

Local authority direct provision of housing

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Executive summary and recommendations

Local authorities are engaging in the provision of housing through a wide variety of mechanisms and means. This report focuses primarily on the extent of this activity, considering local authority motivation and means, particularly in relation to the creation of companies to achieve local housing objectives. During our research we have become aware of the momentum that is behind this engagement, with 30 local housing companies created in 2017 alone.

Our large-scale questionnaire survey of local authorities conducted in summer 2017 found that 65% of authorities reported being directly engaged in housing delivery themselves. This includes house building through housing companies and those still building using the Housing Revenue Account (HRA). It has also emerged that local authorities are using a wider range of means to provide housing. These interventions include building directly under the general fund, through Joint Ventures with developers, providing land for housing, giving loans to others to build housing or to bring it back into use, and building for social needs such as extra care housing. When we consider all of these interventions together, we find only 32 local authorities, 9% of the total in England, where there is no housing activity in any category at all.¹

This is a much wider engagement than we anticipated. It reflects a growing appetite and capacity in local authorities to return to or increase their roles in providing housing as a core function. It also means that the vast majority of local authorities have some basis on which to pursue further housing development and contribute to meeting national housing need. Local authorities are well placed to scale up their delivery of housing, if certain barriers can be addressed.

This scale of local authority commitment is, in part, a tribute to localism. Local authorities have tried to make the Government's policies work by increasing the number of planning permissions, with councillors taking difficult decisions that are frequently unpopular with the local electorate. This research demonstrates that when the private sector has subsequently failed to respond by building these permitted homes or sought to renegotiate away the development contributions, infrastructure or affordable housing originally agreed, local authorities have felt frustrated.

Local authorities have learned that there is no obligation on any developer or land agent to build any housing with planning permission; rather their obligation is to shareholders. Every development requires a replenishment of land and planning permissions, without which a developer's position in the market might be adversely affected. Some councillors and officers have experienced this frustration and consequently have started to take their own action to build homes. Further, when local authorities are building homes, they are often achieving this more rapidly than is their experience with the private sector.

This research demonstrates that the drive to provide housing is based on a variety of motivations, but most important is the high priority that local authorities have for meeting housing need and dealing with homelessness in a positive and permanent way. Where local authorities are seeking income from housing or property portfolios, through their own companies, they are doing so to ensure that they have secure, long-term rental income to continue to run their other essential services: what has been described as 'profit for purpose'.

We have found that most local authorities have adopted a problem-solving approach that has led to their increased engagement in housing provision. Councils have started by tackling one housing

¹ The 65% figure is the percentage of local authorities reporting that they are directly engaged in housing delivery based on our survey responses in summer 2017. This is understood to mean building under the HRA, under their general fund, or through their own local housing company. The 9% not engaged at all figure is drawn from our online research of all local authorities in England in November 2017. It includes a much wider range of methods of housing provision that authorities are involving themselves in, including through joint ventures related to housing delivery and development, or supporting a partner such as an ALMO or housing association to develop housing. Further information is available in our data table, published online alongside this report: <http://bit.ly/la-housing-table>

challenge and this has led to an increase in confidence and eventually growing capacity to deal with more issues. For those with a HRA, the extension of their housing initiatives has generally related to Councillors' frustration with their debt cap. Councils have returned to providing housing even when they have transferred their housing stock to other providers in earlier years.

Local authorities are engaging in housing delivery through a wide variety of means, including building through their HRA, building using their general funds, development through partnership approaches, advocacy and by establishing their own housing companies to develop homes. In our survey, 44% of the local authorities reported that they have their own housing company.²

The findings have demonstrated that providing housing locally is generally a matter of pride for the local authority and an opportunity to be proactive after a period of austerity. We have found that all political parties, all scales of council, and almost all parts of England, apart from the North West, are engaging in providing housing. While there is slightly less appetite for this engagement from Conservative run councils, it is also the case that many of those most actively engaged are Conservative led.

Although there is a wide desire to engage in housing delivery, Councils have identified some barriers which are preventing them providing more homes. In particular, these include funding, land availability, and skills and expertise around housing development. 53% of respondents to our survey reported that the HRA borrowing cap was preventing them delivering more homes.

When considering the relationship between planning and housing, we have found that there is a general assumption that the 5-year land supply identified in the local plan is to be for private sector development, rather than for all types of housing need. There is a disconnect in plans and practice between the needs for market housing and other tenures. Indeed, even market housing limits provision for specific groups such as older people. Local authorities are stepping into this breach and many are providing housing that is not being delivered by the market and. In some locations, this includes housing for sale. Councils are also providing housing on sites that may not be attractive to other providers as they are small or need remedial works. Councils are also providing housing to meet other needs for regeneration, their local economies and place making. We have found that where professional teams of planning, regeneration and housing are closely or co-located, this seems to improve joint working.

This research is intended to offer local authorities and those that work with them some insight into the methods and motivations that are driving the provision of housing. As things stand, it is very likely that local authorities will continue to expand their housing provision and that will contribute to meeting national need.³ Local authorities could do more by learning from each other by sharing what they are doing. However, changes in financial regulations for the HRA would also help to support more local housing delivery. While the Government has supported a wider role for the Homes and Communities Agency in the Autumn 2017 Budget, this will only meet the needs of some locations and sites. The role of local authorities should be recognized as a potentially major contributor to meeting housing need.

We have addressed some of the ways in which local authorities could deliver more and better homes, based on our findings in this report. These are set out in our recommendations below.

² The 44% figures is based on responses to our survey; the 30 companies formed in 2017 were identified through our desk research of online information. See our data table for further detail: <http://bit.ly/la-housing-table>

³ Savills (2017), Investing to solve the housing crisis, <http://bit.ly/savills-investing>

Recommendations

These recommendations are addressed to specific institutions involved in local housing delivery. They represent a range of incremental actions which cumulatively could improve the level of supply of housing from both new and existing sources.

To central government

- To remove the debt cap on the Housing Revenue Account (HRA) for all local authorities
- To allow local authorities to retain all Right to Buy (RTB) receipts if they are using them to build replacement housing
- To review the relative weightings in the distribution of £44bn housing subsidy to give more priority to social and affordable housing and less to market housing for sale
- To clearly state that local authorities can build and provide housing using housing companies created under the Localism Act 2011
- To more clearly identify ways in which local plans can ensure delivery through direct agreements with applicants or successors to planning permissions
- To positively reinforce local plans' inclusion of housing for different need groups
- To use International Financial Reporting Standards (IFRS) accounting standards to allow local authorities with HRA stock to revalue them at market rates and raise investment against the value of these assets
- If the HRA debt cap is maintained, to consider using the debt cap in the HRA as a single figure across local government and allow local authorities to loan their unused cap to other local authorities
- In line with the NAO report on Local Authority capital expenditure,⁴ to offer local authorities a two-year holiday to pay off existing Public Works Loan Board (PWLB) loans that are at higher levels of interest if replaced by new housing loans at current lower levels. This could provide some headroom in the local authority revenue account and increase housing investment
- To allow local authorities to increase/ change the bands for council tax, to fund infrastructure investment through capturing land value uplifts associated with housing development
- To encourage every local authority to provide assessments of their ROCE (return on capital employed) in their capital accounts
- To clarify how long the New Homes Bonus is likely to be available to local authorities

To local authorities

- To use the research published here to consider the range of potential initiatives available to provide housing
- To have a specific discussion and consideration of the issues so that the council position is agreed by Council – whichever way this is
- To include housing associations in the pool of organizations from which professional and technical assistance is sought
- To consider the five-year land supply in the local plan as being available for all housing tenures and types and not solely for market housing

⁴ NAO (2017), 'Financial sustainability of local authorities: capital expenditure and resourcing', <https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing/>

- To consider how the local plan can be turned into a delivery programme for housing and how specific project delivery is to be secured
- To consider the role and condition of all housing within their area. Where appropriate, this should include the potential for retrofitting and capacity for conversion to meet specific needs
- To consider offering an independent service to support older people in moving to a new home
- To ensure specific housing needs are identified by site and location in the local plan including for social rent, older people, and other need groups
- To consider employing development surveyors where these are not already within the local authority to deal with viability and assessments of council's own developments, rather than relying always on external consultants
- Consider taking s106 affordable homes into the Council's own housing company or HRA
- Apply to the HCA for Help to Buy funds for any new housing that is private sale
- Include local authority planning professionals on Well Being Boards and Extra Care strategy groups

To the Local Government Association (LGA)

- To encourage all local authorities to positively consider providing housing in their areas
- To encourage local authorities to learn from each other about the range of appropriate mechanisms that can be used to provide housing
- To widen its consideration and requests to government from just provisions for the HRA to include housing companies
- To set up a special task and finish group to give advice to local authorities considering establishing a housing company
- To review the operational effectiveness of One Public Estate and identify what is blocking local progress

To the Society of Local Authority Chief Executives (SOLACE)

- To establish a task and finish group to provide advice to Chief Executives on the direct provision of housing
- To identify the direct provision of housing as a key priority for conferences and workshops in the coming year to ensure that knowledge and experience of practice is shared
- To establish a common view of the legal powers available to deliver housing
- To share information and experience of establishing housing companies

To the Chartered Institute of Public Finance and Accountancy (CIPFA)

- To establish a specific task and finish group to identify the powers, processes and issues associated with the establishment and management of local authority housing companies
- To issue a short guidance/information note to all members of the group's findings including FAQs, and dos and don'ts
- To feature local authority housing companies at conferences and events in the coming year
- To investigate and review the way in which capital funding and investment is dealt with under the IFRS code

- Encourage every local authority to include an assessment of ROCE (return on capital employed) in their annual accounts
- To develop the role of the capital accountant within the local authority and provide internal training in understanding the role and mechanics of the capital budget

To the Royal Institute of Chartered Surveyors (RICS)

- To promulgate the findings of this research to members and make them aware of the role of housing companies
- Provide some information to members on the implications of the removal of the revenue support grant to local authorities and the need to achieve income rather than capital sales

To the Royal Town Planning Institute (RTPI)

- To review and reissue the advice to planners on engaging on council's own development proposals and applications

To the private sector

- To understand better the role of local authorities in building and providing homes
- To understand better the concerns of local authorities for design, delivery, quality at the local level
- To understand the need of local authorities for revenue streams rather than capital receipts

1. Introduction

National concerns about the provision of adequate housing supply have been expressed by government, communities and individuals attempting to engage in the housing market. The development industry has been critical of local authority planning practices,⁵ suggesting that these have been responsible for a shortage in housing stock. However, more recent increases in the approval of planning permissions has not seen an equivalent increase in dwellings built.⁶

The Lyons report on housing (2014)⁷ identified this gap in housing provision as a continuing problem since local authorities ceased their role of direct housing providers in the 1980s. Since then, the shortfall in housing provision has mirrored the scale of the former local authority contribution to the market.

Frustrated at the continuing difficulties in the provision of housing, local authorities have started to engage directly in housing delivery across all sectors. In 2015, a survey found that over 50% of local authority leaders intended to set up housing companies to directly engage in housing provision.⁸ Further both the House of Lords Built Environment and Economic Affairs Committees have recommended that local authorities should return to their roles of direct housing providers.⁹ And the Local Government Association's (LGA) Housing Commission has a review of how this can be achieved in practice,¹⁰ following a recommendation from the Elphicke-House Review.¹¹

The purpose of this research is to identify the practical ways in which local authorities are engaging in the direct provision of housing in their areas, so as to inform wider practice. The study focuses on local authority motivations and objectives and the mechanisms and means that they are using. Where possible, it also gives a sense of the number and type of dwellings being provided through these methods. It will expand upon the study undertaken by the LGA, and the recent studies on local authority provision of affordable housing undertaken by the Smith Institute¹² for the Nationwide Foundation, and the Town and Country Planning Association (TCPA) for the Association for Public Service Excellence (APSE)¹³. The study also considers the relative roles of planning and wider local authority initiatives to deliver housing requirements in their areas.

1.1 The research objectives

The objectives set by the National Planning Forum (NPF) and the Royal Town Planning Institute (RTPI) for this research were to:

- promote greater understanding of existing and emerging local authority practices in providing housing, including policy objectives, business models and funding methods;
- assist local authorities in providing more housing through a range of examples in practice, so supporting an increase in housing supply;
- assess the number and proportion of dwellings being provided through these methods where possible;

⁵ Jonathan Prynne (2017), 'London's housing crisis can be solved by 'reining in middle class nimbys', report says', <http://bit.ly/crisis-nimbys>

⁶ Marcus McPhillips (2017), 'Phantom Homes: Planning Permissions, Completions and Profits', Shelter, <http://bit.ly/shelter-phantom>

⁷ Lyons Housing Review (2014), 'Mobilising across the nation to build the homes our children need', <http://bit.ly/lyons-housing>

⁸ Laura Sharman (2015), 'Half of councils setting up companies to tackle housing', <http://bit.ly/localgov-hcompanies>

⁹ House of Lords Select Committee on National Policy for the Built Environment Committee (2016), 'Building Better Places', <http://bit.ly/hol-better-places>; and House of Lords Select Committee on Economic Affairs (2016), 'Building More Homes', <http://bit.ly/hol-more-homes>

¹⁰ LGA (2016), 'Building our homes, communities and future', <http://bit.ly/lga-our-homes>

¹¹ N Elphicke & K House (2015), 'Review into the local authority role in housing supply', <http://www.thinkhouse.org.uk/archive/elphike.pdf>

¹² Paul Hackett (2017), 'Delivering the renaissance in council-built homes: the rise of local housing companies', Smith Institute, <http://www.smith-institute.org.uk/book/delivering-renaissance-council-built-homes-rise-local-housing-companies/>

¹³ TCPA & APSE (2017), Building Homes Creating Communities, <http://bit.ly/tcpa-apse-homes>

- consider the relative role of planning in these initiatives, including the extent to which planners are aware of and engaged in these practices, how these local authority methods of providing housing can be incorporated into planning evidence and supply side calculations and if there is innovative planning practice that could be shared more widely;
- provide government including HM Treasury, local authorities and other relevant bodies with evidence to undertake effective policy making; and
- enable the planning profession to understand the mechanisms available to translate planning permissions into delivery of housing. Identify the extent to which a cross-sectoral approach is adopted that engages other sectors, especially communities and business.

1.2 Research Methodology

The project took a mixed methods iterative approach; combining desk based study, a large-scale questionnaire survey, and in-depth roundtable discussions and research interviews. The project builds on the snapshot survey (of public information from media sources) undertaken by Janice Morphet (May 2016)¹⁴ as a preliminary means to identify the main motivations and methods being used by local authorities to provide housing. The project was supported by a stakeholder group of representatives from a wide range of professional and other bodies with an interest in the role of local authorities in housing delivery that met at key points in the project. The members of this group are in Appendix 1.

Desk based research

In addition to a wider literature review of issues facing local authorities in providing housing, we have also conducted two snapshot surveys of publicly available information about local authority engagement in housing provision. For each of these surveys, online searches were made in relation to every local authority in England (353 in total, including district/borough/unitary and county councils). The first, conducted at the beginning of 2017, looked to see which authorities had a housing company and which were building under the HRA. This took information from their websites as well as from media information in sources such as *Inside Housing*.

The second, conducted in November 2017, involved looking at online information including local authority websites, press releases, and committee reports. It considered how each local authority was engaging in housing provision based on a wider definition which included a variety of partnership approaches. This was undertaken on a successive elimination process, that is once one housing activity had been recorded for that local authority then others were not sought. Hence these results represent evidence of at least once example of activity in a local authority and not a complete picture of every local authority's full participation in the provision of housing.

Roundtables

A series of roundtable discussions were held with planning and housing officers across the country, coordinated by each English Region of the RTPI. These aimed to identify the key issues associated with local authority provision of housing in each area. In each region, invitees were primarily local authority planning and housing officers. We sought their views on local authority housing provision and how it was working inside their local authority. Two roundtable events were included as part of wider housing seminars organized by the RTPI. There were also roundtable discussions with stakeholders at relevant conferences and with industry groups which were organized through one of our stakeholder group members and these discussions led to further opportunities to meet individuals and to engage in public sector housing fora. A total of 13 roundtable discussions were held. A series of 16 individual discussion meetings were also held with individuals concerned with housing delivery, selected purposefully due to relevant expertise or involvement in this area (see Appendix 2).

Questionnaire survey

The issues identified through these roundtable and individual discussions then helped formulate an online questionnaire survey, the link to which was sent via email to those identified as being the Chief

¹⁴ Janice Morphet (2016), Local authorities build housing again, <http://bit.ly/researchgate-jm>

Executive and the lead officers for housing, planning, finance and legal in the Municipal Year Book for each local authority in England. The survey sought information about the local authority's involvement in housing provision across a series of closed and open questions. A total 268 responses were received from officers working in 197 different local authorities in England (representing 56% of the 353 borough, district and county authorities).

Case studies

The survey asked respondents if they would like to volunteer to be a case study. From the over 60 local authorities that volunteered, we selected 12 local authorities using a range of criteria including their regional location, type of authority, political control, which professional groups had responded to the invitation to be a case study, and the scale of their active engagement with housing provision. Interviews were then arranged with officers and subsequently 10 face to face interviews were undertaken to gain more in-depth insight into their local authority's motivations, achievements, barriers and lessons associated with housing provision by the local authority. It should also be noted, of those case studies selected because the local authority did not have a housing company, by the time that the interview was planned or conducted, two had agreed to form a housing company.

The information from the desk research, discussions, questionnaire survey, and case study interviews informs the Chapters 2-10 of this report. The results of the snapshot surveys and questionnaire survey have also been collated as an information table on local authority housing provision which is published alongside this report.¹⁵

¹⁵ Morphet & Clifford (2017), Table of local authority direct provision of housing in England: <http://bit.ly/la-housing-table>

2. The context for local authority housing provision in 2017

Before reviewing the motivations and methods of local authorities in housing provision, this section considers the context within which this change in policy and practice is occurring. For some local authorities, such as Crawley and North Kesteven, there has never been a pause in their housebuilding programmes since the major changes in funding and focus in the Thatcher period, although the number has reduced dramatically, from 1.5m homes completed 1950-1959 to 8,000 between 2010 -2015.¹⁶ To some extent the local authority role in providing social and affordable housing was initially taken over by housing associations who completed 230,000 homes between 1990-1999, although these numbers have now dropped to 150,000 in the period 2010-2015 and many of these homes will now be for sale.¹⁷ However, now many local authorities reported to us a reluctance on the part of housing associations to provide housing in their areas and this is in part motivating local authorities' reengagement in housing provision.

The biggest contribution to the provision of housing in the post-Thatcher period has been from private house builders who have increased their output over this prolonged period although this has varied according to economic and market conditions. While this level of development was achieved by larger and smaller housebuilders, there has been a decline in smaller builders since the 2008 economic crisis¹⁸. There has also been a restructuring in the providers, with major housebuilding groupings now trading under a variety of brand names.¹⁹ In response to the current pressure on developers to build more homes, there has been an estimated 57 per cent increase in their output from 2013.²⁰

At the same time, housing developers have consistently complained that local authorities' delay in achieving adopted local plans that include a five-year land supply have contributed to their difficulties in providing additional homes. Before the Regional Spatial Strategies were abolished from 2010 onwards, individual local authorities agreed a proportion of strategic housing demand that was set in these plans following public examination. This meant that within individual local authorities there was always an opportunity for politicians to argue that new housing targets were being imposed from above. Since 2012, the determination of objectively assessed need in local plans has been required to be agreed with other authorities in housing market areas.²¹ Some private sector consultancies undertaking research on housing development have argued that these numbers are consistently too small and do not reflect the requirements in areas of the most active housing markets.²²

The government has undertaken a range of initiatives to both reduce the level of planning regulation that is required for housing development and to provide incentives for local authorities to support more housing through the provision of a New Homes Bonus. While local authorities have not achieved a full coverage of adopted plans in England,²³ the number of planning permissions for housing has increased. However, the increase in the number of permissions has further highlighted the delays in implementing those permissions by developers.²⁴ Many planning permissions that have been approved are not being implemented at all or are being built out at very slow rates. This is reducing the ability of local authorities to support wider policies including those for economic growth. It also leaves them open to further challenge on sites that may be more attractive to housing developers in greenfield and more peripheral locations. It is also having some effect on housing developers. Institutional investors are beginning to

¹⁶ House of Lords Select Committee on Economic Affairs (2016), Building More Homes, <http://bit.ly/hol-more-homes>, p57

¹⁷ *ibid*

¹⁸ HBF (2017), Reversing the decline of small housebuilders, <http://bit.ly/2i1nRij>

¹⁹ See for example <http://www.barrattdevelopments.co.uk/about-us/who-we-are/our-brands> ; <https://www.berkeleygroup.co.uk/> ;

²⁰ Michael Lyons et al (2017), Lyons Edited Collection, <http://bit.ly/lyons-edited>

²¹ Planning Advisory Service (2015), Objectively Assessed Need and Housing Targets: Technical advice note, <https://www.local.gov.uk/sites/default/files/documents/objectively-assessed-need-9fb.pdf>

²² Lichfields (2017), Planned and Deliver, <http://lichfields.uk/content/insights/?article=planned-and-deliver> ;

²³ The Planning Inspectorate (2017), LPA Strategic Plan Process, <http://bit.ly/pin-plan-progress>

²⁴ Graham Ruddick (2016), Number of unbuilt homes with planning permission hits record levels, LGA says, <http://bit.ly/unbuilt-homes>

question the pipeline of development land which is being held against the risk of slow determination of planning permissions and the effects on the developers' balance sheets.²⁵

In February 2017, the then UK Government published a Housing White Paper²⁶ that considered many of these supply side issues. This White Paper has been confirmed as the basis for policy by the Government elected in June 2017. It concluded that housing developers needed to be more open about their development pipeline and land options. It also proposed that local authorities should be amongst a wider group of housing providers. Local authorities were also suggested as one of the main institutional mechanisms for holding housing developers to account for housing delivery and where there are delays should consider taking more active means to promote development including the use of compulsory purchase orders (CPOs) to unlock stalled development. In the White Paper, the government appeared to be responding to the housing development industry by saying that in effect that it had tried to respond to all their complaints, so why was the industry now not building at the required levels?

Since the June 2017 General Election, the new UK Government has been progressing some of the proposed White Paper policies. This has included the publication of 'Planning for the Right Homes in the Right Places',²⁷ a consultation paper on establishing a single methodology for 'objectively assessed need' (OAN) for housing requirements in local plans, together with other proposed mechanisms for encouraging local authorities to work together in identifying local housing number requirements. The primary method proposed in the paper for achieving OAN is based on local house prices and potential mortgageability for house purchasers. There is a second section on meeting housing needs for specific groups such as older people and for affordable rent. However, this latter section contains no indications of the evidence required in the local plan to support requirements for housing for these groups, how any needs will relate to the overall numbers identified through the OAN calculation and how these two requirements will operate together in the 5-year land supply, in local plan delivery or in the determination of planning appeals against refusal of applications. However, there is an indication that sites should be specifically identified to meet those with defined needs.

