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Sheffield City Region Housing Review (Part 2)

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1 INTRODUCTION AND BACKGROUND

Sheffield City Region (SCR) is undertaking a review of the South Yorkshire housing market and has assembled an advisory panel, drawn from relevant stakeholders, to assist with and provide overview of this work. The purpose of the review is to assess the extent to which housing may be responding to, driving, or indeed holding back economic growth in the city region.

Housing is a key employment sector in its own right, and investments in the housing industry including skills and modern methods of construction will contribute to increased productivity and job growth. However, the primary focus of this review is to consider the wider role of housing in place-making strategies and the relationship between housing and other policy considerations that contribute to making healthy, productive, and inclusive places.

This paper sets out a broad provocation and policy development ideas for the city region as a whole. It makes the case for the devolution of housing policy and funding to the Mayoral Combined Authority (MCA) and sets out some over-arching propositions for the advisory panel, and wider partners, to consider in addressing the headline findings arising from the first phase of the review.

1.1 Headline findings

Part 1 of this review identified that, in general terms, the housing market in South Yorkshire appears well balanced with many positive aspects compared to other areas in the UK. Rates of home ownership are relatively high – in line with the national average - with a lower proportion of private renting, and relatively higher levels of social housing.

Similar to most other areas in the UK, there are familiar demographic pressures on the housing market in South Yorkshire. This is characterised by an increasing and ageing population, and significant changes in the composition of households, including: a large increase in single people under 65s; an increase in couples without children; and a decrease in the number, and size, of families. All of this is impacting on the supply and demand for housing.

Affordability

House prices, private rent and social rents are all relatively affordable compared to both the wider region and the national average. Even when accounting for local wages, income to house price/rent ratios are more affordable in South Yorkshire than most other city regions in the UK.

Nevertheless, there are problems with both affordability and quality of accommodation. Over 50% of new houses are currently unaffordable for people on average incomes. While an average deposit on an entry level home (£15,000) would take households in the bottom

20% of incomes, over 9 years to save.¹ Home ownership is not achievable for everyone and the private rented sector (PRS) is therefore the only option for many low-income households. But less than 10% of lettings across South Yorkshire, are available at the Local Housing Assessment rate², making it difficult for households, wholly or partially dependent on benefits, to afford their rent.

In addition, South Yorkshire has the largest number of PRS properties, among comparator metro-regions, where local authority inspection has identified a serious and immediate risk to a person's health and safety.³ There is an urgent need to:

- Provide more affordable 'social' homes to rent – which could include options for shared ownership and ultimately the right to buy, and
- Improve the quality of existing housing stock, with a focus on licensing schemes to drive up PRS standards, alongside phased housing renewal and estate regeneration, in the most disadvantaged areas.

Social mobility and inclusion

The South Yorkshire housing market is highly polarised and spatially segregated. The highest property prices and higher income households are furthest from the urban centres of Sheffield, Rotherham, Barnsley and Doncaster.⁴ Housing markets are therefore strongly correlated with the spatial distribution and concentration of social and economic deprivation, including low incomes, low skills and educational attainment, and poor health.

A relatively large lower-skilled population, which is holding back productive growth in the sub-region, is in part an outcome of how housing markets function in South Yorkshire. Housing markets define the social and economic profile of neighbourhoods, which serve to lock-in and exacerbate inequality through patterns of segregation.⁵

The relationship between housing and schools is critical to addressing problems of social mobility. Good schools drive-up house prices,⁶ and pupils from the more prosperous neighbourhoods are more likely to go to the highest performing schools near to where they live.⁷ This suggests a different approach to housing development and place-making. Building socially and economically mixed communities – with homes to buy and rent - is necessary if the challenges of economic inclusion and social mobility are to be achieved.

¹ Huw Jones Consulting, Study into affordability of housing in the Sheffield City Region, 2018.

² Ibid

³ Local Authority Housing Statistics data returns, England 2017-18 (MHCLG)

⁴ Average Property Prices in South Yorkshire, Plumplot 2019

⁵ Cheshire and Sheppard, 2004; Gibbons and Machin, 2003; Leech and Campos, 2001

⁶ Parent Power: the price families pay to live near top schools

[\[https://www.thetimes.co.uk/article/parent-power-the-price-families-pay-to-live-near-top-schools-7vfpv9zhc\]](https://www.thetimes.co.uk/article/parent-power-the-price-families-pay-to-live-near-top-schools-7vfpv9zhc) November 2019.

⁷ Ferrari, E.T and Green, M.A. (2013) Travel to school and housing markets: a case study of Sheffield, England. Environment and Planning, pp. 2771-2788

Urbanisation

Housing is also a key driver in retaining and attracting new talent which is vital to growth. The rise in city centre living, across the UK, has been led by young high skilled people seeking a vibrant urban location to live and work. However, SCR is struggling to gain graduates with no previous association with the city-region⁸ and there is evidence that the housing offer in South Yorkshire is not meeting the needs of young professionals. The low level of city centre and town centre housing development is a current weakness which authorities are now seeking to address.

The economic rationale for city-regions is based on the principle of agglomeration, that bringing businesses and people together enhances productivity and drives growth. But the Sheffield City Region does not yet function as a single economic geography or travel to work area⁹ which can exert the kind of centrifugal pull found in other city-regions areas like Bristol, Greater Manchester, Cambridge, Oxford and London.

Densifying the urban centres, and especially Sheffield City Centre, will help drive economic growth. Local authorities in South Yorkshire have set out their development priorities in their Core Strategies and Local Plans. In all cases the intention is to concentrate housing development in existing urban areas and with a particular focus on town and city centres.

Spatial planning

The Mayoral Combined Authority (MCA) has committed to a non-statutory spatial plan. This should be developed in a way that sets out the roles which different parts of the city region play in providing locations for businesses and homes. Building in and around the main urban centres, employment sites, innovation districts, growth nodes, transport corridors and hubs will help to organise the economy in ways that recognize the common attributes of productive places—integration, proximity, density, connectivity, and quality place-making. From this a polycentric model for mixed urban development and reinforcing economic growth could emerge across the city region.

