

local authorities build housing again...

We may be seeing the start of a new era in which local authorities build housing again, says **Janice Morphet, who looks at examples of how councils are starting to actively re-engage in direct housing development, across all tenures and using a variety of development arrangements and funding tools**

Successive governments have placed much of the blame for the failure to provide an adequate supply of housing in England on local authorities operating the planning system. Uncertainties in making Local Plans, failures to identify housing sites and the length of time spent in negotiation over affordable housing and other contributions have all been cited as factors that have delayed developers in the implementation of their schemes. As in earlier periods when housing delivery has been under pressure, such as the late 1980s and early 1990s, local authorities have responded with increased numbers of planning permissions.

Yet despite successive initiatives emanating from the Government, the number of dwellings completed lags behind approvals. Many designated housing sites attract little developer interest at a time when house prices continue to rise, funds for housing development are available and home-ownership continues as an aspiration for most. Furthermore, approximately half of dwellings completed each year draw on financial support from the Government's Homes and Communities Agency (HCA).¹

In addition to the blame falling on local authorities' planning practices, public sector land management has been identified as another factor contributing to delays in housing delivery. The Barker Review of Housing Supply of 2004² identified the supply of land as the major issue, and Kate Barker argued that with greater availability of land, prices would fall and housing supply would be increased. However, this classic economic supply and demand model fails to take into account the fact that all land is unique and has monopolistic characteristics – one site cannot

be replaced with another. As with all monopolies, where there is demand, the owner can dictate price and availability.

Secondly, the Barker Review failed to recognise that housing developers operate like any other company: managing the supply of housing is the main way to manage demand and price;³ like other companies, a housing developer is concerned with returns and profits first and has a duty to shareholders to prioritise such concerns. In the view of a housing development company, building more housing to increase supply may have the effect of reducing prices achieved and overall profits. Other than their corporate social responsibility commitments, housing development companies have no responsibilities to act differently.

The housing market did not always operate in this way. Before the 1980s, approximately a third to a half of new housing built each year was provided by local authorities. They built primarily social housing for rent using capital provided by central government. This provision of housing was the fulfilment of the Second World War military covenant and was also a strong component in improving the UK's post-war economy. Capital investment in housing, roads and social infrastructure such as schools and hospitals was important in maintaining a strong construction sector. By the early 1960s, improvement in the economy allowed for the removal of credit restrictions and housing development to be delivered through an increasing availability of mortgage finance. The 1960s saw a shift from housing being provided by builders (whether run by local authorities or operating in the private sector) to supply developers.

