Telereal Trillium

NEW HOMES ON PUBLIC SECTOR LAND **ACCELERATING DELIVERY**

Research

April 2016

savills

ABOUT TELEREAL TRILLIUM

Telereal Trillium is one of the UK's largest property companies, owning and managing a £6bn portfolio with a total floor area of 86 million sq ft, and housing 1% of the UK's workforce. Operating in three distinct, yet complementary business areas – property partnerships, investment, and development – we have established a UK-wide portfolio of more than 8,000 properties.

We have long-term property partnerships with some of the UK's largest occupiers, including BT, Aviva, the Department for Work and Pensions and DVLA, through which we have developed an enviable track record in cost reduction, risk management, capital release and business transformation.

Telereal Trillium is active in the residential market, working with experienced and trusted partners to construct 2,000 residential units over the next five years. Our exceptional track record in promoting land for development and securing planning consents has led to schemes ranging from small sites for single houses to major projects.

ABOUT SAVILLS

Savills plc is a global real estate services provider listed on the London Stock Exchange. We have an international network of more than 600 offices and associates throughout the Americas, the UK, continental Europe, Asia Pacific, Africa and the Middle East, offering a broad range of specialist advisory, management and transactional services to clients all over the world.

Our people combine entrepreneurial spirit and a deep understanding of specialist property sectors with the highest standards of client care.

This publication
This document was published in April 2016. The data used in the charts and tables is the latest available at the time of going to press. Sources are included for all the charts. A standard set of notes and abbreviations throughout the document have been used.

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1. FOREWORD

"The creation of new housing from surplus public sector land presents us with an enigma. Most of the ingredients seem to be in place to make this happen, both in public policy and in the market, but so far relatively few houses have actually been delivered.

The market demand is widely acknowledged. With many years of under supply and, seemingly, ever increasing demand, the need for new homes in the UK has never been more acute.

Both central and local government have responded to this challenge with a wide range of policy initiatives intended to increase the number of new homes being constructed. These include ambitious targets for public bodies to identify and release their surplus land holdings for new housing development, changing of incentives for public sector landowners, and initiatives to co-ordinate property strategies across the public sector.

Government is taking the matter seriously and has been active in putting sensible policies in place. The market demand is obvious. So why are there not more tangible results? It is to explore this question that we have commissioned this piece of research from Savills. We don't expect to give full and definitive answers in one research report, but we hope that the findings will prompt a debate that can help to move forward this whole agenda.

The question matters to us at Telereal Trillium because we are on the one hand a long term partner of government, through property partnerships with the DWP and DVLA, and on the other hand we have become increasingly involved in recent years in the UK residential market.

Our residential experience includes building out our own residential schemes on sites declared surplus by clients such as BT and DWP, and acquiring assets with future redevelopment potential. We have recently acquired Lands Improvement Holdings, one of the UK's leading strategic land companies, which will continue to operate as a standalone business. They are actively working on the promotion of surplus public sector land through our place on Central Bedfordshire Council's Land Promoter Framework.

This report was only made possible through the participation of our interviewees and we are extremely grateful to all of them for their contributions to the research."

Adam Dakin
Joint Managing Director,
Telereal Trillium

2. EXECUTIVE SUMMARY

The nation has a housing supply crisis that needs solving and there is a gaping hole in public sector finances that needs to be plugged.

These twin pressures reinforce the need for more surplus public sector land to be identified and released for the creation of new homes. As a result, the Government has set ambitious targets for central government to release land for 160,000 new homes during the course of this Parliament, and challenged local government to achieve the same figure. However, land release alone is not enough, it must be done in a way that leads to the rapid delivery of new homes. The National Audit Office review* of the land disposal programme in the previous Parliament, clearly demonstrated that the release of land does not necessarily lead to homes being built.

This report focuses on the optimum mechanisms for land release to achieve that rapid delivery, whilst recognising the very wide range of circumstances that are encountered in practice, with regard to each landowner's objectives and capabilities, the size and complexity of each site, and local market conditions.

2.1. Plugging the housing supply gap

At current rates of delivery we will have added 850,000 homes to England's housing stock during this Parliament, a shortfall of 150,000 homes when measured against the Government's aspiration for 1 million new homes. When measured against total housing need of at least 250,000 per annum, the total shortfall in excess of 400,000 homes.

Headline planning consents are not the main barrier to delivery, it is rather the availability of viable, ready to build sites, with all planning matters resolved, and the capacity of the housebuilding sector. The major housebuilders are planning to increase production through controlled growth strategies, but the required step change in supply must include other forms of development, to add to capacity, differentiating the product for the wide range of housing need that has to be met, and increasing the resilience of housebuilding to any change in market conditions.

The gap in supply, compared with previous periods of higher overall housing delivery, is the decline in output from SME builders and the public sector. Policies are needed to stimulate new participants to enter the market and ensure they have access to a combination of land, finance and development skills.

2.2. Scale of the opportunity

The scale of the opportunity is significant. Our analysis of newly available Land Registry data shows that at least 900,000 hectares (6%) of all freehold land in England and Wales is owned by public sector organisations. Within this total:

- 15% of all land within urban local authorities is owned by the public sector;
- Around two thirds of public sector land is owned by local government; and
- At a local authority level, the eight locations with the highest proportion of public land (more than 40%) are Brighton & Hove, Barking & Dagenham, Eastbourne, Rushmoor (Aldershot and Farnborough), Gosport, Leicester, Portsmouth and Stevenage.

We have previously estimated that there is substantial capacity for new homes to be developed on the public estate, if land can be released from its current operational use while maintaining, and potentially enhancing, public services.

Backed by the Government's commitment to programmes and boosting housing delivery significantly, public sector landowners are engaging in a variety of strategic reviews and programmes to identify surplus land, including the Ministry of Defence's footprint strategy, the nationwide strategic reviews being completed by NHS Clinical Commissioning Groups, and the Government Property Unit's initiatives for both central and local government, such as One Public Estate.

To inform this report, we have spoken to key decision makers across central and local government about their objectives, and the constraints and solutions they face when disposing of surplus land and procuring its development. Not surprisingly, given the range of organisations involved, we found a wide variety of objectives, constraints and solutions.

* Disposal of Public Land for New Homes – National Audit Office June 2015

2.3. Objectives and constraints

The objectives of public sector landowning organisations are many and varied. As a result, the disposal of their surplus land is set within the context of:

- Whether a capital sum, or a long term income stream, is the preferred financial receipt;
- The non-financial objectives that form part of a judgment as to what constitutes best value;
- Operational priorities that may continue on site, alongside the development of new uses, or have to be relocated;
- Compliance with EU procurement rules;
- The skills and capacity within the landowning organisation. Within local authorities in particular, in-house skills have been eroded after many years without active housing development programs;
- The financial capacity of the organisation and its enthusiasm for property and development risk;
- The scale and complexity of development required to deliver new homes.

2.4. Land release mechanisms

With so many variables at play, a range of mechanisms are required to meet the objectives of the landowner whilst also ensuring that new homes are delivered as quickly as possible. The mechanism selected will depend on the capacity and skills of the in-house team, the degree of direct control required, and that all important appetite for risk.

- At one end of the spectrum is **direct development**, using an in-house team. This will provide complete control of a scheme up to the limits of an organisation's capacity and appetite for risk. If sites are large and complex, then other mechanisms tend to be used in order to access additional capacity from other parties and transfer a proportion of the risks involved.
- At the other end of the spectrum are **land sales**. In many ways this is the simplest option, in that development capacity requirements and risk are transferred to the land buyer. Furthermore, straight land sales do not require compliance with EU procurement rules. However, for a land sale to achieve the desired outcomes, the land needs to be sold with the right planning consent to optimise land value and allow the buyer to move quickly to construction. If land is sold without that optimal planning consent, the landowner may not receive best value and the buyer is less likely to build out the site quickly. An increasingly used option is to sell sites subject to a planning brief from the local planning authority. This enables the buyer and seller to share the planning gain and risk, such that the developer can proceed quickly to a detailed consent and build out the site.
- A step along the spectrum from land sale is to transfer the land into a **joint venture company**, set up between the landowner and a developer. The set up costs can be substantial but, if the land value is large enough to merit the expense, it offers a good way of accessing developer skills and capacity with aligned financial incentives, to share risk and return.
- A further step is to procure a **promoter partner** to manage the planning process and ready the land for development by financing and installing the required site infrastructure, before selling on the serviced land to final third party developers, in a 'shovel ready' form. On larger sites, this sale will be undertaken in phases or parcels, spreading the final build out to as wide a market as possible, including SME developers. There is also the option of building out housing units on part or all of the site, from which an income stream can then be generated.
- Closest still to direct development, is the procurement of a **development partner** to provide skills, finance, and share the risk and return. The procurement must be compliant with EU rules, which can be achieved by using a development partner panel such as those set up by the HCA and the GLA. Some landowners with a need for partners with specialist skills and capacity have set up their own panel, with TfL being a recent example. Other landowners such as the MoD, with a long pipeline of large complex sites, have chosen to refine their procurement process to select development partners via a site by site bidding process.