The delivery of local plan proposals is also emerging as a government priority. This is being seen through the role of its agency Homes and Communities Agency (HCA), soon to be repurposed as Homes England, and through the powers and duties of the new Combined Authority mayors elected in May 2017. It is expected that the mayors will be offered tailored housing deals as a major focus for delivery. This focus on delivery further extends to local authorities with adopted local plans.²⁸ While the move away from land use planning to spatial planning was introduced in the Planning and Compulsory Purchase Act 2004,²⁹ in practice this change to a focus on delivery has been on the identification of infrastructure commitments and needs. It appears that this focus is now moving to include a requirement, that where local plans are adopted, the local authority is also accepting a commitment to work directly with providers. In effect, this turns adopted policy proposals into a delivery programme which will then be the focus of implementation by the local authority through specific projects within it.

This research has found that in addition to the Government pressures on providing for housing numbers in local plans, local authorities are also experiencing a wider range of challenges that are encouraging them to consider engaging directly in the provision of housing. We now consider these in turn.

2.1 Government policy focus on private sector provision

Since the mid-1980s, central government policy has primarily been focused on the delivery of housing by the private sector. This has included a range of planning reform including a move to delegated

²⁵ Isabelle Fraser (2017), KPMG warns housebuilders to diversify their debt or risk losing access to capital, <http://bit.ly/kpmg-diversify>

²⁶ DCLG (2017), Fixing our broken housing market, <https://www.gov.uk/government/publications/fixing-our-broken-housing-market>

²⁷ DCLG (2017), Planning for the right homes in the right places: consultation proposals, <http://bit.ly/dclg-rhrp>

²⁸ Steve Quartermain speaking at the Housing Conference October 4th, 2017

²⁹ Morphet J. et al (2007) *Effective Practice in Spatial Planning*. London: RTPi

permissions, and deregulation of change of use from office, retail and other businesses uses to residential.³⁰ It has also included a variety of incentives for local authorities and developers to provide more housing. The most recent of these are the New Homes Bonus for local authorities and Help to Buy schemes for first time buyers which have supported 240,000 housing completions by June 2017, primarily outside London.³¹ This is expected to be a subsidy of £32bn by 2020³² and was increased to £44bn in the Autumn 2017 Budget. Christine Whitehead (2017) has suggested that in recent years, 90% of new homes sold have had some form of public subsidy.³³ As local government funding is being changed by the Government from 2020, with the removal of the Revenue Support Grant (RSG), this New Homes Bonus is already comprising a significant portion of each Council's annual income,³⁴ although it could be removed by the Government at any time.

This government focus on the private sector has also been represented through local plan housing land supply approaches. This means local plans indicating the total supply of all housing required rather than tenure, specific locations based on need, or housing related to income. The recent Housing White Paper included proposals that local plans should identify housing for older people as a specific category or use class, but this has yet to be implemented. However, such a move could open the way to other tenure or household types being included within the plan as specific groups for targeted housing provision.

As there have been no initiatives on any scale to provide housing through local authorities since 1988, there is an unspoken assumption that land identified for housing in local plans is, in effect, for private housebuilders. This has overlooked the fact that private sector developers are under no compulsion or obligation to build any homes at all, despite the number of planning permissions they may hold. Their primary duty, like any other business, is to make a return to their shareholders so any reliance on private developers to expand and build more dwellings is not a secure and reliable policy for local authorities seeking to increase housing supply. Further, for any housing developer, once a site has been used for development, then this must be replaced maintain the company's share price. While local authorities are being required to identify more housing land, based on potential mortgageability, there is not an equal and opposite requirement on the private sector to build homes. Local authorities are now beginning to consider their role as providers to meet these housing needs in a more secure way.

Meanwhile, housing development is still experiencing considerable return on investment. The ONS has reported that typical house prices have increased by £12,000 per year³⁵ although this varies in specific locations. The cost of renting a home increased on average by 1.8% in the same period and rents are reducing. Berkeley homes reported that it was on course for a 61% increase in profits for its full year results reported in June 2017,³⁶ Bellway Homes reported a 10% increase in profits in March 2017,³⁷ and Persimmon reported a 23% increase in pre-tax profits in February 2017.³⁸ However, it is worth noting that these profit levels have started to encourage new entrants to the market.

2.2 Demographic change

In many European countries there are concerns about low birth rates meaning that populations are not being replaced.³⁹ The growth in the UK population through both high fecundity rates and in-migration are regarded with some envy elsewhere. However, there are issues associated with a rising population.

³⁰ Clifford, B et al (2017). *Assessing the Impacts of Extending Permitted Development Rights to Office-to-Residential Change of Use in England*. London: RICS Research Trust (forthcoming)

³¹ Laura Edgar (2017), Help to Buy helps more than 240,000 first-time buyers, <http://bit.ly/planner-h2b>

³² Steve Wilcox et al (2017), 2017 Housing Review, CIH, <http://www.cih.org/resources/PDF/1UKHR%20briefing%202017.pdf>

³³ Christine Whitehead speaking at the Joint Planning Law Conference Oxford September 2017

³⁴ Kathryn Hall (2017) 'Local authority planning in context' Joint Planning Law Conference 16th September 2017

³⁵ Kevin Peachey (2017), 'Typical house price up £12,000 in a year, says ONS', BBC News,

<http://www.bbc.co.uk/news/business-40259495>

³⁶ Isabelle Fraser (2017), 'Berkeley Homes set to report soaring profits amid a slowdown in London', <http://bit.ly/berkely-profits>

³⁷ Conor Sullivan et al (2017), 'Bellway profits boosted by shortage of housing in the UK', <http://bit.ly/belway-profits>

³⁸ BBC News (2017), 'Housebuilder Persimmon's profits rise amid 'confident' market', <http://www.bbc.co.uk/news/business-39101359>

³⁹ The Guardian (2017), World population to hit 8bn in 2023, says new UN survey, <http://bit.ly/pop-8billion>

The largest increase in population since 1976 was recorded in 2017, at over 500,000 people.⁴⁰ This rise in population necessitates consideration of issues of housing and support infrastructure such as schools and health care. Of those 14 authorities showing more than 2% population increase within the last year, eight were in London. The vast majority of all other local authorities also recorded some population increase.

At the same time, the numbers of older people are increasing and many of these are occupying housing that is now larger than their needs. However, much of new private sector housing development is for families or younger single people. While the Housing White Paper (2017) indicated that more should be provided for older people, a general level of provision is not currently available.⁴¹ It is also reported that older people are getting divorced in higher numbers, with 'silver splitters'⁴² now preferring to move to rented accommodation rather than buying new homes. For older people in need of care, the pressure on social care home costs is placing pressure on the health services as people are staying in hospital for extended periods. Another group without appropriate accommodation available to them are young care leavers who cease to be the responsibility of local authorities when they are 18 or leave full time education.⁴³

For young people expecting to leave home and purchase or rent their own home, Aviva research has shown that rising house prices might mean that one million more young people may be living with their parents in ten years' time.⁴⁴ Official statistics show there are 2.8 million adults aged between 21 and 34 still living with their parents today, an increase from 2.1 million in 2005, and these form part of the number of concealed households. There are also reports that some parents are purchasing larger houses so that their families can continue to live with them.⁴⁵ These changes in household patterns are having a downward effect on household formation rates in practice⁴⁶ although there are also hidden households to consider as a consequence.

Meanwhile house sales are also subject to overall economic conditions. With stagnant pay rates, many families are cutting expenditure and are not able to save.⁴⁷ The low levels of personal savings and margins within disposal incomes may mean that any interest rate rises will have a significant effect on many households where there has been an increase in car leasing⁴⁸ and credit card debt.⁴⁹ Further, public sector employees and the young⁵⁰ are most likely to take payday loans to cover household bills before the end of each month.⁵¹ This is having an effect in the housing market, with reports that house sales have fallen by a third in some areas.⁵²

These issues of household income are also having an influence on housing tenure. A recent House of Commons Library Note, drawing on the Labour Force Survey states that 'at the end of 2016, around 65% of UK households were owner-occupiers, 17% were renting from a private landlord and 18% were renting from a social landlord. Social renting has declined since 1996, while private renting has increased. The rate of owner-occupation is also slightly lower than it was ten years ago.'⁵³

⁴⁰ ONS (2017), Overview of the UK population, <http://bit.ly/ons-uk-pop>

⁴¹ DCLG (2017), Fixing our broken housing market, <https://www.gov.uk/government/publications/fixing-our-broken-housing-market>

⁴² The Guardian (2017), 'Silver splitters' – are over-60s divorcees creating a new generation rent?, <http://bit.ly/silver-splitters>

⁴³ LocalGov (2017), County considers converting empty properties into homes for care leavers, <http://bit.ly/lq-empty-homes>

⁴⁴ Ben Chu (2016), 'Rising house prices to force a million more youngsters to live with parents', The Independent, <https://ind.pn/2Aedhz7>

⁴⁵ Alex Johnson (2014), Parents buying bigger houses for their live-at home children, The Independent, <https://ind.pn/2Bw4WVt>

⁴⁶ Christine Whitehead Joint Planning Law Conference Oxford 16th September 2017

⁴⁷ Larry Elliott (2017), Household income falling at fastest rate since 1976 as UK savings rates crash', The Guardian, <http://bit.ly/2hYuxqX>

⁴⁸ Phillip Inman (2017), 'MPs and charities urge car leasers to publish sub-prime loan figures', The Observer, <http://bit.ly/2neeeCj>

⁴⁹ Tim Wallace (2017), 'Household debt to hit record high as credit card splurge adds up', The Telegraph, <http://bit.ly/2AdPMq3>

⁵⁰ Kamal Ahmed (2017), 'Financial regulator warns of growing debt among young people', BBC News, <http://bbc.in/2zA4NyX>

⁵¹ Richard Hartley-Parkinson (2017), 'Public sector pay is so bad that many are getting payday loans', Metro, <http://bit.ly/2k8Pvy6>

⁵² Patrick Collinson (2017), 'House sales have fallen by nearly a third in some parts of UK, says Lloyds', The Guardian, <http://bit.ly/2AfeUNe>

⁵³ House of Commons Library, 'Home ownership and renting: demographics' <http://bit.ly/2AjJTFn>

The demographic issues are complex and are subject to a variety of influences many of which are economic in character. These will play out differently in individual local authorities and may change rapidly if there are shocks to the economic system such as might relate to Brexit, interest rate rises or increased inflation for food and energy while pay rates remain static.⁵⁴ While there is a demand for new homes, the inability of households to purchase them means that fewer will be built for market sale by housebuilders in response to this market downturn and there will be increased pressures on other tenures. In London, the Deputy Mayor, James Murray reported that 80% of new homes built are affordable to only 8% of the population.⁵⁵

2.3 Land issues and land supply in planning

Much of the debate about housing supply has been focussed on new build, with developer preference for greenfield sites which usually provide higher sales profits.⁵⁶ However, there are also other policy approaches towards land that some local authorities are beginning to utilise. The first is considering local authority land for development and whether selling this land or developing it in partnership or through wholly owned housing companies contributes to financial stability and meeting policy objectives. Some 75% of local authorities are subscribed to the government's One Public Estate⁵⁷ initiative, now led by the Local Government Association. However, positive examples in practice relating to housing were not forthcoming in this study. These approaches are leading to some councils like Croydon London Borough Council working with other public land owners such as the NHS in undertaking housing developments. It is also leading local authorities to consider their role as patient public investors, acquiring property to provide income and longer-term development potential. This in turn having some effect on the role of property and planning professionals in the senior leadership teams of local authorities and other public bodies.⁵⁸

Meanwhile, since the publication of the National Planning Policy Framework (NPPF) in 2012, there has been a 56% increase in the annual number of plots given planning permission for dwellings in England.⁵⁹ However, many of these planning permissions are not being built out or being built at much slower rates than anticipated in local plans.⁶⁰ This is causing frustration as local authorities cannot force those holding planning permissions to build to meet local need although the White Paper looked at how they could do this. While there has also been a focus on the achievement of planning permissions for larger sites, these appear to be being built out at slower rates than smaller sites which are more frequently being developed by smaller builders. So, while there is some housing activity, it is not contributing in the ways that have been planned. The HCA, which disposed of large sites to single developers in the past, has reflected on their subsequent slow build out and decided to split sites into smaller development plots for different developers in the future.

Although 72% of authorities have plans in place, there are still 242 authorities (which make up 65% of the total) without local plans which have been adopted since the publication of the NPPF.⁶¹ ⁶² There has been a continuing rise in the award of planning permission for housing whilst housing starts continue to lag significantly behind, with 261,644 permissions in 2015 compared to just 139,680 starts.⁶³ ⁶⁴ So, identifying more land for housing in local plans and permitting more housing development does not automatically lead to more housing delivery. There are a number of reasons for this. Not all sites

⁵⁴ OBR, (2017) 'Economic and fiscal outlook – November 2017', <http://bit.ly/2hXrNAv>

⁵⁵ Mayor of London (2017), London Draft Housing Strategy, <http://bit.ly/2zOgmGY>

⁵⁶ House of Commons Communities and Local Government Committee (2017), 'Consultation on National Planning Policy', <https://www.publications.parliament.uk/pa/cm201516/cmselect/cmcomloc/703/703.pdf>

⁵⁷ LGA, One Public Estate, website, <https://www.local.gov.uk/topics/housing-and-planning/one-public-estate>

⁵⁸ London Assembly (2017), Homes Down the Track, <http://bit.ly/2Ai5aPA>

⁵⁹ William Eichler (2017), 'Study reveals 'massive shortfall' in planning permission', LocalGov, <http://bit.ly/2AjCnKy>

⁶⁰ Marcus McPhillips (2017), 'Phantom Homes' - Planning Permissions, Completions and Profits', Shelter, <http://bit.ly/shelter-phantom>; Joe Sarling (2016), 'Start to Finish: how quickly do large-scale housing sites deliver?', Lichfields, <http://bit.ly/2zANbCL>

⁶¹ Michael Lyons et al (2017), Lyons Edited Collection, <http://bit.ly/lyons-edited>

⁶² The Planning Inspectorate (2017), LPA Strategic Plan Process, <http://bit.ly/pin-plan-progress>

⁶³ Michael Lyons et al (2017), Lyons Edited Collection, <http://bit.ly/lyons-edited>

⁶⁴ Daniel Bentley (2017), 'Building Homes Faster', Civitas, <http://www.civitas.org.uk/content/files/BuildingHomesFaster.pdf>

identified as meeting housing need may be attractive to developers. This may not be an issue if there are other housing providers and this is where local authorities have started to fill the gap.

Housing associations have become more like private sector developers and are not as able to meet the needs of social and affordable housing as they once were. In November 2017, the borrowing of housing associations was shifted from the public balance sheet to the private sector, following an ONS redefinition. This might enable housing associations to borrow more to build more social and affordable dwellings. However, at the same time, this definitional shift reduces the amount of control and influence that the Government has on housing associations, who may choose to build for other tenures.

Where developers have planning permissions that are not being used, the Housing White Paper proposed that local authorities should be enabled to act. Such unimplemented permissions could be taxed but this may only have an effect in the short term on those permissions that already exist. There may also be arguments made against this taxation in specific cases by developers, as there have been to renegotiate viability assessments. In the longer term, developers may choose not to obtain permissions until they have completed all negotiations and issues with the local authority. They might even withdraw from a developer role and instead make their construction capacity available to other providers.

The increase in planning permissions could make a significant contribution to housing need. However, a recent report by Grant Thornton,⁶⁵ as part of the 50,000 homes campaign in London challenged this. It found that while planning applications for dwellings in London reached 42,000 in the first six months of 2017, close to the estimated need of 50,000 per year, the main challenge is converting these permissions into constructed dwellings. In 2015, the study estimates that 24,000 dwellings were completed in London, although some 15,000 have already been completed in 2017 so this number may increase. However, it is also important to note that 70% of these dwellings are in zones 1-3, so the main challenges are seen to be in outer London, particularly in zones 5-6. If housing permissions and completions could be increased in these areas then the 50,000 targets might be reached.

The Government's Housing and Finance Institute has also recently reported on this gap,⁶⁶ arguing that the London should be put into special measures and that the recommendations of Lord Kerslake's London Housing Commission report⁶⁷ should be reconsidered. In this it is proposed that the London be exempt from the NPPF, with the Mayor being given special powers to force boroughs into housing delivery. Other proposals include allowing London to set its own planning fees, allowing the GLA and London Boroughs to borrow funds for housing (powers that they already have outside the HRA), devolving stamp duty and allowing the boroughs to apply a development delay tax. The development delay tax would in effect be raising council tax payments on dwellings which have permissions but are not completed.

While local authorities are frustrated at this lack of implementation and take up of identified land supply by developers, the development industry is also arguing that even more planning permissions should be granted. They argue that the lack of local plan coverage across England with associated five-year land supplies is leaving the country short of housing. They also state that even with the duty to cooperate, there is an under provision of housing land supply in those areas where there is greatest demand. In this argument, there is increased pressure for green field sites, particularly in the green belt, and less focus on the reuse of existing land such as that in low density retail parks or other uses for housing.⁶⁸ Where local authorities do not have an up to date local plan, they are likely to be under pressure to give permissions for housing schemes and to be more open to challenge at appeal. In a recent study, Savills examined how local authorities would perform if they were subject to the proposed housing delivery test. They found that all the local authorities under pressure for housing are in the South East and that 61 local authorities have lost some appeals as they do not have a five-year land

⁶⁵ Fifty Thousand Homes (2017), 'London has opportunity to reverse decades of housebuilding shortfall' <http://bit.ly/2zNI6eO>

⁶⁶ Housing and Finance Institute (2017), 'Market Research Series: London and the Regions' <http://bit.ly/2jv7TNE>

⁶⁷ London Housing Commission [LHC] (2016), Building a new deal for London: Final report of the London Housing Commission, IPPR, <http://www.ippr.org/publications/building-a-new-deal-for-london>

⁶⁸ Savills (2017) 'On track to solving the housing crisis?' <http://bit.ly/2BuYs98>

supply in place.⁶⁹ However, in comparing the outcome of appeals between areas with and without an adopted plan, GL Hearn have found that the number of appeals determined for the appellant is reducing⁷⁰.

2.4 Investment and second homes and short-term rentals

While there is considerable pressure to provide more housing, there are also pressures on the availability of existing stock. This is from three main causes: homes purchased by overseas investors, vacant homes, and second homes. The first is through housing purchased for investment by those living in other countries. In a study undertaken for the Mayor of London, foreign buyers purchased 3,600 of London's 28,000 newly built homes between 2014 and 2016, and about half of those were priced for first-time buyers between £200,000 and £500,000.⁷¹ Of the higher priced properties, some 32% are estimated to have been purchased by international investors.⁷² This is a complicated issue to investigate but there are measures that have been undertaken elsewhere. For example, in Vancouver foreign investors must pay an additional tax as part of their purchase.⁷³ In the UK, since 2015, international housing purchasers are required to pay Capital Gains Tax on the properties that they own although this does not seem to have been as much of a disincentive as Brexit.

It seems unlikely that just building more homes will solve the problems of homelessness and unaffordable rents. According to the ONS,⁷⁴ there are more properties vacant – defined as being unoccupied for a six-month period – than at any time in the last twenty years. There are now 1.4 million empty homes. The London Borough of Kensington & Chelsea has the greatest number with other London boroughs also high on the list⁷⁵. There has been speculation that these empty properties have been purchased by people from overseas for investment through 'buy to leave'. However, studies undertaken for the Mayor of London demonstrated that this was not the case. The University of York⁷⁶ found that foreign purchasers are buying up to 13% of new build stock and that half of this is priced under £500,000 – that is at the more affordable end of the London market.

This was supported by the finding that most foreign investor activity was in Westminster, Tower Hamlets and Greenwich, followed by Wandsworth, Kensington & Chelsea, Southwark and Hackney. The highest levels of foreign investor purchases in an outer borough was in Newham, where it was less than 5%. When considering new build properties only, the highest level of foreign investment was in Westminster and Kensington & Chelsea. In another study for the GLA, the LSE⁷⁷ found that the new build properties that were purchased by foreign investors were primarily let to Londoners with others being occupied by family members. There was little evidence of intentional vacancy found. However, there are also some parts of the country where there are high numbers of vacant properties such as the North West and the North East.⁷⁸ We were told at the round table events that Lancashire has 12,000 empty homes and Sunderland has 2,000. This vacancy may be due to the location of the homes, their configuration or population decline. These vacant homes may need some radical approaches to bring them back into occupancy, such as those adopted by the GLC and other councils in the 1970s and 1980s.

Another issue that influences the supply of housing available for rent or purchase for residents that the proportion of second homes in localities. This is an issue in cities, rural and coastal areas. In Cornwall,

⁶⁹ William Eichler (2017), 'Study reveals 'massive shortfall' in planning permission', LocalGov, <http://bit.ly/2AjCnKy>

⁷⁰ GL Hearn Planning Magazine Annual Housing Conference September 2017

⁷¹ Robert Booth (2017), 'Foreign investors snapping up London homes suitable for first-time buyers', The Guardian, <http://bit.ly/2j1laht>

⁷² House of Commons Library (2016), 'Foreign Investment in UK Residential Property', <http://bit.ly/2AE4iry>

⁷³ Ashifa Kassam (2016), 'Vancouver slaps 15% tax on foreign house buyers in effort to cool market', The Guardian, <http://bit.ly/2AGSKE7>

⁷⁴ DCLG, Live tables on dwelling stock, <http://bit.ly/2iYYQ8g>

⁷⁵ Helen Cahill (2017), 'Kensington and Chelsea overtakes Lambeth as the London borough with the most empty houses', City A.M., <http://www.cityam.com/263284/london-borough-most-empty-homes>

⁷⁶ Alison Wallace et al (2017), 'Overseas Investors in London's New Build Housing Market', <http://bit.ly/2jvlu6K>

⁷⁷ Kath Scanlon et al (2017), 'The role of overseas investors in the London new-build residential market', Homes for London, <http://bit.ly/2AiqIb2>

⁷⁸ DCLG, Live tables on dwelling stock, <http://bit.ly/2iYYQ8g>

the St Ives Neighbourhood Plan undertook a referendum to restrict second homes which was subsequently held up in court.⁷⁹ A further issue is where housing that might have been formerly in the rental market has been transferred to use for short-term lets, most notably Airbnb. This appears to be a growing issue despite restrictions on the number of days that homes can be used in this way without planning permission or payment of specific taxation on income generated. In a recent planning appeal, an inspector found that a dwelling could not be used for more than the 90-day limit as this might lead to a loss of housing stock.⁸⁰

2.5 Viability and affordable housing

While the government has been encouraging local authorities to implement Community Infrastructure Levy (CIL) to replace s106 in providing developer benefits, there are different views about the potential role of CIL in supporting the provision of housing. Most authorities are attempting to continue to provide affordable housing through s106 agreements, although there was a view expressed that these were not as many provided recently as in the past. However, since 2012, any consideration of the provision of affordable housing has been subject to viability tests.⁸¹ These tests can be used by developers to lower required affordable housing contributions, based on the argument that changing market conditions have made the original plan unviable.⁸² One response from local authority planners has been to require agreements for an overage on the subsequent sale of the development through s106 agreements, for example in Plymouth City Council.

