

Firm foundations

The holistic benefits of house-building
by stock retained councils

A report by APSE for ARCH April 2011



GOOD DESIGN

SECURITY

HIGH QUALITY

COST EFFECTIVENESS

MEETING LOCAL NEEDS

VALUE FOR MONEY

BOOSTING THE ECONOMY

COMMUNITY COHESION

ENVIRONMENTALLY FRIENDLY

ADDED VALUE

Firm foundations:

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Association of Retained Council Housing (ARCH)

The Association of Retained Council Housing (ARCH) was set up for councils whose tenants have chosen the local authority as their landlord. ARCH brings councils who own and manage housing together to get the best deal for their tenants. It represents collective interests of stock retained councils nationally, lobbies for a fairer, clearer finance system to allow councils to provide affordable homes in a sustainable way, promotes best practice, listens to the views of tenants and demonstrates the benefits of retained stock in meeting wider local and national priorities.

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Foreword

THIS publication is a follow up to last year's report *Under One Roof: The holistic benefits of retained council housing*. That report, which set out the ways in which council ownership and management of housing stock underpins a range of local and national environmental, social and economic priorities, was very well received. *Firm foundations: The holistic benefits of house-building by stock retained councils* examines the ways in which construction by stock retainers can link with other services and fulfil wider environmental, social and economic goals – as well as meeting the pressing need for new homes.

This report is not intended as a definitive argument as to the merits of one model of delivering new social housing over another. Local authorities across England who are members of the Association of Retained Council Housing work in close partnership with housing associations and private developers. With the huge challenge of 1.76 million households on waiting lists, ARCH regards building by local authorities as complementary to programmes by other providers.

Having the ability to build their own properties enables local authorities to respond directly to specific needs locally. It can deliver added value, as councils are also responsible for the strategic housing role, regeneration, environmental sustainability, caring for older and vulnerable residents and a raft of other services.

With the house-building role of councils eroded over the years, it is highly gratifying to see the recent achievements of local authorities showcased in this report. It shows how – given the opportunity – councils can deliver high quality, sustainable, cost effective homes with social and economic benefits that go far beyond bricks and mortar.

The majority of programmes discussed in the case studies were funded through the Homes and Communities Agency's Local Authority New Build scheme, which was a one-off pot. The scheme entailed tight deadlines and set criteria for cost effectiveness, quality of design and construction, sustainability and creation of local economic opportunities. What is interesting is that while the projects described here all fulfil such criteria, they each do so in a way that is tailored specifically to local circumstances.

This report shows that building by local authorities not only responds effectively to the huge need for new housing. It also lays firm foundations for economic, social and environmental sustainability.

The full implications of new housing finance arrangements are still emerging. ARCH members have the desire and the ability to build. We sincerely hope that the new system will allow sufficient scope to do so.

Cllr Milan Radulovic, Broxtowe BC
Chair of ARCH

Executive summary

THIS report follows on from *Under One Roof: The holistic benefits of retained council housing*, which showed the added value of local authority ownership and management of housing in supporting other services and meeting broader local and national objectives.

Firm Foundations: The holistic benefits of house-building by stock retained councils looks at ways in which direct building of new homes by local authorities can be an effective tool for supporting other services and meeting broader objectives – as well as addressing the pressing need for new homes. It shows that the holistic overview taken by local authorities means they can use construction to simultaneously address a range of local concerns and underpin sustainable economies and communities.

The report is divided into three sections, which examine: the policy and funding context; house-building by ARCH members; and the business case for council building.

The policy and funding context

The gap between supply and demand for affordable homes is nothing new, but the scale has never been greater. Local authorities went from being major providers of social housing to building less than 400 new properties in England in 2009 as policy and funding decisions favoured other models. This report begins by setting the policy and funding context for local authority building. It shows that councils have been keen to build new homes but have been unable to do so due to lack of local control and resources.

ARCH has campaigned for a fairer finance system and more opportunities to build and the case for council building has gathered momentum. The Homes and Communities Agency (HCA) Local Authority New Build (LANB) programme was the first centrally provided funding for council house-building in decades. ARCH members have been among successful bidders, as the survey and case studies in this report show.

Funding is currently limited but ARCH hopes the self-financing system coming into effect in April 2012 will provide new opportunities. ARCH members are assessing the impacts of latest announcements on the settlement and will determine whether it offers sufficient scope to build according to their individual circumstances. The HCA's latest affordable housing programme discusses the role of local authorities in developing homes under new self-financing arrangements. HCA anticipates that local authorities may want to directly provide new homes and expects them to be among bodies bidding for funds.

Building by ARCH members

The middle section of this report showcases the recent house-building achievements of ARCH member authorities. A table outlines information about what ARCH member authorities are building and where and the funding being used for this. Analysis of a survey of ARCH members shows that councils that are building new homes are doing so to high design, accessibility and environmental standards, tight deadlines and meeting strict value for money criteria.

Case studies in this report show the ways in which direct building is helping meet a range of social, environmental and economic goals in ARCH member authorities.

- Birmingham City Council's vision for a council housing renaissance is integrated with major regeneration initiatives that are under way in the city.
- In Bournemouth, revenue savings of up to £167k a year are expected to result from providing high quality care for older people in purpose built, hi-tech facilities.
- Bristol City Council is working in partnership with private developers and using logistical management skills to re-house tenants who were living in substandard accommodation.
- Development of new council homes in Corby is integrated into the ambitious One Corby vision for the town, which stresses the importance of community involvement, environmental responsibility and partnership working.
- Building large, attractive new council homes in the London Borough of Croydon is having a positive impact on the local economy and skills development as well as

meeting a pressing need for family-sized accommodation.

- Exeter City Council's new flats are providing innovative, energy efficient homes for over-55's as part of its downsizing scheme and freeing up larger homes for families.
- Gravesham Borough Council is building new bungalows following research identifying a pressing need for accommodation for people with disabilities on a site that was previously prone to anti-social behaviour.
- North Kesteven is proving an exemplar in environmentally friendly construction by building the first council houses in the UK to use a straw construction method.
- New homes being built by Oxford City Council have cutting-edge sustainability features as well as high quality design and generous space standards.
- The extension of the Rollo estate in Wandsworth is turning a site prone to anti-social behaviour into secure, sustainable accommodation in attractive landscaping.
- West Lancashire's development that is under way will bring jobs and skills along with new homes to one of the most deprived wards in the country.

The business case for council building

Having shown the achievements of local authorities in building new homes, the report sets out the business case for building by stock retained councils in both macro and micro terms.

Analysing costs to the national purse associated with homelessness and poor housing shows there is a strong macro-economic argument for investment in affordable housing. There is a desperate need for more affordable housing and a high price to the taxpayer in terms of the impact of temporary and inadequate accommodation on health, crime and education. This is costing the National Health Service an additional £2.5bn a year plus an additional £1.8 bn a year in policing costs. Every £1 investment in new housing generates £3.51 of economic output and more than 215,000 new jobs would be created if the UK built the new homes it needs, boosting the economy by £1.2 billion. The cost of not investing therefore outweighs the cost of building to the taxpayer.

This report is not suggesting that council building is always the best option. But, where chosen as the most appropriate solution to meet local needs, councils are well placed to provide new homes. The broader benefits of council newbuild can be seen in terms of their added value in meeting national and local social, environmental and economic objectives. The building of new properties by local authorities can provide an important boost to the economy during a difficult period. Council house-building can link in with local authorities' regeneration and local economic agenda and procurement policies can be used to maximise the positive impact on local supply chains, labour and skills. Added value can be delivered from building the right types of houses in the right places, based on local knowledge of demand and demographics.

There is also evidence that councils can be more cost effective than other providers in their management of resources. Stock retainers have demonstrated that they can manage stock cost effectively, with both the National Audit Office and Public Accounts Committee reporting that they have delivered better value than other providers in meeting Decent Homes standards. Private Finance Initiative schemes have been proven to not be cost effective.

The price of land, construction and materials may be broadly similar for different providers. However, councils do not have profit as an objective, whereas this must be factored into costs for private developers. Council building is not limited to a particular scale of development in order to make it pay. Councils are not subject to the instability of the market in the way private firms are.

While the right option must be chosen to suit particular circumstances, this report shows that councils can offer better value for money because it is cheaper for councils to borrow than registered social landlords or private developers. Councils also have supplies of land they can contribute at no cost and can draw upon existing in-house managerial expertise and technical skills.

The Housing Commission found the lower levels of grant required for council schemes 'particularly impressive' considering the high proportion of larger homes they had built under the HCA LANB scheme and the fact that a high proportion are built to Level 4 or above of the Code for Sustainable Homes. A costed example from an ARCH member

authority reveals that the level of internal subsidy needed for direct local authority building of 33 units using prudential borrowing was £1.67m, whereas the level of internal subsidy needed for building by a housing association would be £1.98 m.

Conclusion

Firm Foundations puts the case for investment in building new council homes, showing that this will deliver long term value for money for the public pound due to reductions in expenditure dealing with the consequences of lack of adequate housing and its economic multiplier effect. Having demonstrated the benefits of local authority house-building in meeting wider social, environmental and economic aims, this report concludes by recommending that local authorities and central government work together to maximize opportunities for council newbuild. It recommends that councils should have sufficient scope within new self-financing arrangements to be able to build new homes. It argues that borrowing to deliver new affordable homes should not be subject to excessive restrictions.



Brooklea estate, Birmingham



Summer Gardens, Croydon



New build at North Kesteven

1: The policy and funding context

IN order to examine the contribution of council building to wider local and national goals, it is useful to place this within the context of policy and funding developments. This shows that authorities have been hampered in their ability to build due to decisions at national level. ARCH has campaigned for stock retainers to have greater freedom to build where this is the best option. There is growing recognition of the potential of councils to contribute towards targets for new affordable homes and stock retainers hope that the reformed housing finance system will give them more opportunity to build.

Background

There has been a marked shift away from councils being primary providers of affordable housing over the past thirty years, as home ownership became more prevalent and transfer of council stock to housing associations was encouraged. Whereas one in three of the British population lived in local authority properties in 1979, only 9% of people were living in homes provided by their local authority by 2007 (ONS, 2010).