2.5. What is needed

Accelerating the release and development of public sector land is a key component in increasing the supply of new housing and reducing public sector debt. It is a top priority for the Government, with public bodies aiming to release land at a faster rate than has been seen for many decades, and deliver £15 billion in capital proceeds.

Table 1 – Summary of structures

Structure	Land ownership	Finance, skills and development risk	Up front planning risk	Financial receipts	Control over delivery of homes	Procurement rules apply
Land sale (with or without outline planning consent)	Transfer	Low	Higher	Capital receipts	Lower	No
Full public-private joint venture				Mix of capital and income as required		Yes
Promoter partner (single or via panel)						
Developer partner (single or via panel)						
Direct development using in-house team	Retain	High	Lower		Higher	

Source: Savills research

For these ambitious targets to be hit, and for new homes to be built, it is recommended that:

- Public sector landowners should be clear about the **objectives** they are seeking to achieve at the outset of each disposal;
- There should be **less reinvention** of what are essentially standard disposal processes. Setting up individual procurements is time consuming, expensive, reduces competition (particularly from SMEs) and delays the delivery of new housing;
- Central coordinating bodies, such as the LGA, GLA, Department of Health, GPU and HCA, should scale up the work they are already undertaking to promote best practice. They should provide **detailed guidance** as to the disposal methods available and how they best fit with differing objectives and constraints. To accelerate transactions, and reduce the levels of duplication and cost, standard document templates should be made available;
- Through initiatives such as One Public Estate, public sector landowners should seek further opportunities to **cooperate** with other organisations and take a more strategic view on disposals, land assembly, and rationalisation opportunities;
- Public sector landowners should look to increase their **capacity and capability** to deal with land disposals, either through recruitment or engagement with private sector partners. Identifying surplus sites and working up optimum planning consents are key aspects of accelerating the delivery of new homes and so it is vital that the necessary resources are readily available;
- To accelerate the appointment of private sector partners, and increase the breadth of expertise available, **additional supplier panels** should be set up. These could be arranged by the central coordinating bodies so that the panels can be accessed by a range of public sector organisations;
- The use of **land promotion partners** should be considered where additional know-how and finance are required to unlock sites for development. Promoters can supply 'shovel-ready' sites into the land market, thereby accelerating the delivery of new homes and providing developers (including SMEs) with access to public sector land without the often prohibitive costs of complex OJEU tenders.

Overall there is much to commend in the current initiatives to release public sector land for the development of new homes. However, to make a real impact on the housing supply and public sector finances, there is an urgent need for best practice to be shared and for landowning bodies to be able to access additional capacity and expertise.

3. PUBLIC LAND IN CONTEXT

3.1. Policy background

The effective management of property assets has always been part of a public sector body's duties, but the current situation calls for a more proactive approach to disposing of land for housing.

The consistent under-delivery of new homes, against both past performance and current estimates of demand and need, means that land held by public bodies has a major role to play in reducing the shortfall, supplying land additional to that coming forward through other channels.

Furthermore, the opportunity for efficiency savings and financial receipts arising from the disposal of surplus sites fits well with the wider policy objectives of Government to eliminate the public sector deficit.

Within the general policy environment, the Spending Review confirmed a number of specific Central Government targets relating to land disposal and estate strategy:

- £5bn of receipts from land sales by 2020
- Land with capacity for 160,000 new homes to be released by 2020
- 600 out of 800 government office buildings to be vacated by 2023
- 34 out of 54 central London office buildings exited by 2025

Selling surplus public sector land for housing is clearly not new, but has become a real priority since the 2010 General Election. However, the disposal of land in the previous Parliament had mixed results. The National Audit Office[2] recently reported that whilst land for 109,500 homes was sold by public sector bodies between 2011 and 2015, only around new 1,800 homes had actually been completed.

The report found that Departments did not routinely monitor what happened to sites after disposal, so information on the number of homes actually delivered was not always available. Furthermore, DCLG, which oversaw the programme, did not require sale proceeds to be reported, so an assessment of value for money was also challenging.

In addition to the Central Government target, the 2015 Autumn Statement and recent Budget targeted Local Authorities with releasing land for a further 160,000 new homes. The Office for Budget Responsibility's expectation is for Local Authorities to achieve £11.2bn from asset sales over the five years to 2020, so the pressure to dispose of surplus land for new homes is present across government.

3.2. Scale of the opportunity

With extensive land holdings throughout the country, public sector land has the potential to make a significant contribution to the housing supply gap. At least 900,000 hectares, (6% of all land) in England and Wales is in public ownership.

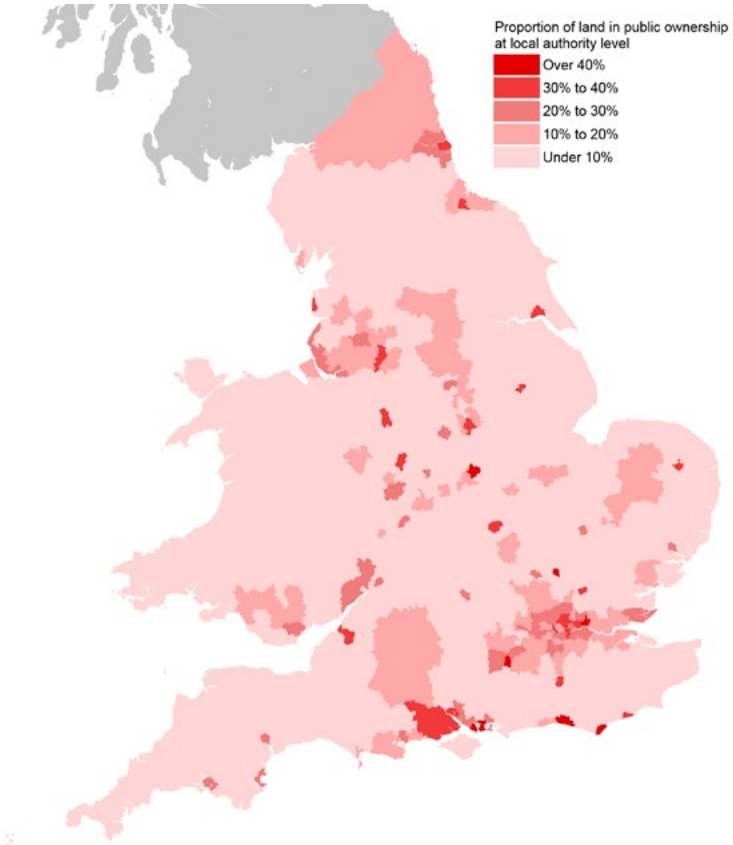
Our new analysis of Land Registry data shows that in major urban areas the proportions are even more significant, with c.15% of freehold property in public ownership. In London the figure rises to over 20%, with some boroughs at c. 40%. These figures are indicative of the magnitude of public sector landownership, subject to detailed cataloguing of health and emergency services, which are not categorised by the Land Registry.

Looking at the individual landowners shows an approximate one-third to two-thirds split between central and local government, with the Ministry of Defence standing out as owning the most land - c.170,000 hectares which is equivalent to over 1% of the national land area. The other central departments own a further 1% between them. Analysis of records relating to NHS ownership suggests that individual trusts own at least 4,000 hectares, with NHS Property Services responsible for another 500+ hectares.

These health sites are generally located where any surplus land will have significant potential for redevelopment to residential and commercial uses.