Housing targets

Current land allocations and housing targets in the sub-region are set to meet growth projections, and housing completion rates in South Yorkshire are broadly on track.¹⁰ However, targets are a blunt instrument in assessing aggregate supply and demand. A more nuanced understanding is required to ensure the right type of housing is delivered in the right areas to meet the right need and maximise the potential for inclusive growth.

⁸ Graduate Retention and Attraction, HESA, 2014/15

⁹ ONS, Travel to work area analysis in Great Britain: 2016

¹⁰ Sheffield City Region, Draft Statement of Common Ground, October 2019

1.2 Responding to Covid-19

The first part of this review was completed before the outbreak of the Covid-19 pandemic. However, the current public health and economic emergency does not alter the underlying assumptions, which this review is seeking to address. Housing's role in the economic recovery will become more pressing.

A new model for recovery

There is likely to be a long tail to this crisis, with the prospects of continued restrictions on movement that will cause ongoing social and economic distress for large numbers of people. Some households and communities will be harder pressed than others.

The UK's rentier economy has largely insulated creditors (banks) and asset-owners (landlords) from the worst effects of the pandemic while driving many of the most financially vulnerable deeper into debt. Buy to let landlords have been given mortgage interest holidays and many have received 'free money' in the form of rent paid through the Government's furlough scheme in addition to housing benefits. Banks have been given guarantees on loans, so the risk of non-payment is borne by businesses and the public purse. Companies must repay their loans and tenants their rents, at the risk of foreclosure or eviction (once the emergency legislation expires).

There will also be significant variation in the size of economic contraction between places, with the worst affected areas likely to be in the midlands and the North of England.¹¹ This must necessitate a different model for recovery. One that can be centred around local economies. And one that can offer a more equitable settlement for the army of largely low paid workers who have cared for the sick and the vulnerable and who have helped to keep the country running during lockdown.

The seemingly intractable problem of the UK's housing crisis must finally be resolved with a public commitment to build more homes to buy and rent, and to address the problems of affordability and quality. A re-imagining of the 'homes for heroes' house building programmes that followed the two world wars should kick start our economic recovery with a priority to build for our key workers (not just our teachers, doctors and nurses but our shelf-stackers, lorry drivers, cleaners and carers) and to finally remove the unacceptable circumstance of homelessness and rough sleeping.

The construction industry is one sector that has continued to operate throughout the period of lockdown although many sites have been suspended and development has slowed.¹² Overall, the industry will have been negatively impacted. Future housebuilding programmes can therefore contribute to the economic recovery. Generating new jobs and opportunities for local SME builders and suppliers.

¹¹ OBR analysis of decline in GVA resulting from Covid19 shut down

¹² <https://www.constructionline.co.uk/insights/news/covid-19-infographic/>

With a focus on modern methods of construction (MMC) house building in the city-region could help drive productivity growth. The 2017 Government White Paper¹³ supported the contribution MMC can make in solving the nation's housing crisis and achieving a step-change in housing output. It pointed to the potential for a 30% improvement in the speed of construction of new homes through the adoption of innovation, with a potential 25% reduction in costs, as well as the potential for advances in improving quality and energy efficiency.

An opportunity to re-think cities and town centres

There is a risk that Covid-19 will lead to urban flight and that attempts to populate towns and city centres will flounder. Many across the UK have endured months of lockdown without gardens or terraces. And this could only intensify the desire of the average British homebuyer to live in a house with outside space. Large cities have been amongst the most affected areas in the world. But while some like London and New York have struggled to control the coronavirus others like Seoul, Hong Kong, Singapore and many cities in Germany have managed to effectively contain the outbreak.

Density has always been associated with poor health, from the cholera and typhoid epidemics of the 19th century to this present crisis. But all these threats to public health have been overcome. The very highest life expectancies are found in the wealthiest urban areas. There is now an opportunity, coming out of this, to rethink the city and urban design. To reflect on the value of public spaces, communal gardens, parks and traffic free roads. Design and the creation of quality places in our urban areas should become even more important post Covid.

This review is therefore an opportunity to reflect on the issues of equality and inclusivity raised by Covid-19 as well as the relevance of housing to a wider economic and social recovery across South Yorkshire. There is, in the wake of this unprecedented crisis, an opportunity to accelerate the devolution process with a radical agenda for housing in the Sheffield City Region.

¹³ Fixing our broken housing market. Ministry of Housing, Communities & Local Government. 2017

2 THE DEVOLUTION OF HOUSING POWERS

Unlike a number of other metro-areas the current devolution deal for the Sheffield City Region does not include control over housing resources, although the Scheme does include housing and regeneration powers or functions that can be exercised concurrently with Homes England and local authorities.

2.1 Devolution in England

Place-based devolution in England has taken a number of forms. Progress has been incremental, and some areas have gradually increased the scope of their powers as local institutions have strengthened local accountability and transparency.

Some aspects of these devolution deals have been implemented without the need for any legislative changes, but where new powers are required, agreement to secondary legislation has allowed for:

- Responsibility for post-19 educational and skills training
- Homes England regeneration powers
- Police and Crime Commissioner powers
- Fire and Rescue Authority functions
- Public health, economic development and regeneration powers, waste management and air quality management
- Powers to create mayoral development corporations and spatial development strategies.
- Devolved health and social care.

The bespoke nature of devolution agreements has meant that some MCAs have benefited from additional devolved budgets and powers – for example Greater Manchester’s Housing Investment Fund and Cambridgeshire and Peterborough’s budget for Infrastructure, Housing and Growth.

As the country leaves the EU, the newly elected Government has committed to levelling up productivity and living standards across the country. To achieve this powers and funding will need to be devolved to a level where they can have greatest impact to accelerate economic growth, to city regions and other places, revitalising cities, towns and communities.

In this context the time would appear right for the Mayor and the Combined Authority to set out their vision for enhanced devolution to the Sheffield City Region, including powers over housing and infrastructure investment.

2.2 The case for devolved housing to SCR

The Sheffield City Region has struggled to attract the level of investment in housing and infrastructure that it would ideally like. There are numerous government interventions,

initiatives and programmes providing access to finance and routes to market. But authorities have experienced frustration in their unsuccessful attempts to realise relatively modest housing developments. This has eroded confidence in the ability of existing centralised funding, systems, and processes to meet local need.

