



National Audit Office



Building more affordable homes: Improving the delivery of affordable housing in areas of high demand

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

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This report is based on a joint study conducted by the Audit Commission and NAO, one of a series that looks at the "delivery chains" between important national policy intentions (set out in government departments' Public Service Agreement targets agreed with HM Treasury) and local delivery.

John Bourn
Comptroller and Auditor General
National Audit Office

15 December 2005

The National Audit Office study team consisted of: Henry Broughton, Theresa Crowley and Khilan Shah under the direction of Mark Davies

The Audit Commission study team consisted of: Katie Smith, Phil Hall, Margaret Maxwell and Andy Crowe under the direction of Roy Irwin

This report can be found on the National Audit Office web site at www.nao.org.uk and the Audit Commission website at www.audit-commission.gov.uk

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157-197 Buckingham Palace Road
Victoria, London SW1W 9SP
Tel: 020 7798 7400
Email: enquiries@nao.gsi.gov.uk

For further information about the Audit Commission please contact:

Audit Commission
1st Floor
Millbank Tower
Millbank
London SW1P 4HQ
Tel: 020 7798 1212
Email: ac-enquiries@audit-commission.gov.uk

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ANALYSING DELIVERY CHAINS

Improving the quality and provision of public services has been a key priority for Government in recent years. As more money has been provided and public expectations have risen, there has been a need to offer better services, involving greater diversity and increased choice, often focussed on local delivery, through a range of different service providers.

Hand in hand with these developments has been the need to better manage the delivery of those services. As part of the Spending Review 2004 Sir Peter Gershon identified scope to achieve efficiency savings across public expenditure of at least £20 billion by 2007-08. This has caused departments to look closely at how they operate and provide services, with each having to specify how they will secure the savings for which they will be accountable.

More generally, there has been a range of performance management tools introduced across central Government and the wider public sector in recent years. In particular, in 1998, the Government introduced Public Service Agreement (PSA) targets, linking, for the first time, funding with the performance expected from departments and their partners at national, regional and local level.

The Spending Reviews in 2000, 2002 and 2004 have gradually refined this target-setting process. The number of PSA targets has reduced from 600 in 1998 to 110 for 2004. And targets have increasingly focused on outcomes – for example reducing crime – instead of on inputs, processes or outputs such as more police on the street, better utilisation of court time etc.

These developments are welcome. There is consensus in government and more widely that fewer outcome-focussed targets reduce the risk of the unintended consequences which come from measuring inputs or processes. This combined with a sustained drive for improved efficiency, provides a fresh opportunity for departments to review their PSA targets and the means by which they can best be delivered.

In particular, more sophisticated outcome-focussed services, better tailored to the diverse and local needs of the public, often cannot be achieved by one organisation alone; instead they require close partnership working between different organisations at national, regional and local levels. These relationships, ultimately linking Ministers to the frontline health worker, school teacher or police officer, have become known as the delivery chain, echoing the business concept which refers to the network of systems, processes and organisations through which strategic objectives are achieved.

Such complex delivery arrangements, if not well managed, create significant risk that resources, far from being more effectively targeted at citizens' needs are lost in confusing and wasteful administrative activities. Thus as delivery chains have become more sophisticated, involving a wider range of organisations of different kinds, the need to understand them better, and to make them more efficient and effective, has become increasingly evident. Some long-standing delivery chains are strong and clear and more likely to succeed. Others, less developed, have struggled to meet the requirements asked of them.

This then forms the backdrop to three joint studies examining the delivery chains associated with particular PSA targets. Here the Audit Commission and National Audit Office, through their different perspectives at national and local level, and by combining their knowledge and expertise, have examined the delivery chain associated with a PSA target on the delivery of affordable housing;¹ from the challenges faced by the owner of the target – the Office of the Deputy Prime Minister – through to the actions being taken by or now required at regional and local level by those organisations that have to deliver the large numbers of new affordable homes required.

There is a separate similar report on increasing the use of buses and a third, prepared in conjunction with the Healthcare Commission, on child obesity.

Our aim in producing the three reports is to examine the characteristics of the specific delivery chains, and their capacity to deliver the PSA target for which they were designed. In so doing we identify ways in which the various parties involved in the chains might work more closely together, as well as suggesting ways in which the target might be achieved in a more cost-effective manner.

We also intend to produce a fourth report to be published in 2006 in which we bring out issues of more general relevance to the ways that public sector delivery chains are constructed and how they can best operate.

¹ To achieve a better balance between housing availability and the demand for housing, including improving affordability, in all English regions while protecting valuable countryside around our towns, cities and in the green belt and the sustainability of towns and cities.

ABSTRACT

A shortage of housing and high house prices in recent years has made it increasingly hard for many people to obtain a home that they can afford either to own or to rent, particularly in the South of England. This shortage has a number of important consequences, creating difficulties and hardship for many people, who may find themselves living in inappropriate accommodation. It also has implications for public and private services as key workers are priced out of the market in some parts of the country.

To tackle this situation, the Office of the Deputy Prime Minister has been set the following Public Service Agreement target:

Achieve a better balance between housing availability and the demand for housing, including improving affordability, in all English regions while protecting valuable countryside around our towns, cities and in the green belt and the sustainability of towns and cities.

This joint study by the Audit Commission and National Audit Office has taken as its focus one strand of the target – improving the availability of affordable housing in high demand areas. Funding for new affordable housing – some £3.3 billion between 2004 and 2006 – is allocated by the Office of the Deputy Prime Minister (ODPM) to

the Housing Corporation which in turn provides grants and subsidies to housing associations and developers to deliver new housing. Against a target in 2004-05 to provide an additional 27,000 homes for rent or low-cost home ownership, including those for key workers, the Housing Corporation achieved 28,756 completions.

A complex delivery chain has developed around this funding flow, involving Government Offices for the Regions, Regional Housing Boards and Regional Planning Bodies, local authorities, housing associations and property developers. While addressing PSA 5 ODPM is also tasked to secure annual efficiency gains in social housing of £835 million by 2007-08, of which £355 million will come from housing associations. The report sets out ten areas where such efficiencies are likely to be achieved.

More generally the study makes various recommendations for national, regional and local bodies to improve both efficiency and effectiveness of the delivery chain highlighting in particular the need to increase the speed of delivery and to reduce the unit cost of housing.

Findings

The Department has introduced significant changes to the delivery chain in recent years, but there has been a lack of certainty at regional and local levels about roles and relationships under the new arrangements.

- ODPM has changed the delivery chain by introducing more decision making at the regional level, removing Local Authority Social Housing Grant and changing the planning system. ODPM has not always followed through on these changes with clear, practical and timely advice.

Despite large amounts of funding, a national target, and affordable housing becoming a key corporate priority for local authorities in recent years, few authorities believe that they can yet meet the challenge to deliver large increases in affordable housing.

- Recent statistics from ODPM² indicate that for England as a whole, the number of new cases of homelessness has been falling since the beginning of 2004, with the number of new households in temporary accommodation remaining steady since September that year. The Department attribute this to additional measures in recent years to tackle homelessness. In areas of high housing demand in the south of England, however, the number of households living in temporary accommodation has risen steadily over recent years. This has resulted in a backlog for local authorities and very

few, (only 2 per cent of those surveyed for this study)³, consider that they will be able to meet the need for social rented housing over the next three years – due largely to insufficient funding and a shortage of land available for development. In response to such circumstances ODPM plans to increase the supply of new social rented housing by 50 per cent by 2007-08 compared with 2004-05. It is also increasing its investment in homelessness prevention (from £60 million in 2005-06 to £74 million in 2007-08). This, combined with an increased supply of social rented housing will, in ODPM's view, contribute to the Government's aim to halve the number of households in temporary accommodation by 2010.

Initiatives by the Housing Corporation have started to focus development funding into the hands of those best able to spend it effectively.

- Funding for affordable housing is now allocated to fewer housing associations – in 2004-05, 70 housing association partnerships received 80 per cent of the funding; whereas 400 housing associations received funding in 2003-04. Funding is now allocated on a two year funding cycle. This gives more certainty to housing associations which encourages developers to invest more into affordable housing.

² ODPM Quarterly statistical release on homelessness.

³ MORI survey of 50 local authorities in the South East, the South West and London.

While there has been a move towards more regionally based decision making about housing need and provision, this has not always led to a change in working practices at a local level.

- There is some ambiguity around the emphasis by ODPM for local authorities to work sub regionally creating room for confusion amongst developers who are unsure about the status of sub regional documents and processes.

Government Offices could play an enhanced role in providing guidance to local authorities.

- Government Offices are uniquely placed to help local authorities to improve their performance but their role has evolved in different ways and at different rates across the regions. This means that their role is not always clear to local authorities.

Section 106 has proved an effective lever for increasing the supply of affordable housing, but there is a need for clearer and more consistent messages from local authorities so that developers do not waste time and effort in putting forward unacceptable proposals for new schemes.

- Forty per cent of the Housing Corporation's Approved Development Programme is now channelled to Section 106 sites. This important lever is a complex part of the delivery chain and one that causes most delays. Local authorities have implemented ODPM guidance inconsistently and often lack the necessary skills in negotiation and technical financial tools.

Most local authorities now have affordable housing as their corporate priority, but for this to be achieved it needs the support of the community.

- Local authorities need to work with housing associations and developers in providing a clear message to local communities about the need for affordable housing and involve people in how developments might be designed. Some local authorities are achieving this very successfully but many local authorities are yet to fully take up this community leadership role.

The release of surplus land for housing by departments could be aided by more coordination at a national level.

- The introduction of the Register of Public Sector Land and changes to Government Accounting are improving the way in which Government Departments release land that is suitable for affordable housing. But more needs to be done to ensure that surplus public sector land is transferred effectively to other agencies.



EXECUTIVE SUMMARY



1 Sustained inflation in the housing sector in recent years has made it increasingly hard for many people to obtain a home that they can afford either to own or to rent. The number of households living in temporary accommodation has more than doubled since 1996 from 43,000 to 94,000,⁴ while in 2003 construction of new houses in the United Kingdom fell to its lowest level since the Second World War.

2 This shortage of housing has a number of important economic and social consequences, creating difficulties and hardship for many people who may find themselves living in inappropriate accommodation. There is also a problem for key workers, such as nurses and teachers, who are being priced out of the market in the South of England, resulting in staff shortages, risking poorer public and private services.

Affordable housing

There are two main types of affordable housing: social rented housing (housing that is provided by either local authorities or housing associations to those in most need at a subsidised rent) and intermediate housing (housing designed to help people enter home ownership through intermediate schemes such as shared ownership or right to buy).

3 In other regions of the country such as in the North and the Midlands there are, however, areas that have suffered a collapse in their housing markets. Such market failure can result in a cycle of decline, with people trapped in poor housing in areas associated with high crime and unemployment. To tackle these issues of both excessive high and low demand, in 2002 the Office of the Deputy Prime Minister (ODPM) introduced a new Public Service Agreement target – target 5 – on housing markets.

In the 2004 Spending Review, the scope of the target was extended to include improving the affordability of housing:

Achieve a better balance between housing availability and the demand for housing, including improving affordability, in all English regions while protecting valuable countryside around our towns, cities and in the green belt and the sustainability of towns and cities.

Delivery chain

Business concept, used increasingly in the public sector, which refers to the systems, processes and organisations through which government seeks to achieve its strategic and policy objectives.

4 The Public Service Agreement target covers a wide scope of activity aimed at improving housing in areas of both high and low demand. Our study focuses on one strand of the target – improving the availability of affordable housing in high demand areas where the pressure for housing is outstripping supply. Growth Areas, such as the Thames Gateway, have not been included in the study because they are subject to separate additional funding and are the subject of forthcoming work by the National Audit Office. Focussing on three regions across southern England where there is high demand for affordable housing – the South East, London and the South West – the study investigates the efficiency and effectiveness of the delivery chain for affordable housing, considering ways in which it can be strengthened, and tracks activity across the delivery chain at the national, regional and local level.

⁴ *Review of Housing Supply, Delivering Stability; Securing our Future Housing Needs.* Kate Barker, 2004.

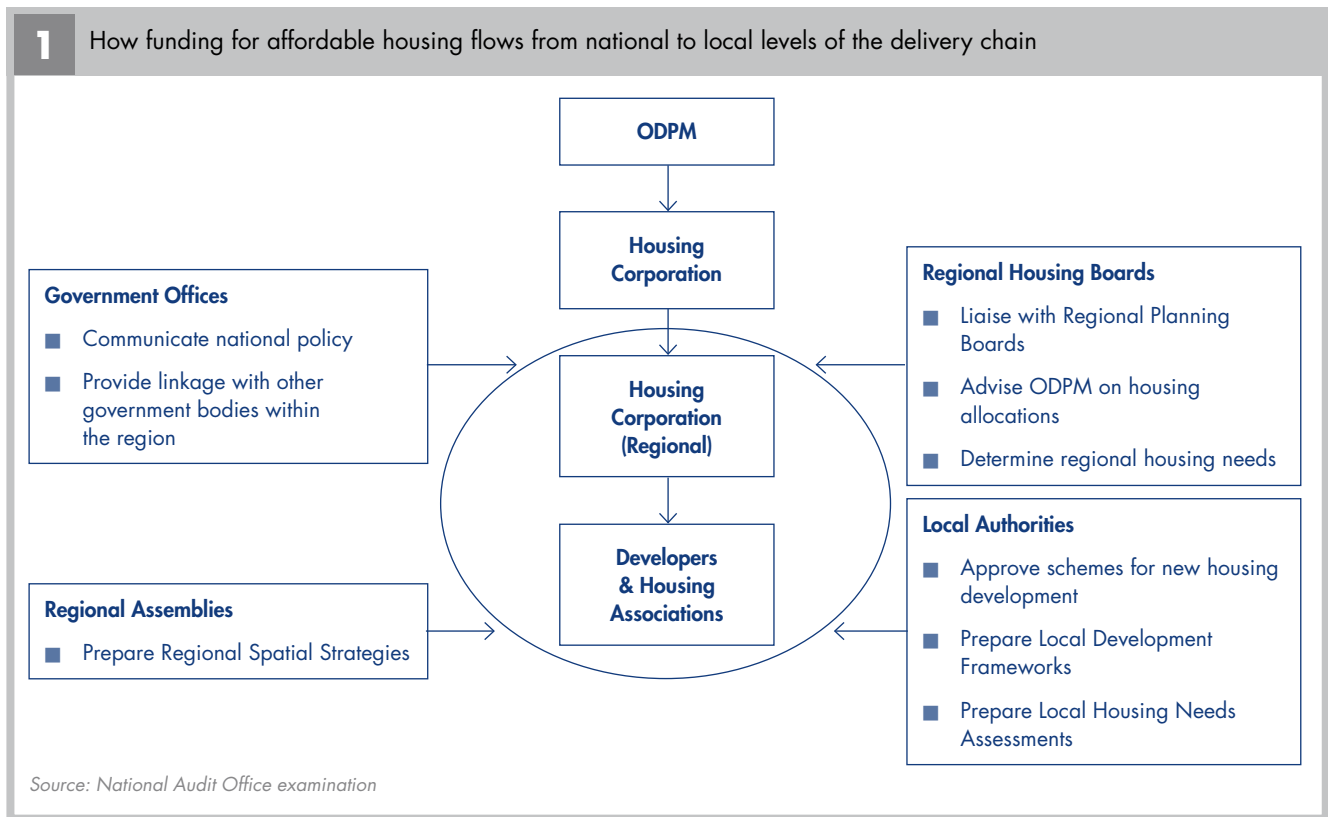
5 Unlike many other delivery chains, direct Government funding for new affordable housing is relatively straightforward, with the majority of the money being allocated from the ODPM to the Housing Corporation, which in turn makes payments to housing associations and other bodies on the strength of business plan proposals and a range of performance criteria. They, in turn, translate the funding into new housing through a system of grants and subsidies. Against the background of needing to deliver the right housing in the right areas, a complex delivery chain has developed around this funding flow, involving Government Offices for the Regions, Regional Housing Boards and Regional Planning Bodies, local authorities, housing associations and property developers (Figure 1).

6 Resources allocated to the delivery chain to provide more affordable housing are significant, amounting in 2004-06 to some £3.3 billion from the Housing Corporation’s Approved Development Programme.

7 In addition to direct funding for affordable housing, there are four other mechanisms that have an influence over the supply of affordable housing. Firstly, by ensuring sufficient land is allocated for housing through the planning system (with priority given to building on previously developed land and in urban areas). Secondly, using Section 106 agreements to secure commitments from private developers to include affordable housing on otherwise market-price developments. Thirdly, by releasing surplus public sector land for affordable housing, often through English Partnerships (the Government’s regeneration agency). Finally, by developing new affordable housing products to drive down construction costs so that housing can be sold for less.

Section 106

The Town and Country Planning Act 1990 (as substituted by the 1991 Planning and Compensation Act): Gave local authorities powers to negotiate community benefits as part of the planning process (Section 106 agreements). In the last five years this provision has been increasingly used to provide affordable housing as part of private sector housing developments.



8 The affordable housing delivery chain, like other delivery chains for the delivery of national Public Service Agreement targets, is under pressure to become more efficient as part of the Government's wider programme to secure £21.5 billion of annual efficiency savings in the three years 2005-06 to 2007-08 across all public expenditure. For the Office of the Deputy Prime Minister, this target translates into an efficiency gain for social housing of £835 million by 2007-08 of which £355 million will come from housing associations.

What we did

9 We interviewed and conducted workshops with over 200 directors, managers and front-line staff involved in the main delivery chain for affordable housing; from ODPM, HM Treasury, the Prime Minister's Delivery Unit, English Partnerships, the Housing Corporation, the Home Builders Federation, the Local Government Association, the National Housing Federation, Regional Government Offices, Regional Housing Boards, sub regional groups of housing strategy and enabling officers in Hampshire and Devon, 50 local authorities in the South East, South West and London, a further six local authorities in London, the South West and the South East chosen as case studies (Hammersmith and Fulham, Merton, Arun, Chichester, Plymouth and South Hams) developers, consultants and voluntary and community housing advice bodies.

