Local authority direct provision of housing

INTERIM REPORT

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UCL Research Team

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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. While the development industry has been critical of local authority planning practices, suggesting that these have been responsible for a shortage in housing stock, more recent increases in the approval of planning consents has not seen an increase in dwellings built.

The Lyons report on housing (2014)\(^1\) 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 in 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\(^2\). 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\(^3\) and the Local Government Association’s (LGA) Housing Commission is undertaking a review of how this can be achieved in practice\(^4\).

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 to inform wider practice. The study focuses on local authority motivations and objectives, the mechanisms and means that they are using and where possible an assessment of the number and proportion of dwellings being provided through these methods. It will expand upon the study undertaken by the LGA and current studies being undertaken by the Smith Institute and Town and Country Planning Association (TCPA)\(^5\) for the Nationwide Foundation and the TCPA for the Association of Public Service Excellence (APSE)\(^6\) on local authority provision of affordable housing. The study will also consider the relative roles of planning and wider local authority initiatives to deliver housing requirements in their areas.

2. The research objectives

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

\(^1\) http://www.yourbritain.org.uk/uploads/editor/files/The_Lyons_Housing_Review_2.pdf
\(^2\) http://www.localgov.co.uk/Half-of-councils-setting-up-companies-to-tackle-housing-shortage/39171
\(^4\) http://www.local.gov.uk/housing/-/journal_content/56/10180/7570944/ARTICLE
\(^5\) https://www.tcpa.org.uk/blog/new-guidance-launched-to-help-councils-secure-affordable-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
• 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

3. 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, 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, from 1.5m homes completed 1950-1959 to 8,000 between 2010-2015. To some extent the local authority’s role in providing social and affordable housing was initially taken over by Housing Associations who competed 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.

The biggest contributor to the provision of housing in the post-Thatcher period has been from 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 crisis and there has been a restructuring in the providers with now major housebuilding groupings trading under a variety of brand names. 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. 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. 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.

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2. ibid
4. See for example [http://www.barrattdevelopments.co.uk/about-us/who-we-are/our-brands](http://www.barrattdevelopments.co.uk/about-us/who-we-are/our-brands);
5. [https://www.berkeleygroup.co.uk](https://www.berkeleygroup.co.uk);
8. [http://lichfields.uk/content/insights/?article=planned-and-deliver](http://lichfields.uk/content/insights/?article=planned-and-deliver)
As noted below, the government has undertaken a range of initiatives to both reduce the level of planning regulation that is required for housing development and provided 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, it is also the case that the number of planning consents for housing has increased. However, what has emerged since this response from local authorities, is that there are delays in implementation by developers. Many planning consents that have been approved are not being implemented at all or only being built out at very slow rates. This is having the effect of reducing the ability of local authorities to support wider policies including those for economic growth and leaving them open to further challenge on sites that may be more attractive to housing developers in greenfield and more peripheral locations.

In 2017, the then government published a Housing White Paper that considered many of these supply and demand side issues. It concluded that housing developers needed to be more open about their development pipeline and land options and 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 the 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 appear to be responding to the housing development industry by saying that it had tried to respond to all their complaints so why was the industry now not building at the required levels?

There are several issues including:

**Government policy focus on private sector provision/ reliance on the market to provide**

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 consents, deregulation of offices, retail and other business uses to residential change of use and 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.

This government focus on the private sector has also been represented through local plan housing land supply approaches where local authorities are only allowed to indicate the total supply of all housing required rather than being permitted to indicate tenure or housing related to income need in the local plan. The recent Housing White Paper has included proposals that local plans should identify housing for older people as a specific category but this has yet to be taken forward. 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 public-sector initiatives on any scale to provide housing through local authorities or housing associations during this period, there is an unspoken assumption that land identified for housing in local plans is, in effect, for private housebuilders. However, this has overlooked the fact that private sector developers are under no compulsion to build any houses at all, despite the number of planning consents 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 housing supply.

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Meanwhile, housing development is still experiencing considerable return on investment. The ONS has reported that typical house prices have increased by £12,000 per year\(^{17}\) 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\(^{18}\), Bellway Homes reported a 10% increase in profits in March 2017\(^{19}\), and Persimmon reported a 23% increase in pre-tax profits in February 2017\(^{20}\).

