

# **BUILDING THE SOCIAL HOMES WE NEED**

## SOLVING THE LAND AND CAPACITY CHALLENGES

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## EXECUTIVE SUMMARY

The UK is in the midst of a housing crisis; the direct result of decades of bad housing policy. Fifty years ago the country had a fairly stable housing system where the need for secure, affordable housing of the middle class was largely met through homeownership, and that of the working class through widely available social housing. But a reliance on the private market to deliver homes since the 1980s, and the loss of millions of social homes over recent decades, has destroyed this system.

2019 marks 100 years since the Addison Act was passed, which introduced the notion of councils building social housing on a large scale. 5.5 million social homes were built over the next century, but the trend has slowed massively since the 1980s. In 2018-19, only 6,287 social rented homes were built.<sup>1</sup>

The decimation of social housing has led to new homeless families outnumbering new social homes by 8 to 1.<sup>2</sup> More and more families are pushed into a private rented sector that is insecure, unaffordable and unsafe.<sup>3</sup> More than a million families are stuck on waiting lists for social housing.<sup>4</sup>

Recent years have seen a wave of calls for this failed system to be overturned, as more and more people recognise that the market has failed to deliver homes for those at the sharpest end of the housing crisis. Shelter has called for 3.1 million new social homes over 20 years to meet real need,<sup>5</sup> and numerous other housing organisations are calling for a similar scale of development.<sup>6,7</sup>

The need for a large-scale social housebuilding programme is increasingly recognised by organisations across the political spectrum,<sup>8</sup> but a number of factors have changed since the post-war heyday of social housebuilding by councils. Some of the issues that must be overcome to build the next generation of social homes are:

- The price of land sits at the heart of the housing crisis. The cost of land, the value of which has increased fivefold since 1995, effectively makes building social housing considerably more expensive, and means that little can be gained from private developers through the planning system.
- The availability of land, especially as government and councils sell publicly owned land to developers who build few social homes.
- The capacity and skills of local government, who have lost both the funding and the skills necessary to develop in the ways they did post-war.

- Developing at the scale and speed we need to, while embracing new environmentally sustainable methods necessary to curb the carbon emission contributions of housing and construction in the UK.

This report explores these challenges, before outlining two solutions. First, we propose that the government's current policy to sell off public land to the highest bidder is short-sighted and should be overturned. Given the central role land plays in the housing system, and the barrier it poses to building the homes we need, we argue that **public land should be ring-fenced for the provision of social housing where appropriate**. Our research finds that public land could offer enough space for 200-250,000 social homes in the next parliament, with 100,000 of that on central government land. This includes a lot of capacity in many of the places with the greatest levels of need, like London, and could make an important contribution to 150,000 new social homes we need to build per year if we are to meet the deficit in social homes in twenty years. We also show that using no-cost public land in a social housing programme of this scale could deliver a 62% reduction in the grant levels needed for those homes built on former public land.<sup>9</sup> When combined with significant investment in social housing it could play a critical role in the delivery of a large scale social housebuilding programme.

Second, we outline a **potential vehicle to coordinate land and delivery; a Public Land and Housing Corporation**. The remit of this body would be to assemble a **pipeline of land, beginning with central government public land and then also acquiring private land, to accelerate the building of the next generation of social housing**. This central government body would also directly oversee all developments on central government land, either developing directly themselves, or entering into partnerships with housing associations to boost delivery, contributing 50,000 new homes a year. We make clear that central government will need to provide a crucial part of the capacity if we are to meet ambitious social housebuilding targets. Alongside councils, housing associations and Section 106 delivery through the planning system, we show how the Public Land and Housing Corporation can help us build the 150,000 new social homes we need a year.

Bringing more land into public ownership, and strategically assembling sites for developing social housing are one part of the jigsaw in building the social housing we need.

## INTRODUCTION



The UK has a deep and worsening housing crisis. There are growing numbers of families and older people trapped in the insecure private rented sector, homelessness has doubled since 2010, there is a vast housing benefit bill, and estimates of social housing need are now as high as 3.1 million homes.<sup>10</sup> Decades of reliance on the free market to meet housing need have resulted in a housing system radically failing to meet the need for affordable, secure housing.

Historically, homes for social rent were built at scale by the government to meet the need for affordable, secure housing for less well-off people. For much of the period between 1948 and 1978, local authorities were responsible for building more than 90,000 homes a year. In 1979, local authorities owned almost 5.2 million homes.<sup>11</sup> However, by the 1990s the numbers of homes built by councils had declined to under 15,000. And now local authorities retain just under 1.6 million homes, with millions of homes lost through Right to Buy, and others transferred to housing associations.<sup>12</sup>

We now rely on two primary means of delivering affordable housing: the planning system, and housing associations. But the 'planning gain' method - requiring developers to build some affordable homes as a requirement of their planning permission - has failed to deliver homes at anything like the scale we need, and often developers use loopholes to evade the requirements at all.<sup>13</sup> And the amount that housing associations and councils can deliver is in large part determined by how much central government grant is available, which successive governments have reduced in recent decades to levels significantly down on the era of largescale social housebuilding.

In terms of new stock, the introduction of new types of 'affordable housing' in 2011-12 have further crowded out more social rented housing. New types of 'affordable housing' include homes let at affordable rents (which can be up to 80% of market rents). Since the inclusion of these homes under the 'affordable' umbrella, developers, central government and some councils have been favouring them over more costly social housing. A total of 6,287 new homes for social rent were supplied in 2018-19, making up 11% of all new affordable housing supply.<sup>14</sup> By contrast, in 2011-12 there were 37,677 new social rent units supplied (65% of all new affordable housing), and in the early 1990s social rent made up over 75% of new affordable housing supply.<sup>15</sup>

But housing bodies are increasingly recognising the need to replenish and deliver a new generation of social rented housing in the UK. Shelter has called for 3.1 million new social homes over the next 20 years,<sup>16</sup> and other organisations including the National Housing Federation<sup>17</sup> and Crisis have called for a huge increase in social housebuilding to address the backlog.<sup>18</sup>

This report will not directly address the case for social housing; the argument here has largely been won, what is absent is the political will. Instead it will address some of the challenges of building social housing on a large scale.

There are challenges that didn't exist to the same extent for much of the post-war building heyday. The price of land has increased, funding for social housing has been reduced and the skills and capacity of local authorities have decreased in line with this. Meanwhile the speculative market-driven development model has taken hold, with the profit imperative squeezing out social housing. At the same time, the UK parliament has declared a climate emergency, which must sit front and centre of any housebuilding programme we undertake.<sup>19</sup> This report will outline some of these new challenges, before recommending an approach that addresses them and paves the way for a new generation of social housebuilding.