The issues in viability have also been challenged by local authorities. The Mayor of London has proposed a lower limit of 30% low cost affordable rent housing in new development and has suggested that this needs to rise to 65% to meet London's housing needs.⁸³ In Islington London Borough Council, a developer initially proposed that there should be no affordable housing given the price paid for the site, as this purchase price made the scheme unviable for any affordable housing. However, the developer lost their appeal against the refusal by the Council because all developers are warned that they should consider planning obligations when purchasing land for housing development.⁸⁴

A second issue has arisen in practice where in viability tests, affordable housing is regarded as a residual after other contributions have been considered. Developers are proposing that they should provide funding for development of schools and health care provision in their new housing developments rather than affordable housing. This is very attractive to local authority politicians who can then make the case to existing communities that the new development will provide additional infrastructure facilities to meet the needs of any new communities and therefore make the development more acceptable. At the same time, the provision of a school on site is cheaper to provide than financial contributions from the developer if they can build it, not least as many housing developers are also fulfilling contracts for schools elsewhere. It also makes the development more attractive in the marketplace both as it has a new school and secondly because, as we heard in our research, some purchasers do not like affordable housing in developments. Further, where contributions are made through CIL, it is not possible for developers to offer buildings in kind. This is one area that the Government's review of CIL has identified as a change required in the system following on from the expression of views by developers on this issue.

This is a significant and prevalent issue not least because all school places are funded retrospectively by the government. The National Audit Office (NAO) sets out the ways in schools are funded, including the role of development contributions.⁸⁵ In the past there was no means by which these contributions

⁷⁹ BBC News (2016), 'High Court rules second homes ban in St Ives will remain', <http://bbc.in/2BwefET>

⁸⁰ The Planner (2017), 'Appeal: Permission for Airbnb let could cause permanent loss of housing stock' <http://bit.ly/2AiHD0T>

⁸¹ DCLG (2014), 'Viability', National Planning Practice Guidance, <https://www.gov.uk/guidance/viability>

⁸² Rose Grayston (2017), 'Slipping through the loophole: how viability assessments are reducing affordable housing supply in England', <http://bit.ly/shelter-viability>

⁸³ Mayor of London (2016), 'Homes for Londoners: draft affordable housing and viability SPG 2016' <http://bit.ly/2BvuZvJ>

⁸⁴ Islington Council Media Centre (2017), 'Islington wins landmark case against a developer on affordable housing' <http://bit.ly/2zNfiD5>

⁸⁵ National Audit Office (2017), Capital Funding for Schools, <http://bit.ly/2hZ06XY>

could be reported back to government through annual returns. This has changed now, through local authority annual school capacity survey (SCAP) returns (that are not in the public domain). However, once reported these contributions are said to be taken off the local authorities' basic grant and do not appear to be considered as net additions.⁸⁶ In this case, there seems less incentive for them to be collected at all. Despite the NAO stating that developers should be contributing for schools, there are no legal requirements for contributions and free access to education until the age of 18 is a right in the UK.⁸⁷

The same is true of health care which is available free at the point of delivery for all citizens, although the Department of Health has reminded local authorities that health facilities can be funded through development contributions.⁸⁸ However, in practice, it is likely that the model of health care will have changed between the initial permissions and the point of implementation.

For schools and health premises, the most practical approach is for the local authority to identify the land required for these uses and have this made over to them in the planning agreement. This land can then be rented to education academies and health trusts or GPs for their use in due course. Even before this point, there is a sustainability case in identifying housing sites that are close to infrastructure that has some existing capacity before prioritising sites that require new facilities.

2.6 Homes of social and market rent

The provision of homes for social rent through the traditional means available to local authorities of the Housing Revenue Account (HRA) has been dwindling. New homes for social rent built with government funding have been diminishing year on year so there were only 1,000 built in the last year. In 2010/11 there were 35,000 starts for social rent housing units on site in comparison with 931 in 2015/6. In terms of completion for all forms of affordable housing developed with the HCA and Greater London Authority (GLA) there were 56,000 completions in 2010/11 and 22,000 in 2015/6.⁸⁹ Not only are there fewer social rent homes available, but research has also shown that those living in social rented accommodation have seen their incomes squeezed as food and fuel prices have increased, combined with an overall decline in their living standards.⁹⁰

One approach to providing more dwellings for social rent is through introducing some models of land value capture. As Walker⁹¹ and the OECD⁹² indicate, these systems can be complex but may not provide any longer-term return on land and property base uplift. The method that more easily captures increases in value from development is taking property taxes including council taxes and business rates in England and index linking them to rising values. This means as values increase so does property tax revenue. However, this puts the charge on to the property user rather than the owner and ways need to be found to deal with this. In the Netherlands, land owners pay an annual tax on their property value and this may be a better approach to consider as well as other means.⁹³ This might cause some specific issues for those who are property rich and cash poor although this could be dealt with by putting a charge on the property that it can be collected at point of sale. However, this approach could be politically unpopular as it spreads the tax on property uplift in value to everyone rather than just focussing on the those who might achieve most immediate gain at point of development. It would be possible to undertake the two methods together.

While many households wish to purchase a home, there is also an increasing market for high quality rented accommodation such as that available on mainland Europe. While much of the rented

⁸⁶ Correspondence with the Education and Skills Funding Agency

⁸⁷ DCLG (2017), 'Community Infrastructure Levy review: report to government', <http://bit.ly/2jtKgVU>

⁸⁸ London Healthy Urban Development Unit, 'S106 Planning Contributions for Health', <http://bit.ly/2ie7McQ>

⁸⁹ HCA & GLA 'Table 1012: Affordable Housing Starts and Completions funded by the Homes and Communities Agency and the Greater London Authority', <https://t.co/YqNQldbAWM>

⁹⁰ Human City Institute (2017), 'Affordable lives', <http://bit.ly/2AhVQvg>

⁹¹ John Walker, Land value capture in large scale developments, <http://bit.ly/2k9lhv1>

⁹² OECD (2017), 'The governance of land use' <http://bit.ly/2j0KKTZ>

⁹³ Daniel Bentley (2017), The Land Question, Civitas, <http://www.civitas.org.uk/content/files/thelandquestion.pdf>

accommodation in England is owned by individual landlords there has been a growth of institutional investors making direct investment in the provision and management of accommodation in the Private Rented Sector (PRS).⁹⁴ These institutional providers are seeking to offer more predictable rent levels and longer-term tenancies, with three years becoming the norm for this kind of housing and higher standards of management.⁹⁵ Where these PRS Build to Rent (BTR) properties are being purpose-built for renting by a single owner, their investment returns are becoming more attractive to a range of organizations that require a regular income stream to pay pensions and, in the case of local authorities, to provide services. This market is forecast to grow to £70bn in five years.⁹⁶ Further, while house sales typically run at one per week on developments in England and one and a half in London, market rentals can achieve 15 lettings per week.

While many land owners and developers are concerned with more immediate financial returns, some patient investors such as Grosvenor Estates are investing in their first build to rent housing development for those on middle and lower incomes in its 340-year history. It is particularly focusing on young professionals⁹⁷ and it is Grosvenor's intention to manage these properties for the longer term.

2.7 Housing quality

Issues of housing quality are emerging into public debate. One issue is concerned with space standards inside the dwelling. Marsh⁹⁸ states 'The average size of new homes in England and Wales is among the smallest in Europe'. Although this has been contested, it is supported by public opinion surveys that report a lack of space to meet people's needs as the key problem for those living in recently-built homes (Ipsos 2013⁹⁹; Garvie 2013¹⁰⁰). Research carried out by the Royal Institute of British Architects (RIBA) in 2015 on the size of typical three-bed homes in England shows that there has only been a small improvement in the size of homes over the previous four years. London, the South East and East of England are the only parts of the country where homes meet or exceed the minimum recommended size.¹⁰¹ Marsh comments that 'Revealingly, the economic assessments carried out for the Housing Standards Review assumed that 80 per cent of the additional costs of building to higher space standards are recouped through higher market value'.¹⁰²

The second is the quality of finish and levels of complaint under guarantee in new homes.¹⁰³ These complaints range from incomplete developments to building faults inside the dwelling. It also appears to be difficult for housing purchasers to resolve these issues quickly, whether in private sector or housing association developments. A third issue is in the space outside the dwelling and the contribution of housing development to place making whether on greenfield or previously developed land. In some cases, housing is being developed without any footways, leaving new residents car dependent.¹⁰⁴ Externally there are also concerns about design appearance and quality of materials. These factors are raising concerns in local authorities both as they are not contributing to place making and may become areas of concentrated rental homes in the future. On the other hand, local authorities including North Kesteven District Council are building to Passivhaus standards, providing more space inside and outside the dwelling. In some cases they are using leading architects to design their schemes as in Hackney London Borough Council. Overall, there was a view expressed by many of the public sector participants in the round tables and individual interviews that the quality of design and build of housing built by local authorities was generally better than the private sector.

⁹⁴ Legal and General (2016) *Build to Rent: Laying the Foundations*, Legal & General Investment Management research paper

⁹⁵ Michael Lyons et al (2017), Lyons Edited Collection, <http://bit.ly/lyons-edited>

⁹⁶ Inside Housing (2017), 'Investment in purpose-built PRS forecast to hit £70bn within five years', <http://bit.ly/2itey1p>

⁹⁷ Julian Kollwe (2017), 'Duke of Westminster's property group to build 1,500 rental homes in London', The Guardian, <http://bit.ly/2hYWx40>

⁹⁸ Michael Lyons et al (2017), Lyons Edited Collection, <http://bit.ly/lyons-edited>

⁹⁹ Ipsos Mori (2013), RIBA Housing Survey, <http://bit.ly/2ieNEqR>

¹⁰⁰ Garvie D (2013), Little boxes, fewer homes, Shelter, <http://bit.ly/2k8NjXm>

¹⁰¹ RIBA (2017), '#Homewise - Space Standards for Homes', <http://bit.ly/2i2RyR9>

¹⁰² Michael Lyons et al (2017), Lyons Edited Collection, <http://bit.ly/lyons-edited>

¹⁰³ Anna Tims (2017), 'As demand rises, the reputation of new-build homes is crumbling', The Guardian, <http://bit.ly/2neD1WL>

¹⁰⁴ Chris Ames (2017), 'Estates without footways, homes without transport', The Transport Network, <http://bit.ly/2ieRT5Y>

In recent research due to be published shortly after this report, Clifford et al identified housing quality issues associated with the deregulation of planning control of office-to-residential change of use through this permitted development route. The key factors were around space standards, provision of amenity space, the relationship between location and residential amenity, and the mix of the number of bedrooms and tenure types.¹⁰⁵ In the Housing White Paper, the government proposed the introduction of planning permissions in principle for housing sites and this was seen as an important point to introduce associated design codes.

2.8 Central government policy on Right to Buy and benefit funding

The gap between Right to Buy sales and replacement dwelling provision is an area of strong concern for many local authorities. The renewed government focus on offering social housing tenants the right to buy their properties at discounted rates in 2012 and a trial to extend this to housing association properties has been taken up by large numbers in practice. The receipts from the sales are expected to be used to replace these dwellings.¹⁰⁶ However, in practice only 30% of the receipts can be used to provide replacement property and this must be spent within 3.25 years of the sale. Many local authorities are not equipped to use these receipts and are returning them to the HCA or the Mayor of London unspent. The NAO has also indicated that there are likely to be very significant challenges in providing replacement homes for those sold under the right to buy system.¹⁰⁷

There has also been concern about the relationship between homelessness, benefit caps and static pay rates. In the past, the most common reasons for homelessness has been family breakup but now this has been replaced by landlords evicting tenants who cannot pay higher rents.¹⁰⁸ In June 2017, the government reported that homelessness had increased by 48% between 2009/10 and 2016/17 with over 59,000 households now in temporary accommodation with nearly 1300 families spending more than six weeks there.¹⁰⁹ This data published by DCLG has also shown that the total number of households in temporary accommodation was 77,240, compared to 48,010 in 2010.

Many households, including 1.1m who are working, are in receipt of housing benefits¹¹⁰ but these are now out of step with local rental levels. With more young people being unable to purchase homes, the market rental for accommodation is growing and is now much more attractive for longer periods to those who are in higher paid jobs. This is putting a squeeze on those who are at the lower end of pay scales or work less. Also, there is little security of tenure for most rental property in the private sector. Shelter estimates that this could put one million households at risk of eviction by 2020.¹¹¹ Also since 2010, there has been a 134% increase in rough sleeping in England.¹¹²

2.9 Development and construction skills

One of the key issues about the future delivery of all housing, whether in the private or public sector is the potential shortages of skills. In the research, some local authorities reported that their development staff were being poached by housing associations and developers, with offers of salaries a third or more above those offered in local authorities. Others were funding apprenticeships in professional development skills through s106 contributions including, planning and development surveying. We were advised of the benefits of the apprenticeship route for discounted academic fees where organizations had a salary bill of over £5m. Adur and Worthing Councils have appointed a joint project manager to progress their housing developments.

¹⁰⁵ Clifford, B et al (2017). *Assessing the Impacts of Extending Permitted Development Rights to Office-to-Residential Change of Use in England*. London: RICS Research Trust (forthcoming)

¹⁰⁶ BBC News (2016), 'Reality Check: Have right-to-buy homes been replaced?', <http://bbc.in/2Ae3skf>

¹⁰⁷ NAO (2016), Extending the Right to Buy, <http://bit.ly/2nersyX>

¹⁰⁸ House of Commons Library (2017), 'Statutory Homelessness in England', <http://bit.ly/2juEjl2>

¹⁰⁹ Mark Whitehead (2017), 'Figures show sharp increase in homeless families since 2010', LocalGov, <http://bit.ly/2Aimggg>

¹¹⁰ JRF (2015), 'Housing benefit claimants', <https://www.jrf.org.uk/mpse-2015/housing-benefit-claimants>

¹¹¹ Shelter (2015), 'Shut out: The barriers low-income households face in private renting', <http://bit.ly/2AFkfhj>

¹¹² Wendy Wilson, 'The Housing Crisis', House of Commons Library, <https://secondreading.uk/social-policy/the-housing-crisis/>

There were also concerns about construction labour force. As shown in the Farmer Review (2016)¹¹³ 'Modernise or Die', much of the UK's construction labour force is older and due to retire, while construction is not seen as an attractive career choice by school leavers. A second issue is that much of the existing labour force is from the EU and will be affected by any Brexit proposals for controlling migration and workers' rights.¹¹⁴ Brexit is also a key concern in terms of skills available in the longer term.¹¹⁵ Some local authorities are attempting to address the skill shortages through the use of apprenticeship and training provisions in their procurement strategies and specifications. Whilst some assume that the lowest price is the only means of tendering, the WTO rules, operated through EU directives allow for a quality route that also allows local authorities to include requirements for local suppliers as part of the contract specification. In Stockport Metropolitan Borough Council, the authority supports a social enterprise that provides construction training and work for ex-offenders.

Building homes through off-site construction methods in modular forms are one approach that is being used to deal with the decline of a traditional labour force. These off-site methods can include whole dwellings or specific components such as kitchens or bathrooms. This method is being developed for the PRS by Legal and General as the construction method is quick and there are no funding issues. Since the collapse of Ronan Point tower block in 1968, the Council of Mortgage Lenders has not generally approved loans for modular constructed homes although some specific schemes may have been acceptable. This may be extended to include cladded schemes following the fire at Grenfell Tower in June 2017. Some housing associations such as Swan, based in Basildon, are also opening factories for off-site construction,¹¹⁶ while developers Barratts is increasingly using elements of two and three-dimensional off-site construction in their building methods.¹¹⁷ Legal and General has established a factory in Selby and in addition to its own developments, is providing houses in this way for housing associations.¹¹⁸

2.10 Conclusions on context

As this research has investigated, many local authorities are starting to engage in house building directly. In most cases the local authorities are starting with single developments to deal with a specific issue. For example, Bristol City Council recently announced its first development of 130 dwellings of which 58 will be socially rented and the remaining 72 will be for sale.¹¹⁹ However, many local authorities do not seem to appreciate that they already have powers for providing housing as Bailey¹²⁰ states that in 2016 85% of local authorities indicated that they would like additional powers. Many of these requests for more powers may relate to the way in which local authorities can use the Housing Revenue Account, with the government providing a cap on debt for housing provided through this means although no further detail is provided here.¹²¹

This brief review of some of the current housing issues facing local authorities provides some background and context for this research on why local authorities are engaging in providing housing in their areas and beyond. In the published research it is notable that there is a lack of work assessing the current engagement of local authorities in the direct provision of new housing in England. This project has therefore involved new empirical work, with reference to local authority motivations for doing, how this is being achieved, and the output in terms of delivery.

¹¹³ Mark Farmer (2016), 'Modernise or Die: Construction labour market in the UK', DCLG & BEIS, <http://bit.ly/2zMkmY9>

¹¹⁴ Mark Farmer (2016), 'Modernise or Die: Construction labour market in the UK', DCLG & BEIS, <http://bit.ly/2zMkmY9>

¹¹⁵ http://www.ippr.org/files/publications/pdf/Lyons_Edited_Collection_Swan_June_2017.pdf?noredirect=1

¹¹⁶ Swan Housing, 'Basildon set to see jobs and homes boost as Swan Housing Association takes keys to new factory', <http://www.swan.org.uk/home/news/factory-key-handover.aspx>

¹¹⁷ Offsite Hub (2016), 'Barratt latest developer to increase offsite,' <http://bit.ly/2k8ZYJO>

¹¹⁸ Peter Apps (2017), 'Housing association takes delivery of first L&G offsite homes,' <http://bit.ly/2hXy3s5>

¹¹⁹ Laura Sharman (2017), 'Council to sell homes on the open market', LocalGov, <http://bit.ly/2ie6oqr>

¹²⁰ Michael Lyons et al (2017), Lyons Edited Collection, <http://bit.ly/lyons-edited>

¹²¹ PWC (2016b) 'Local State We're In, 2016', webpage. www.pwc.co.uk/localgov2016

3. What motivates local authorities to engage in housing provision?

This research has revealed several reasons why local authorities are engaging more directly with housing provision, both in their own areas and beyond.¹²² These motivations are summarised in Table 1 and are derived from the literature review, roundtables, survey and interviews that we have conducted for the research. The motivations identified in the literature review and first roundtables were used to offer a range of response options in the survey and then the survey responses were used to consider the motivations in more depth in the case study interviews. Overall, the majority of local authorities that participated in this research are keen to extend the range of housing on offer in their areas.

It is also important to note that several local authorities have mentioned to us that they have engaged in housing provision again to deal directly with one specific issue, but very quickly they have started to examine what actions they could take to tackle more issues. This has led them to undertake development over a range of sites. Perhaps the best way to characterise this incremental engagement with sites and provision of housing is 'problem solving'. Many local authorities have started with an issue and concluded that direct engagement with housing provision would be an answer which they then decide to pursue. Subsequently, they start to consider other problems or sites and this leads them to extend their repertoire of interventions. Examples here include Nottingham City Council, Wakefield Metropolitan District Council, and the London Boroughs of Croydon, Enfield, and Barking & Dagenham. This is different from taking a more strategic view about housing provision which some local authorities have always used or are expanding now. Many local authorities reported that they were engaging in housing delivery because there was no interest from housing associations in their areas and that housing associations were unwilling to take on affordable properties made available through s106 agreements and are also being more selective about their tenants.

Case Study 1: North Kesteven District Council

North Kesteven is a rural district council in Lincolnshire. One of its major housing concerns is homelessness. It has consistently been building homes through its HRA over a long period of time, having built 200 homes since 2009 to replace right to buy properties lost to the council's stock. It has purchased commercial property to provide rents to run services over a long period of time. Councillors of the authority have become frustrated that the HRA debt cap has inhibited it from providing more housing for rent and for this reason the council established a housing company. Lafford Homes is on site with its first development of 27 homes for the private rented sector and the Council's Corporate Director was included on the Inside Housing local authority housing power list in 2017. The main issue for the council is finding land for housing development although a site was purchased by agreement through a local land owner. The council has approved additional funds to purchase more land to continue their developments. A key focus of the council's delivery is its focus on quality and has built houses using both straw and Passivhaus design.

Another factor that may be having some relevance in moving towards more direct engagement in local authority housing delivery is the need to discuss deliverability of all proposals including housing in the local plans. While local authorities were required to prepare a Housing Strategy under the provisions of the Local Government Act 2003, this duty was repealed by the Deregulation Act 2015. Instead, as part of the discussion on viability in local plans proposals and to support the allocation of sites to different housing need groups, many local authorities are preparing housing delivery strategies either on their own or in conjunction with other local authorities.¹²³ In London, the Mayor requires the boroughs to pay attention to this issue.¹²⁴

¹²² M. Sandford (2017), 'Local government: commercial property investments', House of Commons Library, <http://bit.ly/2k724Kn>

¹²³ South Oxfordshire & Vale of White Horse District Councils (2017), 'Draft joint housing delivery strategy', <http://bit.ly/2BvSepp>

¹²⁴ Mayor of London (2016), 'Text from London Plan chapter 3', <http://bit.ly/2AeEy4r>

It also seems to be the case that although many issues are identified as a ‘way in’ to delivering housing, these approaches expand as local authorities gain experience and confidence. Local authority engagement in providing housing is therefore proving to be a local issue. Furthermore it allows local authorities to respond to their own problems in ways that work within the culture and operating style of their own organizations.

It is also important to note that many local authorities have maintained a role in providing social and affordable housing through the traditional mechanism of the Housing Revenue Account (HRA). There are approximately 200 local authorities that are registered providers¹²⁵ and so can engage in this way. About 170 of these are active. This means that there is capacity within the system for more local authorities to actively use their registration or consider registering for future delivery.

Some councils transferred their stock through voluntary transfer because of government policies from the 1980s onwards, and so are starting from a low base if they wish to re-engage. Where councils transferred their housing stock to Arms-Length Management Organisations (ALMOs), there has been capacity and capability to re-engage in housing provision. For many councils, whatever their recent experience of using the HRA method, they are also willing to consider providing housing through other means using the General Fund. This occurs particularly but not exclusively, through the establishment of wholly owned housing companies, which are discussed further later in this report.

Table 1: Motivating factors for local authorities to engage directly in housing provision, in order of importance according to survey respondents

<i>Factor</i>	<i>Importance Rank</i>
Meeting housing requirements	1
Tackling homelessness	2
Income generation	3
Estate regeneration	4
Private sector build out rates too slow	5
Frustration at unimplemented planning permissions	= 6
Place regeneration (e.g. town centre)	= 6
Improving quality of design	8
Because local authorities should be building housing	9
To deal with problem sites	10
To change public perceptions of place	11
To support small business	12

It was clear from the survey that all the factors suggested as possible motivations for local authorities engaging in direct provision of housing had at least some relevance in some places – none were dismissed as not relevant by all respondents – and most authorities seemed to have multiple motivations that were important to them. By far the most important factor motivating local authorities to engage in housing provision was to meet local housing requirements, followed by a desire to tackle homelessness and then to generate income to provide income to replace the Revenue Support Grant and these three factors were rated as top motivating factors by most authorities (Table 1). The other factors were each then ranked as important by a smaller range of authorities, but still with relevance to multiple places. Furthermore, of the Chief Executives that responded to our survey, 92% said that engaging in direct provision of housing aligned with the strategic priorities of the authority.

