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## **Council housebuilding**

### **Purpose of report**

For discussion.

### **Summary**

This report provides an overview of the Board's recent lobbying and improvement activity in relation to council housebuilding. It also proposes a set of actions for the Board to pursue over the remainder of the current Board cycle.

Ellen Vernon, Programme Director of One Public Estate (OPE) will also be attending the EEHT Board to discuss how the OPE programme is supporting councils to unlock surplus public land and property to support housing delivery.

#### **Recommendations:**

Members are invited to:

1. **Comment** on the key areas for lobbying outlined in **paragraphs 9.1 to 9.6** and provide a steer on any omissions.
2. **Comment** on the set of proposed actions (**paragraph 23**) for the Board to pursue over the remainder of the current Board cycle.

#### **Action:**

As directed by the Board

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## **Council housebuilding**

### **Background**

1. There has been a renewed interest in the critical role that council housebuilding could play in supporting efforts to tackle the national housing shortage over the last few years. This includes a series of encouraging government announcements which have included:
  - 1.1. the lifting of the borrowing cap in 2018
  - 1.2. consultation on flexibilities in using right to buy receipts (albeit a government response is still awaited more than 2 years later)
  - 1.3. a new £11.5 billion Affordable Homes Programme for 2016-21, with a specific reference to social rent and a revision of the 80:20 rule which has historically meant that funding has been concentrated in London and the South East;
  - 1.4. Homes England have committed to a greater level of engagement with local authorities through an expansion of their strategic partnership initiative, although we are yet to see the detail of what that will look like
  - 1.5. £100 million Brownfield Land Release fund to be launched in early 2021 to support brownfield development, estates regeneration, development on public sector land and self and custom-build serviced plots in coming forward
  - 1.6. Re-affirming the government's ambition to see a 'step-change in local authority delivery' in the [social housing White Paper](#).
2. The 2020 [Affordable Housing Commission report](#) supported the 'government's encouragement to councils to build again at scale....' and the [Homes, Communities and Local Government Committee](#) recommended that 'A social housebuilding programme should be top of the Government's agenda to rebuild the country from the impact of COVID-19.'
3. Councils continue to proactively address the challenge of building more homes, across all tenures, however there remain a combination of factors that, unless addressed by central government, will continue to limit their ability to deliver at scale, and at pace.
4. The LGA, through the work of the Board, has been lobbying Government for some time on the tools, powers and flexibilities that would have a positive impact on the ability of councils to deliver a generational step-change in direct delivery.
5. Most recently, this has included our [council housing stimulus package report](#) in June 2020, which made the case for counter-cyclical investment in council housing to support recovery from the impact of COVID-19. Building on this work, we also commissioned and [published the 'Building post-pandemic prosperity' report](#) demonstrating that investment in 100,000 council homes would result in a £15 billion boost to the economy, which

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received national press coverage. Both of these reports have provided a strong platform for our ongoing lobbying engagement with government.

6. Recent [HMRC figures](#) published at the end of last month showed that despite residential sales having hit their highest level in 13 years in December, bucking the downward trend that is more often seen during a recession, the number of transactions recorded in the financial year to date was still, at 750,540, more than a sixth lower than the equivalent figure in 2019 (880,580).
7. A number of commentators suggest that growth in the last couple of months of 2020 has been driven by a number of issues including transactions that were delayed earlier in the year; a shift in demand from buyers as a result of a desire for more space given increased home working; and the stamp-duty holiday bringing forward transactions.
8. The future of the housing market for 2021 and beyond remains uncertain. Whilst the 2020 recession is likely to have plenty of nuance to it, owing to the nature of its primary cause (COVID-19), history has shown that recession can have a significant impact on the [private housebuilding industry](#) both in financial and output terms. Whilst, as of November 2020, the [average house price](#) had risen by 7.6% (£249,633) compared to the previous year, the Office for Budget Responsibility (OBRE) forecasts that house prices are expected to fall back in 2021. This is likely to be in part driven by the end of the Stamp Duty holiday and the likely hit to household incomes from the labour market adjustment and rising unemployment that it is assumed will follow the end of the Coronavirus Job Retention Scheme at the end of April.
9. Private housing output is not expected to return to the [2019 level of 145,000 new homes per year until](#) 2023. This means that the case for investment for a publicly-funded substantial programme of housebuilding will become even more important, if there is any practical chance of the government meeting its target of 300,000 new dwellings per year by 2025.
10. Key areas that we have focused our lobbying on to date have been:
  - 10.1. A national recognition of the importance of building communities and not just housing estates - this means that an equal effort needs to be put into 'Place' and addressing the other aspects of community such as employment, infrastructure and soft infrastructure. Development also needs to address local housing needs and therefore a local plan-led system is crucial.
  - 10.2. Reform to right to buy – current rules on use of right to buy receipts are a significant impediment to delivery of new homes. Issues include the proportion of the receipt taken by the Treasury; the 'three-year' and '30 per cent' rules about reuse of receipts; and the rule preventing the use of receipts with grant (e.g. from Affordable Homes Programme) or section 106 money in the same scheme.

