Local Housing Investment Fund

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With the cut back in central government funding for social housing, thought needs to be given to the means of funding social and affordable housing particularly in the later years of the current spending review period and beyond. The current affordable housing programme (with 80% of market rents) has enabled limited grant to be stretched. However, housing association registered provider balance sheets and loan agreement cover ratios can sustain this only for a limited time.

Similarly with local authorities whilst the new Council Housing self financing regime will "free up" surpluses, the allocation of housing debt to Local Housing Authorities will make it difficult for authorities in the early years to undertake any material investment. Even if authorities take a long term view of revenues, surpluses and debt service their ability to borrow to fund investment is constrained within the new system. Furthermore, attributed receipts from any reinvigorated Right to Buy will still be directed to Central Government although a formula will allow the application of the balance to 30% of the cost of replacement. However, this formula will not work everywhere and any replacement will be at affordable rents.

Finally, there is a current lack of development finance for housing. The Get Britain Building Fund is unlocking some sites and the impact of the Housing Guarantees Scheme remains to be seen. However additional public sector finance would be beneficial as would a mechanism or vehicle to "turn on" and "turn off" finance for social and affordable housing (and housing development finance) as and when needed . There would also be merit in capturing the uplift in housing values both rental and market with uplift being retained in an organisation funding housing.

As a consequence a new approach is needed. One means of facilitating investment which is gaining popularity with public sector bodies, and local authorities in particular, is the concept of an investment fund. The nature of public sector investment funds vary but they tend to be revolving (returns from one project being recycled into another). Some are enabled by legislation eg Jessica Funds taking advantage of EU regulations for revolving funds for ERDF monies and others by policy eg the Growing Places Funds which contain a policy requirement for the monies to be recycled.

A Local Housing Investment Fund (LHIF) could provide the benefits of, establishing a local or regional strategy for housing, bringing forward and enabling the development of public sector land for housing, investing in different tenures (and rental and ownership models) to create a varied investment portfolio and mixed community whilst retaining growth/equity within the investment fund for future investment in housing.

Where are the public sector resources to establish a LHIF?

First there are the national resources largely through the HCA funding streams and assets (whether owned or managed).

Secondly there are the resources which can be generated locally by local government including:

- Prudential Borrowing;
- Section 106 contributions;
- Right to Buy receipts;
- New Homes Bonus;
- Local Authority HRA surpluses;
- Business Rate retention;
- RGF and Growing Places Funds; and
- Land assets.

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How a LHIF could work is illustrated in the structure diagram below. The extent of the area of operation of the LHIF would need to be agreed and established. Strategically there are benefits in extending the area of operation beyond local authority boundaries perhaps taking in a City, City region, County or perhaps Local Enterprise Partnership area. The Greater Manchester City Deal refers to a housing investment fund for the area of the Greater Manchester Combined Authority although details of any structure have yet to be published.

The HCA and local authorities for the area of the LHIF would establish a Local Housing Investment Board to set a development and investment strategy across the area of the LHIF. The LHIB's influence and jurisdiction could only extend to strategic or publicly owned sites or sites needing co-investment. The composition of the LHIB would be determined locally but would comprise the HCA and local authorities within the area. The Board could include other stakeholders in the economy and housing (eg builders and registered providers) although thought will need to be given to "conflicts".

The LHIB would establish the LHIF initially with public sector funds, a mixture of HCA and local authority funds and assets (with the potential of adding other public sector assets). As there are broadly two types of investment, social/affordable housing and market housing the LHIF could comprise a holding fund and two separate parallel funds, one investing in social/affordable housing and the other in market housing. The holding fund would therefore have the full mix of returns whereas the two sub funds would be more specialist potentially attracting different types of investor and at different times. For example, the social and affordable housing investment fund would be more long term needing time to build whereas the market housing fund would be more of a hybrid with some short term sales and market rental (the latter would have built in churn to achieve returns).

The holding fund would have the ability to move funds between the two. It would recycle public sector returns and bring other funding streams into play such as New Homes Bonus.

The investment/procurement strategy for the fund could vary depending upon local conditions and circumstances. It could retain or pass risk depending upon the circumstances and development opportunities. It could seek investment from developers or registered providers to gain access. It could in the current climate just act as development finance provider. It would probably commence its activities using public sector land.

