INNOVATION IN COUNCIL HOUSEBUILDING

Report authors: Housing Quality Network (HQN)
Tim Brown and Janis Bright

August 2018

Foreword

Council housebuilding must be at the centre of a renewed effort to deliver homes that generate growth and that communities need now and into the future. This was one of the conclusions of the LGA's Housing Commission report 'Building our homes, communities and future'. We are pleased, through this new report, to share examples of councils that are doing just that. The case studies of council housebuilding show how councils are opening up opportunities to build good quality homes that are designed to be accessible, affordable and energy efficient.

After a period of uncertainty created by short-term measures such as rent reductions, Government and councils need to work together to explore options for restoring longer-term income certainty and freeing councils to stimulate a resurgence of council building. Housebuilding by councils at scale would boost local economies and productivity, reduce the Government's housing benefit bill, contribute to tackling homelessness and create revenue-generating assets for communities.

We welcome the proposals announced in the social housing green paper and encourage Government to go beyond these limited measures and scrap the housing borrowing cap, and enable all councils, across the country, to borrow to build once more. This would trigger the renaissance in council housebuilding which will help people to access genuinely affordable housing.

We hope that this report and the case studies of innovation will help to move the housing debate forward, as well as providing practical advice and inspiration to councils and their local partners in housebuilding.

Councillor Martin Tett
ChairmanLGA Environment, Economy, Housing and Transport Board

Contents

Executive summary

Introduction

This study focuses on council housebuilding through a detailed investigation of actions on the ground. In aggregate terms, output has been running at between approximately 1,000 and 2,000 units per year. However, with a more positive national policy framework, this could rise substantially. Furthermore, there is considerable evidence at the local level of innovation, which is defined as 'creating, developing and implementing practical ideas that achieve a public benefit'.

National policy framework

There is a growing interest in council housebuilding. This will expand significantly over the next few years. The Government's Social Housing Green Paper, together with the inquiries being led by, for instance, the Chartered Institute of Housing and Shelter, will raise its profile. The Labour Party's housing green paper, published in April 2018, states: "We want to revive the role of councils to build again at scale and kick-start the biggest council housebuilding programme in more than 30 years." In London, the Mayor announced in May 2018 the launch of a 'Building council homes for Londoners' programme which will deliver 10,000 new properties over four years.

Furthermore, a series of announcements by the Ministry of Housing, Communities and Local Government has given some limited encouragement:
- a £2 billion boost to affordable housing provision
- an 'in principle' selective £1 billion increase in individual housing revenue account borrowing headroom in autumn 2017, followed by a detailed bidding prospectus in June 2018
- a more stable business planning environment by setting annual rent policy for five years post-2010 at the consumer price index plus one per cent
- consultation on flexibilities in using the receipts from right to buy sales.

Nevertheless, councils require significantly greater housing revenue account funding freedoms from Government, as well as the local retention of capital receipts from right to buy, if the potential of council housebuilding is to be achieved.

Research

The findings draw on three major activities:
- a review of policy and research (primarily since 2015)
- an online survey of councils that have retained their housing stock
- 10 detailed case studies.

Council housebuilding through the housing revenue account (HRA) is sometimes referred to as direct delivery. However, care is needed, as some reports on the role of councils as housing enablers also use this term to include properties built by local housing companies.

Key themes

The eight key interrelated themes from this study are:

1) Local case for council housebuilding

It is essential to continually highlight the benefits of council housebuilding to local stakeholders including tenants.
These benefits include:

- addressing local housing requirements that are not being met by other providers, such as developing properties that meet the needs of homeless households (and therefore link with the focus on homelessness reduction)
- investing in neighbourhoods where there has been little action in recent years
- setting high-quality design standards
- creating added value through training and jobs for local people and boosting the local economy by supporting small and medium enterprises in the supply chain
- growing in-house development skills that can also be used elsewhere in the council.

2) Flexibility

Council housebuilding is part of the solution for boosting the affordable rented housing supply. It can, however, be integrated with other types of provision to ensure mixed tenure neighbourhoods. This might include low-cost home ownership, open market sale and private sector build-to-rent. It requires a willingness and flexibility to co-operate with housing associations and other providers, especially on larger sites.

Moreover, changes in national policies often necessitate switching the emphasis between programmes, as has happened in recent years when councils found it difficult to continue with planned council housebuilding schemes and thus shifted attention to local housing companies. The growing interest in council housebuilding may encourage a switch back from local housing companies in the future.

The need for flexibility reinforces the importance of councils as housing enablers, which sets the context and culture for an overall planned programme of actions to boost affordable housing supply.

3) Quality as well as numbers

There is, rightly, considerable focus on boosting the supply of affordable rented housing and making sure that it is delivered quickly and effectively. However, there is a danger that this will result in less attention being paid to the quality of homes and neighbourhoods. This study demonstrates the role of council housebuilding in:

- developing new types of homes that meet the needs of the local community, such as dormer bungalows for older households

- ensuring that wherever possible, new housing adheres to the principles of lifetime homes standards
- incorporating high environmental standards that, for instance, have the added benefit of helping low-income households achieve affordable energy bills
- involving existing tenants and communities in planning the redevelopment of council estates, leading to a focus on the provision of a range of housing types and improved local facilities such as schools and community hubs.

4) Exemplars

New council housebuilding is increasingly viewed, especially by councillors, as an exemplar for other providers. This is based on concerns that the location, quality and type of housing provision does not always reflect the wide range of local requirements.

For example, providing high-quality environmentally sustainable homes through the use of in-house design standards can be used to encourage other housebuilders to 'up their game' and address concerns frequently raised by residents over the relatively poor quality of new housing provision. This ties in with the Government's recent focus on emphasising good housing design.

Similar points apply, for example, to the development of sites and filling gaps in provision. In relation to the former, councils have utilised small infill sites (such as disused garage courts) that are unattractive to other developers. In relation to the latter, the case studies demonstrate, for instance, how councils have provided new affordable rented housing in villages that has helped to sustain local communities.

5) Opportunities

There are, of course, significant local (as well as national) challenges such as the unavailability of sites and lack of skills. Nevertheless, the case studies show that councils are working hard with the resources that are available to ensure the best for their communities.

For instance, they are deploying a number of strategies to address the lack of sites, including:
- purchasing land on the open market
- making use of planning agreements to purchase properties
- working with public and private landowners to unlock sites
- developing mixed tenure neighbourhoods (including council housing) on large strategic sites.

In relation to upgrading skills, actions include in-house training and apprenticeship schemes, use of external consultants, sharing staff between councils and working with housing associations and other providers which can provide some of the necessary expertise.

6) Collaboration

A recurring theme throughout the research has been the importance of collaboration and joint working. This includes:

- co-operation within councils to co-ordinate council housebuilding as part of their housing enabling role with asset management policies, planning strategies, regeneration plans and training initiatives
- involving tenants and local communities in the design and delivery of regeneration schemes
- working with other partners including adjoining councils, housing associations and housebuilders on sharing expertise, unlocking strategic sites and developing mixed tenure neighbourhoods.

7) Leadership

A frequently repeated message from the case studies is the significance of local leadership. It links with the housing enabling role of councils. It involves councillors and senior officers confirming the importance of council housebuilding internally and to external stakeholders.

There are a number of interlinked elements:
- ensuring that the provision of affordable rented housing through, for instance, council housebuilding is at the top of or high up the local agenda
- guaranteeing a strong corporate approach on council housebuilding by, for example, bringing together housing, planning and regeneration activities
- highlighting to external stakeholders the role of council housebuilding.

The external face is particularly important. Firstly, it helps to show that councils are committed to taking direct action on the crisis of affordable rented housing. Secondly, it highlights to the local community that councils are taking action and investing resources in neighbourhoods that may not have seen any new housebuilding for a number of decades. Thirdly, by promoting council housebuilding as one element of affordable rented housing provision, it can overcome possible concerns of other providers, such as housing associations, which may initially see it as a threat to their programmes.

8) Localism

One of the many strengths of council housebuilding programmes is that they have been designed to reflect local circumstances. Specific national funding initiatives with detailed requirements and tight timetables have not been popular. Instead, individual councils have set up pilot projects to 'test the water' in terms of meeting needs, understanding the development process, assessing financial viability and identifying skills requirements (such as project management). These have been assessed, leading in many cases to a political commitment to roll out larger programmes.

Unfortunately, changes in national policies since self-financing was established in 2012 have resulted in these being curtailed or changed. Thus, a key message for the government is that councils have the ability to deliver on high-quality affordable rented homes, but they require a stable and flexible policy environment that enables the design and delivery of programmes that meet local requirements.

<u>Major recommendations</u>

The focus of this report is ‘innovation by local authorities in building council housing’. The recommendations are, therefore, centred on creating the local conditions necessary to take forward this agenda.

Councils

- develop a strategic framework that sets out the role and function of council housebuilding to address local issues
- ensure there is political commitment
- emphasise the added value of council housebuilding, for example providing training and apprenticeships and helping the local construction supply chain
- ensure that there is a full understanding of the funding opportunities for council housebuilding
- promote the exemplar role of council housebuilding in encouraging other developers to ‘up their game’ in terms of quality
- collaborate with housing associations and developers to address issues such as skills gaps
- work with adjoining councils and, where appropriate, combined authorities over joint initiatives on council housebuilding, such as sharing expertise and funding
- have ‘shovel-ready’ schemes that can be brought forward in response to government funding initiatives
- take an active role in debates on the future of council housing by, for example, commenting on the Social Housing Green Paper and participating in other national inquiries.

Housing associations and the National Housing Federation

There are sometimes concerns among housing associations over the promotion of council housebuilding by local authorities, which may be seen as a potential threat to their own activities. This can be overcome by:

- encouraging a better understanding the specific role of council housebuilding in each area
- liaising with councils on issues of mutual interest, such as the role of planning agreements in providing affordable housing for both local authorities and housing associations.

Housebuilders and the construction industry

Housebuilders and the construction sector have relatively little awareness of council housebuilding, meaning there is a strong case for:

- encouraging a better understanding of the role of council housebuilding
- promoting joint working with councils on, for example, tackling construction costs through taking forward recommendations in the ‘Farmer review of the UK construction labour model’ such as investigating modern methods of construction.

Professional organisations

Professional bodies such as the Chartered Institute of Housing (CIH) and the Chartered Institute of Public Finance and Accountancy (CIPFA) have an important role in:

- highlighting to their members the role of council housebuilding through, for instance, publications and events
- ensuring that members are aware of the skills that are required by councils to have an effective council housebuilding programme.

Chapter one: introduction

Innovation

Council housebuilding makes a contribution to the delivery of affordable rented housing. Its significance is in innovation rather than in total numbers: “creating, developing and implementing practical ideas that achieve a public benefit” (Mulgan, 2014). This includes:

- addressing local requirements, such as developing homes that meet the needs of older households wishing to downsize
- providing quality and environmentally sustainable homes through the use of, for example, high design standards that may act as an exemplar for other providers
- creating added value by, for example, providing training and jobs for local people and boosting the local economy
- growing in-house development skills that can be used elsewhere in local authorities as well as for council housebuilding.

Focus

There have been many national studies since the housing revenue account (HRA) self-financing regime was introduced in 2012. These highlight the initial optimism followed by the reality checks created by changing government policies, such as the rent reduction policy of one per cent each year for four years between 2016 and 2020. However, there have been no recent studies that have investigated council housebuilding through the HRA on the ground. This report helps to fill this gap.

The focus is on council housebuilding through the HRA. This is sometimes referred to as ‘direct delivery’, butut care is needed over terminology. Studies on the role of local authorities as housing enablers frequently use the terms ‘direct delivery’ and ‘council housebuilding’ to include both council housebuilding through the HRA and homes built through local housing companies (LHCs). Data on new council housing provision also sometimes includes both types of provision.

Further complications can arise because some local authorities have programmes of (i) council housebuilding through HRAs, (ii) LHC projects and (iii) joint development vehicles with other public and private partners. These deliver a wide range of tenure types including social rent (approximately 50 per cent of market rent), affordable rent (80 per cent of market rent), shared ownership, market rent and market sale.

For the avoidance of doubt, this study concentrates on council housebuilding through the HRA. This involves the provision of social rented and affordable rented properties. We refer to this as 'council housebuilding' throughout this report.

In addition, the report covers national policy developments up to the end of July 2018. The case studies were compiled in early 2018 and have, in some cases, been updated during the summer.

One of the important findings of this study is that councils often have overlapping programmes so as to achieve, for example, mixed tenure developments. This could involve council housebuilding and LHC provision on the same site (as well as provision by housing associations and housebuilders). Furthermore, the in-house skills built up through council housebuilding are transferable to LHCs. There are examples in the case studies in this report where local authorities have utilised this flexibility to shift the development emphasis from one programme to another because of changing national policies.

It is, therefore, essential to recognise that is misleading to view the situation as 'council housebuilding versus LHCs and other providers of affordable housing'. Council housebuilding is part of the solution for boosting affordable housing supply. It has to be co-ordinated with other delivery approaches through the housing enabling role of local authorities to maximise the benefits for local communities.

Opportunities

It is an opportune time for this study. There is a growing appreciation that council housebuilding has a role to play in beginning to address the affordable housing supply crisis. Councils are generally optimistic about the prospects while recognising the challenges that exist.

The national policy environment is gradually opening up more opportunities. For example, the government announced (i) a £2 billion boost to affordable housing provision (including council housebuilding) in October 2017 and (ii) in June 2018 invited local authorities to bid for a share of an additional £1 billion of borrowing headroom, restricted to councils in areas of high affordability pressures. The Mayor of London circulated a funding prospectus 'Building council homes for Londoners' in May 2018, which was updated in July 2018.

Objectives and report structure

The objectives of this study are listed below and are shown on the accompanying diagram:

- focus briefly on the role of councils as enablers that includes council housebuilding (chapter two)
- summarise the recent history of council housebuilding through the HRA (chapter three)
- highlight the risks of and opportunities for council housebuilding (chapter four)
- clarify the type, nature and scale of development – the 'what' of council housebuilding (chapter five)
- explore the local motivations for council housebuilding – the 'why' of council housebuilding (chapter six)

- explain the development process – the ‘how’ of council housebuilding (chapter seven)
- illustrate, through 10 case studies, the innovative nature of council housebuilding (chapter eight).

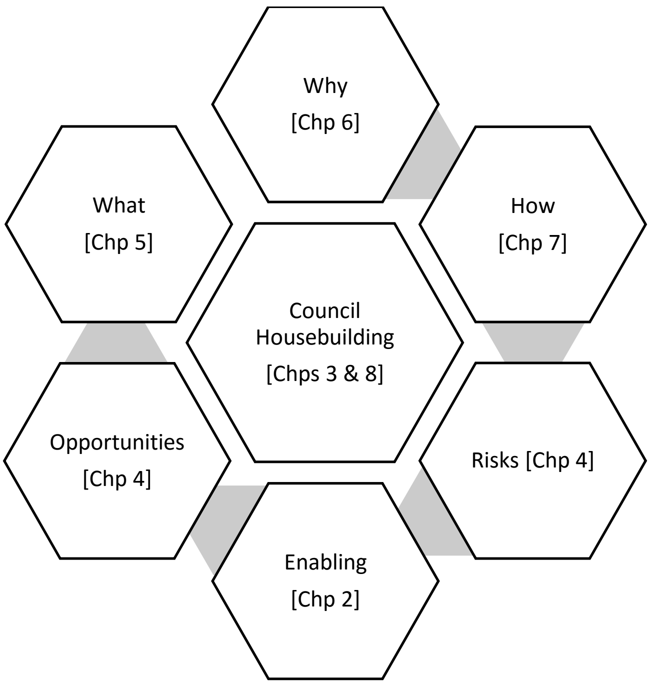
The case studies have formed the basis of this project. They are referred to throughout the report as well as being covered in depth in chapter eight.

The report concludes with two further chapters. Firstly, there is a focus on the outlook for council housebuilding and, secondly, there is a set of recommendations for local authorities and their partners and other stakeholders. The former includes a discussion on the uncertainties, opportunities and risks in the light of an avalanche of national reports, Government announcements and policy statements in spring and summer 2018.

There is also an appendix which details the sources used in this study. References are included throughout the report. Full details, together with website links (wherever possible), can be found in the appendix.

The authors would like to thank all of the participants that have contributed to this study, especially those that have helped with the case studies. We also wish to acknowledge the helpful advice provided by staff at the Local Government Association (LGA). Two workshop sessions were held in March 2018 at a Housing Quality Network (HQN) event and an LGA conference where our initial ideas were discussed and subsequently refined. An additional presentation was made at the HQN annual conference in July 2018.

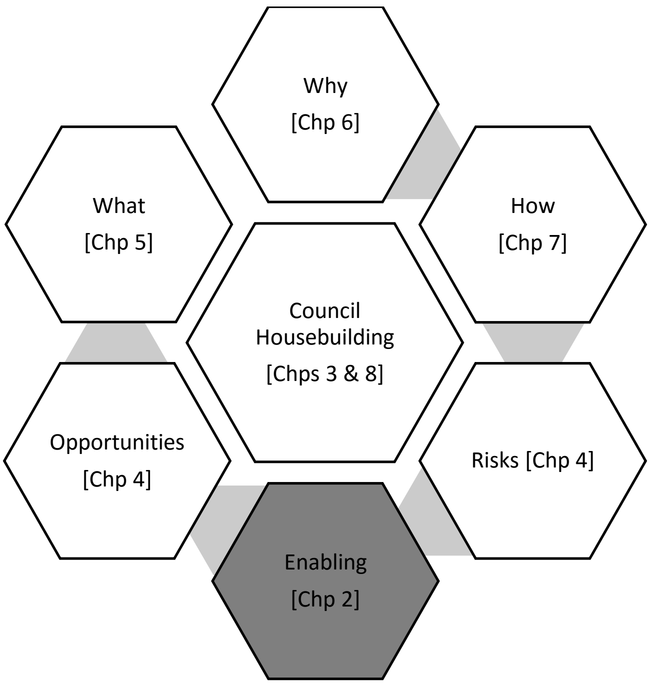
Diagram one: structure of the report



Chapter two: local authorities as enablers

Introduction

The primary aim of this chapter is to locate council housebuilding within the wider role of local authorities as housing enablers.



Enabling sets the context and culture for actions to boost affordable housing supply. Our case studies demonstrate that council housebuilding is one of a number of interrelated ways in which local authorities directly help provide new affordable rented homes. The use of (i) wholly-owned LHCs, (ii) joint delivery vehicles with private and public sector partners and (iii) community-centred initiatives (such as community land trusts and self-build/custom build) are the other major approaches. Councils also support other providers through enabling activities such as housing associations, housebuilders and third sector organisations in boosting affordable housing supply.

As has been highlighted in the introductory chapter, these different approaches are complementary and they are each facilitated by a strong overall enabling function.

Housing enabling function

Councils have always worked with other public and private sector housing providers to address housing issues. However, it became much more significant from the 1980s onwards with the decline of council housebuilding. Recent reports and our case studies have shown that it is a vital element of delivering affordable rented housing, including council housebuilding, as well as other tenures.

The Elphicke-House report (2015) summarised the five dimensions of enabling as:

- community leadership and strategic vision, for example galvanising local support for boosting housing supply and making the case for housing investment
- creating housing opportunities by making effective use of councils' assets
- shaping a stronger housing finance market, for example identifying innovative financial mechanisms such as investment by local authority pension funds
- management of housing supply by identifying land for residential development, including small sites
- business leadership by bringing together partners to deliver better housing across all tenures.

It further highlighted that there were a number of interrelated activities to boost affordable rented housing supply, including:

- working in partnership with housing associations by, for example, making sites readily available, including disposal at less than market value
- collaborating with housebuilders and landowners to ensure that planning agreements to deliver affordable housing are maximised
- investigating the potential of new delivery vehicles such as local housing companies and joint ventures between the public and private sectors
- making effective use of opportunities for council housebuilding.

In relation to the latter, it noted that there had been a resurgence of interest in council housebuilding by stock-owning local authorities following the self-financing settlement in the early part of this decade. However, by 2015, a number of councils had reached their borrowing capacity. Recommendations in the Elphicke-House report (2015) for the Government included greater flexibilities for local authorities on additional borrowing and use of right-to-buy receipts to enable the delivery of replacement units on a one-to-one basis following the sale of council houses.

