

Delivery of council housing

Developing a stimulus package post-pandemic

June 2020

Purpose

The COVID-19 pandemic will inevitably have a significant impact on the delivery of new homes across England. Whilst many construction sites across the country have now reopened, many remain closed or are operating at reduced capacity and this includes housing associations and councils. Those that are open will likely suffer delays from a number of contributing factors including labour shortage, safety concerns, supply chain issues and prolonged uncertainty. There is no doubt that this could serve to dramatically impede the provision of an increased and improved housing supply, which is of such high priority in the UK.

Through sustained government intervention with both private enterprise and Registered Providers (RPs), overall housing supply has been on an upward trajectory over recent years. Housing investment from all sources has an important part to play in a shared local and central government ambition to stimulate economic growth. The COVID-19 response by key workers provides a powerful call to action to redouble efforts to scale-up supply of low-cost homes to rent and to buy, right across the country. Councils want to play their full part in ensuring a generational step-change in the supply of these homes, in order to meet the housing needs of people in different circumstances and at different stages of their lives. This paper outlines a package of measures that will enable them to do exactly that.

Councils already play a vital role in housing supply as planning and housing authorities, as partners with house builders and registered providers, as direct builders, as providers of homes for the most vulnerable and as local place leaders. However, the planning for the “new normal” provides a unique opportunity for the sector to release its potential to do much more.

It is therefore imperative as part of the response to the pandemic that Government considers what steps, measures and reforms would support councils to work towards delivering a new generation of 100,000 high quality social homes per year.

With previous [research](#) for the LGA and partners showing that investment in a new generation of social housing could return £320 billion to the nation over 50 years, the arguments for investment in social housing as an economic stimulus will grow stronger in a post COVID-19 world. Separate research has also estimated that:

- every £1 invested in a new social home generates [£2.84](#) in the wider economy
- each new social home would generate a saving of [£780](#) per year in Housing Benefit
- every new social home would generate a fiscal surplus through rental income.

Increasing construction would not only quickly boost the economy, but would also provide much needed affordable homes for people across the country reeling from the economic impact of the pandemic. Expansion of the development programmes of councils would:

- offer a pathway out of expensive and insecure private renting, and on towards ownership
- over time, reduce the cost to government of meeting the housing needs of low-income households through reductions in the housing benefit bill
- make a major contribution to the Government’s ambition of 300,000 new homes a year
- help address pressure on public services, notably health and social care, driven by poor housing conditions
- support the re-purposing of town and city centres as well as enabling people to remain in rural areas in which they grew up

- support the government's ambition to provide 6,000 new supported homes for vulnerable rough sleepers taken off the streets during the pandemic
- support a climate smart recovery.

Background

It is widely accepted that in many areas there needs to be a significant increase in the number of new homes delivered per year to keep up with population growth and tackle years of under-supply. The Government are committed to increasing the number of homes that are being built and continuing progress towards their target of 300,000 homes a year by the mid-2020s.

The Local Government Association (LGA) recognises that in order to tackle the national housing shortage councils also need to be empowered to build more affordable, good quality homes at scale, and fast, where these are locally needed. A genuine renaissance in council housebuilding is required to boost housing supply, help families struggling to meet housing costs, and tackle housing waiting lists. It also presents an at scale opportunity to mainstream the use of Modern Methods of Construction (MMC) in UK housing delivery and for an accelerated switch to sources of renewable energy in a new generation of social rented homes.

Councils have been proactively addressing the challenge of building more homes, and with more help they could make a significant contribution. There are a combination of factors that limit their ability to deliver and with the current pandemic forecast to impact on all areas of the housing market, government must consider and take action on the proposals raised in this report.

Through a proactive response in the wake of the pandemic, government can be instrumental in delivering to councils the tools, powers and flexibilities that they need to deliver homes for their communities, supported by the required infrastructure and services. This would also support the maintenance of capacity and confidence in the housing market.

