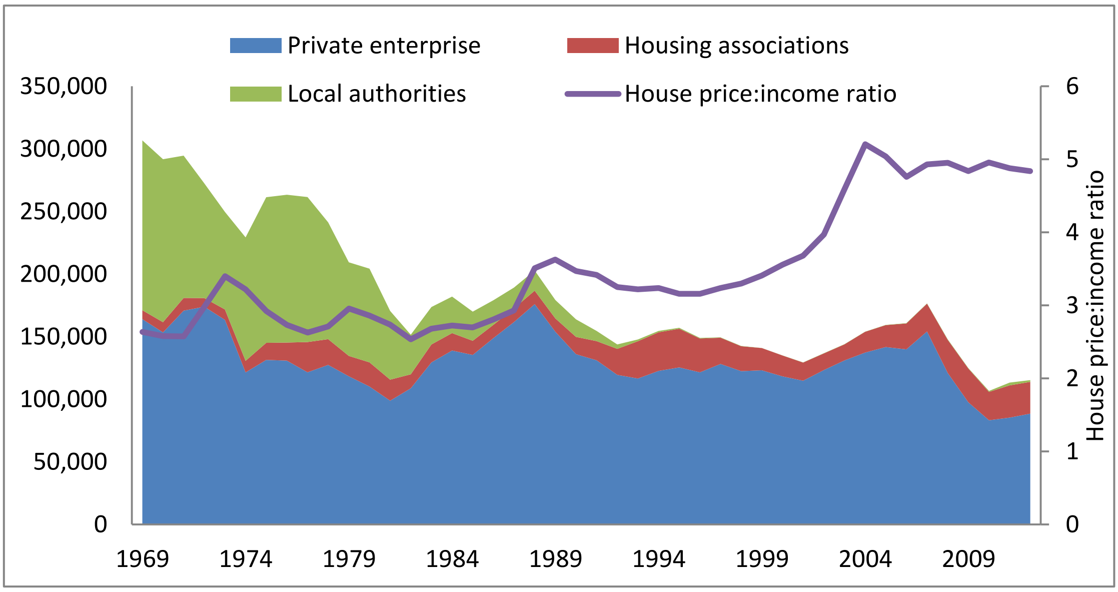
**Review of the Local Authority role in housing supply. Evidence from the Local Government Association.**

England needs to radically increase the number of houses built across all tenures. The government estimates that there will be an additional 221,000 households formed each year 2011-2021[1], however fewer than 110,000 homes were completed across all tenures in 2013[2]. This combination of rising demand and chronic undersupply has had a range of significant impacts on the way we live and the housing choices we make. Over 3 million adults aged 20-34 are now living with their parents[3], house prices are around 5 times average earnings and there are 1.7 million households on waiting lists[4] for affordable homes across England.

Councils share the government's ambition to tackle these issues by supporting an increase in house building. They are well placed to support a dramatic increase in the scale of house building provision if they are given the flexibilities to play their full part in delivery. As the graph[5] below demonstrates house building levels above 200,000 units per year look unachievable without reintroducing the conditions that allow councils to build. Successive administrations have reduced the scope and ability of councils to build houses directly and the hole left by council building programmes[6] has not been filled by the private sector, who have not delivered over 200,000 units since 1968, and Housing Associations.




[1] https://www.gov.uk/government/collections/household-projections
[2] Live table 244, CLG https://www.gov.uk/government/statistical-data-sets/live-tables-on-house-building
[3] http://www.ons.gov.uk/ons/rel/family-demography/young-adults-living-with-parents/2013/sty-young-adults.html
[4] Live table 600, CLG https://www.gov.uk/government/statistical-data-sets/live-tables-on-rents-lettings-and-tenancies
[5] Data, CLG
[6] Councils built 198,210 homes in England, 1953. In contrast they built just 130 units in 2004, England. CLG, Live Table 244.

**Where councils have been given an opportunity to build houses both directly and in partnership, they have taken it.**

For example:

**Councils are using their self-financing flexibilities to scale up direct investment in housing.** The reform of housing finance arrangements for stock owning authorities provided significant flexibilities for authorities which councils have made the most of in the last 2 years.