<u>Council housebuilding and enabling</u>

The five dimensions of enabling are relevant and essential for council housebuilding. Our case study of Stroud demonstrates these points. The local housing strategy has, as one of its four priorities, "to deliver affordable housing to meet the needs of local communities". As well as its council housebuilding programme, Stroud District Council works positively with housing associations (which own 2,000 units in the district) and the private sector. Over 6,000 new homes have been granted planning permission in the last few years, and these have included affordable housing and commuted sums through planning agreements.

The table below illustrates this using additional examples from our case studies.

Table one: enabling council housebuilding

Enabling dimensions (as set out in the Elphicke-House report)	Relevance for council housebuilding	Case study examples
Community leadership and strategic visioning	High political priority for boosting affordable housing supply, including the use of council housebuilding	Nuneaton has council housebuilding as an explicit political priority following a small successful pilot project
Use of council assets	Identifying underused HRA and general fund sites	Camden, through its community investment programme (CIP), robustly reviews its land and property portfolio on estates identified for regeneration
Shaping a housing finance market	Utilising and co-ordinating a wide range of funding streams for council housebuilding	Stoke-on-Trent utilises many funding sources for each project, including potentially: • HRA headroom borrowing • HRA reserves • new homes bonus • right-to-buy receipts • Homes England grants • leaseback via financial institutions
Managing land supply for residential development	Focussing on sites that are not attractive to other public and private housing developers, for example infill sites on council estates	North Kesteven utilised a large number of small sites on and around council estates that has helped to meet land supply targets in the local plan
Business leadership	Working with and supporting other organisations such as small and medium enterprises (SMEs) in the local construction supply chain	Birmingham has developed a specific commissioning and procurement approach to support seven SME housebuilders on sites with 15 or less units

Boosting new affordable housing supply – the complementary role of council housebuilding

Our case studies illustrate that council housebuilding is complementary to other approaches for delivering affordable housing. Northumberland has utilised four approaches:

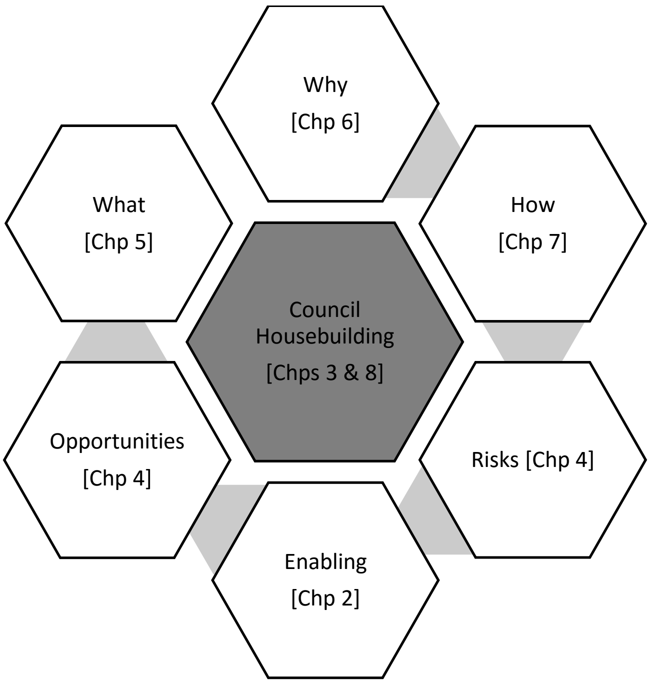
- council housebuilding programme directly and through its arms-length management organisation (ALMO)
- wholly-owned development company
- community land trusts (CLTs) supported by a third sector enabler
- facilitating development by housing associations.

Oxford City Council originally had an ambitious council housebuilding programme. However, Government policy changes (such as rent setting), together with the HRA headroom borrowing cap, made the programme difficult to deliver due to financial constraints. This has resulted in a switch of emphasis to a local housing company (LHC) – Oxford City Housing Ltd, but still allowing the local authority to continue to build its own homes. It has a joint venture company with Grosvenor Developments Ltd for the development of Barton Park, which will provide over 900 properties (40 per cent of which will be affordable homes). Originally, the council housebuilding programme would have been a major part of the development, but this has now been replaced by the LHC. The development of the Oxfordshire growth deal during 2018, however, opens up the possibilities for the local authority of utilising funding to build council homes.

Chapter three: council housebuilding

Introduction

The primary aim of this chapter is to briefly chart the recent history of council housebuilding. A secondary aim is to clarify the relationship between council housebuilding and local housing companies (LHCs). Part of the reason for the current interest in LHCs is because of the constraints faced by local authorities in council housebuilding.



As was highlighted in the introductory chapter, council housebuilding programmes provide both social rented properties (approximately 50 per cent of market rent) and affordable rent (80 per cent of market rent). However, grant funding from Homes England (formerly the Homes and Communities Agency) was targeted at the latter.

It is also important to appreciate that 'council housebuilding' includes the purchase and acquisition of existing stock. This can include new properties acquired from housebuilders through planning agreements.

Recent history of council housebuilding

From the late 1970s until this decade, councils took a back seat in direct delivery through council housebuilding. Government policy effectively stopped or at least curbed local authorities building new council-owned homes. Completions fell from nearly 120,000 per year in 1970 to the low hundreds per year in the 1990s.

A gradual revival of interest from this low base took place in the first decade of this century when discussions started on the reform of the HRA system. In addition, the Labour Government initiated a small funding scheme to encourage council housebuilding (and this was utilised by at least one of our case studies – East Riding of Yorkshire). However, it was not until the new self-financing regime, which took effect in 2012, that there was a degree of optimism on the possibilities of council housebuilding.

In summary, self-financing involved a settlement that adjusted the debt levels of local authorities with HRA stock, with 136 councils taking on new debt and 34 councils receiving government funding to reduce debts. After the settlement, councils were able to retain rental income locally instead of rental income being managed nationally by central government. There was a consensus that this new system was beneficial for councils as it enabled long-term business planning. Local authorities were required to prepare 30-year business plans to help decision making over priorities for investment.

It is, however, essential to appreciate that each council started the new system in 2012 from different positions depending on, firstly, the state of the existing stock and secondly, the ability to borrow. For instance, in relation to the latter, 28 councils had no borrowing headroom while 141 councils had a collective borrowing headroom of £2.8 billion. Hence, each local authority had both different priorities and different resource envelopes in terms of council housebuilding, stock improvement, estate regeneration and so on. The self-financing settlement and its implications is usefully summarised by the Association of Retained Council Housing (2013).

Nevertheless, as the Chartered Institute of Public Finance and Accountancy and the Chartered Institute of Housing (2016) pointed out, there was considerable positivity, with forecasts as high as 550,000 new council homes being built over the next 30 years being quoted. The reality has been rather different, with council housing starts over the last few years running at between 1,450 and 2,200 per annum (see chapter five, table three). Long-term estimates have fallen as low as 45,000 new homes over the next 30 years.

There are three main sets of interrelated reasons for this situation. Firstly, councils had to build up their expertise and skills from a zero base in designing, developing and implementing a programme. In many cases, as illustrated in the case studies, this gap was addressed through small pilot schemes to test the water (for example, Birmingham, North Kesteven and Nuneaton). Thus, it takes a number of years to gear up to a major new delivery strategy.

Secondly, councils under self-financing had to make long-term decisions on priorities. Reinvestment in the existing stock has been the first call on resources for many areas, followed by council housebuilding and then estate regeneration. Thus, in some cases, new build programmes took a back seat, especially when the self-financing scheme was detrimentally affected by changes in national policy.

Thirdly, Government policies have undermined the certainties of the self-financing settlement with local authorities on rent setting, right to buy (RTB) and welfare policies:

- rent reduction policy of a one per cent per year cut from 2016 to 2020
- council house sales have accelerated more quickly than anticipated in 2012
- cumulative effect of welfare changes have made it more difficult to collect rents.

As a number of senior officers and councillors pointed out during interviews for this project, it is not necessarily the changes themselves that are the issue. Instead it is the uncertainty that it creates which is crucial. This leads to a loss of momentum and can lead to a switch in direct delivery from council housebuilding to local housing companies (such as in Oxford).

This uncertainty is a continuing challenge for councils. For example, the Government has powers under the Housing and Planning Act 2016 to enforce the sale of higher-value council homes to fund voluntary RTB if fully implemented after the pilot scheme in the Midlands starting in 2018. The Social Housing Green Paper has resolved this uncertainty by confirming that Government will repeal the legislation on forced sales. On rents, although the Government announced an annual social housing rent policy increase of the consumer price index (CPI) plus one per cent for 2020-2025, there is no decision on a rent settlement post-2025.

Council housebuilding and LHCs

There is considerable interest on initiatives such as local housing companies (LHCs), but these should not be seen as alternatives to council housebuilding. The case studies demonstrate that these two delivery approaches are mutually compatible. For example, the expertise and skills that are required are similar – including bringing together funding from a number of sources, making use of council land assets and project management.

Many councils with HRAs have either set up LHCs or are considering doing so. A study by the Smith Institute provides a useful overview (Hackett, 2017). It commented that there are likely to be 200 local housing companies by 2020. It also pointed out that they vary enormously in terms of objectives and roles. Firstly, they often fill a gap in the housing market, such as good quality private rented accommodation for key workers. Secondly, they may be used to generate income for a local authority which can then be used for overall general fund requirements or for specific housing purposes. Thirdly, and some of the case studies demonstrate this point, they have been used as a means of maintaining the momentum to directly deliver new affordable rented homes when the option through council housebuilding has been curtailed because of changing government policies (for example in Sutton).

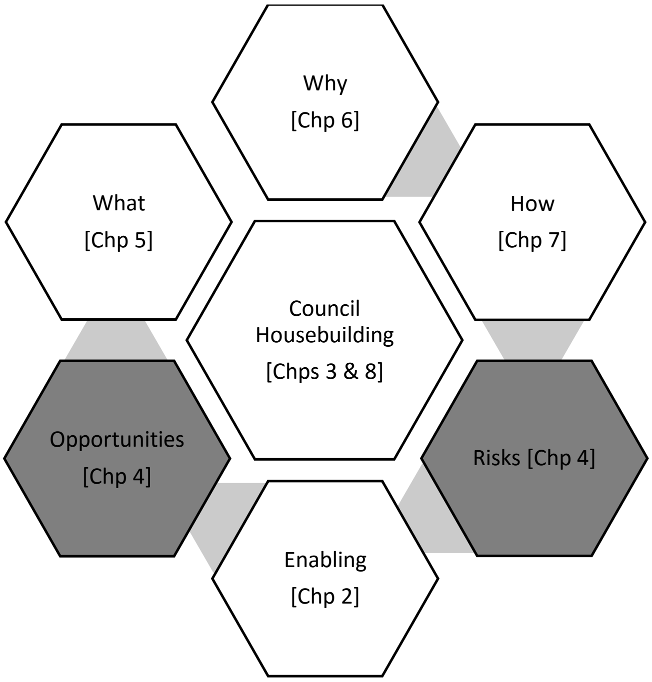
Nevertheless, delivery through local housing companies has so far been small scale with only modest long-term prospects. The Smith Institute forecasts that many will only deliver 50 units per year, while there are significant issues in scaling-up outputs from the estimated current figure of 2,000 per year to 10-15,000 per year by the early part of the next decade.

Furthermore, only between 30-40 per cent of outputs are likely to be in the form of new affordable rented housing. Part of the reason for the slow progress has been the challenges of setting up and establishing a new way of boosting supply. A number of other factors have also contributed to this state of affairs including lack of skills and expertise, shortage of land and the challenges of bringing together different funding sources. These are not dissimilar to the issues that have faced council housebuilding.

Chapter four: risks of and opportunities for council housebuilding

Introduction

The aim of this chapter is to set out the risks of and opportunities for council housebuilding. It draws on three sources – a review of policy and research, a survey of councils and the case studies.



As there are frequent national policy announcements, for the sake of clarification, this chapter covers developments up to and including July 2018.

Although the optimism of the self-funding regime in 2012/13 was quickly replaced by the reality of financial pressures on councils, there is now a growing groundswell of opinion that the prospects for council housebuilding are slowly improving. Nevertheless, the difficulties are interrelated and complex. For example, in broad terms at the local level, they include land assembly, bringing together different funding sources and having the appropriate expertise and skills. However, a series of Government announcements starting in autumn 2017 suggest that it is now an opportune time to reconsider the prospects for council housebuilding as a means of delivering new affordable rented homes.

In summary, the risks and opportunities are summarised in the table below.

Table two: summary of the risks and opportunities for council housebuilding

	Local	National
Risks	Prioritisation between council housebuilding, stock modernisation and repair and estate regeneration Development process issues, for example skills, land supply, site development, funding, planning, commissioning and construction costs	Four major policy issues: • lack of certainty on rent setting post-2025 • HRA headroom cap • impact of right to buy • cumulative effect of numerous welfare changes
Opportunities	Political mandate and local imperative to boost affordable housing supply	Changes of Government policy post-autumn 2017 to encourage housebuilding

	Exemplar role of council housebuilding to illustrate to other providers what can be achieved, for example development of difficult sites and high-quality homes	Discussion and debates on the future of social housing including the Social Housing Green Paper

<u>Risks</u>

There are two categories of risks – local and national. In relation to the former, they centre on prioritisation of HRA funds in a period of financial pressure for councils. In relation to the latter, the focus is on the impact of national government policies.

They have a major influence on policy making, with nearly half of councils in our online survey commenting that they are having to fundamentally review their 30-year HRA business plans every year. As one of the officers in a case study noted, this creates “the opposite of what the self-financing system was intended to achieve, which was a stable long-term environment”. The consequence of this is that council housebuilding programmes have frequently been modified in a downwards direction.

Local dimension

Prioritisation involves decisions on the use of HRA funds. The survey for this project, together with earlier studies (such as the Chartered Institute of Public Finance and Accountancy and the Chartered Institute of Housing, 2016, and the Association of Retained Council Housing, 2013), confirm that the first call on resources is maintaining and improving the existing stock. Between 50-80 per cent of councils in sample surveys in reports since 2012 identify this as the top priority. For this project, over half of respondents to the online survey had stock improvement as the first priority. The impact of the Grenfell Tower tragedy is likely to reinforce this priority, particularly for those local authorities with high rise housing (and was mentioned by some of our case study councils).

The second call is new council housebuilding followed by the third priority of estate regeneration. In reports since 2012, the former was the number one priority for 10-20 per cent of councils and the number two priority for 25-50 per cent of councils, while the latter was the number one priority for 5-10 per cent of councils and the number two priority for 15-25 per cent of councils. Nearly a fifth of councils in our online survey had council housebuilding as the first priority and one in 10 had estate regeneration as the first priority. Although the evidence is limited, it appears that estate regeneration is becoming more significant compared to new housebuilding.

These two aims are, however, linked. Each estate redevelopment scheme is unique, but it is likely to involve some demolition and rebuilding. It could also include, firstly, higher density solutions and secondly, the more effective use of vacant and under-used sites such as former garage courts. Part of the solution can be council housebuilding in conjunction with other delivery methods (for example provision by LHCs, housing associations and housebuilders) to achieve a mixed tenure estate. Although in some cases there may be a net reduction in the number of council houses, the new units will be of a higher quality and standard.

It is also important to note that the Government's policy and guidance on estate renewal includes reference to HRA borrowing as one of many funding streams. The case study of Camden and its community investment programme (CIP) illustrates these points, through in this case the pledge is for no net loss of council homes.

The development process for council housebuilding involves a number of individual challenging issues, but it is the interplay between them which makes it complex and difficult to manage. The individual factors, which are interlinked, include:

- Site identification: as the case studies show, these are often small neglected or vacant sites held in the HRA account (such as in Birmingham). Although there may be many such sites, they may have issues that affect the viability of development (for example clearance and decontamination costs, size and shape) that affects numbers and design of new units and provision of infrastructure, especially road access.
- Funding: as is pointed out in later chapters, the challenge is bringing together different funding sources with different rules in a changing policy environment that may include HRA borrowing (assuming there is headroom within the HRA borrowing cap), receipts from right-to-buy sales, Homes England grants for affordable housing provision and so on.
- Planning: obtaining planning permission may not be straightforward, especially if there are objections from adjacent residents and landowners (for example in Sutton).
- Commissioning and procuring construction: these sites may not be attractive to builders unless the local authority has taken action to clarify and resolve the issues identified above. It is also often policy to support small and medium enterprises (SMEs) for such projects (for example in Birmingham), but this will require a special commissioning process so that there are a number of previously approved companies on a procurement list.
- Large-scale regeneration: this will require careful consultation and working with existing communities. Where older residents, in particular, must be moved to facilitate rebuilding, care and time are required to achieve acceptable temporary and long-term solutions.
- Construction costs: these are rising and it may not be possible to receive satisfactory tender quotations from builders.

The online survey for this project identified land and site availability as the most common local issue, with nearly three-quarters of respondents highlighting this factor. This was followed by the lack of in-house skills (by two-thirds of respondents) and the inadequate capacity of the construction industry (by over half of respondents). Over 55 per cent identified land as the highest priority issue.

Skills and expertise are required to tackle each of these issues. These take time to build up, as councils in recent decades have not been involved directly in major developments.

National dimension

As has already been pointed out in the previous chapter, the local management of the housing rent account following the self-financing settlement has been undermined by changes in Government policies. The four core topics of **rent setting**, **the borrowing cap and headroom**, **impact of right to buy** and **welfare changes** have negatively impacted on the 30-year business plans in complex and overlapping ways. Furthermore, as one interviewee commented, "it is the uncertainty that kills you" of frequent and sudden changes in national policy.

The stability and certainty that was emphasised by the Government during the self-funding settlement debates no longer exists. An interviewee highlighted the “helter-skelter” of rent setting policy as a daunting factor for the HRA business planning process in general and especially for council housebuilding, given the long lead-in times associated with housing development process:

- before 2016, the Government allowed for social rent increases above the rate of inflation, so HRA business plans built this into their initial 30-year strategies
- from 2016 to 2020, policy changed to a reduction of one per cent each year
- in October 2017, the Government announced that it will limit social rent rises per annum at the consumer price index (CPI) plus one per cent from the end of the existing policy for five years
- there is no policy clarity post-2025 on rent levels.

There is a fuller discussion of this issue in a report by Capital Economics (2018).

The borrowing cap and headroom continues to be a frequent topic of discussion. It is part of a wider debate on HRA finance – see, for instance, Association of Retained Council Housing and the National Federation of ALMOs (2017).

There have been repeated calls for greater flexibility over the use of borrowing powers, raising aggregate and individual caps and the abolition of the borrowing cap on the basis that local authority capital borrowing is covered by council prudential borrowing requirements. The Government, however, argues that local authorities are not using their collective unused borrowing capacity. This has been contradicted by research for the Association of Retained Council Housing and the National Federation of ALMOs that shows over 80 per cent of councils are operating their HRA business plans within 20 per cent of the debt cap. This is a level at which housing associations would normally be expected by financial institutions to seek extended funding facilities. This argument resurfaced in July 2018 when the new housing minister criticised councils over unused borrowing capacity. ‘Inside Housing’ magazine subsequently published an article that robustly explained why councils do not use all of their existing borrowing ability.

National policy changes have been limited. For example, the then Government announced in 2014 a scheme to allow £300 million of extra HRA borrowing for 2015/16 and 2016/17 through a competitive bidding process. However, this was not fully taken up for a number of reasons, including lack of council expertise in development, the limited amount of money available, the impact of other policy changes (for example welfare) and especially the detailed rules governing successful bids, including the tight timetable for its use. The outcome was that only £220 million was allocated to deliver 3,000 units, compared with a target of 10,000 units.

Right to buy (RTB) continues to be a major plank of national housing policy with its continued promotion and changes in rules and regulation to encourage take-up. A report by the LGA and Savills in April 2018 provides a useful and comprehensive overview of the subject. Although right-to-buy sales significantly declined to less than 3,000 per year after the global financial crisis and a policy of reducing discounts, the Government reinvigorated the scheme at the same time as the self-funding HRA settlement took effect in 2012/13. Sales quickly rose to over 12,000 per year. However, this was not factored in to HRA business plans.

Furthermore, RTB affects business plans in other ways. Although sales provide useful capital in the form of partially usable receipts, those amounts retained for reuse have to be returned to the Treasury if not used within three years. The LGA continues to lobby the government on this issue and it is has also been covered in more detail in the earlier report by the Chartered Institute of Public Finance and Accountancy and the Chartered Institute of Housing (2016).

New policy developments are in the pipeline, including voluntary RTB for housing association tenants, with a Midlands one-year pilot starting in 2018. If and when there is a national roll-out, the Government has the powers under the Housing and Planning Act 2016 to require councils to contribute to the funding of the scheme through a levy on the expected sales of vacant high-value property. It is welcome that that Government announced a rethink of this policy in August 2018.

