

Housing Priorities and the New Government

Purpose of Report

This paper is intended to inform the Board's discussion on refreshing its housing policy positions following the general election.

Summary

Housing featured strongly as an election issue and in light of the government's manifesto commitments and the forthcoming Housing Bill announced in the Queen's Speech, it will be a subject of significant debate over the coming months. There is an opportunity for the LGA to influence this debate and government housing policy as it emerges and to promote the role councils can play in delivering the homes needed. There are also important links to make to other agendas of importance to local government such as skills and devolution.

To achieve this, there is a need to review and refresh the LGA's positions on housing to direct future policy and lobbying work. Subject to Members views, the positions set out here are intended as the priorities and positions for discussion with Ministers and wider lobbying activity. The paper sets the housing discussion in the context of devolution; outlines the housing commitments in the government's manifesto; highlights what councils can help to deliver; and, drawing on the existing positions developed by the Board, presents some proposals for what councils need to enable them to carry out this role. The paper also makes suggestions for next steps to take forward the proposals and lobbying activity.

Recommendations

That the Board:

- Provide a steer on the positioning to government of our messages on housing and planning.
- Comment on proposed LGA positions that will form the basis of a refreshed LGA policy on housing set out at paragraphs 11 to 26.
- Comment on the proposed next steps set out at paragraph 27.

Action

To take forward the proposed next steps subject to Members' views.

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Housing Priorities and the New Government

Introduction

1. There is now a strong recognition that national prosperity will be enhanced through devolution of decision-making to local areas. Through devolution we have the opportunity to deliver growth and jobs improving the wellbeing of communities and protecting the vulnerable. Housing is vital to these aims and it makes sense for councils to be central to expanding the supply of housing within the context of wider devolved responsibilities.
2. Local government is key to delivering a step change in housing supply. It has the capacity to use its estate and spending power to stimulate housing growth. In its 100 days campaign the LGA set out a bold ambition and a set of proposals that would enable half a million more homes to be built across all tenures so that people can find a place they can afford. The advent of a new government provides the opportunity to position councils as an essential partner in the drive to overcome the deficit in the supply of housing.
3. To achieve this we need to:
 - 3.1 Understand the details of the government's housing commitments, recognising that there is both an intention to see the housing market work more effectively and a particular view on how this can be best achieved.
 - 3.2 Work with government to deliver a range of housing supply solutions within a long term framework that provides a stable basis for increased investment.
 - 3.3 Continue to present the case for an increased role for local government in addressing the housing crisis.
 - 3.4 Recognise any risks for local government arising from the policies set out by government and to work with government to mitigate these risks (see Appendix A).

The Government's housing commitments

4. The government's commitments, as set out in the manifesto, recognise the need to improve the prospects for first time buyers and in addition set out a number of demand side measures aimed at improving access to housing. In its manifesto, the government committed to:
 - 4.1 Delivering 200,000 new starter homes to be built on brownfield land
 - 4.2 Extending Right to Buy to housing association tenants
 - 4.3 Funding the extension of Right to Buy to housing associations by requiring local authorities to sell their most expensive council housing
 - 4.4 Delivering an additional 275,000 affordable homes by 2020

- 4.5 Prioritising brownfield development by requiring councils to have a register of what is available and ensure that 90 per cent of brownfield sites have planning permission by 2020; creating a London Land Commission; and funding Housing Zones
- 4.6 Creating a brown field fund to unlock homes on brownfield sites also to be funded by the sale of the most expensive council housing
- 4.7 Taking forward the Right to Build, which will require councils to allocate land for self-builds
- 4.8 Continuing protection of the Green Belt
- 4.9 Extending Help to Buy to 200,000 homes by 2017 and introducing a Help to Buy ISA to support people saving for a deposit for a home
- 4.10 Support locally-led garden cities and towns in places where communities want them
- 4.11 Keep council taxes low by encouraging service integration and management of public land and buildings, including giving councils a 10 per cent stake in land sales in their area.