Case study: The Housing Infrastructure Fund

Following a selection process, where local partners had been asked to categorise their top six priorities for housing development, MHCLG identified the city-region's second ranked scheme, on the basis that it was the most economically viable. Sheffield City Council were then invited to progress a business case for a Housing Infrastructure Fund application. This funding was to contribute to the council's ambitions to deliver over 18,000 new homes in the Sheffield and Rotherham growth corridor, over the next 10 years.

To aid the first phase, a comprehensive infrastructure and site enabling scheme had been initiated comprising highways improvements, flood mitigation measures, placemaking improvements, land assembly and site remediation. Completion of this scheme would have unlocked around 30 brownfield sites and 4,000 new homes, contributing to:

- **A strong economy** with job creation and the encouragement of private investment due to increased market investment.
- **Thriving neighbourhoods and communities**, densifying housing development with proximity to a wide range of city centre cultural and recreational facilities, links to employment and learning opportunities (including University campuses) hospitals and city centre amenities.
- **Better health and wellbeing** with the creation of a wayfinding environment, improving cycling and pedestrian movements and the strengthening of community identity and safety.

After an 18-month process of 'co-production' with Homes England the application was ultimately declined on the basis of its relatively low benefit cost ratio. Despite meeting all the eligibility criteria for the fund, including support from the combined authority, the scheme was assessed as unlikely to meet the high yield bench-mark required.

This recent experience in applying to the HIF, highlights the problems which localities face in dealing with centralised processes and decision making. Democratically elected local authorities are rendered powerless, reduced to a position of supplicant to government departments, and forced into a competition for funding that they are unlikely to win.

The scale of market failure across the north, and other places outside the Greater South East, suggests that it is these areas that need levelling up. The reluctance of the market to invest in places that offer a lower return on investment is the precise reason why public funding is necessary. Disproportionate amounts of public funding, in housing and infrastructure, are being invested in areas of high aggregate demand where the market is active and eager to build. Public funding is being utilised to address affordability issues in over-heated housing markets where authorities are under-bounded by greenbelt and available land is therefore at a premium.

Our centralised funding systems and assessment criteria are not sufficiently nuanced or weighted to reflect the variance (in the type and scale of problems) that exists between different housing markets across the country.

Mayors and Combined Authorities should be allowed to respond to their different challenges to meet local needs. Metro-regions should have the ‘placemaking’ powers, including the ability to coordinate housing, planning and transport, key to driving local growth.

The Government’s approach has gradually increased the powers of local institutions, enhanced local accountability and transparency, reduced barriers that stopped areas doing things for themselves and reduced bureaucratic and regulatory burdens. It is now time to go further, to transfer powers and funding from central government and its non-departmental public body, Homes England. This would create an enterprising and entrepreneurial role for the local state – to invest and build.

2.3 The ‘Ask’ of Government

The Mayoral Combined Authority should seek greater autonomy over wider housing powers and budgets, placing the constituent members of the combined authority at the forefront of negotiations with private developers and housing association, and giving them more responsibility to ensure the housing needs of their resident communities are addressed.

The proposed wider transfer of powers from Whitehall would see the Mayor and the Homes England agree a devolved allocation of the national housing and infrastructure funds that have already been committed by Government (including the recent 2020 budget announcements). This indicative budget for the SCR, would allow the combined authority to allocate this funding in line with both city-region and individual borough priorities.

In addition to the MCA should seek devolved land assets and holdings that form part of the wider public estate. It should also seek to utilise government borrowing capacity and/or borrowing powers devolved to the Mayor, to raise a bond or enable fully serviced loans for investment in public build to rent development.

‘Devolved Delivery Agreements’ could confirm an agreed housing budget for the MCA for the duration of the current parliament, until 2025. In turn, the MCA should agree a city-region housing strategy and a broad set of policies and outcomes to ensure local and city-region housing needs are met. Entering into a Devolved Delivery Agreement could be an entirely voluntary process, with those boroughs choosing not to participate continuing with existing investment arrangements.

3 PROPOSITIONS

The following propositions arise from the headline findings in the first part of the review. They are high level proposals intended to provoke further discussion and thinking about housing policy and strategy development in the city region.

The propositions are not intended to speak to individual projects or planned developments which individual authorities are looking to take forward. But they should be viewed as drivers for inclusive growth, that can accommodate specific plans, while helping to prioritise strategic interventions across South Yorkshire.

The ideas presented here are meant to stimulate new approaches to housing and place-making, to shape the focus of subsequent phases of this housing review, and to provide the basis for more detailed work, including in-depth research and modelling, as well as recommendations or propositions that can be developed into practical projects that add value to existing programmes and investments.

3.1 **Densifying urban centres and employment growth nodes**

A proposal to develop and populate the main urban centres in the South Yorkshire.

Context

City living has been on the rise in recent years with people returning to the city centres of the UK's core cities. Populations are growing and this trend looks likely to continue. This increase in urban living is associated good design, stylish apartments and the kind of services required by young affluent residents (gyms, cafes, bars, restaurants, and shops).

The return to urban living is both a cause and effect of economic growth. The economic rationale for city-regions is based on the principle of agglomeration, that bringing businesses and people together encourages innovation, enhances productivity, and drives growth. Vibrant city centres attract businesses and talent.

However, the urban centres in the Sheffield City Region do not provide this attraction or have not yet achieved the kind of centrifugal pull which can be found in other urban areas in the UK.

Proposal

Local authorities in South Yorkshire have set out their development priorities in their Core Strategies and Local Plans. In all cases the intention is to concentrate housing development in existing urban areas and with a particular focus on town and city centres.

The proposal is to accelerate this development in order to maximise the role of housing in driving economic growth in the city region. This would involve a significant repurposing of city and town centres, to increase the density of residential accommodation alongside commercial and business use. This should also consider the urbanisation of the main

employment growth nodes in the city region (including the Advanced Manufacturing Park and the Sheffield-Rotherham Growth Corridor).