The National Federation of ALMOs (arms-length management organisations) annual survey for 2017 indicated that RTB (including the impact of the levy) is making it difficult for ALMOs to "reach their potential to deliver the new homes that the country needs".

In relation to welfare changes, it is the cumulative effect of a series of policies that affects the HRA. These include the 'bedroom tax', the benefits cap, direct payment of benefits to claimants, the roll-out of universal credit and the freezing of benefit rates for four years from 2016/17. A report by the National Federation of ALMOs and the Association of Retained Council Housing in July 2018, 'Carrying the debt', pointed out that the roll-out of universal credit is putting a strain on HRAs and "this will become increasingly unsustainable as more households transition to this system over the coming years". Although the Government announced in autumn 2017 that its proposals for applying local housing allowance rates to social housing would not be adopted, a repeated message from the interviews for the case studies was that councils are experiencing higher rent arrears and this is now part of the assumptions that are being used in refreshing business plans.

Overall, national policy is presenting complex challenges to the HRA system. Between 2015 and 2017 this resulted in a rethink by many councils on the possibilities and prospects for council housebuilding. All of the case studies had, to a greater or lesser extent, modified existing council housebuilding programmes. In some cases this resulted in, for instance, a shift in emphasis to local housing companies (Oxford and Sutton) and/or a fundamental review of priorities (Northumberland, along with other factors).

<u>Opportunities</u>

Nevertheless, the case study councils are now generally optimistic about the prospects for council housebuilding. There are both internal and external considerations. The former include corporate and political commitments on delivering affordable rented homes and the enthusiasm for innovation. The latter include the more favourable policy climate post-autumn 2017.

Local considerations

As many of the interviewees for the case studies highlighted, there are significant challenges for council housebuilding. However, there is a growing belief that, as one councillor stated, "it is not all doom and gloom". The major reason for this is that the provision of good-quality affordable rented housing is high up (and in some cases at the top of) the local agenda. Councils are exploring a range of mechanisms for implementing this policy – one of which is council housebuilding. Its role, in some areas, will change because of the risks. These include the lack of small infill sites. Nevertheless, it will remain part of the solution to the housing crisis.

This commitment is linked to a concern, especially among councillors, that other public and private sector providers are not meeting local requirements. This takes a number of dimensions, including, firstly, an unwillingness to develop small infill sites. One councillor pointed out that these types of sites (often referred to as windfall/opportunity sites) are an important component of land supply in the local plan. If these are not developed, the council would be failing to meet Government planning requirements.

Secondly, the type of provision by other providers leaves unfilled gaps. Examples include the lack of suitable housing for older people wishing to downsize (Birmingham and the provision of dormer bungalows) and one and two-bedroom properties (East Riding of Yorkshire). Thirdly, there is the quality dimension. Councillors commented in a number of areas that there were disappointed with the design, space standards and energy efficiency of homes built by other providers. One councillor warned against "going cheap and cheerful", saying that good design was part of a commitment to existing communities as well as the new residents. A number of local authorities (including Birmingham and Stroud) have, therefore, developed their own housing standards for new build council homes. Indeed, councillors and officers were particularly interested in this issue in the LGA and HQN workshops held on this project in March 2018.

Linked to these points is the willingness to innovate and explore new approaches. The case studies demonstrate this in relation to, for example, site identification, housing design, the adoption of lifetime homes standards and environmental sustainability. As is pointed out in later chapters, this exemplar role of council housebuilding was emphasised by interviewees for the case studies and through the online survey. This centres on council housebuilding demonstrating to other providers what is possible and what the local authorities wish to see from their partners.

National considerations

The key message is that the gradual changes in national housing policy are creating a relatively greater degree of optimism for the future of council housebuilding, though there is a consensus that these do not go far enough. These policy changes included four announcements in autumn 2017:

- additional funding of £2 billion for affordable housing, which according to the Government could result in 25,000 new homes being provided by councils and housing associations (eligibility is limited to councils in areas of high affordability pressures)
- creating a more stable business planning environment by setting annual rent policy for five years post-2020 at CPI plus one per cent
- local housing allowance rates would not be applied to social housing
- a competitive bidding round for individual councils in 2018 for £1 billion of extra borrowing headroom.

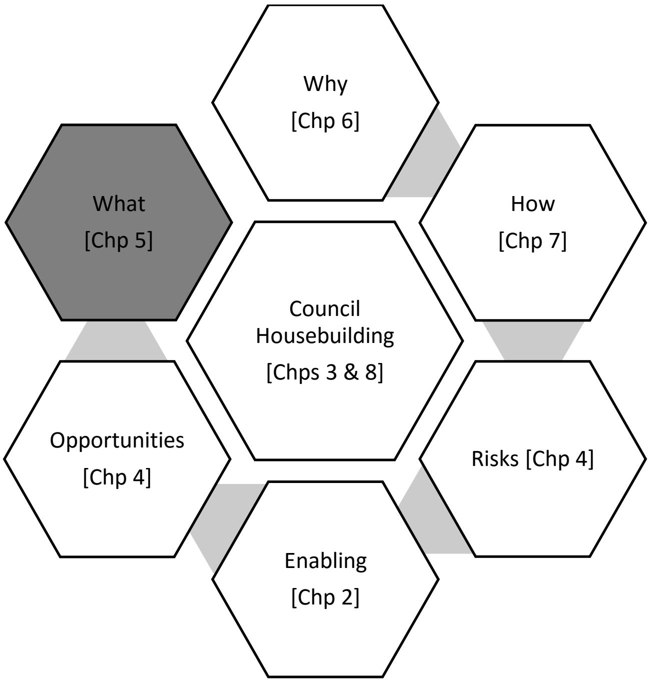
Although there were concerns over the potential details of the two development funding announcements in the light of the problems with the £300 million initiative earlier this decade, the overall view among interviewees was generally positive. This has remained the case following the publication by the Government in June 2018 of the prospectus for individual extra borrowing headroom for councils outside London. Nevertheless, there was disappointment among some councils over the eligibility criterion of areas with high affordability pressures. This ruled out many councils in the north and Midlands including one of our case studies, Stoke-on-Trent, which had been optimistic about the likelihood of a successful bid.

There are a number of ongoing inquiries on the future of social housing – each of which is considering affordable rented housebuilding. They include the Chartered Institute of Housing's 'Rethinking social housing' project, which published its final report in June 2018, and Shelter's 'Big conversation on social housing'.

Chapter five: scale, type and nature of provision

Introduction

This chapter focuses on the ‘what’ of council housebuilding – the scale, type and nature of provision.



This project reinforces findings from other studies (such as Morphet and Clifford, 2017). There are six broad conclusions based on the online survey and case studies:

- in some cases, there have been no new council homes built for more than three decades
- each local authority is unique, and that is sometimes lost in aggregate figures in terms of the combination of scale, type and nature of development
- council housebuilding provision changes over time because of internal and external factors including lessons from pilot schemes – local authorities are often on a journey and one-off surveys usually only give a static picture compared to in-depth case studies
- ‘added value’ is important (for example local jobs and training) and helps make the case for council housebuilding
- council housebuilding is one part of strategies to boost the provision of affordable rented housing (see chapter two). In some cases, sites are developed for a mix of tenures as well as different forms of social housing (local housing companies (LHCs), housing associations and so on)
- good quality provision attempts to redress the lack of investment in new homes in neighbourhoods, as well as tackling misconceptions and myths about the poor state of social housing.

The scale, type and nature of council housebuilding provision is not determined by the political control of local authorities, the status of the council or by region. This, again, illustrates the variation among councils.

<u>Scale of provision</u>

The scale of new council housebuilding through the HRA over the last seven years is running at between 1,450 and 2,200 starts per annum, according to Ministry of Housing, Communities and Local Government (MHCLG) data.

Table three: local authority housebuilding starts and completions (based on MHCLG live table 253)

Year	Starts	Completions
2010/11	1,670	1,140
2011/12	1,450	1,960
2012/13	1,610	1,360
2013/14	2,200	910
2014/15	1,890	1,360
2015/16	1,490	1,900
2016/17	1,730	1,840

These figures do not include the purchase and acquisition of existing properties. Also, as has already been pointed out, there are difficulties and inconsistencies over council housebuilding data between reports. For example, some studies on local authority direct delivery include both council housing and LHC housing. There are, in addition, more specific reports available. The annual National Federation of ALMOs survey for 2017 showed that there was a 25 per cent increase in properties built and acquired by ALMOs compared with 2016 – 1,417 (with 900 new build units) compared with 1,136. It also highlighted that in 2018, ALMOs planned to develop or acquire at least 2,750 properties over the next few years.

At an individual council level, the online survey and case studies provided information on (i) the number of properties built since the self-financing settlement, (ii) completions in 2017/18 and (iii) estimated provision over the next five years. There is considerable variation irrespective of council status and size. For example, some large unitary urban authorities have had no completions in the last five years but have a programme for the next five years, and vice versa. This also illustrates the different trajectories for each council.

Completions between 2012/13 and 2016/17

Nearly a fifth of the councils in the online survey had built over 100 units over this five-year period. Approximately 10 per cent had built between 50-99 properties and half had built less than 50 units; 20 per cent had built no council properties.

Of the case studies, Birmingham City Council has the highest level of completions – 1,500 properties over five years. It is the major provider of affordable rented housing in the city. East Riding of Yorkshire Council had completed over 700 properties as the largest developer of affordable rented housing in its area and Stroud District Council had completed over 220 units.

Completions in 2017/18

The variations are repeated for the latest financial year. Nearly one in 10 councils completed more than 100 units, with Birmingham City Council building approximately 200 properties and East Riding of Yorkshire Council completing just over 100 units. Over half of councils built no properties in 2017/18.

Estimated completions between 2018/19 and 2022/23

Both the case study councils and the online survey respondents emphasised the provisional nature of future programmes because of changing national policies. In some cases there was a degree of pessimism, but others responded positively because of, for example, the competitive bidding round in 2018 for individual increases in headroom borrowing. Some saw the early years of the rent cut as a hiatus and were resuming remodelled programmes. There was, thus, considerable variation.

Over 30 per cent of online respondents estimated that their five-year programmes from 2018/19 would exceed 100 units, with Birmingham City Council having a programme of 1,500 units. Despite the caveats over future projects, it is noteworthy that the 30 per cent figure is significantly higher than the one-fifth of respondents with a 100-plus unit programme between 2012/13 and 2016/17.

Patterns of completions – 2012/13 and 2022/23

As has already been noted, there are significant differences in the trajectory of individual council housebuilding programmes. The factors that determine the pattern of provision over the 11-year timescale include headroom borrowing capacity, site availability, skills and expertise, other forms of affordable rented provision (such as LHCs) and the uncertain external environment.

Councils can be grouped into four broad categories:

- consistent significant programme of over 25 units per year (20 per cent of respondents)
- growing programme (30 per cent of respondents)
- declining programme (20 per cent of respondents)
- limited/variable programme of less than 25 units per year (30 per cent of respondents).

<u>Development sites</u>

The main finding from the online survey is that both developments between 2012/13 and 2016/17 and proposed programmes from 2018/19 onwards focus on council-owned brownfield sites and/or infill sites (65-75 per cent of respondents). The three major drivers for this are (i) making effective use of local authority assets, (ii) fulfilling local and national planning policies on the supply of land for residential development and (iii) the unwillingness of other providers to consider such sites (especially small infill plots). A number of interviewees commented that ‘land has been a quick win’.

However, as a number of the case studies illustrate, there are now fewer infill sites for future developments. This is resulting in councils considering other possibilities over the next five years including greenfield locations, estate regeneration and purchase and acquisition:

- greenfield sites were mentioned by a fifth of councils for past programmes and two-fifths for new programmes
- estate regeneration rose from a quarter for past programmes to over half for new programmes

- purchase and acquisition increased modestly from just over 40 per cent in past programmes to over half for forthcoming programmes
- some rural case study authorities that had exhausted available council-owned land were turning the search for sites into a virtue, suggesting that land purchase could potentially enable better matching to geographical housing need.

In addition, there is increasing interest in council housebuilding as part of larger mixed tenure schemes. The number of respondents in the online survey mentioning this approach for the future doubled compared to past programmes.

Furthermore, a number of case study local authorities pointed out that the type of infill and brownfield sites is changing away from, for instance, underused and derelict garage sites to former allotments, reuse of large gardens on low density council estates and school playing fields. These, of course, present additional challenges in terms of potential public opposition.

Nature and type of provision

The online survey and especially the case studies revealed eight aspects of council housebuilding provision:

- improving the quality of design, with a number of councils setting their own housing standards including the adoption of lifetime homes standards
- investigation and use of modular construction and modern methods of construction
- growing emphasis on new provision as part of estate regeneration (for example Camden)
- sustainability, such as energy efficiency
- focus on both social rent and affordable rents, with the latter increasing in significance
- added value that helps make the case for council housebuilding programmes
- inclusion of shared ownership by some authorities, such as East Riding of Yorkshire and Stroud.

The first two of these were frequently cited as an initiative to encourage other public and private sector providers to ‘up their game’ on the quality of new housing supply. Councils are, thus, using their schemes as exemplars in housing development and construction. Stroud, for instance, has adopted its own ‘new build standard’.

Specialist provision, especially supported housing, does not feature strongly in either past or future programmes, with only 20-25 per cent of respondents to the online survey mentioning this type of scheme. Nevertheless, a number of examples of schemes targeted at older households were highlighted that address the challenges of under-occupation and the need to support downsizing through, for example, the provision of bungalow-type developments. Some authorities (including Stoke-on-Trent) were taking the opportunity to replace outdated and low-demand sheltered stock with modern housing, sometimes with care and support services for older people.

Added value and the additional benefits of council housebuilding are highlighted in both the case studies and the online survey. The most significant of these are:

- utilising under-used assets such as vacant sites (over four-fifths of survey respondents)
- contributing to wider social objectives such as training (three-fifths of respondents)
- improving collaboration with partners (approximately one-third of respondents).

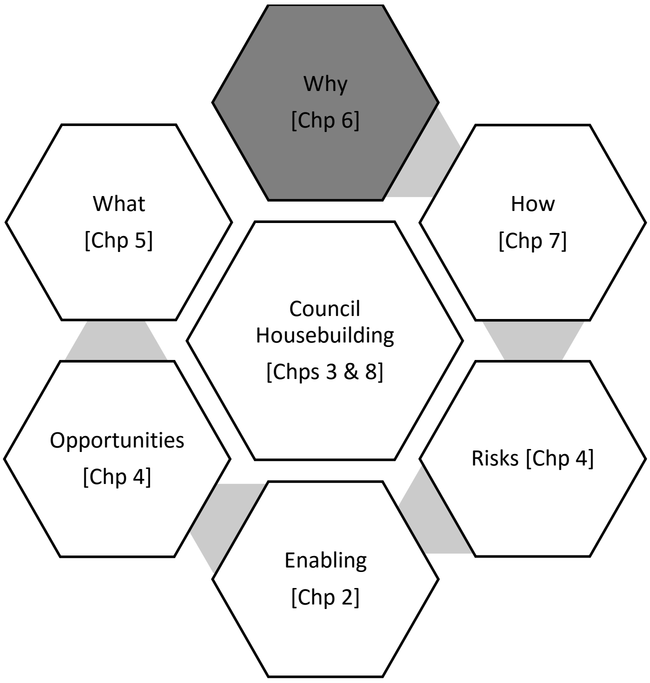
On the second of these points, some case study authorities linked their housebuilding objectives to boosting the local economy and reducing economic and geographical polarisation.

In relation to collaboration on the nature and type of provision, a large number of types of organisations were mentioned including arms-length management organisations (ALMOs), council-owned local housing companies, construction companies (small and large organisations) and housing associations. This is especially the case where there is a focus on larger mixed tenure projects that include social and affordable rent properties, shared ownership, build-to-rent and market ownership units. Community groups and parish councils play a role in helping to determine the mix of property types – size, tenure, types and so on.

Chapter six: local motivations for council housebuilding

Introduction

This chapter focuses on the local authority drivers for council housebuilding.



The positive benefits centre on the theme of boosting affordable housing supply, especially meeting housing need and filling a gap in provision. In most cases, it is not 'numbers' that are significant – instead, it is quality and type of supply. An exception is Birmingham, where the council is the largest single provider of affordable housing (between a quarter and a third of all new homes built in the city each year). It is also important to signpost that there are concerns, especially among councillors, over provision by other public and private sector developers.

The findings in this chapter draw on the policy and research review, the case studies and the online survey. There has been considerable interest since the implementation of the self-funding settlement in 2012/13 on the motivations for local authorities to restart council housebuilding. There have been a number of relevant studies, including Morphet and Clifford (2017) and the Town and Country Planning Association (2017). However, there are difficulties in bringing together these different reports with this project. This is because these other studies take a wider perspective involving additional forms of direct delivery (such as LHCs) and the strategic enabling role of local authorities.

Earlier publications (for example the Chartered Institute of Public Finance and Accountancy and the Chartered Institute of Housing, 2016) are more useful but concentrate on the initial years of self-financing. In addition, these reports frequently discuss broader issues such as rebalancing government funding in favour of bricks and mortar subsidies (also referred to as object or supply-side subsidies) at the expense of subject or personal subsidies, such as housing benefit. These types of consideration were not significant in our online survey or case studies.

Positive reasons

A significant message is the importance of 'doing' – i.e. direct delivery. This has been particularly emphasised by local authorities that have small and/or intermittent programmes such as Nuneaton and Stroud. An officer in a non-case study authority that had halted its new-build programme on reaching the debt cap feared loss of momentum, making it difficult to resume in future. Members and officers in one non-case study local authority highlighted that even though their programme was less than 50 units over a five-year period, it was vital that the council was seen to be taking action by other providers and by the community. This was summed up by a councillor as “expecting housing associations and builders to provide rented homes does not look good if we don’t take action ourselves”. This type of comment links to an underpinning moral philosophy that ‘councils should be building homes’.

The overwhelming driver for council housebuilding centres on the types of supply of new housing. There are four overlapping dimensions:

- meeting housing needs – over 90 per cent of respondents to the online survey highlighted this factor
- filling a gap in the provision of affordable housing – nearly three-quarters of respondents
- provision of new sub-market rented properties – nearly half of respondents
- specific and different types and sizes of housing – approximately half of respondents.

The case studies provide a detailed insight. They firstly highlight the importance of new affordable rented housing – factors such as social rent and affordable rent (for example East Riding of Yorkshire Council). Secondly, there is an emphasis on the type and quality of new housing. This includes (i) homes that meet the needs of older people wishing to downsize (Birmingham) and (ii) high-quality housing standards (including energy efficiency and environmental sustainability) (for example Stroud and Sutton).

Thirdly, there is the location of new housing. This encompasses infill plots on estates where there has been relatively little investment in new stock in recent decades through to small schemes in villages and towns, where there has been limited or no affordable rented property built for many years (such as North Kesteven). Fourthly, there is the quality aspect. This goes beyond the design standards for individual properties to encompass ‘planning for place’ and ‘neighbourhood sustainability’. Camden and Stoke-on-Trent are interesting examples of this focus on regeneration in contrasting housing markets.

A range of other factors have been emphasised in previous studies. These include asset management of low-demand stock, replacing properties sold under right to buy (RTB) and making use of council-owned land. Some case study councillors drew on tenants’ support for retention of council housing as a driver for building to replace lost stock. This was supported by a tenant in a case study authority who wanted “millions more” in funding for councils to build.

Although these were mentioned by most of the case study councils (especially replacement properties sold under RTB), they were not fundamental drivers for council housebuilding. Similarly, reports that have investigated the wider direct delivery and enabling functions have pointed to considerations such as tackling homelessness, supporting small and medium enterprises (SMEs) through construction contracts and providing local training and jobs. These are mentioned by councils in the case studies and in follow-up contacts with a small number of online survey respondents, but again, they are not major reasons for engaging with council housebuilding. Nevertheless, it is evident that especially for groups of councils with continuing and growing programmes, these factors are becoming more significant in making the continued case for local authority housebuilding, both internally and externally to other stakeholders.

Finally, and related to the previous point, for local authorities that had initiated council housebuilding programmes prior to the 2012/13 self-financing settlement, one of the drivers was the 'tried and tested' nature of the approach (such as Birmingham and East Riding). Pilot schemes at the end of the last decade and beginning of the current decade had provided a base for moving forward to larger and more complex projects, utilising the growing in-house skills and expertise.

