
Improving Housing Quality and Boosting Delivery in the North

Why net additionality needs to change

November 2022

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Executive summary

The net additionality rules in the Affordable Homes Programme (AHP) are a barrier to housing associations in the north seeking to provide the right homes for their customers, support local economic growth, create high quality places, and cut the environmental impact of their portfolios. The result is a large proportion of public housing funding being used to deliver new homes on greenfield sites.

Our key recommendation is that these rules are revised to bring more homes into scope for replacement by extending and expanding the exception for moribund property. Housing associations are being blocked from undertaking otherwise 'oven-ready' projects that would enable the delivery of more and better quality homes. In turn, this would support existing government priorities of levelling up, maximising the use of brownfield land, increasing the energy efficiency of the housing stock, and reducing carbon emissions. It could also drive improved value for money from the AHP and enable more efficient asset management and development activity for registered providers.

Securing this change is not simply a question of technicalities, it requires a shift in policy driven by the Secretary of State to relax the requirement for the AHP to maximise net additional homes. Enabling this type of redevelopment would support Homes England's shift in strategy towards a renewed focus on regeneration and placemaking in urban areas. This should apply immediately to Continuous Market Engagement and be a key element of the next AHP from 2026.

The problem

Funding for replacement homes is only available in exceptional circumstances via Continuous Market Engagement within the Affordable Homes Programme (AHP). To secure funding, the existing homes should usually have been demolished before an application for grant funding is made.

Current practice is focussed on continual upgrades to meet rising standards, both those driven by tenant preferences and prescribed by regulation. In many locations and for some property types this is not the most efficient solution. Residential buildings do obsolesce, and replacement can often offer the best chance to raise quality, reflect the latest local housing needs and support the local economy.

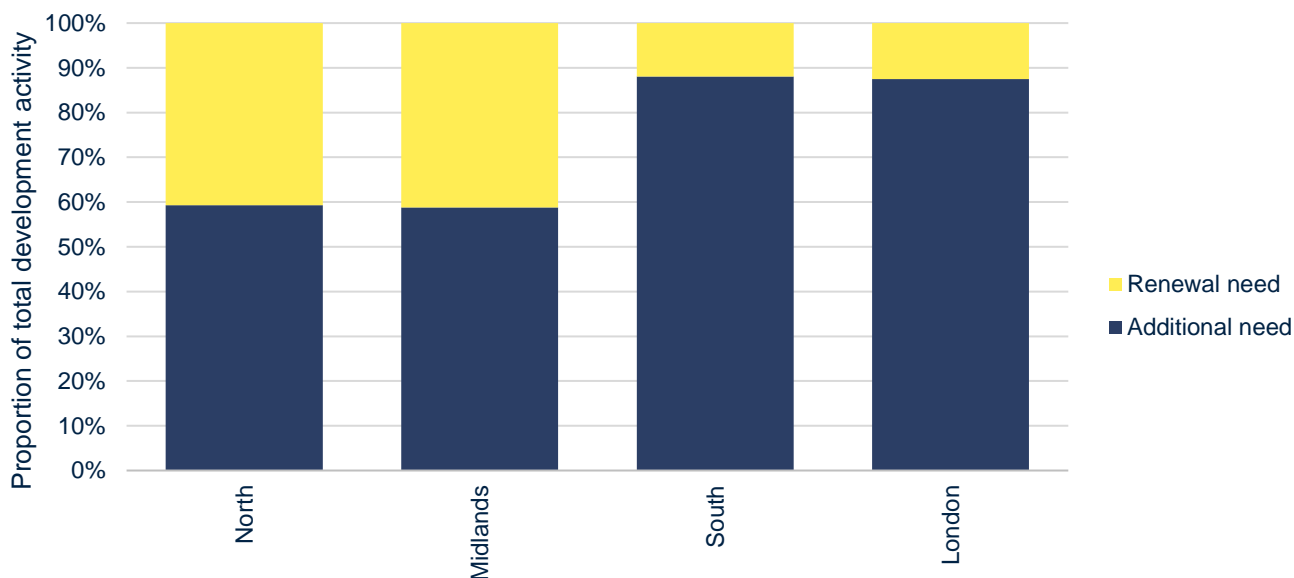
Over the past decade, the rate at which homes are demolished and replaced in the north has fallen sharply. This has increased the implied 'life expectancy' of existing homes. At current rates of demolition of just under 2,000 per year over the last five years and with a total housing stock of nearly 7m, the average home in the north would have to continue housing people for over 3,000 years. This is slightly longer than the England average. London has the highest rate of demolition, but the average home would still have to last nearly 2,000 years.

A significant minority of homes in the social sector do not meet current quality and/or energy efficiency standards and therefore require replacing or upgrading. While the proportions not meeting standards are similar across England's regions, in practice this is a bigger issue in the north for two reasons:

- The number of homes with quality issues in the north is of a similar scale to the need for additional homes, whereas in the south the need for additional affordable homes is much greater (see Figure 1).
- Higher average land values in the south can make it more viable to fund replacement or upgrade works, through increased density on site and cross-subsidy from market sales.

Development activity in the north has come close to meeting the annual need for additional affordable housing in recent years. If affordable housing development is to continue expanding in the north, the potential to upgrade the affordable housing stock through replacement and refurbishment must be unlocked.

Figure 1 – Comparing relative need for additional new and replacement homes, rented affordable housing



Source: Savills Research using Glen Bramley and English Housing Survey

The current response

For organisations looking to provide good quality homes that meet local needs, the optimal and most efficient option in terms of policy and funding is often to deliver new homes. The AHP is intended to deliver as many new homes as possible for a given budget, which favours development on greenfield sites where timescales are shorter and build costs are cheaper compared to brownfield.

Other public funding for housing-related investment requires bidders to make a full business case setting out the economic benefits of the proposed project. This tends to suit schemes with more tangible and immediate outputs, again encouraging the delivery of new homes rather than improvements or replacements. Land value uplift is usually the largest component of any economic business case, which favours projects in higher house price markets rather than inner-city northern areas.

This results in older homes remaining standing, even if they are not fit for purpose or up to current standards. These homes are often in the most sustainable locations, close to urban centres and transport hubs. But they are providing a poor service to tenants and costing housing associations money that could be invested more sustainably into their portfolios.

The logical consequence for registered providers is therefore to sell this underperforming stock. This is a particular risk over the next couple of years as borrowing costs are higher and it is expected that there will be a substantial impact on cash flow from a real terms cut in rents.. But selling underperforming housing stock can lead to the hollowing out of towns and cities. Low-quality, inner-city homes in relatively low demand areas are often exploited by

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poorly regulated landlords renting to vulnerable households on housing benefit at local housing allowance levels. A high yield can be generated with little incentive to invest in upgrading the homes for long term occupation. Concentrations of this type of housing can lead to a downward spiral in the local area in terms of the impact on health, crime, and economic activity. This is a consequence of market failure, with uneven regulation between Registered Providers of social housing and other landlords.

The solution

The rules around net additionality in the AHP should be reviewed to bring more homes into scope for replacement by extending and expanding the exception for moribund property. This would remove the need for the homes to have been demolished before the replacements can be considered for grant funding. It would also allow organisations to replace homes that are no longer viable for further investment with ones that contribute positively to growth and are a beneficial asset, environmentally and socially, to local communities. The Strategic Partnerships element of the AHP should allow replacement homes as part of delivery commitments enabling a holistic approach to development requirements within an area, rather than relying solely on Continuous Market Engagement. These changes should apply immediately to Continuous Market Engagement within the 2021-26 AHP and be a key element of the next programme from 2026.

These changes would encourage the redevelopment of poor quality and unsuitable homes in sustainable locations with modern replacements, aligning with wider policy objectives around increasing brownfield development, decarbonisation, modern methods of construction, and health and wellbeing. This would support economic growth by delivering the housing infrastructure needed in northern communities¹. Where refurbishment remains a viable option, any programme of upgrades should support innovation in retaining embedded carbon.

Increased housing renewal and regeneration activity potentially simplifies the development and asset management activities of registered providers (housing association, for-profit providers and local authorities)², enhancing the value for money the AHP can achieve. Rather than building new homes on one site and upgrading homes on existing estates, regeneration could allow new homes to be built as part of estate wide upgrades to stock. This would enable housing associations to meet future requirements relating to Decent Homes and decarbonisation more effectively, as well as help meet wider policy objectives around local economic growth and health and wellbeing. It would also reduce the need for housing associations to compete in the land market against private developers, as they would be enabled to make better use of their existing land holdings.

Housing associations are well placed to deliver these projects, having a proven track record of delivering homes at pace through previous AHPs and understanding the needs of local residents. They also support the housing market and wider economy through using local supply chains and operate in a counter-cyclical fashion to market sale developers when delivering sub-market rental homes. This is likely to become increasingly important during the current period of economic uncertainty. We heard from organisations with projects that could be unlocked immediately, including:

¹ See previous research on the importance of housing to local economies, including: http://www.homesforthenorth.co.uk/wp-content/uploads/2019/08/Homes-for-the-North-Transport-Research-Report-2019_web.pdf and <http://www.homesforthenorth.co.uk/wp-content/uploads/2021/02/H4N-and-Metro-Dynamics-Final-Report.pdf>

² Registered providers' includes housing associations, local authorities with housing stock, and for-profit registered providers. This report mainly focuses on housing associations but much of the content is applicable to other types of RP.

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- A £38m proposal to replace a low quality but well located 150 home estate with 180 new properties. Only the 30 additional homes would currently qualify for AHP funding, so the scheme is stalled.
- A scheme for over 1,000 new homes in a northern city, requiring the demolition of over 300 mid-20th century prefabs where it is either not possible or not financially viable to raise the EPC rating to C. The scheme is stalled, as funding cannot be secured through the AHP where existing homes are still standing.

A place-based approach that splits funding between additional and replacement homes depending on specific local market needs would maximise the impact of this change. Local Planning Authorities should be properly resourced to keep up to date housing needs strategies and housing associations should work with them to ensure that the right types of homes are delivered to meet need. This will ensure that economic growth is supported through delivering the right homes in the best locations for redevelopment.

1. Introduction

Homes for the North commissioned this research to understand the barriers that exist for housing associations seeking funding for replacement housing, explore whether there is a case for those barriers to be removed and recommend ways in which this could be achieved. The aim of this project is therefore to propose ways in which the Affordable Homes Programme (AHP) could direct more grant funding towards housing replacement projects and thereby work more effectively towards realising wider policy objectives around levelling up, regeneration and decarbonisation.

Homes for the North had already sought clarification from Homes England on the guidance for assessing Affordable Homes Programme funding where it applies to:

1. **Estate regeneration** – AHP funding will not be available for replacement homes, but may be available for any net additional affordable homes, subject to wider assessment criteria.
2. **Brownfield land** – AHP funding may be available to support additional affordable homes, subject to wider assessment criteria.
3. **Moribund housing stock** – AHP may be available in exceptional circumstances, subject to a robust business case and early engagement with Homes England.

The challenge for housing associations is that the AHP generally does not envisage providing grant funding for regeneration and particularly for replacement homes, even if a strong business case could be made in line with the recently revised Green Book. This is therefore a barrier to those seeking to improve housing stock, create high quality places and cut the environmental impact of their portfolios.

1.1. Report structure

The first section of the report sets out the scale of the problem and opportunity to fix it. The second section looks at the current environment of public funding for affordable housing and housing-related infrastructure. Section 4 and 5 report on discussions with Homes for the North members and civil servants at Homes England and DLUHC on the effects of the current funding guidance, why the current rules exist and how they might be changed for the better. Section 6 summarises our key policy recommendations.

1.2. Definitions

The language when dealing with knocking down and rebuilding homes is difficult, with particular words and phrases meaning different things to different people, sometimes inspiring unintended reactions. The main focus of this report is on funding for the replacement of existing housing with new housing. We have therefore used the words replace, replacing and replacement as much as possible.

Where necessary, we also refer to regeneration, retrofit and renewal. In using 'regeneration' we have intended to refer to neighbourhood/estate level redevelopment, potentially involving upgrades to existing homes, net additional new homes and replacement homes.

'Retrofit' is used to specifically refer to upgrades to existing homes, often in the context of decarbonisation.

'Renewal' is often understood to refer to the Housing Market Renewal programmes of the 2000s, and we have endeavoured to comply with this.

2. The role of replacement housing within development

This section compares the relative scale of need for replacing affordable homes to the need for additional affordable homes. It highlights that there is a clear need to replace homes, shows the extent to which that need is currently being met, and puts the scale of the issue into context by comparing it to the need for additional affordable housing – a more widely used and understood metric that drives much of the policymaking and investment around intervention in the housing market.

The need for additional affordable housing exists everywhere across the country, but that need is much greater in the south where the housing market is less affordable. The delivery of new affordable homes is much closer to meeting the annual need estimates in the north than it is in the south.

The need for affordable homes to be replaced in order to raise the quality of housing stock is much harder to assess from the available data. Our analysis suggests that of a total social housing stock in the north of around 1.3 million homes, the number that may require replacement or major upgrades in the short to medium term could be in excess of 100,000.

But just because this issue is poorly understood does not mean we can ignore it. Housing policy since 2010 has overwhelmingly prioritised net additional homes and previous programmes of housing renewal and regeneration have all but evaporated. This means that at current rates of demolition, the average life expectancy of a home is over 3,000 years, which is clearly unrealistic and suggests that not dealing with properties that are due for replacement is simply storing up problems for the future.

Building replacement housing could be as much as 69% of affordable housing development activity in the north of England, if it were to meet the likely scale of need. As total housing delivery and affordable housing delivery in the northern regions are close to meeting the need for net additional homes each year, policies and funding that increase the level of replacement and regeneration activity are crucial to ensuring that the development industry in the north continues to grow.

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2.1. Need for additional homes

Analyses of local housing need, i.e. for the numbers of net new homes required, tend to show that higher numbers are needed in London and the wider south, relative to existing stock. A widely cited report by Professor Glen Bramley³ sets out regional figures designed to meet current and backlog need within 15 years, adding up to 340,000 new homes per year for England. The regional and tenure breakdowns are shown in Table 1.

Table 1 – Total, Social and Intermediate Affordable Housing Supply Targets by English Region

Region	Total	Social rent	Shared ownership	Intermediate
North East	6,963	828	400	1,190
Yorkshire & Humberside	18,868	1,795	1,477	2,216
North West	22,574	4,324	3,297	3,288
East Midlands	17,248	1,867	2,202	1,929
West Midlands	21,102	3,129	3,268	2,458
South West	42,171	8,340	3,980	2,540
East of England	46,104	10,999	3,851	3,143
South East	90,179	26,250	6,466	5,319
London	74,464	32,983	2,308	10,523
Totals (rounded)	340,000	90,000	25,000	30,000

Source: Glen Bramley for Crisis

The Government's national target of 300,000 net new homes per year is underpinned by the 'standard method', an attempt to standardise and simplify the housing need calculations performed by local planning authorities (LPAs). The regional breakdown of the latest published figures (December 2020) is shown in Table 2 for reference. The totals are also compared to the Bramley analysis in Figure 2 below, normalised for existing stock.

