

# Delivery of new affordable housing – new role envisaged for local authorities?

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## Introduction

The elections are now only four months away, and both the Conservative and Labour parties have recently published major reports on increasing the delivery of new affordable housing. Both reports envisage an enhanced role for local authorities, with the Elphicke-House review majoring on the shift to a proactive enabling role.

This paper summarises key points from both reviews and considers the implications for local authorities, and for registered providers (RPs). It is for everyone with an interest in how new affordable housing will be delivered.

## Key points

- The Elphicke-House review envisages a significant shift for local authorities to become proactive housing delivery enablers, maximising existing powers to drive up the supply of new affordable homes in their areas
- This could include providing finance/resources for new housing delivery including some innovative financing mechanisms
- The Elphicke-House review recommends establishing a new Housing and Finance Institute to work with local authorities to improve understanding of finance and development
- The review also envisages a stronger role for local housing delivery organisations, primarily as ‘off-balance-sheet’ mechanisms
- The Lyons review foreshadowed a shift to housing delivery enablers with new enhanced role for local authorities
- The Lyons review proposed cross-authority New Homes Corporations to drive delivery over wider geographic area.

## Background

The long-awaited Elphicke-House Report<sup>1</sup> was published on 27 January, with a number of recommendations, large and small. The Coalition government has already welcomed the report and committed to some of the recommendations, and the report will continue to influence government in the run-up to the elections, and also to influence Conservative Party policy beyond this. In October last year, the Labour Party published the Lyons Housing Review<sup>2</sup>, an independent review which is also expected to influence Labour Party policy in the run-up to and beyond the next elections. Interestingly, some points from the Lyons review also appeared in the Chancellor’s Autumn Budget Statement, suggesting that the two major parties may have something in common when it comes to housing policy.

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<sup>1</sup>[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/398829/150126\\_LA\\_Housing\\_Review\\_Report\\_FINAL.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/398829/150126_LA_Housing_Review_Report_FINAL.pdf)

<sup>2</sup>[http://www.yourbritain.org.uk/uploads/editor/files/The\\_Lyons\\_Housing\\_Review\\_2.pdf](http://www.yourbritain.org.uk/uploads/editor/files/The_Lyons_Housing_Review_2.pdf)

## **The Elphicke-House Report – summary of recommendations**

The report builds on earlier work, including that of Kate Barker, and emphasises the links between affordable housing and economic growth. Figures are provided on the beneficial impact of housing on the economy, and concerns raised from employers about the need to find homes for their employees. Some of this may feel like familiar territory.






### ***Shift to housing delivery enablers for local authorities***

The key recommendation that underpins the whole report is that councils change from being statutory providers to housing delivery enablers. The report envisages a new enhanced role for local authorities: setting out a vision for housing development, creating opportunities for housing to be built, and working in partnership with RPs, developers and business generally to gain support for new homes and momentum for delivery. Local authorities must shift from assessing housing need and granting planning permission to proactive encouragement of development. This could – perhaps even should – include providing resources for housing: development finance, long-term investment, and sales guarantees.

For some local authorities this may feel like a natural progression from the way they are working currently, although the emphasis on providing resources may sit uncomfortably with current fiscal restraints. For others, this may be a huge step-change.

### ***Local authority role in financing new development***

The report sets out the advantages for local authorities getting involved in financing developments:

-  Bringing forward schemes which might otherwise not happen
-  More effective delivery of enabling role
-  Creating investment for council
-  Increased council tax income (and NHB)
-  Boosting local economic growth.

The report does not set out the disadvantages, although it does highlight risk around some more innovative financing mechanisms. Fundamentally, it perhaps underplays the very real financial constraints under which many local authorities are operating which may well limit the opportunity for direct investment, even if the will to do so is there.

The report does acknowledge that different local authorities will have varying capacity for this work, and also varying priority attached to new housing. It also acknowledges the very real need for support and expertise to be made available, particularly to smaller local authorities, in order for them to take on this role. Many local authorities will have a lack of knowledge around some of the more innovative financing mechanisms, and the risks involved.

The report sets out the main ways in which local authorities currently provide funding/resources for affordable housing delivery:

- Planning gain, including commuted sums
- Capital receipts, including land sales
- Housing Revenue Account (HRA) borrowing
- GF borrowing
- Off-balance-sheet vehicles including local housing companies
- Sale and leaseback arrangements.

