WWW.GLOBAL-COUNSEL.COM

Global Counsel

The case for public investment in affordable housing funds

MAY 2025

COMMISSIONED BY Homes for the North

About this Report

This paper was written by Marley Miller, Global Counsel's lead on housing policy, with input from Homes for the North who commissioned the report. Homes for the North are an alliance of 17 housing associations who want to deliver more homes across the North of England. Global Counsel was commissioned to write this report exploring how the government could use new financing mechanisms to drive regeneration and support more affordable homes to be built as it seeks to meet its objective of delivering 1.5 million homes this Parliament.

The challenge

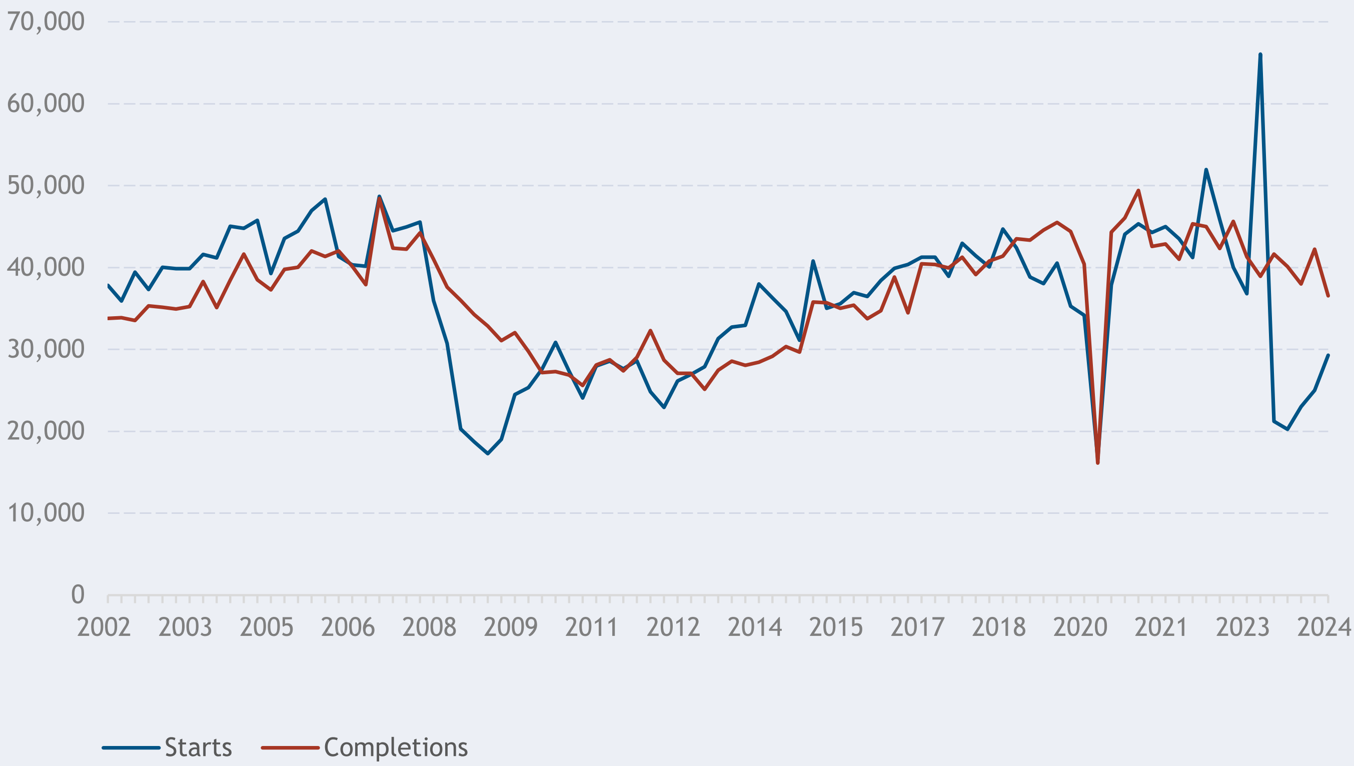
Delivering on an ambitious housing target

The government has been clear that it sees building 1.5 million more homes as a central plank of its mission to kickstart the economy this Parliament. It has taken welcome action to drive forwards this agenda, prioritising much-needed reforms to the planning system, which has been holding back development. Bringing back mandatory, and substantially higher, housing targets will increase the ambition of local authorities to build homes where they are needed. Enabling building on the "grey belt" will bring more land into the system for affordable housing, especially in those areas which are most constrained.