Demographic change

While in many European countries there are concerns of low birth rates meaning that populations are not being replaced\(^{21}\), the growth in the UK population through both high fecundity rates and immigration are regarded with some envy elsewhere. However, there are issues associated with a rising population. The largest increase in population since 1976 was recorded in 2017 and this was for over 500,000 people. This rise in population brings associated issues of housing and support infrastructure such as schools and health care to consider. Of those 14 authorities showing more than 2% population increase within the last year, eight were in London. The vast majority of other local authorities also recorded some 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 the new housing development being provided is for families or younger single people and while the Housing White Paper (2017) indicated that more should be provided for older people there is not a general level of provision now available\(^{22}\). It is also reported that older people are getting divorced in higher numbers, with ‘silver splitters’\(^{23}\) 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 and reducing lack of provision 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\(^{24}\).

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 1 million more young people may be living with their parents in ten years’ time\(^{25}\). 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\(^{26}\).

\(^{17}\) http://www.bbc.co.uk/news/business-40259495

\(^{18}\) http://www.telegraph.co.uk/business/2017/06/18/berkeley-homes-set-report-soaring-profits-amid-slowdown-london/

\(^{19}\) https://www.ft.com/content/59594024-0e0b-11e7-b030-768954394623?mhq5j=el

\(^{20}\) http://www.bbc.co.uk/news/business-39101359


\(^{22}\) https://www.gov.uk/government/publications/fixing-our-broken-housing-market


\(^{24}\) https://www.localgov.co.uk/County-considers-converting-empty-properties-into-homes-for-care-leavers/43279


\(^{26}\) http://www.independent.co.uk/property/parents-buying-bigger-houses-for-their-live-at-home-children-9325686.html
Meanwhile house sales are also subject to overall economic conditions. With stagnant pay rates and high levels of employment, many families are cutting expenditure and are not able to save\(^27\). 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 leasing\(^28\) and credit card debt\(^29\). Further, public sector employees are most likely to take payday loans to cover household bills before the end of each month\(^30\). This is having an effect in the housing market, with reports that house sales have fallen by a third in some areas \(^31\).

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 (2017) \(^32\).’

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 interest rate rises or increased inflation for food and energy while payrates remain static. 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.

**Land issues**

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\(^33\). However, there are also other policy approaches towards land that some local authorities are beginning to utilise. The first is considering its own 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. Through the government’s One Public Estate\(^34\) initiative, now led by the Local Government Association, some 75% of local authorities are now subscribed to this policy. These approaches are leading to some councils working with other public land owners such as the police and 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 is also having some effect on the role of property and planning professionals in the senior leadership teams of local authorities and other public bodies\(^35\).

**5-7-year land supply in planning**

Since the publication of the NPPF in 2012, there has been a 56% increase in annual consents for dwellings in England\(^36\). However, many of these planning consents are not being built out or being built.

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29 http://www.telegraph.co.uk/business/2017/05/24/household-debt-hit-record-high-credit-card-splurge-adds/
30 http://metro.co.uk/2017/06/18/public-sector-pay-is-so-bad-that-many-are-getting-payday-loans-6716742/
32 http://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7706
33 https://www.publications.parliament.uk/pa/cm201516/cmselect/cmcomloc/703/703.pdf
34 https://www.local.gov.uk/topics/housing-and-planning/one-public-estate
35 https://www.london.gov.uk/sites/default/files/housing_committee_-_homes_down_the_track_report.pdf
36 https://www.localgov.co.uk/Study-reveals-massive-shortfall-in-planning-permission/43271
at much slower rates than anticipated in local plans. This is causing frustration as local authorities cannot force those holding planning consents to build to meet local need although the White Paper looks and how they could do this. While there has also been a focus on the achievement of planning consents 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.

Although 72 per cent of authorities have plans in place, there are still 242 authorities (which make up 65 per cent of the total) without local plans which have been adopted since the publication of the NPPF. 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. So, identifying more land for housing in local plans and permitting more housing development does not lead more housing delivery. There are a number of reasons for this. Not all sites 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. Where developers have planning consents that are not being used, the Housing White Paper proposed that local authorities should be enabled to act. Such unimplemented consents could be taxed but this may only have an effect in the short term on those consents 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 consents until they have completed all negotiations and issues with the local authority or withdraw from a developer role and seek rather to make their construction capacity available to other providers.

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

Other pressures on housing supply: investment, second homes and Airbnb
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. 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

40 http://www.civitas.org.uk/content/files/BuildingHomesFaster.pdf
41 https://www.localgov.co.uk/Study-reveals-massive-shortfall-in-planning-permission/43271
half of those were priced for first-time buyers between £200,000 and £500,000\textsuperscript{42}. Of the higher priced properties, some 32% are estimated to have been purchased by international investors\textsuperscript{43}. This is a complicated issue to investigate but there are measures that have been undertaken elsewhere e.g. in Vancouver where foreign investors must pay an additional tax as part of their purchase\textsuperscript{44}. 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.