For generations social housing played a vital role in meeting the housing needs of people for whom buying was not an option or a desire, giving millions the quality and dignity of life that the market could not. As home ownership has become even more out of reach, and private renting is insecure and often unaffordable, it's time to reinvest in this key pillar of our welfare state, and treat social housing as a fundamental asset like the NHS or education.

# 1. THE BARRIERS

This section explores some of the key barriers that the UK faces in building the social housing we need to tackle the housing crisis; the cost of land, the availability of land, skills and capacity, and climate breakdown.

## 1.1 THE COST OF LAND

The unique role of land in our economy has been ignored for several decades. However, as the severity of the housing crisis has grown, and become central to the public anger over falling living standards, this has started to shift. Soaring house prices and rents, the under-supply of social housing and growing levels of homelessness have increased political pressure to act and opened up a genuine debate about the critical role of land in the housing crisis.<sup>20</sup>

Various studies have modelled how much of the cost of a home is made up by the cost of the land and found that it can be up to 70% depending on geographic location.<sup>21</sup> A recent study of 14 advanced economies found that 81% of house price increases

between 1950 and 2012 can be attributed to rising land prices (the remainder is explained by rising construction costs).<sup>22</sup> But in the UK, land value is particularly high; land values have risen 544% since 1995,<sup>23</sup> and in 2016, land accounted for 51% of the UK's net worth, higher than any other measured G7 country.<sup>24</sup>

The last few decades in the UK have seen a move away from the mixed model of development, and an increased reliance on private developers for the majority of housing output, whose business model is speculative. This combined with the rules which fix land prices means that land prices have skyrocketed. Developers offer high prices for land, on the assumption that they can build expensive, private market homes, and drip-feed these homes onto the market to keep prices high. Speculation in property markets has so far helped to ensure that there is almost always high demand for these homes from investors. Landowners generally sell to the highest bidder, and because land acquisition is usually the largest single cost in new housebuilding, the price the developer pays determines much of what happens on site. In a competitive market for land, the developer that makes the most bullish projections of sale prices will be able to offer the landowner the most and secure the site. In addition, the Land Compensation Act 1961 gives landowners an entitlement to 'hope value' on their land, which essentially means that the value of a plot of land depends not on what it is currently used for, but what it could be used for (e.g. housing) with planning permission. So a farmer's field, which might have a sale value of £10,000 as a field, could be worth more than a hundred times that amount if it had prospects of planning permission for housing. This system delivers huge windfalls for landowners, land traders and developers.

The cost of land now represents a major barrier to social housing delivery, for two reasons. Firstly, because, having paid such an inflated price for the land, developers need to build homes which meet these high costs, plus a profit, which makes extracting social homes via the planning system hard. Secondly, social housebuilders struggle to build large amounts of social housing, with rents well below market, and break even without a significant government grant - which is currently largely unavailable - because land prices are so high. Our research has shown that between 2011/12 and 2014/15, the top 10% of local authorities in terms of land values experienced around a 70% drop in the numbers of new affordable/social rent homes. This compares to a drop of 20% in the rest of England.<sup>25</sup> Following the lifting of the Housing Revenue Account (HRA) debt cap - which limited how much councils were able to borrow - councils now cite access to and the cost of land as the primary barrier to social housebuilding.<sup>26</sup>

## 1.2 AVAILABILITY OF LAND

A related problem to the cost of acquiring new land, is the availability of land already in public ownership. A large proportion of the social homes we need must be built by councils themselves. But a 2017 survey found that lack of land was the highest rated reason for not engaging in housing delivery by local authorities, with almost 90% councils agreeing.<sup>27</sup> Conversely, those authorities who are delivering housing have primarily been doing so using their own sites.<sup>28</sup> National and local-level government have historically owned a large amount of land, and the potential for this publicly owned land to deliver housing has not gone unnoticed. Since 2011, the coalition and Conservative-led governments have pushed policies encouraging the disposal of public land with the stated objective of stimulating housing supply. Across two policies running from 2011-15 and 2015-2020, enough central government land for 260,000 homes was set to be sold. However, because of the speculative model of housing and land outlined above, the results of this public land sale have been pitiful.

The public land sale has been criticised from a number of angles. The National Audit Office's review of the policy from 2011-2015 found that the Ministry for Housing Communities and Local Government (MHCLG) could not demonstrate how the programme had helped to address the housing shortage or achieved value for money.<sup>29</sup> A Public Accounts Committee (PAC) review of the programme stated that "the government has wasted a once-in-a-generation opportunity to alleviate the nation's housing crisis by failing to develop a strategy for public land disposal."<sup>30</sup>

The aim of the latest 2015-20 policy has been to release enough central government land for 160,000 homes. But in May 2019, the government reported that only 402 sites with capacity for 38,000 homes had been sold.<sup>31</sup> By the end of the programme, MHCLG anticipates departments will dispose of land for 65,211 homes, missing the target by 94,789. On current projections, the government expects to have released enough land for 145,727 homes by 2025, still short of the 160,000 target by 2020.<sup>32</sup>

Despite the clear and well-evidenced need for social housing specifically, the government has never made any affordable housing targets for surplus public land, nor have they recorded or published any data on the subject. The latest PAC report strongly criticised MHCLG's approach to affordable housing and the public land sale: "It is unacceptable that the Ministry of Housing, Communities and Local Government pays so little attention to how the release of public land could be used to deliver affordable homes including social homes for rent."<sup>33</sup>

NEF has undertaken new research analysing the public land sale since 2011 in terms of the provision of affordable housing.<sup>34</sup> This research found:

- Only 23% of homes built on surplus central government land are any category of “affordable”. The majority of these use the government’s widely criticised definition of affordable which is up to 80% of market rates.
- As little as 6% of homes built on surplus central government land are for social rented housing, which is genuinely affordable.<sup>35</sup>

On top of the housing targets, which haven’t been met, the government hopes that the sale of public land between 2015-20 will generate £5bn in capital receipts.<sup>36</sup> It is expecting to meet this target, however according to the PAC this is “despite almost all departments being on course to miss their individual targets”.<sup>37</sup> One large and unplanned sale of the railway arches by Network Rail contributed almost £1.5bn, and so the outcome of the programme, in the view of the PAC, was “reliant on luck instead of judgment”.<sup>38</sup>

Alongside this central government programme, local authorities are also being encouraged to sell surplus land for housing, with “parallel proposals to use surplus public land for a further 160,000 homes over the parliament”.<sup>39</sup> However, no reports on progress of the local authority land sale have been published, nor formal scrutiny extended to its sale, and unlike the sale of central government land, the sale of public land by local authorities is not coordinated under one programme. Although less is known about the local authority land sale, it constitutes a perhaps larger transfer of land to the private sector than the central government land sale. A 2019 journalistic study in local authority land sales found 12,000 public land assets had been disposed of by councils since 2014/15.<sup>40</sup> The current central government programme has released just 402 sites to date.<sup>41</sup>

In terms of capital receipts, the local authority land sale likely also more than doubles the central government target. The Office for Budget Responsibility’s expectation is for local authorities to achieve £11.2bn from asset sales over the five years to 2020, much of which will be land.<sup>42</sup> The recent journalistic study focussing on land found a total sale value of £9.1bn since 2014 (more than double the recorded receipts for the most recent analysis of the central government land sale).<sup>43</sup>

Public land is clearly being rapidly privatised. Although it’s difficult to reach a full figure for the combined local and national public land sales currently being pursued by the government, recent analysis estimates that, since 1979, 10% of the British land mass has been passed from public to private hands.<sup>44</sup> Given the cost implications previously

outlined, public land could provide a significant contribution to boosting social housing numbers, enabling us to deliver more homes with central government grant which we will discuss in the second half of this paper.