However, these planning reforms alone won't be sufficient to deliver 1.5 million homes this Parliament. Many of the changes will take time to have an impact as they rely on local authorities making new local plans, which currently take an average of seven years to produce. Even if the government manages to get this down to its target of 2 and a half years, they are starting from a challenging position. Housebuilding rates are at the lowest levels since the pandemic, as high interest rates have softened demand and increased borrowing costs. 40 percent fewer projects were started last year than the year before, with a similar number of new developments as during the period after the financial crisis.

HOUSEBUILDING RATES ARE AT THE LOWEST LEVEL SINCE THE PANDEMIC

Housing starts and completions, 12 month rolling total, 2002-2024



For housing associations, the challenge is more acute. With rising construction costs and new government safety and efficiency standards necessitating substantial improvements to existing stocks, many associations have been forced to slow down or pause their development programmes, resulting in the largest fall in housing starts since records began in 1978.

If the government is to deliver on its ambitious target, it will need to ensure all parts of the housing market are firing on all cylinders, which will require identifying solutions for the challenges holding back housing associations' delivery. The government has made clear that it wants to put affordable housing "at the heart of [its] plan to deliver 1.5 million homes" and has pledged to deliver the "biggest boost to social and affordable housing". As such, as the Comprehensive Spending Review approaches in June, the key question facing the government is how it can provide the support the sector needs to ramp up housebuilding before the next election, while managing its increasingly tight fiscal situation.

A new Affordable Homes Programme, with longer term funding certainty, will be vital for housing associations, especially for the delivery of social rent homes where there is an acute shortage after delivery has fallen substantially in the past decade. However, to bolster this and deliver on its mission with limited resources, the government will need to consider what actions it can take to drive greater private investment into affordable housing and how it can support the sector to draw on wider financing mechanisms to ramp up construction.

There are already examples of new models for financing affordable rent housing in the UK which do this. For instance, the Scottish Government and Greater Manchester Combined Authorities have given a mixture of low-interest loans and equity investment to funds established to deliver affordable housing for key workers on low incomes. They have been able to leverage substantial investment from pension funds and private investment to drive urban regeneration and enhance the affordability of what would otherwise be market rate housing.

This report makes the case that to deliver on its twin objectives of delivering affordable homes and driving growth, the government should consider how it can scale up these mechanisms to a national approach. To do this, it should consider two options.

01 Establishing Homes England as an affordable housing investment bank

At the Autumn Budget, the government changed the measure of debt used in the fiscal rules to "Net Financial Debt", which includes the value of financial transactions as well as their costs. The government should harness this change to invest in, or issue low-cost loans to, funds focused on delivering affordable housing, drawing on existing programmes in Scotland and Greater Manchester.

The government should bolster Homes England's role in investing in funds established to deliver these projects, giving it the function of a national affordable housing investment bank and designating it as an expert financial institution under the Financial Transactions Control Framework. This would provide a low-cost route for government to support housing associations to substantially increase housebuilding and mean that grant funding could be more targeted on social housing, which requires a higher level of government subsidy. It would also support the government in its ambition of encouraging pension funds to diversify their portfolios and focus on UK assets that are integral to economic growth.

02 Bolstering combined authority capacity for innovative affordable housing investment

Through the English Devolution White Paper, the government set a clear ambition to devolve more powers and funding for housing and regeneration to Combined Authorities and new Strategic Authorities. Many councils currently don't have the resources, expertise or risk appetite to explore more innovative options for financing affordable housing delivery, which is holding back supply. As part of its approach to new Integrated Settlements for Combined Authorities, the government should consider how it can support them to explore these options, including investing in affordable housing funds.