10 The joint approach by the National Audit Office and Audit Commission, through their different perspectives and by combining knowledge and expertise, has allowed a unique look at the delivery chain throughout its length; from the challenges faced by the ODPM through to the actions being taken by or now required at regional and local level by those organisations that have to deliver the large numbers of new affordable homes required.

Findings

The Department has introduced significant changes to the delivery chain in recent years, but there has been a lack of certainty at regional and local levels about roles and relationships under the new arrangements

11 While the flow of funding from ODPM to the Housing Corporation and then to housing associations is relatively straightforward, the inter-relationships between organisations and processes at a local and regional level

results in a complicated delivery chain. This complexity means that in practice there are many influences on how it is spent. In part this is due to the need to involve regions in local funding decisions. In addition, ODPM has changed the delivery chain substantially over the past two years, focussing more decision making at a regional rather than at a local level. This has included the establishment of Regional Housing Boards, to determine housing priorities and advise Ministers on the overall allocation of funding across the region, the removal of Local Authority Social Housing Grant from local authorities, changes to planning guidance, and a new way of funding housing associations, including two year funding cycles.

12 ODPM has not always followed through on these changes by giving clear practical advice to those affected about how they should now act and operate. The production of guidance has often lagged behind the announcement of policy changes and changes to market conditions. This means that parts of the delivery chain have not been clear about their new roles and responsibilities. The delay in updating Planning Policy Guidance note 3 has caused confusion and meant that agencies were operating within an outdated planning framework. For example significant inconsistencies in approach have developed between authorities with regards to the scale of housing developments that can trigger the inclusion of an affordable element through a Section 106 agreement. Some authorities have been working to lower thresholds to secure more affordable housing. Where this has happened, the practice has often been supported by the Audit Commission, but has sometimes been challenged by developers who have on occasion had their challenges upheld by the Planning Inspectorate. This lack of joined-up Government has led to challenges and appeals by developers and costly delays which undermine progress on PSA 5.

Despite large amounts of funding, a national target, and affordable housing becoming a key corporate priority for local authorities in recent years, few believe that they can yet meet the challenge to deliver large increases in affordable housing

13 All tiers of the delivery chain share the view that the shortage of affordable housing is a serious problem. Alongside the national Public Service Agreement Target, 92 per cent of the 50 local authorities we surveyed for this study now have affordable housing as one of their key corporate priorities. Recent statistics from ODPM⁵

⁵ ODPM Quarterly statistical release on homelessness.

indicate that for England as a whole, the number of new cases of homelessness has been falling since the beginning of 2004, with the number of new households in temporary accommodation remaining steady since September that year. The Department attribute this to additional measures in recent years to tackle homelessness. In areas of high housing demand in the south of England, however, the number of households living in temporary accommodation has risen steadily over recent years. This has resulted in a backlog for local authorities and very few, (only 2 per cent of those surveyed for this study)⁶, consider that they will be able to meet the need for social rented housing over the next three years – due largely to insufficient funding and a shortage of land available for development. In response to such circumstances ODPM plans to increase the supply of new social rented housing by 50 per cent by 2007-08 compared with 2004-05. It is also increasing its investment in homelessness prevention (from £60 million in 2005-06 to £74 million in 2007-08). This, combined with an increased supply of social rented housing will, in ODPM's view, contribute to the Government's aim to halve the number of households in temporary accommodation by 2010. A target was set by ODPM for the Housing Corporation to provide and additional 27,000 additional homes for rent or low-cost home ownership, including those for key workers. The Housing Corporation achieved 28,756 completions in 2004-05.

Initiatives by the Housing Corporation have started to focus development funding into the hands of those best able to spend it effectively

14 Over the period 2004-06, large amounts of public money amounting to around £3.3 billion is being spent by the Housing Corporation on delivering affordable housing. This funding is allocated to housing associations on the strength of business cases for developing and delivering affordable housing and, in recent years, the Corporation has introduced a number of initiatives designed to improve the efficiency of performance of the sector. These have included:

- two year funding cycles giving more certainty to housing associations, encouraging developers to plan better and to invest in capacity for the future;

- focussing resources on fewer housing associations – over 80 per cent of the 2004 – 2006 programme was allocated to 70 partner housing associations through the Corporation's pilot Investment Partnering programme; and
- the implementation of a framework for assessing the performance of housing associations in receipt of development grants.

15 These changes have brought efficiency savings, with the funding programme in 2004-05 being on average 9 per cent cheaper than the programme in 2003-04.⁷ This has resulted in an average of 28 additional homes for every £10 million of public funding. Evidence from our fieldwork indicates that an extension to three to five year funding cycles could benefit developers and housing associations further, although this would require committing to investment and could reduce flexibility to changing priorities.

16 The Investment Partnering programme is encouraging more housing associations to consider merging or to form group structures creating potential for improving cost-effectiveness through the availability of cheaper loan finance or the opportunity to improve procurement. Recent research by AT Kearney on back office functions generally⁸ indicates that potential savings averaging about 14 per cent, can be achievable. There is scope for housing associations to realise potential savings in sharing back office functions.⁹

17 A further measure introduced by the Housing Corporation to encourage efficiency in the housing association sector is the Operating Cost Index. This sets out the operating costs for those associations with over 250 units, allowing the Housing Corporation to consider what drives such costs. In addition, how associations' overall and individual service costs compare with other similar organisations is looked at in Audit Commission housing inspections which also examine how well associations manage and improve value for money.

6 MORI survey of 50 local authorities in the South East, the South West and London.

7 *Investment Partnering. An Evaluation of the Pilot Programme.* Chartered Institute of Housing and Tribal HCH June 2005.

8 A.T. Kearney (2005) *Success Through Shared Services: From Back-Office Function to Strategic Drivers.* Chicago, Ill.: A.T. Kearney Marketing and Communications, Inc.

9 The savings so identified will be specified in housing associations' annual efficiency statements.

While there has been a move towards more regionally based decision making about housing need and provision, this has not always led to a change in working practices at a local level

18 The establishment of Regional Housing Boards and the forthcoming transfer of their responsibilities to Regional Planning Bodies should potentially allow for more coordinated decision making about when and where affordable housing should be built – taking better into account issues around the economic and social needs of the region rather than, as in the past, focussing on the immediate housing needs of a local authority.

19 In addition, local authorities are increasingly working jointly with their neighbours at a sub regional level to develop a more accurate understanding of and better strategies to address wider housing markets rather than focussing within local authority boundaries. Expectations of sub regional working have increased with recent ODPM policy proposals but there is not as yet clarity about the boundaries or the mechanisms for such working. This has created room for confusion amongst developers who are unsure about the status of sub regional documents and processes.

20 There is some lack of clarity around the status of sub regional housing strategies. Despite ODPM advising that there is no need for local authorities to produce local housing strategies where they have produced a sub regional strategy with neighbouring local authorities (so long as they have demonstrated a clear commitment to the sub regional strategy) some local authorities continue to do so resulting in duplicated effort. Nor is there control over the timing, quality and frequency with which individual local authorities prepare Housing Needs Surveys. This leads to a range of different surveys being produced at different times. ODPM is addressing the need to create more consistency by developing a new approach to local housing assessments which will focus more on assessing housing demand and by requiring the preparation of coordinated Surveys and Housing Market Assessments.

Government Offices could play an enhanced role in providing guidance to local authorities

21 Acting as a key link between central government, local areas and the regions, Government Offices are uniquely placed to help local authorities to improve their performance in delivering affordable housing, but their role has evolved in different ways and at different rates

across the regions. This means that their role is not clear to local authorities resulting in some local authorities not making as much use of the advice and guidance that Government Offices are well placed to provide. To deliver consistency on guidance and good practice, requires a more proactive approach by Government Offices including:

- encouraging local authorities to share good practice and, where appropriate, resources, such as housing and planning staff, particularly where smaller authorities are faced with large housing schemes which they do not have the in-house capacity to deal with; and
- to better coordinate the activities of government departments in the regions including ensuring, in partnership with English Partnerships, that opportunities to use surplus land for affordable homes are explored and where possible exploited.

Section 106 has proved an effective lever for increasing the supply of affordable housing, but there is a need for clearer and more consistent messages from local authorities so that developers do not waste time and effort in putting forward unacceptable proposals for new schemes.

22 Forty per cent of the Housing Corporation's Approved Development Programme is now channelled to Section 106 sites, where developers are building affordable housing as part of a private development. However, to ensure value from the available resources the Housing Corporation's preference is that affordable housing on such sites should, wherever possible, be built without grant. This increasingly important lever is a complex part of the delivery chain and one that causes most delays to the delivery of more affordable housing. Audit Commission data show that the time taken to negotiate Section 106 agreements can vary from 6 to 67 weeks. The process is lengthened because:

- local authorities have implemented ODPM guidance inconsistently, causing delays in reaching agreements between developers and local authorities because of confusion and disagreements around what an appropriate contribution of affordable housing should be for a given site; and
- reaching agreements around planning obligations under Section 106 involves complex negotiations between developers and local authorities. Local authorities often lack the necessary skills in

negotiation and in the use of technical financial tools, which means that these negotiations often take longer than they should, adding extra costs to delivery.

23 However there is some progress, with some local authorities developing good practice that is reducing the time taken to process agreements to weeks rather than months. The Housing Corporation also needs to improve its negotiation capacity on Section 106 work and has put in place steps to achieve this by, for example, introducing the Economic Development Tool. This helps Housing Corporation Regional Teams to make independent assessments over the amount of affordable housing that a housing development can financially bear.

Most local authorities now have affordable housing as their corporate priority, but for this to be achieved it needs the support of the community

24 Where local authorities have established affordable housing as a key corporate priority, they need to work alongside housing associations and developers to provide a clear message about housing need and to involve people in how developments might be designed and delivered. This is already happening very effectively in some areas, where local authorities are actively consulting the community about new developments; holding events where the community can see plans, models and artists' impressions of future housing schemes. Concept statements, for example, supported by the Improvement and Development Agency,¹⁰ provide diagrams and a statement of the future layout; visual images showing the design of the new housing; and what the tenure of the development will be. But this good practice is not widespread. Many local authorities have not taken on the leadership role needed to convince their communities of the need for developing more affordable housing and have done little to allay fears around developing more affordable housing.

The release of surplus land for housing by departments could be aided by more coordination at the national, regional and local level

25 Shortages of land for housing development are a major constraint in increasing the supply of affordable housing, particularly in South East England. The public

sector is in a position to influence the delivery of affordable housing through the disposal of land and buildings that are suitable for housing. This would also help to alleviate recruitment problems in the bodies they are responsible for, such as the National Health Service. Departments often sell land, however, at "best consideration" – the highest obtainable market price – on the basis that this represents the best value in accounting terms.

26 ODPM and HM Treasury have in part addressed this tension by asking English Partnerships to establish the Register of Surplus Public Sector Land following the publication of the Sustainable Communities Plan in 2003. The requirement on central government bodies to place surplus sites on the register has now been incorporated into Government Accounting. Government departments are also now required to give 40 days notice to other central departments prior to disposing of surplus land. In their recent announcement on extending home ownership, ODPM and HM Treasury said that English Partnerships would be reviewing the 700 surplus public sector sites currently on the register to assess their potential to deliver more affordable housing. English Partnerships is currently exploring ways to expand the Register to include local authorities, the Housing Corporation and the Regional Development Agencies. More could be done, however, to ensure that surplus public sector land that has value for other public sector objectives is transferred effectively to other agencies.

Making the delivery chain more efficient

27 The challenge for the delivery chain is how to gear up delivery of new dwellings to meet the need for social rented housing and the demand for home ownership.

28 This can be achieved through two ways: by increasing the speed of delivery by removing blockages, simplifying processes and making sure that roles and responsibilities are clear; and by reducing the unit cost of housing by rationalising the delivery chain. There has been good progress in improving efficiency in recent years with, for example, the introduction of new funding arrangements for housing associations that has encouraged greater partnering and reforms to the planning service that are likely to speed up the processing of planning applications.

29 In **Figure 2**, we set out five key areas where ten efficiencies can be realised.

¹⁰ The Improvement and Development Agency works to improve performance of local authorities through promoting and disseminating good practice. It is part of the Local Government Association.

2 Increasing efficiency in the affordable housing delivery chain

Key area for efficiency

Where the efficiency can be realised

1 Reducing unit costs

Partnering with housing associations and groups of housing associations in the South East reduced total average public subsidy for new dwellings by 22.3 per cent, from £33,609 a unit for 2003-04 to £26,109 for 2004-06.¹¹

- The establishment of the two year funding cycle for the Housing Corporation's £3.3 billion Approved Development Programme has increased partnership working amongst housing associations and is helping to provide more homes more quickly.¹² An extension of three to five years 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.¹³
- The Housing Corporation's recent introduction of direct funding to other bodies such as developers will increase competition in the sector and provide a direct comparator to measure the performance of those housing associations already undertaking developments.
- The Corporation's "lead partner" approach means that it is dealing with a single lead housing association, making it responsible for the performance of its partners, creating an efficiency driver and saving the Housing Corporation's own staff time.

2 Speeding up the delivery chain

Time taken to negotiate Section 106 agreements varies between local authorities from 6 to 67 weeks.

- Lengthy negotiations on Section 106 agreements increases developers' costs, which ultimately fall on the public purse in the form of a higher unit price to be paid for the new housing than would otherwise have been the case. By setting a clear agenda, however, and establishing from the outset with delivery partners what they expect Section 106 sites to deliver in terms of tenure mix (through the production, for example, of clear Supplementary Planning Documents), local authorities can reduce the time taken to negotiate agreements from months to days.
- Better skilled staff in local authorities, who can readily understand the commercial propositions behind developers' proposals also help to accelerate the process.

3 Sharing services

Sharing back office services can reduce housing associations' overheads. Such savings could be reinvested in building more affordable homes or improving services.

- The Housing Corporation's promotion of consortia working by housing associations offers the opportunity for partner associations to realise further efficiency savings by sharing back office functions.
- Increased and more effective collaboration between local authorities' planning and housing functions and sub regional cooperation between neighbouring authorities would make for more efficient use of scarce housing and planning staff.

4 Removing duplication

Local housing needs surveys can cost up to £120 000. Commissioning joint research between local authorities and, thereby, not having to undertake a local housing needs survey achieves significant savings.

- Focusing housing needs research on sub regions would reduce the number of Housing Needs Surveys commissioned and reduce duplication of work between local authorities.
- The clear and more timely issuance of guidance around, for example, the production of the Regional Housing Strategies and Housing Market Assessments would avoid the need for additional work being required by Regional Housing Boards.

5 Making better use of assets

The Ministry of Defence, for example, has disposed of land worth £1.2 billion since 1999, much of it contributing to affordable housing.

- Making surplus government land suitable for housing available to English Partnerships through the Register of Surplus Public Sector Land rather than selling it on the open market enables more housing to be developed more quickly.

11 Housing Corporation, *South East Allocation Statement for 2004-06*.

12 *Investment Partnering. An Evaluation of the Pilot Programme*. Chartered Institute of Housing and Tribal HCH June 2005.

13 *Investment Partnering. An Evaluation of the Pilot Programme*. Chartered Institute of Housing and Tribal HCH June 2005.



RECOMMENDATIONS

For Government Departments and national agencies

We recommend that:

- ODPM develops guidance setting out a clear definition of local authorities' strategic enabling role in relation to housing, drawn from evidence about how the best performing authorities are behaving.
- ODPM clarifies the role of Government Offices to improve links between the national, regional and local levels so that guidance and decisions are made consistently and local authorities make more use of their expertise and advice.
- Public sector land that is being sold by a Government department that may be used for another public sector objective (such as affordable housing) should be transferred effectively. To help ensure that this is the case, when new land is entered on the Register of Surplus Public Sector Land this should trigger a process of notification, by English Partnerships, to the relevant regional and local offices such as the Housing Corporation, the Regional Development Agency, local authorities and other relevant bodies.

- ODPM, HM Treasury and the Housing Corporation should extend funding to a three to five year funding cycle as an incentive for those bodies in receipt of social housing grant that demonstrate good financial stewardship and performance in developing new housing. Such funding should be allocated on a reducing scale to encourage sustained efficiency gains throughout the supply chain.
- The Housing Corporation should build upon its recent initiatives to channel resources into the best performing housing associations by requiring them to demonstrate efficiency savings through the increased sharing of services by development consortia.

For Regional bodies

We recommend that:

- Government Offices encourage local authorities to enter into Local Public Service Agreements whereby financial incentives are available for initiatives that bring about co-ordinated action and sharing of staff between local authorities, such as around the preparation of Local Development Frameworks and Local Housing Need Assessments.
- In helping to establish sub regional working arrangements, the Government Offices are explicit about which matters should be dealt with in sub regional housing strategies and which in local housing strategies.



- Where effective sub regional partnerships and strategies do exist, Government Offices, in conjunction with ODPM, should clarify that there is no need to produce a local housing strategy so long as the relevant local authorities demonstrate their commitment to the sub regional housing strategy.
- Government Offices should act as champions for the good practice on Section 106 set out in *Circular 05/2005, Planning Obligations* to improve local authorities' performance and build a greater degree of consistency.
- Local authorities should devise ways to better integrate planning and housing functions in order to make more effective use of existing staff, set consistent policy on affordable housing across the authority and provide a single point of contact with planning applicants.
- Some authorities, particularly smaller districts, should explore the scope for increased joint working between local authorities to pursue further sharing of resources, such as the joint commissioning of research to determine housing need, and the production of joint Supplementary Planning Documents, and support services such as training in housing and planning. For particularly large applications (over 500 units) local authorities in the South East, London and the East should also make use of the Advisory Team for Large Applications based within English Partnerships. ODPM can support this activity in any future guidance that is issued to local authorities.

For local bodies

We recommend that:

- Where local authorities have already established affordable housing as a key corporate priority, they should work with their local communities to understand their concerns about new housing and to involve them in the design and planning of new developments. This will build on the community involvement objectives in the new planning system.
- To overcome confusion and delay around negotiation of planning approval local authorities should, as a first step, put in place frameworks or concordats with local housing associations and developers, setting out clearly their expectations of them and using approaches such as "concept statements" to facilitate good forward thinking.

