



The local authority role in housing markets



The Chartered Institute of Housing

The Chartered Institute of Housing (CIH) is the professional body for people involved in housing and communities. We are a registered charity and not-for-profit organisation. We have a diverse and growing membership of over 22,000 people – both in the public and private sectors – living and working in over 20 countries on five continents across the world. We exist to maximise the contribution that housing professionals make to the wellbeing of communities. Our vision is to be the first point of contact for – and the credible voice of – anyone involved or interested in housing.

Chartered Institute of Housing, Octavia House, Westwood Way, Coventry CV4 8JP
Tel: 024 7685 1700 Email: customer.services@cih.org Website: www.cih.org

About ConsultCIH

CIH delivers consultancy and business support to housing and regeneration organisations across the UK through its trading arm, ConsultCIH. We provide these services in partnership with colleagues from across CIH and in association with a small, trusted group of associates.

As CIH, we are uniquely placed to deliver business and operational support services which are underpinned by the knowledge and values of a professional institute and which are informed by the latest research, agendas and developments in policy and practice. We have a strong track record of providing advice and assistance on a wide range of housing, care and support issues with many projects linking back directly to topics and issues on which CIH is particularly well placed to advise. This differentiates us within the market, and by working for and within organisations and communities we strengthen CIH's influence over the implementation of policy and practice on the ground.

We offer a tailored approach to our engagements to make sure that our advice and assistance is responsive to the more challenging times in which we work. In this way, you are assured that our work reflects the latest policy agendas as well as the need to deliver more and better services using lower amounts of finance and funding.

4 Riley Court, Millburn Hill Road, University of Warwick Science Park, Coventry CV4 7HP
Tel: 024 7647 2720 Email: info@consultcih.co.uk

This report presents the main messages from a recent CIH roundtable about the local authority role in shaping housing markets, including the role of the tenancy strategy. Our thanks go to all who participated in that discussion.

© Chartered Institute of Housing April 2011
Registered charity no: 244067/R
Written by: Gill Leng and Abigail Davies

Code: 499
Photographs by: istockphoto.com

Whilst all reasonable care and attention has been taken in compiling this publication, the authors and the publishers regret that they cannot assume responsibility for any error or omission that it contains. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise without the prior error or omission of the publishers.

Foreword



It's over 5 years since CIH started work on re-defining the strategic housing role and helping housing professionals to develop the skills and knowledge to deliver it effectively. Understanding of the importance of the role grew, new skills and practices emerged, and a cohort of strategic housing professionals began to identify themselves as a distinct group.

And then the world changed, dramatically. The significant changes in the economy, public funding, national policy, and local decision making powers are putting real pressures on capacity and capability to deliver an effective strategic housing role.

Expectations on local authorities are high, and at CIH we're very aware of the challenges people working on strategic housing are facing. We can also see the strong need and desire to ensure that decisions made now are the right ones for communities for generations to come.

We have long known that proactive work to shape housing markets is central to the creation and maintenance of strong communities and economies. The first of our new publications on strategic housing re-states this important argument and sets out some priority actions for local authorities and their partners in the face of a very different operating environment.

This paper has been heavily informed by the thoughts and ideas of local authority officers and other housing and finance professionals with a key interest in an effective local authority strategic housing role. I'm always proud of the sector's commitment to thinking things through and identifying appropriate responses in the face of change and challenge, and I'm pleased we've been able to capture these thoughts on strategic housing to support its development at a time when it is much needed.

CIH is offering a new range of services to support strategic housing work in this rapidly changing environment, and I hope you will make use of the information, practical support and guidance, skills development, and opportunities to share your thoughts and concerns with others which we'll provide in coming months.

Sarah Webb

Sarah Webb CBE

Chief Executive

Chartered Institute of Housing

Executive summary

This paper is intended to prompt and inform a dialogue between local authorities, registered providers, and other stakeholders with a role in the local housing market. It presents the main messages from a recent CIH roundtable about the local authority role in shaping housing markets, including the role of the tenancy strategy.