The table below lists the policy and fiscal interventions the LGA consider would have a positive impact in stimulating an increase in the supply of council housing. These concentrate on measures that would enable councils to actively intervene at greater scale and with increased impact. This is not an exhaustive list and does not necessarily include activities that councils can take in partnership with Registered Providers or private enterprise suppliers.

Recommended proposals for incentives, powers and flexibilities

Issues	Recommendation
<u>Expanding council housing delivery - overview</u>	
<p>A potential downturn in the housing market puts at risk the delivery of new affordable housing as it is very dependent on cross-subsidy. Councils planning to build for social rent often cross-subsidise these homes from building for sale or market rent. This includes the use of developer contributions from Section 106 agreements which could be under pressure to be renegotiated and subsequently reduced post crisis.</p>	<p>Bring forward and increase the £12 billion extension of the Affordable Homes Programme¹ announced at Budget 2020, with an increased focus on homes for social rent. Reduce, if not eliminate the requirement for competitive bidding. Consideration should be given to ensuring that allocations support climate smart recovery eg enable delivery of zero carbon homes.</p> <p>Increase grant levels per home to maximise the number of schemes that are viable.</p> <p>Reduce the timescales involved in the administering of grants to help provide delivery certainty.</p> <p>Research commissioned by the National Housing Federation² suggests that an investment of £12.8 billion a year over ten years</p>

¹ <https://www.gov.uk/government/publications/planning-for-the-future>

² <https://www.housing.org.uk/news-and-blogs/news/12.8bn-needed-every-year-to-end-the-housing-crisis/>

Issues	Recommendation
	<p>would kick start the delivery of around 1.45 million affordable homes to rent and buy across the country.</p> <p>In addition, provision of additional grant investment to compensate for lost cross-subsidy from market sales. This will be especially important in cases where housebuilding by private developers stalls. It would also aid the acquisition and conversion of unsold market sale homes already built, or under construction, should the housing market be impacted.</p>
<p>Most authorities that have council housing stock plan to expand their housing delivery. Councils are encouraged to embark on long-term investment programmes and the lifting of the Housing Borrowing Cap in 2018 was welcomed by the sector in supporting local ambitions to deliver more homes. Councils without a Housing Revenue Account (HRA) are also encouraged to provide housing.</p> <p>Notwithstanding, national policy changes can undermine or put these programmes at risk. For example, there have been a number of changes³ to rent setting policy for social housing since 2015. October 2019 also saw the cost of new borrowing from the Public Works Loan Board (PWLB) increase by 1 per cent (although this was subsequently reversed for borrowing for social housing at Budget 2020).</p>	<p>There needs to be a consistent approach to rents policy and no wider policy changes that would compromise the major investment commitments of councils.</p> <p>Set a long-term rent deal for council landlords to allow a longer period of annual rent increases for a minimum period of at least ten years. This should include some flexibility for councils to address the historic anomalies in their rents as a result of the ending of the ‘convergence’ policy.</p> <p>This would give significant assurances and confidence to the sector.</p>

³ <https://commonslibrary.parliament.uk/research-briefings/sn01090/>

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<p>The changes to the rents policy that now allows annual rent increases on both social rent and affordable rent properties was generally welcome. However, the annual increase of up to the Consumer Price Index (CPI) plus 1 per cent, is limited for a period of five years. Councils require as much long-term income stability as possible for instance to include, at a minimum, a ten-year policy period. Government must take account of the fact that councils are bringing forward long term investment plans that stretch over a considerably longer period.</p>	
<p>Council housing, planning and regeneration teams require the appropriate resources and capacity to deliver developments of different scales.</p> <p>In addition to delivery of housing through the HRA, councils can establish Special Purpose Vehicles to pursue housing development. There are a range of delivery models reflecting different local financial contexts and political priorities.</p> <p>To drive forward the delivery of housing by councils the key challenges to establishing effective partnerships must be addressed to help enable delivery.</p>	<p>Provision of additional capacity and improvement support for housing delivery teams within councils and their delivery partners. This should ensure that there is a suitable and sufficient mix of professions able to deliver housing projects for councils.</p> <p>This should be coupled with access to the appropriate skills and expertise that would allow councils to assess risks and explore different options for delivery and partnerships. This could include:</p> <ul style="list-style-type: none"> • support for councils to undertake option appraisals and cover set up costs • support in accessing finance • advice and support in getting sites ready to market test for possible joint ventures • delivering mixed tenure development • standard legal documentation.

