

# THE DEVELOPMENT MODEL IN PRACTICE

## THE BROWNFIELD HOUSING FUND IN THE NORTH-EAST

**Written by:** Abi O'Connor

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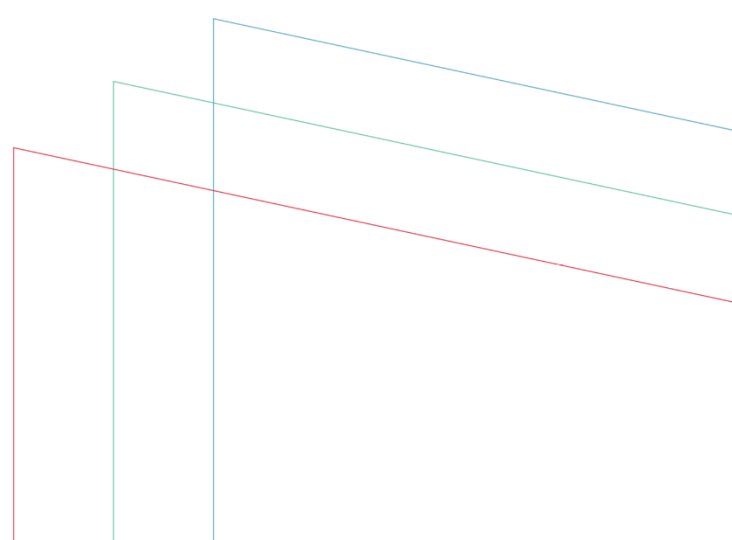
[info@neweconomics.org](mailto:info@neweconomics.org)

+44 (0)20 7820 6300

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## EXECUTIVE SUMMARY

The use of brownfield land for housing development has become a key political priority in the UK, driven by the need to address the housing crisis and promote sustainable development. Previously developed but now vacant or derelict Brownfield sites offer an opportunity to reduce urban sprawl, make use of underused land, and help revitalise struggling communities. This report examines the complexities of using brownfield land to meet housing needs, focusing on the north-east of England.

While brownfield developments offer a solution to some challenges, this report reveals significant issues with the financing and delivery of housing on such sites. These include high remediation costs coupled with low land values, which result in developments that fail to meet affordable housing targets due to private sector developers citing a lack of return on investment. Furthermore, the report highlights the broader implications of the current development model, which prioritises private profit over public good and impedes the creation of sustainable, thriving communities. The analysis draws on interviews with key stakeholders involved in the Brownfield Housing Fund (BHF) process, including combined authority officers, housing professionals, and community representatives. The findings show that while the BHF has facilitated some new housing development, its approach remains commercially driven and fails to fully address the social, economic, and environmental needs of local communities. This report is part of the multi-year Reclaiming Our Regional Economies (RORE) programme<sup>1</sup> which explores how the UK can begin to create more equitable, healthier, and sustainable places by adopting ambitious policies proven here and abroad. Within this programme, NEF is building a body of work that explores the foundations of the housing crisis through an understanding of the need to fundamentally change the development model, which currently sees private interests extract value from communities.<sup>2</sup>

## INTRODUCTION

The housing crisis is worsening, with spiralling rents and mortgages, rising homelessness, a chronic shortage of socially rented accessible homes, and unsuitable costly temporary accommodation.<sup>3</sup> As a result of failing to address this crisis, over 150,000 children are living in temporary accommodation and over 1.3 million households are on the social housing waiting list.<sup>4</sup> These figures are at the highest recorded levels.

As part of a package of policy interventions, which includes the long-awaited Renters' Rights Bill, the current government has committed to building 1.5m homes to begin to address this crisis.<sup>5</sup> These plans have been met with calls for central government to enable further devolution of powers and funding to allow locally led responses to ensure better outcomes for communities.<sup>6</sup> Against this backdrop, brownfield land and Mayoral Combined Authorities (MCAs) have come to the fore as strategic targets to deliver new housing programmes.<sup>7</sup>

Brownfield development involves the remediation of sites which – as defined by the National Planning Policy Framework (NPPF) – contain “land which is or was occupied by a permanent structure and any associated fixed surface infrastructure”, to make them developable for new housing.<sup>8</sup> Brownfield sites are previously developed (commercial or residential) land that may be underused, vacant, or derelict, often in urban areas. Developing on brownfield land is a more sustainable model of development as it reduces the need for development to encroach on greenbelt sites.<sup>9</sup> Green land is imperative to lowering carbon emissions, supporting natural habitat and air quality, and improving the wellbeing of surrounding residents.<sup>10</sup> Against the backdrop of the climate crisis, and growing insecurity regarding the agricultural sector, experts have increasingly made the case not to develop on green sites, with over 14,000 ha of prime agricultural land being lost to development between 2010 and 2022.<sup>11</sup>