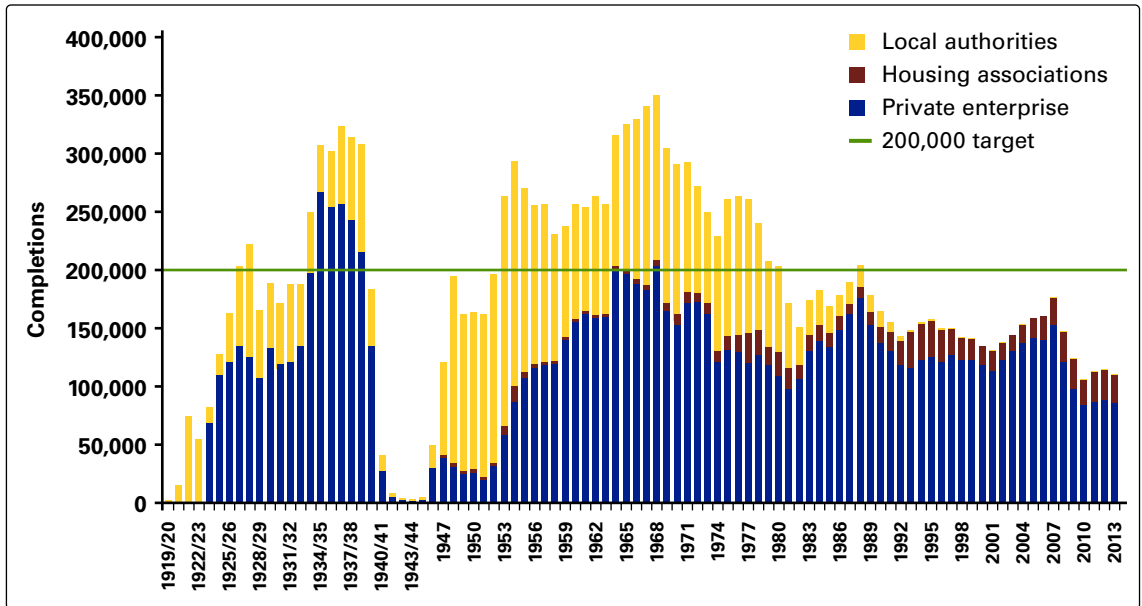


Fig. 1 Historic housing completions, England

Source: Lyons Housing Review,⁴ using Department for Communities and Local Government data

The international financial crisis in 1976 reduced the ability of the UK government to invest in capital projects and the housing programme began to be reduced. After 1979, the Thatcher Governments hastened what was already occurring. Inevitably this dismantled the housing delivery capacity in local authorities and, although some of the role was taken on by newly expanded housing associations, the local authority role in housing provision has never been promoted by governments again.

The Barker Review identified the need for central government investment in social and affordable housing, alongside a freeing up of the land market, but this recommendation was never addressed. Instead, to meet international trade obligations to open up the public sector to the wider market, local authorities were encouraged to release the capital embodied in their housing through stock transfer. Even where housing was not sold, local authorities were forced to reduce their housing stocks through successive 'Right to Buy' policies and were restricted in providing replacement or additional dwellings through tightly controlled Housing Revenue Account policy operated by the Treasury. Yet as the Lyons Housing Review demonstrated in 2014,⁴ the continuing gap between supply and demand in housing has, since the mid-1980s (as shown in Fig. 1, taken from the Lyons Review), consistently been equivalent to the contribution formerly made by local authorities.

Even where local authorities have attempted to identify land and give planning consents, they have frequently faced local opposition to major new housing development. Some of these local

controversies were managed through the political convenience of the imposition of housing numbers through the Regional Spatial Strategies before they were abolished in 2010. Now, local politicians have opportunities to apportion blame to the Government for the volume of new housing consents only in relation to decisions made through planning appeals and to delays in Local Plans. But local politicians have been aided in their attempts to transfer difficult decisions about housing to central government by uncertainties resulting from successive changes to the planning system or Ministerial hints at change.⁵

Despite these political difficulties, local authorities are now consenting more housing, and more public land is being released for development. However, the number of completed dwellings is still failing to rise significantly. When challenged by the Government, housing developers continue to argue that local authority planning restrictions remain an impediment to implementation, including the time taken to finalise legal agreements for developer contributions. While studies have considered these issues,⁶ there have been no studies on the delays in the system introduced by applicants who may take time to submit information and may use the planning application process as part their negotiations with landowners and to manage expectations.

To challenge such delays, the Government introduced a scheme to help unlock housing sites for development by providing funding to meet whatever was cited as the cause of the delay, administered through the HCA. A similar approach has been taken up by the Greater Birmingham and Solihull Local Enterprise Partnership to give developers opportunities

to bid for funds that will unlock the implementation of permitted mixed-tenure housing schemes of 10-100 homes (as in Lichfield, for example).

Another of the Government's measures to speed up the planning system has focused on promoting demand through housing finance schemes for purchasers that are offered through developers (such as Help to Buy). And to encourage local authorities to approve planning consents for housing, the New Homes Bonus offers a direct payment for each completed dwelling. Although this might be an incentive to grant planning consents for more housing, the Bonus is paid only on housing completion. In response, some local authorities have started to engage directly in the provision of housing again.