- Councils plan to invest at least £15 billion into their existing housing stock over 2013-18 to raise the quality of the stock for their tenants, an average of nearly £9,000 per property[7].
- Almost 90% of councils responding to an LGA survey said they were planning to build new housing through the Housing Revenue Account (HRA) in the next 5 years.
- Over 60% of councils responding to an LGA survey highlighted increased use of apprenticeship schemes and work experience for young people and support for local businesses (57%) as key wider economic benefits of local authority led development.

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| 45 councils responding to a recent LGA survey provided details on their build programmes, and alone planned to build 8,000 units. As an illustration, if all stock owning authorities built at this rate they would deliver approximately 28,000 new homes solely through the HRA over the next five years. This represents a significant scaling up in recent council house building levels, but is a long way short of what is needed to meet demand. |

**Councils are using their leadership position, assets and powers to bring under-utilised land on stream and attract housing investment in partnership.** Over 80% of stock owning councils responding to a recent LGA survey planned to work in partnership to support new housing development over the next five years. Twenty four councils indicated that they planned to deliver over 7,000 homes in partnership over the next five years[8]. Using these figures we can estimate that all councils in England plan to deliver 77,000 new homes in partnership over the next five years. **Funding should be made available for local authorities to commission technical financial and legal advice up front or access this advice from sector led bodies to support an extension of this work at scale.**

As a member of a partnership councils use a range of powers and tools to bring forward housing, including:

- Councils use the planning system to de risk and attract investment. Over 70% of councils have a local plan in place and councils approve almost 9 out of 10 planning applications they receive[9]. Councils also work across areas to develop

[7] http://www.arch-housing.org.uk/media/53865/arch_innovation_and_ambition_full.pdf
[8] http://www.local.gov.uk/documents/10180/49942/Housing+self-financing+survey+2014/8b077122-382b-4006-a0ba-f26a400ca1a8
[9] https://www.gov.uk/government/statistical-data-sets/live-tables-on-planning-application-statistics Table 120

planning protocols, renegotiating infrastructure contributions and supporting effective pre application discussions.

- 98% of councils report that they will make their own land available for housing over the next five years[10]. In the first year of the LGA's One Public Estate programmes the pilot local authorities, working with other public sector organisations project £21 million savings in running costs, almost £90 million in capital receipts and the creation of approximately 5,500 jobs and 7,500 new homes.
- The availability of skills and capacity in the construction industry and supply chain to respond an increase in house building is crucial. Devolving responsibility for employment, skills and welfare is the most effective way to ensure that local areas are equipped to respond to and attract growth locally.

Councils are also exploring alternative sources of investment for housing. The LGA is actively pursuing the establishment of a Municipal Bonds Agency to fund productive capital investment within the prudential code. With over 40 authorities already indicating interest and £3.9 billion potential new borrowing and refinancing identified over the next 3 years, the project is now further exploring the appetite for investing in the establishment of the Agency.

The Gateshead Regeneration Partnership will deliver 2,400 homes over the next 15 years. **Gateshead Council** is using its land assets to secure private finance through a local Asset Based Vehicle.

The **London Borough of Barking and Dagenham** formed a partnership with institutional investor Longharbour to develop 477 homes for affordable rent.

**Kettering Borough Council** has granted Planning Consent for a new Sustainable Urban Extension of 5,500 homes to the East of Kettering. The council agreed a 'soft start' on affordable housing commitments for the developers, with a requirement for only 10% affordable housing for the initial phases of the scheme, slowly escalating to achieve an overall agreed level of 20%. This is 10% below the councils policy position – that final 10% will only ever be achieved if, but only if, land values recover significantly.

**Eastleigh Borough Council** offered a "guaranteed purchase" model for developers who had sites with existing planning permission but were unsure if they could sell the houses, leading to stalled development. Under this arrangement the developer had an agreed period to sell, and the flats were in fact all sold to private buyers.

**With their wider role in economic development, councils are well placed to secure benefits to the local economy from house building projects.** This can be facilitated through contracts stipulating the use of local tradespeople and suppliers, and support for skills and employment in line with the Social Value Act.

[10] http://www.local.gov.uk/documents/10180/49942/Housing+self-financing+survey+2014/8b077122-382b-4006-a0ba-f26a400ca1a8

**Wolverhampton Homes** has a range of activities to promote jobs in the building industry among its tenants. The LEAP programme created 69 apprenticeships in two years, of which 58 have been sustained into employment. It also supports a social enterprise which provides training in building skills for young people not in mainstream education and for adults referred from the health service and other agencies.