¹²⁵ HCA, Register of Housing Providers, <https://www.gov.uk/government/publications/current-registered-providers-of-social-housing>

Drawing across the range of sources for our research, we now discuss each of these factors, and others which have emerged during the project, in further detail.

3.1 Delivering housing numbers

At the heart of local authority interest in providing housing is local need and demand. This may be demonstrated through local market conditions, housing waiting lists or hidden households. The effect of these pressures is shown through the assessments on housing need in the local plan. In some local authorities, there is concern that while housing requirements have been established through local plan studies and included through the provision of 5-7-year land supply, the authorities are not seeing developer interest in building out these identified sites. This has been seen as a market failure. In the research, some local authorities reported that there was no developer interest at all in building on sites in their areas, particularly where help to buy schemes were operating successfully on sites in adjacent authority areas. This was mentioned frequently in relation to rural areas, where it is difficult to achieve development even on rural exception sites. Concerned with growing housing demand in this situation, local authorities have decided to build directly to meet their housing targets and the needs of local people. These developments may be of different tenures and in some cases, may be in partnership with others. The developments may be on land that the local authority owns but may also be on sites that have been subject to CPO or that have been purchased by agreement.

This is also closely linked to the desire to tackle unimplemented planning permissions. In Darlington, for example, permissions for nearly 3,000 homes are about to expire. Many local authority councillors have a deep sense of frustration that they have taken the political and local 'hit' for supporting new housing developments in their areas, with their associated promises of improved or new infrastructure, only then to find that the developments are not implemented at all or are built out at a very slow level of perhaps 30-50 a year on larger sites. While this build out rate is entirely rational to the developer, it is not so easily understood by politicians and communities. Further, on some permissions, the triggers for delivery of infrastructure are, in effect, coming late into the development which means that communities are living with construction sites in their areas whilst seeing no real benefits in the short run. Further, this is causing frustration and concern that other sites, which have not been identified in the five-year land supply, are being tested on appeal. The HCA and the Greater Birmingham and Solihull LEP have both had incentive schemes to encourage progress on stalled development but it is unknown yet how far these have been successful. Other local authorities have approached developers to work directly with them to understand the blockages in the development. In some local authorities, there has been a move to commence procedures for CPO for these schemes so that the local authority can build the homes if the developer cannot or will not. This approach was also identified in the Housing White Paper February 2017.

In some places, meeting local housing need is also affected by second homes and student housing accounting for part of the take-up of existing supply. While second homes are regarded as being a key issue in some parts of England such as the South West, they are also emerging as a key driver in motivating local authorities to provide housing stock in other areas where second homes are prevalent such as outer London. For student housing, we were told of locations where supply is outstripping demand but that while this type of development appears to provide a guaranteed income and it is not currently subject to stamp duty, this remains a very popular type of new development. There are also councils dealing with student accommodation in houses in multiple occupation (HMOs), where standards and conditions require increased regulation. Local residents may not welcome the consequent changes in their areas. This issue has been tackled by direct intervention for Nottingham City Council which has used its housing delivery mechanisms to intervene in an area where this was a problem both with local residents and owners of housing in multiple occupation (HMOs).

3.2 Tackling homelessness

Many local authorities have started to engage in direct housing provision as a means of dealing with homelessness. The LGA stated in 2017 that 1 local authorities are paying at least £2m per day to private

landlords,¹²⁶ frequently for former council stock that has been released to the private rental sector through right to buy. The motivation of local authorities is a combination of wanting to provide support for those who are homeless, and needing to manage ongoing housing costs. Homeless families are frequently put into poor accommodation at high rents.

Local authorities are tackling this in a range of ways. Some are purchasing properties on the open market or repurchasing former right to buy properties. While this approach does not add to the total housing stock, it does increase the local authority's asset portfolio and provides rental income. It may also reduce the costs of other support services needed for homeless families. Reigate & Banstead Borough Council has purchased a bed and breakfast property and Harrogate Borough Council has built a specific property for homeless people.¹²⁷

Other councils are building directly using companies. Here wholly owned housing companies have taken loans from the European Investment Bank or hedge funds, as well as other means. The benefit of this method is that it is possible to offer some of the housing company's homes at social rent, using well-being powers from s2 of the Local Government Act 2000 and s1-7 of the Localism Act 2011 on the establishment of local authority companies. It is not lawful to establish a housing company with the sole purpose of providing social housing but is it possible to cross subsidise rents across company schemes.¹²⁸ Some councils are establishing companies to achieve taxation benefits from development¹²⁹ whilst others are developing outside EU procurement procedures that use OJEU.¹³⁰

The survey found that eight local authorities reported directly engaging in developing housing to meet the needs of the homeless or to provide required temporary accommodation. This was a key activity for the housing company in Bournemouth Borough Council for example.

3.3 Income generation

In 2020, the system of local government funding will be changing, and councils will be more dependent on the income that they can derive from council tax and other forms of fees and charges. Officers from some local authorities that have participated in our research have reported this as an important driver for the provision of housing. It is a means to provide a specific income stream to support other council services. In some cases, this is leading local authorities to build housing for market rent as this provides a regular income stream that can be uplifted with the market. In some cases, local authorities are building housing for sale and generating development surplus and/or overage to contribute to the council's revenue budget.

Other councils are adding to their property portfolio through the purchase of housing for market rent outside their local authority areas, while others are purchasing commercial developments that provide a rental income in the same way as institutional pension providers. In these cases, the local authority is moving to characterise its role as a patient investor, investing its capital funding to generate longer term income. There has been some criticism of local authorities taking this approach in the press, suggesting that purchasing assets of this kind has a considerable risk.¹³¹ However, this has been countered by those who reject this view saying that these investments are backed with assets that can be re-sold or developed in the future.¹³²

¹²⁶ LGA (2017), 'Housing shortage forces councils to spend £2m a day on B&Bs', <http://bit.ly/2icisso>

¹²⁷ Harrogate Advertiser (2016), 'New wing to be built at Harrogate Homeless Project to meet increased demand' <http://bit.ly/2AdkvDH>

¹²⁸ Mark Baigent (2016), How To Set Up A Local Housing Company, Mark Baigent Consulting, available at: <http://bit.ly/mb-setup-hc>

¹²⁹ Ibid

¹³⁰ Mark Bassett (2016), 'A return to local authority housing', Planning Law Blog, <http://bit.ly/2nem7aH> and Barnet London Borough, 'A new wholly owned council housing company,' <http://bit.ly/2ibBCP5>

¹³¹ Jamie Doward (2017), 'Bankruptcy risk as 'desperate' councils play the property market', The Guardian, <http://bit.ly/2kcgOry>; and John Plender (2017), 'UK public finance: councils build a credit bubble', Financial Times, <http://on.ft.com/2k9xrnX>

¹³² NLGN (2016), 'Securing a resilient future', <http://bit.ly/2BvyrXn>

Case Study 2: Derbyshire County Council

Derbyshire Development Limited is a company wholly owned by Derbyshire County Council. It is one of the few companies owned by a county, as opposed to a district or borough council. Its prime objective is around income generation, following concern that County Council sites were being sold to private developers who were making profit from them which the County was not sharing in. There are a range of other objectives, such as employment and skills (for example construction apprenticeships for local youth, particularly those out of care) and housing delivery, but making up for the loss of revenue support grant is paramount. The company is small, and will primarily buy in the expertise it needs (for example around planning, development, construction) from external consultants. It is currently working on two sites, aiming to deliver 70 units in the next year for private sale. They are hoping to work with some local district councils in future. They are aware that there are 27,000 units in unimplemented planning permissions in the county, but their model depends on delivering housing rather than land banking. Thus they believe they will deliver homes more expeditiously to the benefit of the district councils (who have housing need) and to the county council (who will generate income).

3.4 Building for particular needs

In some places, the local authority regards its role as delivering housing that the market will not provide in their area. This might be by tenure, price, size, location or quality. Some local authorities have been particularly focused on providing special needs housing, notably for the elderly. This may be directly or through loans to other registered providers. Local authorities have mentioned that private developers are focussed on certain types of housing and it is difficult to encourage a different mix. South Oxfordshire District Council has used £20m of their Council financial balances as a loan to a housing association to provide local housing.

Some local authorities are engaging in house building activities as a means of changing the demographic basis of their population. This may be to change the age, or social economic, profile.¹³³ In some local authorities, including the City Councils of Sunderland and Birmingham, there is a focus on building traditional and/or dormer bungalows to encourage older households to down-size and release other stock. In some places, this kind of approach is being used to contribute to the long chain of social care provision for older people. Also, the Housing White Paper (2017) recognised that the needs of older people should be included as a specific requirement in local plans. There has been less said about other types of special needs housing particularly for those with mental health issues. This may be because there is not a problem or it has been dealt with through other means.

42% of survey respondents reported that their authority was providing housing specifically for older people as part of their engagement in direct provision. This was the top priority issue in terms of trying to meet the special needs of particular groups. We were also told in our case study interviews that private sector developers were often failing to provide sufficient supply to meet the housing needs of elderly people. Provision for older people was a key purpose of the housing company owned by Eastbourne Borough Council. Another frequently mentioned approach has been linking delivery with the local authority's extra care strategy and using this to identify specific types of accommodation and locations for development in the local plan. The Isle of Wight Council is positively taking forward this delivery approach.¹³⁴ Planning officers on the Isle of Wight are also members of the Council's Wellbeing board and participate in the Joint Strategic Needs Assessment (JSNA) that provides evidence for special needs housing.

The housing needs of people with physical disabilities was the next priority area, with 78 survey respondents reporting that their local authority was trying to meet the particular housing needs of this particular group through direct provision of housing. A further nine reported that they were seeking to

¹³³ Newham London Borough Council (2010), 'Making Newham a place where people choose to live and stay', <http://bit.ly/2BkEWLI>

¹³⁴ Isle of Wight Council (13th July 2017), 'Committee Report', <http://bit.ly/2nfEa0s>

meet the needs of people with learning difficulties and 55 respondents stated their authority was seeking to meet the housing needs of people with mental health difficulties directly.

Finally, there has been little reference in the literature to key worker housing, possibly as this is regarded as a tenure management issue rather than a specific type of provision. However, for many key workers, there is a need to be located near to work places and this may not be being met now. This was mentioned as a particular focus for two authorities according to our survey responses, and was seen as an area of concern in Southwark London Borough Council.

3.5 Private sector build out rates too slow

This is a significant factor in motivating local authorities to engage in direct delivery of housing. As noted above, Councillors work with local people and communities that have expectations about the speed and delivery of housing developments particularly on larger sites. The long build out period creates more local difficulties with construction traffic and on-site working. It can take some time before the new infrastructure or community facilities included as part of the developers' planning application comes into existence. In some cases, these are lost altogether as viability agreements are contested. Local authorities are beginning to deal with this through overage clauses within s106 agreements, which see a return to the council if a price achieved for a sale is higher than that agreed in the viability assessment. However, this approach does not help deal with the second issue that is related to slow build out rates, that is that the housing is not available for those who need it. In the research, many local authority planners commented that one of the major benefits of local authority engagement in delivery of housing is that all the developments are completed and that they generally available far more quickly than in those private sector developments.

3.6 Factors related to specific sites

In many cases, local authorities appreciate that planning applications are being made for sites by land agents rather than developers and it is reported that 55% of planning permissions are held by this group.¹³⁵ Land agents seek to sell on the permissioned land to developers and have no intention of developing it directly. During the study, we heard of land owners becoming frustrated with these agents and offering to sell land directly to local authorities once they were aware that they were building housing. In some cases, sites have been given to local authorities by local landowners to provide affordable rented housing in rural areas, although elsewhere in the research it was reported by case study interviewees that major rural land owners had no interest in housing development.

Smaller vacant or abandoned sites have frequently been the cause of complaints from residents within their local neighbourhood. Some local authorities have started engaging directly in development as they have many small sites which they do not consider to be attractive to the market. In this case, following achieving planning permission, these may be bundled together for competitive tendering by builders or included in packages with larger sites. In some cases, local authorities have decided to build on these smaller sites directly as they are regarded as not being attractive to other types of builder or developer.

A few local authorities have started to engage with housing development where sites have been abandoned or stalled because of 'hope value'. This is where prices rise as site owners are in expectation of receiving higher prices for their sites or whether housebuilders consider that they can achieve higher prices for their developments in the future rather than in the present. Here local authorities have been working to secure development through a range of means that have included the preparation of Supplementary Planning Documents (SPDs) and then progressing to start CPO proceedings. It is also emerging that many of these site owners may have longstanding issues with their banks or with HMRC and this has led local authorities to work directly with those that have some charge on the land to seek sale to a willing developer.

¹³⁵ Chamberlain and Walker (2017), 'The role of land pipelines in the UK housebuilding process', Barratt Developments, <http://bit.ly/2neo0nN>

As with abandoned or small sites, some local authorities have started to act where they have abandoned buildings or there are frequent and continuous reports about fly tipping. Local authorities, such as Nottingham City Council, are using s215 of the Town and Country Planning Act 1990 to act on abandoned buildings and some local authorities are prioritising sites that are frequently the source of complaints for some direct action that results in their development.

3.7 Place regeneration

Many local authorities are undertaking regeneration schemes both of their own housing and in town centres where they own land. The motivation to undertake this kind of activity is to improve the council's assets and to increase housing supply. In some cases, these approaches are resulting in major redevelopment and changes in land use. In others, which are more usually characterised as hidden home initiatives,¹³⁶ small areas such as garages are being redeveloped for housing. Some local authorities are placing additional floors or wings on their own blocks. In Hackney London Borough for example, the Council's Estate Regeneration Programme is building across 18 sites, building 2,760 homes. 900 of these homes will be for Council social renting and 500 for shared ownership, with the rest needed for private sale to help fund works. Both Bournemouth and Eastbourne Borough Councils have used, or plan to use, their housing companies to engage in development in more deprived areas of their authorities and support a regeneration agenda.

Some local authorities, such as Nottingham City Council, have started to invest in housing development as a means of changing perceptions of their place. In this case they may be building varied sizes and scales of development where other changes in land use demand have freed up sites for major change. This has also motivated some councils to build for market rent to change the perception of a city or town to increase other investment. This has also been seen as a way of encouraging graduates to remain in their University towns to set up businesses or work in local organizations and companies. While some round table participants questioned whether a place changing approach is another form of regeneration, it was identified as a different activity, with regeneration more associated with existing local authority owned development.

Many local authorities are also concerned with the quality of the existing housing stock whether owned by the public or private sector. In the private sector, there are concerns about the management by local landlords and some local authorities are pursuing licensing vigorously such as Newham London Borough Council and Hartlepool Borough Council. Elsewhere, developer contributions are being focused on the existing housing and the need to retrofit dwellings to deal with fuel poverty.

3.8 Quality of design

During the scoping discussions, many local authorities mentioned quality of design, including Birmingham City Council, and those in the East of England and the East Midlands. Part of their motivation for engaging in direct provision of housing has been a desire to see improved standards of design in homes available for their populations. A high degree of frustration has been expressed about the internal design and space standards of other providers as well as the quality of external siting and context. Through developing their own housing, to higher design standards, local authorities have stated that they are able to demonstrate to other providers – volume builders particularly – that it is possible to build to a higher standard within equivalent cost parameters and demonstrate that there is a demand for higher quality housing for sale. They are also meeting other standards such as the Passivhaus housing in North Kesteven. Local authorities have also said they are pursuing this approach as a means of providing an uplift to areas through the role of design in creating places. Where local authorities are motivated by this approach, they are using external design teams working to briefs set by the council.

¹³⁶ Wandsworth London Borough Council, 'Hidden homes', website, <http://bit.ly/2AeymJP>

3.9 Because local authorities should be building housing

Between 1945-1985, local authorities were major housing providers and it has been argued that the continuing gap in stock provision and the affordability crisis is because local authorities have not been able to engage in housing provision to the same degree as before. Changing powers and accounting methods available to local authorities together with a prolonged period of austerity have made some local authorities wish to return to their core roles and functions. For their communities, their role as housing providers is one of these core functions and in the face of increasing cuts, engaging in housing provision allows for a proactive stance, the potential to meet housing need and to generate income. In this case, the lead in providing housing is primarily coming from councillors and in some cases, there has been a noticeable reluctance of offers to engage in housing provision. We were told of councils where the good news story generated by local authorities building up to 600 homes was an antidote to the potential cuts that would follow the removal of the RSG in 2020.

3.10 Perceptions of place

In some parts of the country, where there is pressure for housing from nearby conurbations, some local authorities have decided that rather than become dormitory towns they want to change their economic profile and encourage their own growth through housing and other development. An example of this is the four authorities in north Essex which are now working together: Braintree District Council, Colchester Borough Council, Tendring District Council and Essex County Council. This appears to be about moving away from being passive to taking a significant role in reshaping their places.

3.11 Supporting small business

Many local authorities wish to support local small businesses, especially builders and those in the supply chain in their areas. Through generating a range of housing developments on small and medium sized sites, smaller builders and developers can bid for this work. We were also advised that local authority work is beneficial in market downturns as it is less affected by these shifts. Local authorities are also trying to support apprenticeships and training through small businesses and do this through their overall procurement approaches.

While there are major concerns about the loss of small builders and their associated supply chains, some local authorities are seeking to restart the housing market as a mechanism to support these businesses, particularly through recessionary periods. As well as this, local authorities are setting local supplier and quality requirements in their tenders to support local supply chains. Some also require all the builders and developers working for them to support apprenticeships and training.

3.12 Conclusions on motivation

A wide range of factors motivating local authorities to directly engage in housing provision have thus become apparent during our research. Whilst actually meeting local housing need is clearly the most important driver, a wider range of factors were all reported to be relevant by different local authorities. Often authorities will be seeking to address several factors simultaneously when engaging in provision, or will start developing housing due to one motivation but soon find ways to address other issues and drivers relevant to their local area.

4. What powers and sources of funding are authorities using to engage in housing provision?

Through our literature review and empirical research, we found a range of powers which enable local authorities to directly provide housing, and identified a number of sources of funding they were drawing on to do so.

4.1 Powers being used

Local authorities are using a range of powers to provide housing. The mostly commonly mentioned are summarised by Table 2, below.

Table 2: Powers being used by local authorities in support of direct engagement in housing provision

<i>Activity</i>	<i>Power(s) being used</i>
To establish a wholly owned local authority housing company	Localism Act 2011 s1-7
To work in partnership with other providers	Localism Act 2011
To loan funds to other councils and organizations such as housing associations	Local Government Act 1988 s24; Localism Act 2011 s1-7
To use the Housing Revenue account as an HCA registered provider	Local Government and Housing Act 1989 (as amended); The Regulatory Framework for Social Housing in England from April 2012.
Compulsory Purchase Orders	Land Compensation Act 1973 Acquisition of Land 1981 Planning and Compensation Act 1991 Neighbourhood Planning Act 2017
To prepare supplementary planning documents in the local Plan	NPPF 2012 para 153; Regulations 11-16 Town and Country Planning (Local Planning) (England) Regulations 2012
Dealing with abandoned buildings and neglected spaces	Town and Country Planning Act 1990 s215
To provide social rents for housing being provided by the General Fund	Local Government Act 2000 s2; Localism Act 2011 s1-7
To fund staff including planners in the local authority	Use Internal Service Level Agreement
Mayoral Development Corporations	Combined Authority Statutory Instruments (SIs)
Local authorities granting permission for their own developments	Town and Country Planning Regulations 1992, Regulation 3; using unilateral undertakings instead of s106
Land and property purchase	Localism Act 2011 s1-7 (and others)
To use contract process to support apprentices, local supply chains and training	Directive 2014/24/EU of 26 February 2014 on public procurement

4.2 Sources of funding

Local authorities are using a range of methods to fund housing development as shown in the survey results. In roundtable and interview discussions, we asked about how each authority funded all their housing delivery activity. However, in the survey we asked specifically about housing companies the authority had funded as these are of particular interest. Figure 1 and Table 3 illustrate the results.

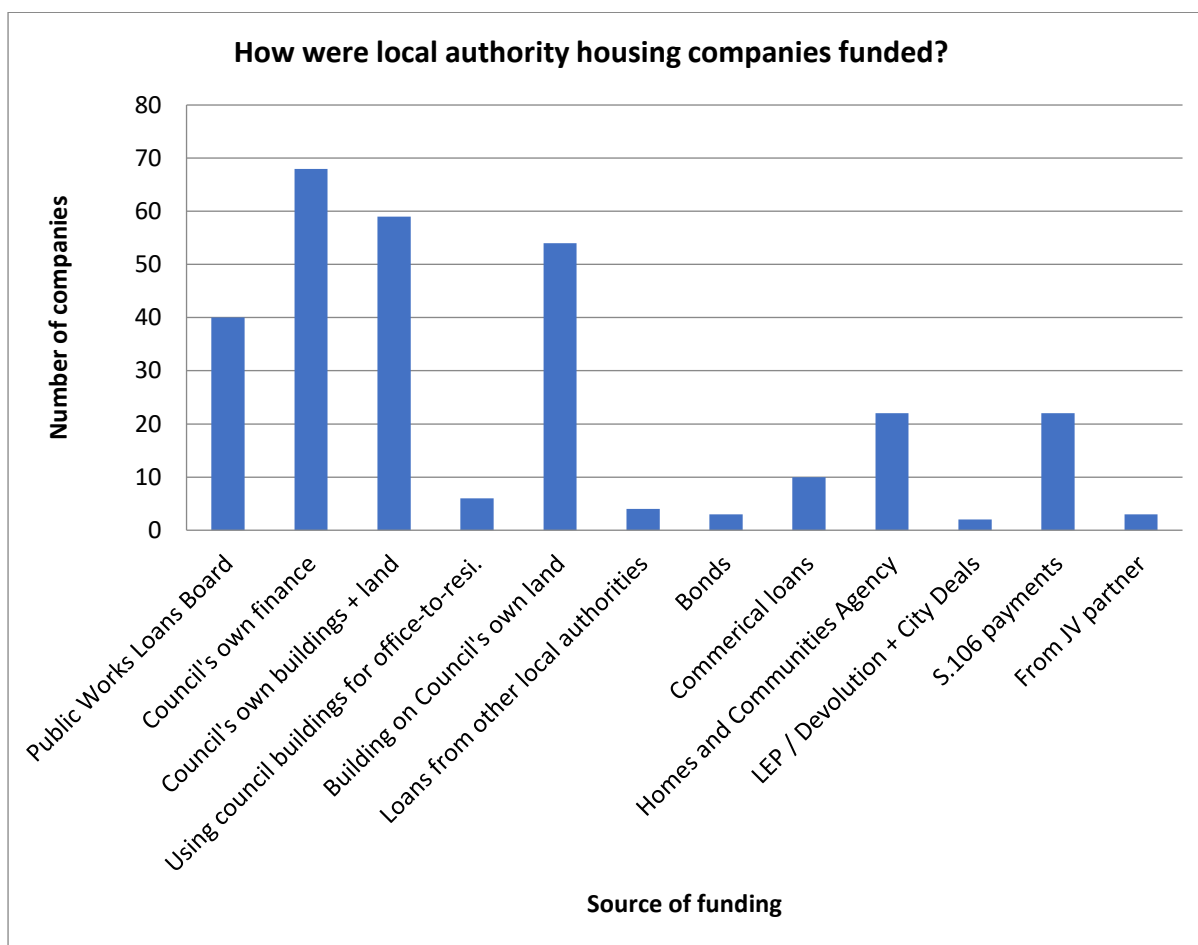


Figure 1: How were local authority housing companies being funded? Survey results

Table 3: How were local authority housing companies being funded? Survey results

Source of funding	Number of companies
Public Works Loans Board	40
Council's own resources: finance	68
Council's own resource: buildings and land	59
Using council buildings for office-to-residential	6
Building on Council's own land	54
Loans from other local authorities	4
Bonds	3
Commercial loans	10
Hedge fund(s)	0
European Investment Bank	0
Homes and Communities Agency	22
LEP / Devolution + City Deals	2
S.106 payments	22
From JV partner	3

Overall, our findings are that local authorities are drawing on a wide range of sources of funding to support the delivery of housing. Many started with the HRA and then sought to find innovative additional

sources. In particular this included those who have established companies such as Wolverhampton City Council, Harrogate Borough Council and Stockport Metropolitan Borough Council.