### **1.3 SKILLS AND CAPACITY**

Delivering social housing at scale will require renewed public sector capacity, backed up by increased housing association capacity. Traditionally, councils were the vehicle for delivering social homes, but their capacity has been greatly reduced in recent decades. As the government pulled back from social housebuilding, and councils transferred their stock to housing associations, their housing and development teams have been greatly reduced. Around two hundred councils in England have disposed of all their stock, and so have no Housing Revenue Account (HRA) - the part of councils which holds council housing.<sup>45</sup> This means that less than half of councils in England have any stock to borrow against to build, and may not have teams working on delivering housing (although some have set up companies to do so). The 'hollowing out' in recent decades of council capacity for delivering homes will be a significant barrier to delivery. In 1979, 49% of all qualified architects in the UK worked in the public sector; now that figure is just 0.7%.<sup>46</sup> A rapid growth in public sector development capacity will be crucial to meet the need for social housing.

However, recent years have seen a slight increase in councils building in various ways. In addition to the lifting of the debt cap allowing councils to develop within their HRA, many councils have established private companies, wholly owned by the council, to deliver housing. These companies, which often deliver a mix of affordable and private homes, are also often used by councils to make up for a loss in funding by adding a new source of income.<sup>47</sup> However, this resurgence is nascent and council capacity is still significantly lower than the post-war era.

There is no doubt an appetite among many councils to build at a greater scale, but 56% of councils considering increasing their levels of housebuilding say they would need support with land identification, acquisition and assembly.<sup>48</sup> The challenge of building social housing at scale again, within the timescales needed, will be scaling up council capacity, utilising housing associations capacity, and developing new approaches to social housebuilding, which this report explores.

## 1.4 CLIMATE EMERGENCY

In 2019, following significant public pressure, the UK parliament declared a climate change emergency.<sup>49</sup> The government faces a huge task of moving to carbon neutrality by 2050, although the campaign for a Green New Deal is pushing for the more ambitious target of 2030. Whether 2030 or 2050, the role of housing and construction in this target cannot be overlooked. The amount of CO2 emissions that construction can generate is significant, accounting for almost 47% of total CO2 emissions of the UK.<sup>50</sup> In 2019, the government's Committee on Climate Change (CCC) found that our current approach to housing is failing in the following ways:

- The UK's legally binding climate change targets will not be met without the near-complete elimination of greenhouse gas emissions from UK buildings.
- Emissions reductions from UK homes have stalled, and energy use within homes actually increased between 2016-17.
- Current efforts to adapt the UK's housing stock to the impacts of climate change are lagging far behind what is needed.<sup>51</sup>

The requirement for all new homes to be low-carbon, energy and water resilient, and climate resistant is pressing. Yet the CCC found a skills gap in housing design and construction, as a result of changing government policy. This therefore represents a further skills and capacity gap that must be addressed in order to build the next generation of future-proof social housing.

## 2. PROPOSALS: ANSWERING THE LAND AND CAPACITY QUESTIONS

The remainder of this report outlines a blueprint for delivering much of the social housing needed, in the places we need, at the scale required, and in a timeframe which will solve the housing crisis within two decades. It starts by outlining the significant role that public land can play in solving the housing crisis, if the current government policy of disposing of it to the highest bidder was overhauled. It then goes on to outline a new vehicle - the Public Land and Housing Corporation - which will be crucial to delivering social homes, and significantly increase capacity. This vehicle will have responsibility for assembling public land from central government and private land, under renewed powers, as well as playing a significant role in the actual delivery of carbon-neutral social homes. The recommendations of the report provide a framework to assemble land, and then develop around a third of the social housing we need to meet the target of 150,000

new social homes/year. This, alongside increased council and housing association delivery, will meet the backlog in twenty years.

## **2.1 PROPOSAL 1: USE PUBLIC LAND FOR SOCIAL HOUSING**

### **The case for social housing on public land**

The present public land sale fails to build significant amounts of social housing, and therefore foregoes an opportunity to start building the homes for which we have the biggest need. But surplus public land could play a central role in expanding social housing delivery if the programme was radically redesigned.

There are a number of reasons that public land could play a uniquely helpful role in a land pipeline for social housebuilding. Firstly, following the lifting of the HRA debt cap, access to/the cost of land is now cited by councils as the primary barrier to social housebuilding.<sup>52</sup> In a recent report, over 50% of councils who were currently delivering homes identified a lack of land as a major barrier to increasing their delivery of housing, with no other obstacle more common apart from the now withdrawn debt cap.<sup>53</sup>

Secondly, public land, while not 'free' and still a form of subsidy, has practical advantages compared to private land. The land system as a whole is in urgent need of reform, and delivering an increased programme of social housebuilding will require public bodies to be able to purchase private land at fairer values. There have been calls from across the political spectrum to reform the Land Compensation Act to allow public sector purchase at closer to existing use values, backed by compulsory purchase, which will be discussed below. While this will make assembling private land for social housebuilding more straightforward and cheaper, it is not a panacea. It will take time to implement, and transactions, especially in the early years, may be challenged, which will significantly delay the benefits of the changes. Whereas public land provides a way of accelerating land assembly for social housebuilding now. In addition, it does not resolve the challenge presented by the finite nature of land, and its lack of availability in places where it is most needed for housing. Publicly owned land, especially in urban centres, is a resource which can be used to help reduce this challenge of assembling the amount of land needed, particularly perhaps in the early years of the increased social housebuilding programme. The public sector already owns the land, so does not need to acquire it, which will smooth and speed up the process of developing it for social housing.