PART ONE

Increasing the availability of affordable housing



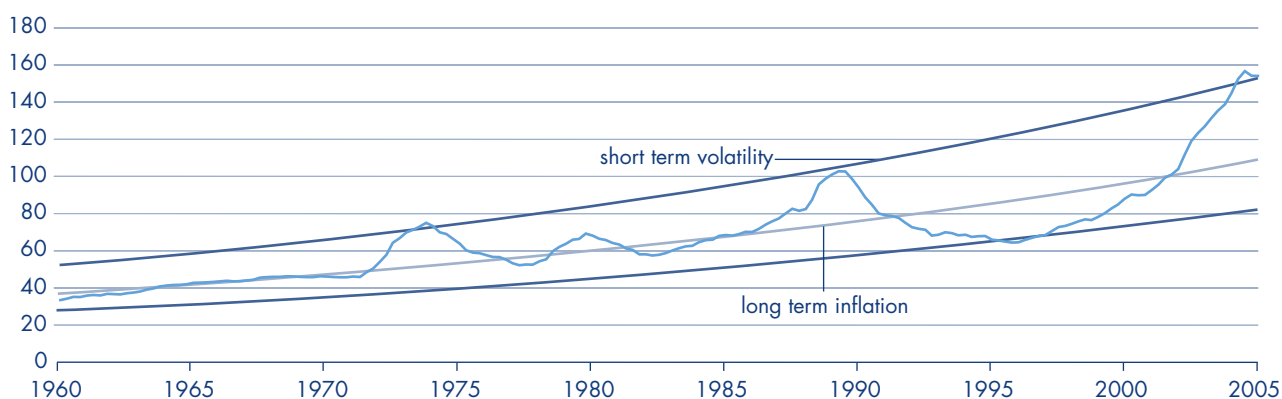
1.1 There is a shortage of affordable housing in many areas of England. Sustained inflation in the cost of housing has made it increasingly difficult for people on moderate incomes to buy or rent a house on the open market. In 2002, only 37 per cent of new households could afford to buy a property compared to 46 per cent in the late 1980s. On the basis of current demographic trends, the Office of the Deputy Prime Minister predicts that the demand for housing will continue to increase, with an estimated additional 189,000 households being formed between

2001 and 2021. The rate of construction of new houses has steadily declined since the 1960s, falling to in 2003 its lowest level since the Second World War, illustrating a substantial mismatch between supply and demand. The government's delivery plan for PSA5 focuses on long-term supply issues, in order to reduce house price inflation but it does not attempt to address short term volatility in prices because there is little that it can do to influence this (**Figure 3**).

3 The housing market has suffered short term volatility and long term inflation

The graph plots rises and falls in house prices against long-term price inflation. The bands above and below the inflation curve indicate highs and lows in house price fluctuation.

Real average UK house prices 1960-2005 (£000s)



Source: Nationwide

1.2 The declining affordability of open market housing has been accompanied by increasing demands on local authorities and social housing providers. Since the mid-1990s, the number of households accepted by local authorities as homeless has increased from around 25,000 per quarter in 1997 to a peak of 35,000 a quarter in mid-2003, before falling back to its former rate more recently. Over the same period, the number of households in temporary accommodation¹⁴ has steadily risen from around 40,000 to around 100,000,¹⁵ as the rate of construction of affordable homes underwent a decline in parallel with open market housing.

The Office of the Deputy Prime Minister has responded by introducing a new Public Service Agreement target

1.3 Faced with this significant shortfall in housing in the South of England and problems of market failure in the North, in 2002 the Office of the Deputy Prime Minister (ODPM), the government department responsible for local and regional government and for housing policy, introduced a new Public Service Agreement target (PSA 5) for housing markets. In the 2004 Spending Review, the definition of PSA 5 was extended to include improving the affordability of housing.

ODPM's Public Service Agreement 5 on housing markets:

Achieve a better balance between housing availability and the demand for housing, including improving affordability, in all English regions while protecting valuable countryside around our towns, cities and in the green belt and the sustainability of towns and cities.

1.4 Public Service Agreement 5 is more wide-ranging and ambitious than previous housing PSA targets, which focussed, for example, on reclaiming brown field land, reducing rough sleeping and improving the condition of social housing. The target covers a wide scope of activity aimed at balancing housing markets in areas of both high and low demand. In areas of high demand, such as London, the South East and the South West, the pressure for housing is outstripping supply, driving up house prices. Conversely, significant pockets of the

North and the Midlands have suffered a collapse in their housing markets. Such market failure can result in a cycle of decline, with people trapped in poor housing in areas associated with high crime and unemployment.

Public Service Agreement targets (PSAs) are agreed between government departments and HM Treasury. They are intended to establish clear priorities and direction through the use of outcome focussed targets. They include value for money targets and a statement of who is responsible for their delivery. PSA targets are intended to help Departments to focus on delivery and work effectively with the bodies they need to get things done. They form an integral part of the spending plans set out in Spending Reviews.

1.5 The wide scope of the target means that there is no single measure of performance. For "high demand areas", those where affordable housing is in short supply, the Office of the Deputy Prime Minister uses three indicators of performance against the target:

- a numbers of statutory homeless households with children in temporary accommodation;
- b the ratio of lower quartile house prices to lower quartile earnings in the regions characterised by high demand; and
- c annual net additions to the dwelling stock in the South East, London and East of England Government Office regions.¹⁶

1.6 Progress in meeting Public Service Agreement target 5 will be reported in ODPM's 2005 *Autumn Performance Report*. In 2004, ODPM reported that progress on the target was "on course" for delivery (**Figure 4**).

1.7 ODPM set the Housing Corporation a target for 2004-05 of 27,000 homes for rent or low-cost home ownership, including those for key workers. This target was exceeded with the Housing Corporation achieving 28,756 completions.¹⁷ ODPM established, in the 2004 Spending Review, targets for the delivery of social rented housing over the three years to 2007-08 and in addition it announced in 2005 targets for completion of funded low-cost home ownership schemes to help over 80,000 people into home ownership by 2010.

¹⁴ The majority of people living in temporary accommodation at the beginning of 2005 were housed in self-contained short term private sector leased dwellings or social housing which has been designated as temporary accommodation.

¹⁵ Homelessness and temporary accommodation figures from ODPM statistical release June 2005.

¹⁶ ODPM, 2005 *Annual Report*.

¹⁷ ODPM, 2005 *Annual Report*.

4 Performance against ODPM's Public Service Agreement target 5 in 2004

Indicator

Statutory homeless families with children in temporary accommodation

Progress

The use of temporary accommodation was continuing to increase in 2004, with existing social housing constraints in high demand areas reducing the settled housing options available to move on to. ODPM expect the number of families in temporary accommodation to continue to grow in the short-term. But the implementation of new policies on prevention and increased social housing investment through Spending Review 2004 is expected to reduce the numbers of homeless households with children in temporary accommodation starting to fall in 2006-07, reducing by between 10,000 and 18,000 in comparison with current levels by 2016.

Ratio of lower quartile house prices to earnings in high demand regions

There has been an upward trend in this ratio but the rate of increase has slowed. This is due to short term fluctuations in house prices and the economy. ODPM expects the affordability ratio to stabilise by 2016 as a result of the Sustainable Communities Plan bringing additional homes onto the market. In the light of this, the Government is considering introducing a new trajectory that reflects the Government's aims for improving affordability.

Net additions to the dwelling stock in the South East, London and the East

ODPM has a target to provide about 1.1 million new homes within the wider South-East by 2016. ODPM's trajectory assumes extra growth in the four growth areas, the bulk of which will be delivered in the following four years up to 2015-16. Although recent figures show an up-turn in new housing supply, this indicator is highly vulnerable to market forces and there is volatility in the market. Compared with 2003-04, however, ODPM has now made good previous shortfalls in the trajectory.

Source: Office of the Deputy Prime Minister, Autumn Performance Report, 2004

1.8 Large increases are planned for the number of houses to be built in high demand areas in the South of England, along with the creation of new communities called growth areas, for example Milton Keynes and the Thames Gateway area to the east of London. The objective is to deliver 1.1 million new homes in the South East by 2016. In low demand areas, the challenge is to rejuvenate areas of market failure with a £1.2 billion investment to improve the standards of homes and neighbourhoods.

1.9 These activities and the Public Service Agreement target are part of the wider Government agenda of building sustainable communities.¹⁸ The Sustainable Communities Plan sets out to improve the places where people live through a wide ranging set of programmes that includes matching demand with housing that is affordable and better designed, greater public participation, improved transport services and more community and voluntary services to create "vibrant, harmonious and inclusive communities".

What is a sustainable community?

ODPM has defined sustainable communities as "places where people want to live and will continue to want to live".¹⁹

John Egan, in his review of skills for Sustainable Communities, has built on this definition: "Sustainable communities meet the diverse needs of existing and future residents, their children and other users, contribute to a high quality of life and provide opportunity and choice. They achieve this in ways that make effective use of natural resources, enhance the environment, promote social cohesion and inclusion and strengthen economic prosperity."

¹⁸ Sustainable communities: building for the future, ODPM, February 2003.

¹⁹ Sustainable communities: building for the future, ODPM, February 2003.

1.10 There is no single accepted definition of affordable housing. For the purposes of our study, we have defined affordable housing as housing where there is an intervention in the market through public subsidy (Figure 5). We include social rented housing and “intermediate housing”, that is housing schemes such as shared ownership schemes, which are designed to help people enter home ownership.

1.11 At the same time, the product range for affordable housing has developed considerably in the form of shared ownership arrangements (Figure 5), as has the funding basis. Instead of local authorities financing and building their own stock, housing associations secure grants from the Housing Corporation as well as raising debt finance on the open market. They have for the past 17 years been the principle supplier of new affordable housing and they, in turn, commission private builders and developers to construct new housing.

5 What is affordable housing?

The demand for affordable housing is diverse. It includes homeless people, others in severe financial difficulties living in temporary accommodation, young families still living with parents, key workers struggling to find a place to live and young professionals struggling to enter home ownership. The challenge for the agencies and organisations involved is to strike the right balance between providing, on the one hand, social rented properties and on the other intermediate housing, and making sure that people access the type of housing that suits them best.

There are two main types of affordable housing:

- **Social rented housing:** This is housing that is supplied by either local authorities or housing associations and is provided to those in most need at below market rent. Social rented housing is managed by local authorities, Arm’s Length Management Organisations on the behalf of authorities or housing associations. Newly built social rented housing is almost always managed by housing associations. Housing associations received grants from the Housing Corporation under a two year £3.3 billion programme of funding called the Approved Development Programme for schemes to start in 2004-06. The new National Affordable Housing Programme for 2006-08 will allocate grant to schemes with a value of around £3.9 billion.
- **Intermediate housing:** This is housing designed to help people enter home ownership. This includes the conversion of existing tenancies through various part or full purchase schemes. Intermediate housing includes:
 - Shared Ownership, where the occupier owns a share of the property and pays a rent or a charge on the remainder. Over time, the occupier may buy further proportions of the property, possibly eventually owning it outright.
 - Homebuy equity loan scheme under which people select a property on the open market and receive an equity loan from a housing association equivalent to 25 per cent of the purchase price. The loan is repaid at 25 per cent of the value of the property on resale.
 - Schemes that allow tenants to buy their existing rented home at a discount to market value (for example Right to Buy, Right to Acquire).
 - New HomeBuy, from April 2006, which will provide opportunities for key workers, social tenants, people on housing waiting lists and other priority first time buyers to purchase a home through equity sharing arrangements either on the open market with an equity loan or a share in a new build property. Social HomeBuy will enable social tenants to buy a share of their existing local authority or housing association home.
 - Key worker housing – a scheme aimed at a client group, rather than a tenure, this is provision of subsidised rented (sometimes called intermediate rent), owner-occupied or shared ownership housing which is reserved for designated public sector key workers.

Registered Social Landlord

This is the technical name for housing associations that are registered with the Housing Corporation. Housing associations are run as businesses but they do not trade for profit. Any surplus is retained by the organisation to maintain existing homes and to help finance new ones.

Arm’s Length Management Organisation

An organisation that manages social rented housing at arm’s length from the local authority. The homes are still ultimately owned by the local authority. To set up an arm’s length management organisation, councils must show that the idea is backed by a majority of tenants and obtain Secretary of State approval.

The delivery chain for affordable housing is large and complex

1.12 Traditionally, local authorities built and owned housing for rent. Over the last twenty years, however, that role has changed significantly with tenants being given the right to buy their own council houses and large scale transfers of housing stock from local authorities to housing associations. **Figure 6 overleaf** shows how local authorities' role in delivering affordable housing has changed.

1.13 Against this backdrop, the delivery chain for affordable housing involves a complex set of relationships encompassing five tiers of administration and as many as ten organisations involved at a local level in delivering new housing (**Figure 7**).

1.14 At a national level, in addition to the Office of the Deputy Prime Minister, the principal organisations involved in the delivery of affordable housing are the Housing Corporation, responsible for funding new public housing development and regulating housing associations, and English Partnerships, involved in the acquisition and use of land, together with other departments, such as the Department of Health and the Ministry of Defence, that may have land to dispose of that is surplus to departmental requirements. The Department for Environment, Food and Rural Affairs also has a role to play in ensuring that people living in rural areas have access to housing.

Regional Spatial Strategies

Following the Planning and Compulsory Purchase Act (2004) the planning system has been reformed and there are now two main levels of planning in England. Firstly each Regional Planning Body is required to prepare a Regional Spatial Strategy. This details issues such as how many homes are required to meet the future needs of people in the region, or whether the region needs a new major shopping centre or an airport. Regional Housing Strategies are aligned with the relevant Regional Spatial Strategy. Secondly each local planning authority is preparing a Local Development Framework that sets out how the local area may change over the next few years. The Local Development Framework will supersede the current local development plans.

1.15 Below the national level, within regions and localities there are four key parts of the delivery chain that need to work closely together if there is to be clarity and coherence around guidance, planning and local delivery arrangements. These are the relevant Government Office, the Regional Housing Board (shortly to merge with Regional Planning Bodies), the Housing Corporation and the relevant local authorities.

1.16 As well as communicating and interpreting national guidance, Government Offices currently chair Regional Housing Boards, the role of which is to develop a Regional Housing Strategy. This determines the number of social rented and intermediate dwellings to be provided for the funding allocated and, in so doing, has to take into account wider planning issues such as the capacity of local infrastructure to cope with increased housing generally. This would include, for example, water resources, health and school facilities, roads and other infrastructure – as defined in Regional Spatial Strategies. Regional Housing Strategies also consider funding for decent homes and other initiatives such as provision for gypsies and travellers, supported housing and funding for private sector renewal.

1.17 The Regional Housing Boards also need to take into account the views of the local authorities as set out in their individual local housing strategies, which reflect local housing needs, and would include an assessment of the number, type, and size of dwellings needed across the locality. The Regional Development Agencies, as members of the Regional Housing Boards, play an important role in setting the economic strategy for the region and working with other bodies to ensure that their strategy complements the housing and planning approaches adopted for the region.

1.18 The Housing Corporation through its regional offices funds affordable housing schemes on the basis of business plan proposals from housing associations and developers. The Corporation also sits on Regional Housing Boards and, in making decisions on funding for specific schemes, takes into account how well these fit with the needs of the overall Regional Housing Strategy, and whether the scheme in question has the support of the relevant local authority (in respect of meeting its local housing strategy and development plan).

6 Changes to the housing delivery chain since 1988

Date	Change	Significance to local authorities
1988	Housing Act: Local authorities begin significant transfers of housing stock to housing associations.	Local authorities cease to undertake large scale new build programmes and must work with housing associations to meet local housing needs.
1990-91	Town and Country Planning Act 1990 (as substituted by the 1991 Planning and Compensation Act): Gave local authorities powers to negotiate community benefits, as part of the planning process (Section 106 agreements). In the last five years, this provision has been increasingly used to provide affordable housing.	Local authorities must now be skilled in negotiation to secure the most appropriate agreements with developers.
1999	Local Government Act 1999	Introduced Best Value requiring local authorities to demonstrate continuous service improvements, benchmarked against similar authorities and inspected by Audit Commission inspectors.
1999	Launch of the Audit Commission Housing Inspectorate .	Local authorities are inspected on key housing services including their strategic enabling role. This has been an important driver for improving local authorities' performance.
2000	Local Government Act 2000: Introduced a 'community leadership role' for local authorities by giving them the powers to promote the economic, social and environmental well being of their area.	Local authorities have a clear role as community leaders reinforcing their strategic enabling role in housing.
2003	The Sustainable Communities Plan: Established Regional Housing Boards to produce Regional Housing Strategies with a five year horizon. Housing Corporation funding to be distributed in line with Regional Housing Strategies.	Local authorities need to engage with Regional Housing Boards to communicate the needs for their area.
2003	Local Government Act 2003	Local authorities are statutorily obliged to produce a local housing strategy which are annually updated plans taking a wide ranging strategic view of housing needs in their area (rented and owner occupied).
2003-04	Local Authority Social Housing Grant is abolished	Up until 2003 local authorities could use Local Authority Social Housing Grant to fund housing associations locally. This was abolished because it was found to be inefficient and to unfairly favour debt free local authorities. Now local authorities no longer can use funding as a lever for influencing development. Local authorities must now work with Regional Housing Boards and the Housing Corporation to secure allocations for their area.
2004	Planning and Compulsory Purchase Act 2004: Introduced a range of reforms to the planning system including the replacement of development plans with Local Development Frameworks and a new responsibility for authorities to produce a 'Statement of Community Involvement'.	Local Development Frameworks are intended to provide a more flexible system allowing individual planning documents to be updated in response to changing local circumstances. This should be helpful in relation to housing where market conditions can change relatively rapidly.
2005	Proposed changes: 'Consultation on Influencing the Size, Type and Affordability of Housing' (July 2003), and 'Planning for Mixed Communities' (Jan 2004), were considered for the partial revision of Planning Policy Guidance note 3 (PPG3). Proposed policy would have worked by influencing the size and type of affordable housing. These proposed changes were never adopted as final PPG3 policy. Proposed changes to the planning system that include the introduction of the new Housing Market Assessments which will supplement housing needs surveys.	To improve the assessment of local housing needs many local authorities are already starting to focus on housing markets rather than limit analysis to their administrative boundary. The aim of this new approach is to provide a more robust evidence base for local housing strategies and lead to greater joint working.