**Gloucester City Homes** calculate that if they provide an apprenticeship to an unemployed young person (under 25) with the construction of every new house, then there will be an annual saving to the public purse of more than £9,800 each in terms of saved welfare benefits and increased tax income.

**Surrey County Council** have established an online and physical network for construction and built environment contracts. This included advertising by main contractors for supply-chain opportunities for local suppliers and supporting skills development across the area.

Exhausting the routes above will deliver an uplift in housing supply. It will not however be sufficient to close the shortfall in provision now or to meet the growing demand for housing in the future.

Councils must be given the financial flexibilities they need to be able to scale up housing development, both in partnership and directly. Stock owning councils are currently restricted in the amount they can borrow for house building[11] and investment in their existing housing stock. The caps take no account of housing pressure locally and vary significantly across councils, leaving some already at their borrowing limits just 2 years into the self-financing arrangements. Using data from councils responding to a recent LGA survey we can estimate that lifting the borrowing cap would allow councils to build around 76,000 houses over the next five years[12]. However, the review's terms of reference place recommendations such as this, which would result in a meaningful increase in local authority led house building, outside of scope.

Short term incremental reforms in relation to the HRA which are within the terms of the review could include maintaining the HRA borrowing cap in real terms through an annual inflationary increase, supporting individual council increases through the growth deal process and supporting councils to trade headroom locally. These measures would provide some help to councils without a removal or significant relaxation in the HRA borrowing cap.

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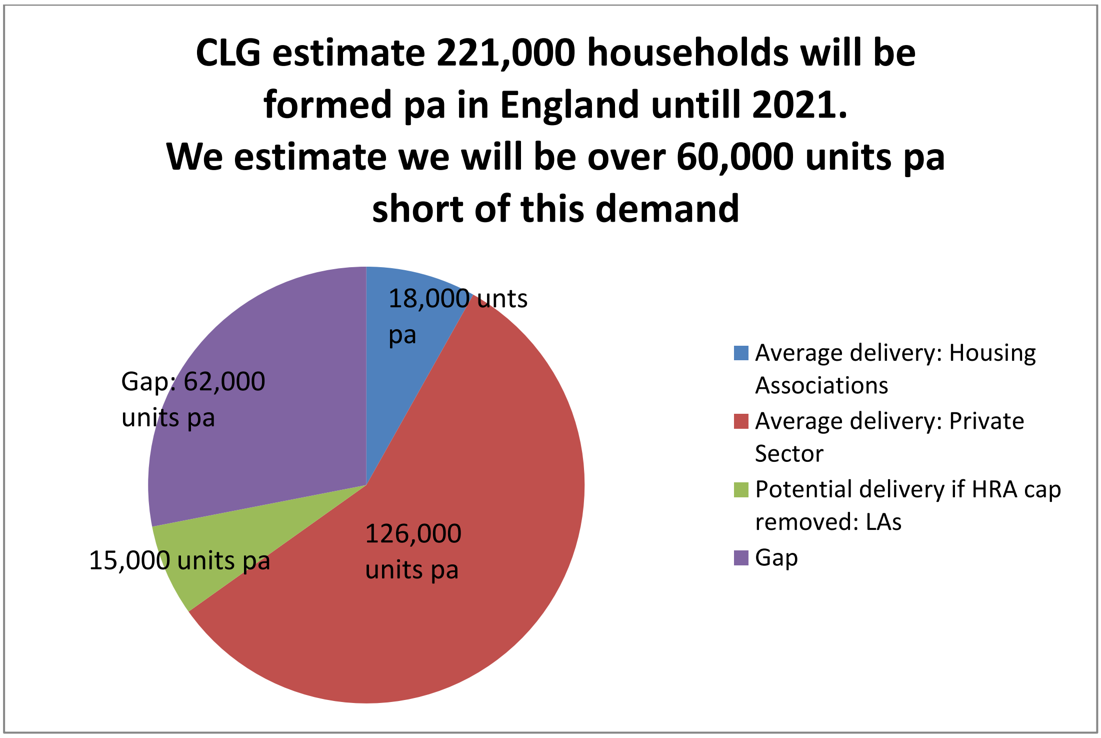
[11] Localism Act, 2011, section 171 http://www.legislation.gov.uk/ukpga/2011/20/section/171

[12] 45 councils responding to an LGA survey are planning to build over 8,000 homes over the next five years on their own account. We estimate that this could translate into an estimated 28,000 homes in England built by councils over the same period. Councils estimated that they would be able build almost twice as many additional homes if the Treasury restrictions on borrowing for house building were relaxed. We estimate that lifting the borrowing cap could therefore deliver an additional 48,000 homes over 5 years <u>on top</u> of the 28,000 already planned for delivery. Whilst in practice there is likely to be some variation between responding and non responding councils, it gives us a helpful indication of what the current position may be and is based on the best evidence currently available.