Councils can help to deliver

5. The LGA has long argued that local government has a central role to play in expanding the stock of housing, highlighting that the housing crisis cannot be solved by volume builders alone. Councils are ambitious to drastically increase the number of houses that are built and there are many examples across the country of the innovative ways in which councils are seeking to stimulate housing growth across all tenures. The ambition to increase house building can meet housing need across all tenures and chimes with the government's desire to expand home ownership.
6. The government is committed to a devolution programme. Housing will be a major strand of the investment and regeneration programmes that councils and their partners are developing and implementing over the next five to 10 years. It is only within these broader growth plans that housing development can meet the economic needs of businesses and communities. Housing needs to be aligned with jobs, education, skills, environmental and transport infrastructure.
7. Affordable housing remains important in the mix of housing tenure. Investing public money in housing supports:
 - 7.1 The needs of those who have ambitions to establish homes but can only do so if there is a subsidised option.
 - 7.2 The reduction the housing benefit bill, which is currently around £24bn annually, through investing in affordable housing as assets rather than increasing spending on housing benefit, 40 per cent of which goes to the private rented sector.

- 7.3 Future Right to Buy, which will meet the aspirations of future generations to own their own home.
8. There are other factors which make it an imperative that councils are central to the development of housing. There is a strong connection between the quality of housing and health, with estimates suggesting that the poor quality of some housing results in £2.5bn annual cost for the NHS. Councils are at the forefront of addressing this challenge and more can be done to ensure that the housing and health agendas are aligned.
9. The LGA's own work on skills and that of other organisations such as the CBI has highlighted that growth is at risk as a result of national and local skills gaps in the construction industry. By 2022 between 16% and 25% of growth could be lost if we do not bring skills up to the levels expected by employers. If this issue is not addressed the skills gap will impact on the ability to build the additional homes required in our communities. The LGA has championed the devolution of the responsibility for skills to councils so that skills and training can be managed locally and intelligently to meet the local growth profiles.
10. There is also a need to support home based suppliers (especially brick and block manufacturers) to reduce reliance on imports and maximise the benefits to the UK economy of an increase in house building. Every £1 of construction output generates £2.84 of demand in the wider economy. Supply chain benefits are one of the main reasons why construction output has a significant multiplier effect on GDP. Home based manufacturing has demonstrated that it can respond to short term spikes in demand, but will require assurance that UK housing output will be stable and sustained in order to invest in infrastructure and production capacity for the longer term.

What local government needs to deliver

A stable and long-term framework to support investment in housing

11. To deliver these outcomes local government requires **a stable framework which creates the conditions and confidence that enables councils to plan strategically, invest in housing and manage its assets** to increase housing supply and support local economies
12. Housing supply is a crucial element of strategies for economic growth and regeneration and to the devolution agenda. The City/Growth deals recognise that integrated management of local assets helps to unlock more land for economic growth or housing, use assets to lever in other public and private sector investment and generate operational efficiencies by co-locating services.
13. Currently funding for housing and infrastructure is fragmented across many funding streams to address specific housing issues or government initiatives. This works against a strategic approach to investment, dilutes economies of scale and wastes time and resources in bidding processes. **Devolution of funding for housing and infrastructure as a central feature of the Government's approach to devolution through further City and Growth Deals** would help drive innovation, encourage bold and ambitious proposals and partnerships to ensure that funding is better

targeted to meet local housing challenges and leverage substantial amounts of private investment.