Local authority powers in housing provision

Local authorities have always had powers to develop land and enter into partnership agreements with others, including housing associations and developers, but capital restrictions over the last 30 years have made this difficult. Since 2011, two legal changes have enabled local authorities to return more positively to direct housing provision. The first is the Localism Act 2011, Sections 1-7 of which provide local authorities with powers to act as a company – i.e. to develop and invest in ways that meet their objectives. Secondly, there has been a change in public sector accounting practices across the OECD countries. The implementation of the

capital development, the viability of the individual development was the only consideration for investment approval. This frequently meant that it was difficult to act if the financial viability was difficult to demonstrate, regardless of factors such as likely social and environmental gains. Now, as in the private sector, local authorities can capitalise development over a portfolio of their assets, including their own operational buildings.

While it is prudent that the viability of a development should be sound, a local authority can consider the wider benefits or savings that might accrue from the development as part of its pay-back strategy. The future uplift in surrounding property values may also be a consideration. Local authorities can also use these approaches to raise bonds to fund infrastructure investment that can be repaid through Tax Increment Financing (TIF) schemes.

Local authority initiatives

Local authorities are using these opportunities to engage in a variety of housing initiatives (see Table 1 for an outline summary). Some of these are targeted at specific groups in the population. In Barking and Dagenham, the local authority has purchased a tower block, using funds from the European Investment Bank, to house the homeless. This initiative has been undertaken in response to paying private sector landlords to house the homeless, and also in order to move families out of bed and breakfast accommodation. Other local authorities have undertaken specific initiatives for homeless people. Bracknell Forest has set up a housing company to purchase homes to rent to 20 homeless households, and Bournemouth has adopted a similar approach.

Some local authorities have focused on schemes for older people. In Redbridge, the local authority has set up a service to act as a trusted advisor for older people seeking to move. It found that older people who wanted to downsize from larger properties that they may have owned for many years did not trust their own families in providing advice about the financial aspects of moving. As well as reducing the burden of running costs of larger houses for older people, downsizing moves also freed up some of the housing stock to return to use by families.

In Birmingham, the local authority has started to build bungalows to allow older people to downsize and live in more suitable accommodation. The shortage in supply of housing for older people has also been addressed in South Oxfordshire, where the local authority has loaned some of its financial reserves to a housing association to enable it to build accommodation for older people.

All these local authority initiatives are small in scale and targeted to address local circumstances, but all could be replicated elsewhere.

'These changes mean that it is easier for local authorities to act in the same way as private sector companies to raise bonds for development and to form companies that can operate over more than their own area'

International Accounting Standards in the public sector, to be completed in the UK by 2017, brings public and private sector accounting methods together. Differential practices on capital investment between the public and private sectors are now falling away. This convergence also makes it much easier for the public and private sectors to work together.

These changes mean that it is easier for local authorities to act in the same way as private sector companies to raise bonds for development and to form companies that can operate over more than their own area. In the past, in funding local authority



The pressure to provide local housing sites and completion since the introduction of the National Planning Policy Framework in 2012 has also seen local authorities start to engage in housing delivery more widely. In 2012, the Local Government Association (LGA) undertook a survey that demonstrated that over 75% of councils responding had released land for housing development over the previous five years and 90% of local authorities intended to make land available for housing over the subsequent five-year period.⁷

Some local authorities have gone beyond this commitment to release land to establish housing development companies. In a survey of all local authority leaders in England in 2015, nearly 50% stated that it was their intention to establish a housing company,⁸ and local authorities of different types and all over England are taking this approach. In some cases, local authorities are establishing housing companies to provide affordable housing. In Wandsworth a housing company has been set up to provide lower-rent properties, and in similar fashion a company has been established to provide affordable housing in Hammersmith and Fulham. Elsewhere, including in Enfield and in Lambeth, local authorities are establishing companies so that they can retain control over their housing stock and not lose dwellings through 'Right to Buy' initiatives.