Since its formation in 2006, ARCH has made the case for a level playing field for those authorities whose tenants have chosen their council as their landlord. This includes arguing for a fairer finance system and opportunities to fulfil their potential to build new homes. The case for council building gathered weight during the recession. The Local Government Association (LGA) warned in 2008 that a series of economic factors were creating unprecedented demand for social housing with four million people on council waiting lists. House prices and repossessions had increased at the same time as housing associations struggled to secure loans and faced restrictions on credit and borrowing and developers had reduced building (LGA, May 2008). The Chartered Institute of Housing (CIH) reported later the same year that applications for new house-building starts in both the public and private sector were 54% lower than the same period the previous year and the number of completions was 20% lower (CIH, November 2008).

Local authorities in England built 380 homes in 2009, compared with 92,530 built by private developers and 25,260 by housing associations (National Statistics, 2010). House-building overall has troughed, with adjusted house building starts standing at 23,000, which is 11% lower than in the previous quarter (DCLG, December 2010). With 1.76m households on waiting lists for council housing, there is clearly a need for as many providers as possible to be addressing the shortage of affordable homes (DCLG Live table 600).

ARCH campaign

ARCH has been among organisations campaigning for councils to build new homes. It argued that with such dire housing need, unemployment rising and housing association and private sector development stalled, council building would provide a welcome boost to local economies. A joint ARCH and APSE event at the House of Commons in March 2009 demonstrated a strong appetite to build among stock retained authorities and identified barriers that were stopping them. Councils wishing to build called upon Government to: secure receipts from Right to Buy sales for investment in new homes; enable borrowing against future rental income to take place outside of the Public Sector Net Debt (PSND) in line with other European countries; apply a broader scope, less bureaucracy and greater freedoms to proposals for changes to revenue and capital rules; provide pump-priming resources from the HCA; provide a level playing field with other social landlords in terms of access to Social Housing Grant; and reform the Housing Revenue Account in a way that enables new council house building to take place.

LANB funding

There were attempts to address some of these barriers towards the end of the Labour administration; grants for house-building by English authorities were made available from the HCA and proposals for reforming the housing finance system were put forward. Then housing minister, John Healey, gave the go-ahead in September 2009 for 47 councils – out of 51 that applied to the first round of the HCA LAMB programme – to build 2,021 new council homes. They shared £127m of Government funding to be matched by prudential borrowing. Round 2, announced in January 2010, allocated £122.6m in grants to 73 councils to deliver a further 1,930 homes for social rent, to be match funded.

ARCH members were successful in winning Round 1 and 2 bids, as discussed in the survey and case studies that follow. The deadlines for building were tight and strict criteria had to be met by bid applicants including providing Value for Money statements. ARCH member authorities that were successful in LAMB bids have built and are building new homes to meet local need in a way that maximises the social, environmental and economic value of the new properties. Quality and sustainability have been key factors in all the bids, with most developments meeting Code 4 sustainability standards or above and using innovative, environmentally friendly techniques that also cut running costs for residents, which will be discussed in Section 2 of this report.

The austere Coalition budget announced on 22nd June means large-scale cuts across the public sector however. The Department for Communities and Local Government (DCLG), which funds the HCA, is among those that each has to make 25% reductions in expenditure. Housing minister Grant Shapps confirmed that commitments to contracts that had already been signed would be honoured, but ARCH members were disappointed when HCA confirmed that, following cuts to its budget, local investment teams would be reviewing LAMB schemes not already contracted. The review determined which schemes could be funded with available resources and which will not go ahead. It made decisions based on 'maximising affordable housing and value for money'. Some of the winning LAMB Round 2 schemes were awarded grants, some were scaled down, as mentioned in certain case studies in this report, and others were, unfortunately cancelled.

Reform of HRA

The previous administration also began a review of the housing finance system and introduced proposals for a devolved self financing system that would: remove the need for the national redistribution mechanism; remove the annual round of determination and allow councils to develop long term business plans for funding their housing similar to that currently operated by other social housing providers; allow councils to keep their rents to invest locally; and increase councils' ability to respond to local needs. The price of this local control under the 'offer' made to local authorities was that they would take on debt in order to buy their way out of the current subsidy system.

ARCH submitted a response to the proposals in consultation with its members favouring the self-financing principles proposed. The LGA calculated that councils would be able to contribute 139,000 new homes over the next decade if the proposals outlined in the consultation on HRA reform were implemented (LGA, June 2009).

The Coalition administration that came to power in May 2010 stood by the commitment to reform the unpopular HRA system. The housing minister said that the existing finance system was 'unfair', committed to reviewing it and agreed to stick with the existing timetable. Reform of the HRA system was included in the Decentralisation and Localism Bill, which began its passage through Parliament in November 2010. The DCLG issued a consultation paper, *Local decisions: fairer future for social housing* to gauge response to proposals contained in the Bill. These proposals focused on reforms to social housing tenure, allocations, homelessness legislation and social housing regulation.

The reforms to council housing finance followed the path set out by the previous administration with the difference that moving to self-financing would only take place if the entire retained sector was supportive. As such, it is no longer an offer to individual councils. *Implementing self-financing for council housing*, issued on 1st February 2011, provided details of the rationale, methodology and financial parameters of reforms to the council housing finance system (DCLG, February 2011).

The scale of the debt councils have to take on once the self-financing arrangements are in place and the amount of headroom within the HRA will determine whether there is financial capacity for councils to build new homes. Financial determination will be made in draft form this autumn, followed by final settlement in January 2012, with the new system going live in April 2012. Once further details emerge, it will be possible to assess its full implications for council building, but the situation is likely to vary among ARCH members across England.

ARCH has welcomed the move towards a locally controlled system it has lobbied for and is seeking feedback from members, which will inform its official response. It has, however raised concerns about aspects of the reform:

- ARCH wants to ensure levels of debt allocated are not too high as to undermine the sustainability of members' business planning.
- ARCH is concerned about the implications of the re-opening of the debt settlement for member authorities and wishes for the circumstances under which debts would be reopened to be clarified.
- ARCH also believes that to have the local control and freedom promised, councils should be able to retain all of the receipts from Right to Buy (RTB) sales. The latest self-financing proposals include retention of the existing arrangements, whereby 75% of the receipts from RTB sales will be pooled. ARCH has argued that this would be a significant source of income for investment in new council housing if the entire receipt remained with the council.

The new HCA Framework

Local authorities are also assessing the implications of the HCA Affordable Homes Programme 2011-15. HCA will invest £4.5bn to help its 'investment partners' deliver up to 150,000 new affordable homes. The HCA Framework document sets out how a new Affordable Rent scheme will work. Under the new tenure, social landlords will be able to offer fixed-term tenancies at up to 80% of local market rent and additional revenue can be reinvested in new housing. Landlords will only be able to offer the new form of tenancy to new tenants.

The Framework discusses the role of local authorities in developing homes after April 2012 under the new self-financing system. Significantly, it anticipates that local authorities may want to directly provide new homes and says the HCA is seeking offers from them that will contribute to the new Affordable Rent model and to providing new homes. Offers will be assessed to ensure they deliver value for money compared with other providers. HCA points out that value for money is improved by local authorities freely contributing land they own.

Self-financing will introduce controls in borrowing in relation to debt within HRA. Schemes that start after the new regime comes into effect in April 2012 must be under the self-financing borrowing cap. It is no longer necessary for that borrowing to be included in the HCA value for money assessment. It is unlikely that such building would begin before April 2012 as the HCA will not want to enter into a framework contract until the final HRA settlement is agreed and each authority's borrowing headroom is clear. The HCA also wishes to establish the extent to which local authorities intend to pursue freedoms and flexibilities to deliver new affordable homes without recourse to HCA funding through Affordable Rent and HRA borrowing.

Related issues

Other recent policy issues that will impact on councils and house building include: the abolition of regional spatial strategies; the New Homes Bonus; the Community Right to Build; and latest Budget announcements.

The abolition of regional spatial strategies and the house building targets they contain are likely to impact on house building. The National Housing Federation suggested that 85,000 planned homes had been scrapped as a result of the decision (National Housing Federation, December 2010). If fewer homes gain planning permission, the knock-on effect on housing supply will increase the pressure on council waiting lists.

The New Homes Bonus consultation by DCLG in November 2010 was designed to

reward councils that allow or build new homes by providing payments equal to the council tax income from each new home for six years after it is built. The Bonus will provide an additional £350 for each affordable home for the following six years. Communities will decide how extra funding is spent. There has been some concern that the scheme is not substantial enough for communities to welcome development on smaller sites or to act as a financial incentive however.

The Community Right to Build, introduced under the Localism Bill, gives groups of local people the power to deliver development such as market housing for sale, affordable housing for rent, sheltered housing for older residents, or low cost starter homes for young families. According to DCLG, there are financial resources available to developers and community groups and a community organisation should have the flexibility to source the finance most appropriate to achieving their objectives. The contribution of such schemes to house-building is likely to be modest however, as funding sources are scarce and the development model is likely to be a complex one potentially requiring local authority or housing association involvement.

The 2011 Budget contained announcements on measures that aim to stimulate house-building. This included deregulating the planning system and reforming stamp duty land tax rules for bulk purchases on new-build homes. Acceleration of the supply of surplus public sector land via 'build now pay later' schemes is also being promoted. House builders will be given surplus government land which they will pay for once properties built on it are sold. The government is also making £210m of funding available for a new FirstBuy scheme in England, which it says will enable around 10,000 first time buyers to purchase newly-built properties over the next two years. The scheme will be jointly funded with house builders and delivered by the HCA. These moves are welcomed but limited numbers of building by developers for those able to afford a mortgage are not sufficient to meet demand, which is vastly outstripping supply.

Demand and supply

Demographic changes such as people living longer, the rate of household breakup and a rising population mean demand for housing is increasing. The position will only get worse into the foreseeable future as these three factors are expected to fuel even further demand. Supply is falling further behind demand. Private developers are suffering difficulties in the current economy, prices mean many first time buyers are unable to buy and more and more people are being forced into the private rented sector.