Thirdly, building social housing on public land can also speed up build out rates, compared to disposal to the private sector. As the government has (at least partially)

acknowledged through the recent Letwin report into build-out rates, the private sector is in many ways incentivised to build slowly, so as not to disrupt prices.<sup>54</sup> Building social/affordable housing on public land can ensure increased build out rates, as the government can have greater control over the rate of building; the government is not constrained by the need to drip-feed homes onto the market, to avoid a downward pressure on prices, instead it will be building primarily non-market homes. Build out from developers is also highly sensitive to economic fluctuation, meaning it could be negatively impacted by uncertainty around Brexit. The UK has experienced four boom and bust cycles since the 1970s, making it one of the most volatile economies in the world. This has a major impact, including ‘distorting housing choices, driving up arrears and repossession rates, inhibiting housebuilding’.<sup>55</sup> Social housing’s counter-cyclical nature could therefore maintain or increase housebuilding numbers.<sup>56</sup>

Finally, and as we discuss below, in order to facilitate increased social housebuilding, the government will need to play a more interventionist role in land assembly and the land market, to create large developable sites, urban extensions, land for new towns and so on. Public land parcels can act as the anchor for this process.

### **How much social housing could be built on public land?**

Our research suggests surplus public land has significant potential for social housebuilding, although the government has not accurately quantified this potential. Across the two central government programmes 2011-2020, land sufficient for 178,000 homes is likely to be released. In addition to this, the larger capital receipts generated by local authority land and property sales, and at least 12,000 sites disposed of since 2014/15, suggest local authority land sales make a significant contribution towards land supply for housing. If the targets for land output had been met across central and local government, land sufficient for 320,000 homes – 160,000 on central government land, and 160,000 on local government land - would have been released in the period 2015-2020

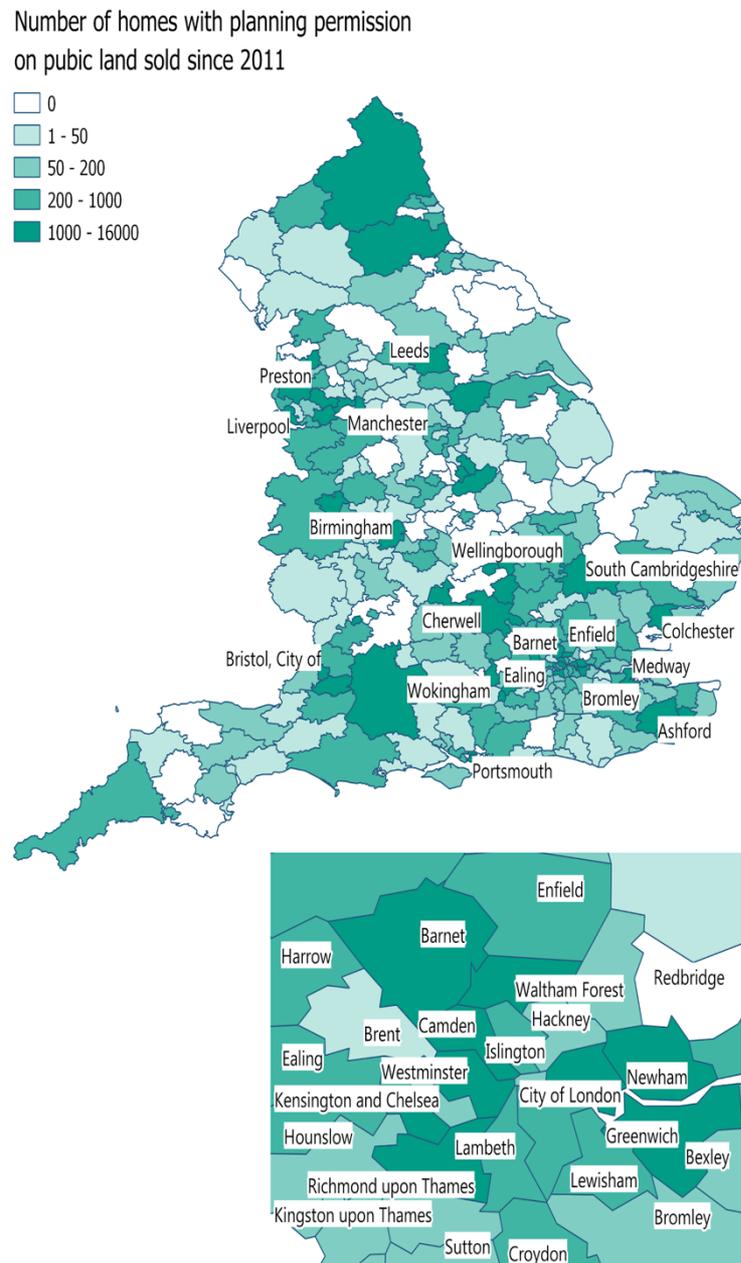
Analysis of MHCLG data on central government public land sold since 2011 shows where, and how many, social homes *could* have been delivered had the land sold been earmarked for social housing. Our map of the public land sale (Figure 1) uses data from planning permissions granted on public land sold by central government since 2011 to show potential social housing capacity on public land. It shows that many of the UK’s major cities - which have high social housing deficits - have sold land with significant housing capacity, which could have been used to deliver social housing had they not been sold to the highest bidder for market housing<sup>57</sup>:

- Our analysis shows that 43% of the housing capacity from the public land sale to date has been in London and the South East, two regions which together account for over a third of the national waiting list for social housing.<sup>58</sup>
- Six of the top twenty local authorities with highest housing capacity on public land sold are also six of the top twenty local authorities in terms of housing waiting lists.<sup>59</sup> They are Newham, Tower Hamlets, Medway, Birmingham, Manchester and Greenwich.

Figure 1 below shows local authorities' housing capacity on public land which has been sold. Those shaded darker have sold land with the most housing capacity. A selection of the top thirty local authorities in terms of the housing capacity of sold-off public land are labelled. A number of the UK's major cities, all with significant waiting lists for social housing, show high levels of housing capacity on public land.

Figure 1: Capacity for building social housing on public land, by local authority





Public sector land can clearly make a large contribution to meeting ambitious social housebuilding targets, and while some of the ‘low hanging fruit’ sites will now have been disposed of, significant potential will remain. However, there is a significant difference in data availability. Perhaps taking into account a discount for low hanging fruit and the amount of land already disposed of, but noting that the programme could be run more efficiently in the view of the PAC and National Audit Office, we could potentially forecast enough public land for 100,000 homes on central government land over five to ten years. Much less is known about local authority land sales, in particular how much is suitable for housing or how big the sites are. But given the significantly higher capital receipts, number of sites sold, and the fact that two-thirds of public sector

land is owned by local government,<sup>60</sup> we can estimate that 100-150,000 homes could be built on local authority land over the same timeframe. Although much more research is required on local authority land sales, together we could forecast 200-250,000 homes across central and local government in ten years, much of which could be in places of greatest need. If this was better coordinated than the current sell off, this could perhaps be accelerated into five years.