Locally, brownfield development offers the opportunity to remove aspects of urban blight at derelict sites or to use underused, well-located land in a more economically efficient way – for example, by increasing density or changing use-class. Furthermore, the availability of brownfield land increased by 17% between 2018 and 2022, in part owing to shifts in patterns of working, leaving over 27,300 ha of potential development sites across England.<sup>12</sup> As of 2022, research showed that existing brownfield capacity stood at 1.2 m homes, on over 23,000 sites across all regions in England.<sup>13</sup>

Despite the opportunities presented by using brownfield land, the scale of intervention needed to remediate it has been cited as a key barrier to delivery.<sup>14</sup> Private developers

argue that without significant government funding, converting brownfield land into housing is not viable. This is in part linked to a rise in the cost of building materials and the cost of capital through increased interest rates, leading to the number of new homes built falling in 2023.<sup>15</sup> However, another key factor is the profit margins that are industry standard in housing development; if a site is not projected to yield 15%–20% profit it is considered unviable.<sup>16</sup>

Research has found that regions with a larger share of the population living in deprivation have a larger share of vacant and derelict land stock.<sup>17</sup> In the north of England, where deindustrialisation was felt acutely and resulting economic decline came to characterise the areas, sites have sat vacant for decades. It is within these areas that particularly large sites are the most difficult to remediate, due to high levels of contamination from previous industrial use and low land values.<sup>18</sup> The probability of brownfield land being reused increases by up to 8.5% for a site which is privately owned compared to a site publicly owned, and between 15% and 30% if a site is in London, compared to the north-west of England.<sup>19</sup>

To address the lack of interest from developers, the BHF was developed. It is the only fund devolved to each MCA as part of their devolution deals. The fund was launched by the Conservative government in 2020 with an original allocation of £400m over 5 years, with 66% (£275m) of the investment being allocated to the north of England. As of May 2024, the north of England has a total committed spend of £390m.<sup>20</sup> While BHF funds are administered by MCAs, Whitehall imposes conditions, requirements, and stipulations. Resulting applications to the fund must provide a business case which independently achieves a benefit-cost ratio (BCR) of 1.0, determined in line with HM Treasury's Green Book.<sup>21</sup> Under current arrangements, the BHF stipulations require all land remediation to be completed by March 2025, with housebuilding started. This timeline has been criticised widely, not least because local and combined authorities have been operating with reduced capacity because of continued funding cuts since austerity.<sup>22</sup>

The primary aim of the fund is to support the remediation (clean-up) and preparation of these sites so they can be used for new housing developments, rather than expanding into greenfield or agricultural land. In doing so, the hope is that the BHF effectively de-risks brownfield sites in a way that brings in wider investment from either the public or private sectors to stimulate local delivery and growth.<sup>23</sup> The failure to remediate brownfield sites is an enduring problem in the UK causing significant problems for the communities in which they sit. Leaving these sites unremediated, and in many cases

derelict, poses significant health and safety risks to local communities and other associated issues related to abandoned land, such as fly-tipping.<sup>24</sup>

While there is a strong case to bring derelict sites back into use, this does not mean that developing brownfield land will address all the problems associated with having vacant and derelict land in a community. Questions must be asked with regard to what type of housing will be built; its tenure, size and affordability level; and whether developments will meet the social and environmental objectives of the locality. It is also important to recognise the context in which these policies are being implemented. Austerity measures over the last 14 years have overseen the decimation of planning departments.<sup>25</sup> A quarter of local authority planning staff were cut between 2010 and 2023<sup>26</sup> with planning departments' budgets cut by up to 50%.<sup>27</sup> This has had a hugely negative impact on the ability of local authorities to deliver on strategic long-term plans and everyday statutory services.

Our analysis explores the role that the BHF plays, and could play, in delivering new homes which will yield the transformational change sought by the government. This fund was chosen for analysis to a) explore how devolved funding mechanisms are operating in practice, and b) to explore the role of private developments, aided by public subsidies, in the existing development model. Geographically, the analysis focuses on the North East Combined Authority region, which has received £49.4m of BHF funding.<sup>28</sup> Our analysis sought to identify where the fund has been used, what percentage of units delivered are affordable homes, and what those directly impacted have experienced. The latter is vital as this research seeks to bolster understanding of existing devolution models.

