

halfway house: the opportunities and limits of devo-housing in England

By Paul Hunter





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Executive summary

- The housing challenge facing the soon-to-be elected metro mayors is significant. Across the six combined authorities, **household growth is currently twice that of new supply**. If this continues over the next decade the city-region areas would have a **shortfall of 150,000 homes**. The shortfall in Greater Manchester would be 55,400 homes; West Midland 63,000; Liverpool City Region 16,600; Cambridgeshire and Peterborough 10,800.
- **The devo deals struck with central government are a halfway house**. They fail to recognise the scale of the housing crisis in the city regions and the unsuitability of national housing policies. Most significantly the metro mayors will lack the resources and flexibilities on national programmes to tailor policies for local need or build enough housing, let alone homes which are genuinely affordable. To deliver a quarter of the ten-year shortfall of homes at social rents **would indicatively require £2.2 billion in grant funding** – more than combined authorities' total investment funds which supports all their activities. In Greater Manchester £831m is needed; West Midlands £945m; Liverpool City Region £249m; and Cambridgeshire and Peterborough £162m.
- Public funding for new social rented and affordable homes is in desperately short supply. And the Mayors also face the challenge of declining homeownership, a fast-growing private rented sector and increased homelessness. But **national policy is likely to seriously constrain what the new mayors can achieve**.
- However, mayoral combined authorities can make a difference. The **powers and resources being devolved will help metro mayors meet some of their ambitions**. Strategic level planning, more joined-up policy making, consolidating funding streams and new funding tools offer an alternative route to tackling the housing crisis.
 - The devo deals create the opportunity for combined authorities to set out strategic level planning frameworks with shared objectives, something lacking since the abolition of the regional spatial strategies.
 - The spatial city-region masterplans will give mayoral combined authorities the opportunity to connect housing with transport, jobs and growth.
 - Mayoral land commissions and joint asset boards will help identify land critical to meeting housing targets.
 - Mayoral Development Corporation with Compulsory Purchase Order powers could give combined authorities the necessary muscle to develop large-scale strategic sites.
 - Combined authorities will have a range of bespoke funding and financing schemes. These will help create a single housing pot dedicated to new developments.
 - Metro mayors are forging strong relationships with housing associations and other housing providers, in part through Memorandums of Understanding. The sense of common purpose will help the mayors lobby for more powers and resources.
- Although the scale of the challenge is large, **devolution is a journey not a destination**. As examples from the devolved nations show, passing down control of housing is not a pipedream but a reality.
- The report also makes very clear that there are currently limits to devo housing. The following are the areas where the new Metro Mayors and all those supportive of making a success of devolution in housing could press for more powers:
 - A larger single pot, which is a critical to delivering housing aspirations. Government acknowledges the idea, but fails to recognise the negative effect that austerity, welfare reform and related national policy decisions (such as rent reductions for social housing and Right to Buy) are having on housing in the city regions.
 - Greater flexibility over national housing policies could help ensure combined authorities are better able to tailor them for different housing markets. However, this may face opposition if they run counter to national housing objectives and targets.
 - Greater borrowing powers could support certain types of housing development and there is the potential for combined authority councils to share borrowing headroom under their Housing Revenue Accounts. But councils may be reluctant to take on more burdens and without grant funding may not be able to deliver many affordable homes.
 - Fiscal freedoms could support additional housing, but will not raise much money in some areas and could exacerbate local inequalities.
 - With standards in the Private Rented Sector (PRS) lower than other tenures, metro mayors could look to work with or regulate the PRS depending on the impact on different markets.
 - New models for civic house building, such as local housing companies, could be piloted at a combined authority level utilising public land.

- Combined authorities could be well placed to join up different parts of the public sector to better deliver for residents, but short-term needs will still compete against longer-term (early-intervention) cost saving strategies.
- The new mayors could look to establishing homelessness funds comprised of public and philanthropic money to combat growing levels of rough sleeping in city regions.
- Scotland has led the way in devolution, including on Right to Buy. Will combined authorities be granted local discretion over Right to Buy and flexibilities over the implementation of the Right to Buy extension in the short term?
- Most of England's population is not covered by mayors and devo deals. Government could look to conducting a review to ensure that people in regions outside of the mayoral combined authorities are not left with a poor housing offer?
- The electoral process could place a stronger emphasis on poverty and inequality within combined authorities, changing the housing priorities and approach to economic development more broadly.

Introduction

The upcoming mayoral elections in six city regions will usher in a new era for devolution in England. Across the country many voters will have their first chance to elect a mayor, who will subsequently have a mandate to set priorities and shape local policies. Alongside new powers over local growth, transport and public services, the new mayoral combined authorities will also have powers and funding over housing and planning.

If the mayoral races in London are replicated elsewhere then housing is likely to be a top priority for voters and a central policy area for the new metro mayors. The combined authorities are largely city-region based, and although housing costs are not as high as in the capital, they face growing pressures on availability and affordability, long waiting lists for social housing, declining homeownership rates, rising homelessness and growing and ageing populations. The challenges are made more difficult still when set against the backdrop of cuts to local authority budgets, reduced funding for housing (notably capital and revenue spending on social housing), and welfare reforms. But what will change in the new mayoral combined authorities in respect of housing and place-making? What can be achieved under the existing settlements (including powers to coordinate) and what new policies, flexibilities and funding will be required to meet the ambitious plans combined authorities (and their Local Enterprise Partnerships) have already outlined? And what does this mean for areas which fall outside the new mayoral combined authorities, will they receive relatively fewer resources and have less autonomy over local housing issues?

In this talking points publication we begin by setting the scene of where housing sits within the new devolution settlements and relationships between local and national government. We then explore the housing challenges metro mayors will face and what could be achieved under the existing settlements, as well as what devolution might mean for those areas not included. The report concludes by highlighting areas where further devolution may be needed and asks some key questions about the challenges the metro mayors will face in realising their housing and growth ambitions.

This report was compiled through research by the Smith Institute, drawing on analysis and on-going conversations with housing policymakers, practitioners and experts and other stakeholders in the city regions.

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Mayoral combined authorities

History of combined authorities

Combined authorities have evolved out of the shift in government policy from the regions to a focus on cities as drivers of economic growth. After the abolition of the regional development agencies (RDAs) and the dismantling of regional government architecture more generally, the Coalition government (2010–15) pledged to empower “our great cities”. Regional agencies were replaced by private-sector led Local Enterprise Partnerships (LEPs) and national programmes were substituted and supplemented by Growth and City Deal funding pots, which were open to competitive bids. The emerging combined authorities (and their LEPs) were meanwhile negotiating devo deals with ministers on powers and funding from government departments and agencies. This renewed interest in localism and sub-regionalism was spurred in part by the closeness of the Scottish referendum vote and the perceived need to ensure that England was not left out of further devolution agreements north of the border.

The roots of city devolution run deeper in some places. In Greater Manchester, for example, the AGMA (the Association of Greater Manchester Authorities) was established in the 1980s as a voluntary group to represent the 10 Manchester authorities after the abolition of the metropolitan county councils. In 2011, it was reborn as the Greater Manchester Combined Authority. Others have a much shorter history; the Cambridgeshire and Peterborough mayoral combined authority was established in 2016 and the West of England in 2017.

The combined authorities are underpinned by devo deals, which date back to the first deal with Greater Manchester in 2014. There have now been three waves of devo deals, with more under negotiation. Initially 11 areas agreed deals, some of which have been rejected:

- Greater Manchester
- East Anglia (rejected)
 - Cambridgeshire and Peterborough
 - Norfolk/Suffolk (rejected)
- West of England¹
- Greater Lincolnshire (rejected)
- Sheffield City Region (on hold)
- Liverpool City Region
- North East (rejected)
- Tees Valley
- West Midlands
- Cornwall (not a mayoral combined authority)
- Leeds City Region/West Yorkshire (on hold)

All the deals contain some devolution of housing and planning powers. This varies according to the deal but can include control of a new Housing Investment Funds, new budgets and funding tools, Mayoral Development Corporations, spatial planning and Compulsory Purchase orders (CPO) powers and other new arrangement to promote co-operation and joint working amongst key stakeholders (all discussed in the following chapters).

After the general election in May 2015, the then Chancellor George Osborne pledged to “hand power from the centre to cities to give you greater control over your local transport, housing, skills and healthcare.” However, the form of this transfer of power was to some extent determined by the centre which insisted on directly elected metro mayors. Osborne argued that: “it’s right people have a single point of accountability: someone they elect, who takes the decisions and carries the can. So, with these new powers for cities must come new city-wide elected mayors who work with local councils.” And under the Cities and Local Government Devolution Act (2016) the government was able, by an order of parliament, to provide for there to be an elected mayor.

But the process has been piecemeal, contentious and for the most part exclusive. It has also been very stop-start. Deals have evolved, areas have changed and some agreements have stalled over boundary disputes and the imposition of mayors. For example, the East Anglia deal has split into combined authorities for Cambridgeshire/Peterborough and Norfolk/Suffolk. In the North East, Sunderland, Durham, South Tyneside and Gateshead councils decided to vote against the deal. There have been subsequent moves for a devo deal for just Newcastle, Northumberland and North Tyneside, excluding the councils south of the Tyne (although North East councils pledged to continue working together on projects relating to employability and economic development²). While in Greater Lincolnshire, Leeds City Region/West Yorkshire, and Sheffield City Region the path to securing agreement has been longer and protracted. Negotiations between the various councils continue with no certainty as yet as to when mayoral elections will be held.

On the other hand, new mayoral combined authorities are now being considered in the North Midlands (covering 19 councils across Nottinghamshire and Derbyshire), Lancashire, Cheshire and Warrington, and Oxfordshire. To further complicate the picture, one deal was predicated on no mayor – Cornwall, which is a single unitary authority and therefore cannot be a combined authority.

Despite these setbacks, the momentum towards devolution has not been stopped. Theresa May has also hinted that she might widen the scope of devolution beyond the core cities. In her leadership bid she stated that the country needs: “a plan to help not one or even two of our great regional cities but every single one of them.”³ The Communities and Local Government secretary, Sajid Javid, told the *Municipal Journal* that devolution and homeownership were his top priorities,⁴ whilst Greg Clark, Secretary of State for Business, has previously remarked that following Brexit “devolution is now more important than ever.”⁵

So far six devo deals have been signed off with mayoral combined authorities, with mayoral elections to be held in May 2017:

- Greater Manchester
- West Midlands
- Liverpool City Region
- West of England
- Cambridgeshire and Peterborough
- Tees Valley

All the mayoral combined authorities and their devo deals include the private sector LEPs, who have played a lead role in preparing the city-region's Strategic Economic Plan and devo deal(s). Except for the West Midlands, LEP boundaries are co-terminus with the mayoral combined authority.

Levels of LEP involvement vary, with some subsumed more within the combined authority (such as Greater Manchester). Although the LEPs more generally have received some criticism,⁶ the general view among combined authorities is that their LEP(s) are key partners in helping deliver new housing and enabling infrastructure.

Metro mayors

How priorities are set and the nature of decision making will be partly a result of the governance structures in combined authorities. Like the devo deals themselves, these differ by combined authority area. For example, the West of England have three constituent local authorities, Greater Manchester 10 while Cambridge and Peterborough has seven. And these agreements have been reached by a mix of county councils, district councils, unitary authorities and metropolitan districts.

Some of the combined authorities also have neighbouring non-constituent members. The West Midlands has six non-constituent members and the Sheffield City region three. Constituent members have automatic voting rights but non-constituent members can be given them and can benefit from funding (they can also be non-constituent members of more than one combined authority).

The mayoral combined authorities are legally constituted accountable bodies. They, therefore, have powers to raise and hold money. The legislation, however, places several conditions on fund raising. The LEPs, for example, have veto powers over any proposals to levy new business taxes.⁷

Whilst the governance arrangements differ, there are similarities in the overall way they are constituted. The new metro mayors will effectively be chair and leader of the combined authority. Mayors will have autonomy over some decisions and be personally accountable to the electorate, but other powers will be handed to the combined authority itself. The mayor will chair a cabinet, with cabinet members made up of local authority leaders who hold different portfolios (including housing). For decisions that go to cabinet, each cabinet member has one vote and approval of decisions are based on a majority (or two thirds majority) of those present unless specified otherwise.