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<p>Access to other finance, borrowing and land to deliver council housebuilding programmes.</p> <p>In particular, many sites face the issue of costly infrastructure requirements that need to be delivered either right at the start or near the start of a project.</p>	<p>This could be delivered through increased investment in existing sector-led improvement programmes delivered by the LGA/Local Partnerships/One Public Estate.</p> <p>Promote options for innovative funding mechanisms to support council-led housing delivery including the UK Municipal Bonds Agency.⁴</p> <p>Provide lower Public Works Loan Board (PWLB) rates.</p> <p>Investment in a further phase of the One Public Estate⁵ programme, to include a further round of the Land Release Fund⁶ to combat barriers which would otherwise make land unusable for development.</p> <p>Expedite outstanding Housing Infrastructure Fund allocations and other outstanding grants which support housing delivery; relax conditions so that councils can focus on delivery, not process; enable cross virement to deliver and extended deadlines and flexibilities on completion timescales.</p> <p>Open up expedited dialogue to allow the transfer of Homes England land assets to councils at realistic land values where it can be used for accelerated housing development.</p> <p>Support to de-risk large scale projects especially where a significant amount of infrastructure is required.</p>

⁴ <https://ukmba.org/ukmba-intro/>

⁵ <https://www.local.gov.uk/topics/housing-planning-and-homelessness/one-public-estate>

⁶ <https://www.local.gov.uk/topics/housing-and-planning/one-public-estate/land-release-fund>

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	Bring forward the £10 billion Single Housing Infrastructure Fund for public sector related schemes, especially those that include significant levels of affordable housing and key worker accommodation.
<p>The lack of certainty over the future of the New Homes Bonus makes it difficult for councils to plan effectively. This risks putting the brakes on housebuilding schemes and growth-boosting projects and could further exacerbate the financial challenges facing some councils, particularly those in high growth areas. Even with the New Homes Bonus the cost of delivering services to new homes is not met in full.</p>	<p>The LGA's position has always been that the New Homes Bonus should be funded from outside the settlement rather than being funded by a top-slice of the Revenue Support Grant.</p> <p>Clarification is urgently required on the measures that will be brought forward to incentivise greater delivery whilst ensuring that where authorities are building more homes, they have access to appropriate levels of funding to provide services for those who move into them.</p> <p>The Government should work closely with councils as part of its review of housing incentives in order to ensure it helps to deliver more homes in all areas and works for local government.</p>
<u>Right to Buy reform</u>	
<p>The Right to Buy (RTB) policy gives tenants the right to buy their home at a discount, with the amount of discount dependent upon the length of time as a social tenant.</p>	<p>Allow councils to retain 100 per cent of receipts from the sale of homes through RTB with no restrictions on their use.</p> <p>Give councils' flexibility to increase the proportion of replacement homes' cost that RTB receipts can be used to fund from 30 per</p>