Public Works Loans Board

Most local authorities fund their capital investment through loans from the Public Work Loans Board (PWLB) which is a government body although independently managed. The PWLB offers loans at low rates of interest and has been interventionist when local authorities have started to consider other forms of borrowing, particularly since the 2008 fiscal crisis. Where a local authority is funding housing using the powers that it has under the Housing Revenue Account, then the government places a cap on that account that local authorities cannot exceed even if they have overall capacity in their finances to take on more loans. Many of the loans that are held by local authorities are historic and many of them were taken out at times when interest rates were higher. The repayments of these loans are through the local authority revenue accounts which supports the delivery of services. As these revenue budgets have been squeezed during the period of government austerity from 2010 onwards, the proportion of the revenue budget dedicated to meeting loan repayments has increased to the detriment of other services including social care.¹³⁷

Where local authorities deliver housing through the General Fund route it is primarily although not exclusively through housing companies. They may still use loans from the PWLB which are capped by prudential borrowing accounting principles or use their own funds. Plymouth City Council and Reigate & Banstead Borough Council are examples of local authorities developing housing using their General Fund without a company. These loans can then be passed on at a margin to the local authority's housing companies, thus making a surplus or income to support other services. In the past local authorities have had an incentive to repay their debts to the PWLB early but this has now been removed and replaced by a penalty. Local authorities have continued to accrue capital to repay debts and this remains in their accounts until loans must be repaid. The National Audit Office has commented on the potential risks of this practice although local authorities do use some of these funds as short terms loans to other public bodies. Local authorities could be allowed to repay some of these revenue payments from capital, as has been undertaken for a previous transformation project¹³⁸ or to repay the principle without any penalty. This would provide more funds to recycle in loans and provide for some headroom for repayments from loans then taken out at lower interest rates. This would also provide a means for creating more space in the revenue budget for other services.

Own funds

While many local authorities are very squeezed financially for revenue funding to run their services, they may have more capital available for building or investment. The Dorset Councils Partnership, for example, is using its own resources to fund housing development. Some councils are making loans to housing associations. For example, South Oxfordshire District Council is making a loan of £20m to a housing association to provide housing in their area. This may be because they have income from sources such as land sales or planning obligations. Where local authorities have had previous loans, they have been ensuring that they have sufficient funds to pay off the principle but now that there is no incentive but rather a disincentive to doing this, then they are holding cash. This has enabled them to consider short terms purchases or loans to other local authorities.

Housing Revenue Account

Funds for housing to be used in the HRA are channelled to local authorities that are registered providers through the HCA. These funds are through specific schemes such as the Estate Regeneration Programme¹³⁹ or large site and housing zone capacity programmes.¹⁴⁰ HRA funds were the most commonly mentioned source of funding for housing development amongst our case study authorities. However, as we note on the attached table, only approximately 200 local authorities are registered providers with the HCA of which about 170 are active. There may be further opportunities for more local

¹³⁷ NAO (2016), Financial sustainability of local authorities: capital expenditure and resourcing, <http://bit.ly/2AebDxd>

¹³⁸ *ibid*

¹³⁹ DCLG & HCA (2016), Estate Regeneration Programme, <http://bit.ly/2Ad8aio>

¹⁴⁰ HCA (2016), Large sites and Housing Zones Capacity Fund, <http://bit.ly/2zMV8sK>

authorities to register, even where they have transferred their housing stock through large scale voluntary transfer (LSVT) in the past.

Right to Buy receipts

Many local authorities that still own housing stock have homes that are subject to right to buy. There has recently been a surge in sales for these homes. Only 30% of RTB receipts can be used to replace homes lost through sales, and the funds need to be used within 3.25 years.¹⁴¹

69 respondents to our survey worked for authorities who were not using their RTB receipts compared to 132 who were using their receipts. This demonstrates that this is a significant source of funding for local authority housing building, but there are constraints here that prevent many authorities using them. It seems many local authorities are simply returning all receipts to the HCA or the Mayor of London as they are unable to use them for any replacement housing regardless of need due to the various constraints

Using planning obligations

Many local authorities are using planning obligations to provide housing although there are always concerns about viability tests where there might be attempts to negotiate down the contributions made by the developer after planning permission has been granted. Here local authorities are seeking to obtain well designed contributions to the affordable and social rented stock, which, once completed can be passed into the management of a housing association. However, we were also told during the research that many housing associations are now unwilling to take on this stock for reasons of design, tenure or management. In these cases, and now more widely, we were told that local authorities are adding these properties into their own stock. The provision of affordable housing using the Community Infrastructure Regulations is prohibited although the position on the role of CIL for other forms of funding contribution is less clear and possibly be used in a secondary way to mitigate development effects under CIL Regulation 59f.

Homes and Communities Agency

Many local authorities are in receipt of development funding from the Homes and Communities Agency. This may be for specific schemes and include access to funds for discounts for first time buyers. In County Durham, 1500 homes are being built with support from the HCA through their Accelerated Construction scheme. In Redcar & Cleveland Borough Council, the HCA has 500 units on site, but the council is not progressing a housing company as it does not consider that it has the appropriate skills in house. However, we have noted some frustration in the long delay between applying for HCA funds from specific schemes and their determination, even where local authorities have specifically been strongly encouraged to apply.

Borrowing from other local authorities

Many local authorities loan funds to each other and this may be for long term or short-term investment requirements.

Bonds

Many housing associations raise funding for their housing development using bonds and some local authorities have started to use this approach as well. However, as the interest rates that are available to local authorities for capital borrowing from the Public Works Loans Board are currently very low, then the PWLB is currently more likely to be used by local authorities in preference to a bond.

European Investment Bank (EIB)

The European Investment Bank provides loans for major public capital investment and has long standing legacy of funding housing projects in the UK whether for new build or refurbishment. Although not mentioned by our survey respondents, we have found that some local authorities, including the London Boroughs of Enfield and Barking & Dagenham, have recently used the EIB to fund major housing development, although uncertainty over Brexit has discouraged other local authorities from

¹⁴¹ DCLG (2012), Reinventing Right to Buy and One for One Replacement, <http://bit.ly/2Aj4Pfd>

following this route. If the UK leaves the EU, it may still be possible for local authorities in the UK to use the EIB if all other member states agree.

Commercial borrowing

Some local authorities have taken commercial loans to fund housing development. Some local authorities have been using a specific hedge fund set up to support the delivery of social housing including Luton Borough Council, and the London Boroughs of Croydon and Barking & Dagenham

Local Enterprise Partnerships/ Growth Funds/ City Deals

Across England, many local authorities have been able to access funds for housing through specific arrangements and funding allocations made through government schemes, particularly growth and city deals such as Cambridge City Council. These have recently been extended through devolution deals made available to directly elected mayors in combined authorities. The deals have been able to support development sites and to unlock problems such as ground conditions, remediation and site investigations.

Lottery Funding

Both the Big and the Heritage Lottery funding schemes have supported projects that have included housing and some local authorities in the SW mentioned this as a source of funding for development.

4.3 Conclusions on powers and funding

Our research has found that in some cases there has been uncertainty, or conflicting advice, about powers for housing delivery (particularly around housing companies) for local authorities. There are, however, the necessary powers in place to support their proactive role in delivering housing through a number of means. Many different sources of funding are being utilised to support local authority roles in housing provision, particularly the HRA, loans from the PLWB, and utilising the Council's own resources (most notably, land).

5. In what ways are local authorities engaging in housing provision?

While the motivations that are driving local authorities into providing more housing are many and various, so are the methods that are being used to achieve these ends. We have identified a wide variety of means by which local authorities are now engaging directly in housing provision. In our survey, we asked whether authorities were currently directly engaged in housing development or not, and if not whether this is something they were actively considering or not. Respondents from 196 different local authorities responded to this question, and of those 127 (65%) stated their authority was now engaged in direct delivery of housing whilst 69 (35%) said their authority was not. Of the 69 who said they were not currently engaged, 44 said that they were actively considering becoming engaged in housing provision (22% of the overall sample), leaving just 25 (or 13% of our overall sample) who said they were not engaging and not considering doing so.

We were able to compare those authorities responding to the survey who said they were engaged in direct delivery of housing with those saying they were not. In terms of political control, we compared the overall political control of survey respondents with the political control of those authorities directly engaging and those not directly engaging in housing control. Table 4 illustrates the comparison and shows an over-representation of Conservative control amongst the authorities not engaging in housing provision compared to what would be expected from the overall breakdown of political control of authorities.

Table 4: The breakdown of political control between authorities engaging and not engaging in housing delivery compared to what would be expected from the overall breakdown of control

<i>Political control</i>	Conservative	Labour	Liberal Democrat	No overall control or independent	UKIP
Authorities engaging in housing delivery	48%	37%	3%	11%	1%
Authorities not engaging in delivery but considering it	60%	19%	2%	19%	0%
Authorities not engaging in delivery and not intending to	62%	25%	0%	13%	0%
All authorities responding to the survey	53%	32%	3%	12%	0% (rounded down)
All authorities in England	56%	28%	2%	14%	0% (rounded down)

According to analysis of our survey data, those authorities directly engaging in provision had:

- Higher populations (an average of 189,731), than those not currently engaged but interested (139,475) and those not engaged or interested (112,108);

- Almost double the objectively assessed housing need (917 units) compared to those not currently engaged but interested (486 units) and those not engaged or interested (453 units);¹⁴²
- A greater likelihood of being registered providers with the HCA (78%) compared with those not currently engaged but interested (33%) and not engaged or interested (17%);
- On average, slightly less protected land (e.g. green belt, national park or AONB) (32%) than the other groups (38% each);
- Slightly more likely to have an adopted local plan (76%) than those not engaged or interested (71%).

The regional distribution of the authorities in each category is illustrated by Figure 2.

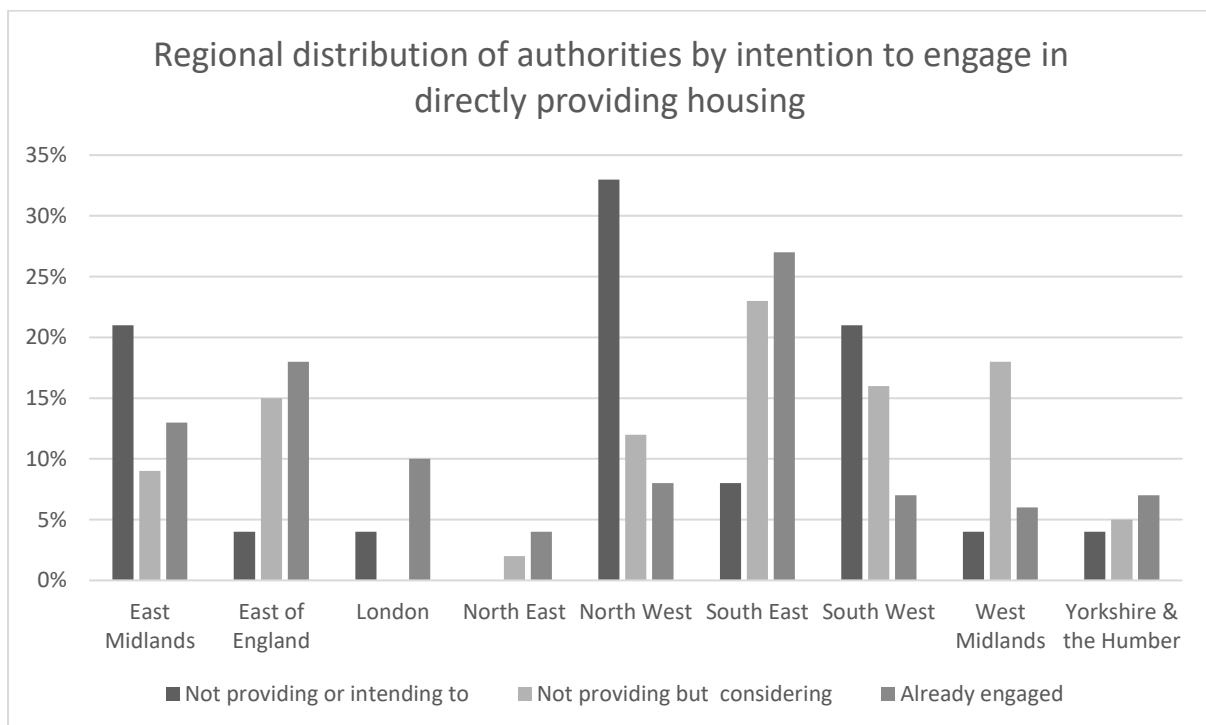


Figure 2: Regional distribution of the 196 authorities who responded to our survey, according to their intentions regarding directly engaging in housing provision

Overall, this indicates that those authorities engaging directly in housing delivery were on average much less likely to be Conservative controlled than would be expected from the overall distribution of political control of local authorities. Authorities in the East of England, London, the South East, the West Midlands and Yorkshire and the Humber were more likely to be directly engaged in housing delivery or intending to do so than not, but those in the North West were more likely not be engaged or intending to do so.

In the rest of this section, we set out what we have found in our research about how local authorities are engaging in housing provision.

¹⁴² Drawing on data from: DCLG (2017), Planning for the right homes in the right places: consultation proposals, <http://bit.ly/dclg-rhp>

5.1 Housing Revenue Account

Some local authorities have continued to build housing for a number of years using the housing revenue account. In 2014, there were 167 local authorities owning and managing 1.6m homes of which 47 have housing managed by an ALMO and the rest manage their stock directly.¹⁴³ To engage in the use of the HRA, local authorities must be registered providers with the HCA and in 2017, there were approximately 240 local authorities registered. An ARCH survey in the autumn of 2012 showed that three quarters of councils were planning to build a total of 20,000 – 25,000 new homes between them over the next five years¹⁴⁴ and a more recent survey by the LGA in early 2014 reported a slight increase both in the number of councils planning to fund new housing – 88 per cent – and in the estimated total output over the next five years – to 28,000.¹⁴⁵

Case Study 3: Harrogate Borough Council

Harrogate Borough Council has a longstanding commitment to building homes through the HRA. It retains a design and development capability in-house which is used to support viability assessments. The council also has a Direct Labour Organization (DLO) which provides an opportunity to ensure a market understanding of build costs. The local authority is receiving some affordable homes for shared ownership through a s106 agreement and these are being transferred into the Council's own new housing company which was agreed in November 2017. The officers have reviewed the range of Council owned sites open to them for development and have identified the smallest ones that might not be suitable for other developers or housing associations. The council is awaiting the adoption of its local plan processes before determining which of its own sites it will develop. While being active in development, the council has not been able to spend up to its debt cap. The council is sponsoring a development surveyor apprentice to support its housing work

Local authorities have used traditional means of house building through the Housing Revenue Account despite the difficulties that it throws up through the HRA borrowing cap. However, where local authorities are registered providers, they can access some amounts of grant funding from the HCA. Some local authorities have taken the opportunity to buy out their existing HRA debt such as Cambridge and this has enabled them to take on more development.

Case study 4: Babergh and Mid Suffolk District Councils

Babergh and Mid-Suffolk and two neighbouring district councils who now have one integrated body of staff. They are using their HRA capital and Right to Buy receipts to fund new builds, delivering 65 units 2015-18 (11 of the units will be shared ownership as there is high demand for these locally). The strategy is then a further 300 homes 2018-2021. These homes are built in partnership with a local development partner who has skills around architecture, planning and cost consultant. They have just acquired four sites from the County Council and will deliver about 25 units on each. They have used GIS to identify potential surplus District Council land which could be used for housing development, with local planners assisting with policy screening of these sites. The two councils already have an investment company, and are currently considering a housing company which could do 'profit for purpose' to generate income for the councils as well as delivering housing. HRA investment capacity is a concern, but the councils are keen to deliver as much as possible within the constraints and have developed a housing delivery strategy to guide their work.

5.2 Retained stock: Right to Buy receipts, estate renewal and hidden homes

Many tenants have purchased their dwellings under right to buy (RTB) legislation and many of these properties have been sold on or are now privately rented. However, there are some former tenants who have remained in their RTB but who are now getting older and are anxious about their responsibilities, not least any costs of management or refurbishment that local authority owners can pass on. In some

¹⁴³ Association of Retained Council Housing (ARCH) Submission to the Review of the Local Authority role in Housing Supply 2014

¹⁴⁴ ARCH (2013), 'Innovation and ambition: the impact of self-financing on council housing', <http://bit.ly/2hZ6L4t>

¹⁴⁵ http://www.local.gov.uk/web/guest/research-housing/-/journal_content/56/10180/6009823/ARTICLE

cases, those who have purchased their homes under the RTB provisions are now offering their properties back to local authorities with the wish of returning to a local authority tenant status. There appear to be more offers to sell back RTBs to local authorities than funding available not least as local authorities cannot use their RTB receipts to re-purchase former RTB properties. Councils in this situation appear to be making a range of responses. Some are selectively purchasing those units offered to them where this would mean that wider estate regeneration or redevelopment could take place. In these cases, the council may be offering a reversed 'staircasing' approach which allows those selling their properties back to the council to use their equity to obtain a shared ownership property so that they return to paying some rent and thus retain a tenant status, albeit not on the same basis as a local authority tenant in HRA funded housing would have.

Estate renewal and delivering 'hidden homes' are by far the most active approaches of local authorities where they still have ownership of their housing stock. The hidden homes approach involves local authorities securing additional homes by redeveloping garages, installing additional floors on their housing blocks, adding wings at the end of buildings, or otherwise making more out of existing stock. In some cases, larger parts of estates are being redeveloped to create a wider range of housing tenures. These approaches are funded though the Housing Revenue Account via the HCA or the Mayor in London, who has devolved responsibilities for HCA powers. In most cases these regeneration initiatives are being undertaken directly by the local authority as client although there have been some reports that local authorities are selling land on estates for development without the benefit of planning permission. This means both losing potential value and control of the development and its relationship with the rest of any estate that remains. Some local authorities such as the London Boroughs of Wandsworth and Southwark are now engaging on much more systemic approaches for reviewing their stock through 'hidden homes' programmes.¹⁴⁶ Wandsworth announced a further 1000 new homes to be developed through its programme in November 2017.¹⁴⁷

In some local authorities, there are now projects to build additional floors on existing buildings – whether currently single storey or higher in the case of Hackney London Borough Council. More widely, Knight Frank has identified the potential to build up to 41,000 homes in London's airspace.¹⁴⁸ Another study by JLL has identified the potential for housing development on local authority car parks near stations in London as being 325,000 additional homes.¹⁴⁹ The Autumn 2017 Budget has proposed a consultation paper on securing more density in urban areas and this kind of intensification could be used more widely in future.

5.3 Purchase on the open market

Some local authorities, such as Bournemouth and Bracknell Forest Borough Councils, are purchasing housing on the open market. They are taking this route to meet demand for accommodation to tackle homelessness or to add to their stock portfolio to generate long term income and widen their asset base. Local authorities recognise that this approach is not adding to the total housing stock. However, where it is being used to combat homelessness, it is reducing the revenue costs of supporting people in this position, who have largely been made homeless through landlord management and rent increase practices. If the available funding is used more effectively, this means more funding for other services and provides stability rather than temporary accommodation to those who are homeless. Where local authorities are buying housing to add to their asset portfolios, they are doing this to provide income streams to support their mainstream services.

¹⁴⁶ Wandsworth London Borough Council, 'Hidden homes', website, <http://bit.ly/2AeymJP>

¹⁴⁷ Wandsworth London Borough Council (2017), 'Massive housebuilding expansion,' <http://bit.ly/2Bw13Q3>

¹⁴⁸ Thomas Colson (2017), 'Knight Frank: Build 40,000 homes on London's existing roofs' Business Insider, <http://read.bi/2Bw1xWn>

¹⁴⁹ Rebecca Smith (2017), 'Rail lines and car parks: How 325,000 homes could be built on public land to help tackle housing crisis in London and the UK', City A.M., <http://bit.ly/2Aje3s6>

5.4 Land banks and estate agency

Some local authorities are starting to establish land banks or funds so that they can develop housing in the longer term. This provides the opportunity for meeting future needs and, in some cases, may offer longer term land value capture opportunities to local authorities as developers. As with some of the other initiatives cited here, many local authorities are now regarding their role as patient investors who have a longer-term commitment to their area.

Some local authorities own considerable areas of commercial and residential property which they have managed through commercial letting agreements with agents in the past. Now, some are taking a direct role in the management of these properties to ensure that they are supporting their wider policies on housing provision. Some local authorities have taken on this role as a means of improving provision in the private sector.

5.5 Partnership approaches

47 local authorities transferred their housing stock into Arm's Length Management Companies (ALMOs) which still have strong relationships with the local authorities. Councils have been able to undertake modest housing provision using the ALMO and in some cases the local authority retains a direct labour organization that can bid to construct dwellings. More recently, some local authorities have announced the extension of the role of their ALMOs into housing association functions with the expectation that they will develop using both private and public-sector funds.

Case study 5: Stockport Metropolitan Borough Council

Stockport MBC has an ALMO, Stockport Homes that manages its housing stock. The ALMO is focussed on delivering affordable homes in response to elevated levels of demand, evidenced by the housing waiting list and local plan, in an area with a buoyant housing market. The Council also has a lettings agency. Stockport's housing company was set up in 2016 to maximise the Council's opportunities to provide housing. It will focus on council owned sites and deliver affordable housing. The main inhibitors to further housing development in Stockport are the HRA debt cap and the viability of schemes. Further, much of the land is brownfield and in need of remediation. Stockport also has several former mills that are heritage assets, suitable for conversion to housing but only at a high cost. The council is adding to its stock by purchasing on the open market, dealing with empty homes and abandoned properties, and repurchasing former right to buy properties. The council also has a social enterprise which gives opportunities in the construction industry to ex-offenders.