The homes for rent would be managed by a registered provider (or local authority). The registered provider would therefore benefit only from a management fee and not any uplift in rental or market value. There would probably need to be guarantees around collection levels to attract certain types of investor (whether or not involving a lease).

Essentially the LHIF would be a different type of registered provider focussing on investment and housing provision rather than management. The LHIF could co-invest in REITs for social housing and potentially also co-invest with local authorities in their stock (or estates through surplus land etc) to achieve decent homes.

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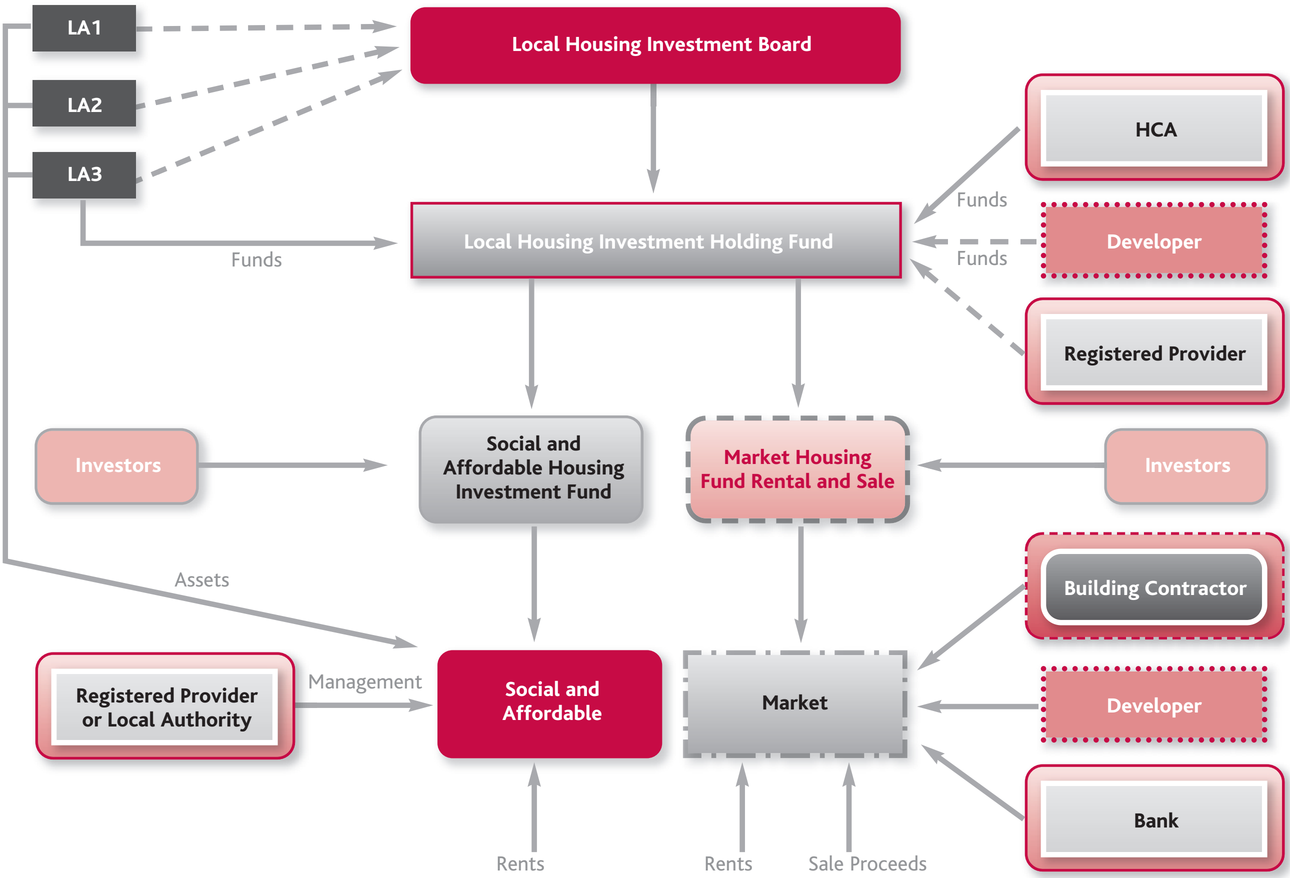

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