Concerns about other providers

Both this and previous studies have pointed to concerns by local authorities, especially councillors, on provision by housing associations and private sector housebuilders. There are many elements and cumulatively they have created frustration that has propelled direct provision (council housebuilding and LHCs) up the policy agenda. They include:
- slow build-out rates by larger housebuilders that, in particular, detrimentally affects affordable housing provision through planning agreements
- conflicting and different definitions of 'affordable housing', with concerns over the emphasis on low-cost home ownership and future worries over new initiatives such as starter homes and affordable rent-to-buy
- apprehension over the increasing emphasis by housing associations on market rent and market sale, which is seen as being at the expense of affordable rent
- unwillingness to consider small difficult-to-develop sites such as infill sites on social housing estates
- reluctance to consider the provision of affordable rented homes in specific locations such as villages
- type of provision (such as size of houses) that leads to an unbalanced mix of properties
- perceived low quality (for example space standards)
- lack of focus on the needs of vulnerable households through, for example, not adopting lifetime home standards for new homes
- low environmental standards (for example energy efficiency to address fuel poverty issues).

Although housebuilders and housing associations challenge these assertions, they nevertheless have contributed to a groundswell of opinion that councils 'would do it better'. Furthermore, it is argued that council housebuilding can act an exemplar to other providers in terms of the type, quality and location of provision. Nevertheless, it needs to be highlighted that there is no robust research to back up this view, though there are anecdotal stories that it has encouraged changes in approach by other providers.

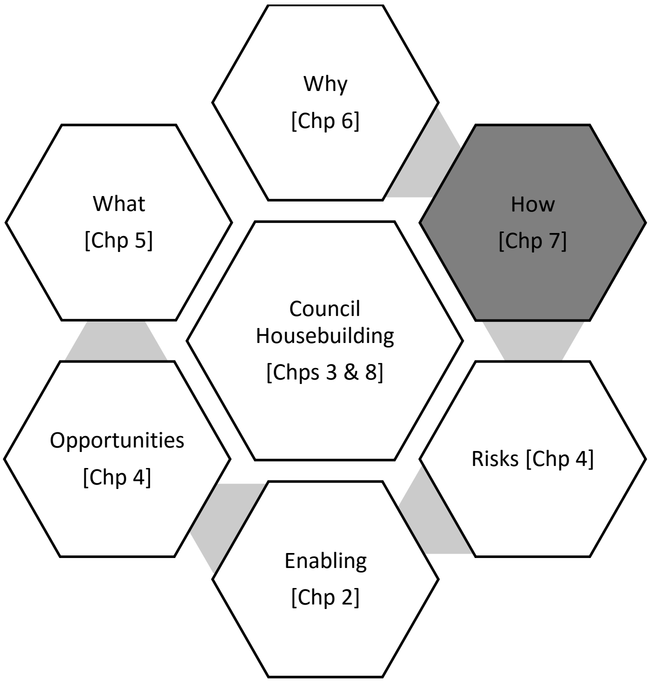
Overview of motivations

Although boosting housing supply, especially affordable rented provision, is the most important reason for council housebuilding, it is the cumulative impact of and interplay between a wide range of factors that creates the conditions to take forward the concept of council housebuilding. The balance between all of these factors is different for each local authority. Furthermore, it is also evident that reasons and motivations change over time in response to local issues and the external environment.

Chapter seven: council housebuilding process

Introduction

The ‘how’ of council housebuilding has three dimensions – resources, policy making and the development process. ‘Resources’ involves bringing together powers, leadership, land and property, funding and skills. ‘Policy making’ centres on HRA business planning and financial modelling. The ‘development process’ focuses on the delivery pipeline, from site identification through to the planning system and construction. Understanding the complexity of each of these elements and sub-elements is vital.



The findings for this chapter draw principally on the case studies. There are few, if any, previous detailed studies on this aspect of council housebuilding. There are a limited number of reports that provide basic information, for example from the Association of Retained Council Housing (2013), but these are not up-to-date. The funding aspect of resources (especially HRA finances) has, however, been covered in previous work and this is referred to below.

Resources

As has already been pointed out, there are five resource issues. It is the bringing together of each of these that is critical in taking forward council housebuilding.

Powers

There are a complex range of powers that affect the council housebuilding process and also provide the context in terms of the self-financing regime. They include:

- Localism Act 2011 (Part 7) which abolished the previous HRA subsidy system and replaced it with the self-funding scheme
- Housing Act 1985 (Section 9) which sets the basis for local authorities to provide housing
- Local Government and Housing Act 1989 (as amended), together with the regulatory framework for social housing on the use of the HRA

- Housing and Regeneration Act 2008 (for instance, sections 68-71) provides clarity by setting out statutory definitions of social/affordable housing, together with the updated National Planning Policy Framework (NPPF) in 2018 that includes social rented housing within the definition of affordable housing
- Town and Country Planning Act 1992, especially the associated regulations, which cover local authorities granting themselves planning permission for their own developments (for example the use of unilateral undertakings rather than planning agreements)
- planning agreements/Section 106 agreements of the Town and Country Planning Act 1990 (as amended), which can be used to acquire stock or receive payments known as 'commuted sums' that can help fund council housebuilding (the Government issued a consultation paper in March 2018 that will have implications for future agreements)
- European Union Directive 2014/24/EU, 2014, on public procurement, which is important if the commissioning and procurement stage in the development pipeline focuses on training, local jobs and the local supply chain.

It is, therefore, essential that councils seek legal advice to fully understand the complex requirements.

Leadership

A frequently repeated message from the case studies is the significance of local leadership. It links with the enabling role of councils that has been covered in chapter two. It involves councillors and senior officers confirming the importance of council housebuilding, both internally and to external stakeholders. In the case of Stroud, the local MP played a prominent role by raising the issue of the lack of HRA headroom borrowing to ministers and successfully holding an adjournment debate in the House of Commons in December 2017.

There are six interlinked leadership elements to achieve successful council housebuilding outcomes. They include:

- ensuring that the provision of affordable rented housing through, for instance, council housebuilding is at the top of or high up the local agenda (for example Nuneaton)
- making the case for and promoting the added value of council housebuilding:
    - local jobs and training, for example the 'Building Birmingham' Scholarship' programme
    - positive impact on the local economy in terms of, firstly, the multiplier effect of investment and secondly, supporting SMEs (Stoke-on-Trent)
    - council housebuilding as part of infrastructure provision to boost the economy (Oxford)
    - contributing to better health and wellbeing outcomes, especially if new homes meet the needs of, for instance, older people wishing to downsize (Birmingham)
- supporting high design and quality standards that could act as an exemplar for other providers (Stroud)
- guaranteeing that there is a strong corporate approach on council housebuilding by, for example, bringing together housing, planning and regeneration activities (for example Camden's community investment programme (CIP))
- highlighting to external stakeholders the role of council housebuilding
- developing joint working and partnerships with organisations such as housing associations (which may be able to provide skills and expertise).

The external face is particularly important. Firstly, it helps to show that councils are committed to taking direct action on the crisis of affordable rented housing. Secondly, it highlights to the local community that councils are investing resources in neighbourhoods that may not have seen any new housebuilding for a number of decades. Thirdly, by promoting council housebuilding as one element of affordable rented housing provision, it can overcome possible concerns of other providers, such as housing associations, which may initially see it as a threat to their programmes.

Land and property

Previous chapters have covered some of the issues on land for council housebuilding. Overall, there has been a reliance on small infill sites such as vacant and/or underused garage plots held through the HRA that are not attractive to other providers (such as in Nuneaton). Use has also been made of sites within low-density council estates, land within estate regeneration projects and larger brownfield sites (such as in Birmingham). These are either held within the HRA account or the council's general account. Large greenfield sites have, so far, rarely been used.

Acquisition and purchase forms an element of many programmes (for example East Riding of Yorkshire Council and Sutton). The motivations are enormously varied, ranging from proactive approaches aimed at obtaining specific types of properties to meet unmet local needs (such as temporary accommodation for homeless families by Sutton) through to pragmatic and incidental acquisitions as part of other programmes (transport schemes, for example). An added incentive is that it is quicker than relying on the development of new units, but a number of interviewees commented that remedial work was often required to bring them up to an appropriate standard. One specific aspect of purchase and acquisition is stock bought from developers as part of planning agreements.

Future prospects in relation to land availability are challenging. In the online survey, it was highlighted that this was the most significant operational barrier to future council housebuilding, with over 55 per cent of respondents regarding it as the number one priority. The case studies reiterate this point and emphasise that a number of actions are required, including:

- corporate review of land and property assets to identify potential sites
- proactive approach to managing these assets that might include (i) the sale of some HRA land to generate funds to reinvest in council housebuilding and (ii) the transfer of sites to the HRA account
- consideration of new types of sites such as under-used allotments, clearance and redevelopment of council-owned premises such as former community centres and libraries, school playing fields and the large rear gardens on low-density council estates
- purchasing land on the open market (which necessitates a further set of new skills covering site finding and acquisition, including negotiations with landowners and their agents).

In the long term, in city regions with combined authorities, it was suggested that mayoral land commissions, which have an overview of all public land, could take a proactive approach to identify sites that could be used in part for new council housebuilding.

Funding

The consistent message emerging from a number of studies is that funding is complex and uncertain, with many different sources each having different rules and regulations. Understanding and utilising them is fundamental to developing and implementing a programme of council housebuilding. It is also vital to appreciate that agility and the ability to respond quickly is needed in reacting to initiatives such as the Government's competitive bidding round for local authorities in 2018 on raising individual headroom borrowing caps.

The four major funding sources underlined in the online survey and which correspond with other studies are:

- borrowing within the headroom debt cap – used by 70 per cent of respondents
- right-to-buy (RTB) receipts – used by well-over four-fifths of respondents
- other capital receipts such as sale of land – used by approximately one third of respondents
- Homes England (formerly the Homes and Communities Agency) grants – used by 60 per cent of respondents.

Each of these has their own 'rules'. For example, only 30 per cent of RTB receipts can be used and they must be utilised within three years or returned to the Treasury. In the case of Homes England, there are a number of specific and general programmes, such as estate regeneration. There are also regulations affecting joint use. For instance, RTB receipts can't normally be used in conjunction with Homes England grants.

In addition, there are a number of other funding sources that can be used and/or are emerging, including:

- commuted sums through planning agreements (where the affordable housing contribution is provided as a cash payment that can be used on another site)
- new homes bonus
- lottery funding, which has been used to support ancillary community projects in neighbourhoods with council housebuilding programmes
- government programmes such as local growth funding through local enterprise partnerships (LEPs), which is being used to tackle infrastructure and other development constraints on housing sites (for example Sutton) and the community housing fund (Northumberland)
- growth deals and delivery plans that include grant funding for affordable housing (Oxford).

Again, there are many challenges in utilising these sources that make their use difficult. Firstly, there are often many other calls on these resources. Secondly, they may involve competitive bidding with no guarantee of success. Thirdly, they can form part of much bigger strategic funding programmes which at the outset lack clarity over the scale and nature of funding for council housebuilding, and they may eventually take the form of a specific funding stream managed by Homes England. An emerging example of this is the growth deal for Oxfordshire (see the Oxford case study in the next chapter).

The uncertainty and complexity of funding is illustrated by the competitive bidding round for individual increased headroom borrowing capacity announced in principle in autumn 2017:

- detailed guidance on the three-year programme beginning in 2019/20 was published by the Ministry of Housing, Communities and Local Government (MHCLG) for councils outside London in June 2018, with a deadline of early September for bids

- only local authorities in high-affordability pressure areas (defined as where the difference between social rents and private rents is more than £50 per week) have been eligible to bid
- additional borrowing capacity can be combined with grant funding from the shared ownership and affordable homes programme 2016-2021 or retained capital receipts from the sale of council homes under RTB.

In London, the situation is different as the elected Mayor issued a funding prospectus in May 2018 for 'building council homes for Londoners'. This drew on the devolved funding arrangements over the use of the Government's additional £2 billion for affordable housing in England announced in October 2017. An addendum to the prospectus was subsequently published in July 2018 to include the individual increased headroom borrowing capacity.

The initial reaction of councils outside London (including some of our case studies) was determined by the eligibility to bid criterion. Eligible councils generally welcomed the bidding round but expressed concern over the tight timetable for bidding, as well as noting that the size of the programme was limited. The LGA, in a response to the MHCLG borrowing programme prospectus, summed up the situation as a "positive step in the right direction – but the Government now needs to accept calls to scrap the cap on council borrowing across the country".

Skills

The previous paragraphs have shown that there are a wide range of skills required to deliver a council housebuilding programme. They include leadership, expertise in site identification, an understanding of the complexities of funding streams and an appreciation of the powers and regulations affecting different elements of the programme. In addition, as the next two sub-sections indicate, there are project management skills required as well as the need to access specific expertise in business strategy, town planning and financial modelling.

As a number of interviewees for the case studies pointed out, councils traditionally had these skills when there were large development programmes up to the early 1980s. The issue now is on effective methods for filling these gaps. In part, this can be achieved by ensuring commitment to training programmes (such as the 'Building Birmingham Scholarships'). It also requires unlocking existing skills within other departments, such as finance and planning.

Other ways of addressing skills shortages include:
- in-housing training and apprenticeship schemes
- use of external consultants
- sharing staff between councils
- working with housing associations, which may be able to provide some of the necessary expertise because of their development programmes.

Policy making

Councils are required to prepare a 30-year business plan for the HRA. This provides the basis for setting priorities on the use of the HRA, for example stock modernisation, council housebuilding, estate regeneration and so on. It also links with council-wide medium-term financial strategies. It is normally supported by more detailed five-year plans for the HRA and corporate annual capital programmes, as well as being co-ordinated with council-wide asset management strategies. The policies and priorities are also usually cross-referenced to local housing strategies and housing policies on affordable housing provision in local plans.

<u>Diagram two: policy making framework</u>

Policy making		
Policy context, for example: - corporate/community plan - local housing strategy - local plan - economic development	**Council housing, for example:** - HRA 30-year business plan - HRA five-year plan - HRA annual updates	**Council resource plans, for example**: - corporate capital programmes - corporate revenue programmes - asset management strategies

The major challenge for local authorities is that the intended stable framework for business planning as part of the self-financing settlement has been thrown off course because of changes in Government policies such as rent setting, promotion of right to buy and welfare changes. This has made business planning more challenging because underpinning assumptions frequently have had to be altered.

The online survey results, therefore, contrast with the findings reported in the study by the Association of Retained Council Housing (2013). The latter noted that councils were in a learning period on business planning but were generally in the position of having a clear framework on integrating HRA strategies with corporate policy making and governance. There was a generally held view that the HRA business plans would only require minor modifications each year because the assumptions on key variables, such as rent levels through to inflation, would not significantly change.

This contrasts with the present position, with over half of respondents pointing out that they will be reviewing and rewriting their HRA business plans in 2018. Of these, over 50 per cent had previously revised their strategies as recently as 2017. A small minority, however, were taking the view that they would postpone a review until, for example, “we have certainties over Government policy on high-value assets and the levy” associated with voluntary right to buy. Since then, Government has confirmed that the forced sale of high-value assets will not be implemented.

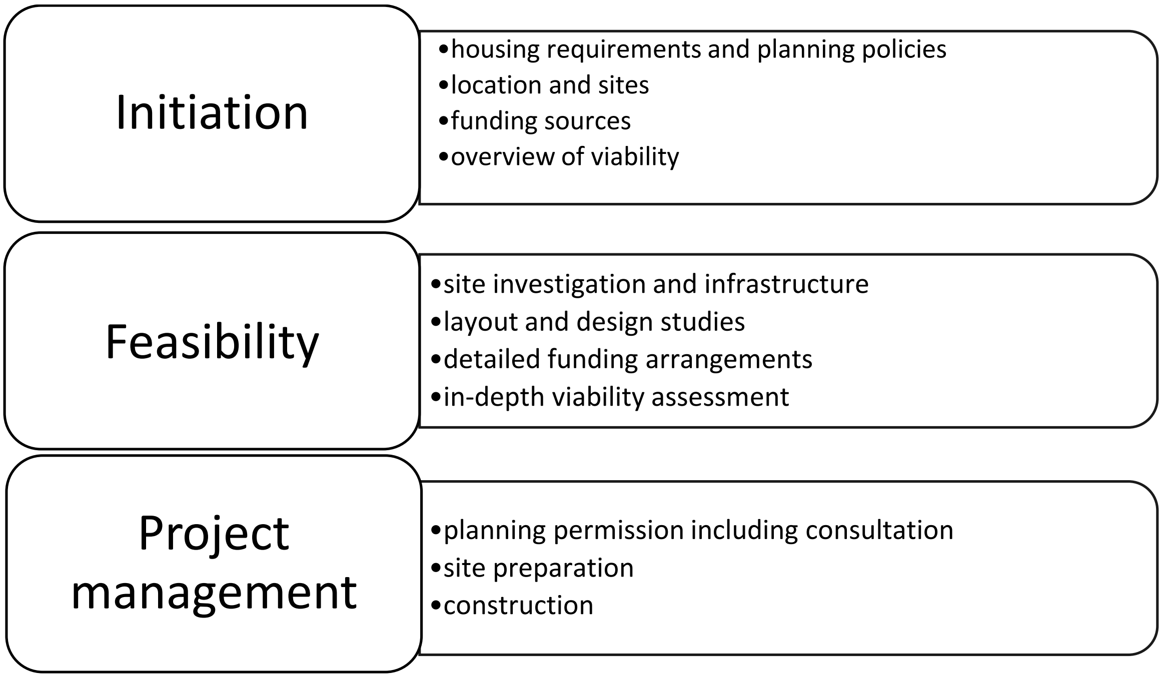
An element of HRA policy making is financial modelling. As both the Chartered Institute of Public Finance and Accountancy and Chartered Institute of Housing (2016) and the

Association of Retained Council Housing (2013) point out, this is important for deciding on HRA investment priorities. It normally involves, firstly, a basic model using government-based assumptions on inflation, rents and so on. Secondly, a sensitivity analysis is undertaken to identify key variables and assumptions. Thirdly, the model is then reworked on the basis of changing these key assumptions to help explore the financial options and trajectories.

<u>Development process</u>

The development process (or development pipeline) is a vital part of council housebuilding. As with the real estate development process as a whole, there are a series of sequential steps and stages. These can be conceptualised as comprising four broad overlapping phases – initiation, feasibility, project management and lettings. The first three of these are especially relevant for this project.

Diagram three: development process



In reality, the development process for a single scheme for council housebuilding is more complex:

- financial viability is constantly monitored and amended as information changes and becomes more detailed (such as site conditions)
- elements are interrelated – for example, a change in funding affects viability, leading to modifications to design and layout
- delays, postponements and even abandonment of a project can happen because of, for instance, changes in national policy or funding.

Five further interrelated points are significant. Firstly, the case studies demonstrate that there may be a number of individual projects in the development pipeline at any one point in time (such as in Birmingham). Each will be at a different stage. This has advantages and disadvantages. The advantages include the ability to switch resources between projects if one scheme becomes stalled. The disadvantages centre on the need to be able to manage a number of projects at the same time.

Secondly, and of increasing significance, there is the complexity of developing larger sites where council housebuilding is, for instance, one element of a bigger regeneration scheme (such as Camden's CIP). It could involve a multiplicity of providers such as housing associations and private sector housebuilders, and an extensive consultation process. Inevitably, the development process for these strategic sites will be much longer and more complex.

Thirdly, planning is a vital consideration throughout the development process:

- at the initiation stage, matching sites with identified housing requirements is a significant part of the planning process
- planning requirements on design and layout are important at the feasibility stage
- obtaining planning permission (including unilateral undertakings) may not be straightforward, especially if there are objections from adjacent landowners and residents
- throughout the development process, community involvement is vital in gaining support for a scheme – including residents' and tenants' associations and , in rural areas, parish councils.

Fourthly, the timetable can be lengthy for the development of even a small site. With a favourable planning policy and community support, the three stages prior to letting new homes may still take 12-18 months. Some of the case study authorities highlighted that large mixed tenure brownfield sites with a capacity in excess of 100 units could take over five years from initiation to lettings.

Lastly, viability assessment is an ongoing exercise throughout the development process. Key points include:

- moving from broad overall assessments at the initiation stage to highly detailed studies at the feasibility stage
- regularly reviewing and updating viability as more information becomes available, such as site conditions and infrastructure requirements
- being prepared to respond to changes in the external policy environment on, for example, national planning policies and funding.