The Government's has recognised that the current constraint on local authority borrowing for housing investment is restricting councils' ability to build more homes. The time limited relaxation of the HRA borrowing cap by £300 million 2015-17 is an important first step. The process to access this borrowing must be simple and flexible to reflect local needs and arrangements with timescales that are realistic and rent levels are appropriate to the area, not centrally dictated. The current prospectus, with its detailed requirements risks dis-incentivising councils from accessing this additional borrowing.

CLG estimate that 221,000 households pa annum[13] will be formed in England between 2011 -2021. The chart below demonstrates that if we assume that the private sector and Housing Associations build in line with their 20 year delivery average and that the HRA borrowing cap is removed, we estimate that delivery remains over 60,000 units pa short of the government's household formation projections.



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The HRA borrowing cap should be lifted as a minimum. However it is clear that we need a wider range of further reaching reforms to support the delivery of housing in significantly greater numbers.

There are a range of reforms, outside of the HRA, that would support this.

[13]https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/190229/Stats_Release_2011FINALDRAFTv3.pdf

[14] Average house building rates calculated over 1973-2013. CLG, Table 244 House building: permanent dwellings completed, by tenure. Potential LA delivery drawn from LGA survey findings.

## 1. Accelerating housing development through more effective use of the public sector estate and supporting large scale development.

Supporting large scale housing development through the development of new towns and garden cities provides an opportunity to make strides in the delivery of housing in a coordinated and cohesive way.

Adequate long term investment in physical and social infrastructure is critical to the success of housing development and economic growth locally. In relation to large scale development CLG's review of transferrable lessons from the New Towns programme highlights that as infrastructure had to be installed in advance of population growth and demand, and thus before the increase in local council tax that the construction required significant finance over a considerable period of time[15]. Councils do not have the resources to fund the additional costs associated with large scale development of this kind. CIL contributions will also not be sufficient to close the infrastructure gap for the development. Any attempt to pass on the full costs of infrastructure to private sector developers is likely to render the development unviable and act as a significant disincentive to invest[16] .

There are a number of routes available to secure the land required for both large and smaller scale housing development in addition to progressing with such development in a way that allows the full costs of infrastructure to be funded without rendering the development unviable. These include:

a) **Broader Compulsory Purchase (CPO) powers.** Extending councils' powers to acquire land for major development at its existing use value. This would support and facilitate the development, infrastructure and community facilities using the uplift in land value capture. This proposal has parallels with the use of compulsory purchase powers in Europe[17].

b) **A rapid and large scale expansion of the current approach to deferred receipts on public land.** We are exploring ways of establishing a standard commercial deferred payment contract for this practice in the private sector. There are currently examples of both councils and government departments accepting deferred receipts on the use of public land for housing as a means of increasing the viability of the development and securing swift build out arrangements. However this practice is neither embedded across government nor operated on sites of a significant and strategic size. Indeed, it is not obvious it is the policy of the whole government: HMT's own guidance refers to the practice as 'novel and contentious'[18].

   Establishing a consistent approach to deferred payments across government would support the public sector to scale up this approach and unlock the potential for significant large scale development. This approach when delivered at scale would unlock the potential for the investment in upfront infrastructure needed for

[15] http://www.futurecommunities.net/files/images/Transferable_lessons_from_new_towns_0.pdf

[16] This issue has been raised as part of an analysis of schemes in the South and South East of England by property consultants GVA Unlocking Garden Cities, GVA, 2013

[17] For example the Netherlands – local authorities have traditionally purchased land at existing use value, provided infrastructure and services, and sold it to developers at a price that at least recovered costs

[18] HMT, 'Managing Public Money'

large scale urban extensions and garden cities. If extended to private landholdings, it would preserve the right of the landowner and developer to receive a commercial return albeit at a later date, giving the cash flow impact of the sub market CPOs detailed above, and thus the extra ability to invest upfront in infrastructure but without expropriating landowners.

c) **Public sector debt guarantees.** Debt guarantees have been used by central government to unlock housing development. DCLG for example, has set up debt guarantee scheme designed to support the large scale development of housing for the private rented sector.