Source: National Audit Office and Audit Commission examination

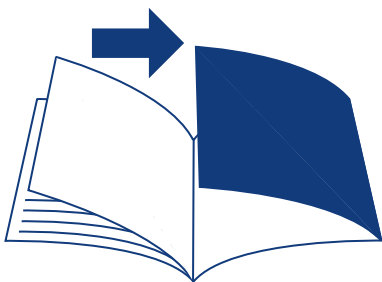


Figure 7 overleaf

1.19 Local authorities have a range of roles in the delivery chain including drawing up the local housing strategy and the local development framework, managing existing stock (where appropriate) and working with housing associations and developers to provide new affordable housing.

Housing associations

There are over 2,000 housing associations in England, providing around 2 million affordable homes and housing some 5 million people. In 2004, the housing association sector was worth some £63.2 billion.

Some housing associations were founded centuries ago, but many trace their origins to the 1960s and over the last decade many new associations have been formed to manage and develop homes transferred to them by local authorities. The 553 largest housing associations are responsible for 95 per cent of the sector's activity.

1.20 In addition to these administrative tiers, there are also the housing associations, which own and manage social rented properties, hold an equity stake in shared ownership properties and commission the development of new housing. The largest of these have anything up to 45,000 properties and are major national enterprises, with the capacity to undertake large new developments of several thousand homes.

1.21 Lastly, there are the many hundreds of developers across the country which actually construct the homes. These range from small family businesses to nationally known construction firms. The Home Builders Federation directory lists 1,500 leading home builders in the UK but there will be many more smaller operations and local authorities may have to deal with over 50 developers operating in their area.

1.22 Added to this complex delivery chain is an array of guidance, strategies, frameworks and plans at national, regional and local level that need to be aligned in order for delivery to be effective. By way of illustration, there are 27 'preferred partner' housing associations in the west London sub region and **Figure 8** outlines the various relationships that a typical local authority has to manage. In some cases, geographic differences (for example between local authority boundaries and housing markets) add a further level of complexity.

ODPM uses public funding and other mechanisms to increase the supply of affordable housing

ODPM plans to spend over £3 billion on increasing the supply of affordable housing

1.23 Over the period 2004-06, large amounts of public money amounting to around £3.3 billion are to be spent on delivering affordable housing (**Figure 9 on page 28**). This funding is allocated to housing associations on the strength of business cases for developing and delivering affordable housing. Housing associations, in turn, use the money to pay private developers to build new homes.

1.24 While the flow of funding from the Housing Corporation is relatively straightforward in principle, the complexity of the delivery chain means that in practice there are many different influences on how it is spent. For example, Regional Housing Boards have considerable influence over how funding is allocated across different parts of their region and this, in turn, affects the grant awarding decisions of the Housing Corporation.

Local authorities and others in the delivery chain use other mechanisms to increase the supply of affordable housing

1.25 Beyond immediate funding there are four other key mechanisms for increasing the supply of affordable housing:

- a** **Releasing land for housing through development plans.** Local authority planning departments release land for housing by granting planning permission. The priority is to build on brown field sites (previously developed land) and in urban areas so that the environment is protected.
- b** **Using the planning system to secure contributions of affordable housing.** Under Section 106 agreements, local authorities can require developers to include in new schemes an element of social and intermediate housing. Local authority guidance, if in place, and the individual agreements will specify the percentage of affordable housing that will form part of the development and the mix of intermediate and social rented housing. Once built, housing associations will take over management of the affordable housing.

9 Resources available for improving the availability of affordable housing in 2004-06

Programme	Allocation 2004-06
National Affordable Housing Programme (formerly the Approved Development Programme)	
A two year programme operated by the Housing Corporation and delivered by consortia of housing associations to provide social and intermediate housing. Recently, private developers have been invited to bid for grants for the 2006-08 funding round.	
This is comprised of four key elements:	
■ Activities to add to the stock of properties for social rent	£2,232 million
■ Activities to increase the number of affordable houses for purchase or for low-cost home ownership schemes (excluding key worker schemes)	£410 million
■ Activities to increase availability of affordable housing for key workers for purchase.	£494 million
■ Activities to increase availability of affordable housing for intermediate rent (including those for key workers)	£124 million
Total allocation:	£3.3 billion over period

Source: Housing Corporation Investment Bulletin 2004

The delivery chain for affordable housing is under pressure to become more efficient

1.26 The need for efficiency in delivery has been given greater impetus by the publication of the Gershon Review in June 2004 and the Government's Efficiency Programme to secure £21.5 billion of annual efficiency gains by 2007-08 across all public expenditure.

1.27 For the Office of the Deputy Prime Minister, this target translates into a social housing efficiency gain of £835 million by 2007-08, of which £355 million will come from housing associations. This includes gains from across all aspects of affordable housing (including new build and the better management of existing stock). The Department and the Housing Corporation have proposed four ways in which they aim to achieve this:

- partnering arrangements between the Housing Corporation and housing associations. In recent years, the Housing Corporation has been developing lead partnership arrangements with 70 housing association partnerships, and intends that 80 per cent of its funding is to be allocated through these arrangements;
- payment of National Affordable Housing Programme funding directly to property developers as well as to housing associations, to encourage increased efficiency through greater competition;
- championing of good practice in construction procurement; and,
- working with the National Audit Office to design a Value for Grant Comparator – a system to assess how well different housing associations use National Affordable Housing Programme grants.

1.28 In respect of developing new housing alone, the Housing Corporation estimates efficiency savings to be £130 million in 2005-06, and respectively £140 million and £160 million in 2006-07 and 2007-08, through a range of efficiency gains in the system including housing associations' better partnership and contracting arrangements with the private sector. The aim is to redirect the savings into the provision of more homes and front-line services. To achieve the targets set by the Gershon review, the Housing Corporation is measuring and monitoring housing association performance, expecting them to make better use of their assets, employing modern methods of construction and building efficient supply chains, as well as delivering savings in the procurement of capital works, management and maintenance and commodities. The Audit Commission has responsibility for checking that housing associations are achieving value for money in the delivery of their services.

10 How mechanisms for delivering affordable housing operate

Mechanism	How it operates in practice	Risks to delivery	External assessment
Approved Development Programme (renamed the National Affordable Housing Programme for 2006-08)	Housing associations bid for funds from the Housing Corporation which looks increasingly to deal with 'lead' housing associations representing a consortium of housing associations. Bids will typically include housing for both rent and for sale or shared ownership. From 2005, other bodies, including developers will be eligible to bid for funds.	Housing associations are increasingly delivering through larger, more complex sites, in partnership with developers. This exposes delivery of social housing to volatility.	The Housing Corporation monitors annual regional targets for the numbers of houses completed. Housing association business cases are assessed against a range of performance criteria, such as past track record and financial strength. The Audit Commission inspects the services that housing associations provide to tenants.
Releasing land for housing through development plans	Local authority planning departments release land for housing by granting planning permission. The priority is to build on brown field sites (previously developed land) and in urban areas so that the environment is protected.	Local Planning Authorities may not maximise delivery of affordable housing through the planning system in the light of local demand and housing supply.	Development plans are subject to an inquiry by the Planning Inspectorate which checks whether the plan complies with the Regional Spatial Strategy, including housing allocations. Local planning authorities must submit annual monitoring reports to the Secretary of State detailing housing completions, including affordable housing completions, and comparing these with development plan allocations. The Audit Commission also looks at progress against allocations when it inspects local authorities' planning services.
Using the planning system to encourage the private sector to build social and intermediate homes alongside those for sale at market value	Under Section 106 agreements, local authorities can require new developments to contain an element of social and intermediate housing. Local authority guidance, if in place, and the individual agreements will specify the percentage of affordable housing that will form part of the development and the mix of intermediate and social rented housing. Once built, housing associations will take over management of the affordable housing.	Section 106 housing will form only the minority part of any development and may not generate the volume of affordable housing needed in a high housing cost area. The housing built may not match local housing need; there may be a shortage, in particular, of social rented housing, since this is the least attractive option for developers; having the potential to make the private part of any development less attractive to purchasers and thus reducing its value to the developer.	The Audit Commission will look at local authorities' use of Section 106 to mitigate the effects of development and provide community benefit, including affordable housing, when it inspects planning and housing services.

10 How mechanisms for delivering affordable housing operate *continued*

Mechanism	How it operates in practice	Risks to delivery	External assessment
Selling surplus public sector land for housing	Government departments and agencies are selling surplus land and property as part of the current Efficiency Review. Where it is appropriate for housing development, land could be sold for affordable housing to English Partnerships, the government regeneration agency, through the Register of Surplus Public Sector Land process.	Valuable land that could be used for affordable housing may be lost to other development programmes due to competing priorities between government departments and the pressure on departments to realise efficiency savings.	Government departments' efficiency plans for disposal of assets.
Developing new affordable housing products	<p>The Office of the Deputy Prime Minister has consulted on the development of a range of low cost home ownership products under the "HomeBuy" banner. This includes proposals to allow existing social tenants to buy a share in their rented properties at a discount (Social HomeBuy) and opportunities for first time buyers to buy a share of a home available on the open market (Open Market HomeBuy).</p> <p>The Office of the Deputy Prime Minister is aiming to drive down costs of affordable housing by running a competition for developers to produce a "£60,000 home". Greater use of modern methods of construction is being encouraged to drive down construction costs so that housing can sold for less.²⁰</p>	<p>It is not yet apparent whether developers will produce a suitable product – at required cost and quality – in response to the competition.</p> <p>It is also not yet clear whether modern methods of construction will be more efficient than traditional methods.</p> <p>Developers themselves are wary of new forms of housing in case of warranty claims.</p>	

Source: National Audit Office and Audit Commission examination

What our analysis sets out to achieve

1.29 This study investigates the efficiency and effectiveness of the delivery chain for increasing the supply of affordable housing through the delivery of new affordable housing and considers ways in which the delivery chain can be strengthened.

1.30 We have focused on a particular strand of the target – improving the delivery of new affordable housing in high demand areas. The study excludes, however, those areas, such as Milton Keynes and the Thames Gateway, which are designated as Growth Areas and have separate and new special delivery arrangements.²¹

20 The National Audit Office published a report in Autumn 2005 giving practical advice on how to reduce time and cost in building homes while maintaining quality.

21 ODPM has designated four areas – Thames Gateway, Milton Keynes/ South Midlands, London-Stansted-Cambridge and Ashford – as Growth Areas where radical action is needed to address the shortfall in new homes. Special delivery vehicles with increased planning powers have been created in the Growth Areas to speed up planning processes and coordinate development.

1.31 The study tracks activity across the delivery chain at the national, regional and local level. The joint approach enables the National Audit Office and Audit Commission, through their different perspectives and by combining knowledge and expertise, to take a unique look at the delivery chain throughout its length; from the challenges faced by ODPM through to the actions being taken by,

or now required of, the front-line deliverers who have to make this target a reality. We have examined the contribution that different agencies and organisations make towards delivering more affordable housing, considered areas where there are particular risks to efficient delivery, and identified good practice.

Figure 11 sets out how we approached the work.

11 How we approached the work

Our report draws on evidence from different levels of the delivery chain:

National level

- We held meetings with and conducted interviews of directors and managers at ODPM, HM Treasury, the Prime Ministers' Delivery Unit, English Partnerships and the Housing Corporation. We also interviewed national trade bodies and organisations, including the Home Builders Federation, the Local Government Association and the National Housing Federation.
- We analysed Housing Corporation data on housing association performance and the Audit Commission Comprehensive Performance Assessments of local authority performance on balancing housing markets.

Regional level

- We interviewed directors responsible for housing in Government Offices and members of Regional Housing Boards in the three regions included in the study.
- We analysed the first and second rounds of Regional Housing Strategies.

Local level

- Six local authorities in the three high demand regions of London, the South West and the South East were selected as case study areas. The South West was chosen because it has particular problems associated with high rural house prices and low wages. The local authorities in the South West were Plymouth and South Hams; in the South East, Arun and Chichester, and in London, Hammersmith and Fulham, and Merton. We conducted over 50 interviews in our case study areas with local authorities, housing associations, and developers. In local authorities, we interviewed the Chief Executive and/or the Head of Housing Strategy or the Head of Housing Management if the local authority still owned social housing stock, the Head of Planning, and in most cases, the Lead Members for housing and planning. For

housing associations, we interviewed senior managers in the development department. For developers operating in the local area, we interviewed a director or senior manager.

- A telephone survey was carried out of Housing Directors of 50 local authorities in the London, South West and South East regions, a one-third sample of local authorities that did not form part of the case studies or the designated growth areas.
- Nine focus groups, comprising in total 57 voluntary and community sector housing advice workers, were held to examine how local authorities and their partners were addressing the demand for social and intermediate housing in their areas.
- We ran 2 discussion sessions - in Hampshire and Devon - with housing strategic and enabling officers at the sub regional level.

Whole delivery chain

- At the end of our fieldwork, we carried out two whole delivery chain workshops (one in London and one in Exeter) with 48 representatives from national, regional and local levels of the delivery chain - the Prime Minister's Delivery Unit, the Housing Corporation, the Local Government Association, developers, Government Offices, Regional Development Agencies, English Partnerships, contractors for Housing Needs Surveys, local authorities and housing associations.

Interviews at the national and the regional level were carried out by the members of the National Audit Office and the Audit Commission project team. Interviews at the local level were carried out by the National Audit Office and the Audit Commission project team and by PricewaterhouseCoopers, who also organised the whole delivery chain workshops. Focus groups of housing advice workers were carried out by MORI, who also carried out the telephone survey. Analysis of Regional Housing Strategies was carried out by the National Audit Office and PricewaterhouseCoopers.

Further details of the methodology are in Appendix 1.

In Part 2 of the report, we assess the degree to which activities are co-ordinated nationally and regionally to enable resources to reach frontline housing associations and developers in a cost effective way.

PART TWO

How resources for affordable housing reach the front line



2.1 In this part of the report, we assess the degree to which activities are co-ordinated nationally and regionally to enable resources to reach frontline housing associations and developers cost effectively. Then in Part 3 we look at how those at the front line go about using their funding and powers to deliver the growth in affordable housing.

2.2 Unlike many other delivery chains, funding for new affordable housing is relatively straightforward, with the Housing Corporation making payments to housing associations and (from early 2006) to other bodies such as developers on the strength of their development capacity, financial security, quality of services and business plan proposals. They, in turn, translate the funding into the new housing.

2.3 Yet surrounding these allocations is a framework of planning and housing bodies that has a significant influence over whether or not the supply of new housing is increased, and delivered cost effectively. For this framework to work effectively, there are five key elements that have to be in place, and in the remainder of Part 2 we assess the delivery chain for affordable housing against these criteria:

- a** The presence of clear targets and performance measures to drive delivery
- b** Funding is conditional on encouraging and improving cost effectiveness
- c** Demand for housing is determined on a consistent basis
- d** Policies and guidance are clear and well understood
- e** Organisations within the framework work together to common aims

The presence of clear targets and performance measures to drive delivery

KEY FIELDWORK FINDINGS

- The Public Service Agreement target has raised the profile of the need for more housing development. A target was set by ODPM for the Housing Corporation in 2004-05 to provide an additional 27,000 homes for rent or low-cost home ownership, including those for key workers. The Housing Corporation achieved 28,756 completions in 2004-05.
- Local authorities in high demand areas have recognised the need for more affordable housing and 92 per cent of the 50 local authorities in our survey (a one-third sample of local authorities in London, the South East and the South West, excluding designated growth areas) had established it as one of around five corporate priorities.
- Only 2 per cent of the 50 local authorities in our survey expected to reach their social housing target and only 4 per cent expected to reach their intermediate housing target over the next three years, with lack of available sites and funding being cited as the main barriers.

Source: National Audit Office and Audit Commission examination

2.4 Housing needs and housing markets vary across England. The Public Service Agreement target therefore includes diverse programmes aimed at tackling different types of problems. As a consequence, the wording of the target is general. While there are incentives in place such as the Planning Delivery Grant and the Community Infrastructure Fund there are less specific incentives or sanctions in place to drive delivery than in other Public

Service Agreements. In contrast, for example, the “Decent Homes Standard” target provides a very clear and simple target with some linked financial incentives. The lack of clarity around PSA 5 creates a challenge to communicate the priority across the many different agencies and organisations involved in delivering affordable housing.

2.5 For high demand areas where affordable housing is in short supply, the Office of the Deputy Prime Minister uses three indicators of performance against the target:

- a** numbers of statutory homeless households with children in temporary accommodation;
- b** the ratio of lower quartile house prices to lower quartile earnings in the regions characterised by high demand; and
- c** annual net additions to the dwelling stock in the South East, London and East Government Office regions.²²

2.6 We found that these measures were not widely known about or understood across the delivery chain. Local authorities where we conducted fieldwork, see their work in improving affordable housing as a response to local need rather than responding to a centrally driven target. For most local authorities in high demand areas, access to affordable housing is the top concern for the community. A recent survey by MORI shows that it is an important concern nationally, ranking at number two after crime as the most important factor in making somewhere a good place to live.²³

2.7 Despite the lack of knowledge of the target across the delivery chain there are signs, however, that it is beginning to create more focussed action to tackle shortages in affordable housing. District councils have generally responded, for example, to the Balancing Housing Markets Assessment (part of the Audit Commission’s Comprehensive Performance Assessment) by increasing the prominence of affordable housing in their corporate priorities. Ninety two per cent of the one-third sample of local authorities in London, the South East and the South West surveyed for this study have made improving the availability and affordability of housing a corporate priority and, of these, 56 per cent have done so within the last three years.²⁴

2.8 South Hams District Council, for example, awarded “Beacon Council” status in 2004, established affordable housing as the key corporate priority in 2002. Previously, the Authority’s highest priority had been protecting the environment, a key asset to the local area. Councillors and officers changed priorities in response to the critical shortage of affordable housing for local people; currently the average price of a home in the District is around £270,000, compared with a figure for average income of £17,000. The changed priority since 2002 resulted in the number of completed affordable homes increasing from 86 in 2001-02 to 142 in 2004-05. There are 154 dwellings being built, and 168 units proposed over the next two years.