14. Government grant funding is reducing and councils are exploring new and alternative financing models as part of long term investment plans for housing. Policy, legislative and regulatory certainty will be crucial in enabling local government to access the private finance it requires to deliver. **For councils to be able to invest in housing they need the ability to manage their assets independently and over the long term.** This includes allowing them to retain all receipts from the sales of their properties and additional flexibility to enable them to borrow prudentially to invest in new homes. The disposal of assets can support the delivery of new homes as part of local public asset management strategies. Councils have a good record in managing their property portfolios and this includes selling assets as required and with a long term asset management framework (Council asset sales are forecast to total £13.3 billion in just three years 2015/16-2017/18).
15. Greater stability and flexibility over the control and disposal of assets extends to the Right to Buy scheme. Proposals that would require councils to sell their assets to fund the extension of the right to buy to Housing Association tenants risks undermining local plans for investment in housing and regeneration (discussed further in annex 1). In addition **restrictions on how councils can use receipts from Right to Buy sales to invest in replacement homes need to be removed and all receipts from sales should be retained locally to reinvest in new homes.**
16. The proposed Housing and Finance Institute (HFi), which emerged from the Elphicke/House review, is an important initiative which will support councils and businesses to develop new financing models and unlock new investment opportunities. This will include developing capacity, skills and accessing expertise needed to set up local housing companies and developing investment vehicles. **Government, local government and the housing sector should engage with and maximise opportunities created by the the HFi.**
17. The government has highlighted the potential to develop starter homes on brownfield sites. This could be an important initiative (although there are risks see annex 1) however it may not address all the issues that prevent development of Brownfield land, in particular the costs of remediation and provision of infrastructure. These sites can be complex, often with multiple owners and **streamlined and more effective compulsory purchase powers would enable councils to assemble and take forward suitable packets of brownfield land for development.**
18. We know that public land can be managed more effectively to: free up land and property to help create local economic growth to facilitate more integrated public services; reduce the running costs of the public estate; raise capital receipts for re-investment or deficit reduction. The Open Public Estate initiative is working to achieve these aims. **Giving councils a Power of Direction to enable the assembly of land, plans for development and/or accelerate the sale of redundant / surplus public land in their area, as recommended by the Elphicke-House Report; and retaining a proportion of receipts to reinvest in the local area would speed up the process of delivering housing in addition to generating and using capital receipts for affordable and starter housing projects.**

Local strategies, plans and decision making to support housing and growth

19. Planning strategically for housing and growth, where necessary across local government boundaries is crucial to supporting strong local economies. The advent of combined authorities and City Deals provides a context in which councils and business partners are working closely together on regeneration, growth which will support increased strategic planning and smoother operation of the duty to cooperate. We want to work with government to bring forward the deals for non-metropolitan areas which give an impetus for greater cross-boundary working across the country.
20. A locally delivered planning service is essential if councils are to contribute effectively to the expansion of housing. The NPPF provides the framework in which local people and their local councils can produce their own distinctive plans, reflecting their own priorities. **Councils are making good progress in implementing local plans and there is a need to avoid further fundamental reform of the planning system which would undermine progress towards long-term strategic planning.**
21. **A locally driven planning system must allow for local planning authorities to apply fees that reflect local costs to ensure properly resourced and effective services.** Currently 32 per cent of the costs of processing planning applications is subsidised by the tax payer.

Infrastructure

22. Councils and developers are often portrayed as being on opposing sides, but this is seldom the case. Both have a common aim which is to see good quality homes provided within sustainable communities. The infrastructure required by communities to ensure that they are sustainable is paid for from a number of sources. The planning process is based on the principle that some of the infrastructure and affordable housing costs will be funded through “development gain”, or put simply the increase in value of land that can be used for development. While the principle is sound we know that in practice negotiations can be challenging. There are measures which could support both councils and developers in their shared aim to bring forward housing.
23. **Streamlining and simplifying CIL regulations and guidance so that schemes can more easily be adopted by local areas without an existing CIL would benefit all parties.**
24. In addition, **removing the restriction on pooling section 106 contributions for strategic sites identified in local plans would enable local authorities to pool contributions from multiple development partners.**
25. The process of viability assessment is an area which is of concern to both councils and developers. Reform is required. **The viability assessment process needs to be more transparent and the Existing Use Value (plus premium) mode should be used as a basis for the valuation,** rather than the Market Value, as this provides a more objective assessment.

26. A robust and transparent viability assessment would help ensure that new development contributes to supporting infrastructure and affordable housing to benefit local communities and would make national exemptions to local planning policies unnecessary.