### **What are the financial implications?**

Leaving aside the question of local government-owned land due to insufficient data, we can explore the financial implications of using surplus central government land for social housing. Not only does the 2015-2020 public land for housing programme target the release of sufficient land for 160,000 homes, it also aims to deliver £5bn in capital receipts.<sup>61</sup> The following section explores the implications of building social housing on central government land.

The Cabinet Office is responsible for the financial target and expects to meet its £5bn target, while falling well short of its target on land for housing.<sup>62</sup> However, the recent PAC investigation into the programme found that the success on the financial target was “despite almost all departments being on course to miss their individual targets”.<sup>63</sup> One, large and unplanned sale of the railway arches by Network Rail contributed almost £1.5bn, and so the outcome of the programme, in the view of the PAC, was “reliant on luck instead of judgment”.<sup>64</sup> If we ignore this £1.5bn unexpected sale, a conservative estimate would be, on average, the sale of public land currently generates somewhere in the region of £0.7bn/year for central government. Redesigning the approach to public land to maximise social and affordable housing would reduce the size of capital receipts which could be generated for individual sales. As NEF research has shown, high land values preclude many socially beneficial uses of land, including building social and affordable housing, as maximum profit is required to meet high land costs.<sup>65</sup> Maximising affordable and social housing on public land is likely to often require foregoing capital receipts as the land is retained, although some could be recouped through individual property sales in mixed developments. For the cases where land would be sold or leased, sale at below the value which could be attained if the land was sold for private housing would be required

However, while the current policy generates short-term capital receipts, by disposing of the land asset, it foregoes the opportunity to develop long-term income streams for government, and other tax income and benefit savings.

In general, building social housing results in a long-term net asset for the government. Increased investment in social housing can deliver reduced housing benefit spend – which has more than doubled since the 90s, with the annual cost now £21bn.<sup>66</sup> It also generates a rental income stream, which can be captured by the government, if they retain some level of ownership over the homes. Additionally, this kind of investment can produce a sizeable multiplier effect, with a widespread economic boost.

Leaving aside the specific question of the financial role that public land can play in reducing borrowing for social housebuilding, the National Housing Federation (NHF) also recently modelled the grant required to meet what they assess as social/affordable housing need in England, which totals 145,000 homes per year for the decade from 2021, including 90,000 social rent homes/year.<sup>67</sup> Delivering this would require an average of £12.8bn annually in capital grant, in today's prices, with average grant per home of £123k. This grant level is significantly higher than in any currently active programmes, due to high levels of social rented housing. The research also found that investing in new homes would add £120bn per year to the economy, through the creation of jobs in construction and related industries across the country.

Using surplus central government land for housing could enable government borrowing for investment in social housing to deliver more homes. The primary costs of social housebuilding are the construction and land costs. Putting in free or low-cost public land can substantially reduce development costs, as land prices – which have increased rapidly in recent decades – can be a very significant portion of overall development costs.

In order to provide an indication of the role that public land could play in reducing the need for borrowing to build social housing, in a technical note the NHF have modelled the average reduction in grant required per home if the land was provided free of charge. Across the country, on their model, land price is on average 26% of scheme cost, with the figure much higher in some higher value regions. For an average house, the land cost per home is £76k, and the total house development cost is £285k. Based on the NHF's model, no-cost public land could deliver a 62% reduction in grant levels required for the average home on public land, reducing the average grant requirement for those homes from £123k to £47k.<sup>68</sup> Using surplus no or low-cost public land for building social housing reduces the need for government borrowing for many of the social homes we need, freeing up grant to be invested in further schemes, and accelerating social housing delivery. When combined with significant investment in social housing, public land could play a critical role in the delivery of a large scale social housebuilding programme.

However, despite these potential large savings in borrowing, like grant, free public land is a form of subsidy for social housebuilding. Deploying the land for free comes with the opportunity costs we have discussed above, in terms of foregoing some of the capital receipts for the land.

## **2.2 PROPOSAL 2: HOW TO COORDINATE AND DELIVER SOCIAL HOUSEBUILDING**

We currently have a housing and land system driven by private developers, who acquire land and build homes on a speculative model. The results are widening inequality between those who own land and those who don't, and huge windfall gains going to land promoters and private developers, who then drip-feed unaffordable properties onto the market, to avoid downturns in price. This model has not provided the kinds of homes we need to solve the housing crisis, and in current conditions, it never could.

We need development that is led by the public interest, and takes account of local voices and needs. During those decades in which we built the homes necessary to meet need, both in terms of location and affordability, we had a genuinely mixed economy of housing development. Now the vast majority of housebuilding is undertaken by speculative developers, and housebuilding has become radically dislocated from need. We need to move away from this model if we are going to solve the affordability crisis, and take up the growing calls for a mass public building programme.

Access to, and the cost of land are significant barriers to building social housing, for the reasons outlined in section 1. To build the levels of affordable housing needed and to ensure that it retains its affordable nature in perpetuity, more direct intervention in land ownership is necessary. This would help to ensure that uplifts in land value are shared broadly, and collectively.<sup>69</sup> Increasing democratic ownership of our economy can take the form of scaling up and growing public and collective ownership of land.

The second half of this report outlines our proposal for a new approach to social housing development, which would sit alongside council and housing association delivery. We propose the creation of a new body; the Public Land and Housing Corporation (PLHC). This central government body would be responsible for assembling and developing land in the public interest, primarily for social housing, meeting around a third of our need for social housing. It requires three elements, which this section will explore:

- The creation of a strategic body, with regional implementation.
- Bringing together public land and private land, acquired under revised land acquisition powers.

- Bringing significant amounts of housing delivery back in house, undertaken by central government.

In order to make best use of surplus public land and assemble the land pipeline needed to meet ambitious social housebuilding targets, a body with the powers and structure of the PLHC is necessary. Coordinated nationally, but delivered at a regional level, and in response to local contexts, the PLHC will be critical to reversing the deficit of social housebuilding.

The section will outline the roles and powers of a new vehicle, operating at a national and regional level, to demonstrate how central government public land can be coordinated and brought to development, alongside private land, to develop a significant proportion of the pipeline needed to deliver a massive increase in social housebuilding.

To meet the Shelter commission's target of 3.1 million social homes in 20 years, the UK will have to build over 150,000 units every year. The PLHC will play a major role in this, and we forecast could contribute around a third of the social homes we need.