In 2014, the LGA published a further report, *Supporting Housing Investment*, on the ways in which local authorities could deliver housing,⁹ detailing ten financial models. These include direct

development through a housing company owned by the local authority, as in Croydon and Ashford, or through a local housing company, as in Sheffield. This approach has been extended to joint ventures, as in Oxford and Wakefield. Other options include the creation of a special-purpose or asset-backed vehicle, used by Barking and Dagenham and Gateshead, respectively. The LGA report also mentions the use of City Deals to support housing delivery, such as that for Preston, South Ribble and Lancashire, and housing secured through planning agreements.

Some local authorities are undertaking housing development as part of their regeneration programmes. In Gateshead, 2,400 new homes are being developed both for affordable rent and sale, and in Lambeth the provision of new housing is being undertaken as part of estate regeneration programmes. In Wandsworth, there has been a drive to review all local authority assets with a view to building more housing on existing estates through some remodelling – or more extensively through the Mayor of London's 'housing zones'. Other local authorities that have set up direct or arm's-length housing companies include South Cambridgeshire, Camden, Sutton, Slough, Southwark, Enfield, Mansfield, Thurrock, Sheffield, Westminster, and Salford.

For those local authorities that have not transferred their housing stock, funding new council housing is still included within the Treasury's financial rules. In some cases local authorities have been able to

Table 1
Local authority housing interventions – types and examples

	Intervention type	Local authorities
1	Direct development using Housing Revenue Account	Stroud; Luton; Ealing
2/3	Council-owned housing company/local housing company	Ashford, Enfield; Hammersmith & Fulham; Camden; Sheffield; Croydon; Slough, Bournemouth; Bracknell Forest; Sutton; South Cambridgeshire; Southwark; Mansfield; Thurrock; Wandsworth; Westminster; Salford; Ealing
4	Special-purpose vehicle	Barking & Dagenham
5	Local asset-backed vehicle	Gateshead; Croydon; Bournemouth
6	Joint venture	Oxford; Wakefield; Manchester
7	PFI	Kirklees; Islington; Ashford; Derby; Kent County; Leeds; Manchester; Wiltshire
8	Development with a housing association	Hastings; South Oxfordshire
9	Pension fund investment	Manchester; Islington; Multi-local-authority pooled pension fund to create British wealth funds to build infrastructure and housing
10	Planning obligations	Wandsworth; Wiltshire; Lewisham
11	Providing mortgages	Essex County; Hertfordshire County; Sandwell; Blackpool; Warrington; Northumberland; Newcastle-under-Lyme; Peterborough; Broxbourne; Trafford; Blaby; Leicestershire County
12	Housing broker	Redbridge
13	Taking on HRA debt	Cambridge
14	New Homes Bonus funds used for housing provision	Leicester (direct investment); South Norfolk (via housing association)
15	Hedge fund	Luton (with Cheyne Capital)
16	Bond scheme	Pan London group
17	Asset management	Bath & North East Somerset; Cambridgeshire County
18	Regeneration	Gateshead; Lambeth
19	Using existing housing land	Wandsworth; Lambeth
20	Partnership with a builder	Kent; Sandwell (both with Kier)
21	Unimplemented consents funding	Greater Birmingham & Solihull Local Enterprise Partnership; Lichfield
22	European Investment Bank	Barking & Dagenham; Enfield
23	Establishing a housing association	Islington
24	City Deals	Preston, South Ribble & Lancashire; Greater Manchester; Leeds; Greater Birmingham; Newcastle; Stoke on Trent & Staffordshire; Southend-on-Sea; Greater Norwich; Greater Cambridge; Oxford & Oxfordshire
25	Housing Loan Fund	Combined Authority agreement for Greater Manchester, and under discussion in other Combined Authority agreements
26	Housing Grant Fund	Combined Authority agreement for East Anglia
27	Creating a housing fund	Plymouth
28	Land purchase for housing	Cherwell

Intervention types 1-10 taken from *Supporting Housing Investment: A Case Study Guide*⁹

develop housing using the Housing Revenue Account – Brighton and Hove, and Stroud, for example. Following the introduction of the 2011 Localism Act, local authorities that still had housing stock were invited to take a share of the national housing debt in return for being able to retain all rental income. This offer was taken up by Cambridge City Council, which then used the funds for a variety of housing purposes, including improvements and new development.