Beacon Councils

The Beacon Scheme identifies excellence and innovation in local government. The scheme exists to share good practice so that local authorities can learn from each other and deliver high quality services to all.

South Hams District Council is one of four Beacon local authorities for affordable housing. The Council has a range of policy initiatives including a second home leasing scheme and new approaches to the delivery of rural housing. The Council has adopted Affordable Housing Supplementary Planning Guidance requiring 50 per cent of affordable housing on windfall sites. Effective user satisfaction practices are also in place, outside of the general consultation exercises.

Source: The Improvement and Development Agency

2.9 Despite the many changes in local authority housing priorities, however, only 2 per cent of local authorities surveyed for this study believed that they will meet the need for social rented housing over the next three years and only 4 per cent believed they will meet the need for intermediate housing in that time.²⁵ Local authorities cited a range of barriers to explain this, with lack of available sites and funding being seen as the main obstacles. In ODPM’s view, the target of increasing the annual provision of social rented housing to 2007-08 and the increased financial provision for this, along with efficiency improvements, will turn around the growth in homelessness by 2008.

²² ODPM, *Annual Report*, 2005.

²³ MORI Liveability Survey, 2005.

²⁴ Source: National Audit Office and Audit Commission telephone survey of local authorities in high demand areas.

²⁵ Source: National Audit Office and Audit Commission telephone survey of local authorities in high demand areas.

Implications for achievement of the target

2.10 A lack of knowledge about the target itself and its associated performance measures means that it will only be by chance, or through other co-incidental factors, that it is achieved. More likely, there will be considerable underachievement through unfocussed effort.

2.11 Few councils consider that the additional actions they are taking will be sufficient to achieve their affordable housing targets.

Implications for efficiency – key cost drivers

2.12 The Housing Corporation is taking action to achieve efficiency savings in the development of new affordable housing of £130 million in 2005-06, £140 million in 2006-07, and £160 million in 2007-08, through its own efficiencies and from housing associations' better partnership and contracting arrangements with the private sector. Beyond this, there are no direct measures against which to gauge the efficiency with which the Public Service Agreement target is delivered.

Whether funding arrangements encourage and improve cost effectiveness

KEY FIELDWORK FINDINGS

- The supply of funding from the Housing Corporation to housing associations for affordable housing is relatively straightforward.
- The Housing Corporation has rationalised the supply chain for affordable housing by focusing resources for new housing on 70 lead housing associations.
- Housing associations must become more efficient. A range of measures are in place to support this, including the Housing Corporation's Operating Cost Index and Audit Commission inspections.

Source: National Audit Office and Audit Commission examination

2.13 The funding arrangements for individual housing schemes vary and involve a mix of funding sources, including Approved Development Programme funding, private finance borrowed by housing associations, other public subsidies and developer contributions in the form of Section 106 agreements. **Figure 12** shows a range of different scenarios, with scheme 1 funded almost entirely from public subsidy and scheme 5 attracting a substantial developer contribution.

12 The funding arrangements for individual housing schemes vary widely, with no two schemes being exactly the same



NOTE

These indicative figures are based on six case studies in Land and Finance for Affordable Housing (Monk et al, 2005).²⁶ The diagram does not show the substantial contribution made by private individuals in shared ownership housing, which would normally be at least 50 per cent of the property value.

The case study data was collected prior to the introduction of the Housing Corporation's Investment Partnering pilot programme.

26 Land and finance for affordable housing. The complementary roles of Social Housing Grant and the provision of affordable housing through the planning system. Sarah Mark et al 2005. Housing Corporation and Joseph Rowntree Foundation.

2.14 Regional Housing Strategies set out regional priorities including the balance between social rented and intermediate housing and make recommendations on the allocation of housing investment. The distribution of investment between regions reflects the varying levels of demand for affordable housing across the English regions, with London receiving the largest funding allocation of 43.5 per cent of Approved Development Programme funding (Figure 13).

13 The distribution of investment between regions reflects the demand for affordable housing

Region	%
London	46.0
South East	18.9
South West	5.7
East Midlands	3.8
East of England	6.2
West Midlands	5.1
Yorkshire	3.9
North East	2.9
North West	7.6
	100.0

Source: Approved Development Programme: Allocation Statement

2.15 In deciding whether to allocate funding to specific development schemes, the Housing Corporation’s regional offices consider bids from consortia of housing associations against four criteria – their fit with Regional Housing Strategies, value for money, quality and deliverability. Since 1998 a mixed funding regime has been in place. Grant rates are generally below the full cost of development with remaining costs financed by housing associations through private borrowing or through their own resources.

2.16 For development of new homes, the Housing Corporation is aiming to deliver efficiency gains of at least £140 million in 2006-07 and £160 million in 2007-08, against a baseline year of 2003-04. The corporation has developed an Investment Partnering approach, by which 80 per cent of its development funding goes through Investment Partners, including housing associations and unregistered bodies, such as developers. In 2004-06 70 partners were funded. These partnerships will act as lead partners for consortia of housing associations working together on new developments. (Previously, in 2003-04, funding for new developments went to some 400 housing associations.) The aim of the Investment Partnering programme is to make housing associations secure economies of scale, more efficient procurement, higher quality housing and increased end user satisfaction. Partner associations are selected according to a range of criteria including overall competence, financial capacity, management competence, efficiency and development track record.

The Housing Corporation’s Investment Partnering programme has simplified the supply chain for affordable housing by reducing the number of housing associations directly funded by the Housing Corporation to carry out new development. Other housing associations can continue to develop by working with lead associations or accessing funding through the Specialist Programme.

2.17 According to the Housing Corporation’s allocation statements, there are indications that lead partnering arrangements are likely to produce future efficiency savings:

- **South West:** For the period 2004-06, the Housing Corporation has a target of providing 6,034 new homes through £188,978 million of Approved Development Programme funding.²⁷ Seventy-seven per cent of the Approved Development Programme funding is being channelled through 13 partnerships, seven of which are being led by one housing association. These arrangements have reduced the total public subsidy of providing a new home to rent from an average of £61,257 for 2003-04 to £50,730 for 2004-06, and the total public subsidy of a home for sale from £27,248 for 2003-04 to £20,508 for 2005-06. Partnering arrangements between housing associations have also enabled the Housing Corporation to secure agreements with developers for 635 units in the South West, without any public subsidy.

27 Housing Corporation, *South West Allocation Statement for 2004-05 and 2005-06*.

- **London:** Partnering between housing associations has secured agreements with developers for 2,200 non-subsidised units.²⁸
- **South East:** Partnering between housing associations has reduced total average public subsidy for developing each rented dwelling from £68,263 in 2003-04 to £58,848 for 2004-06, a reduction of 13.8 per cent. Where dwellings are for sale, the percentage reduction is much higher at 22.3 per cent, reducing subsidy costs from an average of £33,609 a unit for 2003-04 to £26,109 for 2004-06.²⁹

2.18 To increase transparency and to assist the Housing Corporation in making decisions about lead partners, the Housing Corporation has designed, with the assistance of the National Audit Office, a “Value for Grant Comparator” – a tool to assess how well the lead housing associations use their development grants, taking into account three main factors – economy, quality and timeliness. The Value for Grant Comparator tool will be used from Summer 2005 and will help direct funding to organisations that are most successful in meeting Housing Corporation priorities.

2.19 The Housing Act 2004 includes provisions to extend the Housing Corporation’s grant-giving powers to unregistered bodies by introducing a new Section 27A into the Act. For 2006-08, this enables the Housing Corporation to allow other bodies, for example, developers, to bid directly for new Approved Development Programme funding. The Government’s intentions in changing the Act is set out in the Sustainable Communities Plan 2003, which are to drive efficiency, encourage innovation and creativity in the sector, and to widen the pool of potential types of provider. The increased competition for affordable housing funding has the potential to drive down costs.

2.20 A further measure introduced by the Housing Corporation to encourage efficiency in the housing association sector is the Operating Cost Index. This sets out the operating costs for those associations with over 250 units, allowing the Housing Corporation to consider what drives such costs. In addition, how associations’ overall and individual service costs compare with other similar organisations is looked at in Audit Commission housing inspections which also examine how well associations manage and improve value for money.

Implications for achievement of the target

2.21 In developing initiatives such as lead partners and the “Value for Grant Comparator”, the Housing Corporation is putting in place key drivers to improve the effectiveness of the sector over time. Similarly, in introducing two year budgetary cycles, the Corporation has given greater certainty to the sector; allowing developers to plan over a longer timeframe and to invest in increased and more cost-effective capacity. To maximise development capacity, however, developers would benefit from the increased certainty and the ability to plan over a three to five year funding cycle.³⁰

Implications for efficiency – key cost drivers

2.22 The establishment of the two year funding cycle for the Housing Corporation’s £3.3 billion Approved Development Programme has increased partnership working amongst housing associations and is helping to provide more homes more quickly.³¹ Early signs are that this is already bringing some efficiency savings. Partnerships, such as joint procurement consortia bring a range of benefits, including access to wider information networks, savings in procurement (for example, jointly procured timber roof structures), shared learning, agreement of standards of house design and greater economies of scale.

CASE STUDY 1

Getting a better deal when buying timber roof structures in the South West

Devon and Cornwall Housing Association work in partnership with West Country Housing Association and other smaller housing associations in the South West to secure better economies of scale in procuring construction material such as timber roof structures.

Source: National Audit Office and Audit Commission research

Joining up to improve supply chain management in Bedfordshire

The Bedfordshire Housing Association is the lead partner in a partnership with four smaller local housing associations. It carries out development services for the four other housing associations working with them to establish a single supply chain and in agreeing design standards and construction techniques.

Source: Investment Partnering, An Evaluation of the Pilot Programme, Chartered Institute of Housing and Tribal HCH

28 Housing Corporation, *Allocation Statement for London 2004-06*.

29 Housing Corporation, *South East Allocation Statement for 2004-06*.

30 National Audit Office, *Improving Public Services through Better Construction*, HC 364-1, Session 2004-05, 15 March 2005.

31 *Investment Partnering. An Evaluation of the Pilot Programme*. Chartered Institute of Housing and Tribal HCH June 2005.

2.23 Further advantages of the consortia approach for new developments by housing associations are that, if successful:

- it makes housing associations work together to share good practice and training (and may evolve to a position where the lead partner develops properties on behalf of the other partners, reducing costs further);
- there are fewer interfaces for the Corporation to manage, reducing the amount of staff time that had been spent in overseeing a series of often complex relationships; and
- the consortia have increased purchasing power with developers, giving them more leverage to negotiate better deals and to undertake larger developments that offer more scope to use modern, cheaper pre-fabricated methods of construction. The Housing Corporation expects bids through the partnering route to be for funding in excess of £20 million or 500 units. To help housing associations and other developers, at the request of the Office of the Deputy Prime Minister and the Housing Corporation, the National Audit Office is examining how value for money can be obtained from cheaper methods of construction by reducing construction time and cost, while maintaining or enhancing quality.

2.24 Preliminary findings from the evaluation of the Housing Corporation's Investment Partnering pilot programme in 2004-05 show that the Investment Partnering programme was 9 per cent cheaper than the previous programme had been in 2003-04,³² enabling an extra 28 units to be provided from each £10 million of Social Housing Grant. This is equivalent to saving around £3,000 on an average subsidy of £35,000 per dwelling. The balance of funding required to meet the total cost per unit would be supplied from other sources such as housing associations' borrowing or reserves.

2.25 The Investment Partnering programme is resulting in more housing associations considering merging or forming group structures. Half of the housing associations surveyed as part of the Housing Corporation's evaluation said that the introduction of the Investment Partnering programme had made it more likely that they will merge or enter into a group structure with other associations.

2.26 This presents opportunities for improving cost-effectiveness through the availability of cheaper loan finance, the opportunity to improve procurement or sharing back office services. The latter could represent significant annual savings for housing associations by increased sharing of services such as human resources, information technology (IT) and finance. This could free up funding to reinvest in improving services or building more homes.³³

2.27 The increased competition associated with opening up opportunities for other bodies to bid directly for funding, together with an encouragement to use better methods of construction and to secure procurement efficiencies will also be important contributions to efficiency. However, some developments, notably the Corporation's Investment Partnering approach, may have negative consequences for some. The housing associations which are not selected as partners have lost one of the key drivers for their business and it remains to be seen how they implement efficiency savings, improve services and continue to be well managed.

Whether demand for housing is determined on a consistent basis

KEY FIELDWORK FINDINGS

- Local authorities are required to carry out Housing Needs Surveys, but the frequency is not specified, meaning that there is no direct read across between different local authorities at different times. There is also no consistent methodology for the production of housing needs surveys. This creates problems for Regional Housing Boards and for the Housing Corporation, which can only make sensible decisions about the allocation of funding across the region on the basis of sound and consistent information. As a consequence, Regional Housing Boards must often commission further research to fully assess regional housing needs.
- Developers are reluctant to use local authority surveys for their business and capacity planning and prefer to do their own housing needs assessments.

Source: National Audit Office and Audit Commission examination

³² *Investment Partnering. An Evaluation of the Pilot Programme.* Chartered Institute of Housing and Tribal HCH, June 2005.

³³ The savings so identified will be specified in housing associations' annual efficiency statements.

2.28 Since 2000, local authorities have been required to produce a housing needs survey in line with guidance supplied by ODPM; although the frequency is not specified. These surveys provide data on the demand for affordable housing. Most local authorities commission specialist consultants to undertake the work because they lack the in-house expertise and capacity to do the surveys themselves. They are not, however, an insignificant cost. For example, some London boroughs have spent over £120,000 on such exercises.

2.29 There are, however, only a small number of consultants with the necessary skills to perform the work. Moreover, different consultancies apply different methodologies, making it difficult to directly cross reference data between local authorities. This creates problems for Regional Housing Boards when preparing their Regional Housing Strategies, resulting in the need for the Boards to commission further work to obtain a coherent picture of regional housing need, and to provide a sufficiently robust evidence base for the Housing Corporation to refer to in determining funding decisions.

2.30 Separately, the Audit Commission's Comprehensive Performance Assessment of district councils has found examples of councils relying on surveys that are not up to date, while other councils do not have a comprehensive assessment of housing need because, for example, of inadequate information about the needs of vulnerable people.

2.31 Housing advice workers in our MORI focus groups were concerned that needs were underestimated by some of the survey methods used, and that their organisations were not consulted about local housing demand from client groups whose needs might not be picked up by housing needs surveys.

2.32 The weaknesses in housing needs surveys mean that developers are reluctant to use them in their business planning and prefer to carry out their own analyses. These differences in opinion cause difficulties and delays in negotiating planning agreements because they can result in developers and local authorities disputing each other's understanding of local housing need.

A housing market

The Office of the Deputy Prime Minister defines a housing market as a dynamic system comprising stocks (stocks of dwellings, stocks of households) and flows (change in dwelling stock; change in household stock). As in all systems, the stocks are connected by flows. The system as a whole is shaped and influenced by a wider range of forces or factors impacting upon the nature of those flows, for example economic and demographic trends, at a macro or local level.

Source: Office of the Deputy Prime Minister

2.33 To tackle some of the problems with housing needs surveys, ODPM is developing an integrated approach to assessment which aims to rationalise both housing needs surveys and housing market assessments into one approach. The objective of this new approach is to generate an understanding of housing need that is more in line with local housing markets, which may straddle a number of local authority boundaries. Early signs are that the implementation of assessments is encouraging greater collaboration between neighbouring local authorities, with more surveys being commissioned at a sub-regional level. In the South West, for example, the adjacent councils of Caradon, West Devon, South Hams and Plymouth, covering a population base of over 450,000, now work together to create an integrated and coordinated understanding of housing need in the Plymouth sub region. The local authorities in Devon have also appointed a joint affordable housing officer to work with developers and housing associations across local authority boundaries. Local authorities have not, however, found the draft guidance produced by ODPM on preparing housing market assessments to be clear; with the risk that the current practice of applying different methodologies may continue.

Implications for achievement of the target

2.34 Accurate assessment of the demand for intermediate and social rented housing, including the size and types of units needed, is essential for addressing the need for affordable housing. Housing needs surveys are not always accurate and up-to-date, which may result in the wrong types of properties being built, based on erroneous data.

Implications for efficiency – key cost drivers

2.35 A lack of consistent methodology in the preparation of housing needs surveys means that cross referencing of housing need across a region is difficult, leading to more work, extra costs and delay for Regional Housing Boards in attempting to get an accurate base upon which to determine funding decisions across the region.

2.36 Under-developed guidance around the new Housing Market Assessments makes for poor understanding of the approach within local authorities. This limits the capacity of local authorities to act as intelligent clients when commissioning consultants to undertake assessments and wastes resources in producing surveys that are not useful indicators of demand.

Whether policies and guidance are clear and well understood

KEY FIELDWORK FINDINGS

- Guidance for the development of the first Regional Housing Strategies was produced after the Strategies were already in preparation, creating inconsistencies between regions.
- Revisions to planning guidance are lagging behind policy, creating inconsistencies that cause confusion and delays for developers, housing associations and local authorities, and drive up costs.

Source: National Audit Office and Audit Commission examination

2.37 National housing and planning policies have experienced significant changes over recent years, designed to secure that more housing is delivered more quickly. In particular, the 2003 Sustainable Communities Plan set out an ambitious set of programmes to increase the supply of housing in the South of England.

