

# Residential construction sector, modern methods of construction, and the steps being taken to boost the housing supply

House of Lords

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## KEY MESSAGES

- The last time we built at least 250,000 homes a year in 1979, councils delivered more than 40 per cent of them.<sup>i</sup> Councils once again have a key role in delivering more affordable housing and helping to build 300,000 new homes a year.
- The Government has accepted our long-standing call to scrap the housing borrowing cap, which is good news. Official estimates are that this will lead up to 10,000 new homes a year. This is a significant contribution to the estimated 100,000 social homes a year needed.
- Councils want to encourage home ownership, without a corresponding decline in the number of social rented homes. It is essential that the Government enables councils to keep 100 per cent of receipts from Right to Buy (RTB) sales to invest in new affordable housing.
- The safety and quality of homes must be a key factor in solving our housing crisis. Modern methods of construction will be important in delivering more sustainable homes at scale. The Government should encourage the housebuilding industry to invest in the change needed to deliver innovation in construction techniques.
- Planning is not a barrier to building. Councils are approving nine in ten planning applications and last year worked with developers to permission over 350,000 homes, an 11-year high. Housebuilders currently have 423,000 homes with permission that they are still to build.<sup>ii</sup>
- Councils face an overall funding gap of £3 billion in 2019/20, which we estimate will rise to £8 billion by 2024/25. It is vital that the Government uses the 2019 Spending Review to deliver truly sustainable funding for local government.

# Briefing

For more information, please contact:  
Vanessa Furey, Public Affairs and Campaigns Adviser  
[Vanessa.Furey@local.gov.uk](mailto:Vanessa.Furey@local.gov.uk) / 0207 664 3329

## **FURTHER INFORMATION**

### ***Housing delivery***

According to Government statistics, new housing completions in 2017/18 reached 163,250 - a 16 per cent increase from the previous year.<sup>iii</sup> It is positive news that more homes are being completed. The figures show that whilst private developers built 134,110 and housing associations 27,410 only 1,730 houses were completed by local authorities.

The lifting of the Housing Revenue Account (HRA) borrowing cap was a welcome and necessary step, which councils and the LGA had long called for. The Government has estimated this will lead up to 9,000 new homes a year. This is a significant contribution to the estimated 100,000 social homes a year needed. Councils will need to build the capacity in their housing teams, and we will be working to ensure the sector is well equipped to build houses at scale.

Despite substantial constraints in recent years, councils have been working hard to build new homes. We recently looked in-depth at innovation in house-building via HRAs. Our research demonstrated how councils are building some of the best quality housing, on some of the most difficult sites, and meeting the needs of people not being catered for by other developers.<sup>iv</sup>

The Government published its social housing green paper in August 2018, setting out its proposals to reform the relationship between tenants and landlords.<sup>v</sup> We welcome the green paper, and the positive intent it signals towards delivering more affordable housing.<sup>vi</sup> The green paper is only a small step towards plugging the gap in housing supply, compared with the immediate need for more genuinely affordable homes.

### ***Right to Buy***

Councils want to encourage home ownership, without a corresponding decline in the number of social rented homes. It is therefore essential that the Government enables councils to keep 100 per cent of receipts from Right to Buy (RtB) sales to invest in new housing. Under current arrangements councils are only able to retain a third of receipts from the sale of homes. Local authorities have lost enough homes to house the population of Oxford in the last five years.<sup>vii</sup>

Recent LGA analysis reveals almost £3.5 billion in RtB discounts have been handed out to council tenants over the past six years, at an average of £60,000 in 2016/17.<sup>viii</sup> This has led to a quadrupling in the number of RtB sales, which councils have been unable to keep up with and replace. This loss of social rented housing risks pushing more families into the private rented sector, driving up housing benefit spending, and exacerbating our homelessness crisis.<sup>ix</sup> In order to put Right to Buy on a sustainable financial footing, councils must be able to set sale discounts locally. This would enable councils to align their RtB policies with the local housing market, and with the demand for social rented housing in their area.