Table 2 – Indicative housing need figures by region, December 2020 standard method

Region	Need, homes per year	Per 1,000 residents
North East	6,464	5.5
Yorkshire & Humberside	18,817	8.2
North West	21,745	7.0
East Midlands	21,453	10.3
West Midlands	21,829	9.1
South West	28,157	11.7
East of England	33,773	13.6
South East	51,165	13.6
London	85,542	24.5
England	288,943	12.5

Source: House of Commons Library

³ Housing supply requirements across Great Britain, G Bramley for Crisis and NHF, November 2018

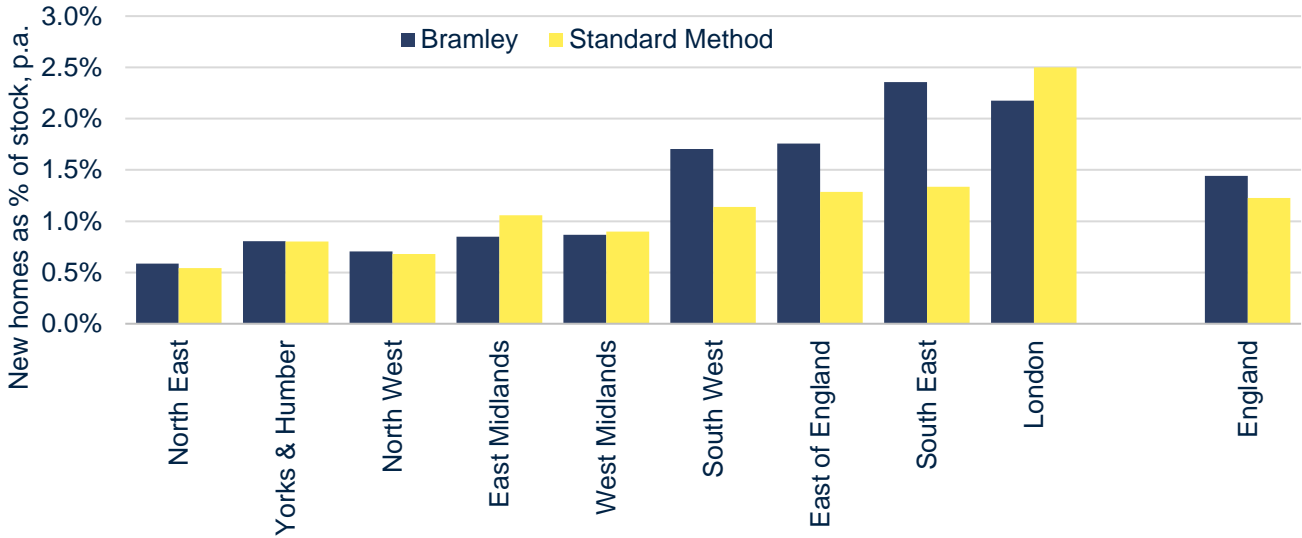
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The chart below shows that both methods estimate a lower relative level of housing need in the northern regions compared to the south. The total national need of 290 to 340,000 per year equates to 1.2 to 1.4% of the existing housing stock. In the north the equivalent figure is around 0.7%, compared to 1.6 to 2.0% in the south.

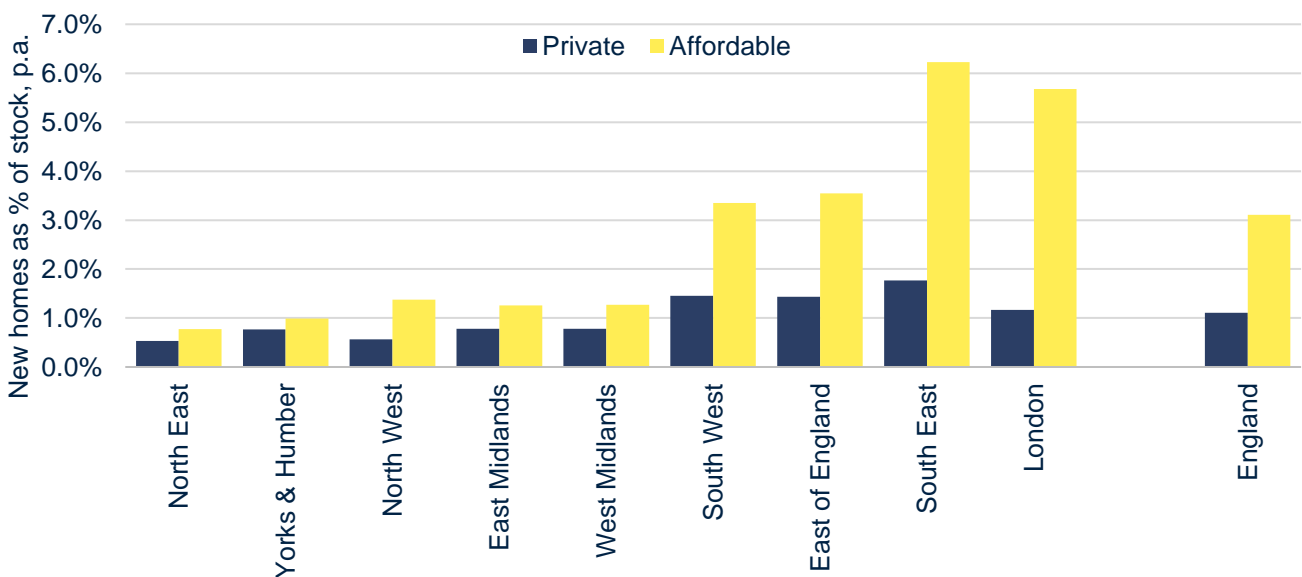
Figure 2 – Regional housing need measures compared



Source: House of Commons Library, Glen Bramley, English Housing Survey

Bramley’s analysis also provides a tenure breakdown, with the regional differences in terms of levels of need even more clear. In the south there is a need for the stock of affordable homes to grow by 5% per year, a figure inflated by a very large backlog of unmet need. The need for private homes is relatively more than three times lower at 1.5%. There is also more need for new affordable homes than private in the north (normalised for stock of each tenure); the equivalent figures are 1.1% for affordable and 0.6% for private. The full regional results are shown in Figure 3.

Figure 3 – Regional housing need by tenure

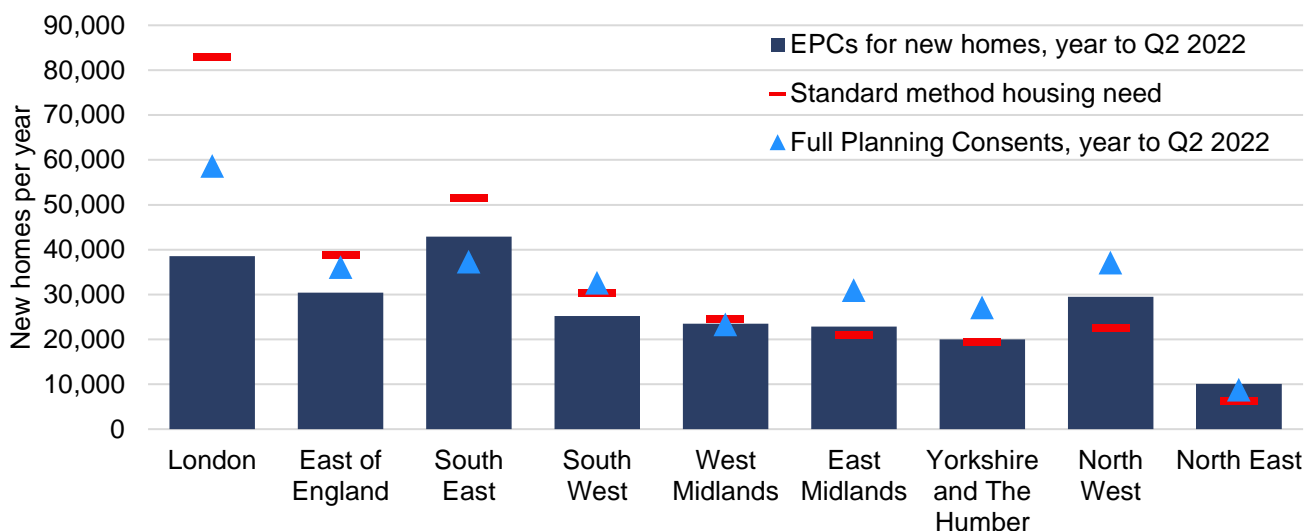


Source: Glen Bramley for Crisis, English Housing Survey

2.2. Net additional housing delivery compared to need

Figure 4 shows recent (year to Q2 2022) figures for housing delivery, need, and planning consents. In all three northern regions delivery is above standard method housing need and there also sufficient full planning consents to keep a similar level of delivery going in the near future. By contrast, delivery and planning consents are running below need in the south.

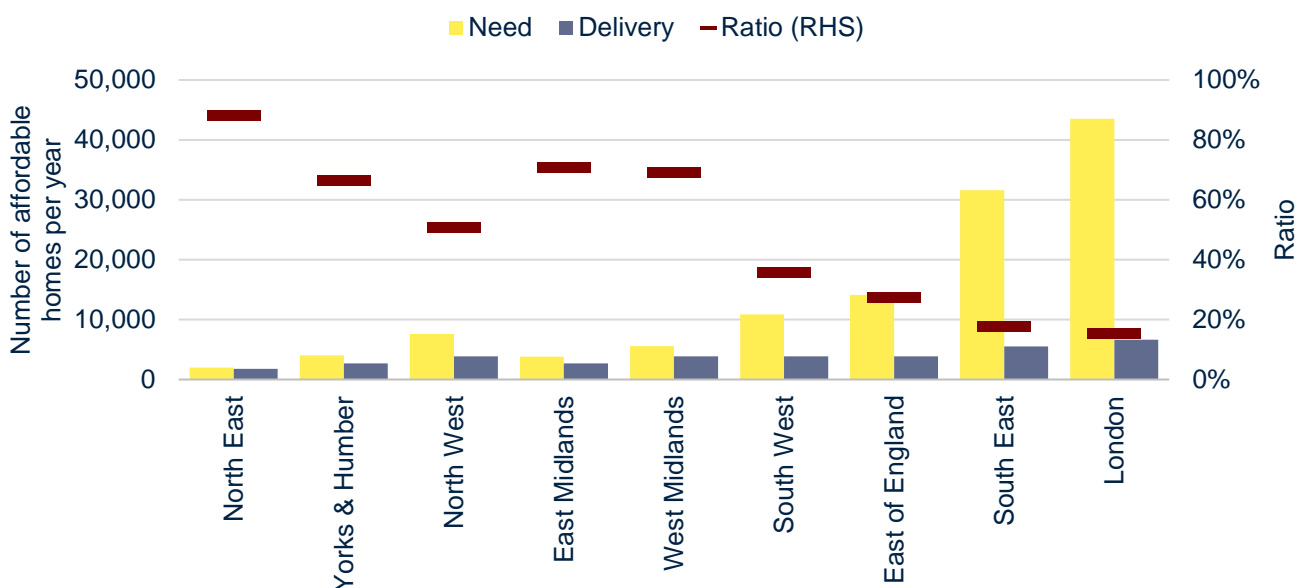
Figure 4 – Comparing need for additional new homes and delivery, affordable housing only



Source: Savills Research using DLUHC and EPC OpenData

Figure 5 shows the affordable need figures from earlier in this section compared to the 10-year average of affordable delivery. Northern regions have seen higher levels of affordable housing delivery relative to need – averaging 61% – over this period compared to the south (23%).

Figure 5 – Comparing need for additional new homes and delivery, affordable housing only



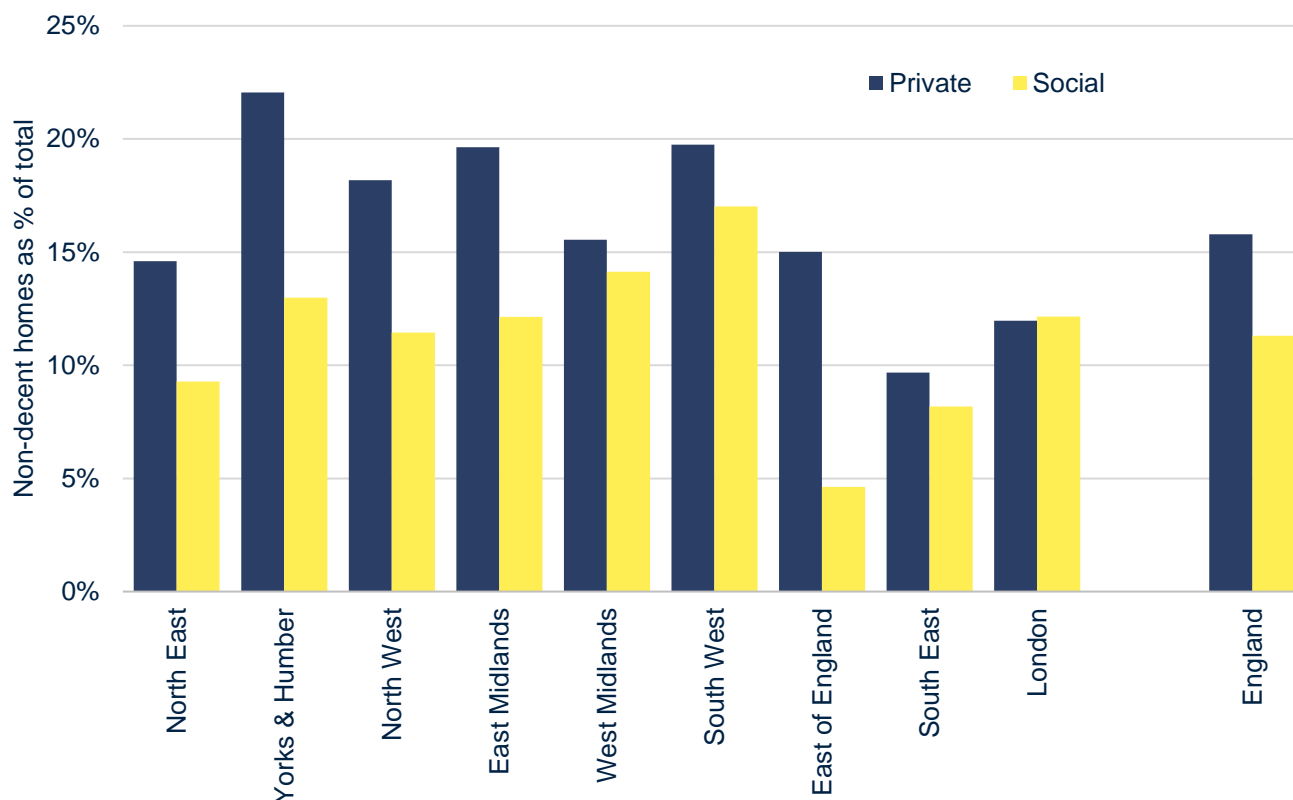
Source: Savills Research using Glen Bramley and DLUHC

2.3. The need for replacement housing

Estimating the number of homes in need of replacement is less straightforward than the analysis of housing need set out in the previous section. This section compares the results of various approaches to present a range of figures indicating the scale of the problem.