Another approach that local authorities have taken is to form partnerships with developers or other agencies to build housing. Manchester City Council has entered a partnership with Manchester City Football Club that has established a fund of £1 billion to develop 6,000 homes. Both Sandwell and Kent County Councils have formed joint development companies to build housing with Kier, and Norwich City Council has established a joint development company with the HCA. Peterborough and Wakefield have also established joint venture companies to deliver a range of housing developments. Newham has established a joint venture company to build housing for the private rented sector.

In Luton, a recent joint development company sits alongside other more traditional ways of providing housing. In this scheme, a private sector hedge fund is investing in the development, and Luton Council will manage the properties. One of the key outcomes of this approach is that the rented properties will not be subject to Right to Buy legislation, and the agreement with the hedge fund means that the housing stock will remain under Luton Council's management.

Some local authorities are using the revenue received through the New Homes Bonus to invest in housing – directly in the case of, for example, Leicester, while in South Norfolk Bonus funds have been invested through housing associations. In Essex, Uttlesford District Council now receives more New Homes Bonus than central government grant, so the development of housing is being used directly to support local authority services.

Other funding mechanisms that have been used by local authorities to build housing include raising loans through bonds,¹⁰ and this is an approach that has been proposed by a Pan-London group¹¹ and is being undertaken in Warrington. Kirklees Council has used a private finance initiative to build lifetime homes. Islington and Greater Manchester have used their pension funds to support housing development, and Islington has also set up its own housing association in order to provide housing directly.

Some local authorities are engaging in the provision of housing through the management of their asset portfolios. Bath and North East Somerset Council is an extensive landowner in Bath city centre and has established a company to manage the lettings of its residential units above shops. Cambridgeshire

County Council is developing one of its own farms to build 300 dwellings for rent.

These examples illustrate the ways in which local authorities are now engaging in the direct provision of housing across all tenures. It is also an area of activity that is likely to increase as more local authorities act to influence their local housing supply. Councils could purchase developments once a scheme has received planning consent and move forward stalled consents in this way. They could retain some interest in the resulting properties through renting or could pass them on to the market by acting as an estate agent.

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Local authorities can provide housing mortgages for those wanting to buy their own homes. Local councils offering mortgage schemes include Essex County Council, which opened a £7 million fund in 2013 that was particularly aimed at first-time buyers, and Hertfordshire County Council, which runs a similar scheme in conjunction with Lloyds Bank – which established the ‘Lend a Hand’ schemes with 15 local authorities in 2011. Since then other local authorities have joined what has, in effect, become a national scheme. Manchester is using its pension fund to support a first-time buyers mortgage scheme. Sandwell has moved beyond first-time buyers and is using its powers under the 1985 Housing Act to lend directly to any eligible borrowers.

A wider return to housing delivery?

While local authorities are finding different ways in which to be directly engaged in housing, in 2013 the Government established a review to consider the ways in which local authorities could act as housing delivery enablers and deliver more housing than has recently been the case. The review reported in 2015 (the Elphicke-House Report¹²), focusing on what a local authority could do to enable housing development through its overall leadership together with direct action in planning, land and finance. The report recommends that where local authorities have transferred their housing stock, it should be made easier for them to build housing again. It

focuses on all aspects of local authority housing, apart from that of local authorities building directly, through the means that have been identified here and in the LGA's *Supporting Housing Investment* report.⁹

The House of Lords Built Environment Select Committee has gone beyond this. In its wide-ranging review on the built environment, the Select Committee examined the contribution that local authorities could make to direct housing provision and the problems generated by government financial restrictions. Its report¹³ recommends (in para. 253) that:

'In recognition that housing need has rarely been met in England without a significant direct contribution from councils, the Government should take steps to ensure that local authorities are able to fulfil their potential as direct builders of new mixed tenure housing. This should include reviewing the impact of borrowing restrictions and proposed social rent reductions.'