The Home Builders' Federation has reported that planning permissions for house-building continued to slide during the final quarter of 2010. New homes completed in England last year were down 13% on the previous year, which was the lowest peacetime figure for more than 80 years. It found that social housing was hardest hit with only 5,500 approvals, which was an all time low for the survey (HBF, 2010).

This makes the need for new affordable homes ever more pressing and adds weight to arguments that councils should be given scope to fulfil their house-building potential.

Having established the policy and funding context for local authority house-building, we will now look at building by ARCH member authorities and examine the business case for investment in new council housing.

2: House-building by ARCH members

A survey of ARCH members was carried out in Winter 2010-11, asking a number of questions about the number, type and cost of new homes built or planned. Responses were received from 44 councils. Of these, 12 councils had built properties, 18 were in the process of building, 17 had plans to build whilst 20 had no plans to build. Some councils fell into more than one category, having completed some properties, being in the process of building or planning to build.

New homes completed as at February 2011

| Council | houses/bungalows | flats | | |
|----------------|------------------|-------|-------------------------|----------------------------|
| Bournemouth BC | 2 | 10 | LB Barking and Dagenham | 20 |
| Birmingham CC | 15 | | LB Croydon | 32 |
| Bristol CC | 166 | | LB Wandsworth | 182 |
| Broxtowe BC | 8 | 4 | North Kesteven DC | 7 |
| Cambridge CC | 5 | | Oxford CC | 10 |
| Corby BC | 12 | | Totals | houses 459 flats 17 |
| Exeter CC | | 3 | Total dwellings | 476 |

Completed properties

The 12 councils that had completed properties had built 476 units (either houses or flats) over the past 7 years. Wandsworth Council had built the most units 182 through the Hidden Homes programme. No details are available here about the cost of building or property types and size within Wandsworth. Of the remaining 294 properties, the majority (64%) are 2 bedroom properties.

The average cost across all sizes of property built has been £118,958, ranging from £69,000 for a 1 bedroom flat and £85,000 for a 2 bedroom house up to £203,000 for a 5 bedroom house. Clearly this average cost covers both houses and flats and properties with between 1 and 5 bedroom. As such it reflects the level of spend of councils on housing rather than the detailed cost of individual property types.

The variation in the cost of other factors is also hidden in this average figure. Land, labour costs, materials and professional fees will differ across England and the nature of an average cost will make these differences invisible.

Funding from the National Affordable Housing Programme/Local Authority New Build (NAHP/LANB) schemes was used by a majority of the councils. Other sources of funding included the London Mayor's targeted funding stream and section 106 contribution from developers. In all cases an element of funding came from the council via HRA or prudential borrowing. A contribution in the form of land at nil costs was also made in a number of cases. These are significant amounts of money and reflects the fact that councils have been able to access substantial internal funding, to add to grant funding, to ensure these much needed homes have been built.

The properties have reached a number of standards including Code for Sustainable Homes (CSH) Level 3 and 4, Passivhaus AC credited lifetime homes standard, Secure by Design (SbD) accredited, Building for Life Silver and Lifetime Homes compliant. They also have other features such as wind turbines and bird and bat boxes incorporated in to the design whilst two properties are of straw construction.

A total of 701 bedrooms are in the new properties. 54% of bedrooms built are in 2 bedroom properties, with 27% being in 3 bedroom properties and 14% in 4 bedroom properties. Bedrooms in 1 and 5 bedroom properties make up 2% and 3.5% respectively.

Building in progress

| Council | houses/bungalows | flats | | | |
|-------------------------|------------------|-------|------------------------|-------------------|------------------|
| | | | LB Wandsworth | 56 | |
| Birmingham CC | 343 | 13 | Mansfield DC | 44 | |
| Bristol CC | 69 | | North Kesteven DC | 19 | |
| Broxtowe BC | 15 | 10 | North Warwickshire BC | 25 | |
| Bournemouth BC | | 20 | Oxford CC | 18 | 10 |
| Cambridge CC | 3 | | Reading BC | | 40 |
| Canterbury CC | 5 | | Uttlesford DC | 5 | |
| Corby BC | 62 | | West Lancs DC | 17 | |
| Exeter CC | | 18 | Totals | houses 773 | flats 111 |
| Gravesham BC | 5 | | Total dwellings | 884 | |
| LB Barking and Dagenham | 87 | | | | |

In progress

18 responses were received from councils in the process of building council homes, most of which are due to be completed by the end of March 2011, which is the deadline for LANB Round 1 funding. Some are expected to be completed later in 2011 or 2012.

The number of properties in progress totals 884 split into 773 houses or bungalows and 111 flats. Birmingham is building 356 of these properties, LB Barking and Dagenham 87, Bristol 69 and Corby 64.

The average cost of building these properties is £114,928. There are two councils building specialist care flats incorporating communal facilities and they are being built with adaptive technology and care facilities, One is being built to Code for Sustainable Homes Level 4 whilst the other is to the BREEAM multi residential 'Excellent' category. Clearly there will be extra costs in the construction of these specialist care flats.

If these specialist facilities are taken out of the total, the average for the remainder is £109,675. The cheapest homes are expected to cost £70,000 with the most expensive being £177,500 (a 5 bedroom house) and £150,000 (straw construction).

There are differing costs for building properties across the country with a range of factors to be considered which are specific to regions, localities as well as individual sites so it is not strictly appropriate to compare individual costs. The obvious point applies which is that in general the larger properties (with 5 bedrooms) are the most expensive and the smaller are at the cheaper end of the scale. There are some exceptions to this and they will reflect the circumstances noted above but the data does reflect the fact that councils expect to be able to build properties for as little as £70,000 and that a number of them expect to be able to building in significant numbers for between £70,000 and £96,000.

Funding for these properties has once again come primarily from HCA funding, Housing Market Renewal pathfinder, internal funding and prudential borrowing whilst councils have contributed land they own to the projects. One scheme includes 27% funding from the local health service.

In total, there will be 2,191 bedrooms in these properties (excluding those from LB Wandsworth). 33% of these bedrooms are in 3 bedroom properties and a further 31% of bedrooms are in 2 bedroom properties with 30% in 4 bedroom properties. 3% of bedrooms are in 5 bedroom properties whilst 3% are in single bedroom properties.

Once again standards reflecting CSH, SbD and Lifetime Homes have been achieved. Other features include wheelchair access compliance, ground source heating, air source heating, use of photovoltaics, adaptive technology, care and communal facilities and high energy efficiency ratings. One council plans to build more straw properties. Of those surveyed, 10 councils reported plans to build a total of 314 properties. They expected average costs range from £82,000 up to £177,000.

Total Spending

An estimate of the total amount spent on completed properties is £35m and on properties in progress is £95m making a combined figure of just over £130m (excluding spending on 182 competed and 56 partially completed properties in LB Wandsworth).

Building planned

| Council | houses/ bungalows | flats | | |
|-------------------------|--------------------------|--------------|------------------------|----------------------------|
| Birmingham CC | 119 | | LB Southwark | 19 |
| Bristol CC | 36 | | LB Wandsworth | 70 |
| Bristol CC | | 32 | Mansfield DC | 3 |
| Bournemouth BC | 17 | | Mid Devon DC | 40 |
| Cambridge CC | | 21 | North Kesteven DC | 9 |
| City of York C | 19 | | Slough BC | 45 |
| Corby BC | 8 | | Stoke on Trent CC | 17 |
| Hull CC | 37 | | Uttlesford DC | 9 |
| LB Barking and Dagenham | 41 | | Totals | houses 489 flats 53 |
| | | | Total dwellings | 542 |

Planned

17 councils expect that they will be building in the next couple of years. The schemes are mostly in the planning stages so the figures are not set in stone. However in total they expect to build approximately 489 houses or bungalows and 53 flats.

Sources of funding are similar to those used to finance those properties already build or being built. They are also expected to be built to the same high design standards.

No plans to build

The 20 councils that responded stating they had no plans to build new properties made a number of comments. Some said they had not built for many years and simply had no existing plans. A number said they are awaiting the outcome of alterations to the subsidy system to see if they were left with sufficient headroom to consider building. Some responses noted work with housing associations or registered social landlords which has resulted in the latter building properties. Other approaches include the sale of council-owned land, enabling actions, review of sites with a view to sale and consideration of joint venture between council and other providers. Some were unsuccessful in their bids for NAHP/ LANB funds so appreciate the need for new homes but are unable to find resources to build.

There is ongoing work in these areas where the council is acting as an enabler to promote others to build new homes even if they are not doing so directly themselves.

Average costs

Average costs for completed properties

| | |
|--------------|---------|
| Average cost | 118,957 |
| No. of units | 294 |
| Lowest cost | 69,000 |
| Highest cost | 203,000 |

Average costs for properties in progress

| | |
|--|----------|
| Average cost | 114,928* |
| No. of units | 828 |
| Lowest cost | 70,000 |
| Highest cost | 177,500 |
| Average cost without specialist care flats | 109,675* |

*two of these schemes were for specialist care flats built with adaptive technology with care and communal facilities and as such will have extra costs. The average figure without these two schemes is also given. Note the table above excludes information on LB Wandsworth properties.

As noted above, there are significant differences between the factors affecting the costs of building a new property, all of which are encompassed within the average figure.

Key findings

- A significant number of ARCH member councils have built or are in the process of building significant numbers of properties for between £69,000 and £96,000. ARCH members are building at a higher cost in cases where this reflects larger size, cost of location or higher access and sustainability standards.
- ARCH member authorities are building a range of property types and sizes, but there is a predominance of houses and bungalows, reflecting the need identified for these sorts of properties locally.
- Councils have been willing to raise funds and provide good quality properties when supported by grants.
- A number of projects incorporate latest sustainable technology such as ground and air source heat pumps, photovoltaics, wind turbines and energy efficiency measures. North Kesteven has used straw construction to build homes, as the case study in this report shows.
- Sustainability is a significant issue with properties designed to meet higher levels of the Code for Sustainable Homes, Passivhaus AC.
- Secure by Design and Building for Life were important factors in the schemes.
- As required by HCA and their own economic development principles, local authorities are maximising the use of apprentices, local skills development, employment and supply chain opportunities.