A second 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, the St Ives Neighbourhood Plan undertook a referendum to restrict second homes which was subsequently held up in court\textsuperscript{45}. The third issue is where housing that might have been formally in the rental market has been transferred to use for Airbnb. While there are restrictions on the number of days that homes can be used in this way without planning consent or payment of specific taxation on income generated, this still appears to be a growing issue. 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\textsuperscript{46}.

**Planning issues – 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 and most authorities are attempting to provide this through s106 agreements. However, since 2012 any consideration of the provision of affordable housing has been subject to viability tests\textsuperscript{47}. Even once agreed, many developers have been successfully seeking to renegotiate their committed provision of affordable housing downwards in the light of market conditions. However, 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\textsuperscript{48}. In Islington, 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\textsuperscript{49}.

A second issue has arisen in practice where 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

\textsuperscript{42}https://www.theguardian.com/society/2017/jun/13/foreign-investors-snapping-up-london-homes-suitable-for-first-time-buyers?CMP=Share_AndroidApp_Gmail

\textsuperscript{43}Foreign Investment in UK Residential Property House of Commons Briefing Paper Number 07723, 3 October 2016 Murphy and Barton.

\textsuperscript{44}https://www.theguardian.com/world/2016/aug/02/vancouver-real-estate-foreign-house-buyers-tax

\textsuperscript{45}http://www.bbc.co.uk/news/uk-england-cornwall-37938885

\textsuperscript{46}https://www.theplanner.co.uk/decision/appeal-permission-for-airbnb-let-could-cause-permanent-loss-of-housing-stock

\textsuperscript{47}https://www.gov.uk/guidance/viability


\textsuperscript{49}http://www.islingtonmedia/r/21353/islington_wins_landmark_case_against_a_developer_on?utm_medium=social&utm_campaign=SocialSignIn&utm_source=Twitter
same time, the provision of a school on site is cheaper to provide than financial contributions for the developer if they can build it. It also makes the development more active in the market place both as it has a new school and secondly there is no affordable housing in the development which some purchasers do not like.

This is a significant and prevalent issue not least because all school places are funded by the government and these planning contributions are not considered when government funding is provided to fund pupils. There is no means by which these contributions can be reported back to government. There are no requirements for contributions from the DfES and free access to education until the age of 18 is a right in the UK. The same is true of health care which is available free at the point of delivery for all citizens although the Department of Health have reminded local authorities that health facilities can fund through development contributions\textsuperscript{50}. However, in practice, it is likely that the model of health care will have changed between the initial consent 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.

**Homes for social 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 there were 56,000 completions in 2010/11 and 22,000 in 2015/6\textsuperscript{51}. While there are fewer social rent homes available, research has also shown that those living in social rented accommodation have seen their incomes squeezed as food and fuel process have increased with an overall decline in their living standards\textsuperscript{52}.

One approach to providing more dwellings for social rent is through introducing some models of land value capture. As Walker\textsuperscript{53} and the OECD\textsuperscript{54} 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 that of property taxes including council taxes and business rates in England and index linking them to rising values so that as values increase so does property tax. 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 would be politically very unpopular as it spreads the tax on benefits to everyone rather than just focussing on the those who might achieve most immediate gain from land and property uplift at point of development. It would be possible to undertake the two methods together.

\textsuperscript{50} http://www.healthyurbandevelopment.nhs.uk/our-services/delivering-healthy-urban-development/s106-planning-contributions-for-health/

\textsuperscript{51} https://t.co/YqNQldbAWM; Table 1012: Affordable Housing Starts and Completions funded by the Homes and Communities Agency and the Greater London Authority\textsuperscript{1,4};

\textsuperscript{52} https://humancityinstitute.files.wordpress.com/2017/01/affordable-lives3.pdf


Private Rental Sector (PRS) and Build to Rent (BTR): market rented homes

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 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 PRS sector. These institutional providers are seeking to offer more predictable rent levels, longer term tenancies, with three years becoming the norm for this kind of housing and higher standards of management. Where these PRS BTR properties are being purpose-built for renting, 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.

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 professionals and it is Grosvenor’s intention to manage these properties for the longer term.