In relation to the last point, it is important to appreciate that these changes may be positive as well as negative. A number of our case study councils indicated that the MHCLG prospectus on the additional HRA borrowing programme opened up possibilities of developing sites that had stalled at the start of the feasibility stage.

In broad terms, viability is a relatively straightforward concept. As one of our case study councils pointed out: "A positive or negative viability assessment of a single scheme is determined by the rental income generated over a pay-back period compared with development costs (including offsets such as grants), on-costs, ongoing maintenance and management costs and any loan repayments." However, each of these elements is complex, as illustrated in the table below.

Table four: viability assessment elements

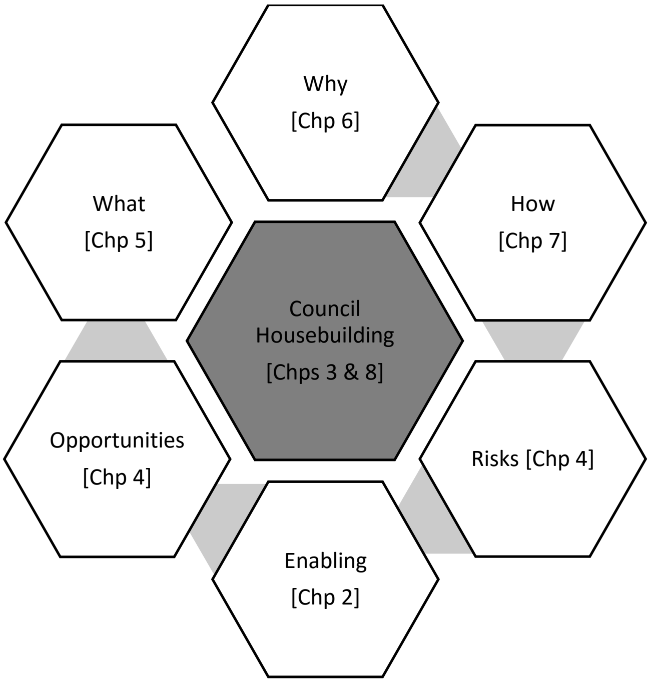
Element	Commentary
Rental income	The amount of income from rents over the pay-back period (i.e. rental stream). It is an estimated figure based on judgements on likely rent increases/decreases.
Pay-back period	This is the length of time considered reasonable to repay the investment made. It relates to the life of the asset. Some of the case studies use 50 years.
Development costs	These primarily include (i) construction, (ii) acquisition of land and property (if required) and (iii) contingency sum to cover unknown costs. Notional land costs are not normally included where sites are owned by councils. Development costs may be offset by grants and other funding sources such as commuted sums from planning agreements.
On-costs	This covers costs such as design fees and the use of consultants. In some cases this is included within development costs. The Royal Institution of Chartered Surveyors (RICS) has highlighted that there is a lack of clarity and consistency in its use.
Maintenance and management	Estimated day-to-day repairs and maintenance costs together with management costs.
Loans	Loan repayments such as HRA borrowing

It is important to appreciate that viability assessments must be understood in the context of the wider HRA business plan priorities and the HRA borrowing cap.

Chapter eight: case studies

Introduction

The aim of this chapter is to show, through case studies, the way in which a diverse range of local authorities are making use of council housebuilding opportunities in a difficult and challenging environment.



There is no single best approach, as councils must address their own specific local issues. Thus, an overriding feature is that council housebuilding demonstrates, as one interviewee for the case studies commented, “localism in action” and “a commitment to action and doing”.

Nevertheless, there are six specific common interrelated themes:

- co-ordinating council housebuilding policies with the broader strategic framework of, for example, housing strategies, local plans (including neighbourhood planning), regeneration policies, asset management strategies and corporate financial planning (this relates to the role of local authorities as enablers – see chapter two)
- integrating council housebuilding with other delivery approaches such as local housing companies, especially on larger sites (see chapter three)
- making the case for council housebuilding through its added value, for example providing local jobs and training, helping the local supply chain in the construction sector such as

SMEs, and delivering homes that meet the unmet needs of, for instance, older people (see chapter six)
- bringing together the wide range of funding streams – each with its own set of rules and regulations (see chapter seven)
- adopting an exemplar role in relation to types of development sites and build quality (see chapter six)
- taking a positive proactive stance even in difficult circumstances – for instance, in cases where the borrowing headroom has been reached (see chapter four).

In addition, there are three emerging themes that are likely to grow in significance over the next few years:
- greater community involvement through estate regeneration and with potential links to neighbourhood planning
- collaboration between councils and with housing associations and developers to address concerns over (i) competition for land and resources and (ii) skills deficits
- city region and sub-regional council housebuilding programmes through local growth deals and devolution to combined authorities with elected mayors.

Overview of the case studies

The 10 case studies in this chapter were selected on the basis of three considerations. Firstly, there should be an element of innovation. Secondly, they should be drawn from a wide range of types of authorities and regions as possible. Thirdly, and pragmatically, they should be willing to participate.. The table below provides basic information on the 10 local authorities.

Table five: case study local authorities

Local authority	Region/area	Type	Political leadership (March 2018)
Birmingham	West Midlands	Core city unitary	Labour
Camden	Inner London	London borough	Labour
East Riding	Yorkshire & Humberside	Rural unitary	Conservative
North Kesteven	East Midlands	Rural district	Conservative
Northumberland	North East	Rural unitary	No overall control
Nuneaton	West Midlands	Urban district	Labour
Oxford	South East	Urban district	Labour
Stoke	West Midlands	Urban unitary	No overall control
Stroud	South West	Rural district	No overall control
Sutton	Outer London	London borough	Liberal Democrat

In addition to these specific case studies, our research identified other examples of interesting initiatives including:
- Babergh and Mid Suffolk district councils: these two adjacent councils have a single integrated staffing structure and have developed 65 homes through the HRA over the last three years. In the case of Babergh, these are the first new council properties for nearly 30 years.
- Cambridge City Council: over 200 council homes have been developed between 2010 and 2017. The council intends to use affordable housing funding through the devolution

deal for the Cambridgeshire and Peterborough Combined Authority to continue this programme.
- Cheltenham Borough Council: through its ALMO, Cheltenham Borough Homes, there has been added value created by its development and modernisation programme that incorporates an employment initiatives service to address worklessness.
- Harrogate Borough Council: there is a long-standing commitment to develop homes through the HRA and the council has built up in-house capacity, including a design team and a viability assessment unit.
- Hartlepool Borough Council: has re-opened its HRA to help develop new affordable homes in the area.
- Winchester Borough Council: has built 100 council properties since 2012 and held discussions with the Government in 2017 over additional funding to develop a programme of 100 new units per year.
- York City Council: has developed nearly 80 council houses since 2015 and has been negotiating with Homes England over the setting up of a housebuilding fund for 2018/19 to 2023/24.

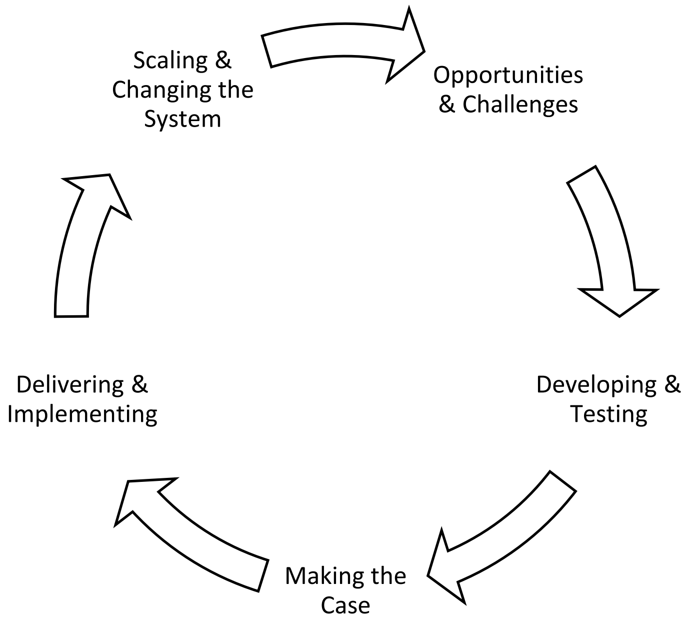
These case studies and examples are illustrative of the innovative nature of council housebuilding. They therefore add significantly to previous research by other organisations that have included examples of council activity, such as the regular reports by the Association of Public Service Excellence (APSE) and the Town and Country Planning Association (TCPA) on affordable housing (see the appendix for further details).

Innovation

One of the principal reasons for the selection of case studies was to highlight interesting and innovative aspects of council housebuilding. Although there have been few, if any, recent studies on innovation in housing, there has been considerable engagement with the idea in public services – for example Mulgan (2014).

There are many definitions of innovation. An interviewee in one of the case studies commented that “building any council houses in the current climate is innovative”. However, a more formal definition is “creating, developing and implementing practical ideas that achieve a public benefit” (Mulgan, 2014, p5). The key features are that the ideas (i) are new rather than incremental improvements, (ii) have been implemented and (iii) are judged to be useful. Linked to this definition is the concept of an innovation cycle. The basic principles are illustrated in the diagram below.

Diagram two: innovation cycle



The reality is more complex – for example:

- projects may be abandoned at a specific stage in the cycle
- external factors may positively or negatively affect each of the stages (for example changes in Government policies have resulted in the scaling-down of initiatives, as in North Kesteven)
- ideas may require modification if they, for instance, are proving difficult to implement (such as the transfer of council housebuilding schemes to LHCs – Oxford).

The table below illustrates the stages in the cycle from the case studies.

Table six: innovation examples

Innovation cycle stage	*Topic*	*Examples*		
Opportunities and challenges	*Meeting local needs*	Ageing opulation and downsizing – Birmingham	Regeneration of estates through the Community Investment Programme (CIP) – Camden	Place-shaping in regeneration areas – Stoke-on-Trent
Developing and testing	*Piloting*	Nuneaton (2014 – 2016) – 47 properties on three sites	East Riding (2008-2010) – 338 units	North Kesteven (2010-2015) – 134 units on 26 sites
Making the case	*Added value – training*	Training – 'Building Birmingham Scholarship'	CIP apprenticeship and work experience programme – Camden	Training and apprenticeship programme – Northumberland
Delivering and implementing	*Funding*	Cross-subsidy from market sales – Birmingham	Commuted sums from planning agreements – East Riding	local growth fund – Sutton

Scaling and changing the system	*Exemplar role – Quality and type of housing*	Stroud new build standard	Sutton design standard	North Kesteven 'Fabric first plus' standard

Case studies

Birmingham

Summary

Birmingham City Council is the single largest developer of new homes in the city, accounting for nearly a third of all new development. Between 2009 and 2017 it built 2,654 homes through the Birmingham Municipal Housing Trust (BMHT) – 1,548 for rent and 1,106 for sale (normally in mixed tenure developments). In July 2018, BMHT built its 3,000th new home, including over 1,700 for rent. It aims to build approximately 1,200 council homes between 2018 and 2021 using nearly £140 million from its HRA. If the borrowing cap was lifted, the council could build a further 18,000 homes by 2031.

Context

Following a period of economic and social problems as well as population decline between the late 1960s and the 1990s, Birmingham has an increasingly buoyant economy. The population grew by 10 per cent in the first decade of this century and it is estimated that it will grow by 200,000 people (90,000 households) between 2011 and 2031. However, overall new housebuilding fell from 4,000 in 2005/06 to 1,500 in 2011/12. There is, therefore, a shortage of new homes, especially affordable housing, with over 25,000 households on the local housing register. In addition there is a legacy of uncompleted regeneration programmes with undeveloped cleared sites, especially in older inner city neighbourhoods.

Council housebuilding

Birmingham City Council established the BMHT in 2009. Its purpose is to bring forward and help develop local authority-owned sites for council homes (and market sale – see below). The sites range from being relatively small (such as former garage courts) up to around 300 homes in neighbourhoods that require regeneration. The smaller infill sites are unattractive to larger housebuilders – hence there would be little benefit in the local authority attempting to sell these sites. The initial programme in 2009 was small-scale (129 properties) so as to test the approach and build up the necessary in-house expertise and skills.

In 2016/17, there were 872 council housebuilding starts (and an equal number of market sale starts). The new financial freedoms and flexibilities under self-financing provided a major stimulus to the programme.

The council housebuilding properties are a mix of social rent (average rent in 2018/19 of £100 per week) and affordable rent (social rent + £3 per week, around 70 per cent of market rent).

Funding

Construction costs depend upon the type and size of home being built and range from around £85,000 per unit for a flat to around £185,000 for a four or five bedroom house. Each scheme is appraised financially and submitted as a full business case to the cabinet of the council. Notional land costs are excluded. Funding comes from a complex overlapping number of sources, including:

- HRA borrowing subject to headroom limits
- other existing HRA resources such as receipts from land sales
- right-to-buy receipts (but these cannot be used with HCA grant)
- Homes England (formerly HCA) grant of £25,000 per unit but this is decreasing (see below)
- recycled surpluses from market sales, with cross-subsidy of approximately £20,000 per unit sold – by the end of March 2018, £20 million had been generated through house sales surpluses
- Section 106 funding.

No new homes bonus money is used.

Additional motivations

Although the primary focus is the delivery of affordable/social housing, there are a number of additional objectives, including:

- Design quality: there was a strongly held belief in the local authority that much of the new housing in the 2000s was inappropriate – small, expensive to maintain/run and of poor design quality. BMHT is seen as a design exemplar, both locally and nationally.
- Regeneration of obsolete housing areas: developing new housing creates pride in the locality as well as reducing problems such as vacant and derelict sites and fly tipping. This links with the council's commitment to work with and within neighbourhoods and communities to tackle such issues.
- Meeting the needs of an ageing population by developing two-bedroom dormer bungalows for social renting – this addresses two interrelated issues: (i) the lack of appropriately designed housing that older people will accept and (ii) the ability to incentivise downsizing by older tenants under-occupying family homes. The first pilot project of 25 properties undertaken in 2013/14 released a number of family homes.
- Job and training opportunities for local residents: through the development and construction process, with over 300 training and apprenticeship placements by 2016. The training programme, the 'Building Birmingham Scholarship', was launched in 2013 and involves the council working with all of its construction partners. Over 70 young people are now supported into higher education via this initiative, with many of the students now employed within the council's workforce.
- Boosting the local economy: by creating investment worth over £2.12 billion in six years.
- Supporting SMEs: the council has set up a specific procurement route for delivering 15 or less homes with seven SME housebuilders.

Challenges

The major challenge is the financial viability of schemes. Key factors include:

- reduced Homes England grant rates
- increasing construction costs
- Government rent cuts which amount to a loss of £42 million from the HRA

- uncertainty and hence greater financial risk caused by Government proposals such as housing association voluntary right to buy.

Cross-subsidy (especially through mixed tenure schemes), which has always been an integral part of the programme, has therefore become even more essential. However, the local authority is faced with a challenge in some neighbourhoods where market sale is not attractive, thus making rental schemes unviable. This then requires the parcelling up of groups of sites for cross-subsidy to work effectively.

Additional benefits and opportunities

The success of the programme has generated a range of interrelated opportunities, such as:
- in-house expertise – for example urban designers, landscape architects, housing development skills (such as financial viability) and project managers. This is now being used elsewhere in the local authority
- mentoring and supporting other councils, leading to lesson learning for Birmingham City Council
- enhanced reputation/image of the city council in difficult times, especially the brand reputation of BMHT, because of high levels of tenant satisfaction (95 per cent-plus satisfaction ratings in annual surveys).

Development process

The council facilitates the development of social rent and market sale properties by the private sector by incentivising developers through redistributing risk. From a planning perspective, the council obtains planning permission and deals with statutory undertakers. The council designs the new homes (including those for market sale) on the basis of its ‘residential design guidelines’. The contract with a developer is for both social rent and market sale properties and payment is through a deferred land receipt and profit sharing, in other words ‘build now, pay later’.

Camden

Summary

In 2011, Camden Council developed its community investment programme (CIP) to support the delivery of funds to improve existing housing stock, invest in schools and community centres and build new housing (both new council housing and housing for sale). Camden has a large retained housing stock of 33,000 homes of which about 22,500 are tenanted (the rest being leaseholder).

The CIP is a 15-year plan to deliver 3,050 new homes, at least 1,400 of which will be social rent and Camden living rent homes. The council stresses that residents are at the heart of the CIP – ensuring that the homes they live in are safe, warm and genuinely affordable. More than 700 new homes have already been delivered. The CIP is delivered directly by the council: this allows it to work with residents from the start to the end of a scheme – it establishes a relationship early on that helps the council to understand resident priorities for their communities.

Camden uses HRA borrowing to fund new homes, with receipts from homes for sale used to repay the borrowing. The council has a robust model but is exposed to market risk where construction costs rise and/or sales values decrease. Camden is in discussions with the Government around increased funding flexibilities and increased support for the programme to increase speed and volume of completion of new homes.

Context

The council, as part of the CIP, has directly delivered a range of schemes and to date has approved schemes representing over £1 billion of investment. The CIP programme seeks to provide the community infrastructure needed to address inequality in the borough – this includes:

- new council homes – over 267 homes for social rent already built
- homes for sale – 356 homes for sale built to date, marketing them locally first
- Camden living rent homes – intermediate homes for rent for key workers and people on middle incomes. The council has let 65 homes to Camden living rent tenants, the majority of whom earn between £30,000 and £40,000 per year and 60 per cent of whom work in public sector roles
- improved educational environments for over 17,000 children and young people in the borough.

More widely, the council has set strategic objectives to create the conditions for growth, to secure safe, socially mixed and balanced areas (avoiding income polarisation) and to meet the housing needs of current and future residents. It sees its current approach as potentially economically game-changing.

Community engagement

Camden takes pride in its approach to community engagement and co-production in estate-led regeneration. It pledges that residents have a say in every aspect of local regeneration schemes, everything from selecting architects and new community facilities to designing kitchens and bathrooms. As part of a renewed pledge, the council plans to reiterate that it always makes sure it has the support of the majority of residents before a scheme proceeds.

A number of commitments to residents from the outset of CIP have remained the guiding principles for schemes and form the basis of the 'offer' to tenants and leaseholders. Some of the key elements of the CIP pledges are:

- There will be no net loss of council homes in Camden – more council homes will be built under the CIP as well as new social rent and Camden living rent homes for key workers and those on low incomes.
- Creation of mixed developments of social housing, Camden living rent and private homes because the council wants to maintain Camden's unique social mix and ensure the borough remains a place for everyone.
- Camden tenants will not be moved out of the borough during regeneration and will be given priority on new council flats built.
- Leaseholders will be compensated for loss of their property at market value plus 10 per cent. If resident leaseholders wish to buy into the new scheme, where the new property is more expensive than the sale price of their existing home, they can access a shared equity scheme where the council will not charge rent on the uplift.

The council believes its strong investment in building community capacity, and engaging residents throughout the process, allows it to responsibly deliver estate-led regeneration schemes which can (but do not always) involve demolition alongside increasing density and providing returning tenants with a new high-quality home. The council believes it can therefore invest and improve community facilities and the urban environment in a way that almost no other developer in the locality could.

Funding

Only two per cent of funding for Camden's capital budget is from Government – mainly grants, but where available the council uses retained right-to-buy receipts rather than apply for grant. The HRA borrowing cap limits the council's ability to prudently borrow and, combined with the rent cap, makes it unattractive for the council to take on significant financial risk. The one per cent rent reduction has significantly limited scope to use the HRA to fund schemes and the move to CPI plus one per cent rent does not provide sufficient flexibility to address this restriction.

The authority is borrowing at close to its headroom limit of £525 million. It cross-subsidises across the programme to deliver schemes that provide a high level of affordable housing alongside maximising capital receipts that can be utilised to fund additional community benefit elsewhere.

The council is also diversifying its approach to provide additional stability within the programme and address the breadth and scope of the housing crisis – this includes delivering Camden living rent units to support those on middle incomes. The council-owned company, Camden Living, manages the intermediate rent part of the programme. The council's general fund makes a loan to the company to purchase the properties. The company manages and maintains the homes and repays the loan over 25-30 years.

The council has a number of sites to deliver transformative mixed-use and regeneration schemes in central London that could deliver an additional 2,400 homes. The most significant challenges are around the funding of schemes. The CIP is managed within the context of recent high-profile housing management issues, particularly around fire safety and responding to changes in national Government regulation. Camden has the capacity to deliver more new homes and has forged good relationships with the Greater London Authority and Government. It is asking them to partner the council in delivery as it moves forward and accelerates the scale and pace of delivery.