This report builds on recent NEF research that argued that the existing development model, which underpins the housing market, requires reform as it currently allows too much financial capital to be extracted from communities for the benefit of relatively few private owners.<sup>29</sup> Consequently, the development model fails to incentivise or facilitate the creation of sustainable housing and communities. Indeed, as NEF has previously argued, relying solely on demand-side reforms has led to inflated demand and prices.<sup>30</sup> This is in part because the delivery of new affordable housing is tied to the market through Section 106 agreements,<sup>1</sup> which in turn is premised on development viability as determined through profit margins.<sup>31</sup> This report is written in the context of the government's current ambition to build 1.5m new homes, which requires the use of

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<sup>1</sup> Section 106 agreements are legal obligations between a developer and a local planning authority in the UK, usually linked to the granting of planning permission for a development. Beyond affordable housing, they must also provide sufficient green space, local infrastructure, and environmental and community benefits, all of which are essential components to well-served communities.

brownfield land simultaneous with the need to diversify the housebuilding market to develop a more equitable landscape in which homes exist for people over and above profit.<sup>32</sup>

## METHODOLOGY

This report is premised on an analysis of primary and secondary data gathered in one geographical case study, the North-East Combined Authority region. The north-east is an interesting case study; it is a region in England that is, in many ways, antithetical to the south-east – on which the design of this policy was based.<sup>33</sup> The north-east features a mix of sparsely populated rural areas – many of which face significant poverty and isolation – as well as densely populated urban regions. In particular, Northumberland and Durham are large local authorities in terms of land area, making local government intervention both challenging and complex. While on paper, the north-east's housing stock makes it the most *affordable* region in England and Wales, high levels of poverty and low wages, alongside ageing stock means that the housing crisis in the region is worsening.<sup>34</sup>

In June 2020, the North of Tyne Combined Authority (NTCA), now the North-East Combined Authority (NECA), was awarded £24m as part of the government's BHF, intended to support the delivery of at least 1,500 new homes on brownfield sites in the North of Tyne area. This equated to approximately a £16,000 public subsidy per house built. NTCA then received a further £8m in February 2022, as part of the secondary BHF allocation.<sup>35</sup> Since becoming NECA in 2024, it has received an additional £17.4m funding for brownfield sites as part of the devolution deal, with a goal of unlocking 3,200 new homes in total.<sup>36</sup>

Online interviews were conducted in 2024 with 15 stakeholders who have experience of engaging with the BHF, at local, regional and national levels. Interviewees fit into three broad categories: planning and housing experts operating at a national scale; representatives of NECA and other housing professionals operating at local, regional, and national scales across England; and representatives from local community groups including community land trusts, cooperatives, and community unions. All interviews had direct involvement with the National Housing Federation (NHF), either by being involved in the process of administering it, evaluating it strategically, or applying for BHF grants as part of a small-to-medium-sized developer. By structuring the research in this way, the data gathered provides an understanding of significant challenges as they are confronted at different scales and in different roles.

Interviews lasted for between 60 and 90 minutes; they were then transcribed and their contents thematically coded using NVivo software. This primary data is the basis of our analysis and is supplemented with a secondary analysis of quantitative data provided by NECA officials, which details the agreed contracts under the BHF up to and including



May 2024. We mapped this data using QGIS software to provide a visual representation of the spatial distribution of existing and/or forthcoming housing development on brownfield sites in the NECA region.

## BROWNFIELD HOUSING IN THE NORTH-EAST

Brownfield sites are more likely to be remediated in areas of the country with high demand for housing – particularly London and the south east – and struggle to be remediated elsewhere.<sup>37</sup> For example, in areas like London where expected sales values are high, developers may be able to remediate brownfield land, develop new housing, and meet their profit target without the need for any kind of funding support. In these cases, development viability analysis identifies a theoretical initial value of the land that is the amount that developers can pay, after accounting for all development costs (including brownfield remediation), and still meet a profit target.<sup>38</sup>

Data analysed in this report shows that as of May 2024, NECA has spent £44,080,306 of its £49.4m BHF across 18 projects (Table 1). Across these 18 projects, 2917 units have been (or are being) built, 619 of which are classified as “affordable housing”,<sup>2</sup> which is 21.22% of all units built under this scheme. This figure means that over one-fifth of newly built housing is affordable; however, this is skewed by 4 of the 18 developments producing 100% of units at affordable rates. In contrast, 8 of the developments which received public funding via the BHF built 0% affordable housing units and 4 have under 16% of overall units at affordable rates. Therefore affordable housing obligations have not been met evenly across projects.