Across central government public land, which we have estimated could deliver 100,000 homes over five years, and private land acquired through powers discussed below, we estimate that the PLHC could contribute 50,000 homes annually towards this target. The remaining 100,000 would be delivered elsewhere. Housing association capacity over the previous four years sits between 24,000-45,000 homes per year.<sup>70</sup> With support to improve output, this could perhaps be boosted to 50-60,000 annually, although some of this capacity may be taken up building homes in partnership with the PLHC and councils. The planning system, through Section 106 agreements, currently delivers on average 27,000 homes a year across the last four years.<sup>71</sup> This figure might reduce sizeably if the planning system is reset to require primarily social rented homes, as opposed to other affordable products such as shared ownership and affordable rent. However, we might still be able to deliver 10-20,000 homes via this route, with the majority social rented housing, perhaps with some grant directed to it to increase levels. The remainder - at least 20-40,000 homes - will need to be delivered by councils, who currently average around 2,000 homes/year according to government figures.<sup>72</sup> However a recent academic study estimated that they were in fact building around 13,000 homes/year, once all forms of council delivery were taken into account.<sup>73</sup> As we discussed above, council land could potentially deliver 100-150,000 homes over five years, although further research is needed. In any event, as is clear, increasing council capacity, and combining it with central government capacity through the PLHC will be essential to meeting the backlog.

The remainder of the report sets out how the PLHC will deliver 50,000 homes/year.

## **The creation of a strategic body**

Proposal:

- The PLHC should have a national coordinating body which implements its national strategy, set by government in consultation with key stakeholders including local government, housing associations, civil society, tenant groups, academics and house builders.
- The PLHC should have a role, from direct delivery to supervisory, in every project on central government public land, and on private land it acquires.
- The PLHC should be divided into regional bodies, who undertake land assembly and delivery projects at scale.

The PLHC should have a simple yet ambitious goal that is defined by the number of social houses to be built on central government land as part of large-scale developments. As we have just stated, we estimate that this could be around 50,000 homes annually. The PHLC should sit within Homes England, which already has a direct delivery programme.

## **KOREA LAND AND HOUSING CORPORATION (KLHC).**

Among all of the public corporations dealing with housing and land worldwide, the KLHC has one of the largest mandates, engages in the widest types of activities and has the greatest institutional authority to pursue its ends. When we compare the relative house price to income ratios of the UK and South Korea, it's clear that there are lessons to be learnt. In South Korea, the ratio of house prices to income declined from a base of 100 at the beginning of 1995 to 62.3 at the end of 2013, while the UK's shot up from 100 to 166.7, according to the OECD's data.<sup>74</sup>

South Korea, along with other countries such as Singapore, Taiwan and Hong Kong, operate a government land bank. The KLHC, which is a national agency, plays a strategic role by leading urban development and influencing land and property prices. A common feature of the government land banks is their ability to acquire land cheaply and hold it for future housing or commercial developments.

The Korean Land Corporation was founded in 1975 and merged in 2009 with the department responsible for housing to form the Korean Land and Housing Corporation. The KLHC performs four key functions:

- Constructs and supplies decent and affordable housing to those in need while improving their living environment.
- Develops residential areas, new towns, multi-functional administrative cities, innovation cities, as well as delivering large-scale regeneration projects.
- Develops industrial and logistics complexes.
- Performs land banking and management, rental housing management, and provides data on land and housing.<sup>75</sup>

The KLHC has played a major role in expanding housing supply in Korea, accounting for a good deal of the difference between movements in house price to income ratios in the UK and South Korea. Half of all residential and almost all industrial land development is carried out by KLHC.<sup>76</sup> Most of these new developments were in new towns, major housing developments, and industrial estates.

The KLHC has been critiqued for its highly centralised and top-down design of the organisation, which should be avoided in the creation of the PLHC. 'Although there are nods made to local consultation as a part of the planning process, the greater impression is of a body which plans self-sufficient projects without reference to many outside sources.'<sup>77</sup>

Evidence from around the world suggests that the government's role in the PLHC should be restricted to setting the overall structure and high-level goal of the corporation, in terms of new units built. Figure 2 below shows the overall governance model of the PLHC. The board would manage governance of the body and ensure that

it met its agreed aims and objectives. Its operations and strategy should be set at the national level by its board which should consist of tenant representatives, representatives from national and local government as well as social landlord representatives. At the regional level, where the assembly and delivery take place, the boards would consist of tenants, local people and community organisations as well as local government and social landlord representatives. Homes England currently have no strategy for community engagement about surplus public land sites. The PLHC should put local engagement, and local and community representation in decision-making at its heart.

Figure 2: Governance of the PLHC



## Coordinating the use of public land for social housing

Proposal:

- The PLHC should coordinate all or most surplus public land which is not held by local authorities.

## Identifying Surplus Land

The current process for identifying and bringing forward surplus land for development relies on individual departments to do this themselves. The national PLHC could provide a consulting role for all public sector bodies to help them identify surplus land. It would provide a service that would audit the land and property assets of a public sector body and together identify potential surplus land.

In addition, since public land ownership is distributed across a large number of public sector owners there are opportunities that are not identified because it would require coordination across a number of public bodies. The PLHC could therefore also develop a regional or locality based service where it would collectively audit the land and property assets of central government public sector land owners in an area

Evidence for the potential of this approach comes from the experience of Place Partnership, a scheme in Worcestershire, where because they manage the land and property of six different public sector bodies they are able to make additional land available for development by looking at the operational needs of the six bodies as a whole and co-locating services and maximising the use of existing property.

### **PLACE PARTNERSHIPS – A LOCAL MUTUAL**

Place Partnerships is a mutual, meaning that it is owned by its customers, created in 2015 and set up with support from the One Public Estate team. Place Partnerships was established and is owned equally by six local public sector agencies, Worcester City Council, Worcestershire County Council, Hereford & Worcester Fire Authority, Redditch Borough Council, West Mercia Police and Warwickshire Police in Worcestershire.

Place Partnerships has been charged with collectively managing their entire land and property portfolio with the goal of improving service delivery, lowering costs and releasing land and property for other uses.

Place Partnership demonstrates that public sector bodies can already benefit from combining their land and property assets without the need for additional legislation or central government action. It has succeeded in improving service delivery and lowering costs by, for example, aggregating property management services and rationalising the existing estate. The co-location of services has also freed up land and property, which can then either be utilised by the partnership or leased out to generate an income stream. Each of the partners has transferred the management of all their land and property to Place Partnership without transferring the actual ownership.

## **Going Beyond Public Land**

Proposal:

- The PLHC should be able to acquire land at existing use value.
- The PLHC should be an active assembler of land for development as well as creating a public land bank.
- The PLHC should be actively involved in creating the master plans for new developments.

- The PLHC should have the power to borrow money.

Many of the powers needed by the PLHC were held by the New Town Development Corporations and many are still on the statute books but are rarely or never used. These powers include acquiring land at use value, making planning and zoning decisions and the ability to raise money.

## **NEW TOWN DEVELOPMENT CORPORATIONS**

The New Town Development Corporations (NTDC) were set up in the 1940s to build New Towns around major metropolitan areas such as London to improve the quality of housing and the environment for people living in the inner city. 32 were built and the building programme generated over 1.4 million new homes.