East Riding of Yorkshire

Summary

The East Riding of Yorkshire covers a large rural area with several market and seaside towns. The council has retained its stock of 11,500 rented and leasehold homes and has actively pursued a new-build programme since 2008. Currently its development programme is for about 100 homes a year, mostly general needs, on sites spread across the area. It is buying construction land on the open market and is also purchasing Section 106 properties from private developers.

Context

As a large, economically diverse area, East Riding has housing need in both the more deprived areas and those that are relatively thriving. In the latter areas, affordability is a real barrier. Demand throughout the area for affordable housing is high, with some 8,000 people on the waiting list for an affordable home. The council is the largest social landlord in the area.

Council housebuilding

East Riding of Yorkshire Council's affordable rents policy means that new homes and existing stock on re-let are let at 80 per cent of local market rents. This creates headroom in the HRA for investment. The council was quick to take up opportunities via the HCA Affordable Homes Programme, building 331 homes under the 2008-10 programme with the largest local authority grant outside London. It followed up with another 156 homes under the 2011-2015 programme.

The current new build and acquisition target is about 100 homes a year for the foreseeable future. Most of these will be for affordable rent, but a small number of shared ownership homes for the intermediate market are also being piloted. As previous programmes have exhausted most of the council's landbank, it is embarking on a private sector land acquisition programme and has so far identified three sites in different parts of the district.

The programme of HRA acquisition is allowing the council to buy new homes direct from developers under Section 106 agreements. In addition, if need is identified in a small village, the council can consider buying a single dwelling for refurbishment and letting.

Funding

The council took on £208 million of debt under HRA self-financing, but servicing this is actually less costly than the net annual contributions to national pooling made under the previous scheme. The council created an earmarked reserve fund to pay down the debt, and is therefore creating borrowing headroom. It is currently borrowing at just below its full capacity to fund existing stock investment plus new build.

In addition, the council uses the 30 per cent allowable portion of right-to-buy (RTB) receipts, reserves, and as noted above has been successful in securing Homes England (formerly HCA) grant funding.

Additional motivations

The council has set out its strategy to meet housing need for the most vulnerable, promote sustainable communities and independent living, and ensure there is a range of good-quality, affordable housing on offer. It is committed to its landlord function, based on demand from tenants, and sees housing as a key part of its business as a council.

There is a need to remodel or regenerate some outdated stock, creating either existing or new housing that is fit for the future. In addition, the ageing population of the area has needs for specialised housing of various types, sometimes with on-site care and support.

Challenges

Although the council can deliver its current limited programme within its existing borrowing capacity, the four-year rent cut did bring difficulties and resulted in a pause in the new build programme. Now it is back on track at a somewhat lower level. Certainty on rents to 2025 is welcomed, but clarity on rent policy for the longer term would aid the council's business planning. Restrictions on blending sources of income (particularly Homes England grant and RTB receipts) remain problematic, and greater flexibility would allow the authority to achieve more – as would lifting the borrowing cap.

East Riding's large geographical area without a city-sized hub means that planning for new housing must meet the needs of a range of communities, using relatively small sites to meet local needs. Some villages lack services such as transport, GPs and shops, bringing into question the viability of new affordable housing.

Benefits and opportunities

East Riding of Yorkshire Council believes it can use its HRA asset and resource base in an innovative way to achieve cross-tenure benefits. It has created a HRA new build investment reserve to ensure this type of work remains focused. Funding in the reserve can be used to remodel sheltered housing, buy land, construct new build and acquire Section 106 properties.

The unitary council is creating specialised temporary units for people leaving hospital, working with its adult social care team to deliver care and create efficiency savings. It is looking to build bungalows for older people and is investigating the feasibility of a further extra care scheme.

Private developers in the area tend to favour building large four to five bedroom homes, while housing associations generally build three to four bedroom housing. The council sees its role as filling a gap by building one and two bedroom homes, for which there is considerable demand (particularly due to welfare benefit reforms).

Although the council has exhausted its own land supply, it believes this opens an opportunity to be more innovative in bringing forward development in the areas most in need. It wants to establish itself as a 'first port of call' for partnership with developers in the area.

Development process

The local plan and the strategic housing market assessment are the guiding documents for the authority's new build programme, setting out where development should take place. A series of parish needs assessments also informs activity, with a focus on areas of greatest need. The council employs a rural housing enabler as part of the York, North Yorkshire and East Riding Local Enterprise Partnership's strategic housing group, who undertakes consultation with local communities and land owners to help bring forward sites in rural areas.

The council has a 'toolbox' of specialist services within its staff complement designed to deliver new build projects. These include architects, a procurement team and a project management team. Local communities are consulted on any forthcoming projects.

It maximises use of available funds, as demonstrated by its success in bidding for Homes England grant (which it plans to continue). The council is keen to bid for any extra borrowing headroom the MHCLG may offer.

The council is also exploring modern methods of construction, such as off-site manufacturing, to deliver homes more efficiently and to a high quality.

North Kesteven

Summary

North Kesteven District Council adopted an ambitious programme of council housebuilding in the early/middle part of the decade. This was based on the positive feedback from a pilot programme. However, changes in government policies necessitated a rethink that has led to a much reduced target focusing on one-to-one replacement of properties sold under right to buy (RTB). However, the council is relatively optimistic that alterations in national policies announced in autumn 2017 may open up the possibility of extending the current programme.

Context

North Kesteven District Council is a rural authority in Lincolnshire comprising a market town (Sleaford), part of the Lincoln urban area (North Hykeham) and many villages. It has a stock of over 3,600 council houses. There are more than 1,500 households on the housing register.

Strategic planning is undertaken by the Central Lincolnshire Joint Strategic Planning Committee that was set up in 2009 and covers Lincoln and West Lindsey as well as North Kesteven. A local plan for central Lincolnshire was adopted in 2017. This highlighted that there has been a significant growth in new housing over the last two decades, fuelled in part by major urban regeneration projects in Lincoln (as part of the national growth point policy in the 2000s). The linked strategic housing market assessment indicates that there is a need for over 17,000 new affordable homes by 2036.

North Kesteven District Council's corporate plan for 2018-2021has, as one of its priorities, to "promote housing growth that meets current and emerging needs". There are, however, many challenges in delivering affordable housing. The previous corporate plan had set a target of delivering 500 homes over 10 years through a council housebuilding programme. Government policy changes on rent setting and welfare have resulted in a rethink. The council's new build programme now focuses on replacing properties lost through RTB on a one-for-one basis. It is estimated that 25 replacement properties per year are required. The more ambitious programme of 500 new homes over 10 years will be delivered through a council-owned housing company.

Council housebuilding

Following the self-financing settlement in 2012, with its assumed stable external environment, North Kesteven developed its ambitious council housebuilding target. A pilot programme was designed and implemented. This resulted in 134 properties being built on 26 sites by 2015. They were let at affordable rents. They were mainly developed on small infill sites on existing estates held in the HRA or on undeveloped land owned by the local authority. There had previously been little interest in this type of location by private housebuilders and housing associations.

This pilot programme was deemed to be a success in terms of the quality of the homes, the positive views of the new tenants, the use of neglected sites and the build-up of staff expertise and knowledge in the direct delivery of new properties. Councillors, therefore, strongly endorsed the more ambitious programme.

However, as has already been pointed out, Government policy changes have resulted in a revised approach concentrating on one-to-one RTB replacements. Nevertheless, the lessons from the pilot programme enabled the council to take forward the idea of a local housing company (LHC) relatively quickly.

Funding

The council has utilised a number of funding streams, including:
- HRA reserves
- HRA headroom borrowing cap
- commuted sums through Section 106 agreements
- Homes England (HCA) grants.

In addition, use is made of Government and HCA (now Homes England) funding on infrastructure to open up strategic sites, such as £2 million through the housing infrastructure fund for West Sleaford.

Quality

A major feature of the council housebuilding programme has been an emphasis on high-quality provision. North Kesteven has adopted a specific standard – the ‘fabric first plus standard’. This focuses on, for example, thermal efficiency, well-designed homes (space standards and layouts, for example) and affordable to live in (low running costs).

There are, however, challenges in adhering to this standard, as increasingly the council is using a purchase and acquisition approach. This involves buying back former council properties that were previously sold under RTB and purchasing properties from housebuilders under planning agreements. The former may require significant modernisation work to bring them up to the desired standard, which may affect the viability of purchasing them. The latter may simply not meet the high standards set by the local authority.

Challenges

The reason for the growth of interest in purchase and acquisition is twofold. Firstly, it is quicker than going through the development process. Secondly, there are now fewer infill sites available. The council is investigating and using other approaches to tackle the shortage of sites. These include buying land and negotiating with developers and land owners on joint deals that involve part of larger sites being used for council housebuilding. Buying land is proving to be difficult, as the rise in land prices makes viability of individual schemes challenging. Furthermore, the lack of a large programme prevents the adoption of a strategy that focuses on overall, rather than individual, site viability

Moving forward

The council is optimistic that its overall programme can be delivered by the LHC and council housebuilding. It is also hopeful that changes in Government policies will enable a larger programme of direct provision. The commitment to a new rent setting policy in autumn 2017, together with the increase in affordable housing funding and the bidding round for individual headroom borrowing capacity, are considered to be positive features.

Northumberland

Summary

The council has completed a programme of 288 new HRA homes in recent years. It is also strongly supporting community organisations to create affordable rented housing to meet local need across the county. Currently many aspects of housing provision, including opportunities for new build, are under review in the light of recent legislative changes and that of the political leadership of the council, which is keen to see plans drawn up to support the future provision of affordable rural housing.

Context

Northumberland County Council was established in 2009 as a unitary council. Prior to that, there existed six district councils plus the former county council, which were brought together following local government reorganisation. Its housing stock was inherited from two former district councils, the four other councils having previously disposed of their stock via large scale voluntary transfer, and the current stock of 8,542 dwellings is managed in-house within the HRA.

The county is geographically and economically very diverse, with many rural communities. Northumberland has focused its housing strategy on 'healthy people' and 'sustainable economies and communities', which includes provision for a growing population of older people (the fastest growing segment of the population). A proposed North of Tyne combined authority is likely to offer fresh opportunities for the council to work in partnership to deliver housing across the county, including council housing.

Council housebuilding

The council has built 288 new homes at a cost of £29 million over the last seven years. These are managed in-house within the HRA. With this programme completed, the future is under review. The housing proved relatively expensive to build, as some of the sites used were difficult and land values in rural and coastal areas often high.

A further strand of housebuilding is to support community organisations, parish councils, community land trusts and similar bodies to create new community-owned housing at the local level. In some cases the land or buildings are owned by parish councils or by the council. The council and partner organisations are also looking to enable this programme using Section 106 land or homes.

Funding

The council housebuilding programme was funded with £22 million in HRA funds plus £7 million in HRA borrowing, within the cap. The council has £4 million available within the cap and could potentially use HRA reserves, in conjunction with funding through Homes England, to develop a future build programme.

The council was awarded £1.3 million from the Community Housing Fund due to the high level of second home ownership and affordability problems in the county. This is used to support the delivery of community-led affordable housing across the county but with a particular focus on rural areas. This programme can also be supported by Homes England funding where a registered provider is involved in the delivery of community-led housing.

Additional motivations

The council's current dwelling stock is being reduced through right to buy (RTB) and, because of the history of the authority, it is concentrated in two districts of the county – Alnwick and Blyth Valley. New housebuilding both sustains the stock level and creates opportunities to provide homes in new areas. The council saw an opportunity to support communities and the local economy by using its new homes programme to increase the numbers of local people employed in building new homes and in ongoing maintenance programmes, including creating new apprenticeships.

Challenges

Northumberland is a very diverse county, with some areas of low-demand housing stock and the need for economic regeneration to support and sustain communities, while in other areas prosperity and attractiveness has brought unaffordability and high levels of second home ownership.

The housing need is therefore geographically spread and very varied. Finding land remains a difficulty. Northumberland has a community asset transfer policy that can sometimes provide sites or buildings for demolition, such as garages on estates. However, these sites are not necessarily in the right place to meet need, and opportunities may become exhausted. Communities CAN (NE) Ltd (see below) is also working with parish councils that own small pockets of land and exploring possibilities with a range of other landowners.

Benefits and opportunities

The programme to boost community-led housebuilding offers a range of opportunities and is one the council is keen to support. Through the community housing fund the council, in partnership with Community Action Northumberland (CAN), the rural community council, developed Communities CAN (NE) Ltd, a trading arm of CAN, the aim of which is to provide a full offer of support to parish councils, community land trusts and other small organisations wishing to develop community-led housing.

The council is seeking to maximise the community housing fund allocation it was awarded to support local communities to deliver much-needed affordable housing and create sustainable communities. This may include bringing empty homes back into use, refurbishing heritage assets, buying new homes 'off the shelf' delivered through planning obligations and building new homes. The programme has generated strong interest in local communities with around 20 potential schemes identified. Because it is capable of working at the micro-level, a single disused or outdated building can be turned into new affordable housing, for rent in perpetuity, as a community asset. This helps to overcome potential local opposition.

The partnership with Communities and CAN also offers the opportunity to develop affordable housing on Section 106 sites where housing associations are not in a position to step in. In such cases, CAN will facilitate and support community organisations or parish councils to take on a small number of affordable homes from a larger private development. Plans are in progress for a North of Tyne combined authority, with housing as a key element. This should help create greater resources for housing in the future.

Nuneaton

Summary

Nuneaton Borough Council is committed to an ongoing programme of new council housebuilding and the purchase and acquisition of existing stock. The size of the programme is relatively small but helps address two key issues – the lack of affordable housing and tackling the homelessness crisis. Each specific project is robustly evaluated in terms of viability and its relationship to other corporate objectives.

Although there are many national and local policy challenges, there is a political commitment as well as support for new innovative thinking, including working with a local private sector partner on modern methods of construction.

Context

The council is the major provider of affordable housing with a stock of nearly 5,800 properties and, in addition, there are 450 leasehold units. Housing associations have 2,400 units in the area.

The council continues to experience high levels of need for affordable housing. It estimates that there is an annual shortfall of over 500 affordable homes. This has been exacerbated by an increase in the number of homelessness presentations, which is putting pressure on the general fund, and the loss of 125 properties through right to buy (RTB) in the three years to 2016/17. This supports the case for an ongoing council housebuilding programme, despite the challenges that this entails.

There is also a continuing need to invest in the existing stock, which is a high corporate priority. Over 80 per cent of the annual capital programme (currently nearly £12 million) is devoted to this issue.

Council housebuilding

Following the self-financing settlement, the council adopted a cautious approach to new council housebuilding. A two-year pilot project was undertaken between 2014/15 and 2015/16 that resulted in the completion of 47 properties. Three sites were developed – two were infill schemes and one was a larger site. The programme was deemed to be a success and received favourable feedback from local communities and tenants. As a result, there is a political commitment to continue to develop new affordable homes.

The pilot also provided essential learning for the council for future projects in terms of understanding (i) the development process and (ii) the importance of necessary skills. An in-house development team now exists to lead on the council housebuilding programme.

The current capital programme includes £1.2 million per year for new build council properties and £0.85 million for purchasing homes on the open market.

Funding and viability

Projects are currently funded through a mix of sources including:
- HRA headroom funding
- rental streams – new build council properties are let at affordable rents, 80 per cent of market rents
- Homes England grants, though these have reduced in size in recent years
- RTB receipts.

Since 2016, there has also been a policy to use planning agreements to acquire new properties and to make use of commuted sums.

As part of the HRA development and acquisition strategy (see below), the local authority intends to explore new and alternative funding mechanisms – for example it hopes to be able to bid for additional HRA headroom finance under the scheme announced by the government in autumn 2017.

Viability assessment for each project is an essential element. Basically, this involves estimates for costs covering, for instance, development, ongoing maintenance and management and rental income streams. A contingency is also built to take account of risks such as unknown development costs, which can be significant on brownfield sites. Some costs are relatively straightforward to calculate, for instance borrowing taken out to finance the development of new homes and maintenance and management. Income (rent during the payback period) is less straightforward because of the uncertainty created by the Government over the changes in rent setting policies over the last six years. The payback period is taken as 50 years as this accords with the life of the assets created.

Quality

The quality of new council housing is a significant consideration. This is because there are concerns among councillors about the size and space standards of some new private sector properties. Council properties are, therefore, built to (i) design standards set out in planning policies and (ii) wherever possible and subject to viability requirements, higher standards in terms of, for example, build quality, parking provision and garden size.

Challenges

The uncertain national policy framework is a major consideration in both the short and long-term. Factors include:
- potential impact of selling high-value voids to help fund voluntary RTB for housing association tenants – the Midlands is a pilot area from summer 2018
- roll-out of universal credit and its impact on rent arrears
- rent policy post-2025
- the Social Housing Green Paper.

At a local level, balancing different policy objectives is an important issue. A potential site may initially be earmarked for new council housebuilding, but in order to meet the requirements of the sustainable communities policy there may be a need to develop a mixed tenure approach (such as incorporating shared ownership properties). A further consideration is likely to be value for money. A mixed tenure approach may have the long-term benefit of generating a return to the local authority that can be ploughed back into council housebuilding on other sites. As the council has no experience of direct provision of shared ownership, this will require partnerships with housebuilders and housing associations.

Moving forward

A HRA development and acquisition strategy was approved in late 2017. It highlights that the council will evaluate each potential project to ensure that it delivers good quality accommodation and value for money. The projects will include both purchase of existing stock and new build.

In relation to the former, further work is being undertaken on the advantages and disadvantages of the acquisition of existing properties. A number of 'acquisition routes' are being investigated, including properties that previously were subject to RTB and housing association stock that is being disposed of for asset management reasons. The advantages include avoiding a lengthy development process and responding more quickly and effectively to the growing homelessness crisis. However, possible disadvantages include modernisation/repair costs and the quality/standard of some potential properties in the private sector.

In relation to the latter, the council is keen to embrace new construction methods, especially modern methods of construction (MMC). Three infill sites have been identified and a local partner with experience of MMC is involved. The focus is on off-site production with the added value elements of high-quality design, energy efficiency and supporting the local economy.

A further issue that will need to be addressed is land supply. The council may need to consider purchasing sites to ensure that homes are provided in areas where there are most needed, subject to financial viability.

Oxford

Summary

Oxford City Council has had an ambitious ongoing council housebuilding programme. This aimed to contribute to addressing the affordable housing crisis caused primarily by the buoyant local economy (which makes a major contribution to UK productivity). However, Government policy changes, such as rent setting, together with the headroom borrowing cap, have resulted in a switch in the delivery of part of a major scheme to the local housing company (LHC). Nevertheless, a small council housebuilding scheme remains.

The prospects for future council housebuilding have been potentially enhanced by the development of the Oxfordshire Growth Deal that was launched by the Government and local partners (including the city council) in the Chancellor of the Exchequer's autumn statement in November 2017. Even so, the Government has indicated that any affordable rented housing developed through this initiative must be subject to right to buy (RTB).

Context

Oxford and its sub-region has a world-leading economic position. A recent report by PriceWaterhouseCoopers (PwC) highlighted that Oxford is one of the two highest performing cities in the UK. OxLEP (the Oxfordshire Local Enterprise Partnership) has pointed out that the sub-region is in the top five technology innovation ecosystems in the world and has an internationally renowned knowledge intensive cluster, with over 1,500 high-tech companies employing over 43,000 people.

However, the buoyant local economy has a major impact on housing in Oxford. The estimated household growth rate between 2011 and 2031 is nearly 25 per cent. The National Housing Federation's 'Home truths' report (2018) for the South East showed that the ratio of mean house prices to household incomes was the second highest in the region at over 16:1. An annual income of nearly £112,000 would be needed for an 80 per cent mortgage for a house at an average price, while the mean monthly rent in the private rented sector in 2016/17 was nearly £1,400. There are over 3,000 households on the local housing register.

RTB is a major issue. About 200 homes have been sold under RTB since 2012 and one to one replacement has not been possible. Only 88 replacement homes have been completed. The council is pessimistic over the likelihood of recent Government guidance on raising individual HRA borrowing caps changing this situation.

The 'Oxfordshire strategic housing market assessment' (2014) indicated that the annual mid-range rate of new provision for Oxford should be 1,400 units – half of which should be affordable housing. In 2015/16, however, new delivery was only 150 units. In relation to overall affordable housing provision, the council intends to boost supply from 68 units in 2017/2018 to over 500 homes per year by 2021/22 through its enabling and delivery roles.