The paper illustrates that:

1. The introduction of affordable rents and fixed term tenancies highlights that the local authority has a critical role to play in understanding and shaping housing markets for the future

- Local authorities need to begin work now to understand and shape their housing markets with partners, regardless of the expected duty to have a tenancy strategy in 2012
- Councillors, as democratically elected local leaders, need support to understand the possible impact of current proposals on their local housing markets and the options available to manage this impact positively
- Some fundamental barriers to developing new housing remain, and action is needed to overcome them.

2. A whole market approach is needed when trying to understand and shape housing markets

- Market understanding in the future has to be 'up-to-the minute', at a neighbourhood level, robust and shared
- Closer attention should be given to the role of existing housing, the households living there now, and the potential for these homes to provide for others in the future
- The ability to attract investment into local housing markets requires understanding of the conditions that make investment attractive
- Understanding of markets should be linked to a better understanding of the population, including what drives their income and their housing choices
- Consideration of the relationship between housing markets within and outside the local authority area is still needed.

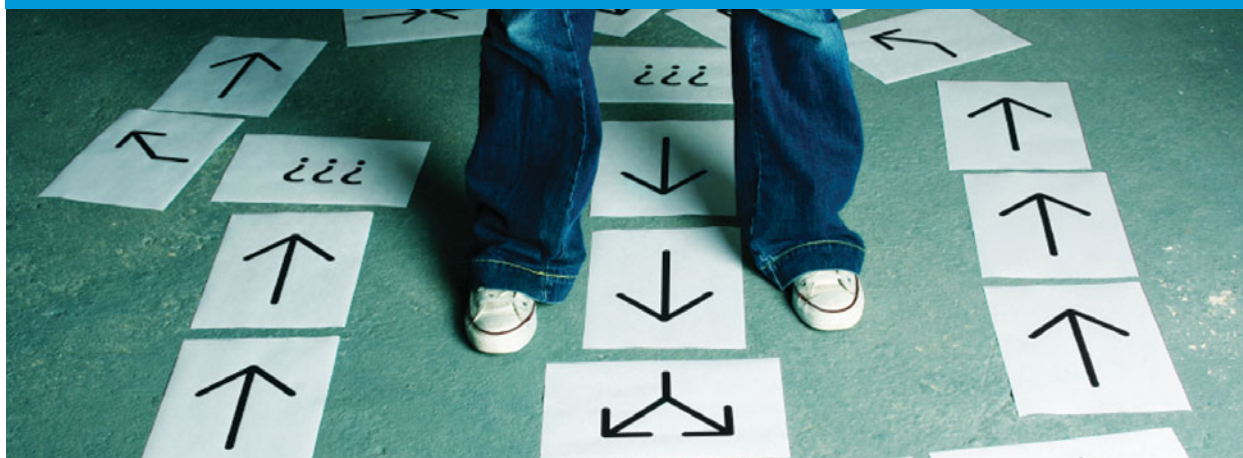
3. Approaches to shaping housing markets locally have to be more holistic, dynamic and engaging

- A clear framework for all activity under local authority control or influence will help to manage the impact of activity on markets and on desired outcomes
- Local partners need to know which local powers and policies have and have not worked in the context of the wider housing market.

4. The process of developing a tenancy strategy – the market framework – offers an opportunity for a meaningful conversation with partners who have a stake in the local area

- There is still time to hold conversations with registered providers about affordable rent and fixed term tenancies, and these should be viewed as the start of more regular engagement. The local relationship with the HCA also needs some attention
- Local authorities must give housing strategies teeth if power does not come from legislation. Working with local residents and other stakeholders will enable this.

1. Introduction



Pressure to 'get housing right' for the sake of local economies and communities now and in the future is significant. Housing provision and supply is needed to support or kick start local economies – this involves getting the correct housing offer as well as supporting house building as an economic activity. Local people are experiencing reductions in income and ongoing problems of housing affordability, and they welcome interventions that help them meet their housing needs. Social landlords are having to make big decisions about investment, new development, tenure and allocations – decisions which can change the shape and operation of an area's housing offer. The way local authorities, developers, registered providers, private landlords, other businesses and services, and members of the community respond to all these pressures in the housing market must be coordinated and joined up to secure the best long and short term outcomes for local areas.

Although times are tough, there is an opportunity to think again about what local authorities and their partners are trying to achieve, and how this is now possible within the new policy and financial environment. It is essential that this thinking is done with partners (including the community and customers) so that priorities can be agreed, support built, actions coordinated, and stronger communities maintained and created.