Proposed next steps

27. It is proposed that over the coming months, the Board should seek to engage with Ministers and officials to influence the debate on the forthcoming Housing Bill and engage on the detail of government policies on housing and planning on the basis of the refreshed LGA positions agreed by the Board. This should include developing clear links to the LGA's work on skills, devolution and growth in local economies.
28. Subject to Members views, the following further work is proposed:
- 28.1 Commission a piece of work to develop workable proposals for the **Right to Buy** proposals that enable receipts to be directly invested into new housing in the locality by either the council or housing association without centralising the money, avoids increased bureaucracy in bidding for funding and avoids unintended consequences for local investment in housing.
- 28.2 Develop LGA position on **funding infrastructure** for development including proposals for a robust approach to viability assessments, to influence the review of CIL, and to make the case for the removal of national exemptions from infrastructure and affordable housing contributions.
- 28.3 Take forward discussions of proposals for **a new deal with central government on public land** and property to drive a more joined up approach to disposal of public land including giving councils a power to direct use of surplus public land and retain a proportion of receipts for reinvestment locally. A high level seminar to discuss these proposals with senior officials from DCLG, HMT, Cabinet Office and Councils is planned for 9th June.
- 28.4 We will also work with Lead Members to develop the priorities and the approach to take in discussions with Ministers and officials.

Annex 1: Government Commitments: Key issues and Risks

Proposals for extension of Right to Buy to Housing Association Tenants

1. To extend the Right to Buy to Housing Association tenants to enable more people to buy their own home. Stock sold through the extension of the Right to Buy will be replaced with new affordable housing. This will be funded by requiring councils to sell their most expensive properties when they become vacant and replace them with cheaper affordable housing.
2. According to Conservative Party briefings surrounding the manifesto announcement, the policy would extend the Right to Buy to 1.3 Housing Association tenants (over and above those who already have the preserved Right to Buy as former council tenants). It is expected that 15,000 high value council properties would become vacant annually and proceeds from these sales will release £4.5bn a year (£17.5bn over the lifetime of the Parliament). These proceeds would fund replacement build new affordable property, the discounts to Housing Associations tenants and the creation of a £1bn brownfield regeneration fund.

Issues and risks

3. In response to the announcement, Housing Associations, the wider housing sector (including many homelessness charities), investors and business representative organisations, including the CBI have expressed concerns about the practicability and the impact of the proposed policy.
4. Concerns and risks for councils include:
 - 4.1 That the policy will not assist in achieving the aim of increasing housing supply and may lead to depletion of affordable housing stock. There is scepticism that the financial assumptions will stack up leaving councils unable to replace homes sold, leading to additional pressure on affordable housing to meet the needs of tenants who cannot afford to buy, the 1.4 million households on social housing waiting lists and future generations in need of affordable housing.
 - 4.2 There is a significant question over whether the assumed level of receipts to be raised is achievable. The aim is to raise £4.5 billion per year from the sale of council properties however DCLG statistics show that currently £100 million is raised per year from non-right to buy sales of council homes other than right to buy.
 - 4.3 The policy would establish a precedent that government can dictate the sale of council assets and the use of the receipts could have wider implications in terms of financial independence and control for councils.
 - 4.4 The proposals would undermine councils' investment plans and the business case for councils to build new homes. Under the new self-financing regime, Councils have in place long term investment plans for their housing stock and use asset sales to invest in improving existing homes, pay off debt and invest in new homes. A proportion of receipts from councils' assets would be transferred to Housing Associations to fund the discount and to fund the Brownfield regeneration fund.
 - 4.5 It is likely that the proposals will require homes sold to be replaced with homes for "affordable rent" at up to 80% of market rents. Some councils and

Housing Associations have raised concerns that there is a continued need for homes for social rent and the replacement homes will not meet the needs of those on the lowest wages.

- 4.6 With the most valuable properties sold off, there are concerns that high value areas will have little or no social or affordable housing resulting in a lack of affordable homes for low paid workers in these areas. Replacing homes in cheaper areas risks leading to sink estates and works against mixed communities.

Proposed LGA position

5. Councils support measures designed to help people into home ownership, but this must not come at the expense of affordable housing for future generations and those on the housing waiting list. **It is imperative that any homes sold under the right to buy are replaced on a 1 for 1 and like for like basis.** The evidence shows that this has not been the case to date¹.
6. Our proposals to allow councils to set the Right to Buy discount locally, retain 100 per cent of the receipts and greater flexibility over how the receipts can be used will mean more replacement homes.
7. Any proposal to fund the extension of the Right to Buy to Housing Association tenants from the sale of council housing assets would undermine councils' plans for housing investment and stifle ambition to deliver a step change in the number of homes being built. We would welcome further discussions about alternative means of funding this policy should it go ahead.