This process should provide the opportunity to rethink the city and town centre as an environmentally friendly place that can also be attractive to families and older people. The intention should be to provide for vibrant mixed communities that can reflect a diverse population, in terms of age as well as social and economic circumstance. Urban centres should be magnets for wealth creators, but they should also be more than a playground for the young and the affluent.

There are factors affecting city centre development in South Yorkshire. A current study of the residential market in Sheffield City Centre¹⁴ has identified a significant under supply in the build to rent market compared with other core cities. This study recommends that a city centre city strategy should focus on the rapid, large-scale delivery of homes for the mid-market, affordable to the largest market segment who are already working in the local economy.

This strategy is suggested as the approach most likely to:

- Address achievable values
- Attract required financial investors, new capital and entrants to the market
- Impact, in the most meaningful way, on the shortfall in affordable, quality housing in the city region.

In pursuing such a strategy, local planning authorities should seek to strengthen their commitment to this market by using planning conditions and covenants to promote build-to-rent projects and to overcome the viability challenge relative to build-to-sell, as recommended by the Montague Review.

3.2 A Housing Investment Fund

A proposal for a funding and delivery model to significantly boost housing supply, initially to rent but with options for long term tenants to buy. This model will address quality and affordability of housing for lower income households, create new jobs, boost small developers, and grow construction capacity through continued investment.

Context

The UK has consistently failed, over five decades, to deliver sufficient housing - either to buy or to rent. When the public sector withdrew from housebuilding, at scale, it was expected that the market would pick up the slack. This has not happened. The impact of this under delivery manifests itself in house prices, locally and nationally, that are unaffordable to much of the population.

¹⁴ Colliers International, Sheffield City Centre, Residential Market Study (WORK IN PROGRESS) March 2020

Over half of new houses in South Yorkshire are currently unaffordable for people on average incomes. An average deposit on an entry level home (£15,000) would take households in the bottom 20 percent of incomes over 9 years to save. With growth and rising demand property will become more unaffordable. Home ownership is therefore not achievable for everyone and many low-income households have no other option than to rent privately. But there are also wider problems of affordability and quality in the private rented sector. Less than 10% of lettings across South Yorkshire, are available at the Local Housing Assessment rate, or below. While the sub-region has a disproportionate number of properties deemed to be a health and safety hazard. Part of the solution must be to build more affordable and desirable 'social' homes to rent. This could include options for shared ownership and ultimately the right to buy.

The viability of build-to-rent, and particularly affordable rents, has been a long-standing issue. In essence build-to-rent generates a much lower annual rate (7.5% pa) compared to the traditional build-to-sell model (17.5%). As investors and developers require a return between 10% and 12.5% pa to take the development risk, this underlines the challenges faced by institutional investors willing to invest in the sector to accelerate housing delivery.

Government has intervened with measures such as the £1bn build-to-rent fund, launched in 2012 and topped up in the 2013 budget, which provided bridge financing to attract institutions to invest in the private rental sector. However, this has not resulted in the large influx of high-quality rented accommodation that could help raise standards and competition in the market or stabilise rent levels.

The build-to-rent fund was closed in 2016 and replaced by the Home Building Fund, managed by Homes England. This provides loans to meet the development costs of building homes for sale or rent, as well as site preparation and associated infrastructure to enable housing. However, these loans are subject to best value assessments that prioritise areas of high demand with the greatest affordability issues. As we discussed above, on this basis regions like South Yorkshire have struggled to compete for funding with places in the Greater South East.

Government also lifted the HRA Council borrowing cap in 2019. The borrowing cap had been seen as a major constraint for housing and lifting it is estimated to release £10b - £15b of additional borrowing so that councils could build an additional 100,000 new homes, 15,000 per year. Many local authorities have started to build-to-rent at a greater pace and scale but not yet to the level that is required to meet the country's needs. As a consequence, the rental sector will continue to be dominated by buy-to-let private landlords for some time.

There are numerous government interventions, initiatives and programmes providing access to finance and routes to market. But the Sheffield City Region has is likely to lose out to other regions in a competition for public funds based on aggregate demand and benefit cost ratios. The MCA needs greater leverage and control over decision-making about housing and infrastructure investment, to address the problems of market failure in South Yorkshire.

In terms of the private market, the main difficulty is that developers are only building at the rate at which they predict they can sell. And capital loans, especially to SME builders, are

tied to what and when they can sell not what they can build. The main solution, therefore, is to provide a **'Guaranteed Buyer'**.

The proposal

The Mayoral Combined Authority (MCA) should agree a housing deal with Government. This could create a new legal entity based around an SCR wide Housing Investment Fund that could:

- Utilise government borrowing capacity and/or borrowing powers devolved to the Mayor, with rates at historically low levels, through a 'bond' or fully serviced loans.
- Hold the devolved allocation of the housing and infrastructure funds that have already been committed by Government (including the recent 2020 budget announcements) and transferred to the MCA.
- Hold devolved land assets and holdings that form part of the wider public estate that have been transferred to the MCA.
- Enable pooled resources with contributions from public and private investors (e.g. L&G).

The Housing Fund would therefore be a new financial and delivery vehicle designed to significantly boost housing supply, by speaking to the fundamental problem of the speed and scale of building. Such a fund could build thousands of homes for rent in the SCR by acting as a **'guaranteed buyer'** within a certain time frame for those homes. Buying, or rather ordering, in bulk would reduce the initial costs and stimulate the SME market to produce these homes to order at scale and in time.

These homes, held for ten years and managed and tenanted properly, would provide a surplus in value after a decade. This surplus could then be applied to create home ownership extension schemes whereby a proportion of homes could be then sold to tenants for their value at the point of rental.

Given the stability of rental return and the rising asset value of the scheme, private capital could be found to finance this approach. As part of this local model, the MCA and local authorities would be able to leverage existing assets, such as land, and enhanced planning permission to further advantage the project. New approaches to land value capture and to Compulsory Purchase could make the Housing Fund even more valuable.