Councils are advised to record debt guarantee schemes on their balance sheets[19], a requirement that does not apply to central government. It is right that councils manage financial risk appropriately and with proper contingency provision, but this comes at a high cost. There is scope for better synergy between central and local government on debt guarantee schemes, for example by the provision of an underlying guarantee from government that would allow councils to reduce the costs to their balance sheets when offering guarantees for housing locally.

d) Councils approve almost 9 out of 10 planning applications received[20] but many of these permissions remain outstanding. In 2013 there were an estimated 507,000 units with planning permission that had not yet been built out of which over half had yet to start[21]. Building out these permissions as a matter of urgency would reduce pressure elsewhere.

**Councils need to be able to create stronger incentives for developers to build out sites.** This is likely to require a range of powers which might include financial penalties for developers where they have allowed planning permissions to expire without commencing development, stronger compulsory purchase order powers and levies on land that is included within the local plan but has not been brought forward.

All powers should be enabling and should allow for exemptions in exceptional circumstances. For example, in cases where developers bought land as part of a wider regeneration scheme which has itself stalled or been withdrawn through no fault of the developer.

**2. A single local public sector surplus land bank to support housing development.**

Councils share the government's focus on using publicly owned land to support housing development. Local authorities have a strong track record in managing the use of their assets for housing and are forecast to release £13.3 billion of assets between 2015-18. This ranges from disposal programmes to the investment of land

[19] www.publications.parliament.uk/pa/cm201012/cmselect/cmcomloc/1652/1652vw35.htm
[20] https://www.gov.uk/government/statistical-data-sets/live-tables-on-planning-application-statistics
[21] http://www.publications.parliament.uk/pa/cm201314/cmhansrd/cm131024/halltext/131024h0002.htm

using overage clauses and deferred payment for land assets. By contrast the government is aiming to dispose of £15 billion of assets over a five year period[22].

A number of councils have made strides to pool land assets with central government departments and agencies and this work should be extended. This should include stronger local decision making for the totality of public assets in a functional economic area. Devolving decision making over land release across the public sector via a single surplus public land bank at the local level would simplify decision making and support development to be brought forward more quickly.

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| **Manchester City Council** is working closely with the Homes and Communities Agency to jointly manage a development strategy through a Housing Investment board leading to an estimated 7,000 homes by 2017.<br><br>**Surrey County Council** has worked with **Spelthorne Borough Council**, the Ministry of Justice as part of the One Public Estate Programme. The current provision occupies a large site and is made up of a number of dated properties which are not fit for purpose and have high backlog maintenance liabilities. The site is currently being reviewed alongside the town centre strategy with the intention of moving the public sector services to the retail core and freeing up the current site for residential redevelopment. This is anticipated to include over 300 new homes, health and leisure facilities and bring about a 50% reduction in operational costs and significant capital receipts. |

There are a number of current barriers to this approach:

- **Organisational complexity.** Each major government department and their agencies have a land disposal strategy, all of which differ in their priorities and approach. This brings with it unnecessary complexity for developers and a disjointed approach to land release. The government has recognised this issue and is currently undertaking a strategic land review which is likely to include the transfer of a range of land across government to the Homes and Communities Agency.  This approach should be extended to develop a single local surplus land bank covering central and local public assets for swift and simple release of land for housing.

- **The implications of the Social Value Act are understood asymmetrically across different parts of government in relation to land release.** This can be seen in the approach to deferred receipts set out above but also in the approach to land release more generally. This supports a continued focus in many departments to attain the maximum possible capital receipt as opposed to a wider and more strategic assessment of the value attained from the disposal of assets for housing (including at less than best consideration). This is reinforced by the Treasury's approach to the allocation of capital receipts which amounts to a series of tailored departmental arrangements. This means that there is no incentive for departments to consider the wider social value or housing

[22] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/209279/PU1524_IUK_new_template.pdf

implications of land release, instead focusing attention on the bottom line receipt[23].