As described below, some of the decisions relating to housing are reliant on agreement with the cabinet or at least the local authority it affects. Moreover, the mayor will set out the combined authority's plans, budget and strategies, which the cabinet can amend/reject by a two thirds majority. In short, metro mayors will not have a free rein.

There is no Greater London Assembly type body with elected politicians to scrutinise the mayor. Instead the combined authorities draw on existing elected members. So, overview and scrutiny is conducted via a committee made up of elected councillors from the constituent local authorities. There are also standards and audit committees which can include members of the combined authority, councillors from the local authorities and co-opted independent members.

It is effectively a hybrid model between executive mayor (e.g. London) and the leader and cabinet model (e.g. local government). The relationship between mayor and cabinet will therefore be a critical one. Where a leader of a constituent council runs for mayor and

loses, they will sit in their winning counterpart's cabinet. In any case, most cabinets will contain members of opposing parties. The mayor though will have a personal mandate, which means that cabinet members cannot change the leader but can oppose decisions they may put forward.

Far from being viewed as a negative or a brake on decision-making, the governance arrangements are viewed by constituent councils as a positive and there is a spirit of cooperation in the mayoral combined authority areas (arguably less so in the ones where devo deals have been rejected). There is also the prospect of cooperation between metro mayors as well as competition.

Despite the constraints they are under, the mayoral candidates have been making bold promises to tackle the housing problems in their areas. Andy Burnham, for example, states in his campaign consultation on housing that: "My policy aim would be simple: to end the housing crisis in Greater Manchester, and eradicate homelessness and rough-sleeping". Steve Rotherham, Labour's candidate in Liverpool and favourite to be elected, strikes a similar note to Burnham, stating that he would set up a Mayor's Housing Challenge to build more affordable homes and tackle poor conditions in the PRS. Sion Simon's manifesto for the West Midlands, meanwhile, promises to create a new Mayor's Office of Housing to help double the number of new affordable homes. His opponent, Andy Street, also pledges to deliver more affordable homes, as well as supporting a possible West Midlands' pilot of the Government's new Voluntary Right to Buy scheme.

Manifesto housing pledges by leading candidates for metro mayor

Andy Burnham's manifesto in Greater Manchester promises to solve the city-region's housing crisis by:

- Refocusing the Greater Manchester Housing Fund on building more council and social-rented housing
- Establishing a GMCA Rent-to-Own initiative with a focus on helping under-30s get on the housing ladder. The scheme would focus on providing properties in town centres
- Introduce a voluntary registration scheme for private landlords to establish minimum housing standards for the city region
- Develop a new partnership scheme with local councils to tackle bad private landlords
- Give more emphasis to investing in outlying parts of the city region
- Oversee a new Homelessness Action Network, led by Ivan Lewis MP (Bury South) and Cllr Beth Knowles (City Centre, Manchester City Council) to eradicate rough-sleeping by 2020
- Support the Network through a new Mayor's Homelessness Fund to which Burnham has pledged 15% of his mayoral salary

Steve Rotherham's manifesto in the Liverpool City Region aims for 'inclusive and sustainable communities'. He promises to:

- Host a 'high-level' housing summit to develop a strategy for a fairer, greener housing market. The conference would begin to scope a city-region wide vehicle to deliver new affordable homes
- Establish a Mayor's Housing Challenge, a competition to pilot new approaches and neighbourhoods for housing
- To work with local authorities to co-ordinate initiatives to tackle poor conditions in the PRS
- Use strategic planning and housing powers to maximise brownfield land use, and promote good design and quality of neighbourhoods
- Working in partnership to tackle homelessness and street sleeping
- Improve housing availability for former military personnel

Sion Simon's manifesto in the West Midlands pledges to create a 'green and pleasant land' with commitments to:

- Work jointly across the West Midlands to ensure there is 'no second night out', making use of Supporting People budgets
- Create a 'Mayor's Office of Housing' that would oversee the region's statutory spatial plan, and aim for everyone to live within 30 minutes of an outstanding cultural institution, leisure facility, and green space
- Undertake a full housing needs assessment across the region
- Agree a proper definition of 'affordable housing', and double the number of new affordable homes
- Increase the £200m brownfield reclamation fund to £500m through public and private sector funding
- Build new, green council homes, using techniques such as modular housing
- Ensure homes are developed for 'local people'
- Create a West Midlands Regional Investment Bank that would support co-operative approaches to housing
- Push for longer tenancies and landlord regulation

Andy Street's 'Renewal Plan' for the West Midlands is focused on manifesto commitments to:

- Work with local authorities to make sure they have Local Plans for the whole area, which deliver enough housing and employment land

- Ensure that there is the correct mix of housing stock, including provision of sufficient affordable homes
- Protect the Green Belt by focusing on brownfield construction first. £200m earmarked for preparation and decontamination of brownfield sites and a promise to work with councils to compile a register of all available brownfield sites
- Push national and local government to release public land for house building
- Speed up the planning process by introducing a tax on vacant land
- Build a 'Mayor's Army' of skilled construction workers
- Bring empty properties back into use
- Support a West Midlands pilot of the Government's new Voluntary Right to Buy scheme

Other combined authority areas with above average levels of households on lower incomes who are less likely to be homeowners are witnessing a similar pitch from their mayoral candidates. Indeed, the nature of mayoral elections mean that candidates will focus on who the homes will be aimed at rather than just more homes. Furthermore, there has been an emphasis in the campaigns on street homelessness. Whilst relatively small in numbers, the issue is highly emotive with voters and is a very visible signifier of broader concerns with housing provision.

The challenge will be turning this rhetoric into reality, whether it be homelessness, building social housing or boosting homeownership. Although freedoms and flexibilities over funding (as explored below) has its limits mayors are likely to play an important role in shaping the environment and forming partnerships for change.

However, the metro mayors won't have large housing and planning directorates and most will struggle to secure the staff and expertise they need. Unlike London, the metro mayor's office will largely rely on the councils that make up the combined authority. Nevertheless, they will be in a unique position to pool resources and co-ordinate policies and programmes, not least in respect of housing and planning and housing and transport (where the mayors have consolidated budgets). The mayor's powers to co-design other policies, such as employment support and adult education, could also prove to be important.

In Greater Manchester, the devolved £6bn healthcare budget could offer significant benefits to housing if resources can be effectively redirected into more preventative local solutions. Action on preventative mental health care, for example, could help reduce the number of rough sleepers. An integrated health and adult social care system could see greater investment in appropriate housing for the elderly.

The mayoral races have featured a strong emphasis on housing supply, but also the types of housing that should be built, where and for whom.

- Will mayors seek to re-shape the housing priorities the combined authority and individual councils have set?
- How can mayors best join-up the policies and budgets they have to achieve better outcomes?
- Will the mayors have enough capacity and capability to challenge the status quo?

Devo-housing

Housing is widely viewed by the public as a major political challenge.⁸ In the 2016 London mayoral elections it topped the issues for Londoners, which was a shift from 2012 when jobs, crime and transport were ahead.⁹ Although housing rates as less of an issue outside of London¹⁰ it is still a concern for voters, especially in cities.

Andy Burnham, the front runner in the Greater Manchester race, features housing prominently in his campaign:

"We have a housing crisis because an out-of-touch Westminster Government has for years tried to foist a policy designed for the affluent south on the rest of the country. This has led to the sell-off of our council housing, an unregulated private-rented sector, and a failure to build the new homes that we so desperately need."

Sion Simon the Labour candidate in the West Midlands has meanwhile pledged to build 3,000 new affordable homes per year if elected. His Conservative rival Andy Street has also listed housing as a priority:

"First, we need to get these brownfield sites back into use and quickly. This can be done by securing the funding necessary to reclaim lands that may be contaminated. We also need to turn our attention to the 10,000 homes in the region that are currently unoccupied. We need to put more energy into this process and bring them back into use. And, we need to think harder also about the density of our housing, particularly in the towns and cities where the essential infrastructure already exists"

As mentioned in the previous chapter, candidates in other areas have also stated housing as a key priority both in meeting housing need and as a spur to economic growth.

The ongoing cuts to local government spending is however likely to severely limit what metro mayors can achieve in terms of pooling housing resources. According to the National Audit Office local government funding has been cut by 37% since 2010 and further reductions are planned. This will inevitably impact on housing budgets, both directly and indirectly.

Whilst the overall cuts will impact on the ability of the mayoral combined authority to maintain basic services, specific cuts to programmes in mental health and welfare-to-work will, for example, have a direct effect on problems of homelessness. Similarly, the lack of funding will also force councils to redirect resources away from housing and planning to shore up statutory services, such as adult social care.¹¹

Supply and demand

Combined authorities have already started to draw up ambitious house building plans and targets. The consultation on the West of England spatial strategy states that the region will see its population grow by 16% or 185,000 people and that the joint spatial plan "will provide the framework to deliver up to 105,000 net additional new homes between 2016 and 2036 of which, around 32,200 (30%) should be affordable homes."

The combined authorities, as the table below of selected areas shows, are different in size and housing markets, but all are set to see significant population and household growth. What is striking is how far new supply falls behind household growth projections. In Greater Manchester and the West Midlands, for example, completions in 2016 were only a third of projected annual household growth. Only in Tees Valley did completions exceed anticipated new demand.

With growing household formation, year-on-year failure to increase supply will create or increase housing backlogs. On present trends (and discounting any current backlog), the West Midlands, Greater Manchester and Liverpool City region would over a ten-year period be short of household growth by around 135,000 homes.

Indeed, the annual shortfall in the three largest mayoral combined authorities would be more than half the current build rate. For all six of the mayoral combined authorities the difference between current supply and demand over the next ten years is around 150,000 homes, higher than the annual build rate for England.¹²

Housing in mayoral combined authority areas

| | Greater Manchester | West Midlands | Liverpool City Region | West of England | Cambridgeshire & Peterborough | Tees Valley |
|-----------------------------------|--------------------|---------------|-----------------------|-----------------|-------------------------------|-------------|
| Population | 2,683,000 | 2,736,000 | 1,507,000 | 887,00 | 875,000 | 663,000 |
| Households | 1,178,000 | 1,135,000 | 675,000 | 381,000 | 346,000 | 290,000 |
| Projected annual household growth | 9,500 | 10,200 | 3,600 | 3,400 | 3,900 | 1,400 |
| Completions 2016 | 3,960 | 3,900 | 1,940 | 2,990 | 2,820 | 1,880 |
| Homeownership | 60% | 60% | 61% | 61% | 69% | 64% |
| Social housing | 22% | 23% | 22% | 18% | 16% | 20% |
| PRS | 18% | 17% | 17% | 21% | 15% | 16% |
| Average house price | £153,000 | £163,000 | £134,000 | £255,000 | £270,000 | £118,000 |
| Mean house price to mean earnings | 6 to 1 | 7 to 1 | 5 to 1 | 9 to 1 | 9 to 1 | 5 to 1 |
| House price change since 2007 | 5% | 9% | -5% | 28% | 30% | -13% |

Sources: 2011 Census, House Price Index, ONS mid-year population estimates, ONS household projections. DCLG Housebuilding Live Table

Furthermore, any backlog is likely to be made up of larger numbers of low cost housing. Indeed, with the near eradication of housing subsidy, the backlog for sub-market, social rented housing could be very significant (especially in higher cost areas).¹³ If the combined authorities aimed to build a quarter of all new homes at social rents, funded by capital grant similar to previous affordable housing programme levels (c.£60,000 per unit) then they would need an additional £2.2 billion pounds. At present the six combined authorities are set to receive £1.6 billion through their investment funds to cover all their activities.

| | 10-year shortfall between household growth and current new supply | Indicative cost of delivering a quarter of shortfall as social rents |
|---------------------------------|---|--|
| Greater Manchester | 55,400 | £831m |
| West Midlands | 63,000 | £945m |
| Liverpool City Region | 16,600 | £249m |
| West of England | 4,100 | £62m |
| Cambridgeshire and Peterborough | 10,800 | £162m |

The projected housing shortfall in combined authority areas also has to be set against the on-going need for investment in the existing housing stock, especially in the PRS (which has the highest proportion of non-decent homes¹⁴). Whilst councils and housing associations are taking action to improve their housing stock, most are struggling to improve the condition of private rented homes (which are generally much older). There are no quick fixes to improving standards in the PRS and the cost of repairs could be in the billions. However, as Shelter point out: "An overheated market provides few incentives for landlords to invest in repairs and maintenance of their properties, despite having the financial resources to do so."¹⁵ Meanwhile, across every region homeownership levels have fallen over the last decade, posing serious public policy questions as well as growing concerns amongst those locked out of the property market.¹⁶

Private developers deliver the vast majority of homes in combined authority areas, with housing associations providing most of the affordable and social-rented homes (mainly through cross subsidy). This pattern is expected to continue, although market conditions will continue to determine overall supply. The market is cyclical and as history has shown downturns in the economy lead to reductions in private housebuilding, so any future shock is likely to make meeting the housing aspirations of areas very difficult.