By addressing the problems of speed and scale where developers must sell to a credit constrained market in order to release funding for the next house they build, this vehicle speaks to the limitations that the market operates under. After establishing local needs and agreeing a joint approach with partners, the delivery vehicle (supported by the MCA) would then enter into pre-purchase agreements with developers, enabling them to proceed with secure funding already in place to deliver the homes, on a greatly accelerated timetable. This also creates the conditions in which house builders can be more innovative, for example adopting Modern Methods of Construction (MMC) to deliver new homes.

An arm's length Board would be appointed to oversee investment criteria to determine the type and location of homes to be delivered. For example, the Fund could let 5,000 homes at a rent linked to the Government living wage; make 5,000 available to purchase in ten years' time at today's price; or let 5,000 at submarket rent to enable tenants to save for a deposit. The MCA could also as an additional incentive to attract and retain key workers, prioritise these homes for nurses, carers, social workers and teachers.

Other housing investment deals have been struck with Government (including Greater Manchester and Oxfordshire) but these have not succeeded in making more affordable social rented accommodation available. This Fund could transform the SCR housing market, providing attractive, well managed homes for rent on family-friendly five-year tenancies. And their production will supplement, rather than compete with, the output of the main house builders.

As experience develops and confidence grows, the approach could also be expanded to help fund investment into improving existing housing stock. For example, this may be in the shape of gap funding with homeowners to improve energy efficiency in older housing or to cover the needs of aids and adaptations so that homes meet the needs of older communities.

In summary the Fund would:

- Create a '**Guaranteed Buyer**', or '**Buyer of first resort**' driving a higher rate and scale of production, by minimising risk
- Utilise Public Sector ability to borrow money at historically low rates – the 'loan' would increase public debt but not add to the deficit
- Utilise Housing Associations' and local authority expertise in building, letting and managing properties
- Expand local SME developers and increase the range of companies in the sector
- Improve the quality and range of housing offered is key to future prosperity of a local area
- Provide new affordable rent and then own options – up to 30% gain over ten years to be used for social ends
- Link economic growth, housing and social return much more explicitly
- Provide a vehicle for ensuring existing housing stock is fit for purpose in terms of issues like climate change and ageing communities.

The Fund will be financed by low cost long-term (50-year) finance, which government would secure and on-lend. Government and SCR will agree the Fund's structure and the time limited role that government will play enabling the market to price the debt accordingly. The Fund will be responsible for servicing this debt and securing it against the homes acquired, paying the interest costs from its rental income, and finally repaying the debt at the end of each 50-year term. After 10 years, the Fund could be self-sustaining with no further government intervention required. Cumulative net rental income (assuming that it is not invested in additional new homes) could repay each tranche within 30 years.

Rationale for a Housing Fund

The case for a Devolved Housing Fund is not primarily to address a lack of finance, or the availability of land, or difficulties with planning consents but the problem of a '**guaranteed buyer**'. The logic is as follows:

- Over the past 50 years the market has not taken up the slack left by the withdrawal of the public sector from house building.
- This is because the market builds what it thinks it can sell. So not at the pace and scale required.
- The commercial viability of building to rent has meant that this aspect of house building has been especially impacted.
- The financialisation of housing (Buy to Rent) has mean that most homes to rent are now in the private sector, and rents are subject to market forces.
- The year on year shortfall in supply of new homes to buy and rent, combined with the growing PRS, has exacerbated affordability problems.
- Since the financial crisis interest rates have been at a historic low but this has not resulted in significant investment in housing and infrastructure.
- Public funding - through Homes England and other sources - have also failed to result in the kind of house building programmes required, especially in the north of England.
- Public funding should be responding to market failure but instead it is disproportionately invested in places with high aggregate demand using the treasury's cost benefit approach. Hence places in the North lose out to places in the Greater South East which can evidence a better return on investment.
- This evidently does not work for the north, as Sheffield's recent failed HIF bid demonstrates. So, a different model is required, one that can address market failure and viability issues. One that can utilise the entrepreneurial role of the public sector to underwrite risk, to build at scale.

3.3 Private rental schemes

A proposal to improve the quality and affordability of private rented accommodation.

Context

The growth in Buy to Let landlords has led to an expanding private rented sector with some of the highest levels of property investment in Europe. This has put increasing pressure on the supply of housing, fuelled prices and led to widening asset gaps in the UK.

Private rental prices have grown in recent years, although the rate of growth has slowed recently and median private rents in South Yorkshire have remained less than 30% of

median earnings.¹⁵ The traditional ratio used to define affordability implies that households should not pay more than 30% (or a third) of household income on housing costs.¹⁶

However, average or median figures can mask some stark difficulties for many households. Market rents, at a ward level, are largely unaffordable for households earning below average income in parts of the city region. In some areas, lower quartile rents are unaffordable for over a third of households. While rents for larger properties and in certain areas would be unaffordable to households on the lowest incomes.

There is a considerable difference between market rents and the Local Housing Allowance (LHA) rate which is set at the 30th percentile for rents. Only 9% of lettings across South Yorkshire, are available at rents at the LHA rate or below and this has implications for the ability of households wholly or partially dependent on benefits to afford their housing costs.

The issues of affordability are compounded by problems of quality. South Yorkshire has the largest number of private rented properties, among comparator metro-regions, where local authority inspection has identified a serious and immediate risk to a person's health and safety.

Poor-quality homes and equally poor-quality landlord behaviour are holding back the PRS sector from being a safe and attractive option for many people and contributing to health inequalities in the city-region. Energy efficiency is a particular issue with older housing stock and South Yorkshire has a high indices of fuel poverty that are contributing to high numbers of winter deaths as well as other related public health issues.

The proposal

The Mayoral Combined Authority (MCA) should introduce a licencing scheme to improve the quality of housing in the private rented sector. Additionally, it should explore the potential for introducing rental controls across the city-region.

i) Private rented licencing scheme

There are numerous licensing schemes operating in the UK, with many more local authorities, like Doncaster, looking to implement them. These schemes vary and most authorities have introduced 'selective licencing' which target private landlords in designated areas, usually with high numbers of HMOs. Sheffield City Council has introduced such a scheme in parts of parts of London Road, Abbeydale Road and Chesterfield Road. Government approval is needed for schemes which cover more than 20% of a council area.