2.38 The Sustainable Communities Plan has required new ODPM guidance. Some of this guidance has been slow to develop, causing confusion and wasted work. For example, guidance on producing the first round of Regional Housing Strategies was issued when the process was already underway. As a result, different methodologies and approaches were taken by different regions, leading to a set of Strategies that were of varying and questionable quality.³⁴ Some, for example, did not reach a conclusion

on the overall numbers of houses required; while others, failing to make a link between housing and planning, did not take into account the likely impact of Regional Spatial Strategies and Regional Economic Strategies produced by Regional Development Agencies.³⁵

2.39 Our analysis of the first and second round of Regional Housing Strategies for our case study regions showed that the revised versions of the Strategies, finalised in July 2005, show improvement with better referencing to the Regional Economic and Spatial Strategies. The London Housing Strategy adopts the affordable housing targets set out in the Mayor's London Plan (the Spatial Development Strategy for London) and the South East Strategy sets regional targets for affordable homes and the South West strategy contains an action plan that makes clear the responsibilities for these actions.

Development plans

Local authorities have a statutory duty to prepare a development plan for their area which allocates land uses and, along with associated guidance, sets out policies related to issues such as building densities. The Planning and Compulsory Purchase Act 2004 replaced the existing system of structure, local and unitary development plans with Regional Spatial Strategies and Local Development Frameworks.

2.40 Our fieldwork also highlighted common concerns with Planning Policy Guidance note 3 and, more specifically, Circular 6/98 (**Figure 14**). The latter sets out recommended site size thresholds at which local authorities can require developers to include an element of affordable housing. This is a key link in the delivery chain, as almost 50 per cent of new-build affordable housing completions are on Section 106 sites (mostly also funded by Social Housing Grant). Circular 6/98 sets thresholds at 15 houses for inner London and 25 for elsewhere. The circular has not been updated to reflect current, more ambitious policies, or the acute shortage of affordable housing in the South. Many interviewees and those who attended our workshops also considered it gave too much room for local interpretation.

2.41 While ODPM is now addressing this through a revision of Planning Policy Guidance note 3, due in Autumn 2005, the lack of up to date guidance has allowed significant inconsistencies in approach to develop between often neighbouring local authorities, leading to challenge and appeals by developers, which are costly and delay development.

³⁴ *Regional Housing Strategies, Advice Notes*. Chartered Institute of Housing, November 2003.

³⁵ *Regional Housing Strategies, Advice Notes*. Chartered Institute of Housing, November 2003.

14 Planning: Key Government guidance

Planning Policy Guidance note 3 (PPG3)

Planning Policy Guidance note 3 (PPG3): Housing (March 2000) sets out the Government's policy on how the planning system can contribute to the overall supply of affordable housing. It recognises that it may be desirable in planning terms for new housing developments (over a certain size/threshold) to incorporate a reasonable mix and balance of house types and sizes to cater for a range of housing needs and to encourage the development of mixed and balanced communities.

Circular 6/98

This Circular supplements Planning Policy Guidance note 3 (PPG3), by amplifying the Government's preferred approach to planning and affordable housing. It aims to provide a clearer framework for preparing local authority planning policies, and practical advice to local planning authorities on how they should encourage the supply of affordable housing in appropriate circumstances through negotiation with developers and others. It is intended to:

- help local planning authorities to adopt a realistic and consistent approach to preparing plan policies and handling planning applications involving affordable housing;
- encourage a co-operative approach to preparing affordable housing policies, which ensures that the views of all those involved in delivering affordable housing are taken into account;
- clarify that affordable housing policies should be based on a clear and up-to-date assessment of local need for affordable housing;
- provide guidance on securing and controlling the occupancy of affordable housing; and
- ensure that affordable housing delivered through the planning system is likely to be attractive to lenders of private finance.

Source: Office of the Deputy Prime Minister

2.42 Audit Commission inspectors, as part of District Council Comprehensive Performance Assessments, found that some of the better performing councils have successfully worked with developers outside current guidance to secure more affordable housing. These councils have either secured affordable housing on sites below the thresholds set by Circular 6/98 or secured proportions of affordable housing that were higher than the norm. The Audit Commission considers this to be good practice. However, for the Planning Inspectorate to support this approach, councils have to demonstrate a clear and up to date understanding of local housing need and land availability. Paragraph 10 of Circular 6/98 explains that authorities can go below the national thresholds providing that they can adequately justify such an approach in the light of exceptional local constraints.

Implications for achievement of the target

2.43 Uncertainty around interpretation of guidance, particularly for Section 106 agreements, creates inconsistency between local authorities, leading to planning challenges from developers. This lack of clarity also risks developers becoming deterred from investing in long term capacity, or seeking alternative development opportunities.

Implications for efficiency – key cost drivers

2.44 The lack of clarity of guidance around the production of the initial Regional Housing Strategies resulted in additional work being required by Regional Housing Boards. This has now been remedied for the latest round of strategies, but there is a risk that unclear guidance persists, for example around the local housing market assessments. Greater consistency between regions and sharing of good practice, such as clear targets and allocation of responsibilities, would contribute to accurately assessing the need for affordable housing, allowing suppliers to build up the capacity to address it, and creating accountability for performance.

Whether organisations within the delivery chain work together to common aims

KEY FIELDWORK FINDINGS

- Closer collaboration between ODPM and other government departments that own surplus land could assist in releasing resources to increase the supply of affordable housing.
- Local authorities are unclear about the role of Government Offices and the assistance they can offer.

Source: National Audit Office and Audit Commission examination

There is scope to bring more surplus land owned by government departments into use for affordable housing.

2.45 Effective co-ordination across government is important for the efficient implementation of Public Service Agreement target 5 because many other departments are in a position to influence, and are directly affected by, delivery of affordable housing. (**Figure 15 overleaf**). Both the Ministry of Defence and Department of Health, for example, have transferred surplus land to English Partnerships for housing.

15 Other government departments are involved in the delivery chain

Government department	How the Department can influence implementation of the target	How the Department is affected by the target
HM Treasury	Agrees the Public Service Agreement target with ODPM. Commissioned and will respond to the Barker Review of Housing Supply. This will include a decision on reform of planning obligations. Working with mortgage lenders to increase the availability of shared ownership. Overseeing the release of surplus public sector land to increase the supply of affordable housing.	A balanced housing market will support balanced economic growth across the country.
Ministry of Defence	Is in a position to sell land surplus to defence requirements that could be suitable for housing if required.	
Department of Health	Is in a position to sell surplus land that is suitable for housing to English Partnerships. More health services will be needed in areas where there are large housing developments.	More affordable housing will ease pressure on recruitment and retention of staff in high demand areas.
Department for Education and Skills	More schools will be needed in areas where there are large housing developments.	Improved availability of affordable housing makes recruitment and retention of staff easier.
Department for Transport	Existing transport provision may need to be expanded upon in areas of significant housing development.	
Department for the Environment Food and Rural Affairs	Responsible for ensuring that new housing provision does not damage the countryside.	The shortage of affordable housing is a significant problem in rural areas, adversely affecting the rural economy.
Department of Trade and Industry	As the sponsor department of Regional Development Agencies the Department of Trade and Industry can help to make sure that Regional Economic Strategies link with Regional Housing Strategies and regional housing needs.	Shortages in affordable housing can risk future economic growth because they can create labour shortages.

Source: National Audit Office and Audit Commission examination

2.46 Several departments, notably the Department of Health, find it difficult to recruit key workers, such as nurses, as a result of the shortage of affordable housing. At the same time, many government departments play a key role in contributing to the supply of affordable housing through the disposal of their surplus land or buildings that are suitable for housing. But until very recently, the target has not had a very high profile across Government. This has meant that government departments have not always considered releasing surplus land in such a way that encourages the development of affordable housing where it has been suitable.

2.47 Moreover, given the targets of the Efficiency Review, along with the additional Government objective of realising £30 billion in sales of public assets by 2010, government departments such as the Ministry of Defence and the Department of Health are rationalising their stocks of land and buildings by disposing of land that is surplus to departmental requirements. There is a tension, however, between selling at the best possible price so that maximum resources are released for frontline delivery of departmental objectives, and selling land in such a way that will support another government department's objectives – such as, in this case, increasing the supply of affordable housing. This has been partly addressed with changes to Government Accounting which allow policy to influence and affect disposal decisions.

2.48 As reported in a recent paper on sustainable procurement to which the National Audit Office contributed,³⁶ for government bodies to release surplus properties or land to be turned into affordable housing may often represent value for money to the public sector as a whole. This is especially the case in relation to the most vulnerable groups, for example homeless people, those at risk of homelessness, or those suffering mental illness. Improving physical and mental well-being and quality of life helps to reduce the call on a variety of public services, such as the criminal justice system, health care, and social services. Often, however, surplus public sector land and properties are not used in this way, for the simple reason that the individual bodies disposing of land would not experience the benefits, but would merely absorb the costs.

2.49 ODPM and HM Treasury have in part addressed this tension by asking English Partnerships to establish the Register of Surplus Public Sector Land following the publication of the Sustainable Communities Plan in 2003. The requirement on central government bodies to place surplus sites on the register has now been incorporated into Government Accounting. Government departments are also now required to give all departments participating in the scheme 40 days notice prior to disposing of surplus land. During this time departments can acquire the land at open market value without exposing it to competition. English Partnerships publishes a summary of the register quarterly. And it is exploring ways to expand the Register to include local authorities, The Housing Corporation and the Regional Development Agencies. English Partnerships is also working closely with Government Departments to develop innovative approaches to preparing sites for disposal to deliver affordable housing without actually purchasing the sites.

There are early signs of better co-ordination at regional level but the role of Government Offices could be more clearly defined

2.50 The regional tier of the delivery chain has become increasingly important with the establishment of Regional Housing Boards and their forthcoming integration with Regional Planning Bodies. In preparing their Housing Strategies, Regional Housing Boards need to make sure that they have a good fit with local housing needs, as defined by local housing strategies prepared by local authorities. This requires good communication and consultation.

2.51 Local authorities in the three regions covered in this report have largely been satisfied with the opportunities they have had to influence recent revisions to the relevant Regional Housing Strategy. Half of those in our survey of one-third of local authorities in the London, South East and South West regions were either 'fairly' or 'very' satisfied with their level of involvement in the production of the strategy (26 per cent were neither satisfied nor dissatisfied and only 16 per cent were 'fairly' dissatisfied). When it came to the final product, 56 per cent of local authorities either 'strongly agreed' or 'tended to agree' that the region's housing strategy was compatible with their local housing strategy.

2.52 Beyond consultation on revisions to Housing Strategies, most Regional Housing Boards have established county-wide or sub-regional groups of Housing Directors. These provide a useful forum for local authorities to meet regularly with members of the Boards.

2.53 Regional Government Offices provide an important link between national policy and local delivery and have a complex role with respect to ODPM's Public Service Agreement target 5 for housing markets (**Figure 16 overleaf**). This has evolved, however, in different ways across different regions and, as a consequence, local authorities are not always clear about the role of Regional Government Offices and do not always know when they should contact them for advice. Many local authorities see the function of Government Offices as limited to chairing Regional Housing Boards and signing off local housing strategies. Local authorities also consider that at times Government Offices are themselves unclear about what advice they should give and/or that they do not have the capacity and resources to deal with local authorities' immediate concerns.

2.54 Our survey reflected a lack of clarity, and a certain level of indifference, about the purpose and function of Government Offices, with 40 per cent of local authorities being neither satisfied nor dissatisfied with their role in housing policy. The more informed and better performing authorities, as assessed by the Comprehensive Performance Assessment and housing inspections, however, have secured for themselves a better understanding of the role of their Government Office and are taking a proactive role in seeking out its input.

36 Realising Aspirations, report by the Accounting for Sustainability Group, May 2005. <http://www.princeofwales.gov.uk/downloads/asg.pdf>.

16 The role of Government Offices in ODPM’s Public Service Agreement target 5

Role	Description
Chair to the Regional Housing Board	Oversee the production of the Regional Housing Strategy. Facilitating dialogue with other regional organisations and structures to ensure that all regional strategies are aligned and mutually supportive. Oversee recommendations to Ministers on funding allocations.
Reviewing local authority housing strategies	Government Offices check local housing strategies to make sure that they match with regional and national priorities.
Facilitator and broker of partnerships between local authorities	Regional Government Offices are well placed to encourage joint working between local authorities providing guidance and help from across the region.
Making efficient use of scarce resources and talent and spreading good practice	Where local authorities are struggling Government Offices can encourage officers from better performing local authorities to offer guidance and support.
Providing the link between national policy and local delivery	Government Offices are an important link between national policy and local delivery. They have insight into the challenges and performance of local authorities which is highly valuable to ODPM, and their regular contact with ODPM means they have valuable knowledge of ODPM policy developments.

Source: National Audit Office and Audit Commission examination

Implications for achievement of the target

2.55 Shortages in affordable housing affect the delivery of the priorities and Public Service Agreement targets of many government departments, including, for example, the recruitment of key workers, such as teachers, nurses and police officers. By not communicating the importance of affordable housing across Government, there is a risk that other departments which are in a position to contribute to delivery do not build affordable housing into their plans. Where departments are not positively encouraged to release land for housing and there are no clear mechanisms and allocating policies to enable this to happen, it will be sold to the highest bidder, representing a lost opportunity to develop affordable housing.

2.56 Successful delivery of affordable housing involves the work of many government departments. For example, new housing development often needs the provision of new infrastructure, such as roads, doctor’s surgeries and schools, which are the responsibility of other government departments.

2.57 Local Authority Social Housing Grant was found to be inefficient by ODPM because it tended to favour those authorities who were debt free and there were historical problems with underspends. Because of these reasons it was abolished in 2003. With its abolition local authorities can no longer reclaim from the Housing Corporation any investment they make in new social housing. This reduces their ability to influence the development of affordable housing in their areas and means that good communication between Regional Housing Boards and local authorities is particularly important to ensure that the Boards’ recommended funding allocations reflect need.

Implications for efficiency – key cost drivers

2.58 Shortages of land for housing development are a major constraint in increasing the supply of affordable housing, particularly in South East England. Any surplus land owned by other government departments represents an asset that could otherwise be used to deliver more affordable housing.

2.59 Government Offices are uniquely placed to help local authorities to improve their performance in delivering affordable housing, but at present they are not being proactive in doing so. Local authorities are taking the lead in approaching Government Offices for guidance on good practice, with the risk that those local authorities most in need of help will not seek it.



CONCLUSIONS

Between 2004 and 2006, the Office of the Deputy Prime Minister will fund the construction of new affordable housing in England to the tune of £3.3 billion in grants and other payments to housing associations by the Housing Corporation.

In order to improve efficiency within the sector in recent years, the Housing Corporation has introduced a number of key initiatives, including two year funding cycles to give certainty to the construction industry and to help develop capacity. Evidence from our fieldwork indicates that a further extension of funding to five year cycles would be welcomed by developers. The Housing Corporation is also rationalising the numbers of housing associations involved in the delivery of affordable housing, focussing resources into 70 partnerships that have shown themselves most capable of delivering the large amounts of house-building now required, and setting clear criteria against which to assess ongoing performance. Further efficiencies could be realised through partner housing associations sharing back office functions, such as IT, finance, human resources, and legal services.

Housing associations and developers can only operate efficiently, however, where they are supported by clear planning and decision making at other points in the delivery chain. Recent changes in national planning policy have been introduced to simplify and speed up the planning process, but this has not yet been matched by the

detailed and updated guidance required at a local level, particularly in relation to Section 106 agreements, creating uncertainty and delay for developers.

The development of Regional Housing Boards, and their forthcoming amalgamation with Regional Planning Bodies, is an important step in bringing together key parties at a regional level.

There is scope for Government Offices to develop a closer engagement with local authorities; at present their role is not well understood and, as a consequence, local authorities do not make as much use of their advice and expertise as they might.

As the representatives of ODPM, Government Offices also have a key role to play in coordinating the activities of all government departments in the regions. This includes making sure that opportunities to use surplus government land for affordable homes are explored and wherever possible exploited.

Despite initiatives taken to improve the efficiency and effectiveness of the delivery chain, of the one-third of local authorities we surveyed across London, the South East and the South West, only 2 per cent considered they could meet their targets for social rented housing over the next three years and only 4 per cent expected to meet their intermediate housing target.

In Part 3 of the report, we consider the progress that the local level of the delivery chain is making to increase the supply of affordable housing.

PART THREE

Delivering affordable housing



3.1 This part of the report considers how well those in receipt of funding and powers are able to provide more affordable homes in a cost effective way. This involves three key parties: local authorities, housing associations and developers, which have to work closely together if affordable housing is to be delivered successfully.

3.2 Much of the responsibility falls to local authorities which, although they do not have control over the funding for house building, exercise a direct influence on housing development through their planning powers – in particular releasing land to developers and housing associations in return for commitments to build agreed numbers of affordable homes.

3.3 Beyond this, local authorities have wider responsibilities for increasing the supply of affordable housing through their “strategic enabling” role; requiring them to take the lead in bringing together all the various parties that have a role in creating the right conditions for speedy and efficient housing development. This role was most recently set out in January 2005 in ODPM’s five year strategy for housing *Homes For All*: “local authorities will need to build strong working relationships with house builders, infrastructure providers and regeneration agencies”.³⁷

3.4 Managing the relationship with developers and creating conditions more generally to increase the supply of affordable housing requires a range of skills within local authorities and the development of new ways of influencing and working with other parties to translate plans and resources into new homes. Against the three criteria below we assess how well local authorities are performing; specifically whether:

- a** Local authorities display clear leadership under their strategic enabling role
- b** Developers, housing associations and local authorities are clear about each others’ priorities, so that plans for new developments can be agreed quickly
- c** With an increasingly regional focus to housing, there is effective joint working across local authority boundaries

37 *Sustainable Communities: Homes for All. A Five Year Plan* from the Office of the Deputy Prime Minister. ODPM, January 2005.