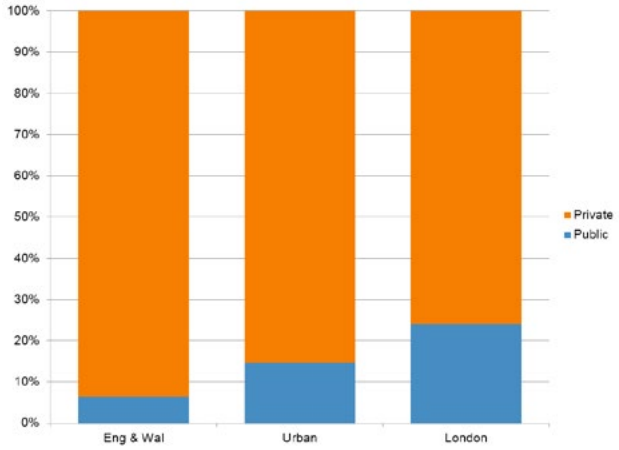
[2] Disposal of public land for new homes, National Audit Office, June 2015

At a local authority level, the eight locations with the highest proportion of public land (more than 40%) are Brighton & Hove, Barking & Dagenham, Eastbourne, Rushmoor (Aldershot and Farnborough), Gosport, Leicester, Portsmouth and Stevenage.



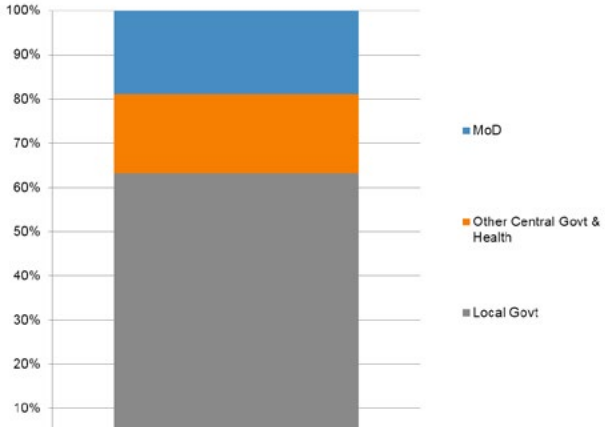
Source: Savills analysis of Land Registry title data

Public and Private Land Ownership



Source: Savills analysis of Land Registry title data

Public Sector Land Ownership by Owner Type



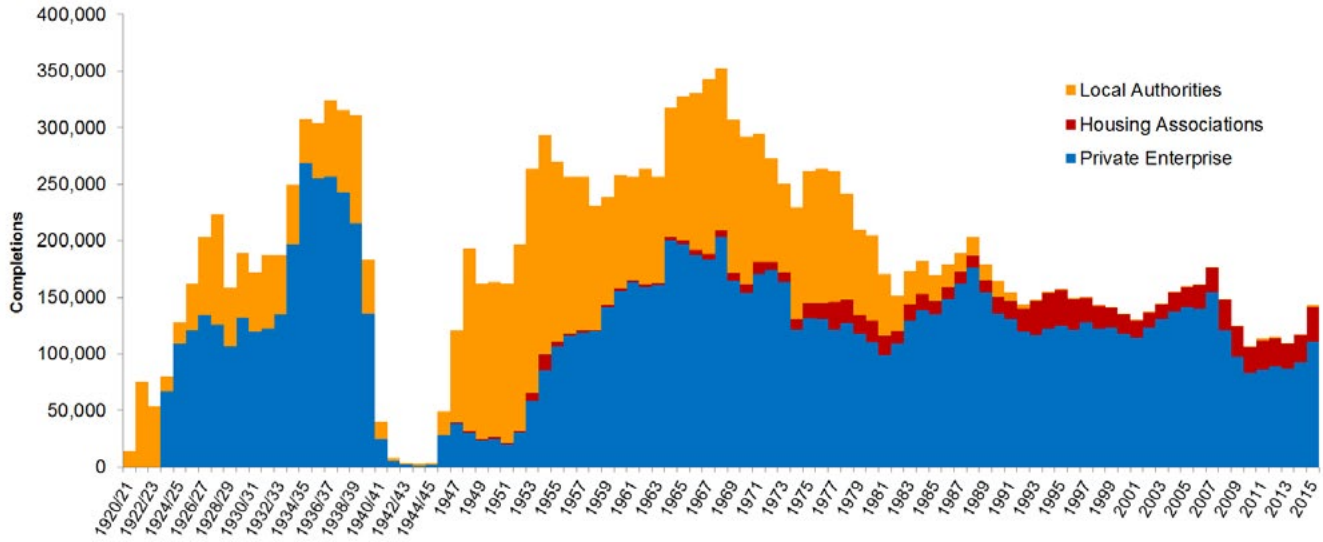
Source: Savills analysis of Land Registry title data

3.3. Historic housing delivery

Figure 1 shows the volume of historic housing completions, split by sector.

It is evident from the blue bars that the private sector housebuilders have delivered new homes at approximately the same annual rate for over 50 years, with some volatility resulting from market cycles. The key difference in recent years is the absence of local authority housebuilding, which has been at negligible levels since the 1980s, with only a limited offset from the emergence of housing associations. It should be noted that some recent local authority activity is 'hidden' in the other sectors due to partnerships and joint ventures with private developers, and that this data excludes additions to stock from conversions and changes of use.

Figure 1 – Housing Completions by Sector, England



Source: DCLG, Webber

Local authorities have therefore, lost much of their 'corporate memory' of how to deliver housing and, given the current financial constraints, are not generally in a position to build up in-house expertise. None of the current policies relating to public land advocate local authorities returning to historic levels of output, but instead focus on the release of additional land to help fill the gap, regardless of how the homes are actually developed.

Figure 2 shows the recent trends in planning permissions and new build housing completions, with the latest rolling annual totals at approximately 240,000 planning permissions and 155,000 housing completions, feeding into around 170,000 net additional dwellings. At current rates of delivery we will have added 850,000 homes to England's housing stock during this Parliament, a shortfall of 150,000 homes when measured against the Government's 1 million homes aspiration. When measured against total housing need of at least 250,000 per annum, the total shortfall is at least 400,000 homes.

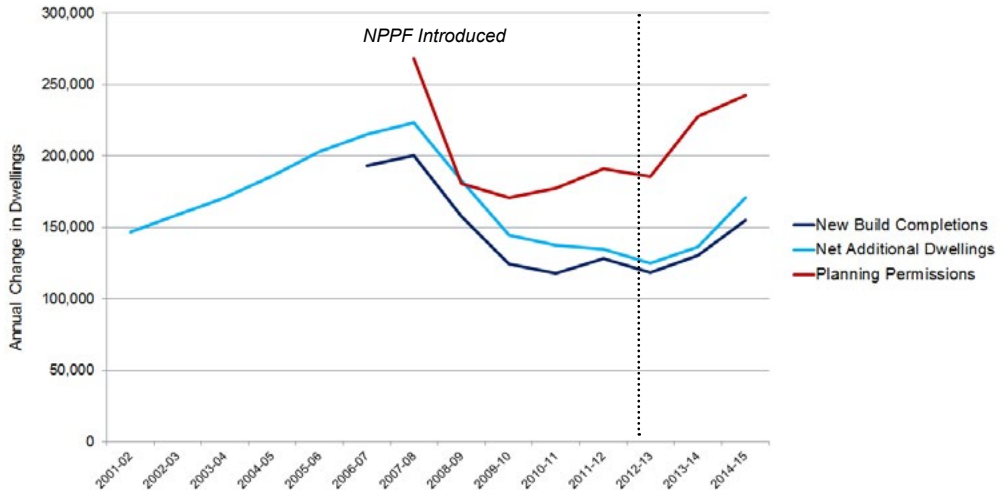
Headline planning consents are not therefore, the main barrier to delivery, it is rather the availability of viable, ready to build sites (with all planning matters resolved) and the capacity of the housebuilding sector. Policies such as Help to Buy (Equity Loan) have stimulated demand and increased housebuilding levels from the post-crash lows of 2009, but to reach one million new homes will require a step-change in delivery. The major housebuilders are planning to increase production through controlled growth strategies, but that step-change in supply must include other forms of development, to add to capacity, differentiating the product to address the

wide range of housing need, and increasing the resilience of housebuilding to changes in market conditions.