Table 1: NECA BHF spending across projects

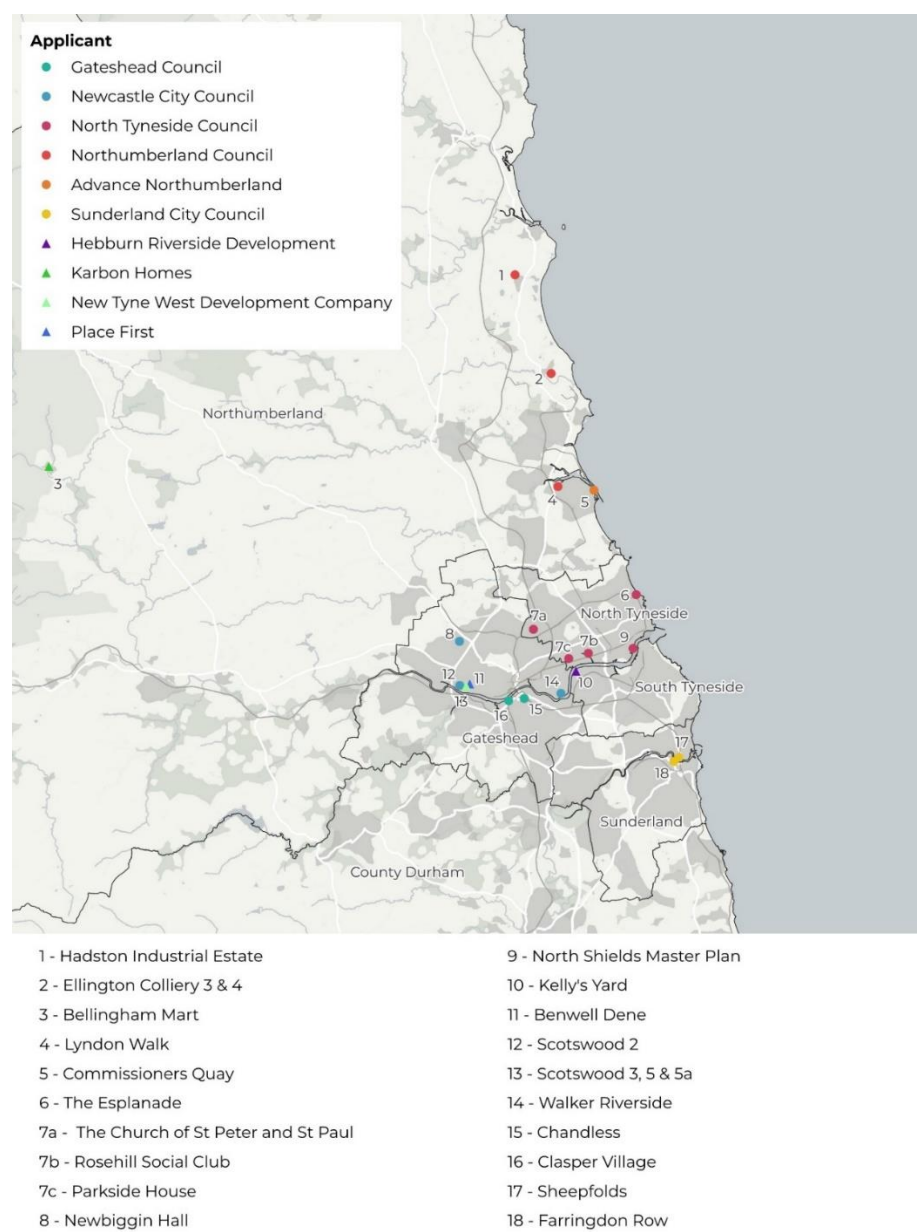
Project Name	Total housing units	Affordable units	% of total housing affordable	Public investment via BHF
Newbiggin Hall	43	43	100	£500,000
Scotswood Phase 2	243	54	22.2	£2,948,000
Walker Riverside	277	267	96.4	£4,871,192
North Shields Masterplan Area	802	48	5.98	£6,385,000
Hadston Industrial Estate	75	8	10.7	£1,186,144
Phase 3 & 4 at Former Ellington Colliery	152	0	0	£1,293,737

<sup>2</sup> To be characterised as an affordable home, the sale price or rent must be 20% below the market rate.