Housing quality

Issues of housing quality are emerging into public debate. One issue is concerned with space standards inside the dwelling. As Marsh states ‘The average size of new homes in England and Wales is among the smallest in Europe, so it is not surprising that public opinion surveys report a lack of space to meet people’s needs as the key problem for those living in recently-built homes (Ipsos 2013; Garvie 2013)…Research carried out by the Royal Institute of British Architects (RIBA) 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 (RIBA 2015)’ (p37). Marsh goes on to comment 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 (DCLG 2015)’ (p38).

The second is the quality of finish and levels of complaint under guarantee in new homes. 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. 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.\textsuperscript{65} 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.

**Gap between right to buy sales and replacements dwelling provision**

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 for these dwellings are expected to be used to replace these dwellings and this is approach mentioned by the government\textsuperscript{66}. 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 many are returning them to the government unspent. The National Audit Office 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\textsuperscript{67}.

**the relationship between homeless, benefit caps and static payrates**

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. 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 6 weeks there\textsuperscript{68}. 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 benefits\textsuperscript{69} but these are now out of step with local rental levels. With more young people being unable to purchase homes, the market rental accommodation is growing and is now much 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 workless. Also, there is no security of tenure for most rental property in the private sector. Shelter estimates that this could put 1million households at risk of eviction by 2020\textsuperscript{70}. Also since 2010, there has been a 134% increase in rough sleeping in England\textsuperscript{71}.

**Concern about construction industry – Farmer Review (2016), ageing labour force and Brexit**

One of the key issues about the future delivery of all housing, whether in the private or public sector is the potential shortages of skilled labour. As shown in the Farmer Review (2016)\textsuperscript{72} ‘Modernise or Die’, much of the UK’s construction labour force is older and due to retire, while construction is not an attractive career choice for 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\textsuperscript{73}.

\textsuperscript{65} https://transport-network.co.uk/Estates-without-footways-homes-without-transport/14106#.WTGFg1PL10I.twitter

\textsuperscript{66} http://www.bbc.co.uk/news/uk-politics-37298981


\textsuperscript{68} https://www.localgov.co.uk/Figures-show-sharp-increase-in-homeless-families-since-2010/43306

\textsuperscript{69} https://www.jrf.org.uk/mpse-2015/housing-benefit-claimants

\textsuperscript{70} http://england.shelter.org.uk/__data/assets/pdf_file/0004/1391701/2017_06_-_Shut_out_the_barriers_low_income_households_face_in_pivate_renting.pdf

\textsuperscript{71} https://secondreading.uk/social-policy/the-housing-crisis/

\textsuperscript{72} https://www.gov.uk/government/publications/construction-labour-market-in-the-uk-farmer-review

\textsuperscript{73} http://www.constructionleadershipcouncil.co.uk/wp-content/uploads/2016/10/Farmer-Review.pdf
Brexit is also a key concern in terms of skills available in the longer term (Murphy and Dromey 2017)\textsuperscript{75}. Some local authorities are attempting to address the skill shortages though the use of apprenticeship and training provisions in their procurement strategies and specifications. Whilst assumed that the lowest price is the only means of tendering, the EU directives allow for a quality route that also allows local authorities to include requirements for local suppliers as part of the contract specification.

One means that is being used to deal with the decline of a traditional labour force is through homes built through off-site construction methods in modular forms. 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 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. Legal and General has established a factory in Selby and in addition to its own developments is providing houses provided in this way for housing associations\textsuperscript{75}.

**Local authorities engaging in direct provision**

As this research is investigating, 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 such as Bristol City Council that has recently announced its first development of 130 dwellings of which 58 will be socially rented and the remaining 72 will be for sale\textsuperscript{76}. However, many local authorities do not seem to appreciate that they already have powers for providing housing as Bailey\textsuperscript{77} states that in 2016 85% of local authorities were stating 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\textsuperscript{78}.

**Conclusion**

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 particular reference to local authority motivations for doing, the means by which this is being achieved, and the output in terms of delivery.

4. **Research Methodology**

The research methodology for this project is as follows:

- use the snapshot survey undertaken by Janice Morphet (May 2016)\textsuperscript{79} as a preliminary means to identify the main motivations and methods being used by local authorities to provide housing
- undertake a wider literature review of issues facing local authorities in providing housing

