

# Local Government Association (LGA): Briefing, House of Lords debate, increasing the supply of affordable housing, Thursday 25 June 2015



## Briefing

### KEY MESSAGES

- The new Government has pledged to deliver 275,000 affordable homes by 2020 and councils are ambitious to increase the supply of affordable housing.
- Many local authorities are already working in partnership with the private sector, and others are planning to do so. No sector, either public or private, can meet the demand for affordable housing alone.
- The Government should ensure that local authorities are able to support house building by giving councils flexibility on their assets, providing a local stable framework and planning system, and devolving funding for housing.
- Investing in affordable housing can help reduce the £24 billion annual housing benefit bill<sup>1</sup>; boost employment in the construction industry; support local economies; reduce the £2.5 billion cost of poor quality housing to the NHS.
- Centrally imposed exemptions to affordable housing and infrastructure contributions undermine councils' abilities to ensure new developments benefit local communities.

### BACKGROUND INFORMATION

#### LGA recommendations

The Government has pledged to deliver an additional 275,000 affordable homes by 2020, and local government can play a central role in meeting this target and the wider demand for housing. To enable councils to play a key role in delivering housing, the Government should ensure:

- Local authorities are able to manage their assets independently, and over the long term, so they can invest in housing. This should extend to the Right to Buy scheme, and councils must be allowed to use receipts from Right to Buy sales to invest locally in replacement homes.
- The disposal of assets can support the delivery of new homes as part of local public asset management strategies. Councils have a good record in managing their property portfolios.
- Decisions on ensuring contributions from developers to the costs of infrastructure and affordable housing are made locally. Centrally imposed

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<sup>1</sup> [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/323953/dwp-annual-report-accounts-2013-2014.PDF](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/323953/dwp-annual-report-accounts-2013-2014.PDF)

exemptions to affordable housing and infrastructure contributions undermine councils' abilities to ensure new development.

- There is a stable framework and supply strategy to give councils the conditions and confidence to invest in housing, manage assets to increase housing supply and support local economies.
- Funding for housing and infrastructure is devolved to help drive innovation, encourage new proposals and partnerships and meet local housing challenges, and leverage private investment.
- The planning system is stable and allows councils to continue to get local plans in place. The system should also be locally driven to allow planning authorities to apply fees that reflect local costs. Currently 32 per cent of the costs of processing planning applications is subsidised by the tax payer.

### **Right to Buy**

The Government has committed in the forthcoming Housing Bill to extending Right to Buy (RtB) to housing associations. It has also proposed that councils will be required to manage their housing assets more efficiently, with high value council owned social homes to be sold off and replaced when they become vacant. Receipts from the sale of high value council homes will then help to fund the extension of the RtB, as well as contributing to a £1 billion brownfield land fund.

Councils support measures designed to help people into home ownership, however this must not be at the expense of affordable housing for future generations and those on the housing waiting list. Current proposals on funding the extension of RtB to housing association tenants will undermine councils' plans for housing investment and the LGA is working on proposals that will enable receipts to be reinvested in local areas without centralising receipts. The Government has rightly promised every home sold under the extension of Right-to-Buy will be replaced on a one-for-one basis and any new proposals must enable that to happen. Homes sold under the scheme should be replaced in the local area and according to housing need.

### **Starter Homes**

The Government has also pledged to deliver 200,000 starter homes by 2020, which will only be available to first time buyers under 40 years old and will be sold at 20 per cent below open market value. The discount will be funded by exempting developers from paying section 106 affordable housing and tariff-style contributions for Starter Homes, and from the Community Infrastructure Levy. Councils are concerned over the impact of the policy on the supply of affordable homes and infrastructure, and that these proposals may not be sufficient to unlock problematic sites. The LGA is working with the Government to assess if the measures will be sufficient to bring forward 200,000 starter homes, which are also supported by the required infrastructure.