The first of our new publications on strategic housing will help you to identify what housing market-related information, behaviours and activities should be pursued so that you can be proactive in responding effectively to changes and directing activity towards positive local outcomes. Importantly, this guidance is not about finding ways to comply with new policy. It's about working with new policy to deliver what the local area needs.

2. The crucial role of the local authority



The introduction of affordable rents and fixed term tenancies highlights that the local authority has a critical role to play in understanding and shaping housing markets for the future

Local authorities need to begin work now to understand and shape their housing markets with partners, regardless of the expected duty to have a tenancy strategy in 2012.

Despite the real pressures around owner occupation and private renting in most areas, recent changes in investment models and expectations for social housing have drawn focus for local activity on to this tenure. There is a shared view that the current government approach to housing, particularly through the Homes and Communities Agency framework, is simply to deliver numbers in the short term, without real consideration of longer term sustainability. Local authorities and registered providers need detailed assessment of the likely impact of reform of social housing investment and management so they can consider and manage the associated impact and risk on their business and/or area. It is unlikely that this level of detail will come from DCLG. In addition, it is clear that local authorities are expected to manage the current short-term approach so that it contributes to, rather than detracts from, sustainable outcomes in the longer term.

An explicit and strategic approach to tenure in an area can help to manage the approach appropriately. In practice, if not in law, the tenancy 'strategy' has to be more than a document that describes how an authority expects registered providers to manage access to, and rent levels for, affordable and social rent housing stock. This is because:

- The proportion of the local population living in these tenancies is generally small, and their housing needs and solutions are not in isolation from the wider market
- The housing market does not stand still; we do not know yet what impact the economy, welfare reform and use of affordable rent and flexible tenancies will have on future market and consumer behaviours
- There is simply not enough room in the social housing sector to meet all needs and aspirations or to enable an effective housing contribution to wider local ambitions for the economy, health and wellbeing.

The tenancy strategy should be viewed as a dynamic framework against which action can be directed. It should be a reference point for all stakeholders in the housing market (not just registered providers) which is responsive to changing markets. This is discussed in more detail later.

Councillors, as democratically elected local leaders, need support to understand the possible impact of current proposals on their local housing markets and the options available to manage this impact positively.

Registered providers and local authority officers are struggling to understand how the housing market will be affected by wider reforms, e.g. welfare reform, in addition to housing-specific reforms. It is likely that there will be a lack of capacity locally as local authorities see staff numbers reducing. Local elections in May are expected to see a change in leadership and direction in some areas. Bearing in mind that the local authority approach to markets is not solely driven by the HCA's framework for affordable housing, we need to think about how we can support members to develop skills, knowledge and local policy effectively and efficiently for the longer term. This will be particularly important if planning reform delivers its expected powers for communities to influence new development.

Some fundamental barriers to developing new housing remain, and action is needed to overcome them.

Development viability remains a challenge to new supply, despite it being identified as an issue some time ago. Similarly, buy to let investment in the private rented sector remains subdued and institutional investment in private rent has not taken off. Local areas need to be aware of, and inform, progress made by organisations and government to address these challenges as well as taking their own actions where possible.

3. A whole market approach



A whole market approach is needed when trying to understand and shape our housing markets

Approaches to understanding housing markets fall short of what is needed now. Each local area needs:

- A current and local (neighbourhood) shared understanding of the housing market
- A detailed understanding of the whole housing market not just one part of it, such as social housing
- An understanding of the role of different markets within a local authority area, and within a wider geographic area
- An ability to understand change in the housing market and the drivers which affect it, from a policy and consumer perspective.

Market understanding in the future has to be 'up-to-the minute', and be at a neighbourhood level, robust and shared.

It is very difficult at present to predict what is going to happen in the housing market as various government reforms are implemented. The housing sector needs to be in a position where it can monitor the impact of change, identify trends and take action where necessary – including demonstrating to the government where things are not working.

Following existing Strategic Housing Market Assessment (SHMA) guidance will not deliver what local authorities need now. In general, SHMAs are undertaken infrequently (every

3-5 years) and do not go to a sufficiently granular level of the market. Some local authorities have commissioned additional work in recognition of this.

