or partnership developers have already extracted value. Interviewees suggested there were significant savings to be made by doing so – corroborated through Shelter's "*Grounds for Change*" report – and that these would be reflected in a final tenure mix featuring higher proportions of affordable homes. Optivo's new 100% affordable scheme at Alton Road shows what is possible through an alternative approach to land value capture.

Secondly, interviewees said that the certainty conferred by a 10-year funding settlement would lead them to take on a wider range of sites including larger sites and those requiring land assembly or remediation. Again this points towards an increased supply of affordable housing since – in the absence of housing association interest – larger and more complex sites would be taken on by private developers focusing on a narrower range of tenures. The case study of Barking Riverside where L&Q will increase the proportion of affordable housing delivered from 28% to a minimum of 35% and quadruple the previous build-out rate is a case in point.

Third, our interviewees made it clear the provision of longer-term funding would encourage their organisations to increase investment in internal development capacity. This was keen as essential to supporting an increase in land-led development and enabling the sector to deliver larger mixed-tenure developments better showcasing housing associations' place-making skills and aptitude in creating sustainable communities. To support these objectives, a number of interviewees said long-term funding would encourage their organisations to recruit staff with land acquisition skills and those with a history of overseeing large land-led projects with a long-term approach to place-making.

Fourthly, with grant certainty over 10 years participants suggested they would intensify existing relationships and forge new ones with building contractors, local authorities and private developers. Interviewees saw long-term funding as playing a particularly important role in encouraging the recent growth in joint ventures and saw these as a reliable method for taking on larger and more challenging projects. Evera Homes, the Limited Liability Partnership between Flagship Group, Hyde Group, Longhurst Group and Cross Keys Homes demonstrates the potential of such partnerships for the supply of affordable housing. By working in partnership, the four housing associations will achieve a greater pace

## Conclusion

and scale of delivery than would be possible if the various associations were to act in isolation. Early developments have featured above policy-compliant levels of affordable housing.

Combined, these changes in housing associations' behaviours suggest the introduction of longer-term funding, backed by appropriate grant levels, could unlock a substantial – if as yet unquantifiable – increase in the delivery of housing across all tenures including affordable homes.

Finally, our research demonstrated a consensus among the sector leaders interviewed as to how a longer-term Affordable Homes Programme might be designed to maximise the number of additional affordable homes delivered. There was a clear desire for any new long-term settlement to build upon the programme approach to delivery trialled through Homes England's strategic partnerships. The features felt to be most useful were flexibility over tenure (with appropriate oversight) and grant draw-down and a commitment to transparent partnership working. There was also a consensus long-term funding should not be limited to strategic partners in order to enable housing associations of all sizes to benefit from longer-term certainty.

However, there was also a recognition longer-term funding presented a different set of risks to housing associations including differential inflation and a potential lack of responsiveness to housing market cycles if grant rates were inflexible. Consequently, there was a clear desire to share some of the risks of long-term funding by linking grant to build cost inflation and, perhaps most radically, to the health of the housing market. Doing so would introduce further complexity, but could also enhance the traditional role of housing associations in offering counter-cyclical delivery.

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