Figure 3 shows the proportion of new homes built by different size developers. The falling share accounted for by smaller builders (less than 100 homes per year) has been cited as a barrier to increasing the pace at which new homes are delivered. Some public bodies have recognised the constraints facing small builders in accessing land and finance, and have implemented policies to assist such as 'build now, pay later'. This approach is particularly appropriate on smaller sites which are generally less attractive to the volume house builders.

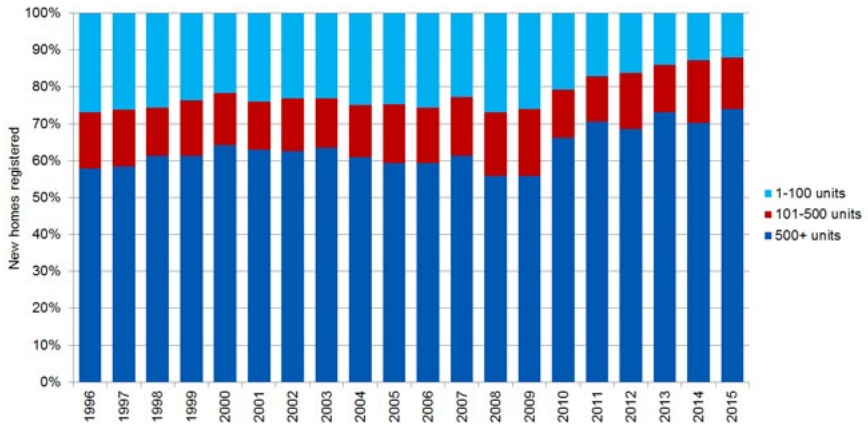
It can be seen that accelerating delivery beyond what the current private sector housebuilding model can support needs to be at the heart of the strategy for public land disposal. For an individual public body, selling surplus sites unconditionally and directly into the land market is likely to be the quickest way to gain receipts. However, this may not fulfil its wider aims and actually result in new homes being constructed. Achieving best value means weighing up short-term receipts against overall benefits, including non-financial and social benefits. In selecting the optimum disposal method for each site, public sector decision makers need to focus on how best to achieve the construction of new homes.

Figure 2 – Permissions, Completions & Net Additions to Stock, England



Source: Savills using DCLG, HBF Glenigan

Figure 3 – Housing output by size of developer



Source: NHBC

4. CENTRAL GOVERNMENT AND NATIONAL BODIES

4.1. Introduction

As well as setting the agenda for land release, central Government includes many departments that are themselves significant landowners.

The Ministry of Defence (MoD), for example, owns 1% of all land in the UK, with 96,000 acres at its Salisbury Plain training facility alone. The vast majority of public property is in active use, so a rigorous analysis of cost and occupancy data is required to identify underused assets suitable for operational rationalisation and disposal.

All departments are currently undertaking strategic reviews of their estates to identify surplus land or opportunities for using space more efficiently. Our interviewees from Defence, Health and Transport all made it clear that operational needs have to be prioritised when assessing whether sites may be suitable for disposal.

4.2. Ministry of Defence

The Defence Infrastructure Organisation (DIO) is working on a comprehensive Estate Rationalisation Plan for the MoD, which is due to be completed this year. The review will classify sites into three categories: “Core” (sites for which there is an enduring requirement), “Retain” (sites which have an existing requirement) and “Dispose” (for which there is no future requirement). As the Armed Forces becomes more agile, technological and communication improvements do not necessarily facilitate the reduction of land required for training. The MoD is actively participating in the ‘One Public Estate’ initiative but it is recognised that releasing parts of sites or sharing with other Government departments may not always be practical due to security issues and specialist military needs.

The MoD uses a number of approaches to land sales depending on site-specific requirements. For large sites, broadly defined as those capable of delivering over 1,000 homes, the appointment of a “Land Sale Delivery Partner” is the preferred method. This involves a seven month OJEU process to procure the partner and the structure has successfully been used to dispose of six sites so far. Placemaking and masterplanning are key components of the approach, with the local planning authority included as an arm’s length advisor in the evaluation process. In order to maximise value for the MoD, a gain share mechanism is used to apportion sale receipts.

A less common approach is to transfer sites to the HCA, who will then undertake the sale, with the risk and reward shared with the MoD. The final option is a traditional site sale, preferably selling with outline planning and subject to overage and clawback clauses in order to maximise sale proceeds. The MOD has recently announced the sale of 22 sites under its rationalisation plan, with more to follow, and it is intended that the DIO will select whichever sale structure best suits each site.

4.3. Department of Health / NHS

Estate management for NHS organisations is very much focussed on clinical need and efficiency savings, with the contribution to the wider objective of meeting national housing need being a secondary concern for NHS organisations. Perhaps more than any other department, the sale of NHS land is politically charged thereby adding further challenges to rationalisation. Trying to close any hospital, regardless of the evidence in favour and the rationale for doing so, can run into significant local opposition. However, with five year targets to release land for 26,000 homes and generate £2 billion in capital receipts, the issue has been drawn into much sharper focus.

Compared with the MoD, there is the additional complication that the Department itself is not a major landowner. A fragmented network of around 240 individual Foundation and NHS Trusts, plus NHS Property Services, own the bulk of the health estate. This creates a challenge for a single strategic disposal programme. The Department’s role is to create the financial and policy conditions so that NHS organisations are incentivised to identify and bring forward surplus land, providing support and assistance to the NHS where necessary.

There is no identified funding to enable land release, so partnerships with the private sector, including leveraging investment to remove blockages and increase the saleability of sites, are likely to become increasingly important. In an environment of austerity, and with increasing pressure on front line delivery, some Trusts are keen to find willing partners to sell the land on their behalf. Many others engage private sector partners to supplement in-house resource, and provide specific advice where it is needed.

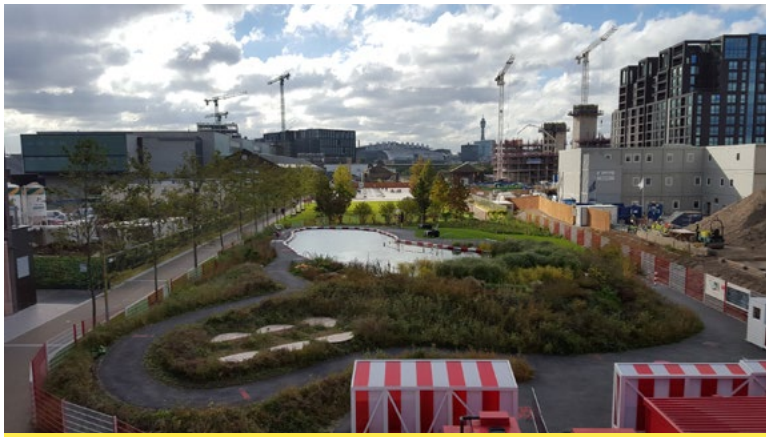
4.4. Department for Transport

The DfT is another major landowner, responsible for an estate that includes diverse assets such as railways, roads and test centres. The Department takes a business led asset management approach – if land is surplus it is identified for sale. However, many sites suitable for housing were sold during the last Spending Review period, so the remaining estate primarily contains active operational sites.

Large amounts of former railway land have been sold over the last 30 years or so, including c. 4300 hectares since rail privatisation. The rail estate still contains some very valuable sites, such as those around major stations. Developing over or around these, whilst maintaining the safety and operation of the railway, is possible but expensive and complex, so attracting private sector funding is often desirable. The Government has set a target of 10,000 homes to be built around stations, drawing on the example set by projects such as Birmingham New Street and King's Cross.

Network Rail has used partnerships to deliver certain developments. Solum Regeneration is a joint venture partnership between Network Rail and Kier, which works to regenerate railways stations in the south east of England. It has completed projects at Christchurch, Epsom and Walthamstow, and its pipeline includes sites at Haywards Heath, Redhill, Twickenham and Guildford.

London and Continental Railways (LCR) is a property development company, wholly owned by the DfT, which specialises in the development and disposal of railway-linked property, particularly that related to major infrastructure projects. Past and current projects include sites at Stratford, King's Cross (see case study) and Manchester.