It also lists a very wide range of other actual or potential routes which could be explored, including:

- Cross-subsidy across tenures
- Deferred payment arrangements on land sales
- Selling on a fixed-term long lease to reduce value of land
- Using land value as an equity investment
- Creating value through master-planning and planning permissions
- Site assembly
- Negotiating to defer some costs/fees until after sales are completed
- Guaranteed purchase of sale properties
- Nominations for rented properties to be sold to RP/private landlord, with or without rent guarantee
- Financial assistance to purchasers of new developments
- Flexibility in planning process
- Provision of development finance at cheaper rates
- Using commuted sums to create a house-building loans/grant fund.

Perhaps none of this is exactly new, but it is a useful checklist and few local authorities will have considered all of these. RPs may well have done – and are encouraged to share expertise and experience with local authority colleagues to help momentum behind the new role.

### ***Other recommendations relating to local authority enabling role***

Other recommendations which touch on the role that local authorities could play include:

- Strengthening advice to encourage more councils to support neighbourhood planning
- More robust housing approaches, ie, wider range of choices around housing tenures and types
- Looking at different ways of funding rural housing enablers, including forward funding from future development value

- Peer challenge on housing delivery to support local authorities to up their game
- Working in partnership across geographic boundaries – although there is a slight hedging of bets that local authorities should ensure such partnerships reflect democratic responsibility and accountability.

### ***A new Housing and Finance Institute***

There are other key recommendations, which perhaps come as more of a surprise. One such is the recommendation to establish a new independent organisation to support this step-change, a Housing and Finance Institute. It does not appear as if the Homes and Communities Agency (HCA) was considered for this role, although there is some overlap in the suggested areas of work:

- Improving understanding of finance and development risk/appetite and asset management
- Developing and sharing precedents/best practice including ‘how to’ guides, starting with how to set up a local housing delivery organisation
- Increasing access to finance for housing development and long-term investment in housing
- Improving quality and efficiency of housing management and housing services
- Improving understanding of how councils work and how decisions are made
- Informing business about what councils want and how to pitch and position for council’s work
- Undertaking a technical explanation and problem-solving role between central and local government and business, on matters such as public accounting, consents, finance, procurement and value for money
- Undertaking research, publishing policy papers, etc.

Is there a need for a Housing and Finance Institute? Many local authorities would welcome access to expertise about fundraising and innovative financing mechanisms. However, the extension of the role to include housing management may be less welcome, particularly with the emphasis on value for money and considering other providers.

### ***Local housing delivery organisations***

The report examines the idea of local housing delivery organisations in some detail, even including some illustrative models provided by solicitors Trowers and Hamblins. Local authorities are encouraged to consider different delivery organisations depending on what they are trying to achieve. The benefits are not spelt out in any level of detail in the report, although they are perhaps hinted at in the two relevant recommendations: that local authorities considering expanding their role outside the traditional one consider establishing a local housing delivery organisation as part of this; and that they consider the benefits of developing such models so as to utilise private finance.

In our work with local authorities, HQN highlights two key benefits: new properties owned by a local housing company would not be subject to the Right to Buy, and the local housing company borrowing would be ‘off balance sheet’ and therefore not subject to



public sector borrowing restraints. Local housing companies can also enter into joint venture agreements with RPs and developers, which can be helpful in managing risk on larger projects, particularly those involving some element of sales risk.

### ***Other recommendations***

Other elements touched on in the report include:

- The significant reduction in the number of smaller developers between 2007 and 2013 and the ways that local authorities can support and encourage smaller developers to create a more level playing field and encourage a wider range of players in the market
- The need to work with, respond to and creatively address community concerns, and the role of neighbourhoods and villages in shaping their communities (which sits slightly at odds with other recommendations on the drive for new housing)
- The role that self-build/custom-build can play in meeting housing needs and the steps local authorities can take to encourage this, including working with developers to secure the provision of serviced plots
- Encouragement to councils to see themselves from the point of view of businesses, including developers, and to make it easier for businesses to engage in conversation with them
- The lack of transparent information about public land holdings, which can make it difficult for developers to identify land which could be brought forward
- The lack of construction skills in the workforce, and the new skills that will be needed as modern methods of construction account for an increasing proportion of the build programme.

In summary, although many of the recommendations are not new, they add up to a very challenging role for local authorities. Some will welcome this shift, feeling that it reflects the current direction of travel. For others, it may be a significant step-change, which will feel hugely ambitious in the current context of reducing budgets and reducing services.