This could be through a dedicated service in Homes England, which provides expertise and capacity to support local authorities to structure arrangements with housing associations and private investors to leverage their financial resources. Alternatively, the government could provide funding for local authorities to recruit in-house expertise and issue national guidance on best practices.

The economic case for regeneration

As the government considers its options ahead of the Comprehensive Spending Review, it should reflect on the reasons why building 1.5 million homes is a key milestone on its mission to drive economic growth. It is partly about unleashing the UK's construction industry. Yet, the longer term economic benefits come from ensuring people can live near the most productive jobs and providing them with secure and affordable housing which enables them to thrive and spend more of their income supporting the wider economy.

It is for this reason that if the government is investing in housing to bolster economic growth, it should target its funds to support regeneration across the UK's urban centres. Underused and neglected brownfield sites are choking the growth of cities in the North and elsewhere in England, as they depress nearby house prices, limit opportunities to live near to job opportunities and starve local businesses of potential customers. By developing high quality, affordable homes on these sites, the government can increase footfall for local businesses, attract productive workers into urban centres and drive up local tax revenues.

A major, and related, challenge facing housing associations is the quality of their existing stock. Analysis produced for Homes for the North by Savills found that around 136,000 homes in the social rented sector in the North of England don't meet the Decent Homes Standard and need to be redeveloped or substantially upgraded. For the majority of these homes, refurbishment is the cost-effective and sustainable option. However, Savills found that, for the 20% of medium and high rise developments and 7.5% of low rise developments with the highest repair and upgrade costs, the benefits to society from redevelopment far exceed those from refurbishment. Their analysis identified around 34,000 flats in the North of England where the net benefits of redevelopment outweighed those of refurbishment, not only taking into account construction costs but also carbon savings and a range of wider economic and social factors. This is equivalent to 9% of housing associations' total stocks of these properties in the North of England and almost 6 months housing supply against the government's new local housing need figures.

Yet, there is currently very little funding that can be used to redevelop sites with low quality homes or to regenerate brownfield land. The Affordable Homes Programme (AHP) requires funding to be used for net additional homes, meaning it cannot fund regeneration or replacement of end-of-life housing except for in exceptional circumstances. This includes an exception for "moribund" housing which is considered derelict or abandoned, but this test has been challenging to meet. In 2023, the government relaxed the net additionality requirement for the 2021-2026 AHP, allowing it to be used for redevelopment. However, with a tight deadline of starting projects by March 2025, it has had a fairly limited impact.

The government has recognised the importance of bringing brownfield land back into productive use. It announced a small amount of funding for brownfield land remediation through continuing with the last government's Brownfield Land Release Fund – issuing a further £68 million last October to 54 councils. However, this funding is only anticipated to deliver 5,200 homes across the country, and the government will need to consider further options to drive regeneration.

A key constraint limiting the government's ability to simply ramp up spending on regeneration and affordable housing is the challenging fiscal situation facing the Chancellor, with low growth and the highest levels of government debt relative to GDP since the 1960s. The government recognises that even facing these difficult fiscal circumstances, there is a need to increase capital investment to drive growth. This is why it changed its fiscal rules in the Autumn to enable borrowing to invest and to opt for a measure of debt which captured more of the benefits of these investments. A priority for the Chancellor as she looks for options to deliver on the government's objectives of substantially boosting housing delivery and growth is identifying how these changes can be harnessed to support new financing mechanisms that can crowd-in private investment alongside government funding to reduce the overall cost to the Treasury. Recent experience in Scotland and Manchester has demonstrated that there are options which fit this bill, which the government should consider how it can scale up.

Building on successful initiatives

While this is a relatively new area of policy development in the UK, there are parts of the country that have been able to demonstrate how well calibrated national or local government interventions can be used to de-risk investments in affordable housing and unlock substantial amounts financing from pension funds and the private sector.

For instance, in Scotland, the national government has used a combination of low-interest loans and equity investment from the Scottish National Investment Bank to drive investment into affordable rent properties. The Scottish government's focus was on expanding the "mid-market rent" tenure in Scotland, which is similar to affordable rent in England - at around 70-80% of market rents - but with eligibility restricted to those with low to moderate income, often with a focus on key workers.