The English Housing Survey collects information on housing quality through its ‘Housing and Quality Report’, last run in 2020. Figure 6 shows the proportion of homes by region and tenure that did not meet the Decent Homes Standard in the 2020 report. Overall, social rented homes perform better than the private sector on this metric, and this remains true for all regions except London. Looking at the social rented sector data by region, there is no clear north-south divide. The South West has the highest proportion of non-decent social homes at 17% and the East of England has the lowest at 5%, with the three northern regions in-between. Nationally there are around 450,000 homes in the social sector that did not meet the DHS in 2020, with 140,000 of those in the north.

Figure 6 – Proportion of non-decent homes by tenure by region



Source: English Housing Survey 2020

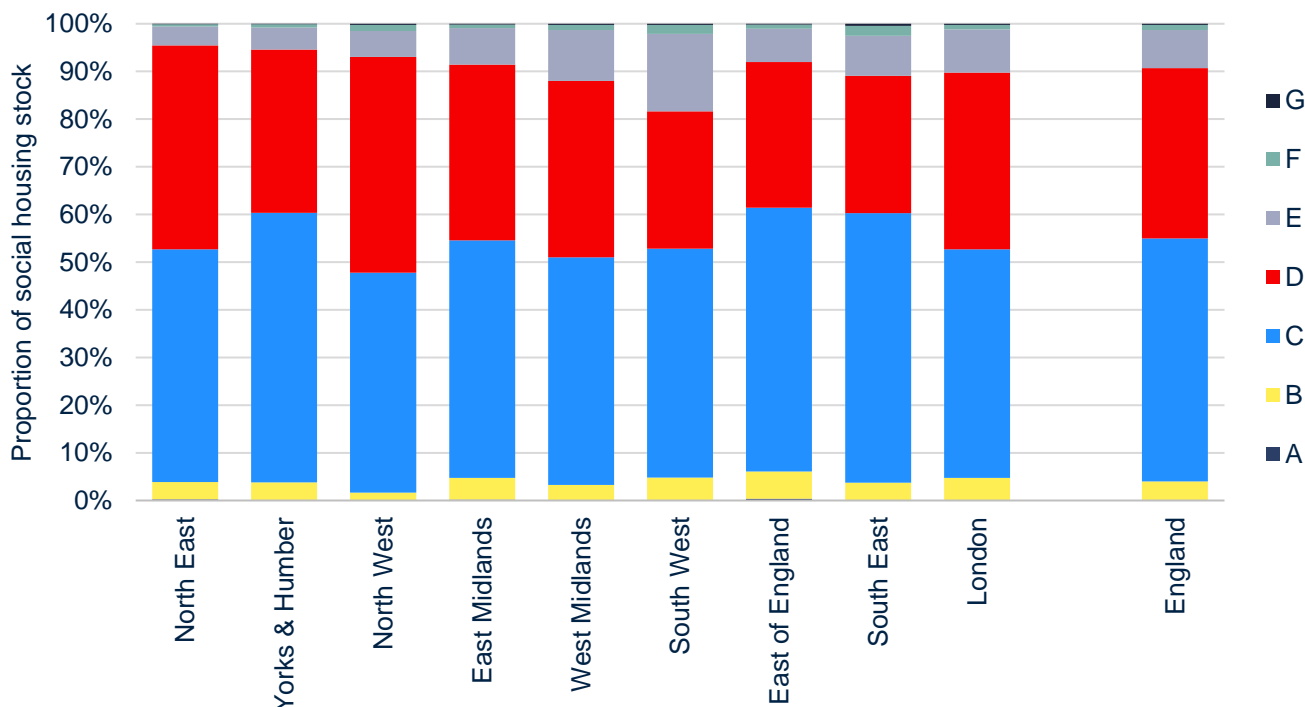
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Energy Performance Certificate (EPC) ratings are another proxy for housing quality, as well as being the actual metric by which the social housing sector is judged in terms of meeting energy efficiency standards⁴. Figure 7 shows that there are relatively minor differences in the EPC rating distributions of homes in the social rented sector by region. Around 45% of homes in the social sector scored a 'D' rating or below, according to recent results (homes inspected 2016 to 2020). A simple extrapolation based on the 4.2m homes in the social sector in general is equivalent to around 1.9m homes being rated D or below, 580,000 of which are in the north.

Figure 7 – EPC rating distribution in social rented sector by region



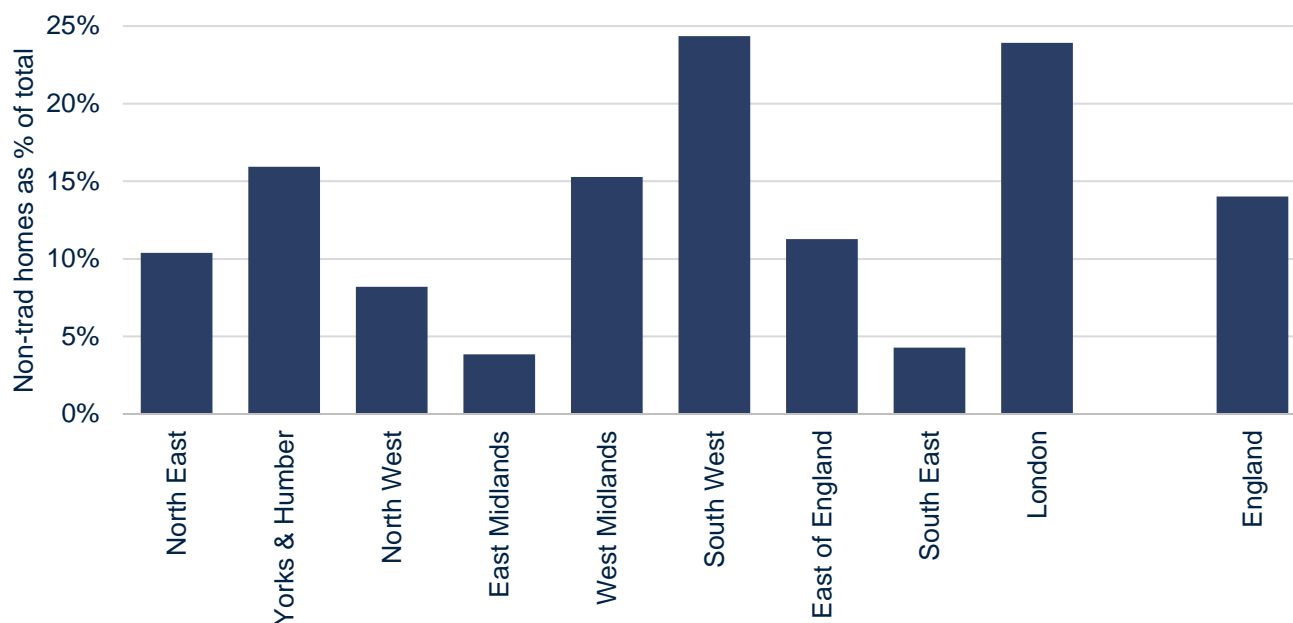
Source: EPC OpenData (covering inspection dates 2016 to 2020)

Savills housing division keeps a database of construction types of social homes from client organisations as part of their work on asset management strategies. While this is only a sample of all the social housing stock, it contains information on over 600,000 properties. Overall, 14% of the properties with a known construction type are classed as 'non-traditional'. Apart from the South West, which stands out as having a very high proportion of non-traditional construction social homes, the levels in the other regions in the wider north and south do not indicate much of a regional divide.

⁴ There is a Government aspiration for all social homes to meet band C by 2030, as set out in the *Clean Growth Strategy* of 2017.

Applying a more conservative estimate of 10% to the total stock of social homes equates to over 400,000 potentially being of non-traditional construction, of which the north would account for 130,000. These homes may have a limited remaining lifespan, be very difficult to bring up to the latest energy efficiency standards, or be unsuitable for modern tenant demands. All of which mean that replacing them in the near future may be the optimum strategy from an asset management viewpoint.

Figure 8 – Proportion of non-traditional social homes by region



Source: Savills SHAPE database (total = homes where construction type is known)

Overall, this section indicates that housing quality issues are found across northern and southern regions in relatively equal proportions, based on a range of indicators. While there are some regional variations, there is no clear north-south divide in housing quality, for all properties or within the social housing sector. Out of a total social housing stock in the north of around 1.3 million homes, the number that may require replacement or major upgrades in the short to medium term could be in excess of 100,000.

The lack of data makes it hard to be more precise, a point also noted by the Levelling Up, Housing and Communities Select Committee’s report⁵ on the regulation of social housing, which stated that “It is not possible to gauge exactly how prevalent poor quality is within the social housing sector.”

Housing quality is a key issue for registered providers, however, and this is reflected in the 2022 Sector Risk Profile, which says that boards “need to ensure that [stock] continues to be fit for purpose over its lifetime.” The report goes on to refer to energy performance, Decent Homes Standard and resilience to climate change, alongside cyclical maintenance, as key issues in ensuring stock remains fit for purpose.⁶

⁵ The Regulation of Social Housing, House of Commons Levelling-up Housing and Communities Committee, First Report of Session 2022-23, July 2022

(<https://publications.parliament.uk/pa/cm5803/cmselect/cmcomloc/18/report.html#heading-5>)

⁶ Sector Risk Profile, Regulator of Social Housing, October 2022

([https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1112030/20221\)020_Sector_Risk_Profile_2022.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1112030/20221)020_Sector_Risk_Profile_2022.pdf))

2.4. Previous housing replacement programmes

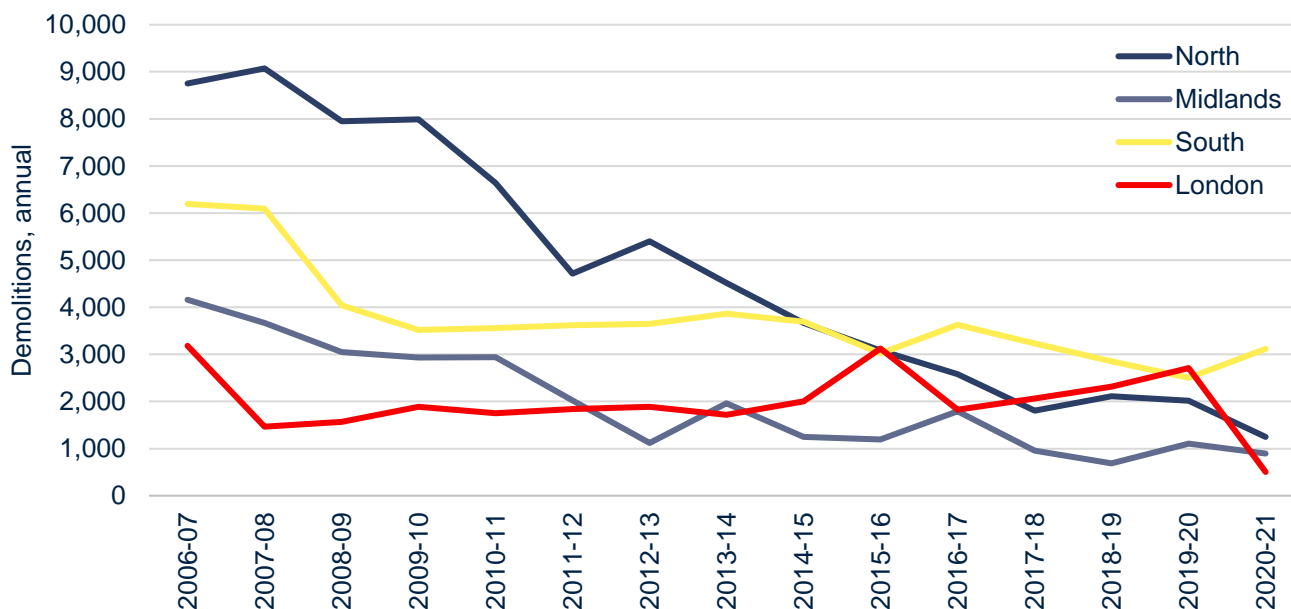
At current rates of demolition of just under 2,000 per year over the last five years and with a total housing stock of nearly 7m, the average a home in the north would have to continue housing people for over 3,000 years. This is slightly longer than the England average of just under 3,000 years. London has had the highest rate of demolition in recent years, but the average home would still have to last nearly 2,000 years. This is clearly unrealistic and suggests that not dealing with properties that are due for replacement could be storing up problems for the future.

The current lack of funding for demolishing poor quality homes has not always been the case. For example, the Housing Market Renewal (HMR) scheme that ran from 2002 to 2011 enabled the refurbishment of 108,000 homes, the building of 15,000 new homes, and the clearance of 31,000 obsolete homes⁷. Many criticisms have been made of how the programme was implemented and its abrupt ending left gaps in planned reconstruction work. But the range of benefits to local communities included:

- It improved the quality of the housing stock and addressed deprivation by linking housing investment with economic development and strategic planning.
- It pioneered innovative approaches to regeneration and renewal, both in terms of the policy approach and the actual planning and construction work.
- It attracted £4bn of private sector investment into the renewal areas.

The chart below shows how the level of demolitions in the north dropped off significantly following the closure of the HMR programme.