**3. Reform the right to buy to incentivise reinvestment in housing.**

11,000 houses were sold in 2013/14 through the Right to Buy. However, 80% of councils responding to a recent LGA survey indicated that the current arrangements did not allow them to replace all homes that are sold under the scheme. The increased take up of the Right to Buy means that it is more important than ever to remove the disincentives and barriers to replacing those houses sold.

The Deregulation bill proposes to relax the eligibility criteria for the Right to Buy. This makes it more important than ever that the system delivers replacement homes for those sold. A blanket discount cap, as is currently in place, ignores the large differences in property values up and down the country, and in some areas will not provide a discount sufficient to generate sales and vice versa. Greater flexibility should be provided to enable councils to set the Right to Buy discount locally, to reflect local housing markets and stimulate sales.

For example:
A council in a low cost area reports that a locally set Right to Buy model combined with a relaxation of the debt cap to allow for inflation could allow around 2000 extra properties to be built in a low cost area over 30 years – possibly more. This amounts to around 250,000 over 30 years or around 8000 a year more if replicated across the country (based on the authority owning around 0.8% of the national council housing stock).

There are a number of technical changes to the operation of the Right to Buy that would remove the current disincentives to new build homes. For example, the current arrangements mean that there is a risk that a council home could be sold for less than it cost to build. The protection is provided by a 'cost floor' on the sale price is only in place for 15 years. Reforming this measures to ensure that no councils home can be sold for less than it cost to build would protect the public investment in affordable housing.

In addition, under the current system, the amount of receipts kept by the Treasury is based on the predicted amount of Right to Buy sales in each authority. This means that only when the Treasury has received the predicted amount does money become available to be retained locally. The restrictive criteria which accompany the current Homes and Communities Agency agreements to retain receipts locally restrict the ability of local authorities to invest in housing. The system should be simplified so that local authorities retain the capital receipts from Right to Buy sales in full by default to invest in replacement housing.

[23] *"The receipts generated from disposals often acting as a significant contributor to departmental budgets*
www.gov.uk/government/uploads/system/uploads/attachment_data/file/6237/2001846.pdf

One-to-one replacement – worked example

DCLG set out a worked example for one-to-one replacement of homes sold under right to buy in an information document for local authorities[24]. The example quotes a sum of £352,962 available for building 15 replacement homes on a 1:1 basis. Right to buy receipts are limited to 30% of the cost of replacement homes, so the maximum that could be spent on building replacement homes would be just over 1.1 million. Using an average build cost of £120,000 per unit (without land) only 9 new homes could be built to replace the 15 sold.

**4. Stronger incentives to build out sites with planning permission and bring forward land within the local plan.**

Councils work with developers in advance of and throughout the planning process to secure sustainable housing development where this is needed locally. However, with half a million units with planning permission still unimplemented it is clear that the incentives to encourage developers to build out sites once planning permission has been granted are limited.

Strengthening the role of councils to bring forward development with permission would support efforts to see housing schemes with planning permission delivered as quickly as possible and would link with wider local authority efforts to unlock stalled sites. This should include financial penalties for developers in exceptional circumstances where land with planning permission for housing has been allowed to expire but the development has not commenced and stronger compulsory purchase powers including powers to purchase land at its existing use value in line with models in the Netherlands[25]. Incentivising landowners to bring forward land identified in the local plan for development could also encourage swifter housing development.

**5. A robust approach to assessing the viability of housing development.**

The National Planning Policy Framework says that plans should be deliverable and that the sites and scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to develop viably is threatened. The framework also specifies that viability should consider "competitive returns" to a willing landowner and willing developer to enable the development to be deliverable.

There is a consensus that the assessment of a competitive return should not be rigid or operated on a blunt 'rule of thumb' basis but should instead reflect the risks and costs of development. Government planning guidance advises that "*a rigid approach to assumed profit levels should be avoided and comparable schemes or data sources reflected where possible[26]".* This approach is supported by sector led advice from RICS[27] and the Local Housing Delivery Group[28].

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24 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/5937/2102589.pdf

25 Local authorities in the Netherlands have traditionally purchased land at existing use value, provided infrastructure and services and sold it to developers at a price that at least recovered costs.