The Scottish Government recognised that these homes provided a stable revenue, albeit slightly lower than market rate properties, but that investors, including pension funds, were largely unwilling to finance them, regarding them a risky asset. The key issues for investors considering these assets were:

Relatively low returns - while mid-market rent offered steady returns, they are lower than some alternate options and returns typically don't begin to flow until homes are built and rent is being paid.

Perceived delivery and reputational risks - these schemes tend to be delivered by smaller housing associations or local authorities, which may lack the track record, collateral or scale investors and lenders prefer. Investors often fear there could be reputational risks involved in housebuilding, given they are building people's homes and there could be issues.

Limited exit options - housing projects, especially rental schemes, are illiquid and often require a long-term capital commitment.

Geographic bias - private finance tends to flow to high-demand urban areas, with higher land values and rental yields, leaving some parts of the country including in Scotland and the North of England underserved.

To mitigate these challenges, the Scottish government adopted a blended finance approach, involving:

01

Offering low-interest loans to increase the affordability of projects that were already viable. This reduced borrowing costs, meaning homes which would normally be rented out at market rates, could instead be offered at discounted rates.

02

Providing equity investment from the Scottish National Investment Bank. This de-risked investment by signalling the government's confidence in the projects, helping to crowd-in private capital, notably from pension funds seeking longer-term income streams.

Through providing a low-interest loan of £47.5 million, alongside an equity investment of £60 billion from the Scottish National Investment Bank, the Scottish Government was able to attract £175 million of wider investment, including from the Strathclyde Pension fund. Not only is the programme set to deliver 1,200 affordable homes but the loan is due to be repaid over 25 years and the Scottish National Investment Bank is expected to make a positive return on its investment.

Following the success of this model, the Scottish Government announced it would invest a further £100 million in a new fund to deliver mid-market rent homes. Greater Manchester Combined Authority has also recently announced that it would pursue a similar approach through a new fund to deliver housing for key workers (see case study below).

A key part of the approach in Scotland and Manchester is the focus on regenerating urban brownfield sites. Both funds target urban brownfield land to make use of existing infrastructure. This not only reduces the projects' costs – enabling a higher level of affordability – but brings value to the local economy, by increasing land values and footfall for local businesses.

Importantly, the examples in Manchester and Scotland provide a clear demonstration of how the government can create the right incentives to increase UK pension fund investment into opportunities for economic growth in the UK.

Case study: Greater Manchester Combined Authority "key workers fund"

In March 2025, Greater Manchester Combined Authority announced that they would be working with Thriving Investments to invest in affordable housing and urban regeneration through a new "Key Workers Fund". Thriving Investments are part of the Places for People Group - one of Homes for the North's members - and delivered the mid-market rent fund for the Scottish Government. The fund will deliver a £150m regeneration project in Bolton town centre, bringing forward more than 200 discounted homes.

The Key Workers Fund will operate similarly to the model deployed in Scotland. GMCA will provide a £10 million low-interest loan to the fund, which will give investors confidence in the project for investors and support higher levels of affordability. In this case, with the involvement of GMCA, initial equity investments have been secured from the Greater Manchester Pension Fund, Better Society Capital and Places for People totalling £30m, with the fund targetting £200m in total.

THE PROCESS: HOW A SMALL INJECTION OF GMCA FUNDING WILL UNLOCK 200 DISCOUNTED HOMES

£10m
GMCA loan

GMCA provides £10m loan to fund managed by Thriving Investments.

→

£30m
initial equity investment

GMCA involvement helps secure initial investments of £30m from the Greater Manchester Pension Fund and wider investors. The fund expects to raise £3-4 of private investment for every £1 of government funding, targeting £200m in total.

→

200
homes

Thriving Investments are able to deliver 200 affordable homes and expects to pay pack the loan over 25 years.

Through lower financing costs, Thriving Investments will be able to convert what would ordinarily be market rate housing into discounted homes for key workers in Bolton and regenerate a strategic brownfield site in the centre of the city.

This approach is strongly aligned with the government's focus on driving private investment into areas prioritised in its missions, like housebuilding.