Proposal to build 200,000 Starter Homes over the next Parliament

8. This is an extension of the Coalition Government's policy (announced in March 2015) to build 100,000 starter homes on under-used or unviable commercial or industrial sites that would not otherwise be released for housing on both public and private sector land. These Starter Homes will only be available to first time buyers under 40 years old and sold at 20 per cent below open market value (with a resale restriction period to ensure the policy does not lead to short term speculation). To help enable developers to deliver the minimum 20 per cent discount, the developments will be exempt from paying section 106 affordable housing and tariff-style contributions for Starter Homes, and from the Community Infrastructure Levy. Starter Homes sites will still be subject to section 106 contributions for site specific infrastructure needed to make the development acceptable in planning terms.

Issues and risks

9. In response to the consultation on the Coalition Government's proposals, the LGA raised a number of issues about effectiveness of the policy in bringing forward suitable sites that are by their nature, problematic and impact of the policy on affordable homes and infrastructure. These include:

¹ See LGA report Keeping Pace - Replacing Right-to-buy sales April 2015
http://www.local.gov.uk/media-releases/-/journal_content/56/10180/7167873/NEWS

- 9.1 Normally brownfield land has significant reasons such as the cost of remediation or infrastructure which can render the site unviable. It is not clear whether the proposed exemptions to planning policy obligations would reduce the cost sufficiently on these difficult sites to enable this remediation as well as delivering a 20 per cent discount on the market value for the completed homes.
- 9.2 The policy assumes that the lower land values for under-utilised commercial and industrial land yet to be identified for housing will help to cover some of the 20 per cent discount. There are questions as to whether this will be attractive enough for developers to bring forward schemes on these sites. In addition there is a risk that land values will be pushed up once development becomes a realistic possibility.
- 9.3 There is also a risk that exempting Starter Homes development from affordable housing contributions will result in homes being built for one type of tenure (home ownership) at the expense of another – homes for affordable rent.
- 9.4 Similarly these new developments will put additional pressure on local infrastructure beyond the site itself but the exemption from CIL will mean they will not contribute to the costs of that infrastructure. Councils are concerned about the cumulative impact of a number of national exemption policies on their ability to fund infrastructure required to support the delivery of new homes and provide affordable housing.

Proposed LGA position

10. Councils share the government's concern about providing more homes for first time buyers and ensuring that wherever possible brownfield land is brought into use for housing. We are keen to work with Government to assess whether the measures proposed will be sufficient to bring forward 200,000 Starter Homes whilst ensuring that the new homes are supported by the infrastructure and housing mix required to make them successful communities.
 - 10.1 To assist in this we recommend improved and streamlined compulsory purchase powers that would enable councils to more easily package up parcels of land that could assist with the viability of individual sites enabling more sites to be brought forward.
 - 10.2 Devolving funding for infrastructure to local areas would also support the delivery of land for housing and other development key for delivering local economic growth.
 - 10.3 A "Power of Direction" as proposed by the Elphike-House Review would give councils greater ability to assemble and take forward plans for development of redundant public sector land buildings which could include bringing brownfield land into use for starter homes.

Proposal to encourage accelerated use of public sector land

11. Presented as one of the measures designed to keep councils taxes low, the manifesto includes a commitment to help councils manage public land and buildings and proposes to give councils at least a 10 percent stake in public sector land sales in their area.

Issues and risks

12. There is a need to cut through organisational barriers to enable a more joined up approach to public land in an area. Working with the One Public Estate councils, the LGA has developed proposals to give councils stronger levers over public land, building on our proposals in “100 days”. Allowing councils to retain a proportion of receipts from land sales in their area could provide an incentive for councils to take forward proposals and help unlock land owned by other public bodies.
13. Measures that increase leverage and flexibility on public land are also likely to come with requirements for increased transparency and reporting of land holdings and valuation.