Case studies



New Birmingham Metropolitan Housing Trust properties

Birmingham: A renaissance for council housing

New build is integrated with the city's major regeneration initiatives... the sites are all aligned to the joint priorities agreed by the council and the HCA in the Local Investment Plan.

A renaissance for council housing is under way in Birmingham as the city council carries out the largest local authority house-building programme in England for decades.

Birmingham Municipal Housing Trust (BMHT) was established as the council's housing development brand in 2009. BMHT was awarded a total of £11,960,000 in Round 1 and 2 of HCA LANB funding, which is being used in conjunction with prudential borrowing approvals and Public Land Initiative resources to build a mixture of houses and in a range of sizes and styles across the city.

Phase one of BMHT building, comprising 129 energy efficient houses for social rent, got under way in January 2010. Tenants moved into the first of the new homes in September and the properties in Kings Norton, Hodge Hill, Handsworth and Balsall Heath were due for completion by March 2011.

Phase two comprises 101 homes for social rent and 63 for open market sale in Ladywood, Egg Hill, Saltley, Northfield, Soho and Ley Hill, of which all of the rented homes will all be completed by Autumn 2011. Including properties for sale was a means of both kickstarting the construction industry in the wake of the recession and fulfilling the council's aim of encouraging mixed tenure communities. The financial model adopted means the developer builds properties under licence and the council gets the land value receipt when they are sold.

BHMT is also seeking approvals for its third phase of development, going live in April 2011, which aims to deliver another 100 homes for rent and 100 for sale.

BMHT schemes range in size from units of seven properties to those occupying 30 acres of cleared land where the developer has withdrawn from the project. New building by BMHT is integrated with the city's major regeneration initiatives, particularly the Eastern Corridor priority area, Ley Hill regeneration project, the former New Deal for Communities project in Kings Norton and Newtown in the Housing Market Renewal area, where the

largest council house-building programme is taking place. The sites are aligned to the joint priorities agreed by the Council and the HCA in the Local Investment Plan.

Building by such a large stock retained authority enables it to make connections 'from the micro to the macro', according to BMHT development manager and urban designer, Steve Dallaway who went on to explain how the corporate design team, local architects, urban designers and landscape architects were all involved in the schemes in order to control design quality and secure upfront planning permission, which enabled building to get underway quickly.

The new homes will showcase high quality design and environmental standards, which will reduce running costs and energy bills for residents. All the properties meet Secure by Design, Lifetime Homes and Building for Life silver or gold standards. The construction is also helping young people find work by offering over 70 apprenticeships and trainee placements. The knock-on impact of the BMHT's construction programme totalling over £80 million is considerable at a time of low output by market housing providers.

Housing portfolio holder, Cllr John Lines, said: 'This is a renaissance for council housing in Birmingham. The cost, delivery speed and design quality of our new homes are hitting a number of agendas and making people sit up and look at what local authorities can achieve given the finance and flexibility we have argued for. Once we are in control of our own borrowing and finances under the new finance system we can hopefully just go ahead and build year-on-year for the people of Birmingham.'



An artist's impression of Draper Road, Bournemouth

Bournemouth: Cost-effective care

BOURNEMOUTH Borough Council is currently using direct building as a cost effective means of providing affordable housing for families and older people locally.

The council initially completed a HCA LANB scheme at Mallard Road, where 10 new flats and two family houses have been built. The development cost a total of £1,123,468 and was made possible thanks to investment from the HCA of £540,000, with the remainder funded through prudential borrowing.

Council leader and cabinet member for housing, Cllr Peter Charon, who spearheaded the authority's building programme, comments: 'I am extremely pleased that this development is now complete and we are able to start offering residents who are on the housing register a place to live. Our priority as a council is to provide more affordable

Calculations revealed that potential savings of up to £167k a year could be made by providing high quality care in purpose built, hi-tech facilities with a single point of contact.

housing in the borough and this development shows our commitment to working towards this priority.'

Work is now under way on extra care facilities at Draper Road, which will provide 20 units for older residents. The project is currently on site and due to be completed by June 2011. There is a particular need for this development in the town, which is an attractive retirement destination with a large proportion of older residents and an undersupply of accommodation with higher levels of care. Providing purpose built accommodation for older people can also prove cost effective in freeing up existing properties for those on waiting lists.

The Draper Road development was awarded £1.4m from HCA LANB, and received £1.1m from the council's prudential borrowing. The local NHS trust also provided £1m funding following calculations which revealed that potential revenue savings of up to £167k a year could be made by providing high quality care in purpose built, hi-tech facilities with a single point of contact.

The extra care properties will be allocated through a Supporting People nominations board. 'Having adult and community services and housing in the same unitary authority has helped us interact much more easily and work towards common goals,' says John Findley, project lead for affordable housing delivery. It is possible for the council to build cost effectively because the level of interest on prudential borrowing is lower than private borrowing at present and because the council is using its own land.

Bournemouth BC is planning to build a new community centre plus 17 houses and bungalows in the Strouden Park area next and is currently assessing potential funding opportunities. The council hopes the national move to a self-financing system will allow it scope to be able to borrow more prudentially in order to build further properties in future.

Bristol: Redeveloping to provide better quality homes

'As a stock retainer we were able to look at all of this in a much more holistic way. We have thought it through carefully and applied a high degree of logistical management.'

*Programme manager,
Alison Napper*

WORK is under way to build 12 new HCA LANB-funded council houses in Bristol.

Two bungalows and ten houses in the Lawrence Weston area are being supported with £775,000 HCA grant, match-funded from the council's reserves and capital receipts. Former garage sites at Crokeswood Walk, Barrowmead Drive and Saltmarsh Drive are being used for the development. Work started on site in December 2010 and is due for completion in Summer 2011. These new council homes are being built to contemporary design standard with solar panels and underfloor heating, and will meet Code for Sustainable Homes Level Four. The council was disappointed that it was not able to secure LANB funding for a further 63 homes, as originally anticipated.

These new homes form part of the council's wider Priority Stock Strategy where the council is pursuing alternative strategies for some of its worst stock. 160 concrete homes are being demolished in the north of Bristol over the coming 2-3 years, and the land is to be sold to help fund repairs to the remaining 412 concrete homes. The displaced tenants are being moved to suitable alternative accommodation, and the 12 new build homes are providing a valuable supply of homes.

The strategy also covers a scheme to replace the city's remaining prefabs - homes built as temporary dwellings in the 1940s. In 2003, the council had 330 tenanted prefabs across 15 sites in the city. A cross-subsidy agreement was reached with Bovis Homes - over 1,000 new properties are being built on the sites; 330 of which are council homes.

This means that the city council is receiving 330 new homes; bungalows, houses and flats at nil build cost - in exchange for the remainder of the land which Bovis is building private housing on. Many of the original prefab tenants are returning to the new bungalows and houses being built on the sites, and some of these new homes will be used to rehouse the tenants from the concrete properties - the rest are advertised through the council's normal rehousing system. To date, 166 new homes have been returned to the council and the

balance is expected over the next two years.

Programme manager, Alison Napper, says: 'Although we had to scale down to twelve properties, these new properties are really important because, having found new homes for the prefab tenants, we are now having to re-house 134 tenants from the defective concrete houses.'

The authority is selling land for private housing and will use some £7.5m raised on projects to bring long-term voids back into use and bring existing homes up to higher quality standards.

She adds: 'As a stock retainer we are able to look at all of this in a much more holistic way. We have thought it through carefully and applied a high degree of logistical management. From the outset we make sure we visit everyone and know what their needs are so we can hopefully provide all our tenants with a better standard of accommodation.'



Broxtowe Borough Council's new homes at Sunnyside Road

Broxtowe: Leading the way on eco-homes

'Building our own properties means we can build exactly what is needed and where and ensure that it joins up with regeneration, social cohesion and environmental sustainability.'

Ted Czerniak, director of housing and leisure

BROXTOWE Borough Council has been at the forefront of the revival of local authority house-building in England.

Having gained experience of building new homes in 2007 using its own resources, the authority went on to secure LANB funding in both Round 1 and 2 of the HCA programme.

Like other councils, the borough had not built in two decades before construction of eight new bungalows at Plumpton Way, Eastwood and four flats at Anderson Crescent, Beeston got under way. This £1.5m project was funded using the council's capital resources and Section 106 planning agreement contributions. This scheme was run in-house and built by a local contractor according to Lifetime Homes standards and energy efficiency principles.

Combining energy efficiency and value for money are central to Broxtowe's approach building new properties. Broxtowe's experience has enabled it to negotiate a competitive contract and meet tight deadlines. It has worked with a housing association consortium partner. 'The learning curve has been excellent,' says Ted Czerniak, director of housing and leisure, who has been responsible for managing the council's construction.

The authority, which is to the west of Nottingham, has focused on long-term sustainability and quality in its nine units in the first round LANB programme and 16 units in the second round, for which it was awarded £743,000 and £490,000 respectively.

The round one sites at Wheatgrass Road and Sunnyside Road, Chilwell are now

completed. The round two schemes at Nottingham Road, Stapleford, where ten 10 homes are being constructed, and Welch Avenue, Stapleford, where six homes were due for completion by March 2011.

The homes are being built to Code for Sustainable Homes Level 4 standards and feature environmentally friendly measures such as photovoltaic cells, rainwater harvesting and ground heat source pumps. As well as being environmentally friendly, they will be economical to run and easy to maintain.

‘There are 3,500 people on our waiting list, with a particular need for family homes. Because we have a strategic housing role, we are looking at measures to prevent homelessness. Building our own properties means we can build exactly what is needed and where and ensure that it joins up with regeneration, social cohesion and environmental sustainability,’ says Mr Czerniak.

The three building projects over the past four years contribute to meeting the council’s key priorities of housing, place-shaping and community safety. Stimulating job opportunities and apprenticeships was a factor in the tendering exercise and four direct apprenticeships with the contractor have been created as a result of the building. The 25 properties that are currently being built are on four council-owned former garage sites that had been subject to anti-social behaviour and fly-tipping.