Figure 9 – Demolitions by broad region by year



Source: DLUHC

⁷ The Housing Market Renewal Programme in England: development, impact and legacy, Philip Leather, Brendan Nevin, Ian Cole and Will Eadson, Centre for Regional, Economic and Social Research, Sheffield Hallam University, January 2012 (<http://ukregeneration.org.uk/wp-content/uploads/2012/01/HMR-legacy-paper-1-12.pdf>)

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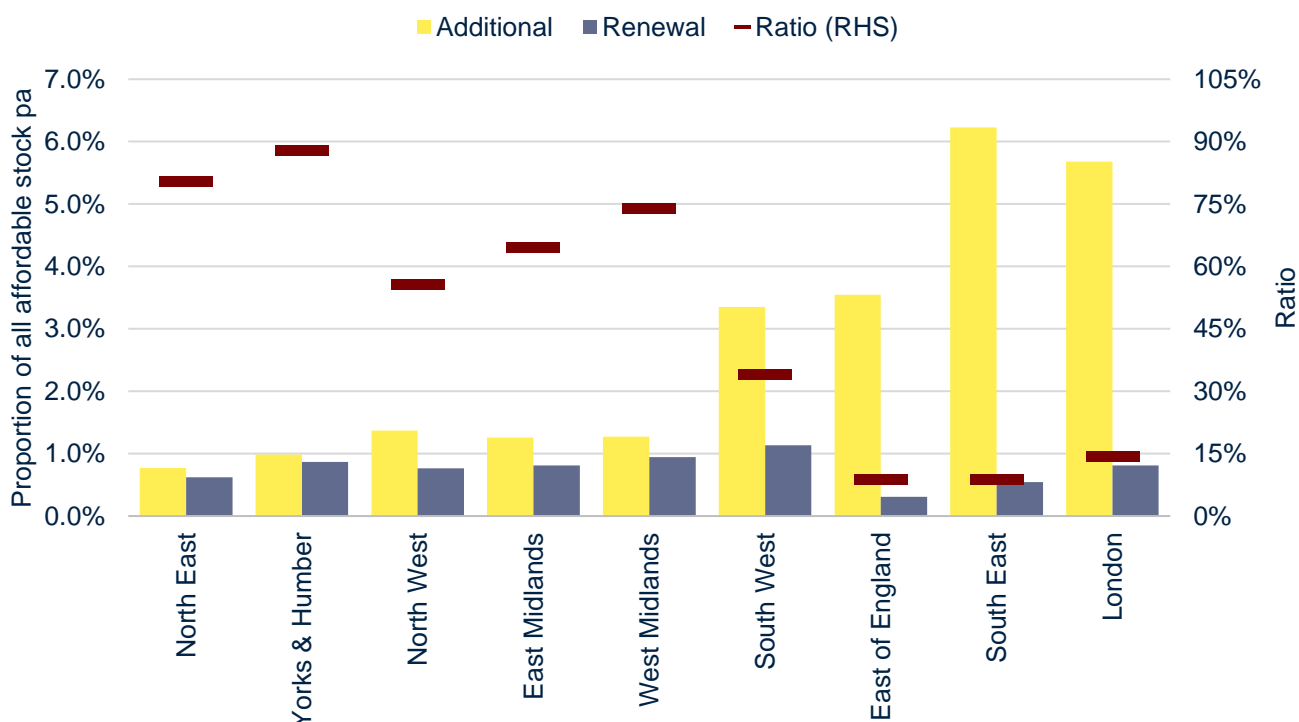
Opportunities for renewal still exist today, and many are in sustainable locations close to existing economic centres and public transport links. Previous research by Savills⁸ has made the case for the planning system to support wider economic, social and environmental objectives in line with the NPPF goal for the planning system “to contribute to the achievement of sustainable development”.⁹ The analysis found that a large proportion of planned housing delivery was located in areas that were distant from employment and public transport hubs, leading to increased commuting and car use. Encouraging regeneration and renewal would help with this, opening up opportunities to improve the quality and increase the density of housing in existing urban areas, close to employment and transport.

2.5. Comparison of need for additional and replacement homes and current levels of activity

We have compared the relative scale of the need for replacement or upgraded homes with the need for additional homes. The annual need for additional affordable homes is taken from the Bramley analysis, which uses a 15 year period for the backlog and new need. The proportion of social homes that require replacement each year – i.e. replacement or major upgrading – has been calculated from the total number that don’t meet the Decent Homes Standard (450,000 in England) all being dealt with over that same 15 year period.

Figure 10 compares the two results, showing that across the three northern regions the level of non-decent affordable homes is 69% of affordable housing need, whereas in the south it is 14%. This result highlights that funding for replacing or upgrading existing homes would need to be a larger share of housing investment in the north to be better aligned with what the local markets require.

Figure 10 – Comparing need for additional new homes and replacement homes, affordable housing only



Source: Savills Research using Glen Bramley and English Housing Survey

⁸ https://www.savills.co.uk/research_articles/229130/300576-0

⁹ National Planning Policy Framework, paragraph 7

3. Current public funding for investment in housing

This section shows how current funding is not directed at the issue of replacement homes, despite its significance to local communities and economies in the north, and that the ability to fund such projects through cross-subsidy via market sale is limited.

3.1. The Affordable Homes Programme

The Affordable Homes Programme (AHP) is one of the two main routes for delivering new affordable homes, the other being planning obligations via Section 106. Organisations taking part in the programme use a mix of grant funding, private borrowing, and their own reserves to fund new development. This form of financing the delivery of additional affordable homes was introduced via the Housing Act 1988, typically through a single, central programme where the rules on what can be built reflect the policy priorities of the time¹⁰.

Within these programmes there has often been a mix of bidding for funding for individual schemes and the ability to enter more of a partnership arrangement where overall performance targets are agreed and monitored, with more flexibility in how organisations deliver towards those.

The current system (2021-26 Affordable Homes Programme) includes both these bidding routes: the scheme-by-scheme process is known as Continuous Market Engagement (CME), whereas the more flexible route is known as Strategic Partnerships (SPs). SPs were introduced in 2018, allowing registered providers – or consortia of multiple providers – to apply for funding packages covering their whole development programmes. In exchange for this flexibility (and an additional year of funding certainty) they had to demonstrate that it would enable them to increase their planned number of new starts by 25%. The latest Homes England programme includes 35 organisations across 31 partnerships, receiving £5.2bn of funding and delivering around 90,000 homes¹¹.

The National Audit Office report¹² on the performance of Affordable Homes Programmes since 2015 expressed concerns that the focus on the number of homes delivered came at the expense of wider factors such as housing quality. They also noted that the expected outcomes were poorly defined and relied on existing regulations rather than applying more ambitious targets. Their analysis showed that 89% of the gross economic benefit arose from increasing land values.

3.1.1. Funding for investing in existing homes

The Affordable Homes Programmes are primarily aimed at funding additional homes only; providers are expected to use their own finances to deliver any upgrades or refurbishment. However, housing providers can access some sources of public funds for dealing with specific issues, such as the £3.8bn Social Housing Decarbonisation Fund or the £5.1bn Building Safety Fund.

¹⁰ For a fuller explanation of the history of affordable housing funding programmes, see 'Double or Quits', by Stanimira Milcheva: <https://www.ucl.ac.uk/bartlett/construction/sites/bartlett/files/double-or-quits-september-2020.pdf>

¹¹ <https://www.gov.uk/government/news/homes-englands-strategic-partnerships-for-the-affordable-homes-programme-2021-26>

¹² <https://www.nao.org.uk/wp-content/uploads/2022/09/The-Affordable-Homes-Programme-since-2015.pdf>

3.2. Other funding programmes

Outside the AHP and any contribution to delivery from Section 106, there are various other public funds relating to investment in housing and the wider built environment. These are typically designed as responses to specific policy priorities of the time, e.g., for housing-related infrastructure or for on-site costs like site remediation, transport, land assembly and place-making. These have generally been aligned with Homes England's role over recent years as 'housing accelerator'. The table below summarises some of larger current and recent programmes and the types of projects that are eligible.

These funds are generally accessed by the Local Authority, however in some cases housing providers can submit applications or work as delivery partner with the LA. In most cases housing can be included due to the important role housing has in place making, and social and economic outcomes for communities. However, when developing a business case for such investment it is schemes which deliver net additional homes that will show the greatest benefit and highest Benefit Cost Ratio (BCR). This is due to the Green Book and DLUHC preference for monetising benefits using Land Value Uplift (LVU) as the key metric, considering the impact of the investment on improving the productive value of the land. This is explored further in the next chapter.

Table 3 – Summary of current and recent funding programmes relating to the built environment

Programme	Date launched	Total £	Aims / assessment criteria	Who can apply / example projects
Towns Fund	July 2019	£2.3bn	This aims to drive the economic regeneration of towns to deliver long term economic and productivity growth through: urban regeneration, planning and land use; skills and enterprise infrastructure; and connectivity.	Funding for 101 towns invited by DLUHC. Investment types are flexible, funding can be spent on a range of different interventions.
Levelling Up Fund	March 2021	£4.8bn	Aims to support town centre and high street regeneration, local transport projects, and cultural and heritage assets. Bids are assessed on: characteristics of place, strategic fit, economic case, deliverability	Unitary authorities, county councils with transport powers, combined authorities, mayoral combined authorities are all eligible.
Future High Streets Fund	March 2019	£830m	This aims to regenerate town centres and high streets. Shortlisting is based on: defining the place, setting out the challenges, and strategic ambition. Then applications are assessed via a full business case.	Bids should only be from areas 'facing significant challenges', but can include physical infrastructure and land assembly.
Brownfield Land Release Fund	February 2018	£180m	Aims to support the Government's Levelling Up ambition by regenerating local places, reducing geographical inequalities, and empowering local leaders to build pride in place. Project prioritisation criteria: place-based metrics, strategic case, innovation	Land is eligible if previously developed and in council ownership only. The fund allows Councils to determine the type, tenure, and delivery mechanism for new homes, drawing on their understanding of local needs.

Housing Infrastructure Fund	July 2017	Up to £5.5bn	Aims to provide the final or missing piece of infrastructure funding to get additional sites allocated or existing sites unblocked quickly. Assessed on value for money, deliverability and strategic approach to housing delivery.	'Marginal Viability Funding' available to all single and lower tier local authorities in England. 'Forward Funding' available to the uppermost tier of local authorities in England – for a small number of strategic and high-impact infrastructure projects.
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3.3. The five case model

While there are various eligibility criteria for projects to meet, there is a standard approach across central government departments when it comes to bidding for these funds, known as the 'five case model'. The five cases that need to be made out to prove the overall business case are:

- **Strategic:** This is about the case for change in general, whether there is a clear market failure that needs to be addressed, and whether the proposal aligns with wider policy objectives.
- **Economic:** This is the analytical core of the overall case, setting out whether the proposed benefits outweigh the expected costs. A range of options – including 'Do Nothing' – should all be analysed, with the one delivering the best balance of costs, benefits and risks selected.
- **Commercial:** To show a project is commercially viable this case must demonstrate that suppliers who can do the work exist, and that they would provide acceptable value for money.
- **Financial:** This looks at the internal financial position – is the project affordable, are the costs realistic, and is the funding available?
- **Management:** Is delivering the project achievable under current systems and processes?

The strategic and economic cases are most relevant for public housing investment in a competitive bidding scenario and these are looked at in more detail in the next two sections.

3.4. Strategic Case

The strategic case needs to set out the case for change, i.e. the market failure that needs addressing and how the proposed intervention would improve things. Market failure is any situation where the conditions are different to those of perfect competition. It is more useful to think of market failure as market imperfection. Very imperfect markets do a bad job of allocating resources and cannot balance supply and demand at the right level. This is typically because:

- The good or service cannot be supplied profitably (public goods)
- Buyers or sellers aren't completely aware of the availability, quality, or price of the good or service (imperfect information)
- The production or consumption of the good or service influences a third party (externalities)

3.4.1. Market Failure

Market failure can exist in many forms and some of the main examples for housing development are summarised in the table below.

Table 4 – Examples of market failure for housing development

	Externalities	Are there negative impacts from a policy or intervention that affect others?	Does one operator or intervention have knock on impacts or costs to others that are out of their control to resolve?
	Coordination failure	Are the multiple ownerships or ransom strips?	Has there been a breakdown in relations between multiple stakeholders that prevents development or causes delays?
	Public good/ free rider problem	Are there high costs reducing the viability of the scheme that have wider benefits?	Is significant infrastructure investment required to deliver the site that will benefit landowners across the wider area?
	Market power	Is the site large and/or complex, reducing the appetite to take the project on?	Are there large upfront costs that make financing the project challenging or reduce the number of developers who may take it on?
	Institutional failure	Is there a high level of uncertainty around securing consents/ funding?	Uncertainty around securing planning consent. Lack of clarity on whether public funding may be available for certain aspects of the project.
	Imperfect information	Is there a high level of uncertainty over future values and/or costs?	Is the project expected to take many years to deliver? Changes in market conditions, values and costs in later years may be unclear.

At a national level the Strategic Case for replacement homes is strong. It aligns closely with policy objectives, and suffers from market failure to deliver outcomes and improvements. As such, funding and public intervention to support replacement homes should be a national priority. The remainder of this subsection presents a high level and general overview of the strategic case for replacement homes focusing on the ‘program logic’ or ‘theory of change’ and the evidence of market failure.

Why net additionality needs to change

Replacement homes could be seen in the context of multiple market failures. However, potentially the most impactful one is around 'Externalities'. The following table presents a worked example of the market failure for replacement homes, following DLUHC Guidance, concluding that there is a negative externality.

Table 5 – Market Failure for replacement homes, worked example

<p><i>"Can individuals choose whether to consume the cost or benefit generated by the activity undertaken by someone else"</i></p>	<p>No.</p> <p>For replacement homes this could refer to the occupier of the affordable unit which has declined past its useful life and is poor quality. Residents in affordable housing generally have fewer housing choices and are unable to afford market housing, and as such their ability to change their situation is limited and they do not have the ability to change circumstances by moving to higher quality housing. Residents are also often vulnerable or in need of support. As such, the occupier cannot choose whether to consume the cost or benefit, it is imposed upon them.</p> <p>For Housing providers, they must comply with regulatory standards, and they also cannot avoid depreciation and ageing of housing assets. As such the housing provider cannot choose whether to consume the cost or benefit either.</p>
<p><i>"Does the activity impose a cost on the individuals?"</i></p>	<p>Yes.</p> <p>There are few more important determinants to health, wellbeing, social and economic outcomes for our communities than the access to good quality housing. As such, the impact of poor quality housing can have wide ranging detrimental impacts on all aspects of residents lives. Poor quality housing could impact a residents ability to retain friendships and family relations.</p> <p>For the occupier the cost may be in the form of higher heating, electricity, or other running costs. It may also be in terms of their health and wellbeing which may be affected by poor quality conditions. It could also be community and social cohesion impacts as a result of a poor quality environment. The building structure may create opportunities for crime and antisocial behaviour due to poor quality design and conditions. The facility may not support disabled access, or create issues which have an impact on residents mental wellbeing. This can in turn impact residents ability to access or sustain employment and lead to further economic impacts for residents.</p> <p>For housing providers the cost is in terms of the cost to replace poor quality housing which can be significant. When this is done with no net additional homes being delivered, this cost cannot be recouped through new income streams.</p>
<p><i>"Is the entirety of this cost taken into account when undertaking the activity?"</i></p>	<p>No.</p> <p>The cost to the occupant and the housing provider is unaffordable. The occupier cannot afford to pay additional rent to resolve the issue. The housing provider cannot unlock additional revenue streams to cover the costs of the replacement.</p>

An alternative view would consider affordable housing as a public good: as discussed above, housing is a key determinant in health and wellbeing outcomes, and without provision of adequate good quality housing, there would be severe costs to society. This is why government has intervened in the housing market to require affordable housing to be provided, either through the planning system via Section 106 or via grant funding. Although there are mechanisms to ensure new affordable housing is provided, the inevitable depreciation and obsolescence of the housing provided is not accounted for.

Why net additionality needs to change

While the mechanisms to determine a market failure in ‘public goods’ do not quite flow for affordable housing, one view could be presented in the table below.