Commissioners Quay, Blyth	41	0	0	£58,392
Bellingham Mart	63	63	100	£1,369,543
Lyndon Walk	13	13	100	£638,000
Scotswood The Rise 3, 5 & 5A	231	0	0	£4,643,770
The Esplanade, Whitley Bay	12	0	0	£384,000
Kelly's Yard	57	0	0	£1,945,211
Benwell Dean	146	0	0	£3,000,000
Social Housing Sites	67	100	67	£1,445,470
Clasper Village	250	38	15.2	£3,122,037
Chandless	120	18	15	£2,160,000
Farringdon Row	166	0	0	£3,315,000
Sheepfolds	159	0	0	£4,814,810

Table 1 shows that public money, administered via the BHF, was used to subsidise the development of predominantly private housing, despite the chronic shortage of affordable housing in the north-east region. Figure 1 references where these sites are in the region. This pattern is not confined to the BHF. It is a broader issue indicative of the fundamental problems with the developer-led model that emphasises profit margins over and above public need.<sup>39</sup> This is counterintuitive to the design of government interventions, such as Section 106, which are meant to “ensure that developers contribute to local infrastructure and services, such as community facilities, public open space and affordable housing”.<sup>40</sup> Furthermore, increasingly interventions are focused on how unaffordable purportedly affordable housing is to many considering how high market levels have reached, meaning that the intervention of the BHF, which has cost over £44m of public money, is disconnected from what many communities need in terms of delivering genuinely affordable housing.<sup>41,42</sup>

Figure 1: Map of sites in receipt of BHF funds



Source: NECA (2024)

The north-east, alongside the north-west, and West Midlands, has historically had the lowest proportions of brownfield land with planning permissions, despite these regions needing to be the focus for reinvigorating urban and rural housing stock.<sup>43</sup> This lower level of development is indicative of the complex remediation needs, with many brownfield sites previously being factories or mining areas therein leaving contaminated land. For example, data shows that Gateshead has 243,000 sq metres of contaminated land, compared to 2,900 sq metres in the London borough of Hackney and 21,615 sq metres in St Helens.<sup>44</sup>

Correspondingly, in areas of the country where expected sales values (GDVs) are lower, the cost of remediating brownfield land, plus developing new homes, plus any planning obligations – such as affordable housing – may mean that the expected profit level is deemed insufficient by private developers to undertake a housing project. In these cases, the market value of the land is classed as nil, and the development does not take place. Where development does take place in lower-value areas, it is reported that there is less capacity for planning obligations, such as affordable housing, to be enforced.<sup>45</sup> It is at this juncture that the BHF interjects. A key stipulation of the scheme is that public funding provided is not for the house building costs but for remediating (cleaning) the land, to fund the viability gap developers cite. Theoretically, in doing so, the opportunity will be unlocked for housing providers to deliver much-needed schemes.

Yet, as the data in Table 1 shows, despite the BHF unlocking sites in NECA, very little affordable housing has been delivered. This is detrimental in a region that is suffering from high levels of housing inequality and high levels of need.<sup>46</sup> It is also reflective of NEF's existing research, which has argued that we have a development model and housing system which sees too much public money funnelled into the hands of private developers<sup>47</sup> and landlords,<sup>48</sup> as opposed to being used to create genuinely affordable homes in sustainable communities.

## REALITIES OF THE BROWNFIELD HOUSING FUND IN PRACTICE

To better understand the local specificities of the BHF in the north-east, particularly with regard to a devolved authority being tasked with administering centrally defined funds, we carried out in-depth interviews. The findings in this section speak to individuals' experiences of engaging with the BHF directly, with many having worked in multiple roles across combined and local authorities therefore being able to draw comparisons regarding their experiences. All of those interviewed cited a lack of capacity and consistency in funding as a key barrier to the BHF contributing to any meaningful change in the housing crisis, with 70% of interviewees referencing the complexities of the funding pot causing them to step back from engagement with it.

### GOVERNANCE AND CAPACITY

A key theme which emerged from the interviews was the vitality of devolved powers as they offer the opportunity to overcome previously experienced fragmentation in housing policy. The “lack of strategic leadership which stems from centralised governance” was cited by NECA representatives as a fundamental problem with housing policies that pre-dated the BHF, with the new NECA authority being a “unifier” of existing authorities. Interviewees were in broad agreement that the existence of the combined authority allows partnerships to be established between local communities and national bodies, such as Homes England. One highlighted:

Collective ambition between local authorities, the private rented sector, and residents should exist but we must know what the role of the combined authority is in helping to discharge and manage this ambition.

As NEF's existing housing work in the NECA region has explored, the region's size and geography make governance incredibly complex.<sup>49</sup> The NECA region covers 2 million people across vastly different economies. Owing to this significant geography, the housing crisis in NECA has different articulations within its rural, peri-urban, and urban communities. Indeed, while all are experiencing a shortage of affordable, good quality housing<sup>50</sup> the solutions need to be locally nuanced considering the diverse geography of the region. Unfortunately, the complexity of these issues has resulted in policies and progress being “very stop and start”, as one registered housing provider shared during an interview. They went on to explain:

We should know where the priority areas are and what sites should be brought forward first. But currently, it seems like this is not the case.