CASE STUDY

London and Continental Railways

LCR's involvement in King's Cross started in 1996 with the HS1 project. At the time, the majority of the 67 acre site was taken up by disused buildings, railway sidings, warehouses and contaminated land and was in need of major regeneration.

Argent was selected as development partner in 2000, with a limited partnership including them, LCR and other landowners being formed in 2008. An impressive range of residential, retail, office and community buildings have since been delivered.

LCR sold its share in the partnership in January 2016 for £371m. By remaining involved in the scheme, the development has returned a much higher value to the public purse than if there had been a simple land disposal at the outset of the project.

LCR

In London, Underground, DLR and Crossrail stations are owned by Transport for London (TfL), which as part of the GLA comes under the devolved city government category covered in a later section of this report.

4.5. Department for Communities and Local Government

DCLG is not itself a major landowner, as this function is managed through a separate body, the Homes and Communities Agency. The HCA has multiple responsibilities, being a developing landowner, administering government funding for housing and regeneration, and the regulator for social housing providers. The landowning function is the relevant role here, and the HCA is very active in promoting the Government's housing objectives – specifically speeding up delivery and increasing homeownership. Two key policies are aimed at achieving these goals: direct commissioning and Starter Homes.

Direct commissioning involves public bodies appointing contractors to build and sell homes on their own land, with the aim that, unlike a traditional disposal, the pace of construction can be controlled and a more diverse range of participants can be engaged in the house building process. These aims are in place to ensure that the homes delivered are additional to the supply coming through existing channels. The HCA has the power to impose conditions specifying delivery rates, with land being forfeited if these are not achieved.

Starter Homes are aimed at the Government's second goal of increasing homeownership. The policy is still evolving, but as it currently stands, new build homes will be made available to first time buyers under 40 years of age at a minimum discount of 20% to full market value, capped to £250,000 (£450,000 in London). The exact process for the discount mechanism is still being discussed between Government, housebuilders and lenders.

More generally, the HCA's remit includes being the government's preferred Agency for the disposal of surplus government land. Other Government departments transfer land to the HCA once it is declared surplus and is capable of delivering new homes or jobs.

The HCA is also able to enter the land market and acquire sites for the purpose of, for example, delivering new Starter Homes, but it will only do so for the specific purpose of achieving a Government objective, and not for the sole purpose of making a commercial return.

Whether disposing of its own sites or enabling disposal for other landowners, clarity around the key objective for the sale is very important. Without a clear brief the bids received can be hard to compare – e.g. conditional versus unconditional bids – so the HCA has introduced a more structured approach to land disposals.

For sites up to 50 units, the HCA seeks a freehold sale with outline planning in place and no overage. For 50 to 500 unit schemes, a typical deal would be selling via building lease with a deferred fee structure, perhaps with some phasing, and using the Delivery Partner Panel (a framework panel of prequalified housing developers).

CASE STUDY

HCA

The HCA's site at Lower Graylingwell in West Sussex, acquired from the Sussex Partnership NHS Foundation Trust in early 2014, is a good example of the HCA using its land in a different way to private landowners. The 160 home scheme will be split 50/50 between market sale and Starter Homes and it is one of the five pilot sites for direct commissioning.

Homes & Communities Agency

For sites above 500 units there is often a higher level of complexity, and so partnership or contractual joint venture arrangements tend to be preferred, as this gives access to a wider pool of developers with the relevant capacity and expertise. The developer partner may then build out some of the site themselves or sell on serviced plots to housebuilders. Within these categories there is still room for flexibility, as a wide range of sites need to be considered and being too prescriptive could limit potential partners or bidders.

4.6. Cabinet Office - Government Property Unit

The Government Property Unit (GPU) is responsible for the Government's Estate Strategy. It has central oversight over all Government land and property, working collaboratively across Government to manage the estate and optimise operational use, financial returns and growth. In practice this means collecting data, benchmarking performance, providing support and challenge on asset management strategies. Cabinet Office is currently a smaller landowning Department, though plans are progressing to establish a new body which will assume ownership of a range of property portfolios across Government.

GPU plays a key role in identifying surplus land and property and managing its accelerated disposal. It owns the Government commitment to release at least £5 of billion land and property by 2020 and works in tandem with DCLG on releasing land with capacity for at least 160,000 homes over the Parliament.

It also leads work on reforms such as the Government Office Hubs programme. The Hubs programme promotes optimisation of central Government use of office space, including co-location of department functions. The programme is a key part of reforming the civil service.

Their remit also includes managing the One Public Estate programme in partnership with the Local Government Association. The programme channels funding and practical and technical support through local authorities to deliver ambitious property-focused projects in collaboration with central government and other public sector partners.

Its aims are to deliver local growth (homes and jobs), more integrated, customer-focused services, and efficiency savings. Those joining the programme are required to record and map their assets, alongside those held by other parts of the public sector in their area. They establish a partnership board, with involving relevant parties to agree how best to make productive use of their collective assets and a series of specific projects they wish to take forward.

Phase 3 of the programme was launched in December 2015, and comprises over 100 councils in 24 partnerships, supported by £6m funding announced at Summer Budget. The Chancellor announced a further £31m for the programme over 2 years. The latest opportunity to apply for funding and support was launched in April. Over the course of this Parliament, it is hoped that the vast majority of local authorities will join One Public Estate to make better use of collective assets.

A further initiative announced in the spring Budget 2015 was the implementation of the New Property Model, under which departments will be charged a market rent for many of the buildings that they occupy. This initiative seeks to incentivise the release of underused space, but with the phased implementation currently proposed it is unlikely to have a significant impact on the release of sites for new housing during the current Parliament.

5. LOCAL AND DEVOLVED CITY GOVERNMENT

5.1. Introduction

Local authorities and Mayoral bodies such as the Greater London Authority are at the frontline of a diverse array of property and housing-related issues.

Budget 2016 announced an ambition to unlock land for 160,000 new homes on local authority land by 2020. The Local Government Association has said it expects local authorities to raise £9.2bn in land sale receipts by 2018.

There is a correspondingly wide range of approaches taken to dealing with these challenges, with the amount and type of private sector involvement also varying widely. We spoke to a series of stakeholders from councils around the country to obtain their views on their property objectives, what they have been doing to meet them, any barriers to delivery, and their future plans. The sections below are grouped by how the councils have set about delivering homes on their land, based on the nature of the links with private sector partners.

5.2. The 'DIY' approach

A number of our interviewees felt that their borrowing capacity and existing powers were sufficient to carry out housing development programmes in-house, and that this was the best way to meet their objectives. Within this category some were further along the process than others.

5.2.1. London Borough of Camden

The London Borough of Camden faces challenges similar to other councils, such as maintaining services in the face of severe financial pressures, and those unique to a central London borough with 33,000 people on their housing waiting list and delivering viable affordable housing in an area with very high land values.

To address these challenges, Camden has implemented a 15 year, area-based plan, known as the Community Investment Programme. The programme invests money into housing (and school and community) projects, including the development and sale of its own properties to generate further funding for reinvestment.

Without a land cost or developer margin, the profits generated from market sale units can be used to cross-subsidise higher levels of affordable housing (typically around 50%), a policy priority given the affordability issues in the borough. The design and construction are carried out by contractors appointed by tender.

CASE STUDY

London Borough of Camden

Maiden Lane is an estate in Camden, built in the 1970s and 80s, which fell into a state of poor repair following many years of under-investment. Camden Council's Community Investment Programme has provided funds to develop 273 new homes, built on the site of two demolished housing blocks and an adjacent industrial site.

The scheme includes some homes for private sale, with the profits reinvested into renovating the remaining blocks and cross-subsidising the provision of new social rented units.

This is a relatively small scheme, in a very strong, central London market, so the risks to the Council are minimised.

Camden

A number of opportunities have been successfully developed using this approach, including 273 units at the Maiden Lane Estate. It is envisaged that a total of 3,050 new homes will be delivered by the programme.

The political cycle can impact on longer-term projects, with Camden having changed administration in both 2006 and 2010. With large regeneration projects often taking over 10 years to deliver, shifting priorities can change the direction of long term schemes during their development, thereby creating additional complexity.