Table 6 – A view of affordable housing as a Public Good

<p><i>“Is it likely that one consumers use of the good will present another consumer from using it”</i></p>	<p>For housing the response to this is ‘Yes’ as the unit itself is exclusive in ownership / occupation. However for the wellbeing and outcomes for society the response could be ‘No’. For example, if our communities are not provided with good quality affordable housing, the resultant social and economic impact would inflict a cost on all members of society and will not be just felt by the individual.</p>
<p><i>“Can the supplier prevent those who do not pay from consuming the good?”</i></p>	<p>For housing the response to this would also be ‘Yes’, as again the unit itself is exclusive. However for society as a whole, again the response would be ‘No’. Again, society as a whole would be impacted by the effects of no affordable housing. Not only in terms of the economic and social costs, but also in terms of the value and price of market housing.</p>

This aligns with the DLUHC Appraisal Guidance which states that the economic view of affordable housing is to value it at the same level as market housing, rather than its existing use value as social housing. The difference between market housing and affordable housing values is actually a ‘Public Good’ and the monetised value to society of delivering an affordable home.

3.4.2. Program Logic

This section presents a hypothetical worked example of the ‘Program Logic’, or ‘Theory of Change’, for a replacement affordable housing scheme. This aligns with the Green Book guidance and helps to formalise how investment in replacement homes can deliver wider benefits to society as outcomes and impacts.

Context *What is the problem to be addressed?*

Ageing, poor quality affordable housing stock, in need of replacement, leads to social, economic and financial impacts to occupiers. Housing providers and occupiers cannot afford to deliver replacement homes, and there is currently no dedicated public intervention to support delivery of replacement homes. This has a wider impact on society through negative externalities.

Inputs *What projects do you need to put in place? What resources are needed?*

This is not about funding for minor improvements, maintenance and upkeep, but for replacement of homes to resolve structural challenges with existing buildings that require major renovation work. This could be buildings with structural defects, or at the end of their designed lifespan.

In many cases buildings need to be demolished and rebuilt to modern standards. In others, major refurbishment works, retaining structures could deliver the outcomes needed. In most cases there would be a need for occupants to relocate while works are undertaken.

In most cases, the costs of undertaking the works are higher than the potential returns that affordable occupiers can pay to resolve the issues. As such, gap funding in the form of public sector grants, similar to the AHP, would be required to enable affordable housing providers to deliver the schemes.

Why net additionality needs to change

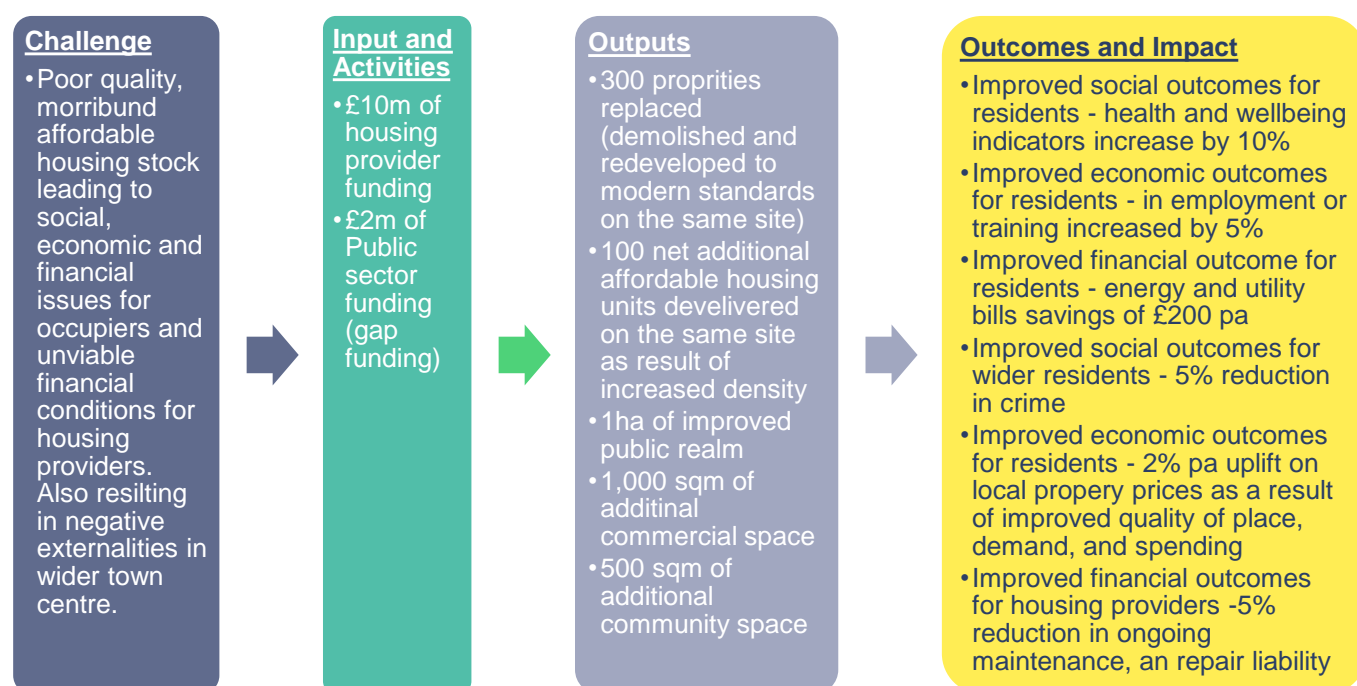
Outputs *What will you deliver?*

Replacement homes, delivered to modern design standards, providing high quality affordable accommodation to occupiers. These homes will be in the same location as the existing stock. This is an important feature to ensure that replacement homes deliver sustainable outcomes in the designated communities, and prevents the hollowing out of city and town centres.

Outcomes and Impacts *What do you want to achieve in the short, medium and long term?*

The occupier will benefit in financial, economic and social terms. The affordable housing provider will benefit in terms of lower upkeep and maintenance, and resolving problems with stock. The wider community and society will benefit in terms of improved quality of place, reduced crime, and happier, healthier residents.

Figure 11 – Example of Program Logic



3.5. Economic Case

When comparing interventions in the housing market, either with each other or with other infrastructure projects, the economic case is often the key differentiator between competing bids or the options within a bid. The economic case centres on the benefits and costs of making an intervention. This involves putting a monetary value on all the benefits and costs included in the analysis, some of which are easier and more tangible than others, to calculate the net benefit to society.

A previous report for Homes for the North by Cebr¹³ sets out the full range of potential externalities that could be taken into account, including those related to health and wellbeing, productivity and employment, environmental, and placemaking. While there are ways of evidencing many of these less tangible benefits and assigning them monetary values, it is often the case that land value uplift remains the dominant factor in benefit-cost calculations.

3.5.1. Land Value Uplift theory

The HM Treasury Green Book (2022) favours the use of Land Value Uplift (LVU) as the key metric to quantify and monetise the benefits of interventions. The Green Book advocates a move away from traditional benefit metrics such as jobs or GVA impacts. The reason for this is that LVU measures are place based and specific, demonstrate market values which are well evidenced, are a direct response to changes in demand, depict the transformation of land from low to high value productive land, and are a 'catch all' indicator for a range of benefits including social and health benefits, access to amenities, access to jobs, and commuting benefits. The idea being that people will pay more to have a better quality of life and access to services and amenities.

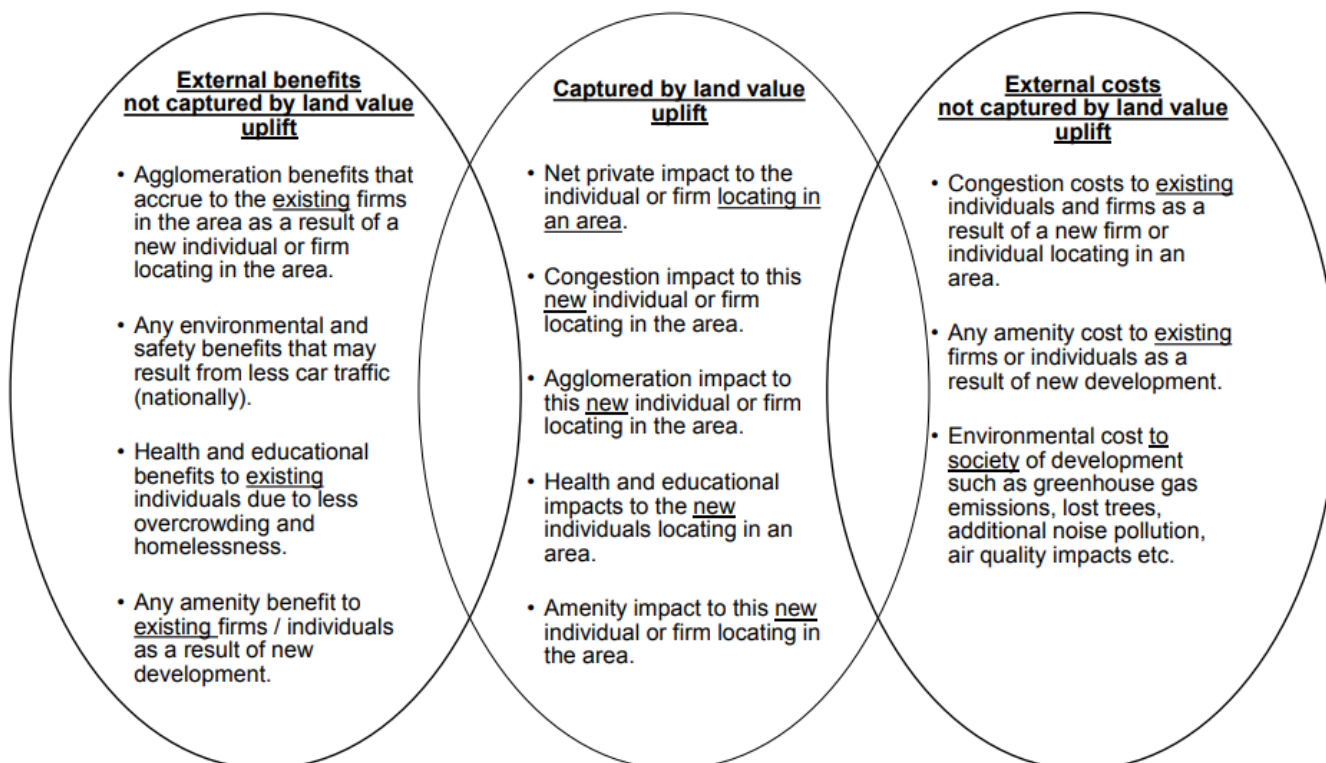
The DCLG Appraisal Guide sets out what LVU captures, and what it does not capture. The diagram below splits the impact of LVU between the people impacted by the development or intervention onsite, and wider society and people in the surrounding area, those 'external' to the intervention. Savills has since refined and clarified the methods used for LVU, and DLUHC has adopted an approach, which considers LVU in two ways.

- Direct LVU, which considers the impact of the intervention on the site itself and those people at the site;
- Wider LVU, which considers the regeneration impacts of the intervention on the wider impact area.

Many business cases still miss this nuance, and will only claim for direct LVU onsite. Wider LVU impacts could be an important element in business cases for replacement housing and consideration of whether the wider impact schemes could transform the outcomes for a place, leading to wider LVU.

¹³ Operationalising the Green Book, July 2021, <http://www.homesforthenorth.co.uk/wp-content/uploads/2021/07/H4N-Operationalising-the-GB-final.pdf>

Figure 12 – Framework for externalities



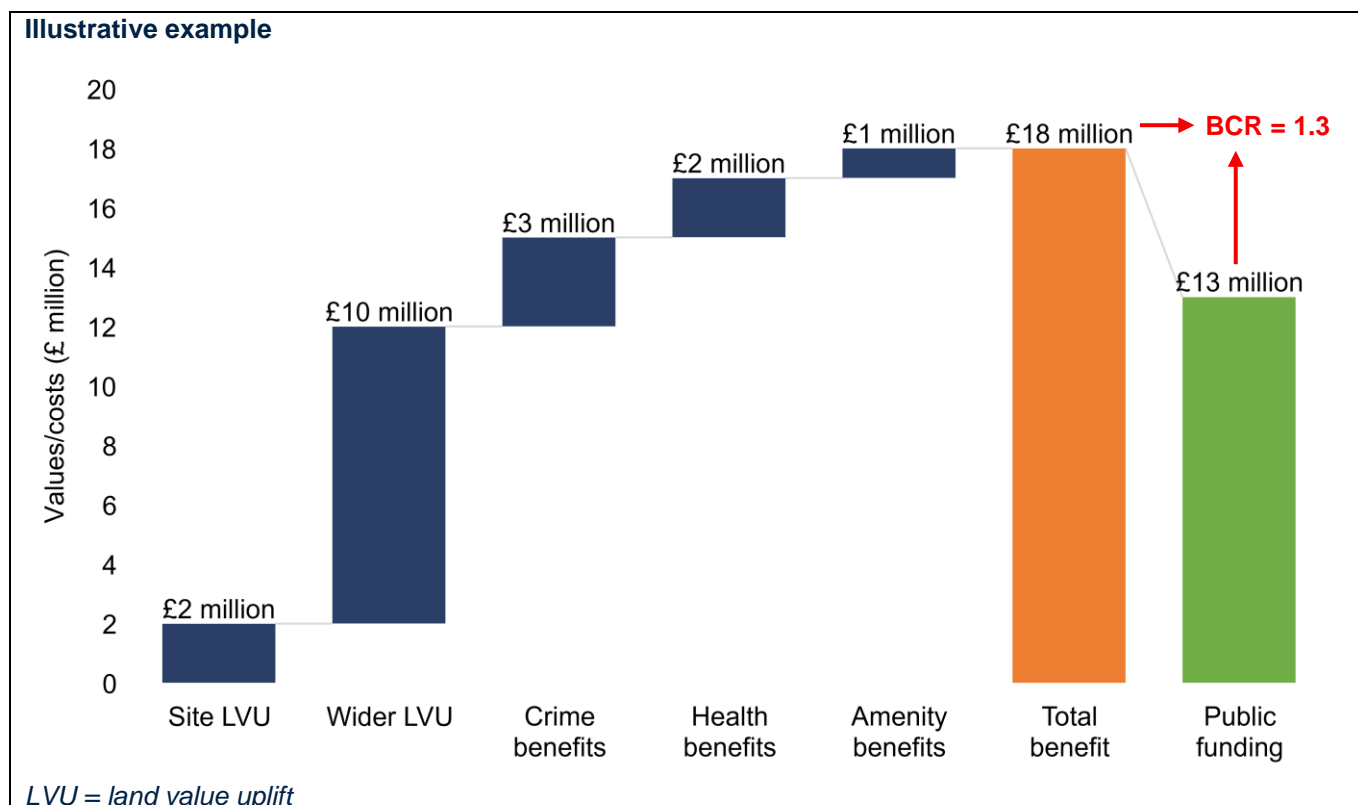
Source: *The DCLG Appraisal Guide, Department for Communities and Local Government (now DLUHC), December 2016, page 83*

Generally LVU impacts make up a significant proportion of the benefits of housing schemes. However, in many circumstances, LVU does not capture the full extent of the benefit. This all depends on the proposed scheme and the desired outcomes, as well as the scale of the market failure in a place. As the example in the Box below demonstrates, other benefits can be monetised, in line with the Green Book, to present the overall case for an investment.