Similar to the approach envisioned under the National Wealth Fund, Thriving Investment's work in Manchester will leverage a small amount of government funding to make affordable housing a less risky and more attractive proposition for pension funds and other private investors. For every £1 of public funds, Thriving Investments expects to secure £3 to £4 of private investment.

THRIVING INVESTMENT'S APPROACH IN MANCHESTER

Aim	**Regenerating neglected brownfield** Targeting urban brownfield land to make use of existing infrastructure, to bring value to local economy and to attract businesses, investors and residents.	**Supporting local plan and economy** Focus is on sites which are aligned to local plan. Rather than creating facilities such as gyms, residents are encouraged to support existing local businesses.	**Delivering affordable homes** Deploying expertise and innovative financing to deliver more affordable housing over market rate, including for key workers.
Approach to fund	**Partnering with (local) government** Low cost government loans act as patient capital, helping to catalyse private investment into the fund used to deliver affordable housing.	**FCA-regulated fund** Financial Conduct Authority (FCA)-regulated status ensures robust risk control and provides an additional layer of confidence to investors.	**Leveraging pension fund investment** FCA backing and low-cost government financing derisks the investment in affordable housing from pension funds, who have traditionally only invested small amounts in the sector.

Pension funds have historically been reluctant to invest in affordable housing, as it is perceived to be a riskier asset given challenges related to regulation and tenants. However, Thriving Investment's approach has shown that with the involvement of national government or a Combined Authority and the right financial checks (such as the option to invest via an FCA-regulated fund), affordable housing can be de-risked as an investment option for the sector.

The opportunity

Scaling up to a national approach

The examples in Scotland and Greater Manchester demonstrate that government intervention and investment through affordable housing funds can leverage private investment and reduce the fiscal cost of delivering certain types of affordable homes.

This provides a vital tool for the government to deploy alongside wider housing programmes, which could play a significant role in supporting the government to deliver on its ambition to build 1.5 million homes and improve affordability this Parliament if rolled out more widely.

Expanding this approach is in line with the government's wider agenda. The government changed its fiscal approach in the Autumn Budget to redefine debt, recognising that financial transactions like these carry financial benefits for the government and not just costs. As part of its devolution agenda, the government has also set out an ambition to bolster combined authorities' roles in regeneration and housing.

There are two options that the government should explore ahead of the Comprehensive Spending Review to build on these agendas and enable greater investment in affordable housing funds:

1. Harnessing the change in the measure of public debt to establish Homes England as a national affordable housing investment bank.

2. Providing combined and strategic authorities with the resources and capabilities they need to invest in affordable housing funds as part of the devolution agenda.