Camden's pipeline of projects includes more ambitious schemes, such as the £400+ million Gospel Oak regeneration. With the limits on Council borrowing and the scale of upfront investment required, there is likely to be a need to leverage the finance, skills and experience of the private sector, who will then share in the risks and returns of the scheme.

5.2.2. Essex County Council

Public sector partners in Essex have been following a similar in-house approach, as a partnership project found that more could be done with their assets by taking a stake in the process and keeping more control. At a strategic level, the Essex Property Partnership Board has been set up to take a joined up approach to public land across the county. A new team called Essex Housing is being hosted by Essex County Council to deliver projects, with the team making use of market expertise to bring forward sites. The plan is to build additional specialist and affordable units, and to offset the costs of this through developing private units to help address housing need in the County.

The team at Essex is able to borrow funds and buy private or other public sector land when assembling sites. This can be done using existing powers and the sites do not need to be held in a separate company.

The two most advanced schemes are 30 and 32 unit developments, with a policy-compliant affordable housing level of 35%, which are planned for County Council land in Chelmsford. There is a pipeline of 15 more schemes totalling 700 units, with the largest single site being for 150 units.

Working with the other public bodies in the county there is a further pipeline of 150 developable sites, coming from a review of 1,000 landholdings.

It was noted that, in order to make a meaningful contribution to the council's housing objectives, there was a need to scale up the programme, but that this had to be balanced against the increased risk when using borrowing to expand capacity. Larger sites (above 150 units) have not yet materialised but if they did, the additional complexity and size of funding requirements could open up opportunities for partners or joint ventures.

In summary, while the in-house approach can be used successfully to develop new homes on council land, most organisations will at some point reach a scheme limit. Whether they become constrained by a lack of borrowing capacity, expertise or risk appetite depends on their circumstances. The need for specialist development experience and upfront investment to unlock difficult-to-deliver sites means that there is scope for private sector involvement to share the risks and returns. The developing councils we spoke to acknowledged that they were open to private sector involvement in the right circumstances – there was no strong ideological preference for keeping things in-house.

5.3. Development partnerships

In this category we have grouped together landowners who wish to retain some control over development whilst engaging a partner to help deliver their projects. Many of our interviewees have used a partnership approach to develop their land, covering a wide range of objectives and deal structures.

5.3.1. Staffordshire County Council

Following an OJEU tender process, Staffordshire County Council entered into a ten year strategic public-private partnership with Kier, involving 450 Council properties. The Council was looking for a 50/50 partner to provide additional capacity, capability and networks, but is not tied into using Kier as the developer, as there is no exclusivity agreement.

Kier is the preferred provider, but they have to prove that they are delivering value for money otherwise the work is put out to the market.

There are a series of benefits to the council from this structure. Although the Public Works Loan Board (PWLB) offers competitive borrowing rates there are limits to the funds available, so Kier's additional financial capacity is useful. Kier also offer specialist expertise and input from their construction, residential sales and asset management arms, and provide links to a supply chain and a trusted team to implement projects.

The partnership is relatively new, but there is a pipeline of 1,000 consented homes on council land. There is an intention to develop some schemes for PRS and hold them (in an SPV) for income.

5.3.2. The Greater London Authority

Whilst others are starting to emerge, the Greater London Authority (GLA) is currently unique in being the only established devolved city region government. It has a strategic role and relationship to the London boroughs through which it aims to speed up housing delivery, by enabling large and complex sites.

In 2012, the GLA inherited land for 50,000 homes from the HCA and various development corporations. Development of this land has proceeded through a panel of 25 developers, with land disposals typically allowing deferred payment terms in exchange for strict "use it or lose it" conditions relating to the achievement of delivery milestones.

Crucial to using panels successfully, is to ensure the offer is right. In practice this means engaging with the private sector in advance, soft market testing and getting a planning brief in place to give certainty to the bidders. Covenants for PRS and policy-compliant levels of affordable housing have been used to meet specific policy objectives. For the most difficult sites, the GLA has invested money upfront in infrastructure or decontamination to unlock development potential.

Now that its own land has been sold or developed, its role will evolve, meeting policy goals by working with the boroughs and other public bodies to assemble land, and using its expertise to accelerate housing delivery.

5.3.3. The London Land Commission

The London Land Commission (LLC) was established as part of the Long Term Economic Plan for London, which was jointly announced by the Mayor and Chancellor in February 2015.

The commission is based at the GLA, and is chaired by the Mayor and the Minister for Housing.

The LLC is seeking to identify publicly owned brownfield land for development and help coordinate, and accelerate the release of land for new homes. This approach has provided an effective resource to assist council and other public sector landowner decision making. It has also identified gaps in data held by the public bodies and thematic challenges and interventions which have the potential to be effective across London's landscape. The coordination and facilitation role played by the LLC is an essential part of creating the required step change in housing supply.

5.3.4. Transport for London

Alongside the GLA, Transport for London (TfL) is a significant landowner, owning and controlling 5,700 acres of land, including buildings, land attached to Tube stations, railways and highways. As part of the TfL plan to generate £3.4 billion in non-fares revenue by 2023, it has invested in its property development team in order to deliver its 10 year Business Plan. This includes a £1.1bn target of receipts from property development, alongside its Core Priority to create businesses, jobs and growth.

The 10 year plan is based on more than 70 sites, of which over 50 will be delivered with development partners procured from TfL's own developer panel – the Property Partnership Framework. The selected panel members have the capacity to deal with the complexities of developing around existing transport infrastructure and ongoing operations.

The portfolio includes a wide range of site sizes and complexity, including listed buildings that offer the opportunity for residential conversion, mixed use and residential

developments over stations and depots, major regeneration schemes in urban centres and brownfield developments in inner and outer London. On some of these sites TfL may still look for development partners outside the panel.

5.4. Promotion partnerships

At an earlier stage of the development process, a land promoter can be appointed to obtain planning and provide site infrastructure before then selling on serviced plots to developers. For councils with large land holdings, the procurement of a land promoter partner or panel is a relatively efficient way of increasing capacity and accelerating the delivery of sites to market.

5.4.1. Central Bedfordshire Council

Central Bedfordshire Council have recently procured a land promoter framework. The initial objective of the framework was to create a degree of separation between their asset management and planning departments, but the subsequent aims of bringing forward land for development, delivering site infrastructure, getting best value from council assets, and generally supporting its strategic housing requirements have become increasingly important. The framework will run for four years and comprises five companies.

The Council is a substantial landowner, with thousands of acres of farmland and some town centre holdings. Investment in infrastructure and enabling works is therefore key to realising the optimum value from these assets. Under the arrangement the public sector retains ownership of the land whilst the private sector manages the planning and disposal process on their behalf. Upon the sale of the consented sites to developers, the promoter receives a refund of any upfront investment plus their margin whilst the council retains the bulk of the net proceeds. The incentives of public and private sector are aligned so as to maximise disposal receipts and minimise fees and infrastructure costs.

There are clear benefits to the partnership approach, whether a single partner is procured or a panel set up. Partners bring external funding and expertise which should accelerate developments and can become a trusted extension of the in-house team.

Panels increase competition and capacity and also allow landowners some flexibility in choosing partners in order to achieve the best fit for each site. Panels also assist in removing one of the oft-quoted barriers to development, the slow and expensive nature of a full, OJEU-compliant procurement process for every project.

CASE STUDY

Central Bedfordshire Council

The first land to be progressed through Central Bedfordshire Council's promoter framework is a 68 hectare site near the town of Arlesey. The site has been allocated for c.850 residential units, employment, retail and education uses.

From the five-company panel, Telereal Trillium was appointed to lead and fund the planning consent process, the investment in site infrastructure, and the subsequent disposal of the consented land to developers.

The Framework is open to neighbouring public authorities/bodies of Central Bedfordshire Council, and also to 17 other local authority members on the Central Buying Consortium.

Central Bedfordshire Council

5.5. Full joint ventures

A step up from partnerships are joint ventures between public bodies and the private sector, where a corporate vehicle is set up to hold the land and assets. This option minimises ongoing procurement issues but could lead to less flexibility or capacity if the vehicle is not set up correctly at the outset. Our interviewee on this subject was Bournemouth Borough Council, who are joint owners of the Bournemouth Development Company LLP (BDC) with Morgan Sindall Investments Ltd. BDC has been set up as a limited liability partnership (LLP) and as such is a separate legal entity. The attraction of the arrangement is similar to those for partnerships; financial capacity and development expertise.