This view chimes with that of a NECA representative, who explained that while “greater control regionally” was needed to determine “how we’re developing the [housing] pipeline”, the key to unlocking the region’s potential is

[...] enabling better identification of where housing is needed and wanted, not just rushing into projects even though political parties want to show progress quickly.

Other interviewees shared their frustrations with the current governance arrangements, citing poor communication between departments and levels of government as well as a chronic lack of resources. The role of combined authorities is understood to allow for better upward communication from local government; however, one NECA employee identified their experience of

[...] lacking communication directly between the local and combined authorities.

A different interviewee went on to explain that a lack of overall coordination between key stakeholders, namely local and combined authorities, has in their experience caused inertia in the housing system, despite many involved seeking to enact change.

In terms of resources, an interviewee who has engaged with the BHF explained:

We have struggled to get the right people in the same room at the local authority. For example, we aren’t able to get highways in the same room as planners and ecologists. It’s a time and capacity problem.

It was evident from the interview data that the lack of capacity across multiple departments in local government has negatively impacted the possibility of developing new housing through the BHF.<sup>51</sup> As the quotations show, successful development is reliant on more than just well-resourced planning departments, including highways and the environment. Similarly, a planning consultant explained:

The powers may have been transferred to the combined authority but local authorities still have to do a lot of the work, despite operating on a shoestring budget. They just don’t have the people or the money or the time.

Another interviewee, who represents a large social landlord-developer, explained:

There are more hurdles than support at the moment with the brownfield housing fund. It’s not strategic. The local authority officials can’t make time to engage with us so it’s hard to move projects forward.

Furthermore, because of austerity measures, local authorities are reliant on employing external consultants to develop business case studies, which are a requirement of applying to the BHF. This resonates with Liddle et al.’s<sup>52</sup> findings which show that in

2021–22, local authorities in the north-east spent more than £3.8m producing levelling up bids yet received no funding. These findings indicate a fundamental issue in attempts to combat regional inequality via complex and centralised funding processes.

While interviewees working in NECA shared their willingness to support local authority colleagues in developing BHF applications, they are too constrained by tight internal deadlines and capacity limits, compounded by the ongoing impacts of austerity cuts:

We need to turn the tide on the brain drain [in local authority departments] which is negatively impacting capacity and capability. We need to put people back into the public sector planning.

Similarly, a planning consultant, shared that in their experience the consequence of funding cuts has meant there is a “lack of consistency across local authorities”, which has resulted in delays on some private developments that elsewhere have received the green light quickly:

Some [local authorities] are more pragmatic on the contributions, like affordable housing, and allow off-site contributions instead. Others don’t. Some are pro-development and deal with your application fast, some aren’t and don’t.

One NECA employee shared:

We’re really pro-planning up here, we’re not that restrictive, but everything just takes too long because there isn’t enough staff.

It is widely agreed that quicker decisions in planning departments would unlock potential, particularly in areas with low supply. However, adequate funding is needed to achieve this and the speed at which decisions are made should not be prioritised over sustainable, well-planned development that benefits locals. Funding must go beyond plugging the existing gap in local and regional authorities and instead allow planning departments to think strategically – in the long term – about the future of their locality. While powers and resources being devolved to regions is important progress, this model is not viable with a backdrop of continuing public budget constraints, as interview data shows.

These findings also speak to a growing tension at the heart of the housing debate, which has seen senior government officials advocate for the overhaul of the planning system as a mechanism to unlock growth and move blockers aside.<sup>53</sup> The proposed solution of deregulating planning will not solve the fundamental problems in planning departments



found in this research and previous work,<sup>3</sup> which pertain to a lack of capacity (staff and funding). Instead, well-designed, properly resourced planning departments lie at the heart of democracy as they allow resident participation in the future of their communities, while also remaining accountable to the broader needs of the area.

## **BROWNFIELD HOUSING FUND RESTRICTIONS**

All interviewees cited the considerable restrictions associated with the BHF, both in terms of the amount of the resource it supplies and also in terms of how combined authorities administer the funds.

There are significant negative implications caused by the BHF being a short-term funding source, as a NECA employee explained:

The drive is for the acceleration of schemes that are pretty much ready to go because the drive is on the time scale – to get the money spent within the timeframe.

The findings in this research resonate with research work exploring the BHF more broadly, which found that mayoral combined authorities are hamstrung by centrally imposed regulations and unachievable timescales and deadlines.<sup>54</sup> These issues speak to the widely discussed fear that the current programme of devolution measures exist predominantly in name and that while powers exist through devolution deals, without resources – time and capital – no genuine progress towards regional equality will occur.<sup>55</sup>

These short timescales do not just impact what type of developers can use this public subsidy, but as one NECA employee explained, they impact the ability to construct developments on brownfield sites entirely.