## **The Lyons Housing Review**

The Lyons review was generally welcomed and praised for being comprehensive but many senior voices in the sector felt that the recommendations stopped short of what they could have been. The review focused on two key areas: how to increase the supply of land coming forward for new house building, and how to increase the number of organisations building new homes. The recommendations were set out to show who needed to take action on what:

### ***Recommendations for central government***

- Establish housing as a clear priority with clear statement of commitment and ambition (200,000 new homes a year by 2020)
- A housing ‘task force’ to provide ministers with independent evaluation against targets
- A housing ‘observatory’ to analyse housing data and produce forecasts

- A Housing and Planning bill to update New Towns legislation and Compulsory Purchase legislation
- Re-tasking the HCA to focus on delivery
- Consolidating all housing funding streams into single economic development fund focused on outcomes rather than bid rounds
- Review Community Infrastructure Levy (CIL) exemptions for affordable housing
- Garden cities to retain business taxes for 30 years to fund infrastructure
- Recommend extending AH Guarantee programme to 2020 and extend to enable re-financing as well as new borrowing (the AHG was subsequently extended but restrictions on its use remain in place)
- The government should enter discussions with RPs on mobilising surpluses, potentially leading to more mergers
- Affordable rents could be linked to local incomes.

Again – no real surprises. There was a brief flurry of concern in the housing press over the idea of linking affordable rents to local incomes, which is surprising given that many tenancy strategies already do this to a limited extent. Little attention was paid to the idea of the government entering discussions with RPs to mobilise surpluses, although this could be a significant factor in the future programme.

### ***Recommendations for local authorities***

- Powers funding and responsibility delegated to local level
- Planning fees set locally on full cost recovery basis to ensure planning resources
- All councils required to produce a local plan by December 2016 with commitment to increased land supply. Councils who achieve this should be given additional powers to deliver
- Simplify and speed up the planning process
- Councils given a greater role in land assembly and preparation
- Councils to share risk with developers, land owners, RPs and other councils, through 'housing growth areas' and 'New Homes Corporations' as local delivery agencies
- Under 'housing growth areas' councils would designate an area for development and have powers to buy land at prices closer to existing use value than inflated expectations. Difference in land prices could fund some of infrastructure costs. Councils would invite developers to bid, would speed up planning process and let some of new properties to local people
- New Homes Corporations would be joint vehicles with other local authorities, operating across a strategic housing market assessment (SHMA) to pool funding and expertise. They would not replace local housing companies where these exist, but would work closely with these
- Planning permissions granted for two rather than three years, and start on site requirements more substantive

- ‘Right to grow’ would enable councils to develop outside their boundaries, working with others to produce and deliver a strategic housing market plan (SHMP). The Secretary of State would have power to require an SHMP for a particular area: if local authorities did not co-operate to produce one, the Planning Inspectorate would be asked to do so.

It is this section that shows the common ground between the Elphicke-House report and the Lyons review. The idea of cross-boundary New Homes Corporations has been adopted in the Elphicke-House review, albeit with different language. The SHMP feels similar to the proactive managing of the market in the Elphicke-House report. Similarly, the greater role for councils in the Lyons report foreshadows the shift to housing delivery enablers in the later report.

### **Tenure**

- Market rent should be recognised in assessments of local housing need
- Shared ownership should be recognised as the fourth main tenure with a single brand, clear pathway for staircasing, more flexibility in secondary market and funding to put s/o on par with other schemes such as Help to Buy
- Housing needs of older people, looking to downsize, also a priority
- Right to Buy (RTB) should be re-examined to see if it is meeting policy objectives.

The Elphicke-House report does pick up on the RTB but does not otherwise address issues of tenure. However, the Chancellor’s Autumn Statement did pick up on some of these recommendations from the Lyons review, committing the government to consult on ways to make shared ownership more attractive to buyers, including streamlining the process for selling on.

### **Summary**

Although there are some significant differences between the two reviews, there is also some common ground. Both reviews envisage a renewed, enhanced role for local authorities in housing delivery, although the Elphicke-House report spells this out in a lot more detail. Both reviews promote the idea of new vehicles to deliver the new homes, whether these are local housing companies working in a single local authority area or new homes corporations working across a sub-region. And both reviews seek to balance the strong push on delivering greater numbers of new homes with the need to involve local communities and respond to their concerns.