‘With all the economic doom and gloom that pervades, it is a morale booster for people to see that things are still happening,’ comments Mr Czerniak.



New properties at Kingswood in Corby

Corby: New homes and much more

CORBY Borough Council, the major social housing provider in the East Midlands town, is on target to deliver a total of 78 new homes in Round 1 and 2 HCA LANB schemes, which will help meet both regional planning and local regeneration aims.

The new properties are contributing towards the Milton Keynes and South Midlands Growth Area target of 16,000 new homes by 2021 and are in accordance the East Midlands Regional Plan. They are also meeting key objectives of the ambitious corporate strategy One Corby to redevelop the former new town in Northamptonshire and double its population. Some £2bn worth of regeneration activity to revitalise the town includes; a new educational campus, community spaces and facilities, roads, a station, the Cube multi purpose public building, theatre and arts centre and a flagship international swimming pool.

'Construction hasn't stopped here during the recession and that means skills have been maintained locally and plumbers and carpenters and other tradespeople have gone through apprenticeships.'

*Angela Warburton,
assistant chief executive*

The One Corby vision stresses the importance of community involvement, environmental responsibility and partnership working and these have been key elements of the authority's approach to building new homes. Residents helped shape comprehensive regeneration masterplanning as well as the detailed design briefs for the new properties, which are to Code 3 Sustainable Homes and Lifetime Homes standards and have environmentally friendly features. 'Prior to building new housing, we worked very closely with the community to look at all sorts of issues, particularly the old layouts, which made the estates difficult to live in and manage. As well as providing homes of the sort that are needed, redevelopment will mean a better quality of life for residents as the authority is also improving facilities, safety and security and creating more open spaces', according to housing strategy manager Jacqui Page.

Council building using HCA £3,570,000 LANB Round match-funded by the authority at three Round 1 sites were due to be completed by March 2011. Building at a further Round 2 site, for which £408,000 LANB funding has been awarded, was due to be completed by March 2012.

The first round properties are in regeneration areas where older 'Radburn' style flats that suffered from anti-social behaviour and were in low demand among Housing Register applicants have been demolished to make way for more traditional, lower density housing.

Small flats and bedsits in Arran Way are being replaced with 26 bungalows and houses.

Copenhagen Road is being redeveloped with 14 two and three bedroom houses, which were in short supply in Danesholme and are linked in to wider regeneration plans for the area.

The 30 new houses and bungalows in Kingswood, which was also successful in a Partnership Villages Kickstart bid for 116 private homes, are in accordance with a masterplan that tackles problems associated with ageing stock, worn out public places and lack of identity and legibility for streets. The 30 Council homes will be pepper-potted throughout the private homes and will add to the existing approximately 2,300 new properties overall that are a range of tenures.

Eight two bedroom council houses are due to be completed on the fourth site, at Leighton Road by March 2012. This is part of Hazel Leys estate bordering the town centre.

All of these developments form part of the major council led regeneration to improve facilities, streets and open spaces.

These 78 homes are the first to be built by the council in 30 years. The authority drew upon existing in-house project management skills and worked in partnership with developers and contractors. In addition to contributing its land for free, the value for money achieved in these projects is readily comparable to other providers. The authority ensured procurement exercises made maximum use of local skills and training, which has benefited the local economy during the downturn. Angela Warburton, assistant chief executive, says: 'Construction hasn't stopped here during the recession and that means skills have been maintained locally and plumbers and carpenters and other tradespeople have gone through apprenticeships.'

She adds: 'As the strategic housing authority we can work with each developer to look at the best spread of new homes for the community in each area and work with our RSL and private partners to ensure there is good mix of property types, landlords and tenures and that this contributes towards the widescale regeneration programme that is taking place in Corby. The council has learned a lot from undertaking the four LANB schemes to tight budgets and timescales and we would like to build more new homes in future and are looking at opportunities.'



New homes in Sumner Gardens, Croydon

Croydon: Homes for the future

'The real advantage of building our own homes is that they are being built specifically to tackle the ever-increasing demand for the larger, three, four and five bedroom homes that are in such short supply'

Angela Ohen, project manager for housing development and growth partnerships

IN 2008 the London Borough of Croydon was one of the first London boroughs to embark on a pioneering house-building programme. Building - for the first time in more than 20 years - new council homes in the borough, which are not only meeting a pressing need for family-sized accommodation for overcrowded households and setting new standards in affordable house building and sustainable design, but are also having a positive impact on the local economy and skills development.

Phase 1 saw 32 large (three, four and five bedroom), attractive family homes, which meet tough energy efficiency standards, being built in Sumner Gardens, Mickleham Way, Dunley Drive and Frensham Drive, using the authority's own capital budget and a £3m grant allocated by the Greater London Authority to address overcrowding. In July 2009 London Mayor Boris Johnson handed over the keys to the first of these homes to the new tenants.

Phase 2A - a further 64 new homes, which meet Code for Sustainable Homes Level 4 standard - was due for completion by the end of March 2011. All the properties meet Lifetime Homes Standard, and can be easily adapted to the changing needs of individuals and families at different stages of life. These homes were funded by the council's successful £6.4m bid award from the Homes and Communities Agency (HCA) Local Authority New Build (LANB) grant and match-funded by the council.

An additional award of £667k from the DCLG will see 23 of the homes on sites in New Addington, built to Code for Sustainable Homes Level 5 standard. This includes a greater area of solar panels, improved performance of the building structure, (ie better efficiency with increased insulation and better windows to enhance air tightness in the buildings) and reduced water consumption through smaller toilets and lower water flow from taps and showers are some of the environmentally-friendly and energy-efficient elements of these homes - features designed to reduce CO2 emissions and lower fuel bills.

Croydon's house-building programme has been project managed in-house, from the design and completion of the building work to the allocation and letting of each property. This first phase of the programme has been a learning curve for the council in terms of design and logistics and the feedback from tenants now occupying the first new-build homes has been encouraging.

The programme has also had a positive impact on the local economy and given opportunities for trainees to gain construction skills. So far this has included 18 direct short skill courses; 13 indirect short skill courses and seven indirect employed placements. One trainee, after just six months training, is now in full time employment with one of the building contractors.

On the second phase of the programme, the council set out the conditions of the contract in the Official Journal of the European Union, stipulating that as well as providing training and apprenticeships, sub-contractors and materials needed to be locally sourced – providing an additional boost to the local economy.

The council consulted with local residents, the community and other stakeholders through a series of exhibitions in local libraries, and their comments and suggestions helped to shape and deliver the programme.

All the properties are built on underused council-owned sites, most of which were small patches of land or on former prefab or garage sites - spaces that were unsightly and often prone to vandalism.

‘The real advantage of building our own homes is that they are being built specifically to tackle the ever-increasing demand for the larger, three, four and five bedroomed homes that are in such short supply,’ explains Angela Ohen, the council’s project manager for housing development and growth partnerships.

Councillor Dudley Mead, deputy leader of the council and cabinet member for housing, said: ‘The quickest and most effective way of addressing the affordable housing shortage in the borough is through investment in council housing. Croydon has an excellent reputation for looking after its tenants and we welcome the role and funding opportunities to be able to construct good quality, eco-friendly, council homes to tackle overcrowding.’



Exeter: An eco-friendly approach to downsizing

EXETER City Council’s new flats are providing energy efficient homes for over-55’s as part of its downsizing scheme and freeing up larger homes for families.

The council was successful in bidding for HCA LANB Round 1 funding for three units at Sivell Place, for which it was awarded £195,000 and 18 units at Merlin Crescent, for which it was awarded £1,350,000. The council has match-funded these one and two bedroom flats.

'... It makes economic sense to build these flats for people to downsize to as you can't build a high quality three bed house for the same price.'

Lawrence Blake, acting head of housing

The three properties at Sivell Place, known as Rowan House, were completed in December 2010. Once certified this will be the first social housing scheme in the UK to enjoy eco-home energy benefits called the Passivhaus Standard, which keeps buildings warm in winter and cool in summer using minimal energy. They are also part of the council's scheme to encourage tenants that are under-occupying council or housing association properties to downsize to a smaller home.

Housing has been one of Exeter's strategic priorities for many years and building high quality homes meant demand could be tackled head-on. With over 7,200 households on the council waiting list – a rise of 12% over just six months – and house prices in the city ten times the average salary, the need for family housing is acute. Acting head of housing Lawrence Blake, says: 'Building these attractive new flats for over 55s encourages single people and couples to downsize from larger houses that are then made available for families. It makes economic sense to build these flats for people to downsize to as you can't build a high quality three bed house for the same price.'

The authority achieved good value for money because it went through a long procurement process. 'We brought prospective developers along with us from an early stage so they understood the concept and the design and priced it accurately so we had cost certainty,' Mr Blake explains. Financial appraisals showed it was cost effective to deliver via a partly in-house project team.

As a stock retained council responsible for a wide range of services, the direct house-building in Exeter could be aligned to its asset management and regeneration objectives. The provision of high quality, environmentally friendly housing is also part of its community leadership role as it provides an exemplar for other organisations. Cllr Dilys Baldwin, lead councillor for housing and social inclusion commented: 'It represents what we hope will be the future of social housing.'

Focus groups were organised to ensure the new housing meets residents' needs and aspirations. Local architects specialising in eco-standards designed the homes. The Rowan House properties were advertised through Devon Home Choice and tenants who were interested talked to architects first about the practicalities of living in a Passivhaus.

The units have been designed according to Carbon Trust Best Practice considerations and Lifetimes Homes standard. Using Passivhaus principles has enabled the homes to be designed without a conventional heating system using a super insulated building envelope, triple glazing and onsite renewables. As well as resulting in minimal CO2 emissions, this has reduced utility bills for tenants to an estimated 75% lower than average, at less than £100 a year for heating and hot water.

Exeter City Council's scheme of 18 one and two bedroom flats at Merlin Crescent, designed to the same standards as Rowan House, will be completed during May 2011.