As the table above shows, in some of the combined authority areas prices have yet to recover to pre-crash levels. This, of course,

reflects the very uneven economic geography between places, with the price to earnings ratio in Tees Valley and Liverpool City Region nearly half that of the West of England. Lower house prices in the North West and North East allow for increases in home ownership and demand less subsidy for affordable homes, but also deter investment in new build (and narrow the scope for cross-subsidy) where profit margins/surpluses are tight as well as discouraging certain types of mortgage lending.

And there may be questions about how resilient house prices might be? Uncertainties about Brexit, higher inflation/interest rates, slower growth and falling living standards may therefore temper the willingness of private developers to build more. Whether there is a noteworthy fall in property values remains to be seen. Indeed, even a sustained increase in supply is unlikely to affect prices in the short term (given that new supply makes up such a small part of the total market¹⁷).

However, the powers and resources of combined authorities should be viewed within this context, especially given the very cyclical nature of housing. A change in the economic climate though may well see metro mayors using their housing resources and housing toolkit to prop up the market rather than expand it.

Nevertheless, the focus for now is on meeting housing targets and economic ambitions. The devo deals in respect of housing and planning have been crafted for that purpose and generally fit the Treasury's 'agglomeration' theory approach to economic development (targeting policies and funding at firms and people who locate near one another in business clusters). Not everyone though accepts the economics of agglomeration. Policy analysts at the Centre for Urban and Regional Development Studies at Newcastle University, for example, question the extent to which mayors in and of themselves lead to proven and measurable economic benefits.¹⁸ Other organisations, like the Joseph Rowntree Foundation, call for a more 'inclusive growth' agenda, with the policy focus in city regions concentrated on poverty alleviation, rather than just conventional business growth. Adoption of more inclusive models of growth would, of course, imply a redirection of resources towards social rented housing and housing renewal and regeneration of less prosperous combined authority areas.

All the large city regions face a significant housing shortfall.

- How will the metro mayors seek to rebalance their housing markets and avoid backlogs in housing supply, especially of affordable homes to rent and buy?
- Has the nature of devolution to date, meant that there is too much focus on new supply over other factors such as what is being built and the quality of existing housing (especially the PRS)?
- Are the combined authority housing plans merely encouraging concentrations of growth and doing little to narrow housing inequalities within the city regions?
- Are housing plans resilient to a downturn in the economy?

Spatial plans, strategies and frameworks

The spatial strategies or spatial development strategies outlined in the devo deals aim to enable combined authorities to plan holistically across the wider city region. These documents are focused on strategic sites and land availability for housing and economic growth, with a bias towards brownfield land.

The spatial plans are similar to the former Regional Spatial Strategies, which were abolished by the Conservative-led coalition. However, for some combined authorities, such as the North East, the plans constitute only an advisory framework. In other places, they will be statutory. In all the mayoral combined authorities, the spatial plans or frameworks need to be agreed unanimously by the combined authority members. This could cause some concern or confusion if the allocation of strategic sites by the combined authority makes it difficult for local councils to meet their housing delivery targets or objectives. Local (and neighbourhood) plans by combined authority members may have to be reviewed and perhaps renegotiated in light of the mayor's spatial masterplan.

When the mayors are in post they are likely to put their own imprint on the spatial plans. Ken Livingstone's first London Plan, for example, included a chapter entitled "My Vision for London". Similarly to the London Plan, the metro mayors may also use their plans to make an economic case¹⁹ to argue for extra funding or more powers.

It remains to be seen how this will work in practice as plans will need to be agreed by the constituent local authorities – will they therefore be "our vision" rather than "my vision"? Perhaps more importantly, it will mean there are differences in the way the plans evolve. For those where it is statutory will they include house building targets and, if so, will they have to be watered down to gain unanimous approval? And for those where plans are non-binding, how effective can they be and how will this work in practice if some authorities prove or are perceived not to be pulling their weight?

Whilst there has been consensus from local authorities over plans there have also been fissures when proposals have been subject to public consultation and entered the democratic arena. In Greater Manchester, candidates have already started to disagree over the draft spatial framework, especially over the proposal to build on the greenbelt (which led to a high profile public

protest). Sean Anstee, leader of Trafford Council, combined authority cabinet member and Conservative mayoral candidate has backed the plan. Andy Burnham, Labour's candidate, however, has stated his misgivings, especially in regard to ensuring council homes would be built on any green belt used and has called for it to be 'radically rewritten'. The Lib Dem candidate, Jane Brophy, meanwhile wants it to be scrapped. Similarly, in the West Midlands, Conservative mayoral-hopeful, Andy Street, has stated his opposition to greenbelt development, stating that:

"Yes, the housing challenge in our region is an important one. But people value our greenbelt and it's an important part of our quality of life. That's why I am committing here and now to doing everything we can to protect it for as long as possible."

The new metro mayors face re-election in 2020. In the interim their housing record will come under scrutiny, arguably more so than would be the case purely at an administrative, combined authority level. Certainly, at the city-region level there is likely to be much greater democratic oversight regarding where and what new homes are built. It perhaps suggests that those who thought devolution would solve these seemingly intractable and difficult questions about scale, tenure and location of development may have been overly optimistic. Indeed, metro mayors arguably heighten the democratic process of spatial master planning, which should encourage civic participation in major housing and planning decisions at a city-region level.

The devo deals will allow combined authorities to set out strategic level planning frameworks and objectives. This will give combined authorities the opportunity to tie together development and combined authorities' powers and resources with their infrastructure plans and economic strategies.

- Will they be used to set out the mayor's vision for the region, and as bidding documents for further powers and resources?
- How might they work in practice in relation to constituent authorities who will have a say over them and how will authorities be bound by them?
- How will the local (and neighbourhood) plans dovetail with the spatial plans and which should take precedent?
- Will the mayors use their spatial plans to confront national policy guidance and objectives?

Land and strategic sites

Land and property will be key components of designing and realising spatial plans for the new mayors. Some combined authorities have already established land commissions or joint asset boards to give advice on land availability for both housing and commercial development and on the disposal of public land. These differ by combined authority. For example, the West Midlands land commission has been tasked with identifying developable publicly and privately owned land, public and private funding sources and incentives to unlock sites, the role of LEPs, the extent of public land (to meet these objectives), the relationship between greenbelt, green field and brownfield and the benefits of making brownfield viable and how the planning system works in their area.²⁰ In other areas the focus has been to establish boards to work with the Homes and Communities Agency (HCA) and other public agencies. Their purpose is to advise on public-sector asset disposals in a way that supports housing and growth.

Greater Manchester's Land Commission (2014) is chaired by the portfolio holder for housing. In the West Midlands, it is chaired by Birmingham City Council's Strategic Director for Economy with membership comprising representatives from each of the constituent members, a representative for the non-constituent members as well as the LEP, HCA and West Midlands Housing Association Partnership. If they replicate the London model then the chairmanship would pass to the elected mayor.

There is concern that the focus on public land disposal is simply a way of maximising receipts for government departments (such as the MoD) or in the case of the NHS (to the individual Trust), rather than to deliver strategic sites for the combined authority (leaving aside contributions to affordable housing). However, the Boards and Commissions are also advisory so that when it comes to public land the final decision lies with the land holder.

Set against the backdrop of austerity it may prove difficult for public land owners to decline an offer which would maximise the receipts for a use with potential wider benefits but a lower immediate return. There is perhaps more scope where a public service has been devolved, allowing for a more strategic approach to asset/land disposal.

Nevertheless, the Boards and Commissions will provide information about land availability and expertise which constituent authorities may not have, including about how best to unlock housing around infrastructure – notably brownfield land (which is likely to be particularly important in city regions with large number of former industrial sites).

The main issue is funding. For the incoming mayors, this challenge is likely to be more difficult than in London and the South East where land values are higher. In many places brownfield land value is effectively negative. Some funding has been mentioned in the devo deals (including in the West Midlands which has secured a £200m land remediation fund) and flexibilities over the application of national programmes could help (something mentioned in the government's recent Housing White Paper in relation to unused employment land). With little prospect of extra funding the metro mayors could seek cheap loans or 'gain

share' agreements whereby grant is provided, which will also generate additional revenue for the Treasury (see later chapters).

Identifying land will be critical to meeting strategic housing and economic ambitions, outlined in the mayor's spatial planning frameworks.

- Will identification of (public) land lead to development that meets strategic housing objectives or simply be sold to maximise receipts?
- Will the necessary scale of resources and powers be available for land remediation to bring to market key brownfield sites or assemble land held by several (public and/or private) owners?

Planning powers: CPOs and mayoral development corporations

Turning the combined authority plans to develop key strategic sites into reality also rests not just on finding and then financing the acquisition of land, but also assembling the land. The new mayoral development corporation (MDCs), adopted by the mayoral combined authorities could play a lead role in this regard (especially for large complicated sites). MDCs may be given the functions of the planning authority for an area (within a 'mayoral development zone'), and can provide infrastructure and acquire land, including via CPOs. However, under the devo deals consent is needed not just from the mayor but also from the constituent authorities in which the corporation is to be established. This may prove difficult for some combined authorities, particularly where there is a clash with local plans and neighbourhood planning. In fact, it is unclear how neighbourhood projects fit in with MDC proposals and link with enterprise zones.

The metro mayors will have CPO powers conferred with similar competencies to the HCA. However, like the MDCs, they will need the consent of the authority in which it is being used – unlike powers the mayor of London holds. The secretary of state will also need to give consent.

Nevertheless, MDCs with CPO powers could prove to be useful where developments span two authorities. They also offer a single point of contact and allowing for development to happen at a faster pace. If, however, an area does not have key sites which span two authorities they could offer little. It is also unclear how extensively MDCs would be used. In London, there have been just two development corporations established. One to deliver Olympic legacy promises and the other (Old Oak and Park Royal in West London) for a strategically important HS2 and Crossrail site – three of the largest national infrastructure projects undertaken in recent years. Therefore, such powers are likely to only be used where there are large scale regeneration projects (HS2 will pass through some of the combined authorities) and where sites cross more than one local authority. Linking such developments with greater fiscal freedoms and use of funding tools like roof tariffs and tax increment financing (TIFs) could be a way of delivering development, although hard to do in low value areas.

MDCs and additional CPO powers could give combined authorities the necessary powers to develop large-scale strategic sites, especially over two authorities.

- How many sites would require and benefit from the establishment of MDCs, which take time, buy-in and resources to establish?
- Will the MDCs help the combined authorities make use of their new funding tools?

Grant funding

The ability of the incoming mayors to deliver the levels and types of housing they promise will depend heavily on the funding being in place and over time.

Under the deals all the mayoral combined authorities will have 30 year investment funds, worth between £15m and £36m a year. The intention is to consolidate the initial public funding with the different budgets, for housing, transport, business support into one single pot. It is hoped that this single pot will be supplemented with private finance, including institutional investment from local government pension funds (some of whom, like the Greater Manchester Fund, have already begun investing in local housing schemes).

Whilst over 30 years the funding adds up to substantial sums, when broken down per annum and covering a range of policy areas it is fairly small. The RDAs were in receipt of around £2bn per year, much of which was spent on regeneration. Comparing the West Midlands combined authority with the old RDA (Advantage West Midlands) the annual single pot, which allowed RDAs flexibility to deploy resources where they deemed existing programmes too narrow, was ten times that of the combined authority even though the population is only twice as large.