The fund is for 5 years but some sites need up to 10 or 15 years of remediation work, so there's a battle between needing to start construction in a short window and the sites actually being ready.

Redeveloping brownfield sites for housing involves multiple lengthy steps before land remediation can begin. These steps include identifying landowners, negotiating with them, acquiring and assembling land, demolishing existing structures, and obtaining planning permission. Collectively, these stages can delay a project for years. For complex sites, gaining planning permission alone can take over a year. Even when a site is

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<sup>3</sup> See for example: Fearn, G. (2024). Planning incapacitated: Environmental planning and the political ecology of austerity. *Environment and Planning A*, 56(5), 1401-1419. <https://doi.org/10.1177/0308518X241238880>

identified early in the process, it can still take up to five years to prepare the land for housing, especially if any of these steps face delays or complications. Land assembly and remediation can be particularly time-consuming, especially for complex sites.

Interviewees explained that often identification of sites and remediation alone can take longer than timelines permitted in BHF, leading developers to stop engaging with the fund, wasting NECA's time and resources and leaving insufficient capacity to deliver local place-based interventions.

This issue is compounded by what one developer described as:

[...] a very difficult, costly, and time-consuming application process with many hoops to jump through.

All interviewees noted that these barriers have impacted the take-up of the BHF, despite efforts from NECA to establish robust local plans which address housing shortages in the north-east. A similar concern was echoed regarding the funding model:

It's [BHF] premised on a short-term funding window and that drives bigger players in the housebuilding game to be able to respond accordingly and secure the funding. So the big private developers can take advantage of the BHF because of the time scales we are pressed on, unfortunately.

This speaks to the broader problem of how housing is currently financed, in line with the demands of economies of scale, with smaller and/or social developers unable to produce at pace, due to overheads and in-house capacity. Larger, private developers can be more competitive in their applications, with faster conversion rates for example.

If local and/or combined authorities were to take a more active role in the strategic planning of development on brownfield sites, then the control held by large private developers would be more balanced. This builds on previous NEF research which identifies both the opportunity and desire for smaller developers, often in tandem with community-housing organisations like cooperatives, to engage in new developments.<sup>56</sup> Diversifying housing development can offer better opportunities for community-led alternatives to private for-profit development. However, to achieve this the government needs to incentivise funding of and partnership with small and medium enterprises (SMEs), as well as community-led organisations, with the number of SME housebuilders falling by 50% following the last recession.<sup>57</sup>

A representative from Homes England raised a different consequence of short-term funding:

It takes time to develop relationships with communities and we can't have time restrictions if we want to get it [the relationship with communities] right.

This has been the hallmark of many other devolved pots of funding and does not allow the space to engage in genuine community consultation. Conducting democratic engagement with communities in the north-east is imperative as much of the physical spaces which make up brownfield sites were previously spaces of employment. Many of the areas being redeveloped suffered from the detrimental consequences of deindustrialisation, resulting in high levels of deprivation and deep scars in communities,<sup>58</sup> therefore any change to the physical environment must be approached sensitively and embedded in the surrounding communities, not done unto them.

Simultaneously, there are fewer resources available to scrutinise private sector viability assumptions, which means that developments are at risk of having fewer affordable homes than anticipated, for example. This was raised during interviews as a key issue with the BHF scheme, as developers have cited higher construction and remediation costs as a barrier to providing more affordable tenures, such as social rent. One developer explained:

Social rents are too low and grants aren't high enough. It's just not viable.

As discussed in the first section of this report, viability and profitability are not synonymous. In current practice, a developer can declare a scheme unviable if their profit margins are below 15%. As such, if we are to bring social housing into the delivery model as a key lever for solving the housing crisis, which research shows is essential,<sup>59</sup> changes to the viability calculation are vital.<sup>60</sup> Nonetheless, the additional costs of remediation lower profit margins therefore disincentivising affordable house building and wider investment in places, an issue which Table 1 shows has not been offset by the BHF in the NECA region.

One planning consultant interviewed explained:

The biggest benefit cited on each business case for the BHF is land value uplift and the uplift is higher in areas where land is already of higher value, so the viable schemes are centred on specific areas, but it is the areas that can't get funding that need it the most, so it locks out poorer areas.