Gravesham: Meeting accessibility needs

GRAVESHAM Borough Council is building new bungalows following research identifying a pressing need for accommodation for people with disabilities.

Five new bungalows - one with one bedroom, two with two bedrooms and two with three bedrooms – are being built to Lifetime Homes standards so they are fully adaptable for people with disabilities. One will be fully wheelchair compliant. Work began in November in 2010 at the site of a former scout hall in Harden Road that was demolished approximately 15 years ago. The site had been subjected to anti-social behaviour and fly-tipping and was costing the council a lot of money to maintain. Residents are pleased that something is being done about the site.

The properties are due to be completed in September 2011. The council has advertised one of the two bedroom bungalows, which will suit a family with a disabled member, on its choice based lettings system. This means the council can identify the tenant before work starts on the inside of the property so that specific adaptations can be made as necessary.

'By developing housing ourselves, we have more control over what and where we deliver from start to finish.'

Sharon Donald, housing strategy and development manager,

Housing strategy and development manager, Sharon Donald, says: 'By developing housing ourselves, we have more control over what and where we deliver from start to finish. Other providers don't usually come forward with plans to build bungalows but that was where we identified a great need. I was born and bred in Gravesham and I feel very proud that the borough council is providing this specialist accommodation. This project has given people a chance to think about quality and what you actually need, not just the quantity. The bungalows are really spacious with good gardens.'

The council has worked with a housing association partner as a development agent. Ms Donald's role spans planning and regeneration, so she has worked with colleagues across the council from the outset to look at needs and determine appropriate sizes and materials. Work with the authority's repairs and maintenance team means the council's existing supplier for kitchens and fittings can ensure spare parts are readily available. Colleagues in the county council's social services department advised on accessibility and adaptations.

Gravesham had originally secured HCA LABN funding for the project. When that was stopped, the council went through another procedure to try to get funding through National Affordable Housing Programme and finally received £345k. Attracting funding through this alternative route meant the council couldn't undertake any prudential borrowing to assist the delivery of the scheme, so it agreed to use HRA capital receipts to match-fund the development.



New family homes built by North Kesteven District Council

North Kesteven: Direct action for sustainable living

NORTH Kesteven District Council has taken direct action to provide affordable homes locally while also leading the way on sustainable development

The authority in Lincolnshire has built the first council houses in the UK to use a sustainable straw construction method. Families are now living at two straw houses at Brumby Crescent, Waddington and two more homes at West Grove, Martin will be completed in Spring 2011.

Council leader, Marion Brighton, said: 'The development of these houses has been an important project for the council in leading the way with sustainable development and we are gratified by the interest shown in them both by members of the public and other authorities across the country.'

The council has a strong sustainability agenda, which it tries to build into all service

The project enabled North Kesteven to be an exemplar and provide a test bed for new, environmentally friendly, construction methods.

areas and the use of straw bale construction came from an idea developed by the Council's Executive Board.

The project enabled North Kesteven to be an exemplar and provide a test bed for new construction methods. The technology includes walls made of straw bales, sheep's wool padding in the floor and extra thick roof insulation, recycled glass blocks in the foundations and lime instead of cement in all aggregates.

The straw houses feature large south facing windows for maximum warmth and light, are triple glazed to reduce heat loss, have three times the insulation value of conventional homes, feature solar water heating and chemical-free natural construction materials where possible. They have an estimated 200 year lifespan and will have dramatically reduced costs for heating because of their high insulation ratings.

The council is building 35 properties on 10 sites in total using £1.8m HCA investment matched by its own funding through borrowing. These include bungalows and semi-detached homes in more traditional design as well as the innovative straw houses. Lifetime Homes standards will be met at Elizabeth Avenue, Grayson Green, and Cumberland Avenue. The authority's Hoplands and Hillside properties will meet most of the criteria and can be adapted to meet the full standards at a later date.

Philip Roberts, head of communities at North Kesteven, says: 'We are very pleased with the flexibility that building our own housing has given us. There has been a real sharing of the work between the housing strategy team and the housing service. This has given the entire authority a lift and members and officers are very proud that we have pulled together and responded so quickly to the tight timetables.'

Project management, quantity surveying and other professional services required for the new build project were provided in-house, enabling the authority to work through technical issues and giving a cost advantage of lower fees.

Lincolnshire's county-wide procurement body used framework agreements to recruit firms from across the East Midlands. Locally sourced materials have been used wherever possible, making the construction of the properties beneficial to the local economy.



New Oxford City Council homes in Rose Hill

Oxford: Quality and sustainability

NEW homes being built by Oxford City Council homes on two sites – Lambourn Road and Cardinal House – combine high quality design and generous space standards with leading edge sustainability features.

Five new bungalows and five three bedroom houses at Lambourn Road, Rose Hill are now occupied and a further 22 properties were due for completion by March 2011. The high quality development comprises three and five bedroom houses as well as flats and

The new homes benefit from extremely high levels of insulation and leading edge technology for use of energy including photovoltaic panels and air source heat pumps.

bungalows, which will replace prefabs that were demolished, having been deemed unfit for habitation. The project was awarded £2.8m HCA LANB funding with the balance of £2.94m met by direct investment by Oxford City Council.

The new homes meet Level 4 of the Code for Sustainable Homes and benefit from extremely high levels of insulation and leading edge technology for energy use. This includes renewable energy supply by photovoltaic roof panels and air source heat pump under-floor heating systems. The density of the homes is 47 per ha, which means high space standards. The houses will also have gardens and private off-street parking.

The other site that is being developed is Cardinal House in Littlemore where 33 existing flats are being refurbished and an additional 20 sheltered housing units are being built. The modern sheltered housing has been purpose designed to meet local need. It features a two storey building that encloses a quadrangle garden. Investment by Oxford City Council totals £5.04 m, with an additional £1.24m HCA LANB funding. The property was due for occupation in March 2011. The tenants will return once the work is completed.

Because 40% of sheltered housing is typically allocated to existing social housing tenants, the Cardinal House development will free up accommodation, including larger family homes, for general needs use.

Allison Dalton, project coordinator, says: 'For both schemes we made sure we had a good understanding of local needs and priorities and the project in general and design work in particular benefited from consultation with end users.'

Wandsworth: A two-pronged approach

The project had the advantage of transforming land that was subject to anti-social behaviour into a high quality, sustainable development in an attractive landscaped environment that boosts the entire area.

THE London Borough of Wandsworth's new hidden homes housing initiative is fulfilling two corporate priorities; providing affordable homes and tackling anti-social behaviour.

Wandsworth is one of the few authorities that has been adding to its housing stock consistently over the past decade. The Hidden Homes initiative, which was initially funded through HRA and more recently funded by Notting Hill Housing Association, has provided 200 properties since its launch in 2003. The scheme has transformed vacant and disused areas on council estates, such as storerooms, sheds, garages and boiler rooms, into bright modern apartments.

Following on from this, the authority received £3.629m HCA grant to fund the development of 38 social rented units as an extension of the Rollo Estate in Battersea. The remaining cost will be covered by prudential borrowing of £2.741m. The scheme was initially approved under LANB Round 2 and was subsequently awarded NAHP funding.

The properties will be built to the highest standards of sustainability and design. They will be in a range of sizes, from two bedroom flats to four bedroom flats and a four bedroom maisonette.

The new homes will be provided by extending four of the existing blocks at the southern end of the estate onto redundant land, which has been prone to anti-social behaviour.

Wandsworth's cabinet member for housing, Cllr Guy Senior, said: 'We are delighted to be able to respond to the huge shortage of affordable homes locally by building our own properties. The Rollo estate project has the added advantage of transforming land that was subject to anti-social behaviour into a high quality, sustainable development in an attractive landscaped environment that boosts the entire area. It's a two-pronged approach.'

Using area-based information allows the authority to focus on the exact type of accommodation that is most acutely required. Providing homes for people with large families has been a particular challenge for the authority, which direct delivery is able to address.

The units will be built to Code Level 4 and meet 14 of the 20 Building for Life Criteria and Lifetime Homes standards. They incorporate Designing Out Crime features. Work is due to be completed by July 2012.

West Lancashire: Taking control

'Being a council project is great as we are in control and can work with other departments, consultants and contractors to quickly overcome any issues that arise.'

Strategic Policy and Projects Manager

NEW homes that are being built by West Lancashire Borough Council will sit on an unoccupied plot of land, which is surrounded by established residential housing forming the Tanhouse Estate in Skelmersdale. Development of the site will provide a high quality living environment, and improved security for existing dwellings, particularly those adjacent to existing brownfield open space

Work on a £1.7m scheme to build 17 new energy-efficient council homes got under way in January 2011. The Elmstead project – funded from council reserves with £807,500 investment from HCA – will provide the first new council homes in the borough for more than 15 years.

The new development will be a mix of 8 two-bedroom houses, 5 three-bedroom houses and 4 two-bedroom bungalows. They will be high-quality, energy-efficient properties, which will mean lower fuel bills for tenants.

When complete the houses will meet Code for Sustainable Homes Level 4, Lifetime Homes Standards and Secured by Design accreditation for the safe and secure environment it will provide for residents. Safety will be improved through the introduction of footpaths around the new development and provision for off-street parking.

The Tenants and Residents Forum, Tanhouse Action Group residents' body and neighbourhood policing team have supported the development and open events have enabled locals to meet members of the project team and discuss the proposed property and street designs before and after planning permission had been granted.

The Strategic Policy and Projects Manager says: 'Developing this vacant site with affordable housing for rent, increasing housing choice with a mixture of typologies and enhancing the existing estate fabric with a high quality exemplar project will demonstrate the council's regeneration vision for the Skelmersdale area. Being a council project is great as we are in control and can work with other departments, consultants and contractors to quickly overcome any issues that arise.'

The 52 week construction period is taking place in blocks to keep road access open throughout and the first homes will be ready by late summer 2011.

The site is located in an area ranked amongst the 10% most deprived nationally and the council is keen to ensure that local people have opportunities to access the job market and training opportunities. The contractor appointed by the council is working in partnership with Skelmersdale Construction Academy to maximise training opportunities during the building programme.