### ***Non-standard construction***

There are many different causes and solutions to the housing crisis. Resolving this crisis needs long-term local leadership which can meet the diversity of needs in local markets. Although there is no one single solution, there is an important future role for Modern Methods of Construction (MMC).

The development of MMC will likely be an important innovation in enabling the sector to deliver more high quality and sustainable homes, more quickly. The

Government should encourage the housebuilding industry to invest in the change needed to deliver innovation in construction techniques. In particular, it could work with developers and investors to instil confidence in a long-term future for MMC.

Local government can play an influential role in stimulating and shaping the growth of MMC at both a strategic and operational level. For instance, consideration of MMC developments within local plans is becoming more common. It is crucial, however, that the development of MMC works within the locally-led planning system, rather than be the subject of national targets which ignore override community involvement.

The recent growth in the capacity for local government to build more high quality homes will likely have a significant impact in supporting the emergence of MMC, especially with SME builders that are more likely to be commissioned by local authorities.

Furthermore, local authority investments in house building are often aligned to wider benefits for the local community. Such benefits include training people for the jobs created, supporting local economic growth and business development, and emphasising quality in a way that shapes the wider market. Our 'Housing our homeless households' report, published in July 2017, contains examples of councils using innovative methods, including MMC, to build new unites to provide temporary accommodation for homeless families.<sup>x</sup>

Fixing the housing crisis requires all partners working together to maximise their contribution to new supply, building different types and tenures of high quality homes at the right prices, and in innovating with tenure, partnership, finance and new construction techniques. There is an important future role for Modern Methods of Construction (MMC) if we are to succeed in tackling the housing crisis. This particularly applies to building homes more quickly and in adapting to challenges in accessing skilled labour.

### ***Planning***

Planning is not a barrier to building. Councils are working hard to use planning effectively to deliver the right kind of homes. However, planning departments are severely under-resourced. Taxpayers are subsidising the costs of planning applications by around £200 million a year.<sup>xi</sup> A proactive, well-resourced planning system could do far more to deliver the additional homes the country desperately needs. It could also help to deliver them in ways that meet wider national objectives on infrastructure, public health and the environment.

It is important not just to deliver additional homes, but to ensure they are built in the right places with the health and wellbeing of their communities in mind. This means giving residents access to: local public transport; employment and leisure; green spaces and essential services.

We are pleased that the Government has passed regulations enabling planning authorities to raise fees by an initial 20 per cent.<sup>xii</sup> A further 20 per cent increase should be allowed for all local planning authorities, so that councils are fully able to facilitate local housing and infrastructure development. This flexibility should not be dependent on meeting nationally-set performance criteria which risk creating perverse incentives and unintended consequences. There should be a fair and transparent scheme of local fee setting, giving councils the flexibility to set appropriate fees to reflect local circumstances.

### *Permitted development rights*

Since 2013, developers have had a national right to convert office space into residential homes, a right they have wholly embraced with nearly seven per cent of new homes provided in this way in the last three years. Because they are exempt from the full local planning process, they come forward with minimal scrutiny and outside of local authority control.

These homes are also delivered without making any contribution towards affordable housing, which other forms of developments are required to do. This means that we are losing out on thousands of affordable homes which would be delivered if these homes went through the planning system.

Research by both the LGA and Shelter has shown the scale of this loss. Both organisations have calculated that more than 10,000 affordable homes have potentially been lost since 2015.<sup>xiii</sup> The result is that thousands of families remain in temporary accommodation and on council house waiting lists for years, despite levels of housebuilding rising – underlining that we need to think more about what we build as well as how many homes we build.

Permitted development rights have caused extensive problems. The current proposals to allow for demolition of existing buildings and replacement with new residential ones, and for upwards extensions to existing buildings for new homes through a permitted development right, should not be pursued. We call on the Government to instead focus on delivering the affordable, high quality homes that people want and need through the local planning process.