The process of responding to the HCA's affordable housing investment framework has highlighted the need for a neighbourhood focus and for joint working between local authorities and registered providers.

- Registered providers have been undertaking some quite detailed assessments of what affordable rents they can charge in which areas. In fact, a new market assessment 'industry' is being created within which different models are generating different assumptions, even within the same local authority area
- Registered providers have also been undertaking customer profiling to inform decisions on affordable rent. This is valuable information, particularly when used alongside an analysis of potential customers e.g. households on the waiting list
- Affordable rent proposals have highlighted that different solutions are needed in different places, even within a local authority area. Affordable rent does not work in all neighbourhoods, and in some cases shared ownership will actually be a cheaper option for some lower income households
- Many assumptions have been made about translation of the HCA framework proposals into delivery, but welfare reform and the weak economy could work against those assumptions. Local authorities, along with registered providers and the HCA, will need to understand whether these assumptions translate into reality and respond accordingly.

Closer attention should be given to the role of existing housing, the households living there now, and the potential for these homes to provide for others in the future.

Recent approaches to managing housing markets have primarily focussed on assessing markets with a view to plugging gaps with new housing supply. There has been a strong focus on the 'first time buyer' market, with very little attention given to the 'older owner occupier' market; and there have been assumptions that new supply is the solution to an improved 'housing offer' that will attract inward investment to an area.

New housing supply has never been the only answer, and in the current climate it has even less to contribute to shaping housing markets. We can already see that the private rented sector is now accommodating potential homebuyers who are unable to access mortgage finance, for example, and we can see the resulting constriction in private rented options for those households which traditionally accessed these homes in the past.

The ability to attract investment into local housing markets requires understanding of the conditions that make investment attractive.

More thought should be given to the conditions needed to attract and secure investment in our markets – in both existing and new supply across all tenures – and the action that we need to take to create these conditions.

There is a tendency to focus on the big investors and there is still some way to go here, for example to enable institutional investment in the private rented sector. If we focus on the smaller – but multiple – potential investors in our housing market would we would have a greater impact? What conditions do homeowners, with around £3 trillion of equity in their homes, need so that they will use their own resources to meet their needs and aspirations more effectively? What about the ‘accidental landlord’ market? Asking these questions will identify some fundamental challenges but collectively we need to grasp the nettle if we are to make any difference to patterns and outcomes of investment.

Understanding of markets should be linked to a better understanding of the population, including what drives their income and their housing choices.

Assessments of housing markets have actually taken little account of the behaviour of local populations and what drives it. Focus has been on current household income levels, travel to work times and the cost of housing. Perhaps if consideration was given to what is driving change in people’s lives and the likely resulting impact on the market, more informed action could be taken.

A significant driver for households’ housing choices in recent times has been the abrupt closure of wholesale market funding to the mortgage market during the credit crunch in 2008. This has had a profound impact on access to owner occupation, including low cost home ownership, as well as on prospects for mobility within that sector. We have also seen a rise in mortgage arrears and repossession. Everyone involved with decisions which shape housing markets should be aware of the continuing constraints on mortgage lending and tightened criteria which create a barrier for a large number of potential first time buyers, leading to suppressed demand for owner occupation and in some areas an overheated private rented sector. This is expected to continue for the foreseeable future, with little prospect in the short term of mortgage finance becoming more readily available to those without large deposits or with lower incomes.

Understanding older people’s position in the housing market is also important. In some areas this population makes up the majority of owner-occupation – health and social care policy wants to enable older people to remain living at home, and pensions are not worth what they were. What does this mean for the housing market? This context lies

behind fewer family homes coming onto the market. It also leads to equity rich households struggling with limited income/poor quality of life, and the resultant impacts of this stress on health and wellbeing. A joint assessment with others e.g. health and social care commissioners using the Joint Strategic Needs Assessment would help to inform some of our understanding in this area.

Consideration of the relationship between housing markets within and outside the local authority area is still needed.

Localism and the removal of regional planning targets might suggest that local authorities should just focus on their own housing market areas. The challenges of developing strategies and policies for housing across administrative boundaries are also likely to be in people's minds. However, none of these things change the fact that people travel across boundaries in their daily lives.