The Development Corporations were endowed with extensive powers over land acquisition and planning. For example, they had the power to purchase land at existing use value, so that the cost of land was as little as 1% of the total price of construction. The ONS estimates that today land can account for up to 70% of the total value of property. The New Towns programme was supported by both Labour and Conservative governments in order to tackle the post-war housing crisis, and was provided with adequate financial resources to ensure that they could establish momentum in the early phases of development. Over time the sale of houses and land then provided considerable additional capital receipts which therefore necessitated less central government funding.

## **Changing Compulsory Purchase Powers**

In order to meet the ambitious target for social housebuilding, the PLHC will need to do more than use existing land owned by government departments better but will also need to acquire land. The PLHC should be able to use expanded compulsory purchase powers to enable it to purchase land at existing use value.

Many other countries, like Germany and Denmark, have created regulations which allow the state to purchase land at the existing use value of the land rather than having to compensate the owner for 'future hope value'. Implementing this in the UK would require altering the 1961 Land Compensation Act.

There has been a call to change to the Land Compensation Act from both Labour and Conservative parties. A government report, authored by Oliver Letwin, recommended that there should be a cap on the purchase price of land to 10 times their existing use value. Although a significant improvement on the usual increase of over 100 times between agricultural value of land and the value of land with planning permission for

housing, it still offers the potential of a huge windfall to a landowner who has done nothing productive and only been the beneficiary of a favourable planning decision. To illustrate the potential uplift in value that a change in planning permission can engender, a hectare of agricultural land can expect to be sold for £21k in the west of England, whereas the same land would cost £3.3M with residential planning permission.<sup>78</sup>

Analysis by Daniel Bentley for Civitas estimates that strengthening compulsory purchase rules while changing the compensation regime could reduce the cost of a high-density apartment blocks in London by 33%, which could significantly reduce the cost of delivering social housing, reducing the need for grant, and allowing grant programmes to deliver more social homes.

In addition, experience from around the world shows that places with strong compulsory purchase rules in fact result in little land being purchased compulsorily. The effect of the rules is in fact that landowners, 'aware that the land could be purchased by the state at near use value, landowners would be encouraged to part with land at a low but fair price.'

### **Becoming an Active Land Assembler**

Land assembly is the process of forming a single site from a number of properties, typically with a number of different owners. Land assembly is a critical activity because in many communities - especially in dense urban areas - an individual site may not be conducive to the type of development or redevelopment desired by the community.

Land assembly is often a complex and time-consuming process and can be a major barrier to delivering new homes, especially at scale. The PLHC should use the revised powers to purchase land at existing use value to play an active role by becoming a strategic land assembler. Combining public and private land, using new powers, the PLHC will hold the capacity and expertise for land assembly on this scale.

The PLHC would assemble land for specific projects, especially new town developments and urban extensions, which would also allow it to develop an asset base. The PLHC would also help bring land that is in suitable locations that requires remediation or key infrastructure to enable it to be used for social housing development. A recent Greater London Authority (GLA) report by Nick Falk concludes that the benefits of adopting a better land assembly model include: building extra homes faster, reducing costs and risks, joining up development and transport, creating stronger communities, tackling 'free riders and diversifying development.'<sup>79</sup>

## **UPPSALA LAND ASSEMBLY MODEL**

In the early 2000s the Swedish City Region of Uppsala was facing many of the same challenges that the UK currently faces. These shared challenges were that house builders were not able to meet the demand, especially for social and affordable housing, with the lack of supply leading in part to higher prices, compounded by a very concentrated housebuilding sector and a state unwilling to engage proactively in the land market in any meaningful way.

Unlike the UK, Uppsala decided to take action and developed a new model to deliver additional housing supply, which works as follows. First the council identifies the local need and creates the plans for a development that they want to build. It then purchases the land at existing use value. The council then develops the master plan which is divided into numerous sub-plots which are sold to different developers with a commitment to build specific types of housing on them within a given timeframe. An interesting feature of the system is that the price the land is sold onto the developers at is dependent on what is going to be built, meaning that land is cheaper for social housing than for market rate developments.

The changes to Uppsala's housebuilding programme have achieved tangible results and has demonstrated that an active role by local government in land supply does increase the supply of housing, gives a greater role to small volume house builders and improves the quality and diversity of the properties. In addition by delivering real results (i.e. building new good quality housing and improved infrastructure) they have managed to secure cross-party support for this initiative which expands the state's role.

## **Delivering People-Led Planning**

The PLHC regional boards will have a leading role in creating accelerated planning zones for specific larger developments taking account of the land they currently hold to assess what additional land is needed to be assembled. This process is akin to that for major infrastructure projects, and will reduce the time needed for planning to around a year.<sup>80</sup> Working with the PLHC, specific planning processes within the planning inspectorate will be established to accelerate the planning process, and all PLHC planning will occur within these processes. Within this accelerated process it will be vital to ensure real community engagement and consultation in projects – the need to build social housing should not trample over the need for greater democracy in the processes of deciding what gets built locally. This should be achieved by requiring the establishment of community advisory panels for larger PLHC schemes, which input into what the development looks like and provides for the community, beyond social

housing. For smaller schemes a pre-qualification condition of the accelerated planning process should be extensive community engagement. This will ensure that PLHC developments meet local need, and contribute to the local area and its amenities in ways which speculative developer-led housing so often fails to.

### **New Powers to Borrow Money**

The PLHC will need to be able to borrow money in order to buy the land and build the social housing that it will be mandated to do. There are two main routes the PLHC could go down to borrow money: the Public Works Loan Board (a central government body which typically lends to local authorities) and issuing its own bonds. A further source of capital could be a National Investment Bank along the lines proposed by NEF & Common Weal.<sup>81</sup>

### **Recycling Sales Receipts**

There will be a number of ways in which money will flow into the PLHC from its activities. For example, as we discuss below, in lease agreements with housing associations. In addition, when the PLHC does large scale developments it will build some market price units, and creating mixed tenure communities will mitigate some of the capital cost. These market price units can either be sold or rented out at market rates. This paper does not take a position on who should manage the social homes which the PLHC builds, although this could potentially be another source of income for the corporation.

Given the scale and depth of the housing crisis the PLHC should collect all receipts from sales, in order to use it to plough back into buying more land and building more social housing.

### **Delivery**

As we have seen in section 1, generating additional social housebuilding capacity will be crucial to meeting the backlog of social homes. With the decades long 'hollowing out' of councils' ability to build, we propose building capacity in central and local government, with the PLHC playing a major role, by delivering 50,000 homes/year.