\textsuperscript{74} http://www.ippr.org/files/publications/pdf/Lyons_Edited_Collection_June_2017.pdf?noredirect=1
\textsuperscript{75} https://www.insidehousing.co.uk/news/news/housing-association-takes-delivery-of-first-lg-offsite-homes-51022
\textsuperscript{76} https://www.localgov.co.uk/Council-to-sell-homes-on-the-open-market/43309
\textsuperscript{77} http://www.ippr.org/files/publications/pdf/Lyons_Edited_Collection_June_2017.pdf?noredirect=1
\textsuperscript{78} PwC (2016b) ‘Local State We’re In, 2016’, webpage. www.pwc.co.uk/localgov2016 PwC (2017)
\textsuperscript{79} https://www.researchgate.net/publication/303540721_local_authorities_build_housing_again
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• through a series of round tables and scoping sessions across the country, refine and develop the preliminary snapshot findings as the basis for specific surveys to be undertaken to those involved in providing housing within the local authority
• engage with those directly involved in local authority housing provision through one to one meetings and industry round tables
• to receive the advice of the stakeholder group established to support the project with members drawn from local government and professions
• prepare an interim report of these findings for publication
• to use the findings in the interim report to set the survey questions to those engaged in housing in local government including planners, housing officers, finance, legal and Chief Executives
• to construct a database which combines published information on local authorities including the status of the local plan, political majority, whether they are registered providers for housing, whether they have a housing company and combine this with survey returns
• to provide all local authorities with an opportunity to review their entry into the database in November 2017 before publication
• to undertake six case studies to examine issues in more detail
• to prepare a final report with analysis and recommendations and publish together with the data base on 4th December 2017.

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

As this research is revealing, there are several reasons why local authorities are engaging more directly with housing provision, both in their own areas and beyond. The motivations for starting to engage more directly in the provision of housing mentioned in the first stages of this research are set out below. These reasons have been raised in the scoping round tables that have been held on the project together with some that have been raised in individual conversations or in the press.

At present, these motivations are not expressed in any rank order but just as a range provided during discussion. At the next stage of the research, it is hoped that it will be possible to find out more about what the relative priorities between what the motivations have been. However, 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, drawn from the list below, but very quickly they have started to examine what actions they could tackle more issues that 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.

What also seems to be the case, is that although many issues are identified as a ‘way in’. Local authority engagement in providing housing is therefore proving to be a local issue and there are benefits of requisite variety as it allows local authorities to respond to their own problems in ways that work within the culture and operating style of their own organizations. At this stage, we are not able to indicate whether there are any politically aligned preferences for models of engagement and again we hope to be able to shed more light on this after we have undertaken the next stage of the research.

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) and
there are over 240 local authorities that are registered providers that can engage in this way. Many have expressed the view that they would like to do more using this method if borrowing caps could be raised and a greater proportion of right to buy receipts could be used to replace social housing sales. For some councils, that transferred their stock to ALMOs or other providers because of Conservative government policies from the 1980s onwards, they are starting from a low base if they wish to re-engage. 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, particularly but not exclusively, through the establishment of wholly owned housing companies of which there were more than 125 in England in December 2016. These housing companies are providing homes for all tenures including housing for sale, market and social rents.

**Our initial research has indentified several factors motiving local authorities to begin their journey back to providing housing.**

**Quality of design**
During the scoping discussions, many local authorities have mentioned that their motivation for engaging in direct provision of housing has been through 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. 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.

**Delivery of housing numbers**
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. 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.

**Unimplemented planning consents**
While there are more extant planning consents for housing across the country than hitherto, it is also the case that where these have planning consents obtained by developers, there are delays in building them out. This is causing frustration and concern that other sites, that 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.

**Homelessness**
Many local authorities have started to engage in direct housing provision as a means of dealing with homelessness. With a dwindling stock, subject to right to buy. Local authorities are paying at least £2m per day to private landlords, frequently on former council stock that has been released to the private
rental sector through right to buy. The motivation of local authorities is one that is combined between providing support for those who are homeless, frequently because of landlord decisions to increase rents and then evict and form the local authorities to manage the ongoing 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. 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 s2 2000 Local Government Act well-being powers and s1-7 2011 Localism Act 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.80

Special needs
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. One council has used its balances as a loan to a housing association to provide housing for older people, for example. In some local authorities, including 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. Finally, there has been little reference 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.

Income
In 2020, the system of local government funding will be changing and councils will be dependent on the income that they can derive from council tax and other forms of fees and charges. For some local authorities that have contributed to the scoping sessions, this is an overriding driver for the provision of housing and is a means to provide a specific income stream to support all the other council services that need to be provided. 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

80 http://www.markbaigentconsulting.co.uk/uploads/7/8/5/3/78535060/how_to_set_up_a_local_housing_company_3.pdf

16.
a considerable risk\textsuperscript{81}. However, this have 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\textsuperscript{82}.