### **Funding**

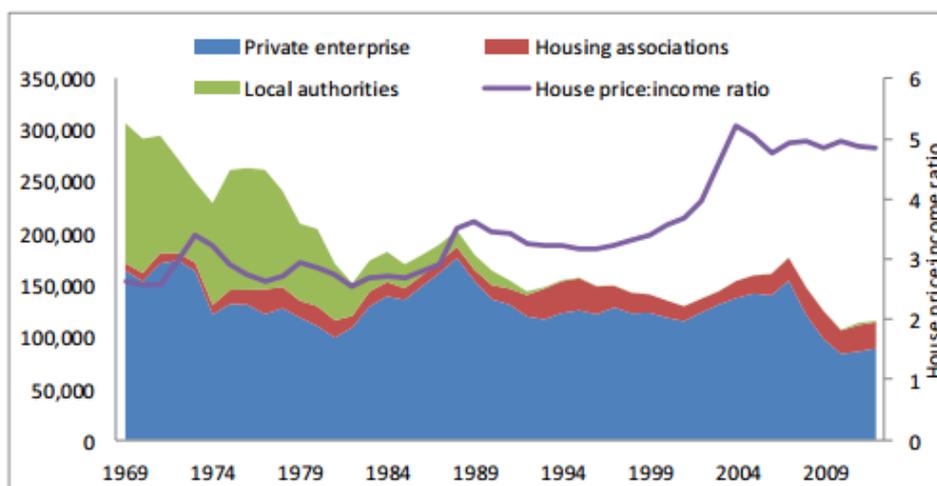
Funding for housing and infrastructure is currently fragmented across streams that address specific housing issues or government initiatives. Strategic funding for housing and infrastructure should be a central feature of the Government's approach to devolution through further City Growth Deals. This would drive innovation,

encourage ambitious housing proposals, ensure funding is better targeted to meet local housing challenges, and leverage substantial amounts of private investment. Councils are also actively exploring alternative sources of private investment for housing. The LGA is working with a consortia of councils with a view to accessing private finance on more favourable terms. It established the Municipal Bonds Agency in 2015 to fund productive capital investment within the prudential code, and the first bond is expected to be issued later in 2015.

### House-building and the gap in supply

The number of houses being built across England each year must significantly increase in order to meet year-on-year rising demands. The country needs an additional 230,000 homes per year to keep up with the number of new households, and the private sector has averaged 130,000 completions over the last four years. Councils are well placed to support an increase in the scale of house building. As the below graph shows, house building levels above 200,000 units per year look unachievable without reintroducing conditions that will allow councils to build more housing.

Graph 1: levels of housing building by sector



### Reforms to council led housing delivery - Investment through partnership

Councils and developers want to work together to build good quality and affordable homes. The planning process is sound, and councils are approving 90 per cent of planning applications, but in practice negotiations can be challenging. There are a number of supportive measures the Government could introduce, including:

- Streamlining and simplifying Community Infrastructure Levy regulations and guidance.
- Removing the restriction on pooling section 106 contributions for strategic sites identified in local plans.
- Removing national exemptions to section 106 contributions and replacing the Community Infrastructure Levy with a more robust and transparent local viability assessment process. This would allow councils to reflect local market conditions, and agree contributions with developers at an early stage so that viability concerns are addressed and lengthy negotiations could be avoided.

Over 80 per cent of housing stock owning councils responding to a recent LGA survey planned to work in partnership to support new housing development over the

next five years. The following case studies are existing examples of house building partnerships.

### **Private Investment**

- The Gateshead Regeneration Partnership will deliver 2,400 homes over the next 15 years. Gateshead Council is using its land assets to secure private finance through a local Asset Based Vehicle.

### **Council Investment**

- South Cambridgeshire District Council established and registered a specialist arms' length housing company, and it is considering leasing arrangements through the Company to address the shortage of affordable rented property. Leasing has the advantage of speed, as no building is required. It is also a low risk activity to the council in terms of risk and investment.

### **Other investment and delivery options**

- Cornwall Council established a new £62 million fund in February 2013 that will deliver more than 4,000 new affordable homes over the next four years. The Council will develop new innovative ways of investing that create value that can be recycled into future schemes. This includes commissioning new affordable housing from registered providers and appointing a development partner through the Homes and Communities Agency.

### **Section 106 affordable housing contributions**

Local authorities are keen to support the delivery of small scale housing sites to meet housing needs. This should not be undermined by central government and it is important that decisions on eligibility for section 106 affordable housing contributions are determined by councils. Decisions should be based on the viability of development and an assessment of the local need for affordable housing. The LGA is concerned that:

- The 10-unit threshold on providing section 106 contributions is threatening partnerships between councils and developers and the construction of affordable housing. The impact will disproportionately hit rural areas where small schemes are appropriate for small villages/hamlets and where there is a strong demand for affordable housing for young people from those communities. For example in Shropshire, 80 per cent of its annual housing delivery is on small sites of five or fewer.
- A mandatory exemption on affordable housing contributions from buildings that are brought back into any use fails to recognise the potential uplift in value associated with redevelopment. Re-using previously developed land and bringing back empty buildings into active use is important to councils, and makes a valuable contribution to housing stock.

The LGA has developed proposals for an alternative approach. This would replace national exemptions with a more flexible system that allows councils to reflect local market conditions. It would also agree contributions with developers at an early stage so that viability concerns are addressed and lengthy negotiations avoided.