#### **Proposals:**

- The PLHC should play a central role in delivery on central government public land and on land it has acquired through the powers above, directly developing large urban extensions, new towns and garden villages, building social housing

and some market housing, and assuming many of the powers that New Town Development Corporations wielded.

- The PHLC should partner with locally based housing associations and community land trusts through joint ventures, using public sector land leases.

## **Direct Delivery**

To meet social housing need, we need to switch current priorities, and adopt a presumption in favour of direct delivery. This will have the benefit of reversing the privatisation trend in public assets, and ensuring that the government has the greatest control over the effort to meet social housing need. The first consideration on developing land held in public ownership, or acquired from the private sector should therefore be: can this asset be retained, planned and developed in the public sector, or must an alternative be sought.

The PLHC itself will lead development and land assembly on many sites, including on central government surplus land. Much of the PLHC development should be larger scale new towns, urban extensions and garden villages. This development could include some market housing, alongside social housing, to deliver a capital receipt for government. Construction would likely be procured from the private sector, although in house construction capacity could be built up over time. EU procurement rules apply to contracted work, for example construction. Construction partners could be sought through a preferred provider panel, similar to that set up by the GLA to develop/acquire their public land. This can speed up the procurement process while making it rule compliant, if done over many sites.

## **Benefits of direct development**

- Direct development maintains the freehold and leasehold in public ownership. The department, treasury, or PHLC will therefore retain all of the value uplift and other financial benefits which will flow from the development and planning.
- Maintaining ownership and control can help prevent privatisation, and ensures that public assets are retained to be used for public benefit.
- The government will have the greatest possible control over what gets built, and how quickly it is built, including housing that meets need, and also housing that meets the UK's carbon neutral targets.
- Social housing held and controlled by the public sector is best placed to meet social policy needs.

- For public land sites, as the government already owns the land, the process would involve no land transaction, except potentially within government, which could expedite the process of building.

### **Public social partnerships: Delivery through public sector land leases**

Alongside direct delivery, harnessing the capacity of the housing association and community sector will be crucial to growing capacity for social housebuilding. Leasehold development, with the government maintaining the freehold, provides an effective way of drawing on the skills, finance and capacity of the housing association sector, while maintaining public assets. With ambitious social housebuilding targets, housing associations will need to play a major role in delivery on public and private land. And leasehold arrangements also provide an opportunity to increase land held by the commons through community land trust partnerships.

In this model, public land is deployed in a joint venture. The public sector retains the freehold, while a long lease is granted to a development partner. The public sector provides the land, while the partner provides finance, skills and capacity, and shares the risk. The income from rents would also be shared between the government and the partner, in a proportion determined by the nature of the deal.

Joint ventures are relatively common as part of the current land sale. However, many current public/private joint ventures on public land still currently dispose of the freehold, to the ultimate buyer of the (for sale) homes. In the current model, leases are used so that freehold stays with the government during development phase. The proposed leases here however, would retain the freehold in the public sector in perpetuity, and are designed to maximise social/affordable housing on the sites, and maintain assets in public control.

On the current model of joint ventures, the partner is often a private sector developer. However, in order to repurpose the public land sale to maximise social housing delivery, the most natural partner would be a housing association. Management of the homes would likely be undertaken by the partner, and so it would be appropriate for that partner to be a social housing provider, and not a private developer. Again, EU procurement rules would apply to partner procurement. Development partners could be sought through a preferred providers panel, similar to that set up by the GLA to develop/acquire their public land. This can speed up the procurement process, while making it rule compliant, if done over many sites, in a strategic partnership, so a new partner need not be procured each time the model is used.

## 3. CONSTRUCTION AND THE CLIMATE EMERGENCY

UK social housebuilding faces both significant risks and opportunities when it comes to the climate emergency. The amount of CO<sub>2</sub> emissions that construction can influence is significant, accounting for almost 47% of total CO<sub>2</sub> emissions of the UK.<sup>82</sup> If the UK pursued a direct delivery model of social housebuilding, or one in which it had significant say over what is built and how through public sector leases, this influence could be used to reduce emissions from construction and energy usage. For example, zero-carbon homes cost around 1.4 per cent more to build than a standard new home, but they have energy bills 80 per cent lower than the UK average. And some of the best zero-carbon homes are cheaper to build than the average home.<sup>83</sup> Delivering zero-carbon homes can not only help the UK meet the climate emergency, but also reduce energy bills for economically deprived communities.

Green Alliance UK have estimated that the additional cost of building a zero-carbon home would be paid off by savings in energy bills after around six years.<sup>84</sup> This translates to government savings too; in Germany, every €1 of public funds spent on energy-efficient construction resulted in €4 going back into the public finances in taxes and reduced welfare spending.<sup>85</sup> The PLHC would agree a set of standards for new homes that are fit for the climate emergency; built to be low carbon, energy and water efficient, and climate resilient, which would be enforced both through direct delivery and through public sector leases.

## 4. CONCLUSION

The radically revised approach that we have outlined in this working paper demonstrates the potential of a new approach to meeting the social housing deficit, and contributing to the ambitious social housebuilding targets that we need to set.

Shelter's call for 3.1 million social homes over 20 years is ambitious, but this paper has put together some of the jigsaw pieces needed to get us there. We have argued:

- The sale of public land to the highest bidder is short-sighted when the cost and availability of land is such a significant barrier to building social housing. Surplus central government land should be used to build social housing, effectively

replacing a significant proportion of the grant required. We estimate that surplus public land could deliver 200-250,000 homes, with 100,000 on central government public land.

- A Public Land and Housing Corporation should be established to strategically deploy surplus central government land, along with private land acquired at existing use value, to prepare the pipeline of land for social housing. It should be sited within Homes England, and have regional outposts, and be given many of the powers of New Town Development Corporations.
- The PLHC will engage in direct delivery on many sites, with a focus on larger projects. It will also engage housing associations through public sector land leases, to boost capacity.
- Shelter's target suggests the need to build over 150,000 social homes a year. We estimate this is achievable according to the following breakdown: the PLHC will directly deliver 50,000 homes/year, housing associations could deliver 50-60,000 homes/year, local authorities will deliver 20-40,000 homes/year, and the planning system will continue to mandate private developers to contribute 10-20,000 homes/year through Section 106 agreements.
- Like all areas of public policy, government action on housing must contribute to meeting the climate emergency. The homes built through the PLHC and any leased work should be zero-carbon, reducing energy costs, and building climate compatible housing.

The housing crisis is the biggest domestic policy challenge we face. Decades of laissez-faire housing policy has led to a system in which millions struggle to find adequate, affordable housing. The time for a change in direction is long overdue, and the calls for a renaissance in social housebuilding are getting louder. The recommendations in this paper provide a blueprint for building our way out of this crisis, and restoring the mixed model of housing development in an environmentally sustainable way.

## ENDNOTES

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