26 http://planningguidance.planningportal.gov.uk/blog/guidance/viability-guidance/

27 http://www.rics.org/uk/knowledge/professional-guidance/guidance-notes/financial-viability-in-planning-1st-edition/

28 http://www.nhbc.co.uk/NewsandComment/Documents/filedownload,47339,en.pdf

However, this does not manifest itself on the ground through the current methodologies available to councils and developers to testing the viability of schemes. The HCA's Economic Appraisal Tool guidance[29] sets a guide in relation to developer profit that might be expected *' A typical figure may be in the region of 17.5-20% and overheads being deducted, but this is only a guide as it will depend on the state of the market and size and complexity of the scheme'.*

We need a more sophisticated approach to assessing viability both at plan and site specific level that recognises more fully the variation of risks associated with development. This would ensure that development is truly viable and deliverable and that a competitive return is properly assessed as part of this calculation.

**Annex A – Support for council led building programmes**

There is widespread support for councils to have greater financial freedom on house building. Organisations supporting LGA lobbying on removal of the housing borrowing cap include:

**Shelter**
*Building the homes we need: a programme for the 2015 government*
"Local councils have planning powers and often own significant land assets with which they could build new homes: the missing element is finance".
"Giving greater flexibility to local authorities to borrow within prudential limits would increase their borrowing, but this does not have to increase the more politically sensitive measures of national public debt".

**National Federation of Builders and the House Builders Association**
For National Federation of Builders (NFB) and House Builders' Association (HBA) members, the impediments to getting Britain building remain viability, where land cost cannot be justified by cost of construction and the final value of the house, working capital for small building companies and the limited borrowing capacity of consumers.

While some loosening of prudential borrowing rules has taken place by the current government , it should go further and enhance the NPPF and the localism agenda by fully lifting the local authority borrowing cap and enhancing prudential borrowing rules for councils. Local authorities could establish a sound asset base of homes that meet local need in perpetuity and let small building companies get on with what they do best - building quality homes in the private sector. New social housebuilding programmes led by local authorities would also provide an additional boost to the sector by involving SME contractors in the supply chain and in local, small scale social housing schemes.

**RIBA**
*The Report of the Future Homes Commission*, set up by RIBA comments:
"One barrier [to councils building] which could be easily removed, if there is the political will to do so, is the restriction imposed by the Treasury on local authority borrowing on Housing Revenue Account receipts to fund investment in housing. This leaves councils in a weaker position to borrow than Housing Associations, and is an unnecessary barrier to locally-led housing development".

**Federation of Master Builders**
Brian Berry, the Chief Executive of the Federation of Master Builders
"…. the Government now needs to increase the supply of land. It should also lift local authority borrowing caps to help build more social and affordable housing"
FMB press release, 23 July 2013

**Chartered Institute of Housing**
Chief Executive Grania Long, "CIH has repeatedly made the point to government that amending local authority borrowing rules would help them invest more in developing new homes"
CiH press release 12 March 2013

A wide range of journalists and commentators have called for councils to have greater powers on house building, including removing the borrowing cap:

**Ambrose Evans-Pritchard**, writing in the Telegraph, 13 May 2014
"The proper answer to the housing shortage is to build houses, if necessary by returning full power to councils to do it themselves".

**Andrew Hilton**, writing in the Evening Standard, 6 May 2014
"What we need is councils to build more"

Coverage of the debate on borrowing caps by **Patrick Butler** of the Guardian
"Autumn statement paves way for councils to build new homes", article published in the Guardian, 5 December 2013

**Alison Scott**, Local Government Policy at CIPFA
"Local councils are key providers of social housing. CIPFA, together with many other organisations, has long called for a relaxation of the borrowing cap which significantly limits councils' power to borrow for housing". CIPFA press release 26 June 2013

**Owen Jones**, Guardian and Independent Columnist
"It may sound like a call for a miracle, or fantasy-land politics. But so many of our crippling social crises could be tackled with one bold but absurdly common sense idea: a council house building programme". The Independent, 6 May 2013

**Professor Steve Wilcox**, University of York, editor of the UK Housing Review.
"The only reason for capping borrowing is because we have these spending rules that nobody else in the world is concerned about, least of all the financial markets," Quoted in the Guardian Housing Editor's blog, 6 March 2013

**London Mayor Boris Johnson** has called for more powers and freedom to solve London's housing shortages, including a lifting of the borrowing cap
Keynote speech to the Chartered Institute of Housing, 6 February 2013