In 2015 Liverpool City Council introduced a compulsory citywide scheme for all private landlords including almost 50,000 properties. The council carried out more than 37,000 compliance actions and prosecuted nearly 250 landlords, accounting for 85 percent of the all

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<https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/indexofprivatehousingrentalprices/previousReleases>

¹⁶ A report by the Affordable Housing Commission, Defining and measuring housing affordability – an alternative approach, 2019

landlord prosecutions in England. Following accusations of heavy handedness and a strong lobby from private landlord associations the application to extend the scheme for a further five years was turned down by the Government, citing a lack of evidence, and the scheme ended on 31st March 2020.

Given this recent precedent a city-region wide PRS licencing scheme to ensure improvements to quality would need to provide compelling evidence, highlighting the scale of the problem in South Yorkshire. Alternatively, the scheme could operate within the 20% limit of each constituent authority and target the most affected neighbourhoods. However, operating such a scheme across the sub-region would provide consistency and completeness across the whole housing market, minimising any internal displacement that might otherwise occur.

Any licencing scheme – selective or otherwise - should be compulsory, and landlords should be required to pay a small fee for each registered property to help fund the scheme. This would help to regulate and limit poor quality while providing eligibility criteria for available grant funding, helping to incentivise both the scheme and new investment to improve PRS housing. It would need to work at scale to support and educate would-be good landlords as well as acting on enforcement against the bad ones.

More generally, the scheme could help with the professionalisation of the private rented sector. The Law Commission estimates that just 2.2% of landlords in England are part of a professional body. In other countries, such as France, Germany and Scotland, landlords are often regulated by government through registration, regulatory bodies and professional membership organisations. These are additional policies that the MCA could consider, to establish a landlords' register, to regulate the sector, drive up quality and environmental standards to help meet the city-regions net zero ambition.

ii) Rent Control

One potential solution to the affordability problem is the introduction of rent controls. These are policies that has been introduced in different places in the developed world, either at city (e.g. San Francisco), state or national level. The success of these approaches varies according to culture (attitudes to home ownership) and the structure of housing markets in which it has been tried. When comparing different countries, there was no clear connection between rental regulations and the size of the private rented sector. Rental regulations do have some impact, but the relative attractiveness of other tenures and the availability of investment opportunities are key determinants (Whitehead *et al* 2012).

In Germany, where around 30% of households rent privately, Angela Merkel introduced the so called 'Mietpreisbremse' or 'rental price brake', intended to stop landlords in property hotspots from increasing rents by more than 10% above a local benchmark (Shelter 2018: 14). Local authorities have the final say on implementing rent controls, given that their effectiveness will vary regionally.

The efficacy of rent control has been a point of contention in the UK. The Labour Party under Ed Miliband and Jeremy Corbyn have proposed rent controls in recent years, seeking to curtail

the power of landlords and providing renters greater stability. In contrast, the Conservative Party have remained ideologically opposed to this level of state intervention in private housing markets preferring 'Right to Buy' policies as an instrument to 'rebalance the housing market towards more home ownership' (Conservative & Unionist Manifesto 2019: 30).

Sadiq Khan has recently requested additional powers to implement rent control in London, as a safeguard until more housing is built. He has proposed: abolishing 'no reason' evictions under section 21, the introduction of open-ended tenancies, and the implementation of rent stabilisation. The Mayor's proposal to end 'no reason' evictions would bring London in line with Germany where tenants cannot be evicted without a reason; English legislation only provides 6 months of protection from 'no reason' evictions (Shelter 2016: 7-8).

Rent controls can effectively safeguard tenants from unaffordable rent and provide greater security, and act as a short-term fix to rebalancing housing. Regulations can also have the capacity to positively influence supply and demand. This measure could be a short term/transitory move needed to address problems with affordability in the lower end of the private rented sector, bringing more homes for rent in line with the Local Housing Allowance and enabling lower earners to afford their housing costs.

In return there could be the potential to offer some incentives to landlords and develop the PRS to create a much more dynamic and high-quality build to rent market in some parts of South Yorkshire.

There are undoubtedly sensitivities about rent capping measures which will not go unchallenged. The proposal will be politically difficult with opposition from some local partners and from Government. However, MCA should consider rent controls and whether the organisational capacity required to introduce something similar to the London Mayor's ask of Government would be a sensible intervention, as a safeguard until more social build-to-rent is established in the SCR.

3.4 Urban design and the right to beauty

A proposal to drive up the quality of design in housing and in place making.

Context

The value of building well designed and attractive or "beautiful" housing is difficult to monetise. This means that developers, politicians and policy makers frequently neglect its importance. Quality of life is enhanced by the quality and attractiveness of the urban environment, and appreciation of beauty is correlated with socio-economic status. IPSOS Mori found that 69% of those satisfied with their household income considered their local area to be beautiful, compared with 53% of those dissatisfied with household income (Harvey and Julian 2015: 2).

Surveys have consistently identified that the public are very positive about the impact of design on their lives. However, it is also the case that the public is less positive about the design and build process, which is perceived to shut out architects (with a responsibility for

creating it) and the public (who end up experiencing it) while planners and developers hold sway. (Policy Exchange 2019: 118).

There is a tension between what people want and the perceived motives of developers and planners where design is subject to rules intended to minimise 'harm', and the financial bottom line. This can mean an emphasis on volume and cost resulting in as many homogenised box-like homes that can be squeezed into a development. A large majority of the population (77%) think that cost is used as an excuse to justify ugly development.

Design is subjective but we know that the British public prefer low rise, traditional properties built on streets (70%). But there is still considerable support (44%) for medium-rise developments in urban areas. Apparently, the public do not want design uniformity, identikit buildings or 'noddy boxes'. The majority (89%) want a style and fit that coexists happily with the environment rather than dulls it. (Policy Exchange 2019: 119).

Participants in an ethnographic study in Sheffield, believed that beauty was important for fostering civic pride, generating respect for places and, by extension, the people that live there. Along with improving civic engagement and community cohesions, beautiful areas have also been linked to improved economic activity, and health and wellbeing. Beautiful areas attract high skilled labour and increase property prices; furthermore, good office design and a good quality public environment stimulate productivity and trade. Beautiful areas also encourage people to exercise, while just being around nature reduces stress and encourages wellbeing (Harvey and Julian 2015: 12).