Box: Method and illustrative example of benefit-cost ratio (BCR) analysis

Method

- Define the ‘without scheme’ scenario – also known as the ‘Business As Usual’ (BAU) or ‘Reference Case’ or ‘Counterfactual’ scenario
- Define the ‘with scheme’ scenario – also known as the ‘Do Something’ or ‘Preferred Option’
- Estimate the annual value of benefits and costs (using the difference between the with and without scheme scenarios), ensuring that a consistent price base is used for everything
- Apply a discount rate to the annual figures to estimate the Present Value of Benefits (PVB) and Present Value of Costs (PVC) as a total for the whole appraisal period – this process is called discounting.
- Compare the PVB and PVC to estimate the Benefit/Cost Ratio (BCR)
- Undertake sensitivity tests to demonstrate the impact of changing key assumptions



3.5.2. Applying land value uplift to replacement of affordable homes

The problem this methodology presents for making the economic case for replacement homes is that LVU measures changing land use values and without additional homes the use of the land is not changing. Replacing 300 homes with 300 better homes, will only deliver minor uplift in value. The WLVU may also be limited unless major crime, antisocial behaviour, or blight issues are resolved. LVU metrics therefore tend to favour intervention in areas with higher house prices and projects delivering (more) new homes, as these are the key variables in generating land value uplift.

There are clearly financial and economic benefits to replacement homes which can be monetised such as carbon savings or utility bill savings for the most vulnerable in society. But often the benefits of replacement homes are related to social, community, health or wellbeing outcomes. These metrics are harder to quantify and even more difficult to monetise. The Social Value Portal and the National Themes Outcomes and Measures (TOMs) has gone some way to providing benchmarks and monetised estimates of some of these impacts, however the values are generally limited, and again would be vastly outweighed by the case for ‘Net Additional’ homes and LVU.

It is therefore unlikely that the case for replacement homes would be as strong as the case for net additional homes. However the impact on people’s lives could be just as significant and needs to be considered. There are a number of approaches that could strengthen the case for replacement homes, in alignment with the current Green Book methods:

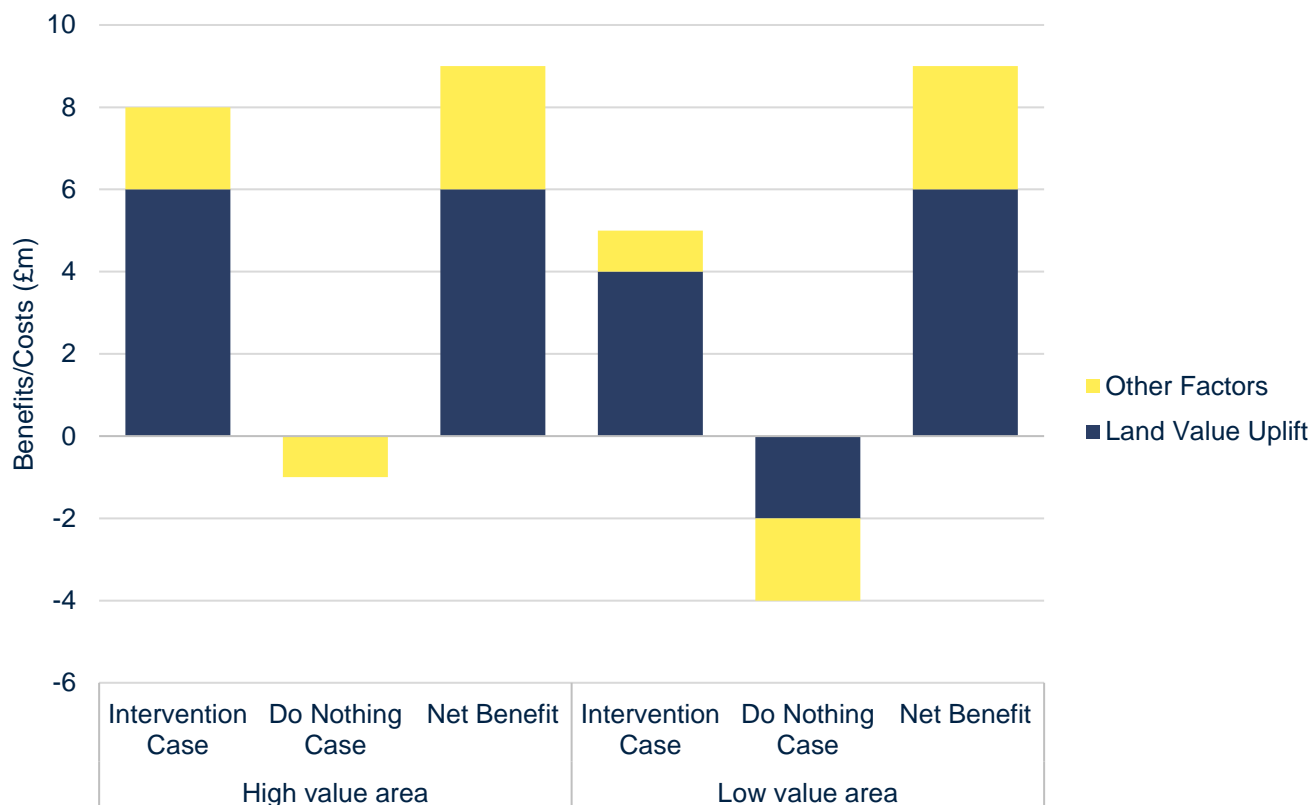
- **Better data and evaluation on the impact of replacement homes on the social outcomes for communities.** This would consider the impact on health, wellbeing, community, livelihoods, family relations, as well as economic impacts associated with finding and holding down employment and balancing family finances. The Green Book and HMT are clear that data, including detailed evaluation of intervention

Why net additionality needs to change

schemes, is lacking and is needed to advance Government decision making. Housing providers are well placed to support the development of a robust evidence base of the impact of housing schemes on the difficult to quantify and monetise elements of social impact. This could support a greater understanding, and therefore quantification and monetisation of replacement home scheme benefits.

- **Consideration of the WLVU impacts of replacement homes**, which may reduce antisocial behaviour and crime or improve the perceptions of place which would uplift the value of both residential and commercial properties nearby.
- **Treating replacement of vacant or moribund stock as net additional.** In many cases, the stock is at the end of its design life and therefore should be treated as uninhabitable and not fit for purpose. Replacement of this stock should therefore be seen as being net additional. This is explored further in Section 5.3.
- **Careful consideration of the BAU, or reference case.** In many funding bids the BAU is generally assumed to be consistent with existing conditions. However in many cases the actual BAU could be worsening conditions. Property could deteriorate further, social impacts could increase, land values onsite and in the surrounding area could depreciate as a result. This negative trajectory is seldom modelled in business cases, but can have a significant impact on the overall case for intervention, as demonstrated below in Figure 13. This example shows how the figures might look when comparing schemes in high and low value housing markets. In the low value area example, without intervention there will be ongoing and worsening social and economic impacts that result in a cost.

Figure 13 – Illustrative example comparing interventions in high and low value markets



Source: Savills Economics

Why net additionality needs to change

The illustration in Figure 13 could equally apply to greenfield development of new housing versus replacement or regeneration of existing homes. The greenfield case results in much higher value land use (residential compared to agricultural) and there is little or no cost of doing nothing. The regeneration case results in little land value uplift (higher quality residential compared to lower quality residential), but the costs of not undertaking the scheme are potentially substantial.

While the strategic case for development on brownfield land or housing replacement may be clear, the key to making the economic case for these types of development is therefore to fully capture all the potential costs of doing nothing, in terms of negative impacts on crime, health, employment, etc.. More work is required in this area to make the general economic case.

The above solutions aim to put replacement homes on a level playing field to other interventions so that, as required by HM Treasury, Government funding and investment decisions can be viewed across different interventions using similar BCR and Value for Money measures.

3.5.3. Distribution and Equivalisation

Changes to the HM Treasury Green Book introduced in 2022 to support the Government Levelling Up agenda, allow cases to adjust for differences in average income levels across the country in an effort to equalise bids from more and less affluent areas. The basis for this is the economic principle of the “diminishing marginal utility of income” which states that the value of an additional pound of income (or benefits) is higher for a low-income (or deprived) recipient and lower for a high income recipient. For example the additional benefit of £1 received by someone earning £20k per annum would be worth twice as much compared to a person earning £40k. The weighting value assigned is 1.3 and called the “elasticity of marginal utility”, which is derived from national research. The table below presents a worked example of this, where a scheme in a low value area with £10m of benefits, compared with a high value area with £17.6m worth of benefits, actually delivers similar overall benefits when distribution and equivalisation area applied.

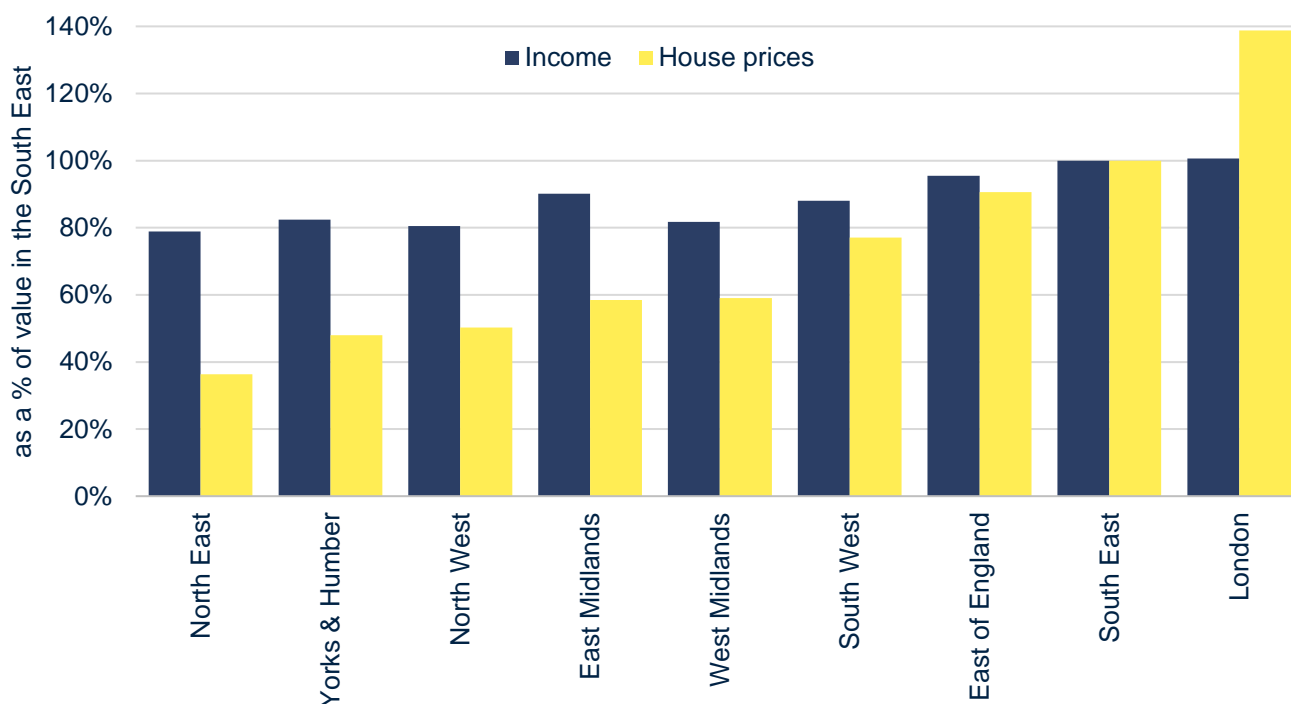
Table 7 – Worked example of the impact of Distribution and Equivalisation

	Low Value Area	High Value Area
National Median Equivalised Income (a)	£28,000	£28,000
Target Group Median Equivalised Income (b)	£19,000	£29,000
Elasticity of marginal utility (c)	1.3	1.3
Multiplier to be applied to target group benefits ($d = (a/b)^c$)	1.66	0.96
Estimated Scheme Benefits (e)	£10,000,000	£17,600,000
Estimated Scheme Benefits after Distribution and Equivalisation ($f = e*d$)	£16,554,869	£16,235,316

This is a useful technique which is often missing from funding bids and business cases for housing projects, and can be particularly relevant for affordable housing schemes in deprived areas across the county. However, while it goes some way to resolve the gap between house prices and therefore LVU impacts between north and south, it sometimes cannot resolve all of the difference as the ratio of incomes between areas varies significantly less than land values. For example, in the North East, average incomes are 79% of those in the South East, whereas average

house prices (a good proxy for land values, and therefore the potential for land value uplift) are only 36%. Therefore, an income-based adjustment will fail to fully account for difference in land value.

Figure 14 – Regional average incomes and house prices relative to the South East



Source: ONS (net equivalised incomes after housing costs vs. lower quartile house prices)

3.6. Consequences for housing replacement and regeneration

The previous sub-sections highlight that the AHP is designed and run differently to the majority of the other funding programmes relating to housing investment. The five case model does not apply directly to individual projects funded by the AHP. Although individual or partnership bids must demonstrate value for money compared to a range of cost benchmarks, this is not via a full benefit-cost analysis. Delivering additional new homes is essentially the only point of the programme, so this is the key benchmark that bidders are judged on.

Other housing-related investment is appraised via the five case model, which is strongly influenced by benefit-cost ratio calculations. Land value uplift is often the largest component of the benefits part of these calculations, and the largest gains in land value are most easily achieved by delivering housing on previously undeveloped land with low existing use values. This is exaggerated in areas with high house prices. Therefore, in practice, the other funds also tend to prioritise interventions that deliver additional new homes.