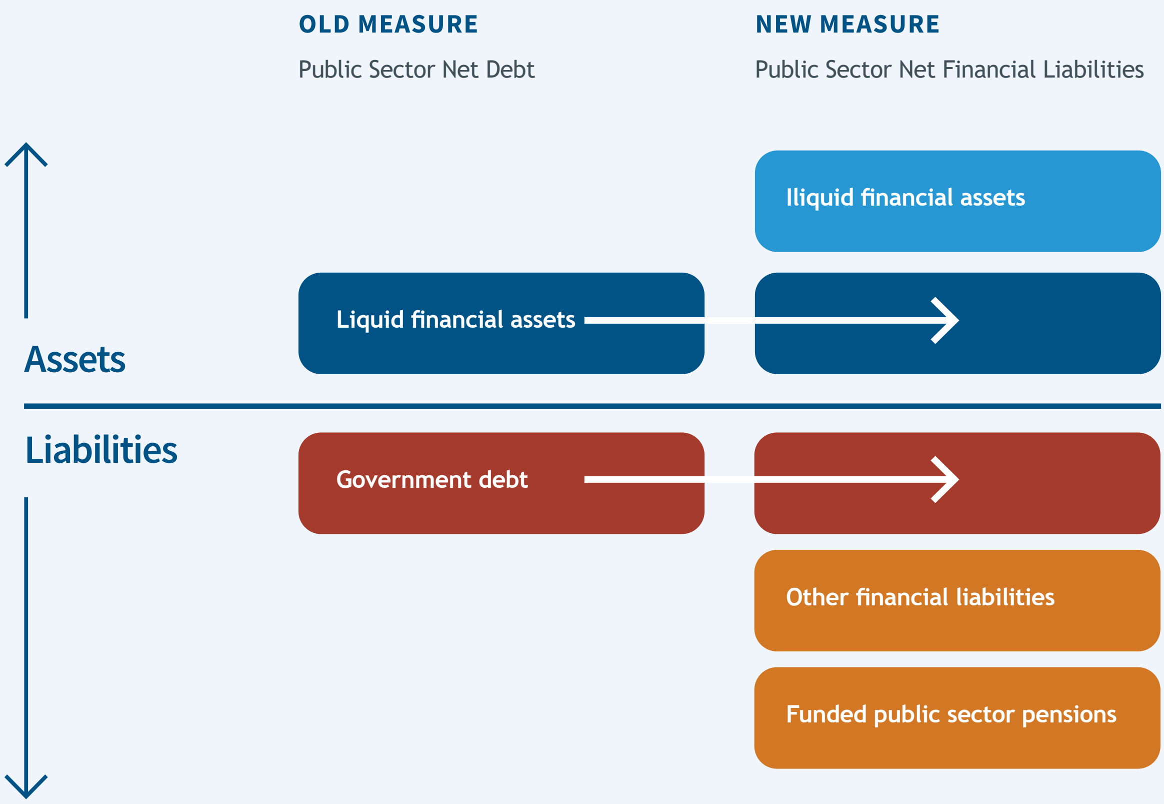
It is worth emphasising that these options are not a direct substitute for wider government grant funding, such as the Affordable Homes Programme. Their focus is on providing more affordable homes for rent and making these an attractive prospect for investors relies on a steady stream of income at a smaller discount on the market than for social rent homes. This is why they have been focused on key workers in Scotland and Greater Manchester. However, they would enable the government to target its grant funding on more discounted social rent homes where there is an acute shortage and use wider, lower-cost tools to deliver affordable rent homes. The government could also explore deploying wider grant funding alongside these mechanisms to offer a greater discount.

Opton 1: establishing Homes England as an affordable housing investment bank

At the Autumn Budget 2024, the government changed the measure of debt used in its fiscal rules from Public Sector Net Debt (PSND) to Public Sector Net Financial Liabilities (PSNFL) or "Net Financial Debt".

This change means that when the government spends money on illiquid financial transactions, such as equity investment or loans, the cost is added to government debt, but the value of the asset is now also deducted. This is different from grant funding from the government or projects directly built by the government, where the cost is added to the government's debt, but the corresponding value of these projects still isn't factored in.

As such, if the government were to invest more in housing through financial transactions, such as through equity investments or loans to funds set up to deliver affordable housing, the fiscal impact could be substantially smaller. For instance, if the government were to lend £10 million to an affordable housing fund, it would not only create a £10 million liability but also a £10 million loan asset, leaving the investment largely fiscally neutral. The same is true for an equity investment.



There are some constraints that the government would need to consider. Alongside the Budget, the government also published the "Financial Transaction Control Framework (FTCF)" setting out how it intends to use this change in the measure of debt. It published an updated version of this document in March 2025 alongside the Spring Statement. Importantly, the FTCF sets out criteria which must be met for government departments to use financial transactions, including:

- That the financial transaction should typically be used to address a market failure.
- That "concessionality" – where the government offers terms below its borrowing costs and lower than what would be possible in the market - should be limited to where necessary to deliver policy objectives. In these cases, any loss-making element should be recognised transparently, upfront in departments' budgets.
- That they should be delivered through an expert public financial institution.

In this case, the government has already recognised that there is a market failure whereby the market doesn't provide enough affordable homes where they are needed, which is the logic behind its wider interventions to support housing associations and housebuilding. Without government involvement, developers tend to focus on market rate housing – where margins are higher – and build-to-sell, which tends to offer faster, higher and more predictable returns.