Whether local authorities display clear leadership under their strategic enabling role

KEY FIELDWORK FINDINGS

- Local authorities' community leadership role is critical for the case to be made to local citizens about the pressing need for more affordable housing, and the benefits that it will bring. Otherwise, there is a risk that, despite it being a corporate priority, local authorities will fail to increase the supply of affordable housing sufficiently to address demand.
- Local authorities have been slow to adjust to meet their changing role in housing.
- There is a need for local authorities to recruit people with the right skills to negotiate more effectively with suppliers.

Source: National Audit Office and Audit Commission examination

3.5 The role of local authorities has changed considerably since the 1980s when they owned a large number of houses and acted primarily as social landlords. The Government now sees local authorities as having a 'strategic enabling role'. The task is increasingly to provide the clear leadership required to create the right set of conditions to increase the supply of affordable housing.

Providing leadership for the community

3.6 The results of our survey of one-third of local authorities covered in this study shows that 92 per cent of local authorities have established affordable housing as a corporate priority, but evidence from our interviews, national workshops and from Audit Commission Comprehensive Performance Assessments shows that many local authorities have not yet taken on the leadership role required to convince citizens of the need for and importance of developing more affordable housing in their locality.

"We are changing from a service delivery organisation into community leaders ambitiously seeking to meet the needs of our residents in a challenging area by raising the profile of housing issues within the district".

Head of local authority housing

Source: National Audit Office and Audit Commission examination

3.7 Providing the required leadership can be challenging and authorities need to learn from what works elsewhere. For example, in Penwith in Cornwall, the authority has worked effectively with the local media to raise awareness of homelessness issues. This has helped shift local priorities and influence attitudes to new housing developments. In three of our case study local authorities, we also found examples of how these issues were being tackled (**Case studies 2, 3 and 4**).

CASE STUDY 2

Working with partners to involve local people in the planning and design of new developments

In response to its pressing need for more affordable housing, South Hams District Council is actively seeking out rural sites which are sustainable and that have the right infrastructure for housing development. Yet South Hams is an area renowned for its distinctive and beautiful environment, with one National Park and two Areas of Outstanding Natural Beauty. As such, new housing developments often attract local opposition. The council invests significant resources in involving local people in planning and design to secure developments that are sensitive to the local environment.

Once sites are identified, the Council works with housing associations and developers to produce a "concept statement", providing a clear visual impression of what the development will look like, as well as information on how many houses are likely to be built, for how many people, the tenure split and the range of actions that will mitigate the impact of the development. Concept statements have proved effective tools for establishing a shared local vision between the council, housing associations and developers and are used in conjunction with open forums where local people have the opportunity to input into plans and meet with the developers and housing associations involved.

Source: National Audit Office and Audit Commission examination

There is a need for closer joint working within local authorities

3.8 To perform their strategic enabling role effectively, local authorities must have good internal coordination between a range of departments (**Figure 17**) but most importantly between housing and planning. At a regional level, there is already a recognition of the importance of this relationship with the establishment of Regional Housing Boards (on which representatives of the Regional Planning Bodies sit). This would be further strengthened when Regional Housing Boards and Regional Planning Bodies are merged.

CASE STUDY 3

Arranging seminars for councillors to help break down some of the fears that surround affordable housing in Arun

The terms affordable and social housing often create fears that stem from images of poorly built and poorly designed council housing of the 1960s and 1970s and anti social behaviour.

Visiting and discussing successful affordable housing schemes can allay these fears and raise the profile of affordable housing as a council priority. At Arun District Council, the housing team arranged a series of seminars for councillors to explore some of the implications of the shortages in affordable housing and what the new Public Service Agreement meant for the council. Examples of successful affordable housing schemes were discussed along with presentations of what new approaches to high density housing look like.

Source: National Audit Office and Audit Commission examination

CASE STUDY 4

Joining up housing and planning teams speeds up negotiations with developers

Plymouth City Council's Housing Enabling Team works closely with the planning department in negotiating with developers to secure contributions for affordable housing. The team has more expertise in affordable housing which helps to take the burden off the development control officers in the planning department.

In South Hams the strategic housing staff and planning officers are now jointly the first point of contact for developers. The council has worked hard to build good relationships with developers and this means that housing staff are able to become involved at an early stage – when developments are still being designed. By joining up at an early stage the time spent in negotiating planning agreements is greatly reduced.

Source: National Audit Office and Audit Commission examination

17 Housing involves coordination between different local authority functions

Local authority department	Function
Housing	<ul style="list-style-type: none"> Responsible for preparing the housing needs survey and local housing strategy Works to prevent homelessness and provides housing advice Undertakes a range of private sector housing work including home energy conservation, improving private sector stock condition and regulating private landlords Providing aids and adaptations of homes for people with disabilities Manages and improves council-owned stock to the Decent Homes Standard
Planning	<ul style="list-style-type: none"> Allocating suitable land for housing Setting policies to encourage good design and an appropriate mix in the types of housing being built Securing appropriate contributions from developers that lead to more affordable housing
Legal	<ul style="list-style-type: none"> Supporting the Planning department in negotiations on Section 106 with developers
Economic Development	<ul style="list-style-type: none"> Linking economic development strategies with housing strategies Responding to the concerns of local employers Co-ordination with Regional Development Agencies and English Partnerships
Social Services	<ul style="list-style-type: none"> Making sure that vulnerable residents receive the support that they need so that they can stay in their homes
Environment	<ul style="list-style-type: none"> Making sure that new housing developments are supported by the services needed such as adequate green spaces, waste collection and street cleansing
Housing Benefit	<ul style="list-style-type: none"> Making prompt payment so that tenants are not at risk of eviction through rent arrears

3.9 Within local authorities, however, the two departments have tended to work separately – a legacy from the past when local authorities had a direct and major housing role in developing and managing large numbers of council houses. This separation, however, risks inconsistency, leading to confusion and delay. For example, in one local authority we found different targets for levels of affordable housing in different corporate documents, with the council's supplementary planning guidance setting a target for affordable housing at 38-55 per cent of new housing developments, but the housing strategy setting a target of 25 per cent. However under the new planning system supplementary planning documents will not contain policies on affordable housing targets which will have to be subject to proper independent scrutiny through a local planning inquiry.

3.10 The changing role of local authorities also brings with it a need for new skills within, or secured in partnership by, the planning and housing departments, including the capacity to build partnerships, understand the housing market place, and to plan for the longer term. Local authorities, however, have been slow to adapt their skills to this new role. Skill shortages are a significant problem, with many local authorities finding it hard to fill vacancies in both their housing and planning departments. Planning, in particular, is a problem with some 47 per cent of authorities reporting difficulties in retention.³⁸ The problem is particularly acute in London, with 83 per cent of authorities reporting difficulties retaining planning staff. ODPM is starting to address the shortage through a new bursary scheme, but the number of new planners this will create is unlikely to meet demand.

3.11 Some local authorities however, for example Plymouth, are establishing corporate affordable housing teams that include officers from asset management, planning, housing, community services and legal teams. This puts the local authority in a stronger position to negotiate with developers and housing associations and to articulate clear and consistent policy for housing and planning.

3.12 Beyond local authorities' internal coordination, developments of new housing require local authorities to coordinate activity among many different agencies (**Case study 5**). For large sites, developments of new housing may involve a wide range of organisations, including English Partnerships, Regional Development Agencies and other government departments, as well as private developers.

CASE STUDY 5

Local authorities need to take a lead where sites involve multiple agencies

Many sites in Plymouth involve multiple agencies such as the Regional Development Agency, the Ministry of Defence, English Partnerships, housing associations, property developers as well as the local authority. In such cases co-ordination can be a challenge because each organisation will have different reporting structures with different priorities and targets. To prevent delays the local authority takes a lead in coordinating housing developments.

Source: National Audit Office and Audit Commission examination

CASE STUDY 6

Clearly communicated forward planning speeds up delivery

To improve working relations with housing associations and developers South Hams Council has set up a planning framework for future allocations of land for housing. The council had found that housing associations were expending valuable time and resources bidding against each other to develop particular sites rather than working with the council to develop a joint vision for proposed sites. The planning and housing officers now work together in the production of plans (known as concept statements) for each site that set out clearly who the preferred developer and preferred housing association are. Each site is then allocated a housing or planning officer who is responsible for overseeing the coordination of the site.

Housing associations welcomed this approach. Tor Homes, a local housing association, has found that it sets out a good framework for them to get involved at an early stage, which aids their business, financial and risk planning.

Source: National Audit Office and Audit Commission examination

3.13 Local authorities need to establish strong relationships with housing associations so that the type of housing they deliver matches what is needed locally (**Case study 6**). Most local authorities (78 per cent in our survey) have a list of preferred partner housing associations, on average around 6, but this can vary from 1 or 2 to as many as 15. Advantages of working with preferred partners cited by local authorities in our survey included allowing for better tracking of performance, improved housing management and more local commitment, as well as reduced risk and speedier negotiations for new contracts and new developments. However, local authorities' preferred partners are not

38 Employers Organisation, *Recruitment and Retention Survey*, September 2004.

always the same as those of the Housing Corporation. This inconsistency means that developers are unclear about which partners they will be working with in putting together proposals for new schemes, causing delays while the partners negotiate which housing associations should be chosen. Where there are disagreements, current ODPM guidance does not help to clarify how preferred partners should be chosen. However, the Department tells us that further guidance will be issued on this.

“Councils know who they are working with. You have some control over building and long term management of property. The housing associations have some commitment to the borough and will deliver extra value such as employment and long term investment, not just a ‘quick buck’ in.”

District Council, South East

Source: National Audit Office and Audit Commission examination

3.14 There is scope for local authorities to create greater matching of what housing associations want to supply with local demand by encouraging them to become more involved in the production of local housing strategies and some local authorities are addressing this by establishing joint liaison where housing associations and local authorities determine shared policy objectives.

Implications for achievement of the target

3.15 Most local authorities in high demand areas have now established affordable housing as one of their corporate priorities, but without a clear framework to translate this into action, clearly communicated to developers and housing associations, they will fail to take the necessary actions to lead delivery. This will delay the progress of developments, or dissuade developers from operating within a particular local authority area, reducing choice and competition, and risking the council’s ability to meet its housing targets.

3.16 A lack of engagement with the public can mean that citizens’ concerns about new developments remain unaddressed, affecting councils’ ability to deliver the housing growth that has been identified as necessary through housing needs surveys.

3.17 Local authorities are required to play a key coordination role between different agents in the delivery chain for affordable housing. Shortages of skilled housing and planning staff reduce the speed with which local authorities can approve planning applications and lengthen the development process.

Implications for efficiency – key cost drivers

3.18 A shortage of skilled personnel in housing and planning, together with a lack of joined up working, causes delay and inconsistent messages for developers. This slows down the delivery of affordable housing and increases developers’ costs, which ultimately fall on the public purse in the form of a higher unit price to be paid for the new housing than would otherwise have been the case.

Whether developers, housing associations and local authorities are clear about each others’ priorities

KEY FIELDWORK FINDINGS

- Section 106 is an increasingly important mechanism for delivering affordable housing.
- However, the system is complex and delays, inconsistencies and the complexity of guidance represent a significant blockage in the delivery chain...
- But there is some evidence of progress, with some local authorities developing good practice, supported by action from the Office of the Deputy Prime Minister.

Source: National Audit Office and Audit Commission examination

3.19 At a practical level, affordable housing can be delivered in two ways. For schemes involving purely social and intermediate housing, housing associations together with private developers can present proposals to the Housing Corporation which, in addition to wider considerations about how well a scheme meets regional and local housing and planning requirements, assesses the capacity and capability of the particular housing association(s) and developers to deliver, by reference to factors such as past performance, financial standing and management capacity.

3.20 Alternatively, local authorities, under Section 106, can oblige developers to provide a proportion of affordable housing as part of new private housing developments. This leads to negotiations between the developer and the local authority about the proportion of affordable housing that should be expected and the precise “tenure mix” of a scheme. The developer on the one hand often wants to maximise the proportion of private market homes, the local authority on the other may prefer to maximise the number of affordable, particularly social rented properties.

3.21 The balance or “tenure mix” is critical to these deals. While intermediate housing is generally acceptable to developers (because the resident commits his or her own capital to the property) too many rented social homes on a given development raise fears about possible anti social tenants and perceived risks that the prices of private market housing maybe depressed. This may discourage developers in their plans who may seek better opportunities elsewhere.

3.22 Section 106 agreements have become an increasingly important mechanism for securing affordable housing with around 40 per cent of the Housing Corporation’s Approved Development Programme now being spent on these types of sites (Figure 18). However, to ensure value from available resources the Housing Corporation’s preference is that affordable housing on such sites should, wherever possible, be built without grant.

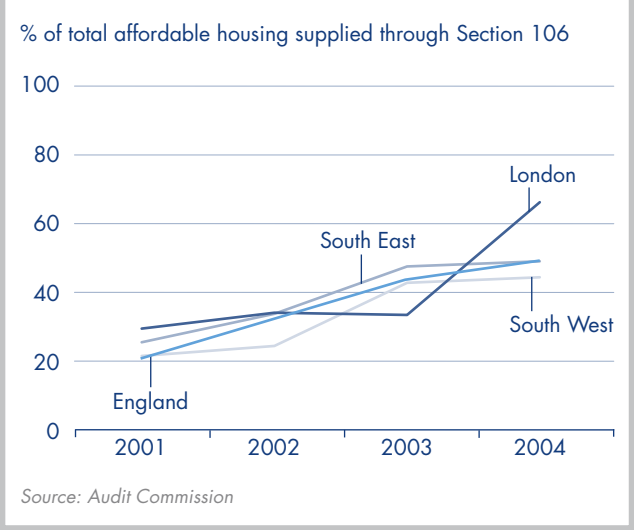
3.23 Section 106 agreements are a complex part of the delivery chain (Figure 19) and problems in negotiating these agreements were cited by developers and housing associations in interviews and at our national workshops as one of the primary barriers to delivering more affordable housing (Figure 20 on page 54).

3.24 While some local authority staff are commercially minded and confident in making decisions quickly, in other authorities developers are frustrated by staff who are slow to make decisions; for example local authorities often lack the capacity needed to deal with complex negotiations and there is a shortage in particular of skills in development finance techniques in local authorities (for example in calculating “residual valuation ” – which assesses the likely profit from a development, taking into account a range of factors including the levels of planned affordable housing). Also, with the current shortage of qualified planners, property developers find that they are often dealing with temporary, agency staff who do not have a good enough knowledge of local needs or the wider Sustainable Communities agenda.

“There needs to be a balance between rigid planning guidance (this at least brings us clarity) and flexibility in negotiations around particular sites. The more inflexible a local authority is the more likely it is that the developer will walk away.”

Developer

18 Section 106 agreements have become an increasingly important mechanism for securing more affordable housing



“The vast majority of local authorities will not negotiate on the percentage of affordable housing they require, or even the tenure mix. Sometimes meeting the local authority demands would leave a negative land value and as a result sites will not come forward for development.”

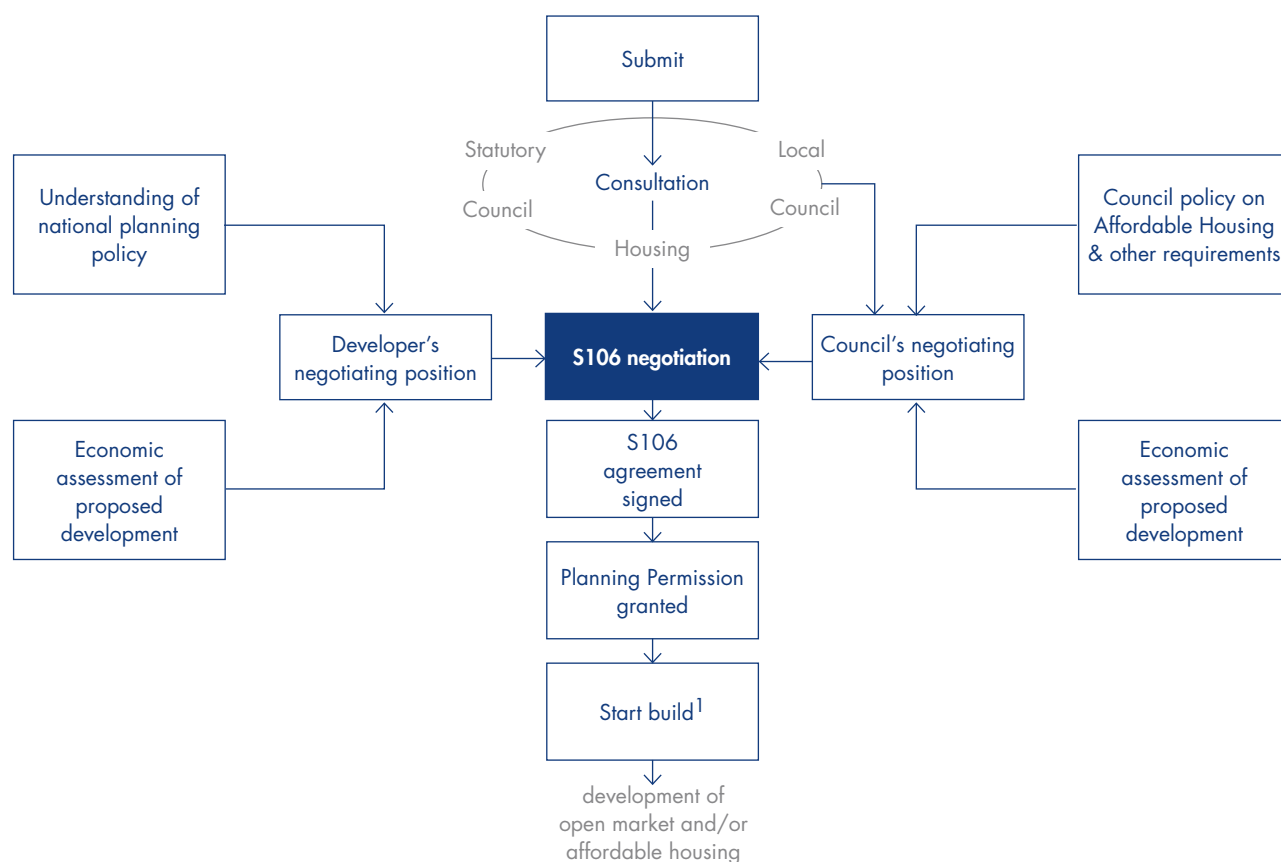
Developer

Source: National Audit Office and Audit Commission examination

3.25 Local authorities would like developers to approach Section 106 with “an open book” providing site-specific financial information such as expected profit margins. Where there are good relations between developers and local authorities, some “open book” negotiations are taking place, but most developers are reluctant to do so because of commercial sensitivities.