The outcome of the funding being structured in the way that it currently is means that both the AHP and other large housing investment funding streams are aimed at delivering or unlocking additional homes rather than improving or replacing existing ones. There are some public funding options for the latter – for example the Social Housing Decarbonisation Fund will provide a total of £3.8bn of funding over 10 years. But industry experts suggest that orders

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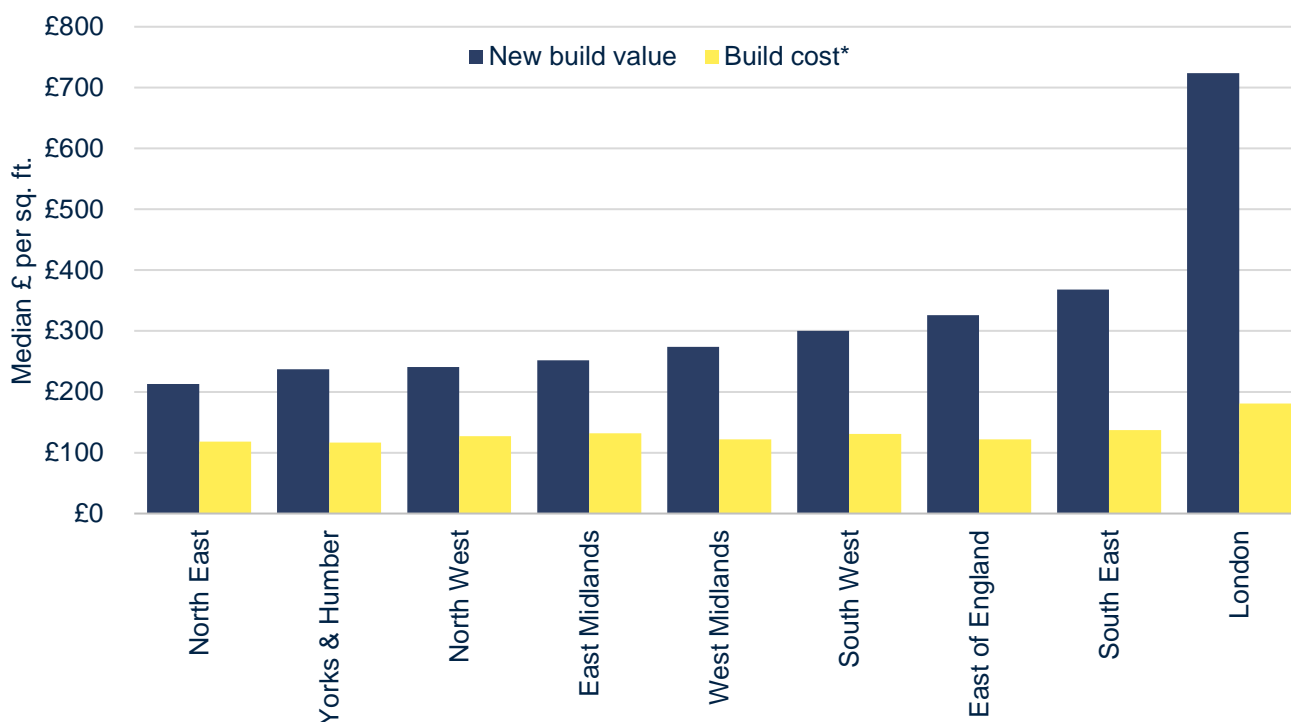
Why net additionality needs to change

of magnitude more funding will be required to upgrade properties and fully decarbonise the sector.¹⁴ Housing associations (and other housing providers) are therefore currently expected to fund much of the required work themselves.

The ability of a Housing Association to generate a surplus – which could be used to fund redevelopment or upgrades of existing stock – depends on many factors, but developing new homes for market sale is one such route. The analysis in section 2.1 highlights the variation in housing need by region, which is likely to limit the scale of the opportunity for northern associations to expand market sale activities.

In addition, the scope for actually generating a surplus per plot is more limited compared to in the south based on typical market pricing and build costs. Analysis in Figure 15 shows a highly simplified comparison of build costs and sales values per sq. ft. by region. It shows that build costs are relatively similar across all regions outside London, whereas market sale values of new homes vary significantly. Build costs are around 50% of sales values in the North, compared to 35% in the South. Assuming zero land cost (as we can assume the organisation already owns the site for a regeneration project) there is therefore a smaller potential surplus for funding the upgrades or redevelopment in the North.

Figure 15 – Build costs vs. market sale values by region



Source: BCIS (*Flats in London; Estate Housing elsewhere), HM Land Registry, EPC OpenData

Therefore, the ability to cross-subsidise upgrades and redevelopment from market sale activity is very limited in most regions outside London, and even more so in many areas of the north where there is little opportunity to generate a surplus due to lower potential values. In London the higher values and the greater ability to densify sites mean large regeneration projects, while still extremely challenging, are more likely to be viable without public funding.

¹⁴ <https://www.savills.co.uk/insight-and-opinion/savills-news/320272/decarbonising-housing-associations--homes-to-cost-%C2%A336bn--according-to-national-housing-federation>

4. The effect of the current guidance and funding

This chapter is based on discussions with senior executive-level staff across Homes for the North member organisations, typically those with responsibility for development and asset management functions. The results of these discussions have been organised by theme, based on common ideas that emerged.

Overall, the responses from Homes for the North members all reflect that the policy environment and available funding incentivise one main approach to meeting current local housing needs: greenfield development of new homes. The failure to include regeneration among the available options leads to missed opportunities that all would align with existing government policy priorities such as increased brownfield development and densification, decarbonisation, and more sustainably located new homes.

In terms of their preferred approach, the interviews indicated that demolition and replacement at the estate-level is perhaps the 'sweet spot' in terms of scale of project. Individual homes or small clusters would be too inefficient to deal with, whereas working beyond estate level, including whole neighbourhoods, is unrealistic without a substantive policy focus, and the involvement of local authorities and Homes England.

4.1. Housing quality issues with housing association stock

All interviewees noted quality and sustainability issues with some individual properties within their portfolios, but the scale of the problem varied depending on the organisation's type and geographic coverage. This corresponded to a range of views in respect of how immediate the problem was – some respondents are further along the process of identifying and dealing with such stock.

Much of the discussion around this theme related to the challenge of meeting stricter energy efficiency standards. Many respondents were in the process of assessing the likely costs of doing this work, noting that it may not be viable to retrofit certain property types like period terraced houses. Where these properties are not owned in continuous estates, which is common following Right to Buy or other disposals over time, the options are limited and the challenge is greater. Below are a range of quotes on this topic:

- *"We are quite early on the decarbonisation journey. A lot of HAs in the north are of the mentality to keep assets for ever, whether they are worth repairing or not, or whether they are popular or not. Differences between North East and North West. There is still an issue of oversupply in places like Middlesbrough. North East has its own issues."*
- *"Matching technology to building archetype is important. But it's so expensive to retrofit. A current decarbonisation scheme is costing about £70k a unit. 2 pilots at the moment: one funded by ERDF [The European Regional Development Fund]."*
- *"The £3.5 billion decarbonisation fund is a couple of noughts short of what it needs to be."*
- *"It is a lot of money to decarbonise. It is getting pushed down the line a little bit."*
- *"We've done a big piece of work to understand current sustainability status of every property we own."*
- *"[The current funding] is all about sorting out our stock rather than sorting out places at the moment. If there was ring fencing of funding for places rather than organisations, you'd see some of the transformations and it would align better with the place-based approach."*

With replacing individual homes impractical, if not impossible, organisations are left with limited options for those not meeting quality or efficiency standards. Those who had previously ‘inherited’ significant numbers of period street properties, e.g. through stock transfers and mergers, set out how they had historically dealt with homes that were no longer fit for purpose.

- *“If individual homes are too hard to retrofit or replace, we can dispose of them to the charity sector.”*
- *“After Housing Market Renewal was withdrawn the job was left half-finished so we had to try other ideas, including selling some of the stock privately.”*
- *“It’s easier for us to dispose of unsuitable homes to the ‘third sector’ or other HAs and just build new ones.”*

These respondents acknowledged that selling homes out of sector was a sub-optimal solution, but that the available funding programmes – focused on additional new build homes – effectively made this the most financially sound approach. Given the relative ease in either developing or buying s106 new homes on green field sites in many areas of the north, organisations could, in practice, ‘swap’ their underperforming urban stock for new homes in suburban/semi-rural areas. This risks the urban areas continuing to be hollowed-out as the homes end up being owned by unregulated housing providers or private landlords, with lower standards than social landlords.¹⁵ All the existing societal problems would therefore remain unchanged or get worse.

With the financial challenges facing housing associations over the next few years, it is more likely than ever that some will be pushed to make the difficult decision to sell underperforming stock. The cost of borrowing has already increased substantially over the last year and may increase further. Housing associations are also expecting a substantial cash flow impact from the proposed real terms cut in rents.¹⁶

In terms of paying for any upgrades that can be done, beyond applying for decarbonisation funds it is understood that the sector will have to pay for much of the work themselves, with consequential impacts on the money available for other objectives.

- *“Every pound spent on this is one we can’t spend on developing new homes.”*

No-one suggested that the AHP should be opened up completely to enable funding of retrofit projects, but some respondents highlighted that true local devolution of decision-making and finances would enable areas to choose their own funding priorities. If this were the case, it is possible that dealing with existing stock would be prioritised over delivering new homes in some areas.

The individual estate level is where the net additionality rules appear to be having the most impact. Many respondents noted that a combination of past failed bids and their perception of the rules put them off bidding in some cases. Many claimed to be confused when schemes similar to previously successful bids were put forward and not approved. The consensus view was that estate-level demolition and replacement was often the best long-term solution for some sites, but that gaining funding was difficult.

- *“Deep retrofit is not viable and only really delays the problem for some estates. Demolition and rebuild is the most cost-effective option.”*

¹⁵ See the recent report from the Levelling Up, Housing and Communities Committee on Exempt Accommodation (<https://committees.parliament.uk/publications/30512/documents/175989/default/>) and the Blackpool case study on p 26 of White Paper: A Fairer Private Rented Sector (<https://www.gov.uk/government/publications/a-fairer-private-rented-sector>)

¹⁶ See the DLUHC consultation on Social Housing Rents (<https://www.gov.uk/government/consultations/social-housing-rents-consultation>)

Why net additionality needs to change

- *“Without grant, it is really difficult to do. [...] we have had to invest £36m of our own money in a scheme. Over 50% of the value of the scheme is our own money, that’s the size of the problem, and that’s just on one scheme.”*
- *“A well-meant rule is actually causing real headaches and stopping really important stuff that will make a big difference.”*
- *“One part of government saying it’s not habitable (HMRC) as it was derelict for 10 years, yet then HE says it was habitable.”*
- *“It’s the ones that you can’t get up to standard [EPC] because they are so far gone. The best thing is not to put on sticking plasters but get rid of it and do something else. But net additionality is standing in the way.”*
- *“It would have meant a significant amount of new build. But we’ve been unable to do it because HE has told us the only way that they can fund new homes is if it’s on either greenfield or vacant brownfield land.”*

The quotes below highlight how there is a perception that the current rules are limiting organisations in the types of schemes they want to bring forward, as well as hinting that things may have been more flexible in the past.

- *“Large monolithic block, took out a central part of it, built a shop and an apartment block. 4 properties out, and put in 12 apartments and a community centre, to give it a heart and bring it to life. But couldn’t have done it now. Would have only got in grant funding for a few of the units. But the community wouldn’t have got the same benefits.”*
- *“One off and individual cases. They will go there, but if we went back to them [Homes England] now with a large estate, they probably would say no. Small schemes and moribund you might get away with.”*
- *“The five year AHP funding cycle is not long enough to allow a major regeneration project to take shape. More like ten years to cover options appraisals, decant social tenants, buy out leaseholders, demolish, rebuild etc..”*
- *“Net additionality assumes that the housing stock we have today is all sustainable. If you are replacing an estate that is near the end of its life, it is effectively a net addition. It adds to the sustainable stock, so it might be a question of definition.”*

Box: Example schemes put off bidding or unsuccessful in gaining funding

£38m proposal to replace 150 home estate with 180 new properties

These were described as well-located but poor-quality homes, suffering from high turnover and many social issues. The HA argued they were obsolete and unable to meet local needs, but pre-bid advice was that only the 30 net new homes would be eligible for AHP funding, so the scheme is currently stalled.

2 schemes where Homes England did not accept that the existing homes were moribund

This was 100 homes in total where the HA was unsuccessful in making the case for funding. They self-funded the development but noted that for every three homes subsidised internally they lost one new build from elsewhere in their business plan.

Potential 1000+ new homes in a northern city

This HA wanted to provide new, energy efficient homes in a city where they owned a large majority of the social housing stock. But the scheme required the demolition of 300+ 1940/50s prefabs where it is either not possible or not financially viable to bring them up to EPC C rating. They argued that these were moribund, but it was not accepted and they were told the new homes had to be on either greenfield or already vacant brownfield land to be eligible for AHP funding, so the scheme has stalled.

4.2. Regeneration of whole areas and neighbourhoods

Many respondents noted that dealing with deep-rooted social and economic issues requires regeneration of much larger areas: i.e. whole neighbourhoods or even whole towns. But it was acknowledged that this was often a controversial topic, the experience with Housing Market Renewal programmes showing how difficult it is to get political and community ‘buy-in’ for major programmes of demolition, however strong the economic case. The quotes below highlight some of the issues raised, showing that successful regeneration at this scale is not so much a question of modifying rules and funding streams, but something that requires a bigger shift in political priority over a long period of time.

- *“The argument we need to win is getting to step back and look at towns, these issues are holding back the performance of whole places. If you want to sort out the problems of certain places, you need to deploy these solutions at scale. It is entire places, not a single street.”*
- *“At the moment it is much easier to pick up smaller sites that we know we won’t run into problems, rather than being more strategic.”*
- *“Not about us using it to sort out our own stock’s problems, but to tackle broader neighbourhood challenges.”*
- *“There used to be area-based partnerships and urban regeneration companies, but they’ve gone. It’s too difficult for one local HA to take on these projects when they don’t control all the sites.”*
- *“You don’t now tend to have a lead HA on a place level. We need to come up with a consensus to tackle some of the problems in places that we have. It makes sense for HAs to come together with local councils, combined authorities, and Homes England.”*
- *“Only area-based solutions will work. We can sort our own properties out, but if the rest of the area is owned by others, are they going to sort themselves out? You can’t do a single property.”*
- *“All these examples are inner city and inner town donut locations which are very sustainable. Having high quality houses in these locations would help with sustainability and economic growth. Greater Manchester in particular, that’s exactly where these sites are, in key locations that can provide wider economic and social gain. They are even near to green spaces. It’s hard to quantify, but they are places that are really well located and connected that are not operating at their potential.”*

4.3. Views on funding options and policy relating to regeneration in general

Interviewees also had views on the general operation of affordable housing investment and some related policy and funding issues. Many called for HE to take a lead on regeneration, use more of their powers (CPO) and funding. They also asked for more flexibility in bringing funding streams together, with the existing strategic partnership perhaps the vehicle for this. These quotes illustrate some of the points raised.

- *“There needs to be a much more flexible version of strategic partnerships. Let us manage the programme so it can meet local needs better.”*
- *“Lots of skills in terms of renewal and regeneration have been lost because we don’t do it anymore. We have to ask Homes England because the LAs don’t know how to do it anymore.”*
- *“If there was flexibility offered into SPs, HE would be positively surprised by the nature of projects that come forward. We have to tap into other funding sources to renovate existing stock. SP would be a safe space for it. Lots of reporting around it.”*

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- *“Homes England are as frustrated with the lack of flexibility as we are. They seem to also want that focus on place. I don’t think it matters which organisation is in charge. It is about personalities. The thing that is needed is true devolution.”*

The responses from strategic partners showed that they felt that their partnerships could be a good route for any additional regeneration funding to be deployed. They noted that the flexibility offered at present was essentially limited to the tenure and location of new homes, whereas true flexibility would enable them to tackle whatever their local housing markets needed.

