



PlaceShapers submission to the Elphicke Review May 2014

The Local Authority Role in Housing Supply

Background

PlaceShapers is a network of over 100 community-based housing associations formed in 2008. Between us we own around 725,000 homes and provide services to more than two million people. These include health services, social care, employment support and a range of services for the wider community. As an alliance, our views represent those responsible for around a quarter of registered housing associations' stock. Details of our members and more about what we do can be found on our website: www.placeshapers.org.

We welcome this review of the local authority role in housing supply. The housing crisis is now well understood and it is time to stop the "blame game" regarding the failure of successive governments to ensure sufficient homes are available to meet our country's needs. Our housing market is broken and radical action is needed in response. Decent housing is a basic need and the bedrock for a successful healthy life. Homes are first and foremost for living in; they should not be a way to make an easy financial return. But for as long as the supply of genuinely affordable homes falls short of demand and pricing is allowed to exploit this, there is little hope of addressing the challenges ahead.

This country needs local authorities in partnership with PlaceShapers and other housing associations to maximise new building programmes across all tenures. House builders alone cannot get us there. Their primary objective is necessarily making profits for shareholders, not meeting housing need.

Together our members completed over 40,000 new affordable homes between 2008 and 2012 and we collectively plan to invest around £5bn to deliver a further 32,000 homes by 2015. A 2013 survey of our members revealed that business plans for 2015-20 project at least a further 30,000 more new homes, equivalent to more than 7% growth. With appropriate financial support and improved access to available land we are ready to increase this capacity. Our members "build local". They apply their unique community understanding, presence and commitment to build partnerships with local authorities and others to bring about development that many larger-scale or more distant providers can't achieve. Numbers are important – we need more homes fast – but it's the quality and long-term viability of properties and community facilities that really count.



Our submission below is structured in line with the key themes and questions outlined in your call for evidence.

1. Local authority build

Question 1: What are the experiences of stock owning councils in using the flexibility under the HRA to build new council homes? What challenges were encountered and how were they overcome? What further changes might be introduced to encourage stock owning councils to use their flexibilities to build council homes?

- 1.1 We welcome the Government's decision to enact HRA self-financing in the Localism Act as this placed all councils in a sustainable debt position and has enabled them to make long-term business and asset management plans with greater certainty. Crucially, in many areas such plans include sustained programmes for new housing development. Many types of council want to build new homes, including a significant proportion of new homes at social rents, and most are using their new borrowing capacity to do so.
- 1.2 However, councils still face many obstacles that will continue to constrain them from building the numbers of new homes needed. These include:
 - *Borrowing caps.* Although we note that the review is unable to question the principle of having caps, we are unlikely to be alone in raising the issue anyway. The review should recognise that many anomalies have resulted from the way in which the caps were implemented with some councils with lower levels of need given "headroom" and others with the highest levels of need given limited or no headroom. An ability to share headroom between neighbouring councils may help here but the more fundamental issue is the need for borrowing caps to be lifted where building the new homes required cannot be achieved without this. Even with the increase of £300m in borrowing limits announced in the 2013 Autumn Statement, it is likely that limits will be below the prudent levels at which councils could borrow given the strength of their HRAs. Councils are already trusted to manage their general fund borrowing in accordance with the CIPFA Prudential Code and the same should apply to housing borrowing. The risks for housing borrowing should actually be lower as funding would be used to create assets of significant value with an income stream to cover not only debt servicing but also the management and maintenance of those assets going forward. Indeed, as a self-financing trading activity providing goods and services also provided by the private sector, it has been argued that the UK should follow practice



in the rest of Europe and reclassify local authority housing spending and borrowing as outside the core public sector. There is also merit in considering the US approach whereby local authorities are able to borrow off the back of the projected increases in local taxation that new development will bring (Tax Increment Financing).