Although other national programme funding (such as the Affordable Homes Guarantee programme, Starter Homes and the Estate Regeneration Fund) are available to mayors and combined authorities, there is little flexibility or opportunity for co-

design. This is likely to curtail the ability of mayors to get things done in the way they might want.

Moreover, one of the key advantages of combined authorities is being able to act more strategically than individual authorities but also across policy areas which a single pot enables – for example, concentrating funding on transport infrastructure to unlock housing development. However, the scale of funding is small even when supplemented, for example through land remediation funding. This may prove frustrating for the new mayors wanting to realise their ambitions and promises to the electorate.

The government has so far played down the idea of a single pot for housing, stressing that national policies are needed to meet national housing objectives. As the House of Commons briefing paper on devo-housing put it: “There is a concern, however, that allowing full flexibility over housing funds – i.e. a ‘single housing pot’, would result in failure to hit national targets and a sub-optimal tenure mix on a national scale.”²¹ Nevertheless, as the Cambridgeshire and Peterborough devo deal with funding for new council homes suggests, the government is not wholly opposed to the idea.

Single pot funding is high on the agenda of combined authorities, but:

- Is the current settlement, which is lower than offered under the RDAs, adequate to the ambitions of the new mayors and needs of residents?
- Is single pot funding achievable, and will it benefit housing?
- Should there be a single housing pot?
- Will combined authorities be given greater freedoms over national housing policies or seek bespoke arrangements and funding?

Alternative funding schemes

With grant funding in short supply, combined authorities are looking to revolving funds, loan funds and co-investment to deliver new housing. In the case of Greater Manchester, further funding (or more accurately financing) is available through their revolving Housing Investment Fund. This ten year £300m fund is provided as a recoverable loan, established as a ‘financial transaction’; and funded from existing programmes. Similar to the last government’s Help to Buy scheme, the loan is repayable to HMT, but is off the Treasury’s balance sheet. Whilst there is a degree of autonomy, this type of lending comes with strict conditions, such as the funds must be only used for private sector development. This and the fact that the loans are to be repayable constrains the way the money can be used, including what kind of houses are built, where and for whom. Moreover, Greater Manchester have to guarantee 80% of the loan and under-write agreements hammered out over repayments and the recovery rate.

The aim of the fund is to revolve it two and half times over the ten years; this is viewed as critical to helping turn possible sites into reality. Under the first wave £100m has been lent for 8 projects and 1,000 units are in the pipeline. The schemes are a mix of housing and apartments with a focus on development in central areas. With local authorities liable for losses there is pressure to ensure the fund sees a return on investment. These financial pressures are met with political ones. Andy Burnham, for instance, has already stated his intention to try to shift the focus of the fund to build affordable housing and plans to renegotiate the terms with central government:

“We will refocus the Greater Manchester Housing Fund, with the explicit aim of solving the housing crisis and building affordable homes. We will seek to renegotiate the terms of the fund so that it can be used to help councils and housing associations build more council homes and social housing.”

The West Midlands is taking a slightly different approach. The combined authority is looking to use the borrowing powers of local authorities to create housing investment funds which can further leverage in private investment. This would not involve central government but their own borrowing headroom. This would, of course, be constrained by prudential borrowing rules and would also not be grant funding but loans which would need to be repaid, thus again shaping what is built and where. Such approaches could however look to housing associations and pension funds to leverage in further finance. If successful in increasing development activity there could be significant benefits such as the potential to cross subsidise much needed sub-market housing.

Such arrangements may not be as well suited to areas where values are not as certain to appreciate as central Manchester or Birmingham. With local authorities standing behind the loans new metro mayors in low demand areas may find it difficult to gain the consent of authorities to back a revolving fund and may wish to pursue other options. There may also be limits to how much an authority is willing to back or underwrite a development in a neighbouring borough. This could prove to be politically explosive if the project failed and money wasn’t repaid.

Nevertheless, combined authorities are looking to use the funding at their disposal plus other sources of non-repayable funds. Their intention is to make a funding pot out of housing programmes and estate generation grant, plus extra funds from planning gain. This approach could prove more significant for the new mayors than loan finance. Pooling existing funds could create economies of scale to unlock large sites and link them strategically to the combined authority and LEP's growth objectives (for example, around skills and supporting SME builders). They could also help leverage in significant sums of private finance. Furthermore, some combined authorities are looking to add in local growth and transport funding into such a single pot. If achieved, significant sums will be available which could either directly or indirectly support housing development.

Realising such plans will be reliant to varying degrees on local and national government. Whilst they may create a single pot in name, funding from government without necessary flexibilities will mean that they will have to be spent on the purpose they are intended. The investment funds may therefore be constrained in how far they can go in really acting freely and as strategically as they may like. But greater flexibilities could be forthcoming in the future. The Cambridgeshire and Peterborough devo deal, for example, includes funding for new council homes (£70m Cambridge Housing Plan) and a further £100m affordable housing fund for affordable rented and low cost homeownership. This reflects the urgent pressures on housing in a growing city with international companies demanding access to a local labour market – something which future strategic plans will no doubt be stressing.

And for local government, whilst planning gain and the Housing Revenue Account (HRA) could in theory be pooled (examined more in the final section) it seems unlikely that there would be large-scale burden sharing. Local authorities and their electorate are likely to want to see money raised in their area spent in their area. Such arrangements would perhaps therefore need to leverage in further funding which could be used in certain areas, whilst not being materially detrimental to individual authorities.

Further funds could potentially be raised through new local taxes. However, some of the business taxes that metro mayors will have powers over are subject to majority approval from the LEP(s). Mayoral combined authorities (by unanimous approval) can raise, for example, a supplementary community infrastructure levy (a planning charge to fund infrastructure), but local markets are unlikely to support large receipts. Extra local taxation could though make sites unviable and slow down the delivery of new homes.

Fiscal devolution takes the mayoral combined authorities to another level. However, the sums are unlikely to be large. The mayoral Community Infrastructure Levy in London is hypothecated to Crossrail and raises an estimated £80m in 2015/16. However, as way of comparison London has a population three times as big as Greater Manchester and land values are 18 times higher than Manchester City Council. So, whilst it may be viewed as nice to have it is unlikely to deliver funds to build many new homes.

How far the government's plans for councils to retain 100% of business rate revenue will make a difference to housing and local growth is unclear. A lot will depend on the system that replaces the Revenue Support Grant, which is still the main central government grant for local authorities. As discussed in the final chapter, local tax reforms could exacerbate divergences in income within the combined authority and between combined authorities and other councils.

However, most of the metro mayors will be exploring the options around specific new local taxes, such as congestion charging, car parking levies and hotel and tourism taxes. Sion Simon, has for example, recently set up a fiscal commission to "redefine the West Midlands' relationship with Whitehall". The degree to which any extra revenues raised will be redirected towards housing is unclear. It is most likely that new local taxes would be hypothecated, which would probably mean additional funding for transport and other infrastructure.

There is also no guarantee that planning gain in mayoral combined authority areas would be used in support of affordable/ social rented housing. Evidence from London suggests that applications called in by the London Mayor (powers which other mayors will have) secured a lower percentage of social rented homes than the boroughs because the priority was on other infrastructure projects.²²

Moreover, the impact of planning gain will depend on the local housing market, which as the opening chapter suggests varies between combined authorities (as well as within them). Housing markets that are weaker have been found less likely to secure housing through Section 106 agreements.²³ As JRF's research a decade ago concluded: "securing more affordable homes through Section 106 depends heavily on the buoyancy of the housing market – a strong market makes it easier to deliver the desired affordable housing output. A downturn in the market will present much greater challenges."²⁴

Combined authorities will have a range of funding and financing schemes which could help to deliver new housing and increase build-out rates.

- How many new units might be built as a result of the new borrowing powers and how much will be displacement?
- Will any new borrowing powers enable a broad range of housing to be delivered across the whole city region or be focused on places of growth? And will local authorities underpinning the debt be willing to support riskier projects?
- To what extent can a single pot be pulled together through different funding and financing arrangements? And what are the limits in terms of flexibilities and scope?
- Will potential for tax raising powers from housing amount to much and for which areas? And is there any scope or appetite for local authorities to pool existing planning gain?

Shaping the housing offer

The housing component within the devo deals has largely focused on new development, and its importance to supporting economic growth. However, when the deals were being formalised there was ranking about what was to be offered and how it would support the types of homes that were needed in the very different combined authorities (and distinct housing markets). National housing policy at the time when the deals were being agreed was focused almost solely on homeownership and the Starter Homes programme. This initiative was viewed by many in combined authorities as wholly inappropriate to local housing markets.

There is a tendency to assume that devolution is a one-way process with powers now inexorably being passed down from ministers to local areas. However, the 2016 Housing and Planning Act contained numerous sections which passed powers back to the centre. Not least of these concerned Starter Homes, which meant ministers could override pre-existing planning obligations, including on tenure mix, that obstructed Starter Homes developments. Not only has this been seen as running contrary to the spirit of devolution but also to evidence based policy making, with Whitehall imposing Starter Homes above other forms of affordable housing that may be more needed (as set out in Local Plans). Whilst the Housing White Paper proposes to reverse some of the moves to centralisation, it also highlights the importance of national policy making priorities and implications for devolution.

Some of the combined authorities were apprehensive about the imposition of Starter Homes (it proved a major stumbling block for Cambridge council to signing the original and now defunct East Anglia deal). And more broadly there has been considerable head scratching as to how Starter Homes can work effectively in different housing markets. For example, in many markets a low-cost home on the secondary market can be bought for £80,000. If it costs at least £100,000 to build a home and more to buy if the developer is to make a profit, then who are Starter Homes aimed at helping onto the market? In short, even if the focus was on supporting homeownership the way the programme was designed was unlikely to do much to increase homeownership levels.

The proposals in the Housing White Paper for a new private sector-led affordable build-to-rent product (aimed at those on household incomes of around £45,000) also offers little local discretion. Local planning authorities will be effectively forced to accept this new product in lieu of any form of social housing. The combined authority will have no say over who will be eligible for the scheme, which will lie outside of the council member's nomination systems.

The government's approach to the extension of Right to Buy to housing associations has also caused consternation amongst some local authority leaders who will see high-cost properties sold off to fund discounted sales in the housing association sector. Whilst intended to support the government's objective of increasing homeownership, the scheme clearly runs counter to the notion of devolution and local decision-making.

The new policy is voluntary for housing associations but impacts negatively on local authorities. Few councils in combined authority areas are convinced there will be genuine one-for-one replacement. As a consequence, the stock of social housing in these areas is likely to fall (especially in areas with stock retaining councils). The extent of the reduction will become more apparent once the scheme is piloted, possibly in the West Midlands, which may test one-for-one replacement and portability (although not high value sales).²⁵

National housing policy and funding has shifted away from providing support for social housing. This presents metro mayors with a major challenge, especially given the likely consequences of Right to Buy 2:

- To what extent do devo deals simply decentralise national housing policy delivery as opposed to devolving control to combined authorities?
- How can metro mayors co-design national schemes like Starter Homes?
- Can metro mayors shift the policy and funding towards more social rented homes?
- Is there a chance of local discretion over right to buy in the longer term and flexibilities over the implementation of Right to Buy extension in the short term?

Partnership working

Beyond formal arrangements and powers, metro mayors will need to broker good relations not just with constituent local authorities and residents, but also housing associations, private developers and other stakeholders.

The relationship between housing associations and local authorities is a long established one. Local authorities and housing associations continue, for instance, to have a common interest in housing those on low incomes, united by the former's legal duty and the latter's core social principles. This relationship though has been changing, in large part because of the pressures of austerity and housing and welfare reforms. Nevertheless, housing associations will play a critical role in helping combined authorities meet their housing objectives (not least as lead investors in affordable housing).

Evidence suggests that housing associations are keen to be involved early in shaping housing plans and that local authorities want housing associations to share their development plans and aspirations.²⁶ Most combined authorities are also looking to housing associations to provide the finance to deliver the new affordable homes. Tees Valley Combined Authority, for example, are seeking to create a £1bn equity based housing investment vehicle. The emerging outline concept is based on investment being secured from a combination of DCLG/HCA, housing associations, pension funds and the combined authority and individual authorities. It is yet to be known the extent to which such plans will constitute combined-authority housing vehicles or joint-ventures on individual projects coordinated at a combined-authority level? Or whether they are ways of channelling funding for individual projects? And what difference in reality it would make?