Will the reviews have any impact? The Lyons report has already influenced Conservative Party policy, despite being commissioned by the Labour Party. Will Labour policy similarly be influenced by the Elphicke-House review? Which policies will find their way into manifestos over the coming months?



## *What should you be doing?*

There are steps which all housing organisations should be taking now, to ensure they are well positioned for new opportunities to increase the delivery of new affordable homes.

### *Stock-holding local authorities*

- Conduct a robust review of assets to identify land with potential for development (both within and outside HRA). Obvious candidates are garage sites, decommissioned sheltered schemes, but is there scope for in-fill development? Do you have properties with large gardens which could be hived off and built on? Ideally review with partners to identify potential to assemble larger sites where ownership is dispersed
- Take a realistic view of headroom on the HRA available for new development – balancing this need against other calls on funding. There is an obvious inter-relationship – do you redevelop sites needing significant investment, do you sell, if so can the proceeds support new development?
- Ensure you have a good and up-to-date understanding of the housing market and housing demand
- Ensure you have a good and up-to-date understanding of what partners (RPs and developers) are bringing to the table and what is in the development pipeline; review stalled sites to see if steps can be taken to bring them forward, what the obstacles are to development and what the local authority can do to assist including on-lending, site assembly, etc
- If HRA headroom and available resources/assets enables you to bridge the gap between need and supply, you can focus on opportunities to develop within the HRA. If this is not the case, you may need to consider setting up a local housing company or other delivery vehicle. If you are looking to bring forward schemes with a high risk, including those reliant on open market sales, you may wish to consider a joint venture vehicle to share risk. If you are looking to bring in institutional investment, you may want to look at a cross-authority vehicle, such as a New Homes Corporation.

### *Non-stock holding authorities*

- Ensure you have a good and up-to-date understanding of the housing market and housing demand
- Ensure you have a good and up-to-date understanding of what partners (RPs and developers) are bringing to the table and what is in the development pipeline; review stalled sites to see if steps can be taken to bring them forward, what the obstacles are to development and what the local authority can do to assist including on-lending, site assembly, etc
- Look at the gap between need and supply and work proactively to identify ways to bridge it. You may need to consider setting up a local housing company or other delivery vehicle. If you are looking to bring forward schemes with a high risk, including those reliant on open market sales, you may wish to consider a joint venture vehicle to share risk. If you are looking to bring in institutional investment,

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- Conduct a robust review of local-authority-held assets and consider whether any could be made available for housing development. Also consider what level of resource the local authority can make available for housing development.

### *Developing RPs*

- Have a realistic view of your development capacity and appetite for risk. Are you working to capacity? What could be done to increase capacity? Would a local authority guarantee open up more borrowing? Do you want the local authority to borrow and on-lend? Are your main local authority partners aware of constraints on your capacity and are they planning accordingly?
- How clear are you on the obstacles to new development and the support that is needed from your main local authority partners? Are you working together to overcome these?
- Have you reviewed your development partnerships; can you demonstrate value for money? If security is an issue for borrowing, can you include smaller development partners who may have unsecured assets they could bring to the table?
- Encourage sub-regional delivery boards where this increases capacity and/or attracts institutional investment
- Encourage local authority partners to consider joint venture vehicles where appropriate
- Share understanding of financing and work with local authority partners to access more innovative funding mechanisms.

### *Non-developing RPs*

- Don't think you are off the hook – the Lyons review is giving a strong message about the need for all RPs to maximise existing assets
- Conduct a robust review of assets to identify land with potential for development.

Obvious candidates are garage sites, decommissioned sheltered schemes, but is there scope for in-fill development? Do you have properties with large gardens which could be hived off and built on? Ideally, review with partners to identify potential to assemble larger sites where ownership is dispersed.

## About the author

**Wendy Murphy** is an experienced consultant, facilitator, trainer and coach, with over 20 years' experience in housing. As a senior manager she has driven and led the turnaround of many previously failing services, with a particular focus on engaging and inspiring existing staff to ensure that change is embedded and long-lasting.

Since becoming an HQN Associate in 2006, Wendy has worked on a range of projects from service reviews and policy development to mock inspections and training. She has worked with over 20 local authorities, housing associations, the IDeA, the National Housing Federation, the Department of Health and the Government Office for London. She was previously chair of Flourish Homes, a Somerset-based housing association, and a non-executive director of the Aster Group.