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<p>However, the current policy including the restrictions around the use of Right to Buy 1-4-1 receipts are a barrier to delivery of replacement of homes sold under the scheme.</p> <p>LGA research⁷ showed that between 2012/13 and 2018/19 there were 79,119 homes sold and only around a quarter, 21,270, were replaced in the same period.</p> <p>Further LGA commissioned research⁸ (prior to the lifting of the Housing Borrowing cap) models the capacity to replace homes sold in the years ahead, adjusting for different factors.</p>	<p>cent to a level that is suitable and is relative to their financial models, need and place-making ambitions.</p> <p>Extend the time limit for spend of RTB receipts to at least five years.</p> <p>Enable RTB receipts to be combined with Homes England and other funding streams. This would particularly help in relation to bringing forward brownfield redevelopment or other sites with exceptional costs ie cost of remediation or general viability issues. It would also simply increase the number of homes that a council are able to build each year.</p> <p>Allow the transfer of RTB receipts to ALMO's and/or housing companies as this would give greater flexibility as to how new council housing is delivered.</p> <p>Reduce the discounts available and/or allow them to be set locally within reasonable parameters. If decisions were localised this would encourage the maximum flexibility in approach. As a minimum requirement, the discount should not be set at a level which means that a property is sold below replacement build cost or where it exceeds the amount received in rent.</p> <p>Increase the period from which a tenant can buy their property through the RTB scheme to at least five years with a further time constraint for new build properties applied (an additional 15 years). This would allow an increase in the amount of rent received before the property is removed from the HRA.</p>

⁷ <https://www.local.gov.uk/lga-ps5-billion-national-discounts-threatening-future-right-buy>

⁸ <https://www.local.gov.uk/sustainability-right-buy>

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	<p>Allow the value of land released by councils' General Fund to be assessed as part of the cost for RTB 1-4-1 calculations in the same way as if it was bought on the open market. This would incentivise the use of council land for affordable housing.</p> <p>Allowing the transfer of RTB receipts to Arms-Length Management Organisations (ALMOs) and/or Local Housing Companies (LHCs) housing companies as this would give greater flexibility as to how new council housing is delivered.</p>
<u>Availability of developable and deliverable land</u>	
<p>The cost of land for development can be prohibitive for councils and they cannot compete against private developers/landowners.</p> <p>Physical availability of land and/or availability only of small sites are also considered as <u>barriers</u>⁹ to development by councils.</p>	<p>Investment in a further phase of the <u>One Public Estate</u> programme, to include a further round of the <u>Land Release Fund</u> to identify surplus public land, and to combat barriers which would otherwise make land unusable for development.</p> <p>Enable councils to acquire public land identified as surplus or redundant by the current public sector owner in their area, to provide public facilities, including housing, at the valuation determined by the District Valuer based on current use.</p> <p>Councils to have first refusal on any public land for sale.</p>

⁹ http://www.cih.org/news-article/display/vpathDCR/templatedata/cih/news-article/data/Whats_stopping_councils_from_building_more_houses

Issues	Recommendation
<p>Current legislation limits the ability of councils to capture the uplift in land values arising from the granting of planning permission and the provision of public sector funded infrastructure, to invest in new infrastructure and public services.</p>	<p>Consider a system that enables a greater proportion of the land value uplift to be captured by councils.</p> <p>This could include amending the Land Compensation Act to enable councils to acquire land through Compulsory Purchase Order (CPO) at close to existing use value for sites that have been designated for infrastructure, including housing through the local plan process. This would enable borrowing against the future uplift in land values to fund the necessary infrastructure investment.</p>
<p>Compulsory purchase powers can be used to promote development on stalled sites for housing, however the existing process is cumbersome and often subject to delay.</p>	<p>Streamlined compulsory purchase powers to enable councils to buy and assemble land where development has stalled.</p> <p>This would assist particularly in cases where:</p> <ul style="list-style-type: none"> • a landowner has not delivered on an allocated site within a defined period • a landowner disputes are causing barriers to delivery of a site.
<u>Estate regeneration</u>	
<p>Estate regeneration schemes offer real opportunities to transform the way thousands of people live, through improving the quality of housing and neighbourhood design. However, they are long-term and complex projects, which require</p>	<p>Re-introduce capacity funding for an estate regeneration programme.</p>