Collaboration at city-regional level is occurring through housing forums such as the West Midlands Housing Association Partnership, which has been established to "engage and support the new devolved authority to deliver thousands of new homes" and "provide a single voice to help the West Midlands Combined Authority deliver its social and economic aims, through housing and related activities, such as employment and health".

In Greater Manchester, there has been a formalised Memorandum of Understanding (MoU) between major housing associations and the combined authority. The MoU sets out how collaboration will work, including, giving housing associations a seat on the housing investment board and input to plans and strategy. Housing associations will have a single point of contact and should be better able to support Greater Manchester's aims, including meeting a wide range of housing aspirations.

Greater cooperation is also taking place between local authorities, enabling the pooling of experience and resources that officers have. This is pertinent to both the formation of strategic plans and the role combined authorities can play regarding a councils' duty to cooperate. However, this activity is likely to be limited, as already stretched local authority officers will be working on a variety of combined authority issues.

It appears that there will be an evolving relationship with the HCA and its soon-to-be successor, Homes England. Officers within combined authorities are collaborating with the HCA on their plans, and reliant on the HCA's capability and expertise which is sometimes not available at a local authority level. This relationship seems set to change depending on the depth of devolution and size of the combined authority, although to what extent will the HCA be consumed within the combined authority structure like London is unclear. As Homes England is established and combined authorities bed in, there may be opportunities for that relationship to be more clearly defined (see the next section). It is certainly on the government's agenda, with the Housing White Paper stating: "To respond to the housing challenge, the HCA should do some things differently by getting homes built directly on public sector land, encouraging more competition and embracing partnerships, working innovatively with local and combined authorities, LEPs and other partners."

The relationship between the city region and centre will be critical not just on an officer level but also between politicians. From the outside the relationship to date has been collaborative rather than adversarial. This might change when mayors are elected. The dynamic will certainly be different. Discussions and negotiations will not be between a group of already-elected local leaders and central government but with ministers and mayors that have been elected (and seeking to be re-elected).

The first two mayors of London in many respects sought to show their party independence by attacking the government (which was of their own party) and thereby batting for London. This appears to be the approach for the prospective mayors judging by the campaign literature, which focuses on politics and policy-making being too London-centric. The question is whether this then feeds into confrontation with central government? The approach will, of course, depend on the views of the mayor's cabinet and the expectations of their voters. It may also depend on the collective power of the mayors: will the newly-elected mayors, for example, seek to collaborate with each other to call for much greater devolution powers and resources or focus on securing a good deal for their own area? If the mayors collectively or individually have a prominent voice and housing is a priority for them then this could start to influence the national housing debate.

Delivering housing at whatever level requires partnership working between various stakeholders and developers.

- Will the combined authorities create a renewed sense of partnership working and shared vision amongst housing associations, house builders, developers etc, and what forms will that take?
- How might constituent local authorities best support each other, and what are the limits to co-operation?
- What will the new relationships between the HCA and combined authorities and between the mayors and central government look like?

Councils and LEPs in other areas

How do the powers and resources granted to other areas compare with mayoral combined authorities? The very bespoke nature of the devo deals and the different starting points makes comparisons difficult. Furthermore, the areas without deals are varied, covering small towns, more rural communities as well as struggling industrial or former industrial conurbations. Their housing needs are very different, although all areas are struggling to provide sub market housing for low income households.

Local authorities remain key actors on planning and economic development and most work closely with their local LEP(s). The LEP's strategic economic plans (SEPs), for example, include private housing provision within them – usually in targeted growth areas. However, housing often features lower down the SEP priority list, behind transport (where there is more control of funding) and skills. And where housing is mentioned it is usually in support of business growth – as you would expect from organisations whose express purpose is private sector-led growth.

This, of course, is not to ignore the role that some LEPs have played in bringing house builders, developers, housing associations and other partners together to deliver on a pan-local authority basis. Moreover, as mentioned, LEP's have been growing in importance in many areas and will receive around £12bn in government funding between 2015 and 2020, much of it for transport and business support. Using this funding LEPs have adopted similar approaches to combined authorities, looking to unlock development by assembling land and providing infrastructure.

Furthermore, a number of LEPs have been working with local authorities to develop revolving infrastructure funds. Money would be recouped through land receipts, S106 and CIL contributions. This, like the challenges combined authorities face, depends on the prospect of rising land values to support such intervention. Other financial arrangements have also been adopted by individual councils, including 'earn-back' arrangements and TIFs.

To date only the Marches LEP has managed to secure receipts from HCA land to invest in the delivery of new home in their area. But it does suggest that individual councils and their LEP may be able to secure arrangements with government similar to that of combined authorities. Some LEPs have sought greater flexibility of HCA funding. D2N2 LEP, for example, has an accelerated development programme of strategic sites which aims to align land and funding initiatives, including Local Growth Fund, Growing Places Fund and Local Infrastructure Fund to support commercial and residential property.²⁷ There have also been other one-off national initiatives open to individual councils and combined authorities, such as the One Public Estate programme, something which some LEPs have been engaged with.

There are examples, therefore, that LEPs and local authorities outside of combined authorities are acting in similar ways to combined authorities. However, the remit of the LEP's is narrower than that of combined authorities and they have much less capacity or capability. Indeed, it is perhaps the combination of powers and resources that mayoral combined authorities have that is greater than the sum of their parts, which enables them to act, as they are designed to, at a strategic level on housing and planning issues.

The mayoral combined authorities will have more autonomy and more resources than local councils, but the funding gap overall in respect of housing is not that huge. What is significant is the options and leverage that combined authorities have for raising funds and pooling resources.

The LEPs in non-combined authority areas are also constrained from taking on the roles that combined authorities are designed for. As mentioned earlier, there are limits to what LEPs can be tasked to deliver because of their (non-governmental) legal status and in some cases different economic, housing and administrative geographical boundaries.

Future directions

Until recently devolution appeared to be at the forefront of the Government's agenda. The former chancellor, George Osborne, was personally committed to devolution, and present at the signing of the devolution agreements. Whilst rhetorical commitment has been evident among senior members of what feels like a new government, it does not seem to be a front and centre issue as it once was. Moreover, the cause of the change in the government's leadership – the referendum result – seems inevitably to slow the pace of devolution.

Funding for housing, and in particular for social housing, is without question a major stumbling block to devo-housing. Public investment in housing is already significantly less than in a decade ago. For example, the 2011 – 2015 affordable homes programme provided around £22,000 grant per home compared with £60,000 grant funding under the 2008-11 national affordable housing programme. Starter Homes shifted money to homeownership, although the 2017 Housing White Paper has moved the policy focus away from being solely on homeownership. Nevertheless, hopes of building the homes the metro mayors are calling for (including low-cost homeownership products) and delivering genuinely affordable social housing at the levels required seems unlikely without additional funding. Greater control of existing programmes may help, but is no silver bullet.

At present Whitehall is concentrating on Brexit and ministers are focused on striking a deal with Brussels and handling all the ramifications for domestic policy. Further rounds of devolution talks are underway, but fundamental change demanding legislative and cross departmental ministerial time seems unlikely. If the Housing White Paper, where devolution barely gets a mention, is an indication then it does not augur well for further devolution. Nevertheless, with seats to win and be retained at the next general election attention could in time turn to further powers being handed down. More optimistically still, the direction has been set. Politicians in England's biggest cities will have mandates from large electorates. And history seems to be on the side of those calling for more devolution.

Future priorities: the housing have nots and promoting inclusive growth

As highlighted at the start of the report, much of the early focus on devolution agreements was on economic growth. However, the remit for combined authorities has widened, perhaps because of the growing awareness of devolution and mayoral debates around housing and fairness. Questions about inequality and fairness were always likely to feature in areas where poverty is concentrated. As the table below shows, five of the six most deprived LEP areas are in the mayoral city regions. The policy focus may shift more towards the goal of inclusive growth, social regeneration and tackling poverty. Indeed, research by the JRF suggests that if metro mayors were to adopt the more conventional 'LEP business growth' model there is no guarantee that higher economic growth in cities will reduce poverty.²⁸ Indeed, it may become more concentrated in particular areas, which could widen existing differences between local housing markets.

Index of Multiple Deprivation

| Combined Authority | LEP | IMD Rank (out of 39) |
|---------------------------------|--|----------------------|
| Liverpool City Region | Liverpool City Region | 1 |
| Greater Manchester | Greater Manchester | 3 |
| West Midlands | Black Country | 2 |
| | Greater Birmingham and Solihull | 4 |
| | Coventry and Warwickshire | 21 |
| Tees Valley | Tees Valley | 6 |
| West of England | West of England | 26 |
| Cambridgeshire and Peterborough | Greater Cambridge and Greater Peterborough | 30 |

Source: Based on DCLG Indices of Deprivation, 2015

The high rates of deprivation are therefore likely to feed into housing priorities of combined authority mayors. Indeed, housing policy generally is naturally likely to focus on the housing have nots. At its most acute this means combating street homelessness. Whilst mayors may have little powers and resources to tackle the issue, they could look to create combined authority homelessness funds drawing on public, third sector and philanthropic funding (including using their profile to seek support from local businesses). Such an approach could also deliver a very visible quick win for the new mayors.

As the following areas highlight, further freedoms and resources could help support greater delivery of new affordable homes as well as raising standards (especially in the PRS). But ensuring people are not excluded will also mean also mean adopting a

spatially fair approach to housing. This may require challenging the orthodoxy around agglomeration and not so much trickle down but trickle out economics. Such discussions are beyond the scope of this report but approaches to economic development which focus on the city centre as the engine of growth could lead to displacement of low and middle income residents as house prices rise and new provision is focused on young professionals. This is compounded when job creation shifts inwards away from where lower income workers can afford to live. Housing as a part of economic development will thus be key to ensuring people are not left behind in the rush to (any kind of) growth and all residents are fully part of the devolution revolution.

Housing should therefore be seen as a critical component of any emerging inclusive growth agendas mayors may seek to develop. Housing is often the largest household cost, housing has important implications for accessing the labour market and social housing providers play critical roles in supporting people into work as well as more broadly as anchor institutions. All these factors will need to be considered if future plans are to reduce poverty - evidence to date suggests that economic growth alone in cities has not tended to reduce poverty.²⁹ So while national policy may be aimed at growing places, local strategies, including for housing, will be needed to ensure that residents benefit from that growth.

Housing is a critical component to the wider mayoral responsibilities for economic development, tackling poverty and promoting inclusive growth.

- How will mayors shift and shape the emphasis of policy on poverty and inclusive growth?
- How can housing feature in an inclusive approach to economic development, including spatially within city regions?
- Could a homelessness fund tackle homelessness and deliver a quick win for the new mayors?

A substantial single pot

The underlying reason for greater devolution is that local communities are best placed to take decisions which affect them. In the post-Brexit lexicon, 'letting communities take back control', which is good for civic democracy in its own right. But it also means that decisions and policy choices are better able to reflect local circumstances and wishes.

This is perhaps why a 'single pot' is so important to any discussions about devolution and economic development. Local leaders are able to shape policy as they wish without going cap in hand to a minister sitting in Whitehall and bid for money on central government's pre-defined terms. It also gives them the freedom to focus funding on issues and areas that are priorities for their area.

Increasing funding through a single pot might arguably do little more than what can be done if a national programme simply increased spending on housing. On the back of such a national programme there could be greater subsidy which could lever in private finance. However, there *could* be advantages to a single pot under the control of the mayoral combined authority.

In theory a single pot could enable the city region to realise its spatial strategy, although as documented in this report, the gap between housing supply and household growth is huge (and growing) and demands significant public subsidy. Nevertheless, flexibilities about how the money is used (in transport and or land remediation, rather than just housing supply) could better unlock housing development. And given the seriousness of the housing crisis this is not insignificant.