A number of solutions may be drawn from our experience of housebuilding throughout the twentieth century, that allow for more beautiful homes and communities: respect for context and surrounding, drawing on local traditions on style, ensuring long-established architectural principles, and having an 'eye' present to draw out the quality and delight of an area (Policy Exchange 2019: 13).

The need for high quality design and place making is particularly relevant to our town centres, many of which feature poorly or insensitively designed buildings and public realm dating from the 1960s and 1970s. This is being addressed in several South Yorkshire centres, with locally led renewal programmes alongside government supported initiatives like Town Deals and Future High Streets Funds. However, many buildings and spaces in town centres will need to be re-purposed for residential uses in the future and the quality of their design will be essential to the success of this process.

The proposal

The Mayoral Combined Authority (MCA) and local authorities should consider how good design can be integrated into all housing development as an integral aspect of place making in the city-region.

This should include a role for local communities in the design and planning process, led by local planning authorities. This could take the form of public forums and discussions about what constitutes good design and what development should look like. And it should start

from the position of building on local traditions and a knowledge of what people know works for their area. It should involve communities in decision making, giving them the power to veto developments on the basis of aesthetics.

Zac Goldman has proposed development ‘guarantee’ criteria to protect residents while their homes and neighbourhoods are being regenerated. He has recommended that regeneration should not go ahead unless: existing residents have been involved from the start, most existing residents support the regeneration, most tenants remain on the estate during the process and only move once, residents are guaranteed the same size home for the same rent (Policy Exchange 2019: 23).

The MCA and local authorities should institutionalise design competitions for new housing development, inviting architects to design the most attractive spaces that can combine maximum density, with utility, while nurturing beauty. Communities should be invited into this process and onto judging panels and the current South Yorkshire Residential Design Guide (dating from 2011) should be updated and refreshed to reflect this change in direction along with the latest space standards and similar qualities.

Future developments should focus on place-making not housing units. A municipal architect or team of design experts should be created with oversight of this agenda, who can help to strengthen local authority capacity. Drawing on local culture and style, they would allow for continuity in the aesthetic of individual areas across the city-region but also allow for a modernising agenda that can incorporate new green technologies and modern construction methods. The tendency to modernise too quickly and at scale can harm community cohesion. But done sympathetically this hybrid mix of styles can elevate and renew places.

The MCA should ask Government to align VAT on housing renovation, in order to incentivise the re-use of existing buildings, as recommended by the Building Better, Building Beautiful Commission. Brownfield sites should be promoted over greenfield sites, and urban over suburban as targets for development. The strategy for high streets should aim to make high streets attractive places to live, work and spend leisure time in; and it should respond flexibly within a clear framework to changing patterns of demand.

Ultimate responsibility for implementing such a programme, including the capacity to improve design in the master planning process for individual projects, would rest with individual planning authorities. However, the MCA could adopt a strategic role in promoting good design and host the proposed ‘design team’ whose role it would be to support individual authorities and schemes, disseminate good practice and distribute leadership. These proposals need to be seen in the light of the reductions in capacity within local authorities and funding would clearly need to be sought to enable such an approach.

3.5 Spatial planning

The current devolution deal for the SCR includes a commitment to a non-statutory spatial plan. This proposal considers the principle-based approach which the non-statutory spatial plan should seek to follow in helping to make productive and inclusive places to live and work.

Context

The South Yorkshire housing market is highly polarised and spatially segregated. The sub-region broadly conforms with a monocentric pattern of urban development where the highest income households live furthest from the urban centres and Central Business Districts (CBD) and where the lowest income households are concentrated in the inner urban areas.

The effect of this spatial arrangement is that housing markets are strongly correlated with the distribution and concentration of social and economic deprivation, including low incomes, low skills and educational attainment, and poor health. Housing markets are serving to lock-in and exacerbate inequality which is holding back productive growth and limiting social mobility.

The evidence of socio-economic distribution would also suggest that the longer-term challenge is to evolve a more spatial and structural approach to future housing development and place-making. This will require a focus on urban centres, to densify, and provide an offer that is attractive to new businesses and young professionals and which can create the agglomeration effects that are vital for growth. (see 3.1 above).

The plan will also need to provide for different homes of different size, type and tenure, to buy and rent. Building socially and economically mixed communities is necessary if the challenges of economic inclusion and social mobility are to be achieved and sustained. This would mean building homes to attract middle class families which can be situated within a wider social tenure, including affordable and desirable homes to rent, for lower income families. It will also need consideration of amenities and public services, including schools, nurseries, and health services. This will especially be the case in the city and town centres, if new populations are to be attracted, including families.

Sheffield City Region does not yet function as a single travel to work area, exerting the kind of centrifugal pull which can be found in other areas like Bristol, Manchester, Cambridge, Oxford and London. This explains, to some extent the patterns of localised housing markets and peri-urban sprawl as housing growth is shaped around multiple travel to work areas.

The case for working across administrative boundaries on housing policy and transport development will become more necessary than ever. Not least the need to improve internal connectivity between urban centres and key employment sites.

The proposal

The Mayoral Combined Authority (MCA) should develop a non-statutory spatial plan that sets out the roles which different parts of the city region play in providing locations for businesses and homes. Building in and around the main urban centres, employment sites, innovation districts, growth nodes, transport corridors and hubs will help to organise the economy in ways that recognize the common attributes of productive places—integration, proximity, density, connectivity, and quality place-making.

This will need to be more than an alignment or amalgamation of existing local authority plans. A fully integrated spatial plan should aim to connect key employment and housing sites, across local administrative boundaries, and where the growth hubs of the future are likely to be. This may involve trade-offs between places and agreement on priorities for phased development. From this a polycentric model for mixed urban development and reinforcing economic growth could emerge across the city region.

A strategic spatial plan will need to add up to more than the sum of its parts. It should be a clearly articulated plan for that can help make the case for investment in transport and other forms of infrastructure across the city region, by identifying the preferences and 'first moves'. For example, options would include a new train station to serve the Advanced Manufacturing Park, and a tramline connecting the Sheffield city centre, along the economic corridor to the business parks in Rotherham. A risk-reward deal, similar to Greater Manchester, and based on 100% retention of business rate uplift, would help fund the cost.