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<p>significant upfront expenditure. This means that councils' ambitions to deliver these schemes are restricted because of cashflow constraints, even though they are viable over the life of a project.</p>	
<p><u>Capacity of the building industry to deliver on council housebuilding programmes</u></p>	
<p>There could be a reduction in the number of people working in the building sector post-coronavirus due to sites being closed, redundancies, businesses not surviving and people finding alternative work that do not return.</p>	<p>Support to increase the capacity and retention of the building sector to deliver for both public and private developers.</p> <p>We need a skills and jobs strategy in place now. Set up a 'COBRA' for jobs and skills so Government Departments and agencies, local government, sector and trade bodies can co-ordinate and mobilise a response which ensures national skills and jobs investment lands well on the ground.</p> <p>Delivery of council/combined authority multi-agency local skills and jobs taskforces to coordinate local and national careers advice, employment, apprenticeships, skills, and business support that is easy for residents and employers to access physically and online. A flexible, local funding pot should roll in fragmented funding, so provision can be delivered quickly and in a joined-up way.</p> <p>Enable local pooling of public Apprenticeship Levy funds so areas can strategically plan, address supply and demand issues, widen participation to disadvantaged groups and specific cohorts. Incentives could also be explored.</p>

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	<p>Provide assistance to small and medium housebuilders and/or self-employed tradespeople to help them find work on public sector sites. To mitigate period of unemployment, the Government should broaden out employment support and work with local government to develop/scale up proven and effective local programmes, as well as those run by charities, housing associations, colleges and training providers. Recruitment agencies should also be mobilised.</p>
<p><u>Wider use of Modern Methods of Construction</u></p>	
<p>Councils have been encouraged to bring forward Modern Methods of Construction (MMC) to help deliver quality homes at pace.</p> <p>Notwithstanding there have been challenges in establishing finance for such schemes because of the lack of long-term data on the durability of MMC homes.</p> <p>Consequently, it can be difficult for MMC builders to demonstrate the value of such properties to funders, lenders, and valuers. A major concern for all parties is uncertainty and more information is needed on longer term maintenance costs.</p>	<p>Government have been supportive of MMC, through fiscal investment and policy. More support should be given to councils to provide them with greater assurances that would enable them to bring forward MMC homes at scale, whilst at the same time helping to provide the data to improve investor confidence.</p> <p>This could include underwriting risks of MMC to increase provision and developing industry standards. As set out in the Farmer Review addressing this situation must, by implication, be a priority for those looking to offer new solutions to the construction industry and its clients.</p> <p>Build sector knowledge through delivery of a training and communication programme for elected members and senior officers in councils to demonstrate the merits of MMC homes.</p>

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<p><u>Investment in existing stock and acquisitions</u></p>	
<p>Government must make provision for councils' commitments beyond new housebuilding, especially investment in their existing stock (which for some, post-Grenfell, is a major challenge). The long-term viability of each council's Housing Revenue Account (HRA) depends on being able to make this reinvestment as well as on factors such as rental income. The council housing sector could provide best practice examples for building safety, fire safety and meeting carbon targets.</p>	<p>A fiscal stimulus package that would include improving the existing housing stock both for building safety and fire safety reasons and to meet carbon targets. Government to urgently bring forward its commitment for a £3.8 billion capital Social Housing Decarbonisation Fund.¹⁰</p> <p>Development of strategies to help property owners and managers meet the 2050 zero-carbon target, with the provision of seed capital where necessary.</p> <p>Improved energy efficiency and increased use of renewable energy to be part of any revised Decent Homes Standard (DHS). This would provide a national stimulus to kick start the deep energy retrofit of all homes by investing in an energy revolution in social housing.</p> <p>Alignment between a new DHS and the Clean Growth Strategy to bring all social homes up to an EPC Band C by 2030.</p> <p>Councils should have the tools to become exemplars for using new smart technologies and sustainable construction methods. This should be supported by appropriate investment.</p>

¹⁰ https://assets-global.website-files.com/5da42e2cae7ebd3f8bde353c/5ddaa257967a3b50273283c4_Conservative%202019%20Costings.pdf