Programmes could be shaped for local housing markets, and designed with these in mind include different needs and demands by place. With mayoral combined authorities largely located in cities (where housing problems and poverty are most concentrated) there is also often greater pressure to develop affordable housing (be it social or intermediate rent or low cost homeownership). A single pot in this respect would enable the mayor to switch resources more towards affordable and social rented housing, rather than simply deliver or co-design policies set by central government.

But there is always likely to be tension if central government holds the money and there is little fiscal devolution. And even then there would still be limits on what can be achieved. Even if more grant funding is available there continues to be a revenue shortfall to make certain types of development viable. Social rents have been cut, welfare reforms have reduced the incomes of tenants and made them more at risk of arrears (including direct payment under Universal Credit roll out) and the combination of inflation and stagnating wages have also hurt the ability of people to pay their rents or save for a deposit. This makes developing new housing at social rents harder, including for those not solely reliant on housing benefit. It is little surprise then that new social housing is almost non-existent. Nevertheless, a single pot could help enable a mayor to do more either to meet shortages in affordable housing in its broader sense or support additional house building more generally. But this would also depend on it being a priority – over say transport improvements, supporting people into work or helping local businesses grow.

A lot more funding is needed if combined authorities are to meet their housing targets. A larger single pot is a start, but:

- What is the realistic chance of combined authorities having a bigger single pot in the short, medium and longer term?
- Even with a bigger single pot, what might be achievable in building new social housing set against welfare reforms and cuts to rents? And where might it sit as a priority?
- Does government recognise the size of the scale of the challenge to meet household growth in combined authority areas?

Flexibilities over existing programmes

A common complaint from the mayoral candidates is that decisions made in Whitehall bear little relation to the needs and aspirations of local areas. This is particularly true of housing where local markets are very different.

Clearly national governments will want to set out their own priorities, especially when they are championing and financing programmes. However, there seems to be a strong case, as a first step, for greater flexibilities around government housing programmes. More co-design and collaboration over what gets delivered and where, rather than diktat from Whitehall. This was the rationale behind the GLA's 'Homes for Londoners: Affordable Homes Programme', which is currently worth around £3.1 billion (2016-2021) and includes schemes unique to London such as the mayor's London Living Rent (which is a way to provide intermediate rent for Londoners on average wages in an incredibly expensive market, for those unlikely to qualify for social housing or able to buy).³⁰

The move for greater freedoms in London over the affordable housing programme is illustrative of what can be done, not as a one-off deal but ongoing approach. And evidence from Cambridgeshire and Peterborough suggests flexibility is not confined to the capital. Further freedoms could enable the combined authorities to better tailor policies for their own housing market – for example genuinely helping people onto the housing ladder rather than helping first time buyers purchase larger homes. Within the current spending envelope it would also give greater flexibility about what types of homes could be built for whom.

This type of flexibility could be achieved or formalised through a memorandum of understanding between the HCA (or its successor Homes England) and combined authorities. The MoU would provide greater transparency, consistency and clarity on arrangements, but with flexibilities to meet distinct housing markets. It could also include the transfer of some HCA functions, powers and land to combined authorities under the MoU. As part of the MoU additional funding and powers would be devolved, with objectives agreed with combined authorities able to make their own choice about how best to achieve them. This would require combined authorities (and local authorities within them) signing up to objectives and targets which may prove difficult. However, it would give greater flexibility and enable a pooling of limited resources and capability. For government, it would also mean that devolution may not necessarily run counter to national housing objectives and targets.

With controls over funding, combined authorities and mayors could start to stipulate the kinds of tenancies that housing providers would need to be offering. This though would not be without problems: it might not raise standards but lower them and create a very complicated landscape for housing providers. Standards would have to be limited by the money being offered with housing associations able to turn their back on the funding.

A long-standing criticism of national housing policies is they are ill-suited to distinct local markets and needs. This has been used to argue for greater flexibilities over national housing programmes.

- Will combined authorities be granted greater flexibilities over national housing programmes, similar to the GLA?
- Would a MoU help clarify the relationship between combined authorities and the HCA, and give mayors greater flexibilities over investment?
- What degree of flexibility might be agreed?

Rents and revenue funding

Whether the newly-elected mayors will be able to deliver on promises to build new social housing will depend on public subsidy and regulatory decisions, such as the rent formula. The government's decision to cut social rents means less money for social landlords and makes it much harder to build new social housing. However, a large proportion of the rent reduction benefitted the government rather than tenants, as their rents are met through housing benefit. And the rationale for the reduction was to 'allow social landlords to play their part in reducing the welfare bill'. Some providers are speaking with government about being exempt from the cuts because of its impact on development plans or because of serious financial difficulties.³¹ And others are arguing for greater autonomy on rent setting, to support the development of new homes.

Wider scale flexibility seems unlikely when it will have cost implications for the government. Equally challenging would be that such freedoms and flexibilities could be quite fundamental to traditional notions of social security. Although support, especially for housing, is differentiated by place (for example, Local Housing Allowance are based on Broad Rental Market Area criteria

or the benefit cap between London and the rest of the country), such a move could effectively further fragment the universal entitlements and bring into stark relief the differences between the obligations of national government (to ensure minimum standards) and the idea of localism. However, it could potentially be supported in the medium term if it was linked to delivering more homes, within a national framework which ensured people were not excluded or displaced.

A major concern for those renting is not just the standards but also rent levels. With little security and no asset appreciation, private renting can feel like a bad deal. And for government it can be expensive when those renting are reliant on housing benefit. Looking to stabilise rents within longer tenancies could be a way of securing a better deal for the growing number of private renters. This could possibly be achieved through licensing of the PRS, with landlords required to guarantee longer tenancies, at certain standards and with rents increases limited (or index linked). It could potentially though have downsides; rents might initially be higher and increase more regularly, it may discourage some landlords entering the market (especially those providing homes for low income tenants), and landlords may focus on 'good tenants'.³² And in some areas private rent rises may be very sensitive to very local housing markets and be inappropriate in places where rents are stable or falling. Alternatively, it could be encouraged on a more voluntary basis with combined authorities encouraging longer tenancies and index-linked rent increases. As it would not be mandatory there might be little take up.

Private renting can feel like a bad deal for tenants, especially when rents are rising rapidly.

- Could combined authorities look to rent stabilisation policies and what might the downsides be for tenants and landlords?
- Would encouraging voluntary arrangements between tenants and landlords be effective?
- Is the government likely to give metro mayors flexibility over social rents given the financial implications to the Treasury? Is this more feasible (or fair) in the medium term?

Replacement of European funding

Some of the original devo deals signed, before the referendum result, made reference to applying for Intermediate Body Status for European funding (ERDF, ESF, EAFRD) to deliver these delegated powers. However, the decision to leave the EU renders this largely meaningless. However, given the strength of feeling for Brexit in many of the areas which are now combined authorities it would seem likely that some form of funding will be available post-Brexit. This is of course not certain nor is the level of funding government may stump up. But if it is available it seems conceivable that it would be distributed to combined authorities, under the original plans. Depending on the freedoms and flexibilities, this could help contribute towards a bigger single pot. As suggested above, the extra funding could support additional house building and the enabling infrastructure needed to support development. However, government could mirror the existing dispersal of funds which are mainly earmarked for skills, employment and business support, something which would do little for housing.

Under the original devo deals combined authorities were set to be given Intermediate Body Status for European funding.

- Will government seek to replace EU funding to combined authorities, and how much could be used to support housing development (directly and indirectly)?

Freedom to borrow

One of the challenges to getting development started is access to upfront finance. There have been attempts to address this, notably arrangements for the Greater Manchester revolving fund. However, there have been strict limits on how the money can be used. For example, the fund can only be spent on private sector development. This reflects the Treasury's general nervousness about local authority borrowing and their preference for ring fencing funding (as is the case with the HRA).

The difference between the Greater Manchester revolving fund and additional borrowing via the Public Works Loan Board is that the former does not sit on the public accounts. Despite public debt not being such a prominent feature of the political debate, the chancellor's initial actions suggest that he is unlikely to substantially loosen borrowing unless the economy starts to slow. Nevertheless the 2016 Autumn Statement pledged that: "The government will give mayoral combined authorities powers to borrow for their new functions, which will allow them to invest in economically productive infrastructure, subject to agreeing a borrowing cap with HM Treasury."

Access to low-cost loans through the Public Works Loan Board for local authorities could be particularly valuable if rates start to rise. However, the scope will depend on the borrowing cap and what is deemed "economically productive infrastructure". Too often housing sits outside what the government classes as infrastructure – although encouragingly not in the industrial strategy green paper, which stated that "housing is a key factor in driving economic growth."

Loans would, of course, need to be repaid, which limits the scope for what can be done in terms of affordable housing. Whilst rates are low, combined authorities would arguably struggle to justify significant borrowing for social rented housing for low

income households at a time of deep revenue cuts, welfare caps and rent reductions. These constraints probably explain why many stock retaining councils with HRA borrowing headroom choose not to use the freedoms they have – they see the investment in sub market housing as too risky.³³ Nevertheless, having greater freedom to borrow to build is a small step in the evolving devolution settlement.

Combined authorities have limited borrowing powers, especially in relation to housing.

- To what extent will Treasury allow combined authorities to borrow to build, and how much appetite would there be among combined authority member councils?
- What kinds of developments (tenure) would be feasible through greater borrowing freedoms?

HRA pooling

Greater freedoms to borrow to build has been a constant call from stock retaining councils. Government rules on HRA place strict limits on the headroom councils have to borrow. Individual councils and the LGA have campaigned for these limits to be lifted or increased, but some councils do not intend to borrow more even if they have the headroom. So, there is the option of councils within combined authorities pooling their HRAs? This could see those councils which are not borrowing to their limit, allowing other authorities to use their spare borrowing capacity.

Leaving aside the regulatory hurdles, HRA pooling is far from straight forward. Firstly, as mentioned HRA borrowing in the current climate carries some risk (possibly exacerbated by the introduction of Universal Credit). Secondly, besides concerns over welfare caps and government interference with the social rent formula, many councils are concerned about the effects of Right to Buy and sales of high value stock eroding their assets.

There are clearly limits to what might be achieved given that some councils no longer have their own stock – and in Liverpool City Region there are no stock retaining councils. Nevertheless, with a new spirit of cooperation this could be a way of borrowing to build additional homes (this would still require grant funding or some form of cross subsidy to build social rented homes). Such a deal could see housing targets in their area reduced for lending or pooling their HRA with another's where the homes will be delivered?

Combined authorities with stock retaining councils could look to pool any HRA borrowing headroom.

- Will government be persuaded to give stock retaining councils in combined authorities greater freedoms to borrow?
- How much appetite is there from councils for additional borrowing when rental streams are decreasing and uncertain?

Revenue raising powers: fiscal devolution

Freedoms to borrow could support additional housing, but the combined authorities will need to be confident they can secure profitable housing sales and maintain rental streams. The big challenges emerge on brownfield sites where land values are negative and in areas where values are so low as to make new build unprofitable or supporting social housing development when rental income is not enough to repay the cost of building new homes. The absence of grant subsidy and gap funding makes these challenges even harder. Freedom over the use of that subsidy could perhaps only be guaranteed if money is raised locally. Moreover, alternatives, which would require a deal being struck with government, could include gain share arrangements.

Greater revenue raising powers have been advocated by those pushing for a fuller form of devolution. However, fiscal devolution in less wealthy areas is complicated and hard to predict. As mentioned, the very divergent tax bases by locality are likely to result in disparities in revenue available. Moreover, there is no correlation between local taxes levied and local need and no guarantee that combined authorities may be any better off. Taking the revenue from residential stamp duty as an example, in three London boroughs with a population of around 600,000, the tax take from property sales is higher than the North East, North West, Yorkshire & the Humber, East Midlands and West Midlands combined (population of 25 million). Looked at just through combined authorities and London the mismatch in distribution is just as stark. Tees Valley raises £12m, £80m in Greater Manchester, £89m in Cambridgeshire and Peterborough (with less than a third of the GMCA population), £122m in the West of England and £3.4bn in Greater London!

Of course, fiscal devolution of property taxes could be in addition to existing grants. However, it would seem unlikely that the Treasury would agree to such a deal, which is an expensive funding give away. And more importantly most of the country would be wary of such a move which would disproportionately benefit the capital.