3: The business case for house-building by local authorities

ARCH has not argued for retained stock authorities to be able to build new homes for any ideological reason. Its members work closely with housing associations and private developers and wish for direct provision to complement and supplement, rather than replace, other forms of provision. ARCH members have made it clear that they only wish to build their own properties where this can be a means of: fulfilling needs that are going unmet; being cost competitive; and making an 'added value' contribution. In short, they only want to build homes where there is a strong business case for doing so.

ARCH believes that council building is a viable means of maximising affordable housing and value for money in straightened economic circumstances. It will continue to press for councils to be able to build as it believes this offers: a way of meeting pressing local housing need; a boost to local construction, jobs and economies; and a means of building high quality, sustainable homes for the future in line with local social, regeneration, planning and environmental priorities.

To establish the business case for council house-building, we can examine both the national and local position. In terms of the former, it can be argued that building new council properties can save the public purse nationally. In terms of the latter, it can be argued that councils are well placed to build in a way that brings additional value beyond the provision of housing to local areas and that development by local authorities can be a cost effective option.

Costs associated with homelessness and poor housing

There are now 1.76m households on council waiting lists as a result of homelessness, overcrowding and inadequate housing. According to official figures, 49,680 homeless households in England were living in temporary accommodation arranged by local authorities in the third quarter of 2010. Of these 5% were in bed and breakfast hotels, a figure that has risen by 10.4% since the previous quarter (HoC, December 2010).

There is extensive evidence available which demonstrates not just the social cost, but also the high financial cost that failing to provide sufficient affordable housing places upon local authorities and the public purse nationally. Research also shows that the construction of new homes can significantly stimulate the economy during a difficult period.

As Shelter's publication *Full House*, which documents the effects of over-crowding says, says: 'Bad housing wrecks lives.' The financial cost of homelessness and poor housing can be seen in terms of the massive bill for temporary accommodation for individuals and families and its impact on health, crime, employment and education (Shelter, 2005). A National Audit Office report in 2005 estimated that the nation spends around £1bn a year to prevent and deal with homelessness. Research by the New Economics Foundation indicated an annual cost to the state of £26,000 for each homeless person. This figure included the cost of benefits, hostel accommodation, and care of children (NEF, 2008).

The CIH has found that children living in poor housing are 20% more likely to attend accident and emergency units than other children. While 10% of children as a whole gain no GCSE's, 25% of children living in bad housing fail to gain qualifications (Stockdale, 2010). *Social Impact of Poor Housing*, a report by Ecotec for the National Housing Federation published in May 2010, found it costs the National Health Service £2.5bn a year. This report showed that people who are homeless and living in temporary accommodation suffered from a higher incidence of sickness than those in other types of housing. Homeless children were four times more likely to suffer from respiratory infections, had five times as many

stomach infections and made twice as many emergency hospital visits. Children living in substandard housing underperformed at all key stages of school. It also found substandard housing costs the taxpayer £1.8 bn a year in additional policing costs (Ecotec, 2010).

The cost of investing in council housing, which is repaid in the form of rents, can therefore be easily outweighed by the cost of not investing, which means the public purse faces mounting bills for; bed and breakfast accommodation, poor health, lack of educational attainment, crime and anti-social behaviour and lack of access to employment.

The positive economic impact of house-building nationally

Lack of adequate housing can inhibit economic growth. A survey by Shelter found that housing was affecting people's economic opportunities, with 18% of 18-34 year-olds saying that high housing costs are hampering their ability to move for work. One in five businesses said the cost of housing was a factor inhibiting business growth (Shelter, 2009).

House-building can also provide an economic boost to an ailing economy. Research for the Barker Review estimated that building an additional 82,000 to 380,000 extra homes could increase GDP by between £3bn to £16bn. Construction generated £91bn of UK economic output in 2008 and economic multipliers are stronger in the construction sector than other parts of the economy. Yet unemployment in the sector had risen to 91,000 by June 2010. Research for Shelter found that every £1 invested in new housing generates £3.51 in economic output (Shelter, June 2010). More than 215,000 new jobs would be created if the UK built the new homes it needs, boosting the economy by £1.2 billion, according to research published by the Home Builders Federation (HBF, December 2010).

Why councils are well placed to build new homes

The evidence outlined above shows that investment in new housing makes sense in terms of saving local authorities and national public bodies billions of pounds. It also shows that investment in new housing can significantly benefit the UK economy. This begs the question of why local authorities are especially well placed to deliver those much-needed new affordable homes.

ARCH believes that the broadest range of providers should be used to help meet the need for new homes and its members work in close partnership with private developers and housing associations. As the policy and funding section of this report shows, councils have not had sufficient opportunities to build. There are, however, arguments to show that councils are well placed to provide new homes and can do so in a way that adds value socially, economically and environmentally.

The all-party House of Commons Council Housing Group put the case for council building in July 2009 and urged the Government to take action as a matter of urgency. It pointed out that councils have an advantage in terms of delivering new homes because 'all the key tasks are located under one roof', including land searches, planning permission, and legal services; and because councils are responsible for addressing homelessness and managing housing waiting lists they can ensure the correct type of properties are being provided. Councils that gathered at the House of Commons in March 2009 for a panel discussion organised by ARCH and APSE argued that councils have land ready for development, good credit ratings, are democratically accountable and ideally placed to link building with wider social, economic and environmental goals.

Councils have responded well to the opportunities provided to build new homes for the first time in decades using LANB funding. APSE's report for Unison *A New Generation of Council Housing* examined how councils were responding to opportunities to build homes. This research provided case studies of trailblazer councils leading the way in building new environmentally-friendly homes quickly, to high standards, including ARCH members Broxtowe, Croydon and Exeter (Unison, 2010).

A New Generation of Council Housing found that councils are well placed to deliver homes in a way that meets local needs. The Barker Review identified that up to half the land available for housing was owned by local authorities and other public bodies and this is critical to future housing provision. While councils are subject to the requirements of statutory planning guidance, development plans and planning conditions, they are likely to have a better understanding of local planning constraints and requirements. They are also

in a better position to undertake pre-application discussions with the planning authority and so shorten the period of time taken to gain planning permission. The LGA also found great enthusiasm among councils for building new homes and provided case studies of the successful bids submitted to the HCA LANB fund in its report *Very Much Up For It* (LGA, 2009).

Importantly, councils can deliver new homes in a way that meets a range of holistic community needs and aspirations. As outlined in the ARCH report *Under One Roof*, councils owning stock have benefits in being able to link in with a broad range of strategic objectives including; addressing homelessness, place-shaping, community cohesion, sustainability, education, health promotion, tackling anti-social behaviour, addressing climate change and caring for elderly and vulnerable residents (APSE/ARCH, March 2010).

Council building can deliver community leadership, cohesion and sustainability and boost local economies, as well as providing much-needed affordable housing. Programmes using HCA LANB are high-quality developments in sustainable communities rather than high-volume, low quality estates of the past, as the previous section showed. Local authorities have vast experience of generic skills that can be applied to house-building such as; project management, sustainable development and partnership working.

Local authorities have the logistical and organisational capability to plan, design and implement schemes in full consultation with local people as they are democratically accountable bodies.

Local authorities are highly credit worthy and have 'triple A' credit ratings. If a council undertakes the borrowing it can be much cheaper than if funds are raised by others through the private money markets, a benefit set out in the costed example that follows.

The Housing Commission report *Housing Shortages: What councils can do* said that market forces alone could not keep pace with housing requirements and housing associations had only partially filled 'the hole' in supply (HC, November 2010). It praised recent house-building achievements of local authorities, saying: 'Councils have proved that relatively modest levels of LABN can achieve significant beneficial housing outcomes.' It found 'countless examples of councils making creative use of grants' and noted their emphasis on sustainability, freeing up larger homes for families and providing extra care properties that saved health service funds. 'The call on central government grants is relatively modest because local authorities can contribute land and prudential borrowing, which is repaid from rents.' The report concluded that local authority house-building should be extended.

A DCLG response to this report acknowledged the appetite and capacity councils had shown for direct development under the LANB scheme. It too commended the high quality and environmental standards local authority house-building was delivering and its positive contribution to 'attractive and thriving communities' (DCLG, November 2010).

Local economic development

Councils are responsible for local economic development and an advantage of council development is that new housing can be procured in a way that maximises the benefits to local supply chains, employment and skills.

The Leitch Review in 2006 noted the valuable part apprenticeships play in the skills agenda. Councils have been successful in providing apprenticeship schemes for local young people over many years and have concentrated in trades such as plumbing, electrics, carpentry, plastering and bricklaying (Leitch, 2006). A number of councils are grasping the opportunity to install innovative technologies to new properties such as photovoltaic panels, solar heating, air and ground source heating. These technologies require new skills which can be used to generate income by trading. This kind of development further enhances the skills of individuals and the skill set available to the local economy. Such skills will be fundamental to the way we live our lives in the future and are a real investment in tackling environmental as well as future training opportunities.

The CIH publication *Housing and the Economy - Integrated Strategies* (Davies, 2008) explores the links between better housing and a better economy, in terms of place-shaping, labour markets, construction and design.

The construction industry's high 'economic multiplier' effect is significant to local

economies. Decisions about the sourcing of labour, training and supply chains are all important to local economic strategies. APSE research demonstrated the value that public employment brings to local economies (APSE, 2007). This was followed by a study that mapped the 'local economic footprint of public services.' This used an economic multiplier model to demonstrate that council expenditure on direct employment, effective procurement and local supply chains can mean £1 of public money generates £1.64 in the local economy (APSE 2008). Added to the general multiplier effect of house-building identified by Shelter, this can make direct council building a powerful economic driver at the local level. APSE's guide to sustainable procurement shows how councils can use their purchasing power positively to help meet social, economic and environmental objectives (APSE, 2010). Councils can apply their procurement policies to ensure that investment in house-building has the best possible impact on local economies.