**Place changing**

Some local authorities 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 area where other changes in land use demand have freed up sites for major change. Changing the perception of a city or town also has the potential to increase other investment and to encourage graduates to remain in their University towns to set up businesses or work in local organizations and companies. While some round table participants have questioned whether a place changing approach is another form of regeneration, it is having been identified as a different activity, with regeneration more associated with existing local authority owned development.

**Small sites**

Smaller vacant or abandoned sites are 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 consent, these may be bundled together for competitive tendering by builders or included in packages with larger sites.

**Abandoned/vacant sites**

A few local authorities have started to engage with housing development where sites have been abandoned or stalled because of hope value. Here local authorities have been working to secure development though a range of means that have included the preparation of 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 lead local authorities to work directly with those that have some charge on the land to seek sale to a willing developer.

**Abandoned buildings and fly tipping**

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 are using s215 of the 1990 Town and Country Planning Act 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.

**Support to SMEs and local economy**

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 and to require companies to support apprenticeships and training which apply to all builders and developers working for them.

**Lack of housing providers**

While some local authorities have unimplemented consents, it has been reported through the round tables that some local authorities have no interest at all from developers to provide their housing. Therefore, they are developing their own housing to meet their needs.

**Regeneration**

\textsuperscript{81} https://www.theguardian.com/society/2017/apr/29/vince-cable-cash-strapped-councils-at-risk-credit-bubble ; https://www.ft.com/content/84892c56-1a17-11e7-bcac-6d03d06781f7mhq5j=ei1

\textsuperscript{82} http://www.publicfinance.co.uk/news/2016/09/councils-boosting-property-investment-offset-cuts-finds-nlgn
Many local authorities are undertaking regeneration schemes both of their own housing or in town centres where they have a land interest. 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 and in others, which are more usually characterised as hidden home initiatives\(^\text{83}\), 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 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.

**Demographic change**

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 to age or social economic profile\(^\text{84}\).

**Meeting economic growth**

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. This appears to be about moving away from being passive to taking a significant role in reshaping their places.

**Second homes**

While second homes are regarded as being a key issue in some parts of the country 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.

**Civic pride**

Between 1945-1985, local authorities were major housing providers and it have been argued that the continuing gap in stock provision is because of local authorities 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.

6. **What powers are local authorities using to engage in housing provision?**

Local authorities are using a range of powers to provide housing. The mostly commonly mentioned so far are as follows:

\(^{83}\) [http://www.wandsworth.gov.uk/info/200561/resident_involvement/247/hidden_homes](http://www.wandsworth.gov.uk/info/200561/resident_involvement/247/hidden_homes)

<table>
<thead>
<tr>
<th>Activity</th>
<th>Power being used</th>
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<tbody>
<tr>
<td>1  To establish a wholly owned local authority housing company</td>
<td>Localism Act 2011 s1-7</td>
</tr>
<tr>
<td>2  To work in partnership with other providers</td>
<td>Localism Act 2011</td>
</tr>
<tr>
<td>3  To loan funds to other councils and organizations such as Housing Associations</td>
<td>Local Government Act 1988 s24; Localism Act 2011 s1-7</td>
</tr>
<tr>
<td>4  To use the Housing Revenue account as an HCA registered provider</td>
<td>Local Government and Housing Act 1989 (as amended); The Regulatory Framework for Social Housing in England from April 2012.</td>
</tr>
<tr>
<td>6  To prepare supplementary planning documents in the local Plan</td>
<td>NPPF 2012 para 153; Regulations 11-16 Town and Country Planning (Local Planning) (England) Regulations 2012</td>
</tr>
<tr>
<td>7  Dealing with abandoned buildings and neglected spaces</td>
<td>1990 Town and Country Planning Act s215</td>
</tr>
<tr>
<td>8  To provide social rents for housing being provided by the General Fund</td>
<td>Local Government Act 2000 s2</td>
</tr>
<tr>
<td>9  To fund staff including planners in the local authority</td>
<td>Use Internal Service Level Agreement</td>
</tr>
<tr>
<td>10 Mayoral Development Corporations</td>
<td>Combined Authority SIs</td>
</tr>
<tr>
<td>11 Local authorities granting consent for their own developments</td>
<td>1992 Regulations Regulation 3</td>
</tr>
<tr>
<td>12 Land and property purchase</td>
<td>2011 Localism Act s1-7 (and others)</td>
</tr>
<tr>
<td>13 To use contract process to support apprentices, local supply chains and training</td>
<td>Directive 2014/24/EU of 26 February 2014 on public procurement</td>
</tr>
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7. How are local authorities engaging in providing housing now?

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. It is probable that in the next stage of the research that more methods will be identified or variations on those set out here, which have been identified from the roundtables conducted so far.