<u>Changing role of council housebuilding</u>

Oxford City Council's housing and homelessness strategy (2018-2021) has as one of its priorities to "increase housing supply and improve access to affordable housing". One of the actions is to "deliver more affordable homes either by direct delivery or through the council-owned housing company". A further priority is to maintain and improve the existing council housing stock (7,000 units) which includes a number of tower blocks. A major part of HRA capital expenditure over the next three years focuses on estate regeneration and modernisation of properties.

The previous strategy and HRA business plan included an ambitious programme of council housebuilding, making use of the £55 million housing revenue account surplus to deliver over 350 new council properties at Barton Park by 2022 and an annual additional programme of 35 new units through the HRA business plan. However, a number of Government policies have impacted negatively on this approach. They include the annual reduction in social rents for four years from 2016 and the uncertainty over the potential levy on the sale of high-value council homes to pay for voluntary RTB and welfare changes. As well as their impact, it is the uncertainty and frequent changes in policy that have resulted in changes to the programme for the delivery of affordable homes.

The current HRA programme is the delivery of 10 homes per year, primarily on small infill sites that are unattractive to other providers. However, the LHC (Oxford City Housing Ltd) will develop 162 units of mixed tenure housing by 2019/20. It will also start taking ownership of properties developed at Barton Park, starting in 2018/19 with nearly 100 units. The expertise and skills for the LHC have, in part, been derived from the council housebuilding programme in the early and middle part of this decade.

Funding

The housing and homelessness strategy is linked to the council's medium-term financial plan, which is regularly updated. A wide range of sources have been used and are being used for the HRA programme. They include:

- HRA borrowing subject to headroom limits
- Homes England grant
- RTB receipts, although these cannot be used with Homes England grant – they have been used primarily for purchasing existing property to provide temporary accommodation for homeless households
- Section 106 funding through the commuted sums route.

New homes bonus money has not been used.

Barton Park

Barton Park was intended to make a major contribution to council housebuilding. It is a 36-hectare site that was allocated as a strategic housing site. However, it required significant infrastructure investment of £30 million covering, for instance, decontamination of land, access to a major road and provision of a new primary school. A traditional development approach of selling the site to a housebuilder was unlikely to result in new housing being available in a reasonable timeframe, especially if there were protracted negotiations over a Section 106 agreement. Other alternatives were explored including local authority funding of the project, but this would have exposed the council to the full development risk as well as requiring significant public sector borrowing.

Oxford City Council therefore decided, following an option appraisal process, to proceed with a joint venture vehicle with a private sector partner. Following a procurement exercise, it entered into a 50:50 joint venture partnership with Grosvenor Developments Ltd. This has enabled the local authority to contribute to the development of a large but complex site and, at the same time, retain some control over the management of the project.

Barton Park will eventually provide approximately 900 new homes. It is also part of the NHS 'healthy town' programme. At least 40 per cent of these homes will be affordable housing. These will now be provided through the LHC rather than the HRA programme.

This example demonstrates the importance of being able to switch delivery methods in a fast-changing external environment.

Oxfordshire Growth Deal

The principles of the Oxfordshire Growth Deal were announced by the Chancellor of the Exchequer in his autumn statement in November 2017. The Oxfordshire Growth Board (comprising the county council and six districts, including Oxford City Council, along with OxLEP) will receive £215 million of funding to promote economic growth and deliver a significant boost to new housebuilding; £60 million of this funding is for affordable housing provision, £150 million is for infrastructure improvements and £5 million is to provide increased capacity to develop a joint strategic spatial plan for the sub-region.

A draft delivery plan was published by the Oxfordshire Growth Board in February 2018. This included more detail on each of the funding elements, including affordable housing provision. The £60 million is in addition to the existing Homes England affordable housing programme. It will be used by each of the districts and their partners to deliver schemes that reflect local priorities. In the case of Oxford City Council, this could include council housebuilding through its housing revenue account.

Stoke-on-Trent

Summary

Stoke-on-Trent City Council is an ambitious local authority, with a housing policy focused on maximising use of the HRA and council assets to support existing communities and as a tool to lever in matching support from Government, the third sector and private developers. Housing growth is forecast to deliver 791 new homes across all tenures by 2019/20, with another 980 in the years beyond. The council's own development and regeneration programme is expected to deliver a further 350 new homes over the next three to five years. In the absence of Government restrictions, the council estimates that it could build 200 new homes per year, amounting to 6,000 over the course of its 30-year HRA business plan, at a cost of £715 million. Its development company, Fortior Homes, will contribute 400 homes by 2019.

Context

The six towns making up Stoke-on-Trent suffered economic difficulties in the 1990s through industrial decline and depopulation. It was part of the government-sponsored housing market renewal pathfinder regeneration programme that ended abruptly in 2011. Today, house prices remain relatively affordable by national standards, though rising fairly quickly. Average incomes remain low at just over £20,000. The council has found it difficult to attract housing associations and private developers to the small sites available for housebuilding.

The council has set out two main priorities: to attract and keep younger professionals, such as those working at the local hospital, and to provide for the existing ageing population. To achieve these aims it regards place shaping and confidence building as crucial. It is leading with its own regeneration and new build programme, while offering opportunities to private developers. Much of the activity will be in the form of regeneration, removing outdated and unpopular stock and remodelling town centres.

The council has taken a series of initiatives to position itself for growth. It pioneered the successful homesteading '£1 houses', now called the 'reviving communities' scheme. This saw 33 households become homeowners, helping to stabilise a deprived community, demonstrated through a reduction in crime and anti-social behaviour. A second phase attracted 516 applicants. Twenty-five long-term empty properties will be acquired and refurbished using the council's housing repairs company (Unitas) for handover to successful applicants for a £1 deposit and a 10-15 year loan, which will pay for the costs of acquisition and refurbishment.

Stoke-on-Trent also achieved MHCLG housing zone funding to facilitate working with developers on brownfield land and gained ‘custom build vanguard’ status. Its successful £10 million housing infrastructure fund bid will deliver land remediation on nine sites identified around Burslem town centre, which could hold 1,100 homes but had stalled because of contamination and stability issues.

Recognising the growth of the private rented sector, the council has proposed selective licensing in 14 deprived areas containing over 3,000 properties. The areas have been identified using mosaic 2016 data as streets with low-demand properties and accommodating the most deprived residents, and areas with social issues. This initiative aims to improve individual properties and the community through a reduction in crime and anti-social behaviour.

Overall, the council has a strong community leadership focus and a proactive approach to partnership working.

Council housebuilding

The council has a stock of about 18,500 homes, mostly meeting decent homes standards. It has a development company, Fortior Homes, and a repairs company, Unitas.

Some sheltered housing is very outdated and becoming unpopular, but there is strong demand for older people’s housing: the council’s strategy found a shortfall of 900 homes of this type. Three existing outdated schemes are to be demolished and redeveloped as new supported or extra care standard housing.

An estate of six high- and low-rise blocks is also problematic. The council plans a multi-agency approach to refurbish three blocks, with one block transferring to Fortior for market renting. Low-rise blocks will be demolished and replaced with HRA social housing, affordable rent, market rent and private sale.
A further mixed tenure development will see a town centre remodelled to create flats, general housing, bungalows and a dementia centre.

Funding and resources

For its HRA and Fortior development, the council is drawing on a mix of available funding and resources:

- HRA headroom
- HRA reserves
- HRA and general fund land
- new homes bonus
- right-to-buy receipts
- borrowing by Fortior Homes
- HCA/Homes England grant.

The council has decided to run down its £25 million HRA reserves in order to increase the funding available, though it will retain at least £5 million.

Significantly, it is also in negotiation with financial institutions on a leaseback funding package for one of the schemes, either to extend what can be achieved or to replace some

HRA building if Government restrictions remain in place. Here, the financial institution would lend capital, the council would build and retain the freehold and take a 40-year lease on the housing. The homes would be let on assured tenancies with council management, with the housing reverting to the local authority at the end of the lease.

Additional motivations

The council's primary focus is place shaping. However, its programme will deliver a number of other benefits.

Confidence in the market: the council has held events and produced a brochure designed to underpin its commitment to local development, with the aim of encouraging the private sector to commit equally. It is marketing itself as a "commercial council: well governed and fit for purpose, driving efficiency". Its approach is designed to maximise the 'Stoke pound', keeping investment locally and boosting the economy. This is reinforced via a requirement of 70 per cent local labour and 70 per cent local supply chain on council new build contracts, and channelling investment via its council company, Unitas.

Appraising existing stock: the HRA building programme rests on freeing up land and assets for redevelopment. With much of the existing sheltered housing stock being outdated (including bedsits and shared bathrooms), the council needs to provide better quality for its older residents, in line with its older persons' strategy. This in turn has prompted a review of all the stock with an eye to longer-term investment decisions.

High-quality design: the need to achieve value for money on the existing stock and realise economies on repairs where possible have reinforced the need to achieve high quality in the new stock, to minimise future costs. With strong current demand coming from younger single people wanting one-bedroom homes, the council has designed some smaller homes to be adaptable, so that they can easily convert to having an extra bedroom as new families form.

Challenges

The familiar problem of restrictions on the HRA is strongly present in Stoke-on-Trent. The debt cap of £182 million and existing debt of £164 million leave little headroom. Rent reductions and restrictions on usable RTB receipts further constrain spending.

RTB sales continue to erode the stock, challenging the economics of the HRA (though the usable portion of the receipt does contribute to development). Sales are expected to reduce the stock by 3,889 over the 30-year business plan period.

Benefits and opportunities

Although the area had benefited from involvement of a variety of government and other agencies, and strategies were in place, it was still felt to be under-performing. Then, said one interviewee, the council "flipped into delivery and implementation mode" with the HRA and Fortior and progress began very quickly. Now with a performance-driven culture and political buy-in, the council and its companies are increasingly taking bold decisions in place shaping.

The council set up an in-house repairs company, Unitas, which is taking over repairs and maintenance of the HRA stock in 2018 and is forecast to cut costs, freeing up further resources. An efficiency gain of £4.5 million per year is anticipated. Unitas will also look to take on repairs for Fortior. Recently the council put forward plans to maximise use of Unitas and is considering placing all its housing management and housing growth functions into the company.

Fortior is taking a role in place shaping by adopting a similar approach to reviving communities in buying off-the-shelf in poorer areas and refurbishing the homes via Unitas for private renting.

The new HRA housing will generate income over the long term and replace some housing lost through RTB. Similarly, the Fortior-led housing will generate income from market rents and from sales and will also explore the formation of a registered provider.

Stoke-on-Trent is also considering expanding selling its services to other councils and organisations, which would bring in revenue.

Development process

The council anticipated sensitivities around its development plans. It secured Government funding for a community-led master planning exercise for plans to redevelop an estate of high- and low-rise blocks. This helped secure community buy-in at the start, and community consultation has continued.

As the land holder, the council is able to initiate development work using its own architects. Within the communities department, an officer each for HRA and Fortior development leads the work. A strategic asset management board within the council brings together all parties. One of its functions is to assess whether Fortior is the right developer for each site; if it is, a service-level agreement is drawn up, preserving its independence from the council.

At political level, the council is currently governed by a coalition of city independents and Conservatives, which has endorsed the growth programme. It is considering plans to expand the remit of Unitas and has embarked on a consultation exercise to pass all housing functions across.

Fortior Homes is commercial driven with a social heart and has two independent board members, including a former senior Homes and Communities Agency officer and a senior officer from MHCLG.

Stroud

Summary

Stroud District Council has a proactive enabling approach to tackle the housing issues in a growing and attractive rural district made up of many villages and small towns. An important part of the strategy is a council housebuilding programme that has delivered over 220 new homes in the last few years. However, the council has now reached its borrowing cap. Nevertheless, it believes that it can make a strong case based on its performance for a successful bid for the Government’s current programme for lifting the borrowing cap.

Context

Stroud is a rural district in Gloucestershire covering 175 square miles – half of which is in the Cotswolds Area of Outstanding Natural Beauty. The population is nearly 113,000, comprising 49,000 households. The population grew by over 3,000 in the first decade of this century. Affordability of housing is a major challenge. According to the National Housing Federation's 'Home truths' report for the South West (2018), average house prices in the district were nearly £290,000 and the ratio of mean house prices to mean household incomes was over 10:1.

The local housing strategy has four priorities – one of which is "to deliver affordable housing to meet the needs of local communities". The local authority has a stock of over 5,200 council houses. It has a waiting list of nearly 2,300 households. Stroud District Council has an effective and strong enabling function. It works positively with housing associations and has an excellent track record of supporting private sector housing development through the planning process. It has, over the last few years, granted planning permission for nearly 6,000 houses. However, it is aware that not all of the sites with planning permission are progressing as quickly as had been hoped.

The council has also been active in the more rural parts of the district in imposing restrictions on the resale of properties sold under right to buy (RTB) (through section 157 of the Housing Act, 1985).

Council housebuilding

By the end of 2017/18 the council had delivered 226 new council homes, with a further 25 new homes due to start in 2018/19. The sites have included some large regeneration projects where non-traditional precast reinforced concrete (PRC) properties, that have reached the end of their economic life, have been demolished and replaced with mixed tenure homes comprising a range of property types, with a particular emphasis on one and two bedroom properties to fill a gap in the housing development market (as other developers have concentrated on larger family homes).

The majority of the properties have been built for affordable rent. However, the council has also developed a number of properties for shared ownership, enabling those people who are unable to afford to purchase a property outright to get a first step on the housing ladder by purchasing a share of between 25 and 75 per cent. These have proved very popular and further shared ownership homes are planned for this year.

Grants have been received from Homes England and receipts from the sales of RTBs have also been used to subsidise the programme.

The new homes have been built to high standards – 'Stroud new build standard':
- energy efficiency and environmental sustainability (including, where appropriate, renewable energy products such as photo-voltaic cells) to address issues of fuel poverty and following a 'fabric first' approach to thermal insulation
- lifetime homes standards so that properties can meet the needs of households as their needs change.

Stroud District Council hopes that this standard will be an exemplar for other developers in the area to 'future proof' new housing schemes.

The council also has a sheltered housing modernisation project to ensure that its stock of 29 sheltered housing schemes is sustainable into the future. This programme has included the closure of some schemes that are no longer fit for purpose, with the proceeds being used to help fund the development of new purpose-built accommodation for older people, including flats with scooter stores, lifts and wet rooms and the provision of shared ownership bungalows for older people.

The local MP, Dr David Drew, raised the issue of local authority housing in an adjournment debate in the House of Commons in December 2017.

Challenges

There are a number of interrelated challenges. The most significant of these is that Stroud District Council has reached its borrowing cap. In addition, there is a desperate need for social housing because of the shortfall in affordable housing. This is compounded by the rent levels in the private sector. The local housing allowance area for Stroud is based on Gloucester, which is a relatively lower rent area. There is, thus, an issue of high rents in the private sector not matched by housing benefits, leading to affordability problems and households seeking social housing.

Although the council has invested over £25 million through the HRA over the last six years to ensure the existing stock continues to meet the decent homes standard, this will be an ongoing issue. Difficult decisions, therefore, have to be made on the relative properties of modernising the existing homes and building new council properties.

Opportunities

The council and the local MP are optimistic that a strong case can be made to the Government in bidding for lifting the HRA borrowing cap from 2019/20 to 2021/22 because of the high affordability pressures in the area. It also has a number of potential schemes that can be developed quickly, which is likely to be one of the criterion for a successful bid. It continues to robustly analyse its land and property assets to identify future sites for council housebuilding.

In addition, there is a strong campaign to tackle the issue of RTB sales. In particular, the local MP has been lobbying the Government to renegotiate the amount of money that goes back to the Treasury when a property is sold, from 70 per cent to a much more realistic figure, in order to boost replacements through council housebuilding.

Sutton

Summary

Sutton is an outer London council that has retained its stock, delivering management via its Sutton Housing Partnership arms-length management organisation (ALMO). It has around 5,900 rented homes and 1,500 leasehold properties. It is on site building 93 new homes via the HRA, will acquire about 96 private sector homes and Sutton Living, the council development company, will deliver further new build. The latter will use general fund and HRA land to deliver a variety of tenures, including affordable housing for rent and market rent, complementing the HRA-funded building programme as the council has reached its limit as a result of current Government restrictions.

Context

The borough has rising house prices brought about by proximity to the City of London and there is high demand for affordable housing. The council has a large-scale regeneration project in partnership with a housing association, but private developers have shown limited interest in building on council-owned small sites. The council's ALMO has been remodelled to improve services and deliver efficiency savings in the existing stock. This will help to free up some resources for new build. The council has an ongoing regeneration programme and has completed some estate remodelling. However, the draft London Plan envisages much higher housing targets in outer London boroughs: this will be a challenge in Sutton.

Council housebuilding

Sutton has a three-strand approach to improving affordable supply. It is already on site at three locations building 93 units of new council housing, which will replace a care home, youth club, bungalows and garages previously identified as unfit for purpose.

A number of further small council-owned sites have been identified, and these will be developed by Sutton Living.

The third strand is acquisition of former RTB and other open market properties. The council estimates it will be able to buy back at least 19 units per year, totalling about 96 in the first five years of the programme. The programme got underway in September 2017 and so far 33 properties have either been acquired or are in the process of being acquired. These will be used as non-secure temporary accommodation for families.

Funding

Sutton Council has HRA borrowing headroom of just under £15 million. It received special additional borrowing power of £5 million through the local growth fund (LGF), which has made a considerable difference. RTB receipts will also be used – but cannot be used alongside LGF borrowing. Government rules also prevent use of RTB receipts in the funding mix for one site as this is replacing existing sheltered housing. Commuted Section 106 sums are also used.

Sutton Living is able to access general fund borrowing for its programme.

The acquisitions programme will be financed from the general fund, bringing these homes into use as temporary housing.

Challenges

Government restrictions on HRA borrowing, coupled with rent loss from the one per cent cut, are forcing the council to curtail its council housing new build programme. Building cost inflation is also creating challenging conditions.

RTB receipts and their use pose further difficulties. Councils must return quarterly accounts on replacement housing built, and spend the income within three years or face penalties. Only a portion of receipts can be used. In addition, receipts cannot be used alongside

Homes England or Greater London Authority grant. All of these issues present Sutton with problems to varying degrees – relaxing the rules would help get developments underway.

Using infill sites on existing estates can be a sensitive matter. Local residents often feel protective of these areas and may use them informally. Sutton believes that the best way to address this is by drawing on communities' sense of place in offering environmental improvements in the areas as part of the new build package.

The revitalised RTB is reducing the stock significantly. In 2014/15, 75 homes were sold, compared with only two in 2011/12.

Benefits and opportunities

Sutton's ALMO has been through some difficulties but is now in much better shape. The council is working closely with Sutton Housing Partnership on the HRA building programme as the ALMO will manage the new homes. It could potentially also take on management of the affordable homes built via Sutton Living.

Design: the new HRA and non-HRA housing will be built to high design standards, following an initiative by the ruling Liberal Democrat administration. They insisted that, despite extra costs, the longer term benefits would be worthwhile in terms of less costly repairs, better comfort and appearance and durability, as well as producing a long-term asset. In addition, they felt it was important to existing local communities that any new developments should be of very high quality.

Homelessness: another council company, Encompass, which is a staff-led initiative, provides the housing needs and homelessness service along with some adult services such as putting in place care packages after social services assessment. It will work in partnership with the council on the acquired stock for temporary accommodation, which in turn will save general fund costs and avoid out-of-borough placements.

Development process

General fund sites undergo options appraisal to determine their best use. The council has software to support the decision-making process, factoring in for example the value of nominations as well as land valuations, to produce a score and costing. The latest housing needs study was used to underpin choices on types of provision. The council procured architects to lead on site capacity, design and housing types. Modular construction is being considered on some sites: this is considered to be no cheaper than traditional build but much quicker in the construction phase.

Chapter nine: outlook for council housebuilding

Introduction

This chapter considers the outlook for council housebuilding in both the short and long term. Councils have an appetite to take forward plans to boost affordable housing provision, including council homes, even in situations where existing programmes have been curtailed or halted because of HRA funding concerns (for example Stroud). This is illustrated by the emerging evidence by the end of July 2018 that there is, according to 'Inside Housing' magazine, an overwhelming demand for funding through the individual additional HRA borrowing programme. This is especially the case in London, where at least 21 boroughs are set to submit bids. This reinforces the findings from the online survey and the case studies that councils have specific projects in the development pipeline, some of which are shovel-ready. Thus, despite existing challenges, there is compelling evidence that councils are able and willing to innovate to take schemes forward now.