Some local authorities are undertaking housing development in partnership with other providers. These might be with developers, housing associations or other land owners in the public sector such as the NHS.

One of the most popular and longstanding approaches to housing development by local authorities is through JVs with the private sector. These may range from a JV for a specific location or site or an agreement to work together over a period on many sites. For example, Durham County Council and Gateshead Metropolitan Borough Council, which has 19 sites included within the JV agreement. In these, housing may be the main focus or a component of a larger scheme.

5.6 Planning documents, tools and advocacy

Where, local authorities are faced with specific difficulties with long vacant or stalled sites which are suitable for housing, they are progressing a range of methods to bring them forward for development. These include the adoption of SPDs for the area or site concerned and then using this to indicate preferred uses to the owners. These SPDs are then also being used as a basis to progress Compulsory Purchase Orders (as indicated below). In some cases, local authorities have found that long vacant sites have wider legal or financial issues behind them. These have included where there are repayments to banks or where the HMRC is involved because owners are in prison or are not in the UK. However,

where banks and HMRC are involved, participants at round tables have mentioned that they have been particularly helpful in resolving development delays and moving the sites forward, potentially into new ownership by agreement.

Where a local authority can demonstrate that land is required to meet local needs and it is supported through adopted council planning policies and resolutions it can seek to make a Compulsory Purchase Order (CPO) for land. This has traditionally occurred in areas of major redevelopment or change. However, increasingly, local authorities are reporting that they are progressing CPO approaches where sites have long been vacant (see above). Or where sites have been identified for housing in the local plan but owners show no willingness to take forward development, even where they may have a planning permission. In these cases, local authorities are frequently using a twin tracked approach to seek to acquire these sites by agreement but are progressing CPOs at the same time. Once acquired, local authorities may decide to build out the developments themselves, possibly using the developer as builder or taking one of the other routes open to them including re-sale or partnership development. This approach was also suggested in the Housing White Paper 2017.

In some local authorities, the council is making direct contact with land owners to encourage them to consider using their land for housing. This has been through a systematic approach along main road frontages with attempts to encourage land owners to use upper floors or build additional floors for housing. Some major supermarket chains have taken this approach. In some cases, these approaches have been associated with local authority grants for frontage clean ups and improvements but this has not always been the case.

In other local authorities, there has been direct contact between the planning department and major land owners such as food retailers and owners of out of town retailing sites to explore whether some redevelopment would be possible. This now appears to be spreading to car showrooms - another major user of land. Large food retailers that have out of town developments for their sole use are facing changes in retail patterns to more frequent shops at smaller outlets of the same company. In these cases, then some food retailers have started to progress redevelopment.¹⁵⁰ This has the benefit of restoring street frontages replacing island stores in a sea of car parking. On these sites, parking is still available for the shoppers but this is generally at the rear of the stores and under cover at ground and other levels. The rest of the site and above the store is redeveloped for housing in conjunction with a major housebuilder. These developments might be for sale or market rent.

Where there are multiple retailers in out of town centres, then these are more likely to be owned by institutional investors that will be using the rental, income to support their pension clients. In these cases, redevelopment is more likely to be considered where market rent properties can be built as they provide an immediate and consistent rental stream which meets their commitments for pensions and other payments.¹⁵¹ Car showroom redevelopment, to include housing, appears to be more like the single food retailer model.¹⁵² While these approaches are not suitable for all sites, retailers and out of town centres are commenting that their retail model needs to change, and this approach is yielding some interesting redevelopment opportunities for housing that are being led by proactive local authority approaches.

5.7 In-house development teams

Many local authorities throughout the study mentioned the benefits of having an in-house development team that could assess both viability issues for planning, and assessment schemes for the local authority. Having in-house development surveyors was regarded as being a more economic proposition than employing consultants particularly to undertake viability reviews for planning permissions. One

¹⁵⁰ Nathaniel Barker (2017), 'Giant Supermarket chains plot residential development,' Inside Housing, <http://bit.ly/2k68s4r>. See also Morrisons in Camden (<http://bit.ly/2AFT2uU>); Tesco (<http://bit.ly/2hY2JJR>); and Sainsburys (<http://bit.ly/2zMXjwq>)

¹⁵¹ GL Hearn (2017), 'Reimagining London's retail parks' <http://bit.ly/2k9dw8e>

¹⁵² Planning Resource (2017), 'Mixed use redevelopment incorporating housing acceptable in defined employment area' <http://bit.ly/2AdVBmJ> and Henley Standard (2017), 'Car dealer being forced out to make way for new homes' <http://bit.ly/2nei8es>

interviewee commented that, in their view, having in-house development surveyors meant that, as well as being more efficient, there were fewer viability challenges.

Case study 6: Bournemouth Borough Council

Bournemouth has an in-house development team with a project manager, project officer and surveying team. The Council was keen to develop housing again as soon as possible in 2009, and has delivered about 200 units directly through the HRA and the general fund, for example by developing surface car parks. A quarterly gathering of key staff looks at all Council owned surplus sites to consider if they can be used for housing. They feel they can deliver more affordable units, and that the Council's own development activity has helped stimulate more private sector development in the town. An active apprenticeship programme is also operated. They also have four different local authority owned companies. Bournemouth Development Company Limited is developing out 20 surface car parks (being replaced with multi-storey provision) and have built out three sites already, primarily as PRS. The Bournemouth Building Maintenance Company was founded after the private maintenance contractor for the retained housing stock went bankrupt, and has taken on the vital work whilst generating profit for the general fund. Seascope South is a commercial construction company owned by the council. Seascope Homes and Property, meanwhile, acquire existing property and use is to tackle homelessness, with 50 units purchases so far. They are currently investigating sites for further housing development potential, as well as considering the potential of new construction techniques (such as modular housing) for smaller sites. Figures 2-5 illustrate housing development delivered through this multifaceted approach.

5.8 Local authority companies

Under the Local Government Act 2003, s95, local authorities can set up companies that can make a profit in any area of their competences. In the Localism Act 2011, s1-7, powers for local authorities to establish companies have been extended into a General Power of Competence. This allows them to do anything that a company or individual may do unless it is expressly prohibited.¹⁵³ Since these powers have been provided, local authorities have started to establish a range of companies to undertake a range of services and to undertake development or hold assets. These companies are wholly owned by the local authority and are supported through General Funds in the local authority. The report by Mark Baigent (2017)¹⁵⁴ sets out the variety of approaches that are available to local authorities to operate companies to provide housing. By December 2016, according to the *Inside Housing* survey, at least 125 local authorities had set up companies that could deliver housing, whether specific or as part of general trading companies. Some local authorities have more than one company. In Barking & Dagenham, the Reside brand operated by the council has a number of operational companies within it, all owned by the council. In North Tyneside, the council has five companies and intends to develop 3000 homes in ten years while South Cambridgeshire has four companies that specialise in meeting diverse types of housing need.

These local authority housing companies are set up with the local authority owning 100% of the shares. They can receive loans for development from the local authority including where they have obtained the funding through the Public Works Loans Board. The local authority company will pay a premium for the use of this funding. Housing companies also have service level agreements with local authority service providers such as those in legal, finance and planning where the company again pays for the use of local authority officers' time. The companies are being set up in ways that are as tax efficient as any private companies or housing associations. The way that any development is funded may depend on the selection of the methods that provides most income, as local authorities need income to fund services and other activities to meet the gap left by the removal of the Revenue Support Grant in 2020.

¹⁵³ Unison, 'Branch guide to local authority training companies' <http://bit.ly/2Aed3YX>

¹⁵⁴ Mark Baigent (2016), How To Set Up A Local Housing Company, Mark Baigent Consulting, available at: <http://bit.ly/mb-setup-hc>

Case study 7: Wolverhampton Metropolitan Borough Council

Wolverhampton MBC is keen to extend the range of housing on offer in its area. The council has an active ALMO with 22000 homes that is building 400-500 properties in two areas and has 200 homes in the pipeline. The Council's company WV Living will build 1200 homes in 4-5 years starting on a site for homes for market sale for first time buyers supported by Help to Buy together with affordable, starter and market rent homes on the same site. The council is delivering more housing to deal with derelict sites and to support the economic regeneration of the city centre. Overall the council wishes to see 10,000 homes built in 10 years, so the delivery rate will need to be increased to 1200-1500 pa. The main inhibitors in building more homes are the HRA debt cap, site assembly in the city centre using CPOs, issues on longstanding sites, and viability.

The Council company is led by the same officer who is the Council's Head of Housing and the Chief Executive of the ALMO. The company uses ALMO staff and does not have any staff of its own. The Company's board meets monthly and the Council agrees its business plan. The main obstacles in setting up a company were the costs, and understanding the tax advantages. It was also important that the councillors and officers support the creation of a company and a neighbouring council, Telford & Wrekin Council, provided some advice. The Head of Housing sits next to the Head of Planning in the council's offices who has been very helpful on a range of matters including managing environmental concerns, community engagement and neighbourhood plans. Housing associations in the area have primarily been focused on market sales and extra care housing.

Local authority housing companies are using local authority land in a variety of ways. In some councils, the housing company is purchasing the land from the council and this is a capital receipt at the outset of the development. In other cases, the local authority may obtain planning permission and undertake a risk share scheme with developers. This allows them to build dwellings under contract to the council and then the cost of the land is included in the selling price and again returned to the council. Also, where sales prices are higher than anticipated, any overage is returned to the council. If a development is constructed and the economic climate changes, the properties built by the housing company can be sold to the HRA or another provider, or rented (although local authorities would prefer not to change the development's tenure mix if at all possible).

Where local authorities are building for market rent these may also subsequently be sold to other providers. Also given that PRS properties require a high degree of management and maintenance, some councils have set up housing management companies that are also providing these services to other providers who own and rent housing stock.

In discussions during the research, however, it also became apparent that in some local authorities with a strong HRA programme, a housing company was regarded by officers as a competitor or threat to their work. It was feared the establishment of such a company would divert resources and lead to a loss of control.

Representatives from 80 out of 184 authorities (44%) who answered the question on our survey about housing companies said that they have a housing company. Although there are important caveats about representativeness, if this 44% figure was replicated amongst all 353 local authorities in England, that would be 154 local authorities with a company and this is similar to the results of our own snapshot survey of November 2017. Figure 3 illustrates the political control of authorities with a company and without a company, according to our survey data. In summary, our survey data shows that Labour authorities are more likely than would be expected from the overall breakdown of control of all authorities to have a housing company and Conservative authorities less likely

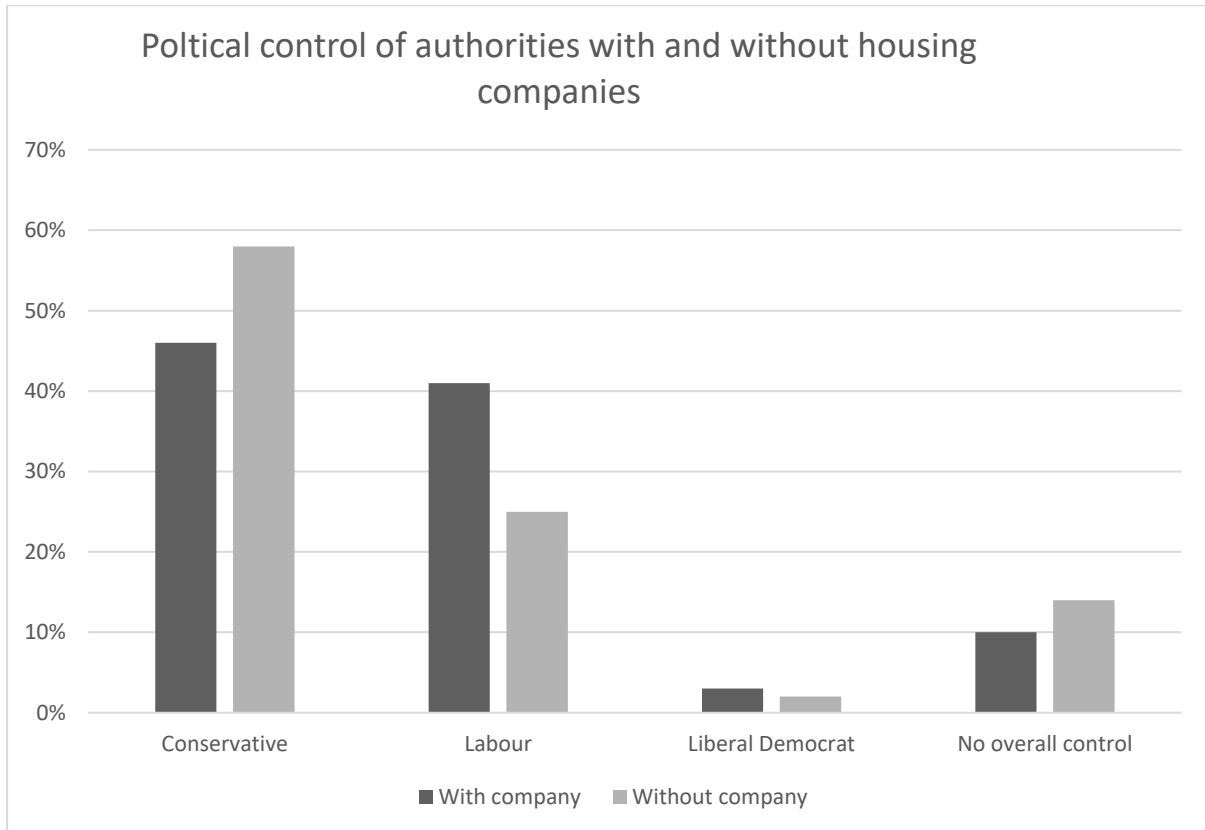


Figure 3: Percentage of authorities controlled by each political party for those with a housing company, without a housing company, and all authorities responding to our survey

Analysing our survey data showed that:

- 11% of the authorities with a company and 14% without a company were new or expanded towns (this is on the basis of analysing district and borough but not county councils);
- 28% of these authorities with a company did not have an adopted local plan, compared to 26% of the authorities without a company;
- authorities with a housing company were more likely to be registered providers with the HCA to deliver social housing (70%), than the authorities who did not have a company (56%);
- the average population of the district and borough authorities with a company was higher (195,941) than those without a company (153,622);
- the Objectively Assessed Need (according to the recent DCLG figures) for the authorities with a company was higher (945 units per annum on average), than for authorities without a company (721 units)¹⁵⁵; according to the same data set, the authorities with a company had on average less protected land (28%), than the authorities without a company (37%).

Figure 4 illustrates the regional distribution of the authorities with and without a housing company. This shows some tendency for authorities with companies to be in London or the East of England, and those without to be in the North West.

¹⁵⁵ DCLG (2017), Planning for the right homes in the right places: consultation proposals, <http://bit.ly/dclg-rhrp>



Figure 4: Regional distribution of the 184 authorities who responded to our survey on housing companies, according to whether they stated they did or did not have a housing company

It is important to note, however, that beyond looking at averages there are large differences *within* both the group of 80 authorities who told us they have a company and the group of 104 who said they did not. For example, Melton District Council in the East Midlands, is responsible for a population of just 50,878 and is Conservative Controlled, yet has a housing company. Leeds City Council is in Yorkshire and the Humber, has a population of 781,743, is Labour controlled, and does not currently have a housing company.

Case Study 8: Eastbourne Borough Council and Lewes District Council

Eastbourne and Lewes are two district authorities who are working in close integration. Eastbourne has directly delivered housing, acting as developer, through its HRA. It delivered 100 units and has acquired and refurbished existing properties to help with neighbourhood regeneration. They were one of the first local authority companies, with the Eastbourne Housing Investment Company founded in May 2015. It is wholly owned by the Council, and received some working capital from the general fund to help establish it. The strategic objectives are income generation, place shaping, and meeting strategic housing targets. The private sector housing market locally has been described as 'dysfunctional' not delivering enough affordable housing and particularly not delivering enough for older people. The Company has a 400-unit investment pipeline, with 80 already delivered. Eastbourne were the 'new developer of the year' in the 2016 UK Housing Awards.

Lewes has also established a housing company (Lewes Housing Investment Company), and the two councils also have an LLP between the two authorities (Aspiration Homes). The programme is to deliver 1,000 homes over the next five years. This is on a mixture of sites which were Council land, and which have been purchased from private owners.

5.9 Conclusions on approaches to provision

This section of the report has demonstrated the many ways in which local authorities are engaging in housing provision, frequently with an expanding repertoire of approaches. Councils are using all the resources available to them including staff, land, powers, and access to funding, and a variety of different approaches to create more homes. They are primarily motivated by the objective of creating more homes for their people and communities.

6. What housing tenures and how many homes are local authorities building?

6.1 Tenures being built

Local authorities are building across all tenures both directly and in partnership with other providers including housing associations and private developers. Tenures being built include:

- social rent
- living rent (in London)
- affordable
- intermediate rent
- market/PRS
- shared ownership
- for sale including first time buyer schemes
- community land trusts
- discounted market sale based on income rather than value
- other community agreements for development
- taking on s106 affordable homes either into the company or into the HRA
- in urban and rural areas, buying homes off plan from the private sector – in some cases this may be whole blocks for social rent.

In the survey, we asked respondents who had a housing company, how many units that company had built. We did not ask about housing delivered by the authority through other means. Most respondents did not answer this question, but the total number of units delivered by those that did is indicated by Table 5, below. This demonstrates that some local housing companies have successfully delivered units already, and across all tenure types, but with a higher proportion of affordable housing than often seen with traditional private developers. The large number of very new companies and time taken to assemble sites, work-up schemes and build them out means this number will increase in future years.

According to the survey responses, the local authorities with the companies who had delivered the most units so far were the Borough Councils of Eastbourne, Blackpool, Telford & Wrekin, and Stevenage, the Metropolitan Boroughs of Gateshead and Stockport, and the District Councils of South Norfolk and Staffordshire Moorlands. This highlights the way that authorities of all size and context are engaging successfully in delivery.

Table 5 – How many housing units had local housing companies delivered in total (according to survey respondents)?

Affordable	Social	Intermediate	For sale	Private Rented Sector (PRS)
452	264	307	442	432

The range of schemes and tenure mix being used by local authorities appear to depend on the development package and site mix. In some cases, small and large sites are being packaged together to ensure a range of development locations, a spread of the costs and a mix of tenures. In other cases, bundles of smaller sites are being packaged together and then these are offered for a range of tenures. Like the private sector developers, there is an assumption that smaller developments will be completed more rapidly than larger developments. Some local authorities, where housing provision is associated with other objectives including improved standards of design inside or outside the dwelling, report faster sales than neighbouring developer schemes.

Although not mentioned by survey respondents, we have found that some local authorities have taken specific borrowing to enable them to build for social housing using a loan from the European Investment Bank or a hedge fund. Here the schemes can be built through the application of these loans in the

general fund and can be retained in the public sector without right to buy requirements. Again, these are likely to be developments within a wider range and mix of tenure. As Mark Baigent points out, it is not lawful to establish a housing company with the express purpose of avoiding the provisions of the Housing Acts for social rent, but properties for social rent can be provided as part of an overall mix.¹⁵⁶

Some local authorities are starting though the provision of one tenure – perhaps affordable or shared ownership and then as they go on to tackle different sites in their ownership, they are undertaking different schemes that work either financially or because of the demands and location of the site to be developed. In one round table, there was a long discussion on this point and it was agreed that the best approach was to consider each site individually in terms of appropriate development. It may then be possible to bundle together sites with similar development approaches or in localities to ensure some efficiency in delivery.

Case study 9: Southwark London Borough Council

Southwark Council has developed a 30-year HRA business plan. A manifesto commitment from the ruling Labour party is to deliver 1,500 homes by the end of 2018, which they are on track to do. These are all for social rent. They are then aiming to deliver 11,000 homes by 2043. This includes developing out Council owned surplus sites, and looking for 'hidden homes' opportunities. They have worked with a Community Land Trust are working in partnership with housing associations on two sites, to deliver 400 units, on Council owned land. Southwark are buying properties from the affordable housing contributions under Section 106 agreements. In all approaches, they are seeking to develop at high quality. They have been considering the potential role for their housing company in delivering housing for key workers and they are concerned about the low amount of intermediate rent provision in the borough so think there may be a role for the company in helping to address this.

One local authority, Croydon London Borough Council, has decided to operate its wholly owned housing company completely in the private sector and has a Counsel's option to support their view that they are empowered to do this. This means that they are not subject to EU and WTO procurement rules although they may still need to ensure that they are achieving best value for their investment.

For some local authorities, the provision of housing in the PRS or market sector has been accompanied with concerns about the quality of management that they might be able to provide. This might then have a detrimental effect on the quality of the housing, its ability to generate income and its asset value. It may also work against some of the other objectives for having PRS schemes that is to attract a defined population or to retain graduates after they have left university. In some cases, local authorities have established management companies specifically to manage their PRS properties which have also been able to take on the management of other non-council owned properties.

Some local authorities are building specific types of dwellings such as bungalows to make better use of their existing stock. This allows those who are occupying larger family homes to move to smaller and more manageable dwellings to relieve the housing pressure elsewhere in the community. There are often concerns about the management of existing stock including under-occupation, its condition and whether it could be converted into flats. On existing local authority owned estates, this may mean purchasing back properties that have been lost through RTB sales. Where there are a few unwilling sellers, this may delay the potential for major schemes. We were asked, 'How do you deal with those who may own a leasehold for 1/1000th of a development?'

6.2 Number of homes being built

One of the key questions asked of the researchers during the research meetings and roundtables was how far local authorities will be able to fill the gap in housing provision that exists between private developers and the objectively assessed need. In practice, this equates to approximately 100,000

¹⁵⁶ Mark Baigent (2016), How To Set Up A Local Housing Company, Mark Baigent Consulting, available at: <http://bit.ly/mb-setup-hc>

dwellings per year. In our research, we learned of local authorities like North Kesteven District Council building 100 homes a year, to Birmingham City Council building 500 each year. The latter is now building 22% of all new homes in the city. Southwark London Borough Council have recently delivered 1,500 homes.

Examples of the ambitions from local authorities that we are aware of include:

- Wolverhampton City Council also have major ambitions to build up to 1,500 homes per year, with 10,000 homes built in ten years;
- Redbridge London Borough Council aspire to build 8,000 dwellings in the next 5-6 years;
- Waltham Forest London Borough Council has a target of 12,000 homes by 2020 through a mix of providers;
- Lambeth London Borough Council has 4,000 homes in their pipeline;
- Southampton City Council is delivering 3000 homes
- Barking & Dagenham London Borough Council will be delivering 1,000 homes between November 2017- March 2018;
- Brighton & Hove City Council intend to deliver 500 homes through the HRA by 2020 and have a joint venture (JV) with a housing association that will be delivering 1000 affordable homes, with 50% each for shared ownership and living wage;
- Crawley Borough Council has 1,000 units coming forward;
- Northumberland County Council nearly 1,000;
- Adur and Worthing Councils together have 550-600;
- Nottingham City Council are making 1000 completions per year using a variety of vehicles including their ALMO, housing company and a development company, Blueprint, which the city council owns jointly with Igloo. With this, the council is building higher end aspirational housing which they are using to change the character on one of their waterside areas. Blueprint will develop outside Nottingham in the future;
- City of Bradford Metropolitan District Council, in Yorkshire and Humber, has over 300 homes delivered or on site using a variety of means;
- Leeds City Council has £132m investment in its own stock and is working with 26 providers;
- the Metropolitan Borough of Barnsley is delivering 100 per annum and seeking to increase this through a partnership with Sheffield City Council;
- Wakefield Metropolitan District Council has a target to provide 2000 homes and is currently delivering 300;
- Tamworth Borough Council has acquired affordable housing directly;
- Birmingham City Council and Bath & NE Somerset Unitary Authority have procured estate agency services;
- Red Door Homes in Newham London Borough Council had a target of providing 3,500 PRS homes.