**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. 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 over the next five years 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.

They have used traditional means of house building through the Housing Revenue Account despite the difficulties that it throws up for some local authorities through the HRA borrowing cap. However, where local authorities are registered providers, then 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 and this has enabled them to take on more development. However, using the HRA is becoming more difficult with an imposed reduction of 1% on rents and other imposed costs included in the 2015 budget.

ALMOs
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.

Local authority companies
Under the 2003 Local Government Act s95 local authorities can set up companies that can make a profit in any area of their competences. In the 2011 Localism Act s1-7, powers for local authorities to establish companies have been extended into a General Power of Competence, that is to allow them to do anything that a company or individual may do unless it is expressly prohibited. 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) 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.

These local authority housing companies are set up with the local authority owning 100% shares and 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 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 tax efficient as any private companies or housing association and the way that any development is funded may

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85 Association of Retained Council Housing Submission to the Review of the Local Authority role in Housing Supply 2014
86 http://www.arch-housing.org.uk/media/53865/arch_innovation_and_ambition_full.pdf
87 http://www.local.gov.uk/web/guest/research-housing/-/journal_content/56/10180/6009823/ARTICLE
89 http://www.markbaigentconsulting.co.uk/uploads/7/8/5/3/78535060/how_to_set_up_a_local_housing_company_3_.pdf
depend on the selection of the methods that provides most income, which is all returned to the local authority to fund services and other activities.

Where local authority housing companies are using local authority land, then there are a range of methods for how this is working. 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 consent and undertake a risk share scheme with developers that 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, then any overage is returned to the council. If a development is constructed and the economic climate changes, then the properties built by the housing company can be sold to the HRA, to another provider or rented although local authorities would prefer not to do this.

Where local authorities are building for market rent, then again these may be subsequently 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.

**Partnership**

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.

**Supplementary Planning Documents (SPD)**

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.

**Compulsory Purchase Orders (CPOs)**

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 for land. This has traditionally occurred in areas of major redevelopment or change but 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 consent. 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 take 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.

**Conversion of offices to residential use**

Some local authorities are using the changes in the GPDO that allow conversion of offices to residential units without requiring planning permission to convert their own offices into housing. This may be across a range of tenures including market rent.
Purchase on the open market
Some local authorities are purchasing housing on the open market. They are taking this route to meet demand for accommodation for homelessness or to add to their stock portfolio to generate long term income and widen their asset base. While local authorities recognise that this approach is not adding to the total housing stock, 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 effectiveness then this provides 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.

Land banks
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 stated here, many local authorities are now regarding their role as patient investors who have a longer-term commitment to their area.

Right to Buy buybacks
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 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 hidden homes
This is by far the most active approach of local authorities where they still have ownership of their housing stock. Here local authorities are redeveloping garages, installing additional floors on their housing blocks or wings at the end of buildings. 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. 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 consent thus both losing potential value and control of the development and its relationship with the rest of any estate that remains.

Estate agency
Some local authorities own considerable areas of commercial and residential property which they have managed though commercial letting agreements with agents in the past but that are now 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.
Planning and property advocacy
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 and some major supermarket chains have undertaken 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 a 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 another major user of land that is car showrooms.

For sole use out of town retailers, such as large food retailers, where retail patterns have changed to more frequent shops at smaller outlets of the same company, then some food retailers have started to progress redevelopment. This has the benefit of restoring street frontages replacing island stores in a sea of carparking. In these cases, 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, some of which 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. Car showroom redevelopment, to include housing, appears to be more like the single food retailer model. 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.

8. How are local authorities funding housing provision?

From the research so far, local authorities are using a range of methods to fund housing development and these are set out below:

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 financial 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 care90.

Where local authorities deliver housing though the General Fund route, that is primarily through housing companies, then they may still use loans from the PWLB which are capped by prudential borrowing accounting principles. 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. If local authorities could be allowed to repay some of these revenue payments from capital, as has been undertaken for a previous transformation project or to repay the principle without any penalty then 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. 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.

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.

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. Local authorities have use the EIB to fund major housing development recently although the uncertainty over Brexit has meant that this has discouraged other local authorities form 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.

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 programme or large site and housing zone capacity programmes.

91 ibid
Commercial borrowing
Some local authorities have taken commercial loans to fund housing development.

Right to Buy receipts
Many local authorities that still own housing stock have homes that are subject to right to buy which has recently undertaken a surge in sales. Only 30% of RTB receipts can only be used in part of replacement of those homes lost through sales and then the funds need to be used within 3.25 years94. Many local authorities are simply returning all receipts to the Treasury as they are unable to use them for any replacement housing regardless of need.