- *Conditions attached to additional borrowing.* In addition to the borrowing caps themselves, the conditions attached to new borrowing (or grant bids under the AHP) are in complete conflict with the Government's stated commitment to localism. The requirement for new developments to be at "affordable rents" and a centrally imposed view about disposal of higher value property runs counter to self-financing reform. Housing providers should be able to decide for themselves the levels of rent that will be genuinely affordable for local people on low wages without long term dependency on welfare benefits. This is a major issue for housing associations too many of whom, along with their local authority partners want to build new social housing at social housing rents, this being far better value for money.
- *Rent convergence.* The Government's wish to halt the process of converging social sector rent levels at "target" level means that councils will have less potential to finance part of the costs of new build from rental income. We have separately expressed our concerns about this reform in response to DCLG consultation on the matter, not only in view of the impact on our members' business plan assumptions but also on the grounds of equity. It is claimed that this change will help reduce the housing benefit bill and that it is not fair for tenants to face variable percentage increases in rent. We do not agree. In areas where target rent levels are high (such as in London), many tenants affected by this change have held a social tenancy for many years and there has not yet been sufficient time to reach full rent convergence due to historically low rents. These tenants have often had greater opportunities to build their lives than incoming tenants and are less dependent on help with housing costs. Many such tenancies are in high value stock and removing the ability to converge rents provides a perverse disincentive for under-occupying older tenants to move and runs counter to the government's encouragement to make better use of such assets. The fairness principle underpinning rent convergence was and remains a good one and we believe it should be allowed to run its full course. What matters to tenants is actual rent levels and variations between neighbours, not relative rates of increase. The argument that conversion of rents to higher levels on relet will offset temporary losses of income does not stack up either. Relet levels on such properties are very low and regaining the potential income loss will take decades.

- *Right to buy receipts.* Despite the Government's stated intention that properties sold under the Right to Buy should be replaced on a one for one basis, this is not happening in practice. Councils cannot use more than 30% of the receipt to fund replacements and borrowing limits constrain their ability to fund the difference. Furthermore, the requirement for replacement properties also to be at "affordable rent" levels does not provide value for money. For the Government's intention to be realised, councils should be allowed to set discount rates at levels which ensure receipts cover replacement cost and must be able to use as much of the receipt as needed for replacement. We are aware of at least one of our LSVT member housing associations who is seeking to renegotiate the original transfer agreement with its sponsoring council so that it can keep receipts from new RTB disposals to reinvest in new homes.

Question 2: To what extent are non-stock owning councils interested in building council houses? What challenges might be preventing non stock owning councils from building council homes?

- 2.1 Many of our members are LSVT housing associations and maintaining close, positive relations with their local authority partners is key to their business focus. We are aware of a small number of councils now building their own new stock on the basis that management of the resulting homes will be transferred to a local housing association or ALMO. Generally, however, our experience is that these councils work strategically with the stock transfer association and other partner housing associations in their area to support new development opportunities, recognising that they no longer have the development and housing management expertise to do this themselves.
- 2.2 Nevertheless, we support all initiatives that lead to the provision of new homes, particularly those at social rent, whomever they are built by. Thus, if there are councils whose former housing stock has been transferred who now wish to re-establish a Housing Revenue Account then the value of all such initiatives should be explored. It may be, for example, that some councils would now be in a position to endow additional land or other assets but that the LSVT and other local housing associations have insufficient free capacity in their balance sheets to buy and build this out themselves except under some form of leasing and management arrangement.

2. Councils supporting housing supply

Question 3: How could Government support local authorities that want to do more to deliver new housing? Are there challenges that could be made easier?

- 3.1 Land availability and cost is a severe constraint on any social landlord's ability to develop new homes and local authority planning functions are key when it comes to actually being able to deliver the new homes needed. It is crucial that the Government supports councils not only in adding to new supply themselves but also in achieving a satisfactory proportion of genuinely affordable new housing as part of all other development. However, we like others are concerned that many of the mechanisms to achieve the necessary supply of new homes at social or even "affordable" rents are being weakened, particularly through the removal or re-negotiation of s106 agreements. The housing crisis means that there is little credibility in the proposition that s106 requirements for social housing can be reduced or waived. Indeed, there is a strong argument for reinforcing the need for their use with examples all over the country of house-builders using austerity or artificial reclassification of council housing registers to argue away their obligations to build affordable housing on their sites.
- 3.2 Additionally, there have been very mixed messages in government about what the new national planning policy framework should mean in practice. We support the emphasis in the NPPF on the need for local plans to identify social housing requirements and the means by which this will be provided. We also support the need for this to include review of Green Belt boundaries where there is a case that controlled development here will be necessary to meet local needs. Our members work hard to win the support of local communities for much needed new homes. Sadly however, there are many examples of local authority councillors bowing to local pressures with the "NIMBY" vote and self-interest meaning that much needed schemes are turned down. Where do they think their children and grandchildren are going to live?
- 3.3 Even where planning consent is granted, local authorities need support to ensure that approved developments are built within reasonable timeframes. We support a "use it or lose it" approach to planning consents to reduce land being hoarded purely for financial gain, backed by stronger CPO powers to ensure that schemes can be taken forward by others if needed.