Where local authorities are building, their drive for rental income means that they will be building out all the units on the site rather than phasing them in line with market sales. Many of our research participants considered that this speed of delivery was a significant factor in meeting housing need.

It is also the case that some local authorities have only recently established their housing companies, so they may still be developing specific schemes and these may not start on site until late 2018 or beyond. Further, local authority completions through housing companies will only show in the overall completion figures and will not be specifically attributed to local authorities.

Where local authorities have been engaging in direct provision of housing since 2011, there are two specific trends to notice. The first is that council-built housing completions are increasing each year in these authorities with some starting at a below 50 dwellings while others, after a period of five years or more are now achieving over 1,000 per year. A second issue that has come to the fore in discussion, is how the competence and confidence of those local authorities developing housing has increased each year. While initially being motivated by one issue such as an abandoned or stalled site or homelessness, once local authorities have started, the range of issues and sites to be considered

appear to have expanded every year with more complex sites being addressed. All the local authorities assume that they are engaged in housing provision for the longer term and that some sites may take two to three years to achieve any outcome. However they are nevertheless willing to use a range of methods including the preparation of supplementary planning document or master plans to support any future attempts at CPO proceedings.

Another issue that has been mentioned in discussion is the way in which planning, regeneration and housing colleagues are now working together more than in the past. Some have said that this is due to open plan offices where it is possible to speak with colleagues with other responsibilities more easily. Also, there is a greater need to gain wider support from other professional groups inside the local authority for schemes before they are presented to councillors. Also, as the number of staff has been downsized during austerity, there has been greater reliance on joint working and, in some cases, supported by external consultants. In other locations, such as Somerset County Council, there has been the adoption of the client management system that is used in New Zealand. Here an applicant both before submission, and after permission, has been appointed a client manager by the authority through whom they can channel all their questions. This client manager approach also adopts specific response times for these queries.

While there are frequent media discussions about the role of 'NIMBYs' not wanting housing development in their locations, there are also several council leaders, including many in London, who are setting very challenging growth targets for their officers. This frequently relates to intensification in specific areas of the authority and relies on taking a place making approach which includes consideration of associated infrastructure as well as design issues.

In those authorities which state they have little land, there is minimal consideration of intensification or the reuse of previously developed land for housing whether this be through compulsory acquisition of land for development or through the reuse of sites in retail or other employment uses that may be spared for change of use to housing development. It is also clear that the scale of active intervention in housing provision varies between local authorities with some examples of councillors being more focused on housing delivery, through a variety of means, than officers.

In our wider research, we sought to identify the number so homes being provided by local authorities through a range of means. Many local authorities were building over 100 per year using all means, some already have developments equalling 500 or more on site with others in preplanning stages. One council mentioned that they had reviewed 15 potential sites in pre-planning only the day before and others that they have reviewed 1000 sites or more in their authorities and assessed 200-300 for specific housing developments. Some have developed a small number of dwellings (New Forest National Park has developed two for example) but are now seeking further opportunities. Others have large funds of commuted payments and considering how best they could be spent.

6.3 Conclusions on type and amount of provision

It is clear that authorities engaging directly in housing delivery are building across all tenures of housing, but with a greater emphasis on affordable provision. Figures about the number of units delivered, particularly by housing companies, are harder to obtain but there are clearly some authorities who have been successfully delivering large numbers of homes. Many others have ambitious plans to do so in the future, including having sites and schemes well advanced in the development pipeline.

One of the trends that we noticed while undertaking the research was the speed with which local authorities are setting up housing companies with over 30 being established already in 2017. Two of our case study authorities moved from no company to having a company during the course of our study. Another point to notice is that some locations that have traditionally not been active in housing are now setting ambitious targets for development. These include Wokingham Borough Council, and the London Boroughs of Redbridge, Bexley, and Kingston upon Thames.

7. What prevents local authorities building more housing?

While this research has focused on local authorities' level of activity in providing housing through a variety of means, it has also sought to identify why local authorities may not be engaging in building housing, or what is preventing those who do engage from delivering more than at present

7.1 Reasons for not engaging in housing delivery: Survey and interview evidence

Many reasons emerged from the survey, roundtables and interviews as to why some authorities were not engaging directly in housing delivery. In the survey, 34 respondents – 13% of the total – stated that they worked for authorities who were not currently engaged in direct provision of housing and had no plans to be involved in the future. Figure 5 illustrates the reasons given as to why not, and further evidence also emerged from our roundtable discussions and research interviews.

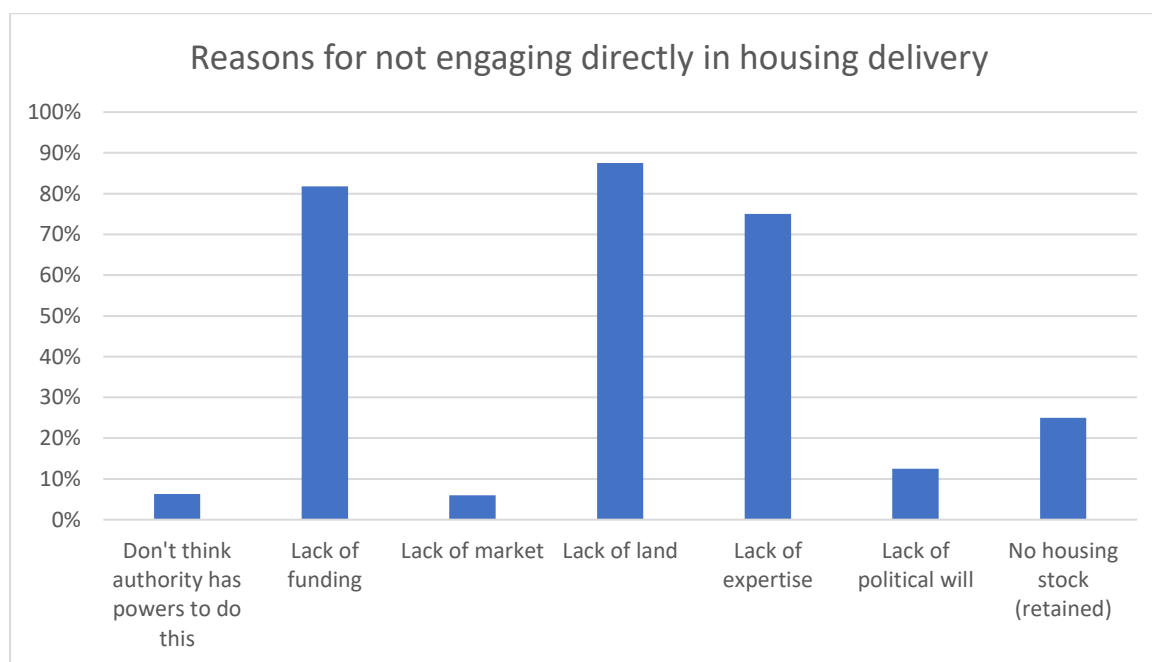


Figure 5: Reasons for not engaging in housing delivery given by survey respondents from authorities with no plans to engage in direct delivery of housing

Lack of land

The highest rated reason from survey respondents for their authority not engaging in housing delivery was a lack of land, and this also featured strongly in our other discussions. Those authorities who are delivering housing have primarily been doing so using their own sites (although there are cases of them buying sites to develop), and so not owning any suitable land can be a prominent issue and make the viability of starting-up housing development activity more challenging.

The definition of 'not owning any land' did, however, vary between different authorities. Some local authorities were only considering building on sites that were held in the HRA and not the local authority's total land holding. Some authorities were not reviewing their own estates proactively or the uses of some of their land which could be used for housing such as their own offices or car parks. Where some councils had no land for housing, councillors had authorised officers to purchase land by agreement or

to pursue CPOs. Some authorities were buying land for the longer term in anticipation of future needs. In other cases, the costs of regenerating mills and heritage assets buildings in town centres is high and their viability is a difficult issue. Similarly, there are costs associated with the treatment of brown field sites that might be available and otherwise suitable for housing.

While the One Public Estate initiative was expected to encourage more joint developments in public land, the research discovered Government Departments resisting developments that included affordable housing. We also identified cases where negotiations with one part of a public body were then undermined by a sale of the site in question by another part of the same organization.

Lack of funding

The second ranked reason on the survey responses was a lack of funding available to support housing delivery. Funding may be defined more of an issue in authorities without an HRA, as this has often been the entry route for authorities to begin funding housing development before they then go on to explore other routes to delivery. These authorities have frequently not considered the use of the local authority's general fund for housing provision. This is a local issue, and a variety of sources of potential funding were discussed in chapter 4 of this report. The risk appetite of the council leadership has been described as an important inhibitor locally.

Lack of expertise

Lack of expertise was the other factor which clearly stood out on the survey response, and like the others was also raised at roundtable discussions and in case study interviews. Although some authorities were able to retain skills and knowledge in house, in many cases these were lost following the decline in council house building from the 1980s onwards. We were told in some interviews about the general difficulty in attracting appropriately skilled staff in the broader development industry, and this was seen as an important issue which prevents authorities either from engaging at all or, in some cases, from doing more around housing delivery. A number of authorities are taking a partnership approach to housing development to overcome this, but it remains a key challenge and concerns about this are clearly preventing some authorities engaging directly in housing delivery.

Other factors

A range of other factors featured less prominently in our survey responses, but came-up elsewhere in the research as explaining why some authorities are not engaging directly in housing delivery. Particularly prominent in earlier roundtable discussions was that some local authorities do not appear to recognise that they have the powers to build and manage housing stock of all tenures using the Localism Act 2011. Furthermore, where they may have considered it, there are several myths that can deter them from proceeding:

- Local authorities have obtained legal opinions that any such stock will be taken into the HRA and be subject to right to buy. This is not generally correct, only applying where there is an intent to use housing companies to obstruct RTB provisions in social rent¹⁵⁷;
- Some also assumed that the statement by Brandon Lewis MP, when he was the housing minister, concerning a potential move to restrict local authority housing companies as a means to avoid right to buy policies,¹⁵⁸ is a regulation. These views tend to be held strongly in some regions and not others. While the Housing White Paper indicated that housing provided through housing companies would be subject to right to buy, the then Housing Minister withdrew from that position very rapidly¹⁵⁹ and this has never been restated.

It was also apparent that some local authorities are not engaging in housing provision as they believe that as they do not have any current stock, because it has been subject to stock transfer, that this option is not open to them. Finally, it is apparent in some authorities that there is no political appetite or priority for the local authority to engage in housing provision.

¹⁵⁷ Mark Baigent (2016), How To Set Up A Local Housing Company, Mark Baigent Consulting, available at: <http://bit.ly/mb-setup-hc>

¹⁵⁸ Mark Leftly (2015), 'Tory minister promises to take on councils who try to thwart Government's 'reinvigorated' right-to-buy policy', The Independent, available at: <http://bit.ly/mark-leftly-rtb>

¹⁵⁹ Sophie Barnes (2017), 'Government will not legislate for Right to Buy extension', Inside Housing, available at: <http://bit.ly/sophie-barnes-ih>

Case study 10: Dudley Metropolitan Borough Council

Dudley MBC has been considering a company for some while but is not persuaded that it would be of benefit to the Council. Officers have mixed views on the role that it could play in providing housing and are concerned that it might create a drain resources for the housing provided through the HRA. Within the council's stock a recent review identified 2,500 homes that are red/amber in terms of their condition, meaning they need attention as a primary priority. The main barriers for development of more homes include competition for resources and a low appetite for risk within the council. Further, the housing team are focussing on land held in the HRA rather than the land in the council's wider ownership. The council has a technical staff and an experienced client side but consider that these resources would not be adequate if a housing company is formed. If the council did set up a housing company then it would be used to support regeneration, starter homes and build for rent to meet a market gap for young people and professionals. However, the barriers include the culture within the organization, the commercial risk, and uncertainty about the benefits it would bring. The housing officer reported that their relationship with planning colleagues could be improved.

7.2 Desk research to identify characteristics of those authorities not engaging in housing provision in any way

As discussed in Chapter 1 of this report, having conducted a survey asking about local authority direct engagement in housing development in summer 2017, we then conducted desk research in November 2017 of public information about the involvement of every local authority in England with housing provision more broadly. The results of this research are included in our data table, published online alongside this report.¹⁶⁰

Many authorities who did not appear to be directly engaged in housing provision (for example building under the HRA or general fund, or having a housing company) were found by further research to be engaged through partner organisations, be registered providers with the HRA, or have other methods of engaging in housing provision in their area. A total of 32 authorities – or 9% of all local authorities in England – did not appear to be engaging in housing provision at all: 29 district/borough/unitary authorities and three county councils (in two tier local authority areas).

We analysed the characteristics of these 32 authorities who appeared to be 'not engaged at all' in housing provision to see if any barriers or potential barriers became apparent. Looking at all 32 authorities, those authorities not engaged at all were 81% Conservative controlled, 6% Labour, 3% Liberal Democrat, and 9% Independent or No Overall Control. This compares with political control for those 321 authorities engaged in some way of 54% Conservative, 30% Labour, 2% Liberal Democrat, and 14% Independent or No Overall Control.

There is therefore a strong relationship between Conservative control and not engaging in housing provision, and this suggests that political control may be a barrier to an authority engaging, perhaps due to ideological concerns of the Council leadership. Indeed, we were told in interviews with some authorities, that there had been ideological debates amongst the Conservative Councillors, with one side arguing the local state should not have a direct role in housing development and the other arguing for a more entrepreneurial, engaged approach. It is important to note, however, that many Conservative controlled authorities have been involved in housing provision nationally.

Looking at the 29 district/borough/unitary authorities only, the authorities that had not engaged at all had an average objectively assessed housing need of 545 units per annum, compared to 805 for those engaging (drawing on the recent DCLG figures¹⁶¹). This suggests less housing demand locally, which may lead to less pressure driving the authority to become involved.

¹⁶⁰ Morphet & Clifford (2017), Table of local authority direct provision of housing in England: <http://bit.ly/la-housing-table>

¹⁶¹ Drawing on data from: DCLG (2017), Planning for the right homes in the right places: consultation proposals, <http://bit.ly/dclg-rhrp>

Those 29 authorities had an average population of 119,160 whilst those engaging in housing provision in some way had an average population of 174,453. This suggests that smaller authorities were less likely to engage and may be indicative of a lack of capacity within the authority, as smaller authorities will have fewer staff.

Finally, those 29 authorities not engaged in any way contained 49% protected land (such as green belt, national park, or AONB) compared to 33% for those engaging in housing provision in some way as identified on this desk survey. This differs from the survey figures in Chapter 5 as the definition of housing provision for the desk research here is much broader than the direct engagement used for that analysis. It is quite a notable difference, which may be indicative of fewer suitable sites being available, and a lack of land acting as a barrier.

7.3 Barriers inhibiting greater delivery of housing

As well as considering those authorities that did not appear to be engaging in housing provision at all, our research also looked at those factors which might be preventing authorities who are engaging from doing more and delivering a higher number of homes.

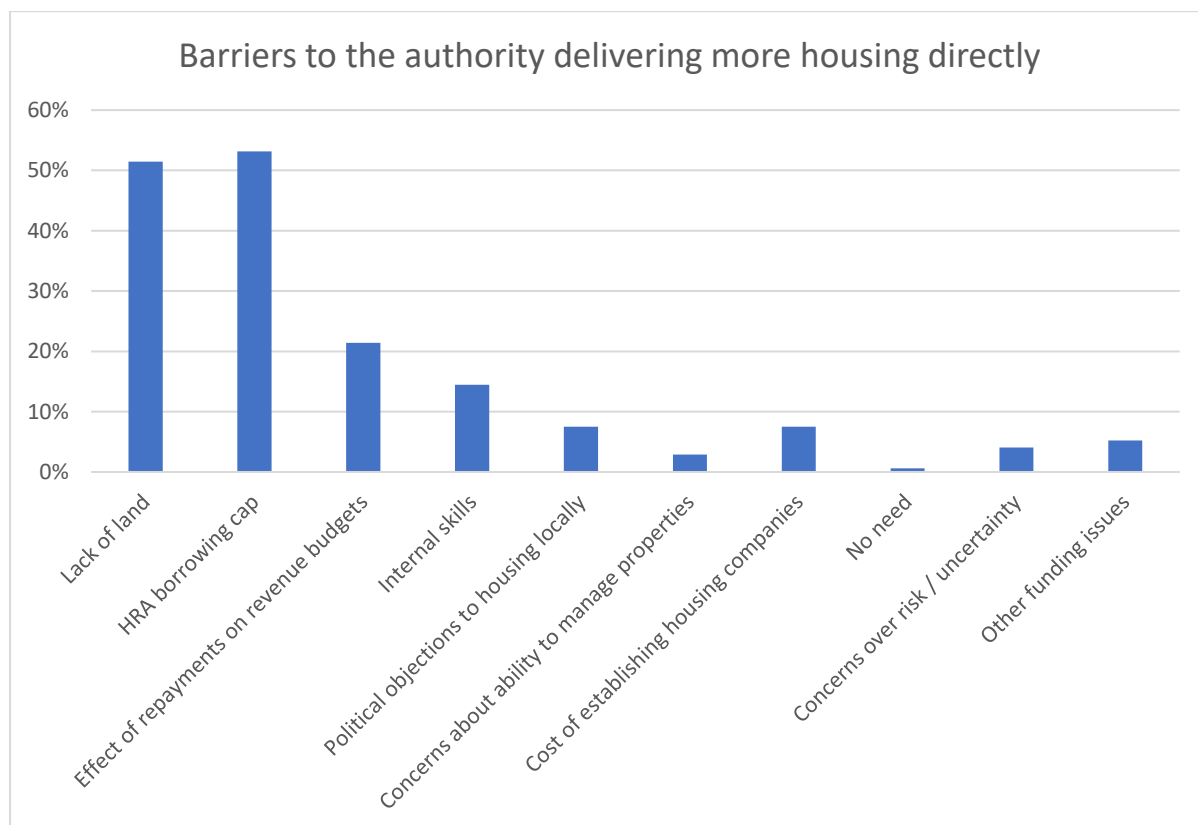


Figure 6: Reasons given by survey respondents of authorities engaged in direct housing delivery as to why they could not deliver more units than at present

173 respondents – 65% of the survey respondents – worked for authorities who were already engaged directly in housing delivery. These respondents were asked what the main barriers were to them delivering more units than at present, and Figure 6 illustrates the results. There were quite a variety of issues across different authorities, with some facing multiple barriers. The most prevalent were the HRA borrowing cap and a lack of land. The borrowing cap is harder to tackle locally, but in some places it was clear that local councillors have an appetite to purchase land to build housing where the local authority did not own any suitable land.

From the discussion at the roundtables, which were primarily comprised of local authority planning and housing officers some more specific issues have begun to emerge that may be having an influence on the practices of providing housing in specific local authorities.

Many local authorities in our survey, case studies and roundtables have mentioned frustration at not being able to build more housing as a result of reaching their debt cap. This includes local authority councillors of all political parties. Further, this debt cap is set based on valuations which do not relate to the current value of the properties held in the Housing Revenue Account. This has led many to establish housing companies or to purchase properties – either on the open market or off plan from developers to meet local needs for affordable and social housing. While homes provided through housing companies do not afford the same security of tenure as those provided through the HRA, local authorities have been able to provide long term rolling tenure, for example Barking & Dagenham London Borough Council.

Beyond the top issue of available funding, a wide range of other barriers to delivering more housing were discussed by local authority participants in our research. These are considered by broad theme, below.

Powers, policy and guidance

- there remains some uncertainty in local authority finance and legal departments about the use and role of **powers** to establish housing companies using Localism Act 2011
- there was much comment on the considerable **ambiguity** in the Government's advice and there was no clarity between what might be included in a ministerial speech and specific policy underpinned by legislation
- there was a view expressed that government policies were not sufficiently tested for **deliverability** or unexpected consequences following their implementation
- where local authorities are seeking legal advice about the potential to provide housing with **social rents** through wholly owned housing companies, they are frequently being told that these powers do not exist. Similarly some councils are of the view that housing companies can only build for sale
- some local authorities say that it is too **complex** to establish housing companies and that it is too costly
- where there are housing companies, in some local authorities, there is an assumption that they operate within the legal framework that is the **same as the HRA** and can be managed and directed in the same way

Funding

- in some authorities, there is a view that the General Fund can only support up to **50 dwellings** provided through the HRA and cannot be used as a standalone means to provide housing ;
- many local authorities appear to be **returning Right to Buy** receipts to the HCA or Mayor of London because they cannot use them within the time given and/or do not consider that they have any funds to put into development
- Schemes negotiated with the Government are not sufficiently **flexible**, such as request for Tax Increment Financing (TIF) in the City Deal which was turned down in Cambridge

Knowledge and understanding

- in some authorities, there appears to be no understanding of the way in which **procurement** can be used to support local supply chains, training and apprenticeships
- in some authorities, there is no understanding of the **risk reward methods** that can be used with builders/developers
- some local authorities are not applying for allocations of **Help to Buy** allowances from the HCA that enable them to sell their properties with an initial discount as support for first time buyers from the government
- Some officers in local authorities assume that **only land held in the HRA** can be used for housing and that the expenditure caps for the HRA also apply to the General Fund

Local working arrangements

- some local authority housing officers do not want to establish housing companies because they think that this will lead to a **loss of control**
- some local authority property professionals are **disposing** of council sites without planning permission and without consideration of alternative forms of development
- in some local authorities, there is no appreciation that **service level agreements** for repayment of internal costs for planners can be agreed with wholly owned housing companies
- Separation between housing and planning teams leads to **mistrust** in some local authorities

Local politics

- Some mentioned that local authority housebuilding takes longer than the **local political cycle** and councillors wish to see quicker results than housing can provide
- Some people mentioned that housing is part of a set of **competing priorities** within the local authority
- Local authority finance departments were regarded as very risk averse and some participants had been told that the council **should not be gambling with the electorate's money** and that councils should always have healthy reserves
- Councillors seen to be in favour of housing generally except where it is on their **own patch**

Local contexts

- some local authority officers do not consider that there are any local **homelessness** issues;
- some local authorities consider that it is not worth attempting any housebuilding because there is **no market** and land values are low
- In some authorities, there is a view that the **local electorate** does not wish more houses to be built
- In some local authorities, affordable housing is **stigmatised**, and the community prefers private sector development

7.3 Conclusions on barriers

Most local authorities in England are now engaged either directly in housing delivery, or working in partnership to be more broadly involved in housing provision. Some still are not, however. Our research has shown that these are often smaller, Conservative authorities. There are a number of barriers which appear to be both putting off those authorities not engaged in housing delivery, but are often also holding back those authorities who are engaged from developing more homes. The most important of these are land availability, funding, and skills and expertise, but there are also a wider range of other factors (often individual to each authority) which can influence things from local politics to local ways of working.