Plans to urbanise the existing business parks, with the development of housing and related amenities, would require some greenbelt release. However, this could significantly uplift land value and effect housing markets along these improved transport corridors.

It is well understood that countries and regions around the world, like the Rhine-Ruhr and the Randstad, have used spatial planning to focus political will, economic activity, and social reform to great effect. Some partners in the region have expressed concerns about the practical utility of a non-statutory spatial plan. And there is a long-standing debate about the pros and cons, not least about the implication for the distribution of housing numbers. Making the London Plan statutory does not seem to have resulted in a great transformation in housebuilding, for successive Mayors.

Given the consensual status of the SCR plan it will need to be carefully negotiated between a coalition of the willing. The spatial plan will need to contain policy hooks that will take account of Local Plans and enable the implementation of local priorities in the context of a wider planning strategy. Other developed nations, shows how building from the bottom up with detailed local plans around towns and cities, put together with coherent regional plans that address wider issues of infrastructure, investment, and other strategic assets.

But the emphasis should be on the type of development that can best contribute to improved productivity and inclusive growth, to develop assets for the benefit of the region as a whole who live in that region, without slowing up the production and updating of Local Plans.

3.6 Net zero, green homes and housing renewal

In addition to good design, there is an opportunity to invest in net zero housing, to improve the overall quality and energy efficiency of the existing housing stock, and to kick start the green economy.

Context

The issues of housing affordability in the city region are compounded by problems of quality. Energy efficiency is a particular issue with older housing stock and South Yorkshire has a high level of fuel poverty, contributing to high numbers of winter deaths as well as other related public health issues.

The MCA and all four local authorities in the South Yorkshire have declared a climate emergency and the City Region will no longer invest in housing schemes which do not meet the net zero ambition. This strategic approach should be a key driver of change, for all actors in the housing sector, including public and private, to ensure that the energy efficiency of existing housing stock is improved, and that new development does not exacerbate carbon emissions.

Proposal

Local authorities in England and Wales have broad discretion to offer assistance to private owners with housing repair/improvement work, although wider powers to provide renovation grants and home repair assistance were revoked in 2002, and cuts to local authority funding over the past 10 years have limited what can now be done.

The MCA should explore with Government the possibility of extending assistance for housing renewal as part of a revived and locally controlled 'green deal' and to improve existing housing stock as part of the Estate Regeneration National Strategy.

Local authorities, housing associations and government should seek to attract external funding, from institutions or private investors, for area based public-private finance initiatives. This should be undertaken as part of an area-based strategy, where the development of new homes alongside a renewal of existing stock can demonstrate transformational potential and clear benefits of investment to the local economy. Tax system incentives, including VAT relief on refurbishment, should also be sought.

The potential for Modern Methods of Construction should also be accelerated to improve the scale and pace of new house building, to improve productivity within the sector and to decarbonise new house building with eco-developments. Industry-Higher Education links should be explored to foster innovation in this sector and in the development of renewable energy technologies for affordable homes.

4 CONCLUSION AND NEXT STEPS

The propositions set out here are intended to provoke new ways of thinking about how housing can be taken forward as part of an ambitious economic plan to improve productive growth in the city region and address problems of inequality in the housing market. The proposals are to be considered in the context of an over-arching devolution deal for housing. If the MCA is to 'level up' the economy, then it will need big, bold policy interventions to challenge the 'business as usual' approach. This means:

- A greater emphasis on place making, and not just housing numbers, to address problems of segregation in the housing market by building more socially and economically integrated communities
- A clear strategic focus on urban centres, to densify residential buildings in city and town centres, to create places where knowledge intensive businesses want to locate and where high skilled workers want to live
- Building, at scale and pace, more homes to rent, to address problems of affordability and housing quality for lower income households that are less likely to own their own homes
- Improving the quality of existing stock, including the private rented sector in the most deprived areas of the city region
- Upgrading standards for urban design and focusing on sustainable 'green' development that can, scale up modern methods of construction, increase energy efficiency, and help the city region meet its net zero target.

The next stage of this review will need to consider how these propositions might be taken forward by the MCA, local authorities, and wider partners. We have outlined some broad steps.

Advocacy

Assuming the Mayor and Combined Authority are interested in further exploring these propositions, a programme of advocacy will be required to allow strategic and political leaders in the city-region to understand how these proposals have been identified and why they are needed. Clearly the support of local political leaders will be essential in making the case to Government.

In parallel to this process of high-level local engagement it will be necessary to initiate dialogue with Government, including the Secretary of State for MHCLG and his SpAd, the City Growth Unit and No. 10. Activating the three new conservative MPs in the city region and utilising them as advocates for greater devolution to SCR will also be crucial.

However, before any of this work is undertaken it will be necessary for the Mayor to adopt these ideas, in principle, and to own the vision for housing devolution.

Further research and modelling

The propositions as they currently stand are broad brush policy recommendations. Further research will be required to test the feasibility of these ideas in the South Yorkshire context.

The proposal for the Housing Fund will require proof of concept. ResPublica and JLL have previously modelled this at the national level. However, a sub-regional analysis will need to be undertaken to:

- Assess consented land, and housing build out rates
- Determine available land and priority sites for development
- Forecast the numbers of build-to-rent units, and the overall the size of the Fund
- Calculate the returns and the timescale for repayment of the fund.

Interventions to improve the existing stock will need to identify priority areas, based on criteria that can fairly reflect need as well as the opportunity for economic growth.

Other proposals to roll out Landlord Licencing schemes and implement rent controls will need to consider scale and the time period of operation. Specific neighbourhoods would need to be identified with a programme of public engagement.

Consultation with local planning authorities would be necessary to think through how proposals to improve urban design might be implemented and how general design principles, and community involvement, might be agreed and embedded into the planning and development process.

Dialogue with the city's Higher Education Institutions should also be undertaken to assess the scope for future collaboration and knowledge transfer relating to sustainable housing development, energy efficiency technologies, and modern methods of construction.