This appetite has been fuelled, in part, by the gradually more positive national policy environment. The Ministry of Housing, Communities and Local Government (MHCLG), as has already been pointed out, has clarified the social rent-setting policy for 2020 to 2025 as well as taking forward the bidding process for the individual additional HRA borrowing programme. Homes England has emphasised the importance of localism and devolution to meet Government housebuilding targets. In addition, it has highlighted the enabling role of local authorities, including council housebuilding (see also chapter two).

Nevertheless, despite this relatively more favourable climate, the longer-term opportunities remain constrained by uncertainties and risks.

<u>Uncertainties</u>

There are two major uncertainties that affect the future scale of council housebuilding: national policy changes and public finance.

In relation to the former, the broad concern is the lack of a stable decision-making environment because of new and unexpected national policy announcements that necessitate revisions to HRA business plans and capital programmes. The self-financing regime for HRAs in 2012 was supposed to create this situation. However, it was undermined by, for instance, enhanced support for right to buy (RTB), social rent cuts of one per cent per annum between 2016 and 2020 and the cumulative impact of welfare changes. The consequences for councils have been threefold:

- greater degree of caution in taking forward projects
- regular, and often annual, reviews of HRA business plans
- building flexibility into programmes so that, for instance, council housebuilding projects can be converted into local housing company schemes.

A number of the case study councils indicated that each of these factors is being built into future programmes.

The latter centres on the Chancellor of the Exchequer's autumn budget in November 2018 and the public sector spending review in 2019. These will be major determinants of the scale and nature of council housebuilding programmes in the 2020s. A number of case study and online survey councils pointed out that the gradual growth of Government support since autumn 2017 was welcome, but more fundamental changes in policies and funding were required if council housebuilding is to make a significant contribution to boosting affordable housing supply.

The LGA has started the debate on the public spending review through its report, published in July 2018, on 'Housing, planning and homelessness – moving the conversation on'. It includes five 'asks' of Government:

- meet the unexpected costs following the Grenfell tragedy of fire safety work and major remedial work by councils
- give councils a major role in shaping affordable housing programmes
- remove the HRA borrowing cap from all councils
- reform RTB to enable one-to-one replacements
- enable councils without HRAs to access borrowing to develop new homes.

<u>Risks</u>

As the case studies demonstrate, there are an emerging set of risks associated with individual council housebuilding programmes. The key considerations, together with mitigating actions, are shown in the table below.

Table seven: key risk factors

Risk factors	Commentary	Examples of mitigating measures
Changing council priorities	Lower priority for council housebuilding	Making the case for council housebuilding including added value, for example training and support for SMEs
Changing HRA priorities	Focus on stock improvement could limit the scope for new housebuilding	Camden case study illustrates that estate regeneration programmes can successfully blend new build with modernisation/stock improvement
Lack of land	Future lack of council-owned sites and a reliance on open market purchases may make schemes unviable as well as pushing up the price of land	This could be addressed by joint working with developers (including housing associations) and landowners
Purchase and acquisition of new and existing stock	Although this approach can overcome the time taken to develop new schemes, the location and quality of stock could be problematic	Clear guidelines are required on the purchase and acquisition of existing stock; collaboration with developers on purchase of new properties can also address this factor
Use of commuted sums in Section 106 agreements	This could contribute to greater competition between councils and housing associations on planning agreements	Collaboration between councils, housing associations and developers on planning agreements
Skills	Lack of in-house skills such as design, viability assessment and project management	Working in partnership with adjoining councils and/or housing associations can tackle this factor
Construction costs	Rising costs may lead to schemes becoming unviable	Councils should consider if they can take forward recommendations in the Farmer review, such as modern methods of construction

Two broad types of interrelated mitigating actions are significant. Firstly, making the case for council housebuilding internally and with external stakeholders (such as housing associations) is vital. Secondly, collaboration with housing associations and developers is increasingly important to avoid competition (and conflict) over, for instance, land purchase and planning agreements. The Chartered Institute of Housing reports in 2017, 'Working together to meet housing need' and 'Building bridges', highlight the challenges and opportunities of partnership working between councils and housing associations. They recommend a series of steps, including:

- better understanding of the priorities and issues of each party
- working together to arrive at mutually acceptable solutions to problems
- ongoing dialogue between officers
- formal governance arrangements.

Opportunities

The case studies and the online survey highlighted four specific local opportunities for council housebuilding:

- meet housing requirements
- promote housebuilding through the exemplar role in relation to quality standards and the use of small difficult-to-develop sites
- contribute to community engagement and link to initiatives on neighbourhood planning, especially in the case of estate regeneration schemes
- highlight the added value of council housebuilding, including meeting the needs of older people and boosting the local economy through training/skills development and supporting SMEs in the construction sector.

More broadly, there are four opportunities through council housebuilding to contribute to the national policy agenda. Firstly, there is high-quality housing design. The Government has frequently reiterated its importance, culminating in the revised National Planning Policy Framework that was launched in July 2018. The Secretary of State for Housing, Communities and Local Government commented that “building attractive and better-designed homes in areas where they are needed is at the centre of new planning”. The case studies demonstrate that local authorities, through their council housebuilding programmes, can be at the centre of this initiative.

Secondly, the appetite of councils to make use of funding opportunities, such as the bidding round for the additional individual HRA borrowing programme, demonstrates a willingness to respond promptly and innovatively to national initiatives. The MHCLG and Homes England, as one councillor of a case study authority emphasised, “can be assured that local authorities will react positively if and when further funding opportunities are offered”.

Thirdly, growth deals incorporating affordable housing provision, including council housebuilding, between the Government and groups of councils (especially combined authorities) demonstrate the potential of, and the willingness to take forward, the devolution agenda.

Fourthly, the success of council housebuilding should be an important element of the debate on the future of social housing (including the government’s Green Paper on this topic). The Chartered Institute of Housing, for example, in its report ‘Rethinking social housing’, published in June 2018, highlighted this issue. The scale, quality and role of programmes in areas such as Birmingham and Camden demonstrate its potential in transforming rundown neighbourhoods and tackling unmet needs. It also challenges effectively some of the myths associated with social housing such as poor-quality homes and stigmatised neighbourhoods.

Chapter ten: recommendations

<u>Introduction</u>

The focus of this report is 'innovation by local authorities in building council housing'. Our recommendations are, therefore, centred on creating the local conditions necessary to take forward this agenda.

Many of the reports on affordable housing provision and the HRA self-financing system include a proliferation of recommendations for the Government (for example the Chartered Institute of Public Finance and Accountancy and the Chartered Institute of Housing (2016), Morphet and Clifford (2017) and the Town and Country Planning Association (2017)). We would not dispute the need for changes on the HRA such as an aggregate increase in the debt cap, or reforms to the right to buy to enable one-to-one replacement through less onerous rules. However, our recommendations are centred principally on councils and also other stakeholders, including their representative bodies. These draw on the evidence from this study.

Recommendations

Councils

- develop a strategic framework that sets out the role and function of council housebuilding to address local issues
- ensure there is political commitment
- emphasise the added value of council housebuilding such as providing training and apprenticeships and helping the local construction supply chain
- ensure that there is a full understanding of the funding opportunities for council housebuilding
- promote the exemplar role of council housebuilding in encouraging other developers to ‘up their game’ in terms of quality
- collaborate with housing associations and developers to address issues such as skills gaps
- work with adjoining councils and, where appropriate, combined authorities over joint initiatives on council housebuilding, for example sharing expertise and funding
- have ‘shovel-ready’ schemes that can be brought forward in response to government funding initiatives
- take an active role in debates on the future of council housing by, for example, commenting on the Social Housing Green Paper and participating in other national inquiries.

Housing associations and the National Housing Federation

There are sometimes concerns among housing associations over the promotion of council housebuilding by local authorities, which may be seen as a potential threat to their own activities. This can be overcome by:

- encouraging a better understanding of the specific role of council housebuilding in each area
- liaising with councils on issues of mutual interest, such as the role of planning agreements in providing affordable housing for both local authorities and housing associations.

Housebuilders and the construction industry

Housebuilders and the construction sector have relatively little awareness of council housebuilding, meaning there is a strong case for:

- encouraging a better understanding of the role of council housebuilding
- promoting joint working with councils on, for example, tackling construction costs through taking forward recommendations in the ‘Farmer review of the UK construction labour model’, such as investigating modern methods of construction.

Professional organisations

Professional bodies such as the Chartered Institute of Housing (CIH) and the Chartered Institute of Public Finance and Accountancy (CIPFA) have an important role in:

- highlighting to their members the role of council housebuilding through, for instance, publications and events

- ensuring that members are aware of the skills that are required by councils to have an effective council housebuilding programme.

Appendix: sources

A: Major reports

Background and context: affordable housing and housing supply

The LGA's Housing Commission provides a good overview of the current housing crisis and the role of councils in addressing the issues:

Local Government Association Housing Commission (2017) *Building our homes, communities and futures (final report)*, London, LGA..

In addition, the LGA report on housing, planning and homelessness provides an overview:

Local Government Association (2018) *Housing, planning and homelessness – moving the conversation on*, London, LGA - https://www.local.gov.uk/moving-the-conversation-on/housing

There are many reports on affordable housing provision. There is useful coverage including definitions and types of affordable housing in:

Wilson, W. and Barton, C. (2018) *What is affordable housing?*, London, House of Commons Library Briefing Note CBP7747 - https://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7747

Recent reports on affordable housing include:

Association for Public Service Excellence and the Town and Country Planning Association (2018) *Delivering affordable homes in a changing world*, London, APSE and TCPA - https://www.tcpa.org.uk/delivering-affordable-homes-in-a-changing-world

Association for Public Service Excellence and the Town and Country Planning Association (2017) *Building homes, creating communities*, London, APSE and TCPA - https://www.tcpa.org.uk/Handlers/Download.ashx?IDMF=db494bb8-f8b0-4fdc-bebd-acd864340450

In relation to boosting housing supply, the House of Commons Library regularly updates reports on 'tackling under-supply' and 'stimulating housing supply':

Wilson, W. (2018) *Stimulating housing supply – Government initiatives (England)*, London, House of Commons Library Briefing Paper No 06416 – https://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN06416

Wilson, W., Barton, C. and Smith, L. (2018) *Tackling the under-supply of housing in England*, London, House of Commons Library Briefing Paper No 07671 - https://researchbriefings.parliament.uk/ResearchBriefing/Summary/CBP-7671 (section 3.1. provides a useful overview of the contribution made by councils and housing associations).

Council housing: HRA overview on borrowing headroom

A useful source is:

Association of Retained Council Housing and the National Federation of ALMOs (2017) *'Raising the roof' – an analysis of HRA borrowing headroom*, Coventry, ARCH - http://www.arch-housing.org.uk/news/latest-news/“raising-the-roof”-an-analysis-of-hra-borrowing-headroom.aspx

Council housing: self-financing settlement

There are three major reports:

Association of Retained Council Housing (2013) *Innovation and ambition: the impact of self-financing on council housing*, Coventry, ARCH - http://www.arch-housing.org.uk/policy-and-practice/arch-publications/innovation-and-ambition.aspx

Chartered Institute of Finance and Accountancy and the Chartered Institute of Housing (2016) *Investing in council housing: the impact on HRA business plans*, London & Coventry, CIPFA & CIH.

Wilson, W. and Bate, A. (2015) *Local housing authorities – the self-financing regime*, London, House of Commons Library Briefing Note SN06776 - http://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN06776

Council housebuilding: reviews of progress since 2012

There are a number of studies listed below that cover this issue in varying degrees of detail. They normally include brief examples of individual local authority actions on council housebuilding. It is, however, important to appreciate that both Morphet and Clifford (2017) and the Town and Country Planning Association (2017) have a wider perspective covering, for instance, LHCs and enabling.

Chartered Institute of Finance and Accountancy and the Chartered Institute of Housing (2016) *Investing in council housing: the impact on HRA business plans*, London & Coventry, CIPFA & CIH.

Morphet, J. and Clifford, B. (2017) *Local authority direct provision of housing*, London, University College London.

Town and Country Planning Association (2017) *New models, partnerships and innovations: how can councils secure the delivery of more affordable homes?* London, TCPA.

Council housebuilding: additional individual HRA borrowing prospectus

Ministry of Housing, Communities and Local Government (2018) *Additional housing revenue account borrowing programme*, London, MHCLG - https://www.gov.uk/government/news/brokenshire-confirms-social-housing-investment-boost and https://www.gov.uk/government/publications/additional-housing-revenue-account-borrowing-programme-prospectus

For London, see https://www.london.gov.uk/sites/default/files/bchfl_addendum_fa.pdf

Social Housing Geen Paper

Ministry of Housing, Communities and Local Government (2018) *A 'new deal' for social housing*, London, MHCLG - https://www.gov.uk/government/news/social-housing-green-paper-a-new-deal-for-social-housing

Housing enabling

The most recent study on the role of councils as housing enablers was the Elphicke-House report:

Elphicke, N. and House, K. (2015) *From statutory provider to housing delivery enabler: review into the local authority role in housing supply*, London, Department for Communities & Local Government (DCLG) -

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/398829/150126_LA_Housing_Review_Report_FINAL.pdf

Innovation

Although there are many books and papers on innovation, an especially useful source is:

Mulgan, G. (2014) *Innovation in the public sector*, London, NESTA.

Labour Party green paper on housing

Labour Party (2018) *Housing for the many: a Labour Party green paper*, London, The Labour Party - https://labour.org.uk/issues/housing-for-the-many/ (sections 3.3. and 4.3. focus on new affordable rented housing).

Local housing companies (LHCs)

A number of the reports on LHCs also cover council housebuilding. In addition, there is increasing the use of the term 'direct delivery of housing by local authorities' that encompasses both LHCs and council housebuilding – see, for instance, Morphet and Clifford (2017) below.

A useful recent review on the progress on local housing companies is a report by the Smith Institute:

Hackett, P. (2017) *Delivering the renaissance in council-built homes: the rise of local housing companies*, London, Smith Institute - http://www.smith-institute.org.uk/book/delivering-renaissance-council-built-homes-rise-local-housing-companies/

A report for the National Planning Forum and the Royal Town Planning Institute also covers this topic (as well as council housebuilding through HRAs). There are supplementary tables available online that cover the 'type and scale of direct provision':

Morphet, J. and Clifford, B. (2017) *Local authority direct provision of housing*, London, University College London.

Mayor of London and 'Building council homes for Londoners'

Details of this programme, launched in May 2018, can be found at https://www.london.gov.uk/what-we-do/housing-and-land/increasing-housing-supply/building-council-homes-londoners and https://www.london.gov.uk/press-releases/mayoral/mayor-to-help-councils-start-10000-new-homes

National Federation of ALMOs (NFA)

The NFA publishes the results of an annual survey of ALMOs:

National Federation of ALMOs (2018) *Firm foundations: 2017 annual survey – summary findings*, Coventry, NFA - http://www.almos.org.uk/news_docs.php?subtypeid=24

Partnership working

Chartered Institute of Housing (2017) *Working together to meet housing need*, Coventry, CIH – http://cih.org/publication-free/display/vpathDCR/templatedata/cih/publication-free/data/Working_together_to_meet_housing_need

Chartered Institute of Housing (2017) *Building bridges*, Coventry, CIH - http://www.cih.org/publication-free/display/vpathDCR/templatedata/cih/publication-free/data/Building_Bridges_Full_Report

Rent setting

A report that was commissioned by the LGA is:

Capital Economics (2018) *Setting social rent*, London, Capital Economics - http://www.arch-housing.org.uk/policy-and-practice/arch-publications/report-calls-for-new-government-thinking-on-affordable-rents.aspx

There is a useful House of Commons Library briefing paper:

Wilson, W. (2017) *Rent setting: social housing (England)*, London, House of Commons Library Briefing Note 01090 - https://researchbriefings.parliament.uk/ResearchBriefing/Summary/SN01090

Right to buy (RTB)

A comprehensive report by Savills for the LGA summarises the issues:

Local Government Association and Savills (2018) *Sustainability of right to buy*, London, LGA and Savills - https://local.gov.uk/sustainability-right-buy

B: Case studies – secondary sources

Birmingham

Association for Public Service Excellence and the Town and Country Planning Association (2017) *Building homes, creating communities*, London, APSE and TCPA (section 2.1) https://www.tcpa.org.uk/Handlers/Download.ashx?IDMF=db494bb8-f8b0-4fdc-bebd-acd864340450

Birmingham City Council (2016) *Local Government Association Housing Commission – Birmingham City Council submission*, Birmingham, Birmingham City Council.

Nazir, W. (2015) 'Birmingham's new homes development model', *Town & Country Planning*, June/July, pp 273-275.

Skidmore, C. (2016) 'House proud', *Municipal Journal*, 3 March, pp 14-15.

Skidmore, C. (2013) 'Housing as a driver for economic growth', *Journal of Urban Regeneration & Renewal* Vol 7 No 1, pp 21-25.

Camden

Camden Council (2018) *Camden CIP: Council homes*, London, Camden Council.

Camden Council (2017) *Camden Local Plan*, London, Camden Council.

Camden Council (2017) 'New Camden council homes are looking 'Ab fab!'', London, Camden Council news story, November.

East Riding

East Riding of Yorkshire Council (2018) *Housing revenue account budget 2018-19 and financial plan 2018-19 to 2021-22,* Beverley, East Riding of Yorkshire Council.

East Riding of Yorkshire Council (2017) *Housing revenue account business plan update*, Beverley, East Riding of Yorkshire Council.

East Riding of Yorkshire Council (2014) *HRA business plan 2014*, Beverley, East Riding of Yorkshire Council.

North Kesteven

East Midlands Councils (2016) *East Midlands housing review: building our future*, Melton Mowbray, EMC.

North Kesteven District Council (undated) *The NK Plan 2018-21*, Sleaford, NKDC.

Northumberland

Association of Retained Council Housing (2013) *Innovation and ambition: the impact of self-financing on council housing*, Coventry, ARCH, Appendix 6.

Northumberland County Council (2013) *Northumberland housing strategy 2013-2018*, Morpeth, Northumberland County Council.

Northumberland County Council (2017) *Community housing fund policy 2017*, Morpeth, Northumberland County Council.

Nuneaton

Nuneaton Borough Council (2018) *Development and acquisition strategy – housing revenue account*, Nuneaton, NBC.

Nuneaton Borough Council (2018) *Housing revenue account budget and capital programme – 2018/19*, Nuneaton, NBC.

Oxford

Association for Public Service Excellence and the Town and Country Planning Association (2017) *Building homes, creating communities*, London, APSE and TCPA (section 2.4) https://www.tcpa.org.uk/Handlers/Download.ashx?IDMF=db494bb8-f8b0-4fdc-bebd-acd864340450

Association of Retained Council Housing (2013) *Innovation and ambition: the impact of self-financing on council housing*, Coventry, ARCH, Appendix 8.

Lindley, E. (2014) *Developing in partnership: case studies*, York, HQN, pp 6-7.

Lloyd, M. (2018) ‘Awaiting right to buy replacements’, *Inside Housing*, 6 July, pp 20-22.

Local Government Association (2018) *Planning positively through partnerships*, London, LGA, pp 18-19.

Stoke-on-Trent

Barker, N. (2018) ‘Council proposes transferring housing services to repairs company’, *Inside Housing*, 17 January.

DCLG (2016) ‘Tens of thousands of homes supported by Housing Zone funding’, London, DCLG press release, 5 January.

Local Government Association (2018) *Planning positively through partnerships*, London, LGA, pp 26-27.

Stoke-on-Trent Council (2017) *Building together for a stronger future: Stoke-on-Trent housing strategy*, Stoke, Stoke-on-Trent Council.

Stoke-on-Trent Council (2017) *Build it in Stoke-on-Trent: development leaflet*, Stoke, Stoke-on-Trent Council.

Stoke-on-Trent Council (2017) *Housing revenue account 30-year business plan*, Stoke, Stoke-on-Trent Council.

Stoke-on-Trent Council (2017) *Housing infrastructure fund: council briefing note*, Stoke, Stoke-on-Trent Council.

Stroud

Local Government Association (2017) *LGA briefing: adjournment debate – Government policy on local authority housing*, London, LGA.

Stroud District Council (2016) ‘Stroud District Council is extending and increasing its council house owned stock’, Stroud, Stroud District Council press release, 5 December.

Sutton

Sutton Council (2017) *HRA business plan 2017 to 2046*, London, Sutton Council.

Sutton Council (2016) ‘Sutton Council’s new company, Encompass LATC, starts business’, London, Sutton Council news story, 19 July.

Sutton Council (2015) *Housing strategy 2015/16 and beyond*, London, Sutton Council.