- 3.4 In some cases, new housing schemes may be best provided across administrative boundaries. This can bring its own challenges and in cases where voluntary co-operation between LAs cannot be relied on to deliver the homes needed it may be preferable for approval and scheme development control to be handed to organisations with wider-ranging responsibilities. These could be newly created for this purpose or borne out of existing structures such as citywide authorities and / or the LEPs. Additionally, financial incentives such as the sharing of a reformed new homes bonus and community infrastructure levy and additional inducements resulting from co-operation will help counter the “what’s in it for us” arguments.

Question 4: To what extent are councils actively valuing, assessing stock condition / cost, or otherwise managing their asset portfolio to support new developments?

- 4.1 The extent to which councils are actively managing their assets to support new development varies according to local priorities and needs. As with housing associations they need to balance the needs of their existing tenants and stock with the need and capacity for new homes provision and therefore active asset management may support a range of programmes aimed at improving housing conditions in the communities served. Whether they have the skills and capacity to do this effectively is a concern - see Qu. 6 below - and there could be more scope for partnering councils with local housing associations in relation to systems and expertise.
- 4.2 What is clear however is that many councils are now looking more radically at their stock base with reconfiguration, demolition and re-provision and / or disposal all being options taken forward, often with the support of local housing associations. Whilst much of this is positive, a key concern here is that resulting new developments often include a much smaller proportion of affordable and especially social rented housing than needed.

Question 5: How are councils using their own land to support house building by themselves or with others? What more might be done to bring surplus / redundant land back into use?

- 5.1 We are aware that a recent LGA survey reported that 98% of councils who responded were planning to release their own land for housing over the next five years. This is good news. However, delivery is inevitably constrained by the availability of finance both in terms of borrowing capacity and access to grant.

Additionally, sites vary considerably in their suitability for different kinds of housing and the process of working up appropriate schemes and gaining planning approval can be complex and time-consuming. Particular barriers exist around the costs of remediation, site assembly and decontamination. Government could help councils do more to enable derelict land to be reclaimed by way of funding or better freedoms and flexibilities at the local level. Issues referred to in answer to questions 3 and 4 above are relevant here too, in particular the mix of new homes to ensure that social housing provision is retained, the potential need for working across boundaries and the ability to overcome potential conflicts of interest at the local level.

- 5.2 Another key point here is that councils are not the only owners of public land assets potentially suitable for development in their areas. Indeed, pulling together sites currently in different public ownership may create single more viable schemes. The Government has a stated commitment to release surplus land owned by other public bodies such as its own departments, agencies or the NHS for housing purposes. However, the extent to which this is happening remains painfully slow particularly where current owners are under pressure to maximise the short-term disposal value of an asset and funds to secure the sale are limited. Disposal of land at market rather than best value is one that some councils struggle with and even within a council different departments may fail to agree. Our comment in 3.4 above applies equally here and there is a strong case for a statutory framework to ensure that councils work together or in partnership alongside other public bodies to develop and implement a strategy for bringing sites to development. Not surprisingly, we would argue that such strategies must also include a priority for new social housing.

3. Local authority skills and capacity

Question 6: How are councils using their capacity and skills to support locally-led larger development? How are councils assessing housing needs and working to include the needs and wants of communities when considering housing developments? How might councils tap into the skills or capacity from development partners, particularly in larger scale developments?

- 6.1 The majority of local authority work to support housing supply is now financed from councils' General Funds, which are of course under severe pressure. It is not surprising therefore that despite the obvious importance of addressing housing need; strategic housing resources within local councils remain limited in the light of

pressure to maintain other front-line services. This inevitably impacts on capacity and the availability of skilled staff and whilst these may be available from elsewhere (including for example via sharing resources with neighbouring authorities or local housing associations), cost pressures currently constrain the extent to which councils will be able to recruit and retain the skills required. The review should examine the scope for councils being able to capitalise staff costs, charging them against the expected proceeds from future developments.

- 6.2 The LGA survey mentioned in 5.1 above also confirms that partnerships with housing associations and private developers are widespread with more than 80% of councils planning to use them for new developments in the next five years. This is no surprise as over the many years during which councils had no flexibility to build more new homes themselves, they focussed instead on working with approved partners for this purpose and have enduring relationships as a result. Many of our members are developing housing associations already working closely with their local authorities and sharing a deep understanding of the communities they together serve. It makes complete sense for the benefits of this partnership working to extend to support for the delivery of new council housing.