### ***Building safety***

The Grenfell Tower fire exposed a building safety system that is not fit for purpose. We need to ensure the tragedy that unfolded can never happen again. In the aftermath of the fire, the LGA pushed for a review of building regulations and fire safety legislation. In our submission to the Dame Judith Hackitt's Review of Building Regulations we argued the system was broken.<sup>xiv</sup>

We agree with Dame Judith's conclusion that the building regulation system is not fit for purpose and needs reform.<sup>xv</sup> Her report recommended a number of reforms that councils and the LGA have been calling for, and we are pleased that the Government chose to accept all of her recommendations in their subsequent Building Safety Implementation Plan published in December 2018.

It is pleasing to see the proposals to increase accountability for building safety. In particular, this will be achieved through the creation of a dutyholder role with responsibility for building safety at the design, construction, refurbishment and occupancy stages of the building's lifecycle. We also support the proposals to strengthen the role of regulators, and through the Joint Regulators Group, are working with Government to assist the transition to a new regulatory regime.

The Government should carefully consider which enforcement powers and sanctions will be necessary for the new regulatory system to be effective. Upcoming changes to legislation should be used as an opportunity to fill the gaps which are currently preventing regulators from keeping buildings safe. Any new proposals must achieve the necessary outcomes without being too onerous for councils in their role as building owners and regulators. We would like the new regulatory framework to be applied to all buildings over 11 metres in height, and all buildings in which vulnerable people sleep.

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- <sup>i</sup> LGA Media release, March 2018 (<https://www.local.gov.uk/about/news/lga-responds-latest-government-house-building-figures>)
- <sup>ii</sup> LGA, Planning Positively through Partnership, February 2018 ([https://www.local.gov.uk/sites/default/files/documents/5.24%20Planning%20positively\\_v06.pdf](https://www.local.gov.uk/sites/default/files/documents/5.24%20Planning%20positively_v06.pdf))
- <sup>iii</sup> MHCLG, House building; new build dwellings, England: December Quarter 2017
- <sup>iv</sup> <https://www.local.gov.uk/topics/housing-and-planning/innovation-council-housebuilding>
- <sup>v</sup> MHCLG, Social housing green paper: a 'new deal' for social housing, August 2018 (<https://www.gov.uk/government/news/social-housing-green-paper-a-new-deal-for-social-housing>)
- <sup>vi</sup> LGA response, social housing green paper, August 2018 (<https://www.local.gov.uk/parliament/briefings-and-responses/social-housing-green-paper-briefing-15-august-2018>)
- <sup>vii</sup> <https://www.local.gov.uk/about/news/lga-responds-latest-government-right-buy-sales-stats>
- <sup>viii</sup> MHCLG, Right to Buy statistics by local authority area
- <sup>ix</sup> LGA media release, March 2018 (<https://www.local.gov.uk/about/news/lga-responds-new-planning-laws-councils>)
- <sup>ix</sup> LGA media release, March 2018 (<https://www.local.gov.uk/about/news/barn-conversion-developments-heap-more-pressure-rural-schools-roads-and-affordability>)
- <sup>x</sup> <https://www.local.gov.uk/housing-our-homeless-households-full-report>
- <sup>xi</sup> LGA, 'Development deadlock: council planning departments 'hampered' by missing out on £70 million' (<https://www.local.gov.uk/about/news/development-deadlock-council-planing-departments-hampered-missing-out-ps70-million-lga>)
- <sup>xii</sup> The Town and Country Planning (Fees for Applications, Deemed Applications, Requests and Site Visits) (England) (Amendment) Regulations 2017 (<http://www.legislation.gov.uk/uksi/2017/1314/introduction/made>)
- <sup>xiii</sup> <https://www.local.gov.uk/open-letter-permitted-development-rights>
- <sup>xiv</sup> <https://www.local.gov.uk/parliament/briefings-and-responses/lga-response-dame-judith-hackitts-review-building-regulations>
- <sup>xv</sup> <https://www.gov.uk/government/publications/independent-review-of-building-regulations-and-fire-safety-final-report>