It could also mean that some other form of spending would have to be reduced if it was to be revenue neutral. It could be made to work in places where receipts are high, where rather than receiving grant they retain tax revenues and have the freedom to spend as they wish. But for those areas where values are low and receipts small, it would result in a shortfall. Some form of equalisation would be needed, which could easily come with strings attached. And if it was intended to leave places neither better or worse off whilst giving them greater spending freedoms, this could be achieved by simply giving them a guaranteed single pot.

Arguably fiscal devolution could be more equitable than the extreme picture set out and guarantee the autonomy of combined authorities and spending freedoms (even if not income). Some tax bases are more equal (such as revenue from income tax compared with property taxes) but still not the same. However, it shows the potential dangers, and if there is to be greater fiscal devolution then it needs to be done in a systematic rather than ad hoc way (especially given fluctuating tax takes according to the economic cycle) which could result in extreme winners and losers. The test will come with localisation of business rates. And it may therefore depend on which combined authority you are in to how enthusiastic you are about fiscal devolution.

Without fiscal devolution combined authorities will always be constrained in what they do because central government holds the purse strings.

- Is there appetite in the future for greater fiscal devolution on housing and land taxes?
- What impact might it have on funding and housing delivery. And would housing be a priority over other infrastructure needs or public services?
- Could this be made to work in an equitable way or will it simply benefit London and widen the regional divides?

Unlocking development

Central government has set itself the target of building one million houses by 2020. Local authorities, LEPs and combined authorities are also setting ambitious long-term house building targets. Making a success of them will depend on local consent. Some local residents worry about development changing the character of an area, others are concerned that it will affect local services – from increased congestion to longer waiting times at the local doctor's surgery. Whatever the anxieties, most agree that local solutions and local agreement is preferable to direction from central government. In this sense, combined authorities operating on a city-wide basis can arguably make a difference (although it is far from clear whether local residents have a sense of belonging to a sub-regional area or even support the case for city-regional spatial planning).

One way to support new development in a city region might be for government to develop schemes which offer benefits to local communities which accept new housing. The New Homes Bonus effectively does this. However, it has largely benefitted the south where house building is strongest and may not have encouraged more building, simply giving money to those areas where building was already strongest.³⁴

Innovative approaches (such as gain share arrangements) to brownfield development could offer a real win-win for the local community and the Treasury. Once developed, sites would yield not just tax receipts through stamp duty, but also council tax and business rates in mixed used sites. The extent to which this would cover the cost of development would of course depend on future land values (and determined by local land values), but could nevertheless reduce the subsidy required.

Alternatively, tax incremental financing, could be another way to support upfront investment to unlock growth and future tax receipts to pay off the initial loan. The Cambridgeshire and Peterborough deal includes this option but is focused on economic growth rather than housing growth. However, TIFs could be extended to support new homes. Especially if tied to transport.

Such approaches may not deliver as much revenue in areas where values are low (and not enough to support an extension of a tube line as in the case of London's Battersea/Nine Elms development), but could be enough to turn some sites and developments into viable prospects, especially when combined with other measures.

Gain share arrangements and tax incremental financing can be important tools for unlocking development requiring upfront investment.

- To what extent can values and future tax receipts support the level of investment needed?
- Do such instruments reward already successful places, both between and within combined authorities?

Housing and welfare

Support for housing has shifted since the 1990s from capital subsidy (grant) to revenue subsidy (housing benefit). The extent to which this is true depends on whether you include planning gain contributions from developers (which a decade ago accounted for a two-thirds of all new affordable housing).³⁵ Nevertheless, cash support from the state largely comes from housing benefit. Whilst some of this is productive, giving housing associations and councils a guaranteed revenue stream to repair and borrow against to build (even if further subsidy is required to build social housing), growing sums are being spent on private landlords. Of course, they need to make a profit and housing people is not cost free, but as Shelter's research has shown it offers the state poor value for money.³⁶

Shifting investment from revenue to capital subsidy could support additional building and make savings over time (as well as giving combined authorities an asset). Making this shift is however far from easy and requires substantial upfront investment.

Local authorities also have little incentive to reduce the housing benefit bill – it is DWP which pays. And local authorities are more than likely to be very wary of taking control of housing benefit (made more complicated by Universal Credit). It could easily leave them with a shortfall if claimants increase or if savings are made and the Treasury simply cuts their allocation.

Nevertheless, local authorities do pick up the pieces for homelessness and Discretionary Housing Payment as well as pressures on other services. So, there could be ways of exploring programmes which seek to reduce a combined authority's housing benefit bill by investing upfront. Such approaches would need to ensure that calculations were based on reductions in costs rather than either quality or displacement. This could focus on the most expensive forms of accommodation (which in many areas is temporary and emergency accommodation). Arrangements could be explored to provide additional temporary accommodation which is less expensive than private B&B accommodation, paid for upfront by the local authorities, the combined authority and central government and which ultimately results in savings to both local authority (with homelessness duties) and central government (through housing benefit).

Alternatively, housing benefit could also be used as leverage to improve standards in the PRS. There is understandable anger at private landlords receiving money from the state and providing homes unfit for human habitation. There could be ways of exploring, alongside strengthened enforcement of standards more generally, how the money received by landlords through housing benefit and Universal Credit drives up standards. This is an approach that is being explored by Blackpool council. It has been in discussions with the Treasury about greater flexibilities over Local Housing Allowance rates to adjust payments according to standards in areas with large numbers of houses in multiple occupation (HMOs). The aim is to retain any housing benefit savings locally and use them to reward landlords offering higher quality accommodation. Any surplus could also be reinvested in improving or converting low quality properties, particularly HMOs.³⁷ Although not yet agreed, it suggests a willingness from government to consider bespoke arrangements on housing benefit, which combined authorities could use to improve standards or provide housing for the homeless.

However, serious concerns have been raised as to what impact it may have on the market, particularly for those at the bottom of the housing market. Reports have suggested that private landlords are turning their backs on benefit claimants because of fears of their tenants' inability to pay their rent.³⁸ It could also potentially drive down standards with landlords accepting lower rents, either implicitly justifying poorer standards or resulting in them having less money to invest in their properties. Such outcomes would clearly reduce the housing options and quality of housing for those affected. As the Rugg Review into the PRS warned, policymakers need to tread carefully when considering intervening because of such negative, albeit, unintended consequences.³⁹

Flexibilities over housing benefit, such as those being discussed between Blackpool and the Treasury, could enable combined authorities to improve the quality of private rented accommodation and perhaps temporary accommodation.

- Would such approaches improve the worst standards or would landlords accept less payment or not let to benefit recipients?
- How willing would government be to offering such flexibilities across the country as opposed to areas with specific issues with a high level of poor-quality HMOs?
- Would gain share arrangements on temporary accommodation stack up financially?

Raising standards in the PRS

Those in the PRS are most likely to be in non-decent housing. And being a private renter is more common in many of the areas with devo deals because they are cities (cities have younger, more transient populations). As mentioned, combating low standards is likely to be an important area for the new mayors, although far from cheap or easy to do.

Combined authorities could be a means of improving regulation and licensing of properties. At the moment licensing falls on local authorities, who have tended to focus either on where they must license (certain types of HMO properties) or problematic areas (where rogue landlords and anti-social behaviour is prominent). There have been some attempts to license all private landlords, notably Newham in London, whilst London has also tried, not very successfully, to raise standards through a voluntary kitemark scheme. Licensing all private landlords is often expensive, with funds raised from those being licensed not enough to pay for administering and policing the scheme. Introducing a scheme at a city-region level could be more feasible and affordable, with resources concentrated in a single team.

However, whether the scheme could be self-financed would depend on the charges to landlords and the amount of private renting, while a balance would need to be struck between enforcing standards and not reducing the housing options of renters (on low incomes). But it would be very much in the spirit of devolution that the current requirement to seek approval from the secretary of state on selective licensing above 20% of the local authorities' geographical area or would affect 20% of privately rented homes should be devolved to the new mayors.

A less ambitious but perhaps more effective approach could be to increase licensing areas with local authorities collaborating

and supporting a central team. This could increase expertise and knowledge, especially when tackling those rogue landlords operating across local authority boundaries. In areas where rents are low there may be limits to what can be expected from landlords before they pull out of the market, but it could be a way of ensuring at least minimum standards as well having the resources to encourage best (or better) practice amongst those who are not wilfully providing substandard properties and services.

More voluntary approaches could be sought, either in regard to standards or letting processes, which may be more feasible at a combined authority level. However, it is not clear whether a kitemark approach will in the longer-term prove effective at raising standards, especially at the bottom end. Nevertheless, they could help some landlords to improve standards, depending on take-up levels. Equally not-for-profit combined authority letting agents could help support landlords to improve the quality of the PRS offer and incentivise longer tenancies. However, such approaches would require upfront investment which may not be recovered if they fail to compete against established firms. And whilst any surpluses may be ploughed back into improving standards if they are to effect widespread change this may require subsidy.

With standards in the PRS lower than other tenures prospective mayors are pledging to improve the PRS through licensing, voluntary codes and not-for-profit letting agents.

- Is compulsory landlord licensing more possible at a combined authority level and would it be effective in driving up standards without adversely affecting the market?
- Could combined authorities enable closer working between local authorities to tackle rogue landlords?
- Would a voluntary approach to standards or having not-for-profit letting agents have the buy-in to increase standards?

Civic house building

One way local authorities are looking to fill a gap in their local market is to establish local housing companies. These council owned arms-length housing delivery vehicles come in various forms and work to varying degrees with other housing providers. The advantages of the approach is that they do not face the same constraints as delivering housing through a council's HRAs, and could potentially provide better value of council when disposing of land. It is early days and few assessments have been carried out on their impact (the Smith Institute is currently undertaking one). There are though constraints on what can be achieved in terms of social rented housing (the same facing housing associations), and arguably it could lead to displacement of development that would happen in any case. However, there could be advantages of scaling up such vehicles to a combined authority level. Indeed, Liverpool City Region is said to be seeking to do so.

Shelter have also called for a new civic housebuilding programme, which seeks to deliver housing that benefits the whole community. They advocate an approach based on landowners receiving a 'fair price' for land. They suggest giving city regions and combined authorities "the power to create New Home Zones where land can be bought at its existing use value plus a compensation."⁴⁰ This would require legislative change and certainly face opposition from landowners. In some areas, it would not necessarily help develop brownfield sites (where remediation is costly rather than the price of purchasing land), but could nevertheless support long-term housing plans. More generally, combined authority's may look to Shelter's approach which focuses not just on the land price but delivering new housing through mayoral development corporations, having better viability arrangements to ensure a mix of tenure (rather than ratchetting up land prices to ensure social provision is too expensive), and financed through patient capital. Such an approach may be able to deliver wider place-making benefits which are perhaps only possible by focusing on longer-term stewardship and commitment to development.

New models for civic house building are seen as a way of delivering extra housing.

- Could combined authorities look to establish city-wide housing companies, and what could they achieve?
- How feasible would a change in legislation be to enable combined authorities to buy land at current use value to encourage new civic models of housing delivery?
- Could a new civic housebuilding model with combined authority (joint) vehicles based on longer-term returns and new arrangements for viability assessments deliver for local people?

Improving partnership working

As noted, housing associations, house builders and private developers are critical partners for mayoral combined authorities. New arrangements are being formed to support housing, most of which build on the partnership working that was in place with individual councils. The MoUs mentioned between housing providers and the combined authority set out the terms of collaboration as well as a joint commitment to reducing poverty, supporting people into work and help for older people. Some combined authorities have looser arrangements which could become more formalised in a MoU or compact. A critical component will likely be that both sides feel they are being consulted early, perhaps including when combined authorities are negotiating with central government over further devolution but certainly over meeting strategic objectives. This will require not simply the structures for discussion but time and sustained commitment to doing so.

Partnership working between combined authorities and housing providers is seen as critical in the early days of combined authorities.

- How might the relationship develop (formally and informally) and be sustained as combined authorities mature?