3.26 However, progress is being made in handling negotiations with developers. For example, Plymouth’s housing enabling team includes representatives from valuation who add expertise in negotiating with developers, understanding land values and viability issues. And in 2003, the Audit Commission Comprehensive Performance Assessment found that most (non-stock owning) district councils had made significant improvements in their use of Section 106 agreements. Action includes:

19 The planning process with Section 106 agreements is long and complex



Source: Audit Commission

NOTE

¹ Planning permissions expire after 5 years but this is under review and may change to 3 years.

- **Early engagement with applicants** – early communication with applicants can help to speed up the process of seeing projects through the planning system. An increasing use of ‘pre-application processes’ by councils means that developers will have a clearer idea of local authority conditions and priorities at a very early stage. But the best performing councils go further, carrying out a continuous dialogue with developers, involving them in strategic planning and in formulation of the development plan.
- **Staffing and use of external resources** – some authorities are putting in place dedicated Section 106 officers as an addition to the planning department and have seen major reductions in time taken to reach Section 106 agreements. Also, having a single point of contact for applicants works well. Some local authorities are considering allocating extra resources by using private legal firms to process agreements and joint provision with other councils. Involving other agencies in negotiations has also proved to be helpful.
- **Re-engineering the process** – by introducing parallel (rather than consecutive) planning applications and standardising Section 106 negotiation processes, South Hams council have reduced the time taken to secure agreement to weeks rather than months. These and similar initiatives are welcomed by property developers and housing associations in those areas that have begun to implement them.

20 Key barriers to reaching efficient and effective decisions on planning agreements

The variation in time taken to agree Section 106 agreements	For some authorities, an elapsed time of 60 weeks is average while for others agreement is reached within 13 weeks. This makes it very difficult for property developers to business plan and to predict when construction can begin.
Inconsistencies between approaches to planning obligations	Developers must invest significant time investigating the different approaches towards affordable housing taken by different local authorities.
Complex supplementary guidance	Many councils produce extra guidance in addition to their local plan and local housing strategy. Although this is usually helpful because it provides a framework which gives developers greater certainty, it does create an added layer of complexity for applicants.

Source: National Audit Office and Audit Commission examination

3.27 English Partnerships currently provides a support service to local authorities in the South East, London and the East through the Advisory Team for Large Applications. This pilot project (funded by ODPM) provides advice to local authorities who are dealing with large (over 500 units) housing applications. Local authorities welcome this initiative.

3.28 ODPM is currently working on good practice guidance to support Circular 05/2005. As part of this guidance, the Law Society has been working on a draft standard Section 106 agreement. The Audit Commission is also due to undertake a short study looking at the effectiveness of using Section 106 agreements as a way of securing community benefits, including affordable housing.

3.29 There is clear evidence that there has been a shift in approach towards affordable housing on behalf of developers. Seventy per cent of local authorities surveyed have found developers to be more positive now in their approach towards providing affordable housing. The three main reasons given for this shift are, a greater acceptance on the part of developers to accept this approach (40 per cent); developers recognising that they have no choice (17 per cent); and developers having a greater understanding of what is actually needed. Some local authorities are seizing the opportunity to capture this shift in attitude by engaging with developers at an early stage in their planning proposals and by including them in the production of their local housing strategies and in formulating approaches to Section 106.

Implications for achievement of the target

3.30 Problems in negotiating Section 106 agreements were cited repeatedly by developers and housing associations as one of the primary barriers to delivering more affordable housing.

Implications for efficiency – key cost drivers

3.31 Where local authorities have set a clear agenda, establishing from the outset with delivery partners what they expect Section 106 sites to deliver in terms of tenure mix (through the production, for example, of clear Supplementary Planning Documents), negotiations can commence on a much clearer footing. This, combined with a shared knowledge of how Section 106 agreements work, means that deals can be struck on planning with minimal delay.

Whether, with an increasingly regional focus to housing, there is effective joint working across local authority boundaries

KEY FIELDWORK FINDINGS

- Joint housing needs assessments offer opportunities for increased efficiency and effectiveness and there is evidence of this starting to happen at a sub regional level.
- There is little sign of joining up over Section 106 negotiations.

Source: National Audit Office and Audit Commission examination

3.32 Housing markets do not conform to local authority boundaries and, increasingly, local authorities are having to work alongside their neighbours in both assessing housing needs and in planning for future housing provision. Eighty-eight per cent of local authorities surveyed for this study stated that the amount of partnership working between local authorities had increased in recent years; and seventy-eight per cent of local authorities in the South East, London and South West now work in partnership with other local authorities either “a great deal” (44 per cent) or “a fair amount” (34 per cent). In some cases, this was in response to Regional Housing Boards’ need to have a clear and consistent picture of housing markets and housing need across their regions. In others, such as London, the issue has involved funding decisions, with the creation of five sub regions as a basis for recommended allocations from the Regional Housing Pot.

Local authorities find significant advantages in working sub regionally

“The main advantage is that you can draw in increased funding and in regional areas of high demand you can ensure that the most urgent needs are being met”

Housing Director, South East

“There is a greater tendency not to worry if a neighbouring borough gets a large site, we can share that. It takes away artificial boundaries.”

Housing Director, London Borough

“We get resource savings on officer time and we can draw in funding partners”

Housing Director, South West

“Economies of scale are better, so having a critical mass to attract resources, flexibility of being able to move resources around and to share expertise”

Housing Director, South East

“We don’t have time to each individually re-invent the wheel, and we’re not pulling in separate directions. Working together means a consistency in approach”

Housing Director, South East

*Source: National Audit Office and Audit Commission examination
MORI telephone survey*

3.33 Most partnership activity between local authorities revolves around producing housing strategies and housing needs surveys.

3.34 But despite greater working across local authority boundaries, councils are not developing shared lists of preferred partner housing associations, leaving potential for protracted negotiations about partners when undertaking joint developments. Also, the Housing Corporation’s new partnering approach means that 80 per cent of development funding is now channelled through just 70 housing association partnerships. Local authorities have not yet worked out how to respond to the more restricted choice of partner housing associations.

3.35 There is also little sign that local authorities are working to develop joint approaches to Section 106 negotiations. This is a cause of frustration to developers who must spend time understanding the different approaches and expectations as expressed in the supplementary planning guidance of local authorities within particular sub regions.

3.36 Developers and housing associations reported in our workshops that they were often left confused about the status of sub regional processes. Apart from in London, where housing sub regions have been created after discussions between local authorities and the Housing Corporation, sub regional work is usually down to the initiative of local authorities. This has resulted in sub regional work being undertaken differently between and within regions. The potential efficiency gains offered to

CASE STUDY 7

Working across local authority boundaries is an effective way to engage with developers and housing associations

The West Berkshire Housing Action Group includes developers as well as representation from local authorities housing associations and local employers. This assists in the delivery of affordable housing, for example, by negotiating an agreed approach to Section 106 agreements.

Source: National Audit Office and Audit Commission examination

local authorities when conducting joint research into housing needs are not always fully realised because local authorities continue to conduct and commission local research despite having undertaken sub regional research.

Implications for achievement of the target

3.37 Working with neighbouring local authorities brings greater economies of scale with more effective use of resources, improved sharing of best practice, greater consistency in approach to delivery (an important factor for housing associations and developers) and more access to funding. Benefits are put at risk from being realised however if sub regional activity is not set out clearly and communicated well to developers and housing associations.

Implications for efficiency – key cost drivers

3.38 Sub regional cooperation, whereby local authorities work together, offers potential efficiency savings; for example by sharing scarce housing and planning staff, by undertaking joint Housing Needs Assessments, and by establishing common approaches to planning obligations. In a situation where there is a need to involve both regions and local authorities in funding decisions, some complexity is inevitable in how this operates. It is therefore important that complexity is managed so resources are not wasted. Savings are at risk, for example, if local authorities do not reduce the amount of work undertaken locally which duplicates work done at a sub regional level.



CONCLUSIONS

Against a pressing need for large increases in the supply of affordable housing, local authorities' role has evolved from using public funds to commission new house building to one where they have no direct funding for new housing but have significant impact on the supply of new homes through their control over planning.

Many local authorities have not taken on the leadership role needed to convince their communities of the need for developing more affordable housing and to allay fears by involving people in how developments might be designed and delivered.

The speed with which local authorities grant planning permission has a significant impact on how quickly developers can build and can push up costs. Our fieldwork indicates, however, that confusing signals from local authorities, sometimes from different parts of the same local authority, make it unclear to developers what is expected of them, leading them to waste time on development proposals that will not be acceptable.

Local authorities also need to better understand the market place and the commercial risks faced by developers, so that realistic positions are taken from the outset in respect of the balance between social, intermediate and private housing, so that deals can be done with minimal delay.

Where local authorities are using good practice in relation to Section 106 processes, the time needed to broker agreements can be reduced from weeks to days, with savings to all parties.

Where local authorities are taking opportunities to work with adjacent authorities to develop affordable housing, there is considerable scope for realising efficiencies through joint procurement of housing needs surveys and sharing of scarce planning and housing staff.

GLOSSARY

Affordable housing	There are two types of affordable housing – social rented housing and intermediate housing. Social rented housing is housing that is supplied by either local authorities or housing associations and is provided to those in most need at a subsidised rent. Social rented housing is managed by local authorities or by Registered Social Landlords, which may be housing associations or Arm’s Length Management Organisations. Newly built social rented housing is almost always managed by housing associations, which are regulated by the Housing Corporation. Intermediate housing: is designed to help people enter home ownership. There is a wide range of intermediate schemes.
Arm’s Length Management Organisations	An organisation that runs social rented housing at arm’s length from the local authority. The homes are still owned by the local authority. To set up an arm’s length management organisation, councils must show that the idea is backed by a majority of tenants
Beacon Council	The Beacon Scheme identifies excellence and innovation in local government. The scheme exists to share good practice so that best value authorities can learn from each other and deliver high quality services to all.
Comprehensive Performance Assessment (CPA)	A measurement of how well councils are delivering services to local people and communities, and how well they are run.
Delivery chain	Business concept, used increasingly in the public sector, which refers to the systems, processes and organisations through which government seeks to achieve its strategic and policy objectives.
Delivery plan	Plan setting out what a project or programme intends to achieve, when, where and at what cost.
Development plans	Local authorities have a statutory duty to prepare a development plan for their area which allocates land uses and, along with associated guidance, sets out policies related to issues such as building densities. The Planning and Compulsory Purchase Act 2004 replaced the existing system of structure, local and unitary development plans with Regional Spatial Strategies and Local Development Frameworks.
English Partnerships	English Partnerships is the national regeneration agency, supporting high quality sustainable growth across the country. It is a key delivery agency for the urban renaissance and the Government’s new Sustainable Communities agenda.
Government Office (GO) for the Regions	Nine Government Offices bring together the English regional services for government Departments.
Housing association	Non-profit making (voluntary) bodies that build and manage affordable rented and intermediate ownership accommodation. Partly funded by government through the Housing Corporation, they also raise cash from banks and other private sector sources.

Housing Corporation	A public body responsible for regulating Registered Social Landlords in England and for allotting government grant funding for new and renovated affordable rented homes. It sets registration criteria for would be RSLs and performance standards for them to meet in their operations and housing services. The Office of the Deputy Prime Minister is the sponsoring government department for the Housing Corporation.
Housing market	A dynamic system comprising stocks (stocks of dwellings, stocks of households) and flows (change in dwelling stock; change in household stock).
Local Authority	Local government bodies that delivers local services to the community through democratically accountable leadership to local communities.
Local Housing Strategy	A document produced by the local housing authority setting out need, priorities and a clear action plan to deliver. The strategy covers all tenures not just social housing. The Housing Act 2003 gave such strategies for the first time a statutory basis by providing the Secretary of State with the power to compel production should he or she deem it necessary to do so.
Office of the Deputy Prime Minister (ODPM)	Responsible for local and regional government, housing, planning, fire, regeneration, social exclusion and neighbourhood renewal.
Regional Spatial Strategy	This details issues such as how many homes are required to meet the future needs of people in the region, or whether the region needs a new major shopping centre or an airport. Regional Housing Strategies are aligned with the relevant Regional Spatial Strategy. Secondly each local planning authority is preparing a Local Development Framework that sets out how the local area may change over the next few years. The Local Development Framework will supersede the current local development plans.
Public Service Agreement (PSA)	PSAs set out Departments' aims, objectives and key outcome-based targets to provide a clear statement of priorities and direction. They include value for money targets and a statement of who is responsible for the delivery of the targets. PSAs are intended to help Departments to focus on delivery and work effectively with the bodies they need to get things done. PSAs form an integral part of the spending plans set out in Spending Reviews.
Registered Social Landlord (RSL)	This is the technical name for social landlords that are registered with the Housing Corporation. Most are housing associations, but there are also trusts, co-operatives and companies. Housing associations are run as businesses but they do not trade for profit. Any surplus is ploughed back into the organisation to maintain existing homes and to help finance new ones.
Section 106 agreement	The Town and Country Planning Act 1990 (as substituted by the 1991 Planning and Compensation Act): Gave local authorities powers to negotiate community benefits, as part of the planning process (Section 106 agreements). In the last five years, this provision has been increasingly used to provide affordable housing.
Social Housing Grant	A generic term used to describe funding to housing associations from the Housing Corporation.

Spending Review

Spending Reviews set firm and fixed three-year Departmental Expenditure Limits and, through Public Service Agreements, define the key improvements that the public can expect from these resources. Successive Spending Reviews have targeted resources at the Government's priorities, have matched these resources with reforms, and have set ambitious targets for improvements in key public services: in education, health, transport and criminal justice.

Strategic Enabling role

Local authorities have a 'strategic enabling role' in relation to housing whereby they set the strategy and vision for housing (of all tenures) in their area and 'enable' other providers to meet the housing demands of their area.

APPENDIX 1

Methodology

Stage	Timing and resource
1 National level	
a Preliminary mapping of the whole delivery chain including workshops with officials from ODPM, identifying key government initiatives, funding and programme design.	National Audit Office November – December 2004
b Meetings with ODPM, Treasury and the Prime Ministers Delivery Unit to identify key issues and barriers to effective delivery.	December 2004 – June 2005
c Analysis of Housing Corporation data on housing association performance and the Audit Commission Comprehensive Performance Assessments of local authority performance on balancing housing markets.	Audit Commission and National Audit Office
d Structured interviews with representatives of national bodies including:	January – April 2005
■ English Partnerships	Audit Commission and National Audit Office
■ The National Housing Federation	
■ The Council for Mortgage Lenders	January – April 2005
■ The Local Government Association	
■ The National House Builders Federation	
■ The Chartered Institute of Housing	
■ National Association of Citizens Advice Bureaus	
■ Glen Bramley, Herriot Watts University, and member of IPPR Commission on Sustainable Development in the South East	
■ Developers	
2 Regional level	
This report covers three regions, London, the South East and the South West – all areas of high demand. We excluded the growth areas that were defined in the Sustainable Communities plan from the scope of this study as these have separate and new delivery mechanisms.	
e Desk top analysis of Regional Housing Strategies examining and comparing methodology, performance measurement, links to other regional strategies, such as Regional Economic Strategies, and links with local housing strategies in the case study local authorities.	Price Waterhouse Coopers February 2005
f Structured interviews with Regional Government Offices.	
g Participant observation at meetings of regional housing officers in the South East (Hampshire) and the South West (Devon).	National Audit Office and Audit Commission April - May 2005

Stage	Timing and resource
<p>3 Local level</p> <p>Six case study local authorities were selected, 2 in each of the 3 regions covered in this report, Merton and Hammersmith and Fulham in London, Arun and Chichester in the South East and South Hams and Plymouth in the South West. The case study areas were chosen to reflect a balance between rural and urban contexts and performance against the Audit Commission's Comprehensive Performance Assessment.</p> <p>h Structured interviews with local authority Strategic Housing Directors, Planning Directors and other local authority officers with a housing role.</p> <p>i Structured interviews with Directors of Housing Associations working in our case study areas.</p> <p>j Structured interviews with Developers working in the case study areas.</p> <p>k Telephone survey of 50 local authority senior housing directors in the South East, the South West and London. This represented a sample of 139 local authorities.</p> <p>l Focus groups amongst housing advice workers from the voluntary and community sector were held in each of the six local authority case study areas as well as a region-wide focus group in each of the three regions. The following issues were explored:</p> <ul style="list-style-type: none"> ■ Levels of awareness and understanding of government targets and policies to achieve a better balance between supply and demand for affordable housing amongst housing advice workers ■ The barriers faced by those who provide advice and support to people in housing need ■ The effectiveness of the co-ordination amongst agencies involved in housing at the local level ■ The level of involvement and participation that housing advice workers and organisations have had in producing housing strategies 	<p>National Audit Office, Audit Commission and Price Waterhouse Coopers</p> <p>March – May 2005</p> <p>MORI</p> <p>April 2005</p> <p>MORI</p> <p>February – May 2005</p>
<p>4 Synthesis of levels</p> <p>Two workshops were held, one in the South West and one in London (including representation from the South East region), where samples of the whole were brought together. The objectives were to:</p> <ul style="list-style-type: none"> ■ Understand weaknesses and strengths within the current delivery chain ■ Generate ideas for improvements to effectiveness and efficiency ■ Identify good practice ■ Consider early findings of the study <p>The workshops included representatives from the Housing Corporation, English Partnerships, Regional Government Offices, Regional Development Agencies, developers, housing associations and local authorities.</p>	<p>National Audit Office, Audit Commission and Price Waterhouse Coopers</p> <p>May 2005</p>

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