The economic situation the UK faces adds weight to the case made by councils to build new houses as a way of providing both affordable homes and jobs for architects, surveyors, tradespeople and all those companies that depend on the construction industry. This is especially true at a time when the rates at which private sector developers are building houses is the lowest it has been for many years and housing associations are facing tough financial challenges. Case studies presented in this report show how building by ARCH members has aimed to optimise the impact of local authority house-building on local jobs, skills and supply chains.

The cost effectiveness of council housing

Councils that have retained stock have not been able to operate on a level playing field with other social housing options in terms of access to funding, as discussed in previous publications (ARCH 2010). Yet evidence is emerging which proves they can be more cost effective in managing their resources than other providers.

For one thing, councils are providing homes at cheaper rents than Registered Social Landlords (RSLs). The average weekly housing benefit (rent allowance) payment to RSL tenants is still some £7/week more than the average weekly housing benefit payment (rent rebate) to local authority tenants (DWP, 2010).

A Joseph Rowntree Foundation study shows the benefits that have been delivered as a result of stock transfer. The report also quantifies the amount of funding that has been available for RSLs since transfer of council housing to achieve such benefits however. Since 1988, modernisation has been backed by funding totalling £24bn in England alone, which included almost £5bn public funding. Such funding has not been available to stock retained authorities, who have had to meet Decent Homes standards out of their own resources (JRF, 2010).

The National Audit Office report on the Decent Homes Programme found that as at April 2009, 86% of homes in the social sector were classed as decent (NAO, 2010). Of those failing to meet the target, 13.2% of Arms Length Management Organisations were non-decent, 10% of stock retainers and 6.6% of RSLs (NAO, January 2010). This shows that, despite additional funding that ALMOs have received, a higher percentage of stock retainers have managed to meet decency standards on target. This was followed by the Public Accounts Committee reporting that retained councils had spent less per home achieving Decent Homes standards than ALMOs. It pointed out that stock retainers had not had the additional resources received by RSLs and ALMOs (PAC, March 2010). A survey conducted as part of the ARCH *Under One Roof* research found most ARCH members were meeting Decent Homes standards despite funding constraints and providing a range of additional benefits beyond their housing role. ARCH welcomes recent HCA announcements that stock retainers have been awarded decent homes funding for the first time. A total of £379 million – 23% of £1.6 billion allocated - has now been allocated to stock retainers.

The Private Finance Initiative (PFI) has also proved a costly option to the taxpayer (NAO, June 2010). A National Audit Office report showed that more than four-fifths of projects to improve existing housing and build new stock funded through this method have experienced cost increases. The study found 21 of the 25 housing PFI projects signed to date have 'experienced cost increases above estimates in the business case, 12 of which were over 100%'.

Value for money from council construction

ARCH members are clear that they only wish to directly develop where this is the best all round solution for a particular area. While it is possible to demonstrate the value of building in terms of savings on responding to homelessness, impacts on health and communities and that councils are capable of delivering value for money in managing their existing stock, the question of whether councils can actually construct homes at better value than the private sector or housing associations must also be addressed.

It is important to consider 'cost effectiveness', which means long-term value for money, rather than mere cheapness. Many of the high profile public housing failures of the 1970s result from applying low cost construction methods that ended in demolition of properties and caused stigma for council housing. Local authorities have learned the lesson that long term cost effectiveness requires quality and sustainability.

While the cost of actually constructing each home in terms of materials used and fees to contractors will be the largely similar as for private developers, housing associations or local authorities, there are arguments that councils can be cost competitive in terms of the rate at which they can borrow. This is demonstrated by the costed example below.

Councils, which have AAA credit ratings, can borrow from the Public Works Loans Board (PWL), which loans at a lower rate than interest payable on commercial loans. As at February 2011, the PWLB interest rate was 5.02%, compared with a minimum of 5.54% for commercial loans. This represents a 0.52 % difference, which can amount to substantial savings when millions of pounds are being borrowed over a long period.

The Housing Commission compared public expenditure for projects undertaken with LANB grants with that incurred by housing associations. It found the level of central government grant received by councils for each home build is lower in many regions than housing associations and that this is particularly the case in London. Its report described the lower levels of grant for council schemes as 'particularly impressive' considering the high proportion of larger homes built and the fact that a higher proportion meet Level 4 or above of the Code for Sustainable Homes. It found the average public expenditure per unit on grants for local authority new build across England was £63,887 compared with £73,000 in average grant to housing associations (HC, 2010, p.46).

However, the report notes that where local authorities are borrowing to match-fund grants, current fiscal rules dictate that this must be classed under Public Sector Net Debt (PSND), whereas housing association borrowing is not. ARCH, along with other commentators including the CIH, has argued that borrowing to finance council house-building should not count against the public sector balance sheet. Borrowing for council building not only pays for itself in the form of rents; it also can reduce costs of other services and provide an economic multiplier effect, as outlined above.

In addition to borrowing at a more competitive rate, other factors that can make council building more cost competitive than other options are: private developers' profit margin must be factored in to their costings; PFI schemes have been proven not to be cost effective; councils have supplies of land and can contribute this for free; and councils can draw upon in-house managerial expertise and technical skills.

A costed example

Taking an example from an anonymous ARCH member authority and interrogating its data shows council building can be cost competitive because borrowing costs less. This example was taken from a consultancy appraisal undertaken when the authority was deciding whether it was cost effective for it to build directly. The main reason why prudential borrowing offers better value for money when modelled against RSL finance is that currently local authorities have access to finance from the PWLB, which is priced cheaper than market borrowing available to housing associations, as discussed.

The outcomes from the modelling exercise are dependant of course on the assumptions made, but it is believed that the assumptions made in this example are sound. The council undertook a piece of work to compare the costs of prudential borrowing against the actual cost of an RSL scheme funded by borrowing on from the private sector. The scheme was for 33 units with a capital cost of £3,750,702 (on land, works and on costs).

This was financed by:

- Social Housing Grant £1,650,000
- Internal subsidy £942,317
- Loan finance £1,158,383

The appraisal made the assumption that average rents were £78.63 per week.

A financial model was constructed which predicted the annual income and expenditure arising using prudential borrowing to fund a similar scheme and the level of subsidy that would be needed to ensure viability. The model was used to predict the subsidy that would be needed if an RSL was to deliver it. A comparison was then made between the public subsidy needed under prudential borrowing and the subsidy needed using an RSL. The model assumed the same capital costs, the same rent levels and the loan having to be paid over 30 years.

For the prudential borrowing example, borrowing was assumed to be from the PWLB and rent losses (through voids and bad debts) and the cost of routine management and maintenance were based on the council's business plan model.

The key financial inputs into the RSL model were that borrowing was assumed to be from the private sector and rent losses (through voids and bad debts) and the cost of routine management and maintenance were based on current HCA assumptions used in its grant rate model. In both cases the cost of major repairs was based on a percentage of the cost of works as per the HCA grant rate model.

The comparison found:

- The level of internal subsidy needed using prudential borrowing was £1.67m
- The level of internal subsidy needed for building by an RSL was £1.98m
- On the basis of modelling, direct building therefore offers better value for money.

Another approach is to compare the subsidy required under the prudential borrowing model with the actual subsidy (reflecting real life finances and the competitive nature of the SHG bidding system). This highlights the fact that the prudential borrowing method provides better value for money based on a comparison with 'norm' rates. There is pressure on RSLs to bid 'under' norm rates.

At 43.99% the 'under' norm rate the grant was £1.65m whereas the 'norm' rate equates to £2.085m.

On the first basis prudential borrowing offers slightly better value for money, whereas on latter basis prudential borrowing offers much better value for money.

THERE is a need for as many public sector organisations as possible to be looking to fill a gap in construction, which appears during an economic downturn. Providing new affordable homes is not simply a construction exercise; it requires the long-term management and maintenance of the asset and for its effect on the surrounding area to be as positive as possible. As demonstrated in this section, councils can offer value for money and ARCH hopes they will be given the best possible chances to play their part in meeting national needs in future.

Conclusions

THIS report demonstrates that local authorities can deliver value for money in building new affordable homes and that direct council building can provide added value in meeting wider social, environmental and economic goals.

It shows:

- Local authorities are keen to directly develop housing where this is the best solution to suit particular circumstances.
- Local authorities are also keen to continue working in partnership with private developers and housing associations where that is the best solution to suit local circumstances.
- Local authorities can deliver new homes in a cost effective way.
- Local authorities are delivering long-term value for money rather than the cheapest, short-term options that prove more costly in the longer term.
- Local authorities can deliver new homes to tight deadlines.
- Local authorities are building to high quality and space standards.
- Local authorities are building to high accessibility and security standards.
- Councils have a strategic housing responsibility and direct development is a way to meet specific local needs that are identified.
- Councils can build homes in small numbers on in-fill sites if necessary.
- Councils can use their community leadership role to act as exemplars in building socially, environmentally and economically sustainable homes.
- Building by councils can be a way of attracting people to downsize and free up larger properties for families.
- Building by councils can contribute to regeneration projects and boost local economies, jobs and skills.
- Building by councils can simultaneously address a range of other priorities because the local authority is also responsible for a range of other services. For example: tackling anti-social behaviour; addressing climate change; providing public space and community facilities; promoting community cohesion and well-being; and caring for older and vulnerable residents.
- Case studies show the achievements of councils in building new homes.
- Recognition of the role of councils as direct builders is growing.
- Council house-building provides good value for money for public investment.
- The new self-financing regime will allow councils more local control.
- The HCA's latest affordable homes programme acknowledges the local authority direct development role.

Recommendations

BASED upon the findings of this report and previous research, ARCH believes the following measures would help local authorities fulfil their potential to build new affordable homes as a means of providing value for money for public resources:

- Progress in giving councils the same access to social housing grant as other providers should be maintained.
- Caps on borrowing under the new self-financing settlement should be limited to provide sufficient scope for councils to borrow to fund new affordable homes.
- Borrowing by councils to build new affordable homes should be taken out of the Public Sector Net Debt in line with the fiscal rules applied in other European countries.
- The business case for council building should be given serious consideration at local and national level, as new social housing is a means of reducing costs of other services that pays for itself in the form of rents and stimulates the economy.

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