Total place: joining up sectors

A persistent theme of improving public policy has been joining up the way different parts of the state work together. Combined authority spatial plans are clear attempts to try to link housing, transport and economic development in a coherent way that optimises growth. But there could potentially be other ways to act differently and join-up other services, not least housing and health. At the moment this may be confined to Greater Manchester and its devo-health deal. The combined authority could examine the role that housing can play not just in reducing demand on health services, but also the way housing providers can support people out of expensive hospital care into more comfortable step down care. At present there is little incentive for the NHS to collaborate; their funding model is based on filling bed days rather than using assets, including surplus land, to support different forms of care. With control of the health budget this could provide the incentive to explore ways of reducing demand on services and providing better care, which could potentially save the NHS (and GMCA) money.

Combined authorities will of course face similar obstacles to public agencies, not least the need to maximise the receipts for land sales to fill urgent funding holes rather than investing for the longer run. There could also be issues with silo working – just because it is happening at a city-region level doesn't mean that different sectors will be more likely to talk to each other or that they are more likely to have a shared culture. Nevertheless, the financial incentives could be more aligned as a result of devolution, making partnership working perhaps more likely.

One of the arguments for devolution is that combined authorities will be better placed to join up different parts of the public sector to better deliver for residents.

- How can housing work with public services (including healthcare) to deliver savings and improve service?
- Is this more feasible under the devo deals, and will some of the pressures faced nationally be replicated at a city-region level?

Lessons from Scotland

Housing has been a devolved function since the late 1990s in Scotland. And, in many respects, Scotland's attitude to housing is perhaps more similar to the English cities than the English cities is to the rest of England. In contrast to the Westminster government, Scottish governments in various forms have shown support for social housing. This has been reflected in the government's policy choices. Scotland has used its resources to reverse or at least mitigate some welfare reforms which have affected housing tenants and social landlords. And grant has been more generous placing less pressure on social landlords to build more for commercial purposes. Such freedoms are a long way off for combined authorities.

Right to Buy remains a key plank of the UK government's housing policy, but abolished in Scotland. It is unlikely under the current government that combined authorities would be given such freedoms. Nevertheless, how Right to Buy 2 is implemented, including around one-to-one replacements, could entail flexibilities for England's combined authorities. Moreover, governments and government policies change and freedoms over Right to Buy and fuller control over revenue and capital expenditure could form part of a longer-term campaign or ask from combined authorities.

Scotland has led the way in devolution, including on housing issues such as Right to Buy.

- To what extent might combined authorities receive the housing freedoms of Scotland?
- What lesson can combined authorities learn from the devolved nations, particularly in respect of support for social housing?

A fair deal for the rest?

The election of new mayors may mark a new dawn for those areas. However, over half of England's population will not be covered by a devolution arrangement. For those outside the fold it seems likely that they will receive fewer resources and powers. This could prove to be a cause of resentment. However, rewarding areas that did not go down the combined authority road could cause bitterness amongst those that did. Nevertheless, ignoring the majority of England, would be a significant oversight when it comes to housing.

As has been noted some of what is happening at a combined authority level can be undertaken by local authorities or LEPs. But there are limits, and housing delivery (especially for affordable homes) remains patchy. While the focus of LEPs means affordable housing is often not on the agenda. If the plan is for there not to be combined authorities covering sub-regions, with strategic oversight of housing then the role of LEPs becomes even more important. This may require government giving

a clearer statement about what it expects from LEPs, but more fundamentally reviewing how LEPs can deliver on housing and infrastructure. However, housing is a social good and so LEPs might have to be tasked with going beyond their focus on private sector led growth. Furthermore, there are limits to how far LEPs can extend their mandate. They do not have the democratic legitimacy of mayors or the legal status of combined authorities.

Alternatively, government could look to do more to support local authorities. However, the purpose of combined authorities and LEPs is their ability to act at a strategic level across a functional housing and economic market. And much of the devo deals focus on housing has been on strategic planning and funding.

Most of English population is not covered by mayors and devo deals.

- How can LEPs act on a strategic level and should government be conducting a review to ensure that people in regions outside of the mayoral combined authorities are not left with a relatively poorer housing offer?

Conclusion: moving beyond a halfway house?

Under the devolution deals the new mayors will be able to shape strategic plans and intervene in local housing markets. After decades of centralisation this arguably marks a significant shift in policy, with mayoral combined authorities having powers and resources to deliver exclusively for their city region. They can set their own housing targets (including around tenure), identify key sites for regeneration, use some flexibilities over funding, apply compulsory purchase powers and establish development corporations. They can also connect housing to transport and wider economic objectives.

Yet there are considerable limits to devolution, not least the piecemeal way in which powers have been handed down. This lightweight form of devolution will constrain metro mayors. It could be argued that many of the powers existed under the RDA and regional planning system – even if it felt remote – but with much larger sums of money. More fundamentally, while there are certain freedoms to set out a vision for housing growth in their city region, to identify key strategic sites and the powers to assemble land and deliver complicated schemes, the funding to do so is clearly lacking. And, there seems little prospect of mayoral combined authorities making up the difference. Freedoms to raise money through local taxes are unlikely to raise significant sums when compared with London and the ability to borrow is limited by government. Metro mayors will no doubt complain and lobby hard for more resources, but with continuing austerity and Brexit it seems unlikely that the current government would be willing to redirect significant funds to mayoral combined authorities. However, as this report shows, unless government makes a much bigger spending commitment to devo-housing the metro mayors will struggle to get even close to their housing targets, and the crisis for social housing across the country will intensify.

This half way house could come to a head with the elections of mayors, with mandates to deliver new affordable and social housing. However, the way the deals are constructed suggests that government has largely decentralised not devolved national policies and programmes. So, for example, even if there were greater freedoms to borrow, the mayors will struggle to support new social housing or the regeneration of struggling places. With welfare reforms, cuts to grant and rent reductions, delivering new social housing at a local or regional level is almost impossible (at least at scale), whether it is via the state or via housing associations. So, whilst we might see innovation and differences in focus and emphasis, the mayors will have to play within the rules set by Whitehall even if their residents demand and need something different.

However, there are significant opportunities to speed up development in the city regions and the big advance is arguably that combined authorities are now providing much needed strategic planning. The local housing plans and programmes also show what is possible within a constrained system. Moreover, there is now greater scope at combined authority level for collaboration and pooling of resources, as well as new thinking in regard to borrowing to build and application of new housing tools and vehicles, like local housing companies. Even greater freedoms and flexibilities under a single funding pot are also now possible, albeit with strings attached.

What's more this is start of a journey. As the report sets out, there is scope for substantial extension of the original deals. A start would be to extend funding for a single pot and allow greater, if still defined, freedoms over national housing programmes. As combined authorities bed-in and their ambitions grow there will surely also be scope for further devolution of powers and resources. However, the pace of change will be shaped by the wider political and economic context, not the least what happens with Scotland but also the impact of the Brexit negotiations.

What is clear from the housing market data is that something needs to change, and that centralised housing programmes have failed in recent times to deliver the housing people want. The bottom line is that there is a huge housing shortfall in the combined authority areas. In that sense alone, it will fall to the metro mayors and the council leaders in the combined authority areas to show they can make a difference. It won't be easy, but the hope is that over their term of office the metro mayors will be able to not only start to rebalance their housing markets but also demonstrate that they have, against the odds, improved the quality and affordability of the homes for local residents.

Notes

- 1 Bristol and surrounding areas
- 2 See: <http://www.northeastca.gov.uk/devolution>
- 3 Reuters "Key excerpts from the leadership launch of Britain's Theresa May" 11th July 2016 - <http://uk.reuters.com/article/us-britain-eu-may-idUKKCNOZR1MY>
- 4 Clayden, S "New DCLG secretary outlines priorities", *Municipal Journal* 2016
- 5 Greg Clark, speech on devolution and the northern powerhouse (2016)- <http://www.ukpol.co.uk/2016/07/11/greg-clark-2016-speech-on-devolution-and-the-northern-powerhouse/>
- 6 Parliament's CLG Committee's report on '100 per cent business rate retention' (2016) , for example, pointed out that Some LEPs are not representative of the full range of businesses, particularly retail; LEPs may not be sufficiently resourced, well-established, accountable and impartial; and that in some places, the area covered by the LEP is too large for it to be able to make effective local decisions.
- 7 Treasury press notice 2015 stated that elected mayors—once they have support of local business leaders through a majority vote of the business members of the Local Enterprise Partnership—will be able to add a premium to business rates to pay for new infrastructure.
- 8 See Ipsos Mori Issues Index, which ranks housing as 5th most important issues facing Britain
- 9 BBC News "London mayoral election: Housing top concern, poll suggests" April 2016
- 10 Ipsos-Mori Issues Index, November 2016 poll shows that over a third of Londoners put housing amongst the top issues facing the country, while 10% do in the North.
- 11 See Hastings, A et al The cost of the cuts: the impact on local government and poorer communities (JRF, 2015)
- 12 DCLG Housebuilding live table puts new build in 2015/16 at 140,000 units
- 13 See, for example, Savills' supply and demand forecast for London showing a mismatch in supply and demand for social and lower cost housing whilst supply for high-end housing is being met
- 14 According to the DCLG *English Housing Survey 2015/16* 28% of privately rented homes do not meet the government's Decent Homes Standard
- 15 Shelter *Safe and decent homes* (2014)
- 16 Redfern *Review into the Decline of Homeownership* (2016)
- 17 According to the *Barker Review of Housing Supply* (2004) to reduce the trend in real house prices to 1.1 per cent, an additional 120,000 private sector homes in England per annum would be required
- 18 See for example, Pike, A "Metro-mayors: claims and evidence" <https://blogs.ncl.ac.uk/curds/2017/04/04/metro-mayors-claims-and-evidence/>
- 19 London's pitch was as global city and engine of UK economic growth. Others may stress particular specialisms and importance to rebalancing growth.
- 20 West Midlands Land Commission – Call for evidence
- 21 House of Commons, *Devolution deals and housing (England)* (2016)
- 22 Bowie, D *Politics planning and homes in a world city* (Routledge, 2010) cited in Brownhill, S *Rethinking planning obligations balancing housing numbers and affordability* (JRF, 2015)
- 23 DCLG *Section 106 planning obligations in England, 2011–12: Report of study* (2014) cited in Brownhill, S *Rethinking planning obligations balancing housing numbers and affordability* (JRF, 2015)
- 24 JRF *Delivery of affordable homes through S106: outputs and outcomes* (2006)
- 25 Johnstone, N "Barwell: West Midlands 'strong contender' for Right to Buy pilot" *Inside Housing* 20 March 2017
- 26 Heywood, A *Working together, thinking alike: what do councils and local enterprise partnerships expect from housing associations?* (The Smith Institute, 2016)
- 27 Crisp, R et al *Tackling poverty through housing and planning policy in city regions* (Centre for Regional economic and Social Research/JRF, 2017)
- 28 JRF, *Cities, growth and poverty: evidence review* (2014)
- 29 Lutpon, R "Inclusive Growth for UK Cities – new Manchester-based collaboration gets underway" *Manchester Policy Blog* 14 April 2016
- 30 See Mayor for London, *Homes for Londoners* (2016)
- 31 Barnes, S "DCLG reveals council rent cut exemption criteria", *Inside Housing*, 26 May 2016
- 32 Scanlon, K and Whitehead, C *Rent stabilisation: Principles and international experience A report for the London Borough of Camden* (LSE, 2014)
- 33 Cooper, K "Using Headroom to the Max", *Inside Housing*, 20th May 2016
- 34 Ward, M *Rebalancing the economy: prospects for the North* (Smith Institute, 2011)
- 35 This figure is down to around one third. See: Brownhill, S et al *Rethinking planning obligations: balancing housing numbers and affordability* (JRF, 2015)
- 36 See for example, Shelter *Bricks or benefits? Rebalancing housing investment* (2012)

- 37 Example taken from Crisp, R et al *Tackling poverty through housing and planning policy in city regions* (Centre for Regional economic and Social Research/JRF, 2017)
- 38 See, for example, Jones, R "Housing benefit claimants increasingly shut out of private rental market" *The Guardian* 21 January 2017
- 39 Rugg, J and Rhodes, D *The Private Rented Sector: its contribution and potential* (University of York, 2008)
- 40 Shelter *New Civic Housebuilding* (2017)

