

## Financing approaches and mechanisms which councils have used to increase house building

There is not a single approach or economic assessment of finance and value to property based transactions. Different parties have different abilities to contribute, create or drive value from a proposition. Many levers which create value to plug so called 'viability gaps' are about the timing, disposal and certainty around different parts of a development. There are common approaches which are being used by councils to improve the likelihood of developments coming forward and/or to generate an investment return for themselves.

**Expanding opportunities:** There are opportunities for councils to lever-in private finance and housing related expertise to support local housing activity.

### Councils directly raising and providing funding for housing activity

Section A:	Councils directly raising and providing funding for housing activity	When / Why use / What issues raised?
<b>A1</b>	Receipts from section 106/ planning gain	<ul style="list-style-type: none"> <li>To support affordable and specialised housing</li> </ul>
<b>A2</b>	Other capital receipts, for example from land sales	<ul style="list-style-type: none"> <li>Are there smaller parcels of land which can be sold to generate cash to bring another site forward or to provide specific support</li> <li>Is it HRA or non HRA land – does there need to be consent/ discretion exercise to achieve overall purpose</li> </ul>
<b>A3</b>	HRA borrowing	<ul style="list-style-type: none"> <li>Is there HRA headroom</li> <li>Can it be utilised</li> </ul>
<b>A4</b>	General fund borrowing (which includes council owned housing vehicles)	<ul style="list-style-type: none"> <li>Is prudential borrowing available</li> <li>Can it be utilised</li> </ul>
<b>A5</b>	Through finance or investment raised in off balance sheet partnership vehicles to which the local authority is a partner	<ul style="list-style-type: none"> <li>Is there appetite to become involved in a partnership or other arrangement</li> <li>How could that help better apply and harness available resources</li> </ul>
<b>A6</b>	From sale and leaseback arrangements, or long lease and leaseback arrangements	<ul style="list-style-type: none"> <li>Councils are used to managing commercial assets to optimise cashflow and outcomes – is there scope for similar arrangements in residential and/ or community assets (including health, education etc)</li> </ul>

**Councils creating and adding financial value for viability for development and/or to create an investment return:** There are opportunities for council to create and add value in developments