Using planning obligations
Many local authorities are using planning obligations to provide housing although there are always concerns about viability tests. 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 finding from the Homes and Communities Agency. This may be for specific schemes and include access to funds for discounts for first time buyers.

LEPs/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. These have recently been extended through devolution deals made available to directly elected mayors in combined authorities. These have been able to support development sites and to unlock problems such as ground conditions, remediation and site investigations.

9. What housing tenures are local authorities building?

Local authorities appear to be building across all tenures both directly and in partnership with other providers including Housing Associations and private developers including

- social rent
- living rent (in London)
- affordable
- intermediate rent
- market/PRS
- shared ownership
- for sale including first time buyer scheme

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 and some local authorities where sales are associated with other objectives including improved standards of design within inside or outside the dwelling at reporting faster sales than neighbouring developer schemes.

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.\(^9\)

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.

One local authority, Croydon, has decide 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 to specifically 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 by allowing those who are occupying larger family homes to move to smaller and more management dwellings to relieve the housing pressure elsewhere in the community.

10. How many homes are local authorities providing?

One of the objectives of the research is to see how much information can be obtained about how many dwellings local authorities are providing. One of the key questions asked or the researchers during the research meetings and round tables is how far will local authorities 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 dwellings per year.

It is hoped that the survey will provide some information on how many are being built and this will include those local authorities who still maintain a large programme of house building through the HRA. 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.

\(^9\) http://www.markbaigentconsulting.co.uk/uploads/7/8/5/3/78535060/how_to_set_up_a_local_housing_company_3_.pdf
Where local authorities have been engaging in direct provision of housing since 2011, there are two specific trends to notice. The first is that 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 included. 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 but are nevertheless willing to use a range of methods including the preparation of supplementary planning document or master plans to support any future attempts art 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, as the number of staff has been downsized during austerity there has been greater reliance on consultants and joint working.

While there are frequent media discussions about the role of nimbies 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 associated infrastructure as well as design issues into consideration.

In those authorities which state they have little land, there is little 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, overall, councillors being more focused on housing delivery through a variety of means than officers, some of whom have been very negative in discussions.

11. Does a local authority’s engagement in the local housing market have any influence on the role of its evidence at planning examination and appeals?

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 s78 appeals. While there has not been much evidence collected on this at this stage in the research, there has been some response that a council’s engagement in direct delivery of housing across a range of tenures in their local authority area meant that the Planning Inspector gave their assessment of housing needs more weight and this issue was not considered any further in the Examination. This issue needs to be considered and explored further in the research.
12. Are there are cultural or organizational barriers that have emerged so far in the study?

From the discussion at the round tables, which were primarily comprised of local authority planning and housing officers some issues have begun to emerge that may be having an influence on the practices of providing housing in specific local authorities. These are summarised below and will be further examined in the case studies and surveys:

- there remains some uncertainty in local authority finance and legal departments about the use and role of powers to establish housing companies using 2011 Localism Act
- 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
- 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
- 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 consent and without consideration of alternative forms of development
- 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
- some local authorities say that it is too complex to establish housing companies and that it is too costly
- many local authorities appear to be returning the current elevated levels of Right to Buy receipts to the Treasury because they cannot use them within the time given and/or do not consider that they have any funds to put into development
- where there are housing companies, in some local authorities, there is an assumption that they operate within the same legal framework as the HRA and can be managed and directed in the same way
- 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
- 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 than 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.
Next steps...

The next steps in this research are to

- undertake the survey and additional data collection from published sources
- with the assistance of the stakeholder group, to select and then undertake the case studies
- to hold further round tables in London, SE, NW and SW and with local politicians
- to analyse the data and offer the opportunity to every local authority to review their entry into the data base
- finalise the report and database for the launch on 4th December 2017
Appendix 1. Stakeholder group

Mike Hayes CBE National Planning Forum (chair)
Michael Harris 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
Terrie Alafat CIH
Appendix 2 Roundtables, industry discussions and individual contributions

Round tables and discussions
- RTPI East Midlands* round table
- RTPI East of England AGM
- RTPI East of England* Housing Conference
- RTPI Yorkshire and Humberside* round table
- RTPI North East* round table
- RTPI West Midlands* round table
- 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

Conference contributions
- National Planning Forum
- RTPI Convention
- Political Studies Associations
- Planning magazine
- CIH event

Blogs and articles
- RTPI
- LSE
- Fox
- Inside Housing with Durkan