However, with this arrangement, more of the risks and rewards are shifted to the BDC, and incentives are even more clearly aligned. BDC has an option over 17 Council owned sites, with the concept being that some of the proceeds from the first phase of the development are retained to enable the next, and so on.

Morgan Sindall have construction exclusivity with BDC for the first five years, which is about to expire, so future projects undertaken by BDC will be subject to open market tender, allowing other main contractors to win future construction work.

The initial sites the Council has optioned to BDC are all town centre surface car parks, and a series of projects have now been delivered, including student housing, multi-storey car parks, and new homes. The typical deal structure is that Morgan Sindall inject funds into BDC to enable BDC to carry out pre-construction activity from concept design through to obtaining planning consent.

Once the scheme has planning, funding and a fixed price build contract is entered into, the Council injects the land into BDC via the option agreement. The value of the land is then cash matched by Morgan Sindall. For example if BDC has spent £500k on pre-construction tasks and the Council land has been valued at £1 million, Morgan Sindall then inject a further £500k into BDC so that the parties both maintain a equal financial contribution.

BDC then secures debt finance in the conventional way to build out the scheme. Once the scheme is built out and sold, the debt finance is repaid and the Council receive a payment for its land, Morgan Sindall is repaid its cash contribution and any profits are then split 50/50 between the Council and Morgan Sindall.

The objectives are to regenerate the town centre and deliver maximum value for money from council assets, including capital receipts and income streams. The Council has additionally set up arm's length housing and construction companies to work with its own housing stock.

A joint venture arrangement is currently being sought by Haringey Council in north London. They launched an OJEU tender for a property partner in January, who will become the 50/50 owner of a new vehicle containing much of the Council's land. The aim is to bring forward £2 billion of development on sites including Wood Green town centre and the regeneration of the Council's housing estate.

CASE STUDY

Bournemouth Development Company

The former Leyton Mount car park was the first scheme carried out by the partnership, and is now the Citrus Building, comprising 64 apartments and a ground floor restaurant.

The development was funded by a combination of Morgan Sindall the Council's general fund and the HCA. All the apartments were for market sale. Once the HCA debt had been repaid, the Council and Morgan Sindall were repaid their initial cash contributions and the profit distributed equally.

The car parking lost has been re-provided a short distance away at another BDC scheme, comprising a new multi-storey car park and three blocks of new student accommodation totalling 378 beds. The car park was funded from the Council's general fund and the student accommodation was funded under a sale and leaseback arrangement between the Council and a pension fund, with the student accommodation being on leased to the Arts University Bournemouth for a period of 25 years. At the end of the 25 year term the Council has the right to buy the building from the pension fund for £1.

BournemouthDevelopmentCompany

6. CONCLUSIONS

6.1. Objectives

Our interviews covered a wide spectrum of public sector bodies and highlighted a broad range of objectives being sought from asset disposals.

In order to best meet these objectives – financial and non-financial – landowners should be clear early on to identify the most appropriate delivery mechanism.

On the financial side, there are a range of preferences, including up-front capital receipts, a longer term share of capital receipts and creating long term income streams. Within that spectrum, local government is more likely to focus on creating new income streams alongside the achievement of local policy priorities, such as provision of extra care housing. Central Government, however, is more likely to focus on capital receipts, whilst prioritising core operational activities, particularly in defence, health and transport.

Releasing public land for sale was relatively successful in the last Parliament, however, translating land sales into the delivery of new homes has often been a much slower process. Therefore, a key objective for both central policy makers and individual public bodies should be to ensure that any land deemed surplus and suitable for housing is taken through the development process as quickly as possible.

6.2. Constraints and issues

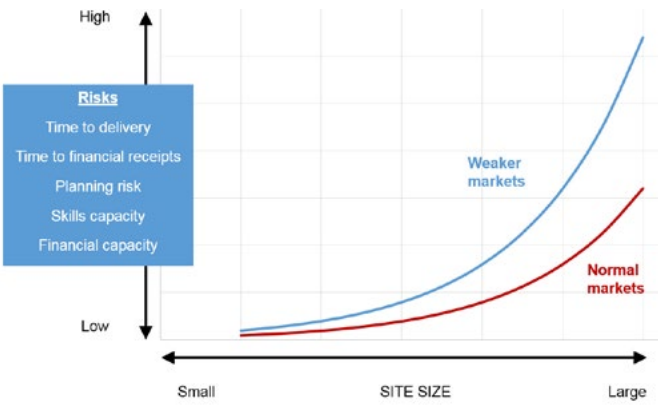
There are many barriers to realising the full potential of public sector land for delivering new homes. The need to release land is growing, while many of the most obvious opportunities for development – the 'low-hanging fruit' – are either complete, or already under way. However, there are many more sites that will, and could be, brought forward, often with complexities that arise from issues such as the continuing operational use of the site (typical in the transport and health estates), the listed status of period buildings (typical in the prison and health estates) and the new infrastructure required to bring forward larger sites.

In some instances these constraints can be overcome by land assembly across adjacent public sector land ownerships, potentially increasing density and improving scheme viability, particularly in locations close to transport where policy is supportive of taller buildings.

The capacity of the development sector is also a serious constraint. The major housebuilders are already building new homes at near to their historic capacity, and their stated expansion plans are constrained by organisational capability and market capacity for their business model. The shortfall compared with previous periods of higher overall housing delivery is the decline in output from SME builders and the public sector, meaning policies, such as "build now – pay later" are needed to stimulate new participants to enter the market.

6.3. Managing risk

Public sector landowners are taking different approaches to development, driven by their financial objectives and capacity, the extent of their in-house skills, and their attitude to risks around planning, the market and when the new homes will be delivered. The optimum route to development will depend on how all of these relate to the sites in question. As illustrated in the graphic below, the larger the sites, and the weaker the local markets, the more likely it is that limits to capacity and appetite for risk will be reached.



6.4. Deal structures

The disposal structures available to landowners are varied, ranging from straight open market sales to direct development via an in house team, and various forms of joint ventures and partnerships inbetween.

In all cases, the solution needs to address the issues outlined above, while proving best value for the public purse and complying with applicable EU procurement rules. A summary of the different approaches available is set out in the table below.

While land sale with the right planning consent remains the simplest and preferred option for many, there has been a shift towards procurement of a development partner on larger, more complex sites.

Structure	Land Ownership	Financial Receipts	Risk to Landowner	Capacity	Site Type
Land sale (with or without out-line planning consent)	Land is sold to developer, public body has no further involvement.	Up front capital receipt on smaller sites in stronger markets. Deferred receipts or lower initial land receipt on larger sites.	This should be the lowest risk approach. The main risk is around failing to extract maximum value from the asset.	Skills and market knowledge required to optimise the consent and associated land value prior to sale, avoiding delay to delivery from amendments to planning. Least requirement for longer term skills, capacity and finance.	Any site can be disposed of in this way, but bidders prefer small-to-medium plots without complex up-front infrastructure needs.
Full public-private joint venture	Land is transferred into corporate vehicle, typically owned jointly by partners. Exit is either land sale or sale of completed development/	Overall development value maximised as there is a shared interest in optimisation of land value and receipts. Private partner receives profit plus management fee, giving shared return to the JV parties.	Development, planning, market and sales risk are all still there, but a portion is transferred to the private partner who has the skills to manage that risk.	Procurement phase requires in-house assessment to ensure correct assets are in the vehicle and it is structured favourably. Partner needs sufficient capacity (financial and staff) to progress all the sites.	Suited to complex regeneration-type projects where a long-term partnership with aligned incentives would work best.
Promoter partner (single or via panel)	Focused on promotion and enabling of land, with potential to develop some but typically not all of the finished property. Land typically remains in public ownership until serviced plots are sold. There can be an option to retain some land for own use or income generating uses.	Flexibility to structure receipts as a combination of upfront payments, deferred payments, overage/share of receipts, to include use of build licences. Potential to generate new income streams.	Lower risk as promoter deals with upfront costs and planning. Requires partners with appropriate skills and capacity to be on the panel in sufficient numbers to create competition.	Partner provides required expertise. Procurement phase requires in-house assessment to make sure offer is attractive to bidders. Partner needs capacity to progress multiple sites quickly. Panel needs enough parties equipped to compete in an OJEU-compliant bidding process.	Suited to larger, more complex sites, or portfolios of sites, requiring upfront investment or specialist expertise. Panels particularly suited to landowners with varied portfolio of site sizes and types.
Developer partner (single or via panel)	Focused on development of the finished property. Land remains in public ownership until completed properties are sold.		Will be exposed to sales and market risk if properties are built out. Requires partners with appropriate skills and capacity to be on the panel in sufficient numbers to create competition.		
Direct development using in-house team	Land remains in public ownership and is developed out.	Option of capital receipts from selling completed properties, or income from holding and renting them. Can be accelerated by selling off-plan or bulk sales to an investor.	High risk. Public body takes on all the development, planning, market and sales risk.	Requires in-house project team plus procurement of consultants and construction contractors via panels such as HCA panels.	Suited to smaller, less complex sites. Often used by local authorities to meet policy needs, for instance delivering specialist or affordable housing.