Not only does this model reproduce regional inequality in land use value, but it also highlights how successful a housing development is, is not defined by the quality and accessibility of the homes, but by the financial value which can be accrued. Multiple interviewees shared similar concerns regarding what they referred to as a "southern-centric model" which leans heavily towards areas that have higher potential land values, reiterating the need for a regionally specific approach. One combined authority representative went on to explain the ramifications:

- What we find in the NE is that due to really low land values, the viability of schemes to come forward is the difficulty; this is because they say the additional planning requirements, like biodiversity and net gain, nutrient neutrality and section 106, become a balancing game in terms of making sites viable and building on them.

This underlines the need to significantly overhaul developer obligation systems and reframe the wider commitments beyond house building as a foundational part of gaining permission to build, as opposed to tying these to the market.<sup>61</sup>

## CONCLUSION: RETHINKING VALUE AND IMAGINING ALTERNATIVES

Public subsidies should meet public goals. This is particularly urgent at a time in which housing (un)affordability is pushing millions of households into debt and insecurity. Local and regional authorities, and any developers they partner with who benefit from the BHF, should be seeking to do much more than simply meet quantity targets for housing. They should be seeking to deliver quality components which improve social and economic outcomes for residents. Instead, as this research shows, thus far in the north-east, public money invested in the development of housing on brownfield sites has failed to yield the level of genuinely affordable housing necessary. Only 652 affordable housing units (below 20% of the full market rate) have been delivered in the north-east, despite over £44m of public money being invested into building projects. Such low levels of return on investment, during a housing crisis, do not represent the best value for the taxpayer,

The key barriers to developing these long-term strategic plans, as this report has evidenced, are the existence of short-term piecemeal funding, exemplified by the BHF, and the chronic shortage of resources (both in terms of capital and staffing) within local and combined authorities. The latter barrier creates silos between local and regional governments when they need to be working symbiotically. While the new NECA remit has created an improved environment in which policy development is more closely aligned with the local economic geography and needs of the region, the UK remains one of the most fiscally centralised advanced democracies. While increased powers via devolution are welcome, they currently do not go far enough and are not matched by sufficient funding and time to implement change, leaving combined and local authorities with insufficient capacity to develop and deliver local, place-based interventions.

A proactive approach to developing brownfield sites enables wider amenity benefits to be unlocked but only if the public sector recognises its strategic role in overcoming market failures, including its ability to be a patient capital investor, its ability to be a first mover at complex sites, its coordinating function with other public and social infrastructure, and its control of existing development rights via its planning authority function. While increasing the quality outcomes of development at brownfield sites in low-value areas may end up requiring greater levels of public investment per housing unit unlocked or a new consensus around viability, community amenities must be

delivered at new developments in areas where the market may be unwilling or unable to bring them forward without coordination and strategic planning.

## RECOMMENDATIONS AND FUTURE AVENUES FOR RESEARCH

In places where the value of brownfield sites increases beyond forecasts in viability assessments, combined and local authorities should have mechanisms in place to capture windfalls. The two most direct mechanisms could be the following:

- **Overage agreements with private sector developers.** Where grant funding is used and end-sales values end up being higher than forecast by a developer – and noting that the developer’s original forecast meant that they deemed the site unviable (ie not able to deliver enough profit) – then if the site does indeed deliver higher profit than expected, this excess profit is either capped or shared with local government for reinvestment in places.<sup>62,63</sup>
- **Direct ownership of land being remediated.** A local authority – via its own local housing company – may take ownership-in-part of a site being remediated, particularly if there is a strong role for a coordinating function to deliver wider infrastructure. If this wider infrastructure investment then delivers higher land values than have been assumed without it, the local government should benefit directly from the higher land values. This approach would likely require the local government to be willing to develop housing for sale or rent at market values, as well as social or affordable housing.<sup>64</sup> This approach could also enable greater investment into site amenities, as the standard 15%–20% profit requirement is part of the residual equation for a public developer. Local authorities should use their powers of compulsory purchase and land assembly, and their ownership of existing strategic sites to maximise value outcomes from new developments.

Further research and policy development are required to fully explore the possibilities and limitations of these levers. NEF is seeking to carry out this work, continuing to advocate for the redistribution of land value uplift.<sup>65,66</sup>

Finally, much more research is needed to connect housing and infrastructure developments to the communities in which they exist. Currently, when assessing applications for the BHF social value is considered but is secondary to the broader business case. Any new house building must strategically build improved outcomes for communities into the plans from the beginning, not as an afterthought. Developments must be connected to economic opportunity (ie integrated with infrastructure), be inclusive with regard to public and active transport, provide a range of accessible services and amenities – beyond schools and healthcare (including green space, community space, mixed-use sites), and encourage healthy and connected lifestyles. NEF will continue to develop its community power workstream to inform the creation of

infrastructure and services that operate in the best interests of all residents and a devolution agenda that enables this.

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