There are also some local drivers which mean a cross-authority understanding of housing markets will be particularly important:

- The potential (and encouragement) to share services across boundaries to reduce expenditure
- The development of Local Enterprise Partnerships – business and local authority partnerships to support growth, operating across more than one local authority area
- The creation of Health and Wellbeing Boards – these will operate at upper-tier authority level and it may therefore make sense to understand markets across district authorities
- The move to GP consortia for commissioning health provision, which are likely to operate across some local authority boundaries.

4. Improving approaches to shaping markets



Approaches to shaping housing markets locally have to be more holistic, dynamic and engaging

A clear framework for all activity under local authority control or influence will help to manage the impact of activity on markets and on desired outcomes.

A considerable amount of investment has been made in shaping housing markets in the last few years. However, less emphasis has been placed on properly understanding the impact of these interventions on the wider housing market and consumer behaviour. An understanding of these social and economic impacts is important to inform future approaches, as well as to prompt action where a negative impact is identified.

The focus of the HCA and the TSA in developing and assessing proposals for the affordable rent framework seems currently to be on viability of individual proposals rather than collective social impact. The local authority and residents will have a wider interest – value is not simply about numbers. A framework is needed to enable local stakeholders to relate new housing supply to value and sustainability.

On the basis that local authorities' interest is not just about new supply, this framework should also bring together, for example, the local approach to welfare benefits, spatial planning, the local investment plan, the allocation of affordable and social rented homes and the approach to homelessness. This framework is different to the strategy for housing which provides the overall direction to achieve a much wider set of outcomes. The framework has to be more dynamic and engaging; it has to inform and lead an ongoing debate. The tenancy 'strategy' could be this framework.

Local partners need to know which local powers and policies have and have not worked in the context of the wider housing market.

Because many of the government's intended reforms, particularly to the planning system, are still in development, we do not yet know exactly what capability a local authority will have to shape housing markets. Bearing in mind the need to take a more holistic view of the impact of interventions, useful questions to ask are 'what has worked?' and 'what is missing from our armoury?' In the short term this may enable those with an interest to influence government policy, and in the longer term will form part of explaining options and systems to people who will have some influence over local decisions e.g. local residents.

A relevant example of powers and policies which have not always worked well, but which may change in future, is where local authorities have used the planning process to require particular types of home to be built. Developers have not always been responsive to these requirements, because developer and local authority starting points are different. Developers base their assumptions on what they think people want and will pay for, whereas local authority policy is rooted in beliefs about what people, and the local area, need. Focus should be on enabling the local population and other delivery partners to understand these differences, and working together to overcome them.

5. Developing a tenancy strategy



The process of developing a tenancy strategy – the market framework – offers an opportunity for a meaningful conversation with partners who have a stake in the local area

The Localism Bill introduces the requirement for local housing authorities in England to have a 'tenancy strategy', which presents the matters that registered providers¹ should have regard to in developing their own tenancy policies. This includes:

- The kind of tenancies they grant
- The circumstances in which they offer different types of tenancy
- The length of tenancy terms
- The circumstances in which a further tenancy will be granted.

The requirement to 'publish' the strategy suggests that it will reflect a point in time; although in practice (as outlined in section 2) the 'strategy' has to be more responsive to the market if it is to be effective.

There are concerns about the new duty on local authorities to develop a tenancy strategy. Primarily, these are that:

- Development of the strategy comes too late in the day – the proposed start date is April 2012, whilst registered providers are required to submit proposals that include assumptions about affordable rents by 3 May 2011
- It has 'no teeth' – registered providers will only need to have 'due regard' to the contents of the strategy; and there is no clarity on what action could be taken if a registered provider does not adhere to it.

¹ The local authority's housing management function should also have regard to this

On the basis that the requirement to have a tenancy strategy will be enacted, now is the right time to think about what can be done to address these concerns, and what others, e.g. the HCA, need to contribute.

There is still time to hold conversations with registered providers about affordable rent and fixed term tenancies, and these should be viewed as the start of more regular engagement. The local relationship with the HCA also needs some attention.

The HCA's framework contract with registered providers should not be viewed as a 'done deal'. The HCA considers the contracts to be a very basic agreement with registered providers, and that the detail of delivery will be developed over time.

