HIGHBURY GROUP
ON HOUSING DELIVERY

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Briefing Paper 12: Funding Infrastructure and Public Goods

- The UK has a serious infrastructure deficit, especially in transport, energy and public services. Closing the gap demands higher levels of public and private investment and a more joined-up, lasting, strategic approach.
- Greater devolution, policy integration and a strengthening of public sector capacity and capability will help maximise funding potential.
- A more generous Affordable Housing Programme should enable funding to be granted in support of housing-related infrastructure.
- There is a case for an inter-regional programme to redirect a proportion of planning obligations from high value housing schemes to help fund infrastructure in lower value areas.
- Unlocking more capital from both public and private pension funds for social infrastructure will be helped by greater certainty on rental income and the blending or layering of investments.
- Housing and infrastructure are generally viewed as separate asset classes. Putting housing on the same playing field as transport and public services could spur investor interest. It should form part of the new National Infrastructure and Service Transformation Authority's remit.
- Other countries help lever private finance from long-standing development agencies. There is a case to set up something similar in the UK, building on the experience of the Regional Development Agencies.

Introduction

Infrastructure investment is the cornerstone of sustainable and inclusive growth. Yet, the country has a serious infrastructure deficit, particularly in transport and energy and for public goods and services.[1]

Housing and infrastructure strategy

The government has emphasised the importance of housing-related infrastructure investment to achieving its growth objectives. More investment in local infrastructure is planned from central government budgets and from dedicated funding bodies, such as the National Wealth Fund. The proposals in the Planning and Infrastructure Bill are also designed to speed up the approval and funding of major infrastructure projects.

The extent to which new investment will reach new housing schemes and finance refurbishment and decarbonisation of the existing stock will become clearer when the government publishes its 10-year Infrastructure Strategy in the forthcoming Spending Review.[2]

[1] EY's report 'Mind the (investment) gap' 2024 claimed £1.6trn worth of UK capital programmes and projects through to 2040 are currently unfunded

The new pro-development National Planning Policy Framework and the extra funding are expected to bring forward more land for development. However, the government will be mindful of past experience in getting capital projects delivered to budget and on time. Public investment, for example, was painfully slow to be disbursed under the Housing Infrastructure Fund, which offers councils grant funding for key infrastructure to support new housing developments.[3] Part of the reason for this was the lack of local capacity and capability. The National Infrastructure Commission has also highlighted how problems with the deployment of economic infrastructure create barriers to improving the efficient delivery of new housing.[4]

Planning gain

Capturing the uplift from housing developments under planning obligations (section 106 agreements and the Community Infrastructure Levy) to support social and affordable housing and community infrastructure has taken on greater significance.

However, requirements for local infrastructure vary and funding is shaped by the characteristics of each housing market. Low value areas where financial viability is stretched have limited access to planning gain to contribute to local infrastructure. **There is a case for an inter-regional programme to redirect a proportion of planning obligations from high value housing schemes to help fund infrastructure in lower value areas.**

Institutional investment

Institutional investment in both residential and affordable housing has increased in recent years. Investors have been attracted by stable returns and long-term capital appreciation. The government wants funds to play a much bigger role. According to Savills, with institutional investment currently standing at around 1%, the scope of opportunity for institutional investment into affordable housing and social infrastructure is considerable. [5]

According to research by the Smith Institute, housing and regeneration schemes with infrastructure demands attract mainly the larger funds, notably those that are able to bear the due diligence, legal, administrative and other management costs. **One way forward to engage more institutional investors, such as pension funds, lies in reducing risk by blending or layering social investments which minimise risk. Unlocking more capital from both public and private funds for social infrastructure will also be helped by greater certainty on rental income**. Many investors claim a 10-year rolling rent settlement, rather than rather than the five-year deal currently being proposed by ministers, would make a difference.

Kate Barker's recent review of housing supply sought to increase institutional investment in housing-led growth, "by creating a level playing field for tax, clarity of vision and consistency of regulation."[6]

However, arguably **the biggest challenge for fund managers seems to be finding new projects that align local housing and infrastructure investment and that offer well-designed investment schedules and good long-term returns.**[7]

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[2] See HMT '10-year infrastructure working paper' 2025

[3] Between 2017-24 only £1.3bn out of the £4.2bn Fund was spent by councils, Financial Times Jan. 2024

[4] National Infrastructure Commission, 'National Infrastructure Assessment' 2023

[5] Savills, 'UK Affordable housing: a guide for institutional investors' 2024

[6] Radix Big Tent Housing Commission, 'Beyond the Permacrisis: Delivering 1,000 Homes a Day' 2024

Housing as infrastructure

Housing and infrastructure are generally viewed as separate asset classes. Putting housing on the same playing field as transport and public services could spur increased investor interest. This could be taken forward by the new National Infrastructure and Service Transformation Authority, (NISTA) which has oversight of strategy and delivery of the government's ten-year infrastructure strategy. **NISTA's remit largely excludes housing related infrastructure. Including it could help change investor attitudes.**

Infrastructure and the Affordable Homes Programme

The recent top-up to the Affordable Housing Programme (AHP) and new flexibilities to allow capital grant to be used to fund replacement homes as part of wider estate regeneration plans have been welcomed by investors and housing providers. **Government could go further and under a more generous AHP programme enable grant funding to support housing-related infrastructure.** This would align better with the Government's infrastructure strategy and Homes England's strategic plan to drive housing-led regeneration.

Devolution

Experience in the UK and in the US and Europe suggest that local government and strategic authorities are better placed than central government to help places develop locally led infrastructure alongside housing and land use development. The government is taking a more decentralised approach and **the introduction of consolidated budgets for strategic authorities so they can move funding between housing, regeneration, and transport is a positive step forward.** However, maximising the benefits from further devolution will require more resources for local government.

Other countries help lever private finance from long-standing development agencies. There is a case to set up something similar in the UK, building on the experience of the Regional Development Agencies.

Conclusion

A prolonged period of political and economic uncertainty, short-termism and siloed policy making has deterred sufficient investment into housing and infrastructure. The government is seeking to change that and has embarked on a programme of radical housing, planning and funding reforms. Seeing those reforms through and joining them up effectively will be key to securing the public and private investment in local infrastructure the country desperately needs.

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[7] Smith Institute, 'Investing for Growth'