The Local Government Association Housing Commission, established in January 2016,¹⁴ is also developing ways in which local authorities can directly deliver housing again.

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Local authorities may wish to engage in providing more housing in their areas for a variety of reasons, as noted here. It may be that such action is taken to move homeless families away from bed and breakfast accommodation and find more secure and financially efficient ways of supporting them. It may be to help young people remain in the area by providing affordable rented or low-price homes.

Local authorities might also see benefits in managing their own property stocks better, with new development on existing sites or using accommodation above shops. Providing new housing might be a key way of investing in regeneration and attracting further investment in due course, or it may be about widening the tenure base, as in Newham.

What is clear is that as long as local authorities operate within the prevailing accounting codes, there are no specific restrictions on them undertaking housing developments outside the strictures of the Housing Revenue Account approach. Although raising direct funding may be perceived as a problem by local authorities, they are regarded as reliable in the financial markets and can raise bonds to build housing based on their existing asset base. Local authorities do not have to mortgage the whole of their assets to do this, and the outcome of the bond investment will be a capital asset to retain or to sell on. They can act as patient investors such as the Grosvenor or Crown Estates or housing associations. They can support housing for particular groups or inject investment across the whole of the housing market.

These approaches enable local authorities to be more in control of housing provision and not left waiting for the private sector to implement their schemes. Councils can support developments for all groups and tenures.

Implications for planning

When local authorities take a more proactive approach to housing provision again, this will have some important implications and outcomes for planning. The first is that this approach does not remove requirements on local authorities for effective plan-making and efficient development management. However, where local authorities are directly involved in the provision of housing, it can enable a more secure estimate of build-out rates to be used as evidence at appeals and inquiries.

If local authorities start to provide more housing in locations where there are many unimplemented consents, it may encourage those holding these permissions to bring forward their own development programmes or to sell them to local authority housing companies or housing associations.

Direct provision of housing also enables local authorities, including their planning professionals, to consider how they can change areas to bring forward more investment. In acting as a patient developer, they might start to assemble sites for development, and they might also promote masterplans or Local Development Order provisions. In the past, local authorities would just submit and obtain planning consents for an area where it wanted to promote change. Now, planning consent would be a reasonably swift way of signalling the council's

views on the potential disposition of uses on the consented site, and would give potential developers some assurance that the local authority would support particular types of development and remodelling in these areas.

Local authorities could also look at the role of existing land uses. Many larger inner-city sites were put into lower-value uses when the property market collapsed in the 1980s. Although offering relatively low employment rates, large retail sheds and car showrooms were a good way of filling land and removing blight. However, with the current pressures for housing land in cities, is it time to consider whether these uses are still optimal, at a time when housing on brownfield land is more important. Concentrations of lower-density uses can be overlooked and neglected (perhaps we no longer really see them) but, in order to bring such sites back into more productive and efficient uses, it is important to demonstrate that the local authority would welcome changes of use.

Despite severe shortages and price rises, in some locations the housing market remains dominated by fashion, which influences investors, tenants and purchasers. In areas that have been neglected, there needs to be some indication that new housing is supported by wider planning for the area – perhaps calling not so much for regeneration as for ‘re-planning’.

Conclusion

In conclusion, it is possible to see that local authorities are starting to actively re-engage in direct housing development, this time across all tenures and using a wide range of development arrangements and funding tools to achieve their ends. In some cases the numbers of dwellings being provided is small, but elsewhere funds to build thousands of homes are being established.

The new homes will take a little while to come through the pipeline, but these arrangements will guarantee that they will be built. Local authorities can also determine where these new homes will be completed, removing sole dependency on market-based decisions. Furthermore, local authorities can support specific groups, and can develop directly or with partners.

Although not all local authorities are engaging in housing activity at the moment, the examples included here demonstrate that housing is being provided by all types of authority, all over the country. As these housing initiatives increase, they are likely to spread, as councils learn from each other. We may be seeing the start of a new era in which local authorities build housing again.

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Notes

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