Source: Savills research

6.5. Recommendations

6.5.1 Clarity of objectives

With a broad range of landowners and landholdings, and many different objectives and constraints applying to individual projects, a 'one-size-fits-all' approach to public sector site disposals will never be appropriate. However, to ensure that the correct approach for each disposal is selected, public sector landowners should be clear at the outset as to their key objectives.

6.5.2 Reduce reinvention

Public bodies are, quite rightly, using a range of land disposal structures, but similar approaches are often being developed from scratch and in parallel. There should therefore be less reinvention of what are essentially standard disposal processes. Many public bodies are experienced at disposing of, or developing, land in a range of ways and this expertise should be shared more widely. Setting up complex individual procurements is time consuming, expensive, reduces competition (particularly from SMEs) and ultimately delays the delivery of new housing.

6.5.3 Guidance from coordinating bodies

There is a role for central coordinating bodies, such as the LGA, GLA, Department of Health, GPU and HCA, to coordinate and promote best practice, scaling up the work they are already undertaking. They should provide their partner organisations with more detailed guidance as to the disposal methods available and how they best fit with differing objectives and constraints. To accelerate transactions and reduce the levels of duplication and cost, standard document templates, derived from successful schemes, should be made available. DCLG has recently published Disposal Guidance for local authority assets, outlining disposal options and the support available from the HCA and other bodies. However, this is limited in scope and to make a real impact, a more detailed level of support is required.

6.5.4 Further cooperation

Through initiatives such as One Public Estate and the London Land Commission, public sector landowners should increasingly seek opportunities to cooperate with other organisations in their locality. Taking a more strategic view on disposals, land assembly, and rationalisation opportunities will unlock opportunities and add real value.

6.5.5 Additional capacity and capability

Public sector landowners should look to increase their capacity and capability to deal with land disposals, either through recruitment or engagement with private sector partners. Within local authorities in particular, in-house skills have been eroded after many years without active housing development programs. Identifying surplus sites and working up optimum planning consents are key aspects of accelerating the delivery of new homes and so it is vital the necessary resources are available.

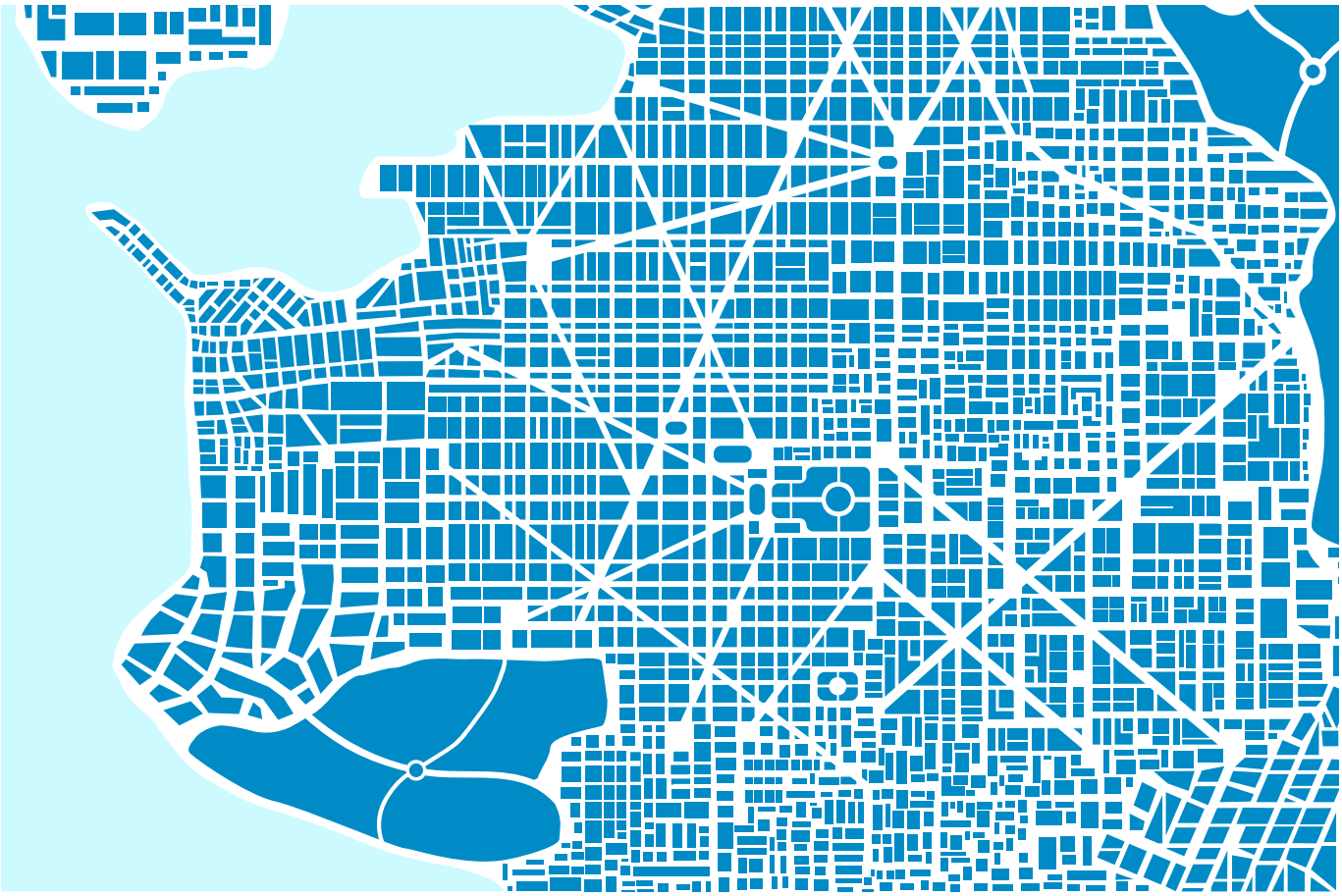
6.5.6 Additional Partner Panels

To accelerate the appointment of private sector partners while avoiding the costs of bespoke procurements, additional partner panels should be set up. These could be arranged by the central coordinating bodies so that the panels can be accessed by a wide range of public sector organisations without need for further full procurement exercises. It is envisaged that the existing partner panels will quickly reach capacity and so there is scope for more panels, including those providing specialist skills not currently widely available such as land promotion, the creation of development enabling site infrastructure, and the development of private rented blocks. When procuring new panels, careful consideration should be given to the cost and complexity of the bidding processes to ensure that SMEs can be encouraged to participate.

6.5.7 Use of Land Promoters

The use of land promotion partners should be considered where additional expertise and finance are required to unlock sites for development.
Promoters can supply 'shovel-ready' sites into the land market, thereby accelerating the delivery of new homes and providing developers (including SMEs) with access to public sector land without the prohibitive cost of complex OJEU tenders. Consented sites can potentially be developed out through partnerships, depending on the financial priorities and other objectives of each authority.

Overall there is much to applaud in what is already happening to release public sector land for the development of new homes. However, to make a real difference to housing supply and the public sector finances, there is an urgent need for best practice to be shared and for landowning bodies to be able to access additional capacity and expertise.



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