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- 10.3. Grant – increased access to grant funding (particularly as council housebuilding programmes expand) and grant levels per home, will be increasingly important, especially for councils wanting to build for social rent. A significant uplift in the level of grant to support investment in 100,000 council homes would yield a net present value public sector surplus of [£7.8 billion over 25 years](#). It would also make a major contribution to the Government’s ambition of 300,000 new homes a year, help address pressure on public services driven by poor housing conditions and offer a pathway out of expensive and insecure private renting, and on towards ownership
- 10.4. Skills and capacity – provision of additional capacity and improvement support for housing delivery teams within councils and their delivery partners. This needs to sit alongside access to the appropriate skills and expertise to allow councils to assess risks and explore different options for delivery. This could be delivered through increased investment in existing sector-led improvement programmes delivered by the LGA/Local Partnerships/One Public Estate, working closely with Homes England.
- 10.5. Land availability – the cost of land for development can be prohibitive for councils and they cannot compete against private developers/land promoters. Councils should be enabled to acquire public land identified as surplus or redundant by the current public sector owner in their area, to provide public facilities, including housing, at the valuation determined by the District Valuer based on current use. This should include opening up expedited dialogue to allow the transfer of Homes England land assets to councils where it can be used for accelerated housing development.
- 10.6. Resources for estate regeneration – estate regeneration schemes and repurposing of existing stock offer opportunities to improve the quality of housing and neighbourhood design, in turn transforming the way thousands of people live. National funding over recent years has focused in delivering additional homes, rather than on regeneration scheme, but there is an increasing need for the re-introduction of capacity funding for estate regeneration.
11. Another key area of concern for stock-holding authorities, relates to a number of cost and income pressures as a result of COVID-19, which may affect the future sustainability of Housing Revenue Accounts (HRA). This is in addition to other increased cost pressures as a result of building safety reforms, as well as those arising from a potential [revised Decent Homes Standard](#), and a [Future Homes Standard](#). There is a risk that these combined, could have an impact on both councils’ ability to deliver their responsibilities as local housing authorities, as well as their housing delivery plans.
12. In terms of sector-led improvement support, the LGA has continued to run its Housing Advisers Programme (HAP) which provides grants to councils in England, to access specialist advice to address their local housing needs. HAP has been running since 2017 and has supported 3 cohorts of participants to deliver more than 100 projects so far.

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13. 17 grants have just been [announced](#) for cohort 4 (2020/21 financial year) which has a particular focus on addressing the impacts of COVID-19 on the housing crisis. The projects the Programme supports are wide-ranging but include those aimed at increasing housing supply and delivering carbon-neutral housing.

#### **Recent council housebuilding activity**

14. In terms of recent activity, the nationally available [statistics](#) suggest that there were 9,720 local authority new build completions between 2014/15 and 2018/19 (average 1,944/year). This is higher than the 5,740 between 2009/10-2013/14 (average 1,148/year). But still significantly lower than, for example, in 1968, which saw the highest levels of completions in England (352,540) with local authorities delivering more than 40% (143,680).
15. However, there is some concern that the national statistics under-represent actual council housebuilding activity, mainly because of the way tenure is recorded. To illustrate, if a council delivers homes as part of a Joint Venture with a private developer, the completions are likely to be recorded as 'private enterprise' delivery. It will be important going forward that data is collected in a format that ensure that council activity is accurately reflected at a national level.
16. [Separate analysis](#) undertaken in 2019 told a much more positive story. Amongst the 240 councils who responded, 131 had directly delivered new housing between 2014/15 and 2018/19 – completing 18,999 net additions (excluding acquisitions). The total figure, taking into account councils who didn't respond, will inevitably be higher. This includes delivery through Housing Revenue Accounts, General Fund, as well as local authority housing companies and Joint Ventures.
17. A [report](#) produced in 2019 for the Royal Town Planning Institute also found that 78% of councils now have some form of housing company. The authors of that report are currently updating their research and the LGA has been invited to sit on the advisory group. This will be an important stocktake on councils' current appetite for direct delivery, particularly in the context of COVID-19.

#### **Looking ahead**

18. In terms of future delivery, the 2019 [Inside Housing analysis](#) showed that respondents were expecting to build 78,651 homes over the 5 years 2019/20-2023/24.
19. It is important to note that owing to a number of councils basing their figures on schemes with planning permission, and others providing an indication of ambitions, there is a possibility that these may not be fully realised or may need to be revised as a result of Covid-19.

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20. Nevertheless, this demonstrates that councils have a clear appetite to, and are making significant strides, in driving up their own delivery.
21. It will be important that the LGA continues to work with councils to make the case to government for policy and fiscal interventions that will enable this momentum to continue.
22. Council housebuilding will also become increasingly important in the context of government policies that have introduced a 35% uplift in the housing number requirement for 20 cities and urban centres in England, and increasingly stringent [Housing Delivery Test requirements](#), which now mean that more than 50 councils are subject to the presumption in favour. The majority (75%) of the growth cities and urban centres identified for higher delivery targets are also constrained by Green Belt and other constraints e.g. coastline, National Parks.
23. We continue to make the case that decisions on housing numbers need to be made locally, that the presumption in favour sanctions should be abolished and that councils need greater powers to ensure prompt build out of homes once they have been granted planning permission.

#### **Next steps**

24. Subject to feedback from Board Members, there are a number of potential opportunities for members to build on their work to date. Members are requested to give their steer on the suitability of pursuing the following areas of focus for the remainder of the current Board cycle:
  - 24.1. Invite a senior representative from Homes England to a future Board meeting
  - 24.2. Continue to share local authority experiences and good practice in housebuilding as part of our Sector-Led Improvement offer
  - 24.3. Continue to use our evidence base from previously commissioned work to advance our case for council housebuilding in discussions with officials, parliamentarians and other key stakeholders (including media outlets)
  - 24.4. Commission additional research to build on our existing evidence base. Suggestions from Board Members on the scope/topics of any research is welcomed.

#### **Implications for Wales**

25. Housing policy is a devolved issue.

#### **Financial Implications**

26. None