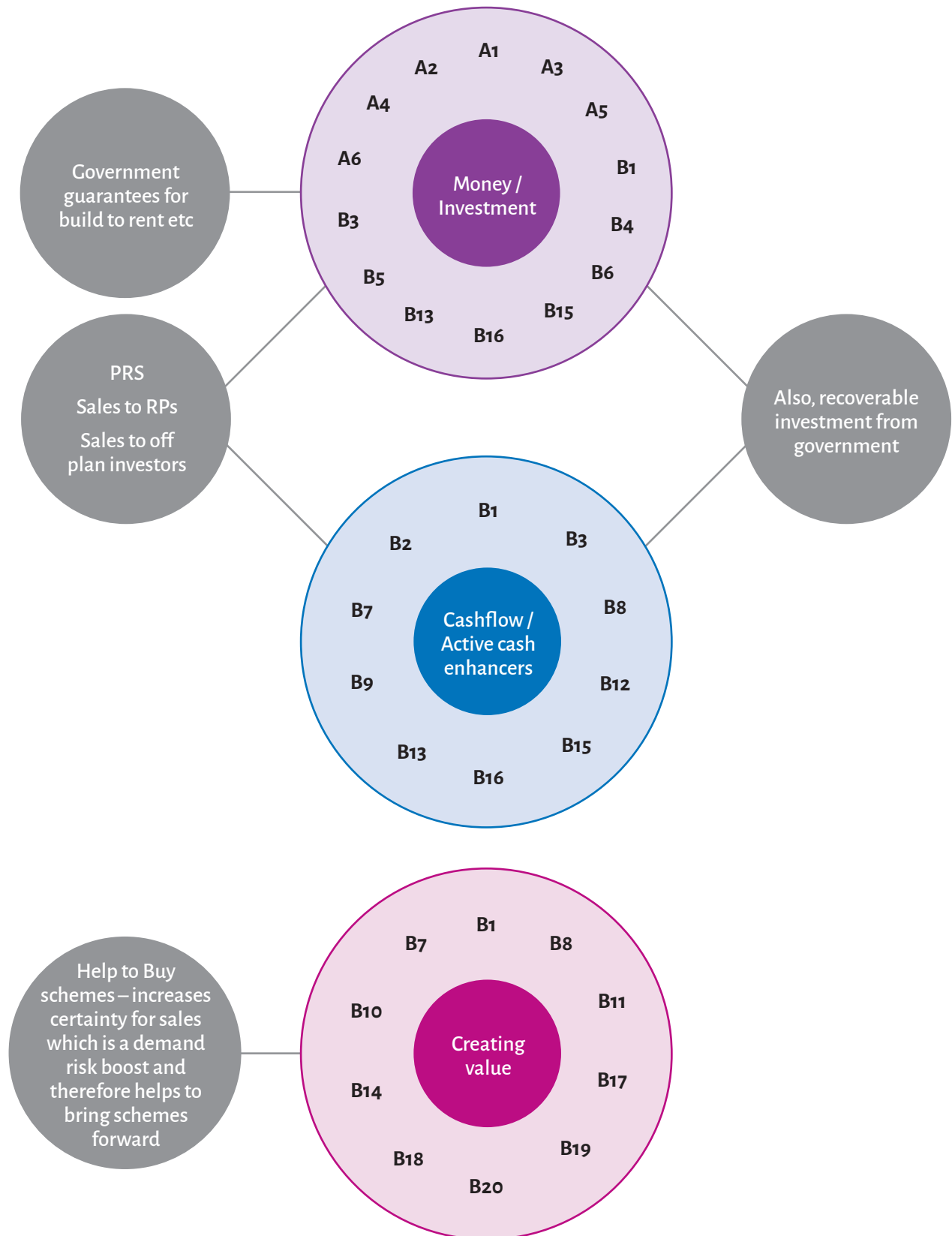
Section B:	Councils creating or adding value to developments to improve viability and/or create an investment return	How can this approach help?
B1	<p><b>Whole Market Approach to Housing:</b> providing a range of market housing. (Build Solution)</p>	<p>A full tenure development approach which enables a full range of housing across all tenures. The application of different mixes of homes is associated with enabling effective cross subsidy for affordable and low cost starter homes. Additionally, different build phasing, different owners and ‘changed use’ provision over the life of the scheme can create value so that the cashflow, development finance requirements at different times and sale certainties make a site more rather than less viable.</p>
B2	<p><b>Deferred consideration for land:</b> Selling land under deferred consideration (buy now, pay later) arrangements including the use of development licences on council owned land</p>	<p>This approach can improve financial viability of a site in circumstances where development finance is difficult to obtain and thereby enable the site to proceed to development where it would not otherwise do so.</p>
B3	<p><b>Selling part interest:</b> Splitting the value of its land to make it more affordable, by selling a fixed term long lease interest now and retaining the value of the freehold interest</p>	<p>This approach can improve financial viability of a site in circumstances where development finance is difficult to obtain and thereby enable the site to proceed to development where it would not otherwise do so. (NB Community Land Trusts in this context).</p>
B4	<p><b>Converting land consideration into an investment</b> within a development partnership</p>	<p>This approach can improve financial viability of a site in circumstances where development finance is difficult to obtain and thereby enable the site to proceed to development where it would not otherwise do so.</p> <p>It can also provide councils with an ‘equity uplift’ from its investment – converting the capital into an income stream.</p>
B5	<p><b>Creating land value</b> through master-planning and permissioning their own land</p>	<p>This can enable councils to maximise their financial return from their own sites. However, it is most effectively used in order to meet overall community issues on larger sites, such as ensuring the best mix and infrastructure for an area.</p>
B6	<p><b>Creating land value</b> by acquiring land, master-planning and permissioning acquired land</p>	<p>This can enable councils to maximise their financial return from their overall available resources, by buying and improving the value of land. However, it is most effectively used in order to meet overall community issues, such as the acquisition of derelict and strategic sites to bring forward for development quickly.</p>