5. How the AHP guidance could be changed

This chapter is based on a second round of discussions, this time with the relevant contacts at Homes England and the Department for Levelling-Up, Housing and Communities (DLUHC), with the aim of better understanding the rationale for the current structure of affordable housing investment and the potential for any changes to enable more regeneration schemes to receive funding under future programmes.

5.1. Why are replacement homes not typically funded by the AHP?

There are no specific barriers to funding replacement homes but government policy has prioritised other issues in recent years, so the funding programmes simply reflect that. These priorities are set out in Homes England's strategic plan, the current version of which is for 2018 to 23. This is very strongly geared towards new supply, reflecting the organisation's role as the government's 'housing accelerator', with a particular focus on unaffordable markets. Replacing existing homes would not directly contribute to net new housing delivery so is not a policy priority, therefore (in most circumstances) is not eligible for funding under the AHP.

Homes England are working on a new strategic plan, which is likely to pivot away from mainly focussing on housing supply to look more holistically at regeneration, mixed-use schemes and a 'place-based' funding approach. Therefore, it is possible that future funding programmes may deal more directly with regeneration and some of the other issues raised in the previous section. But current political uncertainty, in particular around the future of the levelling up agenda, make it hard to be certain.

At present, the situation remains that there is no AHP funding for replacement homes apart from through CME for moribund housing in exceptional circumstances, and predominantly for supported housing.

5.2. Could more replacement homes be funded within the scope of the current guidance?

As noted above, there are some circumstances where replacing moribund housing is eligible for funding, and Homes England do encourage organisations to come to them with potential projects in that category. If housing associations want to secure funding through this route, it is recommended that they engage with Homes England as early as possible and put forward a robust business case that makes clear that the housing to be demolished is no longer suitable and that the replacement homes are compliant with wider priorities, such as the housing strategy formulated by the local authority.

Applications for funding such projects are likely to be more detailed than more straightforward development of new homes, going through a higher level of scrutiny and sign-off and taking more time. Homes England do work with providers in advance of bidding to try and provide clarity and advice, but it is notable that larger schemes are not coming forward under the moribund housing exception. Responses in the previous section indicate that the definition of moribund appears to be quite restrictive and that the number of homes that might be eligible is therefore quite low, certainly lower than the number for which there might be a more general case for demolition and replacement. The requirement for housing associations to have already demolished moribund homes before seeking funding for replacements is also a barrier.

Funding pre-emptive redevelopment of uneconomic – and potentially soon to be moribund – stock is disallowed within the AHP but this is a policy decision not a question of rules.

The AHP is not the vehicle for major, area-wide regeneration, as affordable housing is only part of the story for these projects and other funds with different goals are likely to be required.

5.3. How could the AHP be more positive about funding replacement homes?

The simplest change that could be made to the AHP guidance would be to widen the definition of moribund housing, homes that are eligible for replacement funding under exceptional circumstances. Requiring that homes are vacant and have already been demolished before funding can be considered actually encourages net loss of homes, the very opposite of the overriding goal of net additions. Opening up conversations about homes that will come to the end of their lifespan within the current AHP, where replacement is the most efficient solution, would ensure that there is no net loss of homes and is likely to allow a net increase in the number of homes on a site.

There are signs that the case for change is starting to be heard and understood by politicians. The Levelling Up, Housing and Communities Select Committee made the following recommendation in their report¹⁷ into the regulation of social housing:

“To reduce the social housing sector’s reliance on outdated stock, we recommend that the Government introduce funding specifically for regeneration that does not require the delivery of net additional housing and deliver on its commitment to increase the supply of homes for social rent. We also recommend that it amend the Affordable Homes Programme to remove the requirement to deliver net additional housing.”

This complements the finding of the NAO referenced in Section 3.1, that the focus on the number of homes delivered came at the expense of wider factors such as housing quality.

Future AHP guidance could therefore help make links between policy goals such as housing, levelling up, net zero and health. If Homes England want to provide funding to meet evidenced local housing needs, these need to be properly understood by every local authority. There are already signs that the presence of good local housing strategies are helping to justify the exceptional circumstances in which funding for replacement homes is granted, in Greater Manchester and Sheffield, for example.

Bidding organisations could be encouraged to make the case that funding regeneration schemes would give rise to additionality of outcomes that go beyond the immediate scheme to be funded. The wider benefits could be evidenced in line with the five case model to make the strategic and economic benefits of the schemes receiving funding clear, beyond simply measuring the number of new homes. Previous research (footnote 1) has shown that the wider benefits of urban regeneration can be evidenced and valued.

Increased housing renewal and regeneration activity potentially simplifies housing associations development and asset management activities, enhancing the value for money the AHP can achieve. Rather than building new homes on one site and upgrading homes on existing estates, regeneration could allow new homes to be built as part of estate wide upgrades to stock. This would enable housing associations to meet future requirements relating to Decent Homes and decarbonisation more effectively, as well as help meet wider policy objectives around local economic growth and health and well-being. It would also reduce the need for housing associations to compete in the land market against private developers, as they would be enabled to make better use of their existing large land holdings.

Securing this change is not simply a question of technicalities, it requires a shift in policy at Cabinet level that relaxes the requirement for the AHP to maximise net additional homes. A strong economic case would then be needed to

¹⁷ <https://publications.parliament.uk/pa/cm5803/cmselect/cmcomloc/18/report.html#heading-5>

ensure the argument for funding to be directed towards replacement housing is robust in the case of scrutiny from HM Treasury. This could be strengthened by further research, evaluation, data and evidence to help build a case for the impact of housing regeneration and replacement that focusses on the wider social value impacts in order to reduce dependence on LVU metrics. Registered providers are well placed to play a key role in assembling this evidence base.

5.4. Beyond the AHP

In the longer term, regeneration at the neighbourhood scale may be the best approach for some areas, requiring coordination between local housing associations, local authorities (plus combined/mayoral authorities if relevant), Homes England and central government. The current lack of support is a political decision and changing that will require backing HM Treasury and the Secretary of State. Winning over the key decision-makers is more about the general argument that regeneration should be a policy priority, making the strategic case, rather than a detailed one about rules and evaluation at programme level. This requires the importance of housing replacement to be much more prominent in the debate around how to 'solve the housing crisis', ensuring that it is part of future housing policy.

In the case of housing replacement, there is a clear market failure making a strong case for change and a strong business case can be made. The funding bodies therefore already have a framework within which to assess the wider economic benefits of regeneration and replacement when evaluating bids in line with the Green Book, where the proposed projects are eligible for the available funding. However, there is a reticence at the political decision-making level to give such benefits equal standing with more tangible ones. This then becomes a cultural issue where policy interventions focus on designing programmes that deliver outcomes that are easier to quantify and funds are constructed around delivering a narrow set of outcomes.

From the viewpoint of the housing sector, the fewer, more flexible pots there are, that operate over the longest period, the more appealing it is for them to work with. On the other hand, for Government it is preferable for there to be multiple funding pots, all aimed at specific separate issues to be solved. In the case of interlinked market failure, combining funding pots can make it difficult to evaluate success and attribute benefits to each pot.

The other challenge is timing. In practice, many funding programmes don't tend to run for longer than the political cycle, so that results can be shown quickly and schemes closed if a new government has different priorities. This again favours the smaller, more specific funding programmes. Neighbourhood level regeneration is a complex, long term challenge more in line with 20 year Local Plans than five year funding programmes. New devolution deals for combined authorities are still being negotiated and increasingly these also contain an element of housing strategy and funding – these could be a route to bringing in additional, targeted funding for replacement homes.

6. Policy recommendations

Recommendation 1: Net additionality requirements in the Affordable Homes Programme should be revised to bring more homes into scope for replacement by extending and expanding the exception for moribund property.

The aim of this recommendation is to encourage better asset management and avoid homes becoming uninhabitable in the near future, resulting in a net loss of housing. This would allow homes coming to the end of their useful life to be considered for replacement funding and end the requirement for homes to be vacant in advance of a funding application. The Strategic Partnerships element of the AHP should allow replacement homes as part of delivery commitments enabling a holistic approach to development requirements within an area, rather than relying solely on Continuous Market Engagement. The extension and expansion of the exception for moribund property should come alongside a clearer definition of what can be considered 'moribund'.

Recommendation 2: Research should be commissioned to quantify the need for replacement housing over time.

There is a lack of comprehensive data on housing quality. The quantitative analysis in this report relies on various sources relating to individual issues, many of which are based on small samples limiting the granularity of the insights it is possible to draw. Better data will enable a more informed debate on the key issues with homes, and help identify the policy priorities in terms of locations and the types of housing most in need of attention. Replacing moribund housing should be a much bigger part of the housing policy conversation; residential buildings will not last forever.

Recommendation 3: Further work should be undertaken to quantify the social and economic costs, and the negative land value impact of 'doing nothing' to improve or replace moribund social housing.

Land value uplift is usually the largest component of any economic business case, which favours projects on greenfield sites in higher house price markets rather than complex brownfield development in inner-city northern areas. Fully accounting for the negative impacts of 'doing nothing' will allow a stronger economic case for replacement homes to be built. Research and evaluation of affordable housing projects, with a focus on the social impacts and benefits of schemes, would provide an evidence base that could be used to strengthen the economic case for public sector intervention and funding.

Recommendation 4: Housing associations need to be enabled to expand development activity in the north, replacing and refurbishing existing homes in addition to building new ones.

Housing associations are well-placed to play a central role in an expansion of (re)development activities, having a proven track record of delivering homes and understanding the needs of local residents. There are currently tens of thousands – potentially over 100,000 – social homes in the north with quality issues and solving these would have a positive impact on meeting local housing needs, health and well-being, and economic growth.

Recommendation 5: Local Planning Authorities should be properly resourced to keep up to date housing needs strategies and housing associations should work with them to ensure that the right types of homes are delivered to meet need.

A place-based approach that splits funding between additional and replacement homes depending on specific local market needs would maximise the impact of this change, ensuring that economic growth is supported through delivering the right homes in the best locations for redevelopment.

Important Note

Finally, in accordance with our normal practice, we would state that this report is for general informative purposes only and does not constitute a formal valuation, appraisal or recommendation. It is only for the use of the persons to whom it is addressed and no responsibility can be accepted to any third party for the whole or any part of its contents. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent, which will not be unreasonably withheld.

Our findings are based on the assumptions given. As is customary with market studies, our findings should be regarded as valid for a limited period of time and should be subject to examination at regular intervals.

Whilst every effort has been made to ensure that the data contained in it is correct, no responsibility can be taken for omissions or erroneous data provided by a third party or due to information being unavailable or inaccessible during the research period. The estimates and conclusions contained in this report have been conscientiously prepared in the light of our experience in the property market and information that we were able to collect, but their accuracy is in no way guaranteed.

Appendix: Other public funding for housing and infrastructure

Brownfield Land Release Fund

This £180m fund provides upfront capital to address viability issues arising from abnormal costs of the proposed development of registered brownfield land. The type of abnormal costs requiring funding may include but are not limited to:

- site levelling, groundworks, demolition, remediation
- provision of small-scale infrastructure
- highways works or other access challenges
- addressing environmental constraints.

The funding cannot be used to pay for the development of the schemes themselves, but to address the issues associated with the brownfield nature of the site. The fund has a 'low' benefit-cost ratio (BCR) threshold, but schemes must show a market failure, net additional benefits, and target tight delivery timeframes. This fund is focused on housing outputs only – not commercial or mixed use.

Housing Infrastructure Fund

The Housing Infrastructure Fund (HIF) supports the government's ambition to deliver 300,000 homes per annum, by providing upfront infrastructure to drive housing delivery. HIF provides grant funding to local authorities on a competitive basis for physical infrastructure (such as roads, community facilities, utilities, and land assembly) which is needed to "unlock" new housing and which requires public funding to be delivered, (i.e. where there is a market failure). Its purpose is to:

- Deliver new physical infrastructure to support new and existing communities;
- Make more land available for housing in high demand areas, resulting in new additional homes that otherwise would not have been built;
- Support ambitious local authorities who want to step up their plans for growth and make a meaningful difference to overall housing supply; and
- Enable local authorities to recycle the funding for other infrastructure projects, achieving more and delivering new homes in the future.

Each bid is assessed based on the net additional outputs (new homes), so is similar to the main AHP in this regard.

Towns Fund

The Towns Fund has invested £2.3 billion into over 100 towns, as part of the government's plan to level up the regions. The objective of the Fund is to drive the economic regeneration of towns to deliver long term economic and productivity growth through:

- Urban regeneration, planning and land use
- Skills and enterprise infrastructure
- Connectivity

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Each town has access to up to £25 million of funding (£50m in exceptional cases), which can be spent on a range of different types of intervention. The types of investment are flexible in recognition of the complex issues in town centre and regeneration contexts. Intervention should demonstrate a clear 'market failure', need for intervention, and a good economic case for public investment (considering net additional benefits).

Future High Streets Fund

The government launched 'Our Plan for the High Street' at Budget 2018. This included £830 million for a Future High Streets Fund. The aim of the Future High Streets Fund is to renew and reshape town centres and high streets in a way that drives growth, improves experiences, and ensures future sustainability. To achieve this, it provides co-funding to successful applicants to support transformative and structural changes to overcome challenges in their area.

It aimed to serve two purposes:

- Supporting local areas to prepare long-term strategies for their high streets and town centres, including funding a new High Streets Taskforce to provide expertise and hands-on support to local areas.
- It will also then co-fund with local areas projects including:
 - Investment in physical infrastructure, including improving public and other transport access, improving flow and circulation within a town / city centre, congestion-relieving infrastructure, other investment in physical infrastructure needed to support new housing and workspace development and existing local communities, and the regeneration of heritage high streets.
 - Investment in land assembly, including to support the densification of residential and workspace around high streets in place of under-used retail units.

Each place can bid for up to £20 million of investment.

Levelling Up Fund

The Levelling Up Fund is designed to invest in infrastructure that improves everyday life across the UK. The £4.8 billion fund will support town centre and high street regeneration, local transport projects, and cultural and heritage assets. Each location can bid for up to £20 million. Funding is targeted to areas based on place characteristics of need. This includes consideration of the social and economic challenges places face and the level of investment already provided to places. Each location is in a Tiering system, with Tier 1 high need and Tier 3 low need.

This is a competitive funding process, but flexible to allow funding for:

- Transport and connectivity
- Regeneration and town centres
- Culture and heritage schemes

Each area has a set number of opportunities to bid based on the number of constituencies in the area.