The justification for using financial transactions to address this market failure is clear: low-cost government loans help to reduce borrowing costs, enabling discounted homes to be provided, and equity investments enable institutional investors to enter the market who face barriers without government involvement. This could support the government to deliver on its objective of securing UK pension fund investment into assets which are integral to the UK economy. It could also provide an investment opportunity for wider investors, such as the insurance industry which under Solvency II has an incentive to invest in long-term assets like affordable housing, as they reduce their capital requirements. Importantly, attracting this investment would be vital for how the investment is recorded by the government, as if the government has too large a stake in any fund it is likely to be considered government owned and not a financial transaction.

The government will have to offer loans at a discount to its borrowing costs, meaning that the portion of the costs required to subsidise the loan would be recorded in the Ministry of Housing, Communities and Local Government's budget. Yet, this would be a smaller cost than alternate forms of funding. The government would also receive returns on its equity investments once homes are completed and tenants begin to pay rent, which could create a "win-win" for the Treasury by covering the cost of the loan while making housing more affordable.

In terms of delivering these transactions through an appropriate entity, Homes England is already an active investor in housing markets and could be given designated as an expert public financial institution under the FTCF. The revised FTCF in March 2025 indicated that the HM Treasury is working with the Ministry of Housing, Communities and Local Government to consider how a suitable model could work with Homes England, ahead of a future decision on designation. HM Treasury will of course need to consider whether Homes England has adequate expertise to fulfil this role and ensure that it has robust investment frameworks in place to guide this kind of investment, as are used at the National Wealth Fund. However, as part of the process of designating Homes England as an expert financial institution, it could support Homes England to develop and recruit the relevant skills and expertise. An alternate mechanism for delivering this would be through extending the remit of the National Wealth Fund to cover housing, as was recently done for defence spending or through establishing a bespoke National Affordable Housing Bank (though this is likely to be more costly and take time to establish).

PROPOSED MODEL: NEW AFFORDABLE HOUSING INVESTMENT BANK IN HOMES ENGLAND

Government designates Homes England as expert financial institution and establishes affordable housing investment bank function. It creates funding pot which can be used for investment in funds designed to deliver affordable housing.

→

Homes England

Homes England creates new investment programme, setting out criteria for the government to invest in affordable housing funds if they can deliver certain levels of affordability and leverage wider private sector funding.

→

Affordable housing providers establish funds and bid into Homes England's programme for investment. The bids set out their approaches, what they will deliver and how they will leverage the government's investment.

→

Homes England issues low-cost loans and equity investments to selected funds. These funds contract housing associations to deliver and manage the affordable homes for rent. As rent is received, the loan is paid back, and the government receives returns on the equity investment.

Option 2: bolstering combined authority capacity for innovative affordable housing investment

The English Devolution White Paper set out the government's ambition to have universal coverage of Strategic Authorities across England - replacing all existing two-tier local authorities with unitary authorities serving functional economic areas where people live and work, of at least 1.5 million people.

As part of this shift, the government has set out that it wants to strengthen Mayors' planning powers and give them greater control of grant funding to support regeneration and housing delivery. This devolution of responsibility on housing and planning will be backed up with new Integrated Settlements, which will provide combined authorities with a consolidated budget across housing, regeneration, local growth, local transport, skills, retrofit, and employment support. The government has also set out that Homes England's operating model will be shifted to a more regionally focused approach to align with these models.

As the government devolves greater powers and funding for housing delivery, it should explore how it can support strategic authorities to deploy different methods for financing affordable housebuilding. This should include enabling them to offer low-cost loans and equity investments to affordable housing funds, in line with the approach Greater Manchester Combined Authority (set out in the case study above) is currently taking.

While councils are often well-placed to identify opportunities for regeneration, there are barriers that prevent them from exploring innovative methods for financing affordable housebuilding today, including:

1. **Limited capacity** – many stretched local authorities don't have the resources or capabilities to consider more complex investment mechanisms.
2. **Limited funding** – councils are facing severe funding pressures and most of their funding comes from central government. Many would not be able to borrow significant sums to make these kinds of investments.
3. **Risk aversion** – with limited guidance from the government and substantial pressures, opting for less tested methods for financing housing exposes local leaders to reputational risks.