8. What is the relationship between local authority housing provision and planning?

One of the issues that this research has set out to explore is whether the local authority's engagement in housing provision through a housing company has had any influence on the evidence that they have provided at local plan examinations or in Section 78 appeals. What is clear is that the need to provide five-year land supply for housing in local plans has been taken to mean that supply is for private sector housing not for housing provision in general. The increased focus on the local authority's delivery responsibilities in relation to local plan will mean that much more of this five-year land supply is likely to be used through council development, JVs or facilitation to meet the overall needs identified for the local authority and not just the need for market housing. While appellants are attempting to undermine five-year land supply figures in newly adopted plans, by arguing that these sites identified in the local plan are not currently viable in the market, greater engagement in housing delivery by local authorities will inevitably reduce arguments about sites that have no market requirements. This will then support arguments for other sites outside the designated supply to be allowed for housing on appeal.

While there has not been much evidence collected on this through this study, there has been some response that a council's engagement in direct delivery of housing has had some influence on the acceptability of the evidence provided in support of the local land market analysis provided to support the local plan. Where local authorities are engaging directly across a range of tenures in their local authority area Planning Inspectors have given their assessment of housing needs more weight and this issue was not considered any further in the Examination. This issue was considered and explored further in the research.

A number of examples of the ways in which planning supports the delivery of local authority housing were mentioned in the research round tables. These methods were associated with the management of council assets and the assessment of sites for development, in an options appraisal phase before pre-planning. Planners were still proactively seeking to negotiate the delivery of affordable housing through planning obligations and agreements and increasingly these are being taken into the Council's stock or company for ownership and management.

Councillors were also reported to be keen on providing opportunities for the type of development not being delivered by the market including modular construction and self-build. One council mentioned that it is their council's aspiration to provide niche affordable housing, that is of the type not provided by others including that with wheelchair access, bungalows or for those with dementia although there was a recognition that some housing associations have more experience in some aspects of this type of provision. More generally, planners were advising on council sites, development potential and tenure requirements. The need for transparency in these circumstances was stressed, as was the need for the planning application to be made by the whole council.

However, there were also concerns expressed about the amount of resource available in planning departments which have been the most severely cut in local authority's' austerity budgets. At the same time, service level agreements between local authority housing companies and planning staff have provided some direct support such as in Birmingham City Council where three planning staff are funded directly by the company. Elsewhere such as in Plymouth City Council, staff time spent on developing schemes is charged to the council's capital account and, where this occurs, this again allows more planners to be employed. The relationship between the planning managers and the council's capital accounting team is clearly an important one that could be developed further.

In some councils, such as Wokingham Borough Council, there was disquiet expressed by councillors that despite having an aggressive housing programme, this was not being taken into account by the Planning Inspectorate (PINS) when the local authority was facing planning appeals.

The research has shown that the majority of relationships between housing and planning staff in local authorities are good and that the Councils housing company or other projects are treated in the same as those from the private sector on a level playing field. Many mentioned that the co-location or close location of housing, regeneration and planning staff has led to better working relationships and staff knowing each other better. In Wolverhampton City Council, the Head of Housing sits next to the Head of Planning. Planning relationships have also been regarded as very helpful for delivering sites through neighbourhood plans and helping with community engagement. However, not all working relationships are good. Some housing officers expressing the view that they receive less favourable treatment than external applicants. Others suggest that housing company colleagues expect an easier time than other applicants. However, these points were not cited commonly.

We were also told of some examples where the local authority had refused planning permission for its own developments (in one case, this was the Planning Committee turning down a scheme being developed by their own housing company). Whilst this may be seen as a Local Planning Authority correctly performing its regulatory role and treating the local authority as any other developer, it was frustrating for those proposing schemes, particularly as political considerations meant they felt unable to appeal the refusal.

Another interesting point was that of public participation. We were told during our interviews about how public perception could be different on schemes being developed by the council as opposed to a private developer; the local community seemed to feel a right to be engaged more and to have a greater say on the proposals. For example, one site where the local community wanted the Council to build a new school instead of housing was causing difficulties as the community seemed to have expectations of greater control over the Council than they would over another developer. Whilst public engagement is vitally important, the local authority or its company acting as a developer must have some ability to act in the interests of development delivery. This seems an area for further work. Local authorities engaging more in direct housing delivery in future need to work on a clear communications and engagement strategy.

The survey results gave further evidence of the emerging relationship between planning and housing delivery. Housing is a pressing issue in planning, and there was evidence of authorities being more proactive in trying to see housing built beyond just the traditional approaches of plan policies and site allocations. For example, 68% of the planners who responded to our survey said that their authority was engaging with developers to try and unblock sites for housing development. A range of action was being taken to address unimplemented permissions (Figure 7) and stalled or vacant sites (Figure 8), with a particular emphasis on increasing private sector delivery, as seen in Sheffield, for example.¹⁶² In the open comments on the survey, there were frequent mentions of viability and infrastructure provision as the key issues in terms of the relationship between planning and housing delivery in general.

In terms of the relationship with their own direct delivery of housing, however, it appeared there was still more work to do and this might reflect that this is a more recent area of activity for most authorities. Just three out of the 65 planners who responded to our survey reported that their local authority's own direct engagement in housing provision had been used as evidence in appeals, whilst eight reported that this had been used as evidence at local plan examinations. In the open comments section, there were a number of views expressed that the local authority's own role as a housing developer was causing or might cause concern about potential conflicts of interest given their role as decision maker on planning applications. This is not a new issue, but given the renewed activity in recent years, might usefully be one where there could be further guidance to strike the balance between useful engagement pre-application and impartial planning determination.

¹⁶² Sheffield City Council's proactive use of planning enforcement powers to turn derelict inner city sites into new homes recently won the top planning award in Yorkshire. See: <http://bit.ly/RTPI-Yorkshire-award>

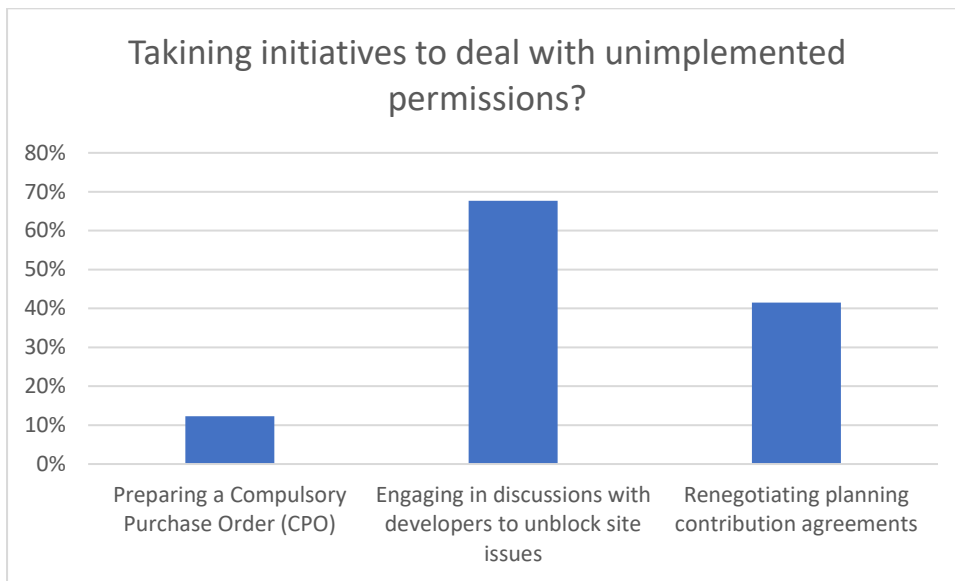


Figure 7: What actions are local authorities taking to deal with unimplemented planning permissions? (Survey results)

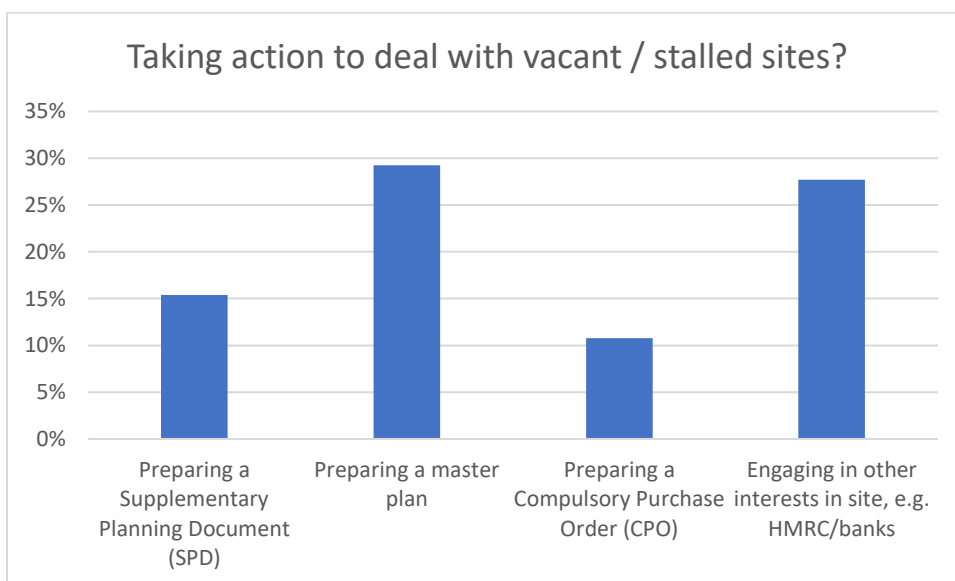


Figure 8: Actions taken by local authorities to deal with stalled or vacant sites (Survey results)

Housing delivery is a vitally important planning issue and planning is of high importance to be able to deliver housing. There was evidence of strong and positive relationships between housing officers and planners in our research, but overall it seemed this is still an emerging area which needs to develop further as local authorities engage more in direct delivery of housing. There is a need to consider the capacity of local planning departments, the role of the authority as applicant and as regulator, and the way to approach community engagement. Over time it is also likely that there will be further thought on the weight that the local authority's own housing delivery role should have in planning appeals and local plan evidence.

9. Conclusions

Local authorities are engaging in the provision of housing through a wide variety of mechanisms and means. This report focuses primarily on the extent of this activity, local authority motivation and means particularly through the creation of companies to achieve local housing objectives. During our research we have become aware of the momentum that is behind this engagement, with 30 local housing companies created in 2017 alone.

Our large scale questionnaire survey of local authorities conducted in summer 2017 found that 65% of authorities reported being directly engaged in housing delivery themselves. Using the survey, we estimate that 44% of councils have a housing company, and this number is growing. We found that companies were being formed rapidly during the period of the research, to the point that two of our non-housing company case studies councils (selected as part of our overall cross-section of 10 local authority case studies) had decided to form a company between the survey in July and August and our interviews in October and November.

At the same time, it has emerged that local authorities are using a wider range of means to provide housing beyond the use of the housing revenue account, building directly under the general fund, and housing companies. We have researched these wider means in an additional snapshot web survey undertaken in November 2017, and found that they include joint ventures with developers or builders, providing loans to housing associations and individuals to create new housing or bring it back into use, through the provision of land to third parties to develop land, and through sale to the public and private sector for the market or specific need groups. When we consider all of these interventions together, we find only 32 local authorities, 9% of the total in England, where there is no housing activity in any category at all.

This is a much wider engagement than we anticipated. This means that there is both a growing appetite and capacity in local authorities to return to or increase their roles in providing housing as a core function. It also means that the vast majority of local authorities have some basis on which further housing development could be undertaken by them to contribute to meeting national housing need. Local authorities are well placed to scale up their delivery of housing, if certain barriers can be addressed.

Some local authorities are starting small while others have never stopped building housing since the late 1980s. Councils have a variety of motivations, but the most frequently mentioned drivers were the need to meet housing requirements locally, tackling homelessness and generating income to maintain other council services. Authorities are approaching this through a problem-solving approach, with each starting housing provision at a point which meets some local issue, challenge or need.

The preferred route for undertaking this housing delivery is through the HRA, primarily because this is what local authorities are most experienced in using but for those councils up against their debt cap or that no longer have housing stock, then housing companies are the most popular form of delivery. Removing the debt cap, changing the valuation and using private sector methods to raise capital on assets within the IFRS in the HRA would result in more housing being built.

Councils are not forming housing companies because there is a central government encouragement to support them in doing so. Rather the opposite. Local authorities are taking their own initiative creating companies to operate in ways that suit their needs, in a demonstration of localism. Local authorities are using housing companies to achieve housing in many different ways. These include buying both new and existing stock, taking s106 affordable homes into ownership, building for all tenures and conducting joint ventures with private sector companies and housing associations. Some councils have arrangements to work together or in tandem as a means of sharing expertise, cost and objectives.

Local authorities are building across all types of tenure, but understandably with a particular emphasis on more affordable housing. Authorities are often developing for certain special needs groups and

building housing for older people of all scales and tenures is clearly an urgent priority. Lack of a product for older people is reducing levels of activity in the housing market. Authorities are scaling-up rapidly the size of their delivery, but it can take some time to coordinate governance arrangements, find funding, assemble sites, and develop schemes and so it is understandable that many companies have not yet developed many homes.

From our surveys and other research, we have found that all regions of England are active in forming housing companies, with those in the North West region being the least interested in forming a company in comparison with other areas (albeit some councils there, such as Stockport Metropolitan Borough Council are strongly engaged in housing delivery). There are local authorities engaged in housing provision across all parts of England.

The survey also showed that of those local authorities that were not providing or planning to deliver housing directly, 62% were Conservative controlled authorities, 25% were Labour controlled, 0% were Liberal Democrat controlled, and 13% were no overall control. Those local authorities not engaging in housing provision through any of the wider range of means considered in our November 2017 survey were 81% Conservative controlled, 6% Labour, 3% Liberal Democrat, and 9% no overall control. This compares to a national breakdown of all authorities in England being 56% Conservative control, 28% Labour, 2% Liberal Democrat, and 14% independent or no overall control, and suggests Conservative councils are far less likely to engage in housing provision. At the same time, some of the most active councils in providing housing through all means were Conservative controlled councils such as Wokingham and Bournemouth Borough Councils, and Wandsworth London Borough Council. Local authority housing provision therefore is not a party-political issue per se.

Our research shows that those authorities engaging in housing provision tend to have larger populations, with more staff, and higher housing need. However, it is important to note that housing delivery and housing companies are not just the province of large local authorities. Many smaller, rural councils are successfully building housing each year, and many of these wish to increase their output of properties. Councils that have retained their stock either directly or through an ALMO are more likely to be engaged in housing provision through a company, but many other councils have returned to housing provision. In short, all types of council are engaged in housing provision.

Local authority chief executives largely regard housing provision as a high priority and objective for their areas. Most local authority professionals are embracing housing provision with enthusiasm and energy although some were more doubtful about whether their authorities should be engaging in this agenda. Local authorities are buying in skills to support housing delivery through companies and these could be available from a wider number of providers including housing associations, although relationships between local authorities and housing associations are mixed and in some places, do not seem to be working very well.

Local housing delivery appears to be operating more smoothly where planning, housing and regeneration teams are co-located or in open plan offices. Within the local plan context, there is a working assumption that the 5-year land supply is for private developer housing rather than housing. Local plans can indicate relative needs for housing, including sites and specific numbers of sites allocated. However, this is rarely being used in practice and planners appear to be unaware that this is possible, relying instead on general policies.

Local authorities are thus approach housing delivery with ingenuity and a real appetite to see good quality development in their areas. In doing this, however, they face a number of challenges and barriers, most importantly funding, availability of land and suitable sites (and unfortunately the One Public Estate initiative does not seem to be working effectively to assist with that), and availability of skills and expertise. There are several things which could help them to deliver more homes, and we make a series of recommendations which we believe would assist the realisation of their ambitions.

10. Recommendations

These recommendations are addressed to specific institutions involved in local housing delivery. They represent a range of incremental actions which cumulatively could improve the level of supply of housing from both new and existing sources.

To central government

- To remove the debt cap on the Housing Revenue Account (HRA) for all local authorities
- To allow local authorities to retain all Right to Buy (RTB) receipts if they are using them to build replacement housing
- To review the relative weightings in the distribution of £44bn housing subsidy to give more priority to social and affordable housing and less to market housing for sale
- To clearly state that local authorities can build and provide housing using housing companies created under the Localism Act 2011
- To more clearly identify ways in which local plans can ensure delivery through direct agreements with applicants or successors to planning permissions
- To positively reinforce local plans' inclusion of housing for different need groups
- To use International Financial Reporting Standards (IFRS) accounting standards to allow local authorities with HRA stock to revalue them at market rates and raise investment against the value of these assets
- If the HRA debt cap is maintained, to consider using the debt cap in the HRA as a single figure across local government and allow local authorities to loan their unused cap to other local authorities
- In line with the NAO report on Local Authority capital expenditure,¹⁶³ to offer local authorities a two-year holiday to pay off existing Public Works Loan Board (PWLB) loans that are at higher levels of interest if replaced by new housing loans at current lower levels. This could provide some headroom in the local authority revenue account and increase housing investment
- To allow local authorities to increase/ change the bands for council tax, to fund infrastructure investment through capturing land value uplifts associated with housing development
- To encourage every local authority to provide assessments of their ROCE (return on capital employed) in their capital accounts
- To clarify how long the New Homes Bonus is likely to be available to local authorities

To local authorities

- To use the research published here to consider the range of potential initiatives available to provide housing
- To have a specific discussion and consideration of the issues so that the council position is agreed by Council – whichever way this is
- To include housing associations in the pool of organizations from which professional and technical assistance is sought

¹⁶³ NAO (2017), 'Financial sustainability of local authorities: capital expenditure and resourcing', <https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing/>

- To consider the five-year land supply in the local plan as being available for all housing tenures and types and not solely for market housing
- To consider how the local plan can be turned into a delivery programme for housing and how specific project delivery is to be secured
- To consider the role and condition of all housing within their area. Where appropriate, this should include the potential for retrofitting and capacity for conversion to meet specific needs
- To consider offering an independent service to support older people in moving to a new home
- To ensure specific housing needs are identified by site and location in the local plan including for social rent, older people, and other need groups
- To consider employing development surveyors where these are not already within the local authority to deal with viability and assessments of council's own developments, rather than relying always on external consultants
- Consider taking s106 affordable homes into the Council's own housing company or HRA
- Apply to the HCA for Help to Buy funds for any new housing that is private sale
- Include local authority planning professionals on Well Being Boards and Extra Care strategy groups

To the Local Government Association (LGA)

- To encourage all local authorities to positively consider providing housing in their areas
- To encourage local authorities to learn from each other about the range of appropriate mechanisms that can be used to provide housing
- To widen its consideration and requests to government from just provisions for the HRA to include housing companies
- To set up a special task and finish group to give advice to local authorities considering establishing a housing company
- To review the operational effectiveness of One Public Estate and identify what is blocking local progress

To the Society of Local Authority Chief Executives (SOLACE)

- To establish a task and finish group to provide advice to Chief Executives on the direct provision of housing
- To identify the direct provision of housing as a key priority for conferences and workshops in the coming year to ensure that knowledge and experience of practice is shared
- To establish a common view of the legal powers available to deliver housing
- To share information and experience of establishing housing companies

To the Chartered Institute of Public Finance and Accountancy (CIPFA)

- To establish a specific task and finish group to identify the powers, processes and issues associated with the establishment and management of local authority housing companies
- To issue a short guidance/information note to all members of the group's findings including FAQs, and dos and don'ts
- To feature local authority housing companies at conferences and events in the coming year

- To investigate and review the way in which capital funding and investment is dealt with under the IFRS code
- Encourage every local authority to include an assessment of ROCE (return on capital employed) in their annual accounts
- To develop the role of the capital accountant within the local authority and provide internal training in understanding the role and mechanics of the capital budget

To the Royal Institute of Chartered Surveyors (RICS)

- To promulgate the findings of this research to members and make them aware of the role of housing companies
- Provide some information to members on the implications of the removal of the revenue support grant to local authorities and the need to achieve income rather than capital sales

To the Royal Town Planning Institute (RTPI)

- To review and reissue the advice to planners on engaging on council's own development proposals and applications

To the private sector

- To understand better the role of local authorities in building and providing homes
- To understand better the concerns of local authorities for design, delivery, quality at the local level
- To understand the need of local authorities for revenue streams rather than capital receipts

Appendix 1: Stakeholder group

Mike Hayes CBE	National Planning Forum (chair)
Michael Harris / Tom Kenny	RTPI
Andrew Piatt	Gateley Solicitors
Clive Skidmore	Birmingham City Council
Gilian Macinnes	Consultant (formerly PAS)
Tony Mulhall	RICS
Sean Nolan	CIPFA
Mike Kiely	Planning Officer's Society
Luke Burroughs	London Councils
Carole Green/Ed Turner	Lyons Review and Oxford City Council
Mike De'Ath	HTA
Sarah Davis	CIH

Appendix 2: Roundtables, industry discussions and individual contributions informing the research

Roundtables and discussions

RTPI East Midlands*	roundtable
RTPI East of England	AGM
RTPI East of England*	housing conference
RTPI London*	roundtable
RTPI North East*	roundtable
RTPI North West	roundtable (hosted by University of Manchester)
RTPI South East*	roundtable
RTPI South West*	housing conference
RTPI West Midlands*	roundtable
RTPI Yorkshire and Humberside*	roundtable
Highbury Group*	agenda discussion

* - Held jointly with housing officers

Industry discussions

HTA RoundTable	fringe event CIH conference Brighton
HTA RoundTable	fringe event CIH Manchester

Individual contributions

Ben Derbyshire	RIBA President elect
Mike Kiely	Planning Officers Society
Paul Hackett	Smith Institute
Rose Grayston	Shelter
Toby Fox	3Fox International
Philip Callan	Philip Callan Associates
Lachlan Anderson	UCL post graduate
Oliver Wainwright	Guardian Architecture correspondent
DCLG adviser	
Jamie McKie	Dentons Solicitors
Jamie Ratcliff	GLA
Silviya Barrett	Centre for London
Jane Briginshaw	architect, consultant (formerly HCA)
Dinah Roake	architect, consultant (formerly HCA)
Stephen Hill	planner and surveyor
Other organizations	Keep Moat, Galliford Try, Savills, Ark Consultancy, Durkan

Conference contributions

National Planning Forum
 RTPI Convention
 Political Studies Associations
 Planning magazine
 CIH event
 Room 2017

Blogs and articles

RTPI
 LSE
 Fox
 Inside Housing with Durkan

Case study interviews

Babergh and Mid-Suffolk District Councils
 Bournemouth Borough Council
 Derbyshire County Council
 Dudley Borough Council
 Eastbourne Borough Council
 Harrogate Borough Council
 North Kesteven District Council
 Southwark Borough Council
 Stockport Borough Council
 Wolverhampton Borough Council