Between May and July 2011 there will be period of development and negotiation between the HCA and registered providers. The final contracts will be agreed based on the delivery of a number of homes, and will take into consideration the registered provider's proposal, an assessment of their viability by the TSA, and local authority support (authorities will be asked for their support through a similar mechanism to the previous 'in-year' bidding system, as a minimum).

The first two years of the programme are essentially the completion of existing schemes which the local authority will already be familiar with, although they will be reshaped to include affordable rent. The later years should be shaped by the registered providers with the local authority. The actual process of engagement with the HCA over these schemes is not yet known.

The issue of fixed term tenancies is not one that should affect immediate proposals to the HCA, but registered providers are beginning to consider what approach they should take and will be developing their policies in advance of the required date for the tenancy strategy. Again there is time for a discussion about these between the local authority and registered providers. It may be of interest to know that where local authorities and registered providers have considered fixed term tenancies there is agreement that a minimum five-year tenancy is preferable for reasons of sustainability and cost.

It is important to remember that the local authority role in working with registered providers will be to draw the various directions from planning, allocations, homelessness etc together into a shape that will make the most sense to local sustainability. Local authorities should accept that both parties at the table are likely to need to compromise if achieving the ambition to deliver new affordable homes is a local priority.

Local authorities must give housing strategies teeth if power does not come from legislation. Working with local residents and other stakeholders will enable this.

Why would a local resident considering their support for new development, a lender, and registered provider's board (whose support is needed to enable a registered provider to develop) think that the local authority's strategy is important enough to refer to?

The answer has to be that the 'strategy' should offer something that other sources of direction do not. The offer should be confidence that local authority knows what is going on in the wider housing market, that it knows what role different parts of the market play, and that, working in partnership, the local authority is going to proactively enable the market to be as effective as possible in meeting needs and aspirations.

Ideally the strategy will look beyond social housing and affordable rent, and will aim to bring benefits for the wider housing market. For example, the strategy could provide the sort of information an institutional investor looking at private rented opportunities needs to know before they invest.

The strategy also needs to enable accountability – it should give clarity about who will contribute what, and what stakeholders will see in return. This is particularly important for residents who will want to understand how public funding and resources are being used, and what the benefits are for them.

6. Next steps: how CIH can help



This paper draws attention to the key areas of knowledge and activity which local authorities and other partners will need if they are to shape housing markets effectively in the new economic and policy context.

At CIH we know more is needed, and in coming months we will be focusing our efforts on supporting strategic approaches to housing markets through our new service, START. This service can help everyone with a role and interest in local housing decisions, regardless of organisation type or responsibility. Watch out for:

- A brand new strategic housing chapter in Practice Online, our web-based knowledge and good practice tool
- More detailed guidance to support local authorities and their partners to develop their local approach to the market and the tenancy strategy
- Hands-on support for local authorities in their role as the local leader and enabler for housing, including help to establish local dialogues and approaches
- In-person and online opportunities for discussion and peer support
- Training and education courses to bring skills and knowledge right up to date.

For more information on CIH services on local policy and strategy, shaping housing markets, new supply, and approaches to tenure and allocations:

Tel: 024 7647 2720 or email info@consultcih.co.uk

The ability to understand and shape housing markets at local level is crucial for the economic and social success of communities.

Local authorities, registered providers, private developers and investors, and communities are all facing significant change in the way they can and must interact with housing markets. A sluggish economy, reductions in public funding, and large scale reforms to planning, public investment, social housing policy, and welfare, herald big changes, the impacts of which are not yet known.

In recognition of the challenges posed by this context, this short paper restates the importance of proactive work to shape housing markets and sets out some priority actions for local authorities and their partners to help them create and support strong communities and economies. Importantly, this guidance is not about finding ways to comply with new policy. It's about working with new policy to deliver what the local area needs.

This paper is intended to prompt and inform a dialogue between local authorities, registered providers, and other stakeholders with a role in the local housing market so they can work effectively together in the face of a very different operating environment.

It is the first in a number of new services from CIH to help housing professionals and others with local policy and strategy, shaping housing markets, new supply, and approaches to tenure and allocations.



Chartered Institute of Housing
Octavia House
Westwood Way
Coventry
CV4 8JP
Tel: 024 7685 1700
www.cih.org