<b>B7</b>	<b>Active Land Assembly completion:</b> using CPO and purchase opportunities to complete a private sector led completion	This is generally essential for town centre or ‘in use’ regeneration activities.
<b>B8</b>	<b>Property Interest Purchase (eg Housing/ Shops):</b> buying up private sector housing or shops on a one-off or trickle basis in order to effect a community change	Property interest purchase can be part of a larger scheme, as B7 refers, or it can be part of a one-off or trickle intervention over time. For example, a shop purchase in a parade of local shops to kickstart local investment by other shop owners.
<b>B9</b>	<b>Deferred Fee Payment:</b> Agreeing different arrangements for consultants, arrangement and advisory fees, for example through deferred payment arrangement from sales	This can improve viability overall on sites but is likely be most beneficial where there is a shared upside on accelerated disposal, as opposed to simply using cashflows of service sector/ professional organisations.
<b>B10</b>	<b>Guarantee purchase agreement:</b> Providing a guarantee purchase agreement, whereby a council agrees to buy completed homes from a developer if a buyer cannot be found on the open market	By providing mitigation for sales risk this approach can assist developers in securing development finance.
<b>B11</b>	<b>Nominations agreement (no guarantee):</b> Entering into nominations agreements whereby a council agrees to supply (nominate) tenants for homes which when completed will be sold to a housing association or other private landlord for renting	By providing nominations agreements, this approach can assist landlords in raising long term finance to purchase new properties for renting.
<b>B12</b>	<b>Nominations agreement (rent/ minimum income guarantee):</b> Entering into a rent guarantee nominations agreement whereby a council agrees to guarantee rent for a minimum duration or amount as well as nominating tenants for rental accommodation	By providing nominations agreements with a guaranteed payment structure, this approach can assist landlords in raising long term finance to purchase new properties for renting. This can be a helpful action for smaller, start-up or specialised organisations. This can include, for example, student housing and care homes as well as social and affordable rent housing.  These arrangements were more common on larger institutional type arrangements (eg council to housing association). In recent times, these are also used for individual private rent arrangements and have been coupled with letting agency roles (see below).
<b>B13</b>	<b>Financial Support to new homeowners/ Shared Owners or Custom Builders:</b> Supporting financial assistance to purchasers of new developments, through help-to-buy style schemes and financial inclusion work, such as deposit savings schemes and rent to buy scheme	By providing local financial assistance, councils can alleviate sales risk, for example in an area of good employment but lower income employment.

<b>B14</b>	<b>Flexible Planning Approach:</b> Through demonstrating flexibility in the planning process. (Planning Solution)	This can deliver practical outcomes in a variety of ways and depending on local housing needs and circumstances. This includes the overall mix of housing and tenures over time.
<b>B15</b>	<b>Development Finance:</b> By providing development finance at commercially attractive rates of return, harnessing the lower cost funds available to councils	This can provide development finance at a rate which makes the overall scheme viable where it would not otherwise be so, or where lack of development funding is holding up the site being started. For example, utilising prudential borrowing.
<b>B16</b>	<b>Council Building Fund:</b> Creating a council housebuilding reserve or 'fund'. With a policy for requiring payment in lieu of on-site affordable housing to be paid into such a fund. For example, in dedicated full market rented schemes with payments in lieu of affordable rented on site provision	This can provide money for a council with a strong appetite for its own house building programme, usually on its own land by infill or regeneration.
<b>B17</b>	<b>Land Promoters and Development Licences:</b> working with specialist land promoters who arrange masterplanning, disposal of the parts of the site and drive through the agreed vision – without taking ownership rights on the land, for an agreed fee structure	This can enable specialist masterplanning and full market engagement without many layers of further council led procurement or complexity. Where councils are clear about the overall vision and do not need to micro manage sites, this is a strong addition to a council's toolbox.
<b>B18</b>	<b>Housing Activity Lists:</b> keeping lists of people who want to buy, shared own, custom build etc as well as traditional housing waiting list approach	Once of the biggest challenges in accelerating growth can be demonstrating that there is a demand to be met in a particular area which would support a higher building and higher absorption rate than the current run rate. Councils can help to develop a powerful case for housing appetite by active housing activity lists.
<b>B19</b>	<b>Letting Services:</b> Creating a council run lettings service for the private rented sector. Combining rent guarantees with service standards	Running lettings services can help councils drive up higher private rental standards and help to better manage temporary accommodation needs. These can be combined with deposit guarantees and rent payment guarantees where appropriate.
<b>B20</b>	<b>Utilising non-housing procurement frameworks:</b> utilising residential relevant procurement to streamline and accelerate housebuilding	There have been effective applications of procurement eg LIFT to harness new residential housing. Also, care homes.