4. Innovative finance

Question 7: What innovative finance mechanisms have councils used to support housing developments? How were risks identified and shared and challenges overcome in utilising innovative finance models? What other factors would need to be in place to succeed?

- 7.1 We are concerned that suggestions of innovative financial solutions may turn out in practice to be variations on models that have been pursued in the past. The traditional social housing development model remains a sound approach and has many advantages. What is required in our view is acceptance that the provision of grant for new housing at genuinely affordable rents represents far better value for money than subsidising high rents through housing benefit. This, together with the removal of local authority borrowing limits on housing and the reclassification of such borrowing as outside the core public sector would remove the need for complex and pricey “workarounds” which may carry greater risk and prove, in the longer term, not to have provided value for money. The experience of PFI provides some useful lessons in this respect.



Question 8: What innovative finance mechanisms are used in funding private sector housing development? To what extent could these mechanisms be replicated or extended / improved to help secure investment for local authority-led housing developments? What could Government do to better support such innovation?

8.1 Our point made in 7.1 above applies equally here. Finance for private sector housing development whether for rent or sale and whether for a small buy-to-let landlord from a mainstream lender or to a large provider perhaps via bond finance on the capital markets will all be based on the same basic financial appraisal. What is the future revenue and potential capital yield on the asset to be developed and what certainty is there that this will be sufficient to cover loan costs and the management and maintenance of the new homes in question? The best support the Government can provide is to regard the development of new council housing as a self-financing cost to be treated outside of public sector borrowing limits, thus enabling councils to build on the scale needed, whilst simultaneously increasing the level of capital grant available to enable new homes to be developed at a genuinely affordable price.

5. Costs and efficiency in developing social housing

Question 9: How have local authorities improved the efficiency of their management and development of social housing? How does the cost of local authority and private sector-led housing development compare? How is value for money assessed for housing developments? How might councils reduce the costs of and improve value for money in housing developments?

9.1 Local authorities demonstrate their effectiveness and efficiency by reference to a range of performance assessment measures that are similar in the housing association sector. These include scrutiny reports to boards / committees and tenants on key performance indicators, reporting on compliance with the Decent Homes Standard and on legal requirements such as gas safety, benchmarking performance against others e.g. through HouseMark, the use of resident satisfaction surveys, peer reviews etc. We do not have information on how the cost of local authority and private sector-led housing development compares.

9.2 This culture of performance improvement and the pressure to protect and improve services with reduced budgets means that delivering value for money is rightly centre-stage. Partnerships and outsourcing are commonplace where this will support improved and more cost-effective service delivery and, as already mentioned, it



makes perfect sense for councils to enter into partnering contracts with experienced local housing associations able to offer the capacity and skills required to support a local authority building programme. As always such contracts should be subject tender and to periodic review thus ensuring that the best value for money is received.

- 9.3 Community based housing associations such as our members are key providers. We have the development expertise and local relationships to unlock sites, to negotiate agreement with those who may initially oppose new homes and to ensure the necessary investment in the wider community. Our 2013 publication “Build Local” (<http://www.placeshapers.org/document.php?o=45>) is a useful source of evidence of what can be achieved, finance permitting.

6. Local authority assets

Question 10: How easy have you found it to locate details about local authorities’ housing / land assets? Did this help to support housing development?

- 10.1 It is not easy to locate details about local authority land assets and a requirement to hold comprehensive land registers with these also including details of land held by other public bodies in the area would be very helpful. This would as a minimum focus attention on land for which no strategy exists and an increased level of accountability for inaction. More positively, it would also support increased proactive appraisal of new development opportunities and the scope for pooling of resources and skills to achieve these.

Concluding comments

Britain’s housing crisis will not be solved without a massive housebuilding programme. This needs to be across all tenures and to include substantial investment in new social housing at genuinely affordable rents. We therefore welcome the Government’s review into how the local authority role in new housing supply can be supported further and see ourselves as trusted partners in helping to make this a reality.

PlaceShapers members have greater capacity to develop new homes than they are currently able to deliver. Land, build costs and the cuts to grant rates now mean that many of us have passed the tipping point that makes new house building a viable activity despite extensive internal cross-subsidisation to support this. Grant rates should be restored to their previous levels so that our unused capacity can be released to work with LAs to drive delivery of genuinely affordable new homes on the scale required.