Proposed LGA position

14. Councils share government’s ambition to increase the scale and pace of public sector land release. Local government is set to achieve £13.3bn land & property sales between 2015-18, compared to Central Government’s target of £5bn between 2015-2020. Councils have demonstrated how working more closely in partnership with central government councils on a more joined up approach to public land would accelerate its productive use and allow development to be brought forward more quickly.
15. The government’s proposals to give councils a stake in public sector land reflects the LGA’s calls for councils to retain a proportion of receipts from sales of land owned by other public sector bodies to support opportunities for regeneration, savings and improvements to public services. **We would recommend that Government offers flexibility in the stake offered to local authorities and that this is calculated in the business case for any particular disposal up to a maximum of 30%.** This could be taken by the authority directly as a receipt, or reinvested into the site, to underwrite development risk. This programme of brownfield development with demonstrable sufficient infrastructure may encourage other communities, outside of Ebbsfleet and Bicester to consider and lead the development of garden cities and towns.
16. We also recommend further changes that would support the better use of public assets, including for new homes, including:
 - 16.1 Cut through the organisational complexity and lengthy negotiations by giving councils the “Power to Direct” over surplus public land so they can assemble land for development
 - 16.2 This could include the ability to “option” land held by other bodies and take it through the planning process.
 - 16.3 Simplify the rules governing capital controls and put funding for capacity to deliver public land on a longer term basis.

Funding infrastructure

17. **The current system of Planning Gain is likely to feature as an area for review and reform for the new government.** The previous government committed to a review of the Community Infrastructure Levy (CIL) in 2015. There remains substantial

concern amongst the development industry about the cost of CIL and its effectiveness in delivering infrastructure needed to facilitate development. Over the last 18 months, successive government policies have introduced a number of exemptions to the requirement to contribute to infrastructure and affordable housing (including for small sites, vacant building and starter homes as well as those exempted through permitted development).

Issues and risks

18. Further significant reform of CIL policy could lead to further restrictions on councils' ability to raise funding for infrastructure or add to the complexity and cost of putting a CIL in place, making it more difficult for councils to implement CIL.
19. The introduction of more exemptions from Section 106 requirements for affordable housing and from CIL will negatively impact on councils' ability to provide affordable housing and infrastructure and increase community resistance to development. The LGA has conducted a survey on this (not yet published) which finds that 77 % of councils expect it to impact on their ability to fund affordable housing.

Proposed LGA position

20. Work is underway for the Economy, Environment, Housing and Transport board on developing a refreshed position on planning gain and funding infrastructure based on robust viability assessments rather than blanket national policies.
21. **Streamlining and simplifying CIL regulations and guidance so that schemes can more easily be adopted by local areas without an existing CIL would benefit all parties.**
22. In addition, **removing the restriction on pooling section 106 contributions for strategic sites identified in local plans would enable local authorities to pool contributions from multiple development partners.**
23. The process of viability assessment is an area which is of concern to both councils and developers. Reform is required. **The viability assessment process needs to be more transparent and the Existing Use Value (plus premium) mode should be used as a basis for the valuation**, rather than the Market Value, as this provides a more objective assessment.
24. A robust and transparent viability assessment would help ensure that new development contributes to supporting infrastructure and affordable housing to benefit local communities and would make national exemptions to local planning policies unnecessary.

Other areas of risk and priority

25. Against the back drop of significant reform to the planning system since 2010, the consensus in the housing and development sectors is that further fundamental reform would be unhelpful and that the current system needs time to bed in. However, councils continue to face criticism over progress with getting plans in place and in planning across local authority boundaries through the Duty to Cooperate.

Councils are making steady progress with plan making and over 80 per cent of councils now have a published plan. Support for councils to get plans in place and to update existing plans will continue to be a priority for the Planning Advisory Service. The emerging landscape of City and Growth Deals and Combined Authorities create conditions for greater cross boundary working on strategic planning for housing and other forms of development.

26. As pressures on public services intensify, resourcing of the planning system is increasingly a concern for developers as well as councils. There is an opportunity to pursue the LGA's arguments for planning fees to be set locally and at a level that reflect the costs of delivering the planning service. This would lead to better services for developers and reduce the burden on the tax payer for funding the service.