### Identifying potential application of different finance and value techniques:

The 26 potential techniques can be used in more than one situation. This is an outline summary of where the particular technique may be applied to address or enhance an identified risk or create a particular opportunity:



## Driving in additional finance and value through timing of sales after building

Estate regeneration, and brownfield site regeneration, can be hard to put together successfully. Every site requires a mix of short and long term views and different parties. The 'cleaner' the development site, the more straightforward the financial risk assessment is likely to be. Where there is a longer term regeneration required, the value of social as well as physical management are essential to drive forward so that the value of regeneration itself can be created and realised more fully over time.

Additional value drivers include:

<b>C1</b>	Part Sale of Homes to ensure extra capital value is captured later	<p>Shared Ownership is used to capture increased value in a property over time for the benefit of the capital holder (for example, a housing association, council or consortium). This adds to the income return through enhanced sales proceeds over time and will give a greater overall return than low cost home ownership sales at the outset.</p> <p>However, modelling the likelihood of the exercise of staircasing of individual shared ownership properties can be challenging as it is a voluntary exercise.</p>
<b>C2</b>	Time limited structured residential lease to go into the sales market later	<p>Tenancies provided for a limited time (eg 10 -15 years) are used to capture increased value in a property over time for the benefit of the capital holder and to satisfy immediate affordable housing requirements. The property may be sold into the main market after the expiry of the agreed term or let on different terms.</p> <p>This provides flexibility within a portfolio and is likely to be used to provide higher initial affordable housing than the site might otherwise demonstrate on a more traditional viability approach.</p>
<b>C3</b>	Rent now, buy later with a termination provision on the initial lease	<p>Rent now, buy later takes a variety of forms. It is used here to demonstrate an approach where there is a fixed term tenancy at an affordable rent. At the end of the fixed period the tenant has the first right to purchase the property, at a market price. While the market price perhaps should be fixed as the initial market price of the property at the commencement of the tenancy (assuming a property uplift following regeneration), it may well be a discount to the assessed market price at the later date.</p>
<b>C4</b>	Rent to Buy Schemes	<p>Similar to rent now and buy later except that for tenants who have fully met their tenancy terms in all respects, they have an option to buy together with the conversion of a proportion of their rent paid to form a deposit for purchase. So a different take on providing a discount to purchase.</p>

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<b>C5</b>	Rent and Buy Schemes (purchase lease)	Rent and buy allows for the gradual purchase of a part of a property over time like a reverse mortgage. There is a structured profile which is agreed with the homeowner.
<b>C6</b>	Long leasehold	Long leasehold is still used as a mechanism to manage a split between initial and longer term values, to manage viability.
<b>C7</b>	Leapfrog schemes	Some councils in higher value areas have used their housing allocation effectively on sites for 'next move' longstanding social tenants who want to move to a new build home and help to build a strong community. This can free up stock elsewhere for tenants in statutory need.

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## Driving Value through Management and Community Assets

D1 is a tried and test method to enhance day one viability and future values. D6 is quantified in the creation of bespoke council partnership investment into PRS but can sometimes be overlooked in estate based regeneration.

<b>D1</b>	Effective asset and estate management	Effective asset and estate management can create value in a scheme to turn it into a viable regeneration proposal and to lock in the long term value.
<b>D2</b>	'Community' Assets	Schemes can sometimes be 'unviable' when community assets are not properly assessed in relation to their overall cost and contribution to the goals of the regeneration as a whole.
<b>D3</b>	Social regeneration Social Impact Bonds	Revenue spend on estates can be more than the physical spend on an area. Harnessing social regeneration alongside physical regeneration can create significant financial return potential to support regeneration goals.
<b>D4</b>	Community Sharing Structures	Long term regeneration requires community 'buy in'. Community Sharing structures can drive value creation, particularly when linked to actual financial value in social impact bonds/ social finance.
<b>D5</b>	Pre committed repair budgets	A regeneration may take place at a time where there is a requirement for major repairs investment. That there may already be provision made for this in existing estate plans can sometimes be overlooked in relation to assessing financial contributions available. This may be sinking funds, but may also be beneficial consequent accounting adjustments for reserves.
<b>D6</b>	Temporary accommodation spend reduction	Regeneration should result in more affordable accommodation available for the Council's own statutory responsibilities – reducing the Council's temporary accommodation budget.