As the government develops its Integrated Settlements with Combined Authorities, it should explore how it can support them to overcome these barriers to greater investment in affordable housing. There are two ways it could approach this:

01 Deploying targeted support via Homes England

As part of shifting to a more regionally focused approach at Homes England, the government could establish a dedicated team which works with combined authorities to provide expertise and support on innovative approaches to financing. This could include support on how to structure arrangements with housing associations and affordable housing funds and how best to leverage their funds to attract private and pension fund investment.

02 Providing funding for regional Innovative finance specialists

Alternatively, the government could encourage or require Combined Authorities to use their funding via their Integrated Settlements to procure this expertise in house. To support local authorities, the government could issue guidance on best practice for structuring these approaches to financing affordable housebuilding, drawing on the success of existing models in Scotland and Manchester.

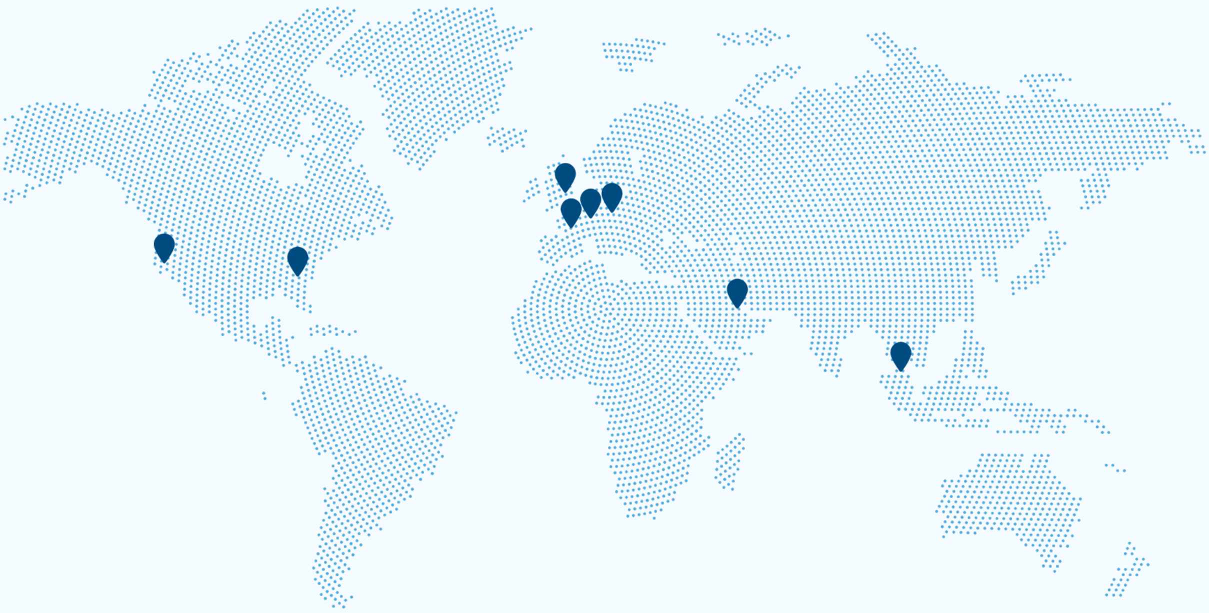
The government has selected Greater Manchester Combined Authority and West Midlands Combined Authority as its trailblazer authorities which will receive Integrated Settlements from 2025-26 onwards. It should explore how it can design these settlements and Homes England's role working with Combined Authorities to incentivise and enable greater use of public investment to leverage private investment in affordable housing.

About Global Counsel

Global Counsel is a strategic advisory business.

We help companies and investors across a wide range of sectors to anticipate the ways in which politics, regulation and public policymaking create both risk and opportunity - and to develop and implement strategies to meet these challenges. Our team has experience in politics and policymaking in national governments and international institutions backed with deep regional and local knowledge.

Our global team operates across Berlin, Brussels, Doha, London, Paris, San Francisco, Singapore and Washington DC, and are supported by a network of policymakers, businesses and advisers. Our partnership with The Messina Group and wider international network further strengthens our global reach.



Global Counsel Ltd

E: info@global-counsel.om
www.global-counsel.com

LEAD AUTHOR

Marley Miller
Associate Director
m.miller@global-counsel.com

Global Counsel

Homes for the North