

# Association of Retained Council Housing

# Submission to the Review of the Local Authority role in Housing Supply

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The Association of Retained Council Housing (ARCH) represents councils which own and manage housing. We welcome the opportunity to contribute to this review. There are 167 councils in England owning 1.6 million homes. In 47 of these the council housing stock is managed by an ALMO; the remainder, with over a million homes, manage housing directly.

We welcome the opportunity to contribute to this review. We recognize the need to substantially increase the supply of housing in most areas of the country, and believe that local authorities have an important role to play in making this happen. Stock-owning councils have a particular contribution to make. Our evidence shows that they are already planning for a significant increase in the supply of new homes, but could do more with appropriate help and support from the Government, and some adjustments to the current legal framework within which they operate.

***Question 1: What are the experiences of stock-owning council in using the flexibility under the Housing Revenue Account to build new council homes? What challenges were encountered and how were they overcome? What further changes might be introduced to encourage stock-owning councils to use their flexibilities to build council homes?***

Following the introduction of self-financing in April 2013, most councils with housing have made plans to build new homes. An ARCH survey in the autumn of 2012 showed that three quarters of councils were planning to build a total of 20,000 – 25,000 new homes over the next five years[[1]](#endnote-1)

A more recent survey by the LGA in early 2014 reports a slight increase both in the number of councils planning to fund new housing – 88 per cent – and in the estimated total output over the next five years – to 28,000[[2]](#endnote-2)

Planned HRA income gives stock retaining councils the financial capacity to build many more homes than this. On the assumption that rents increase annually in accordance with government guidelines, by one per cent more than the consumer prices index from next year on, HRA income would support an additional £20 - £25 billion in investment if councils were free to borrow to prudential limits. We recognize that the present review cannot contemplate an increase in local authority borrowing beyond the prescribed ceilings, but it is important to note what underlies this estimate, namely that council HRAs are set to to yield significant and growing surpluses which are available to support new investment if ways can be found to achieve this without compromising the Government’s fiscal strategy. It also follows that councils should be encouraged to make full use of the borrowing available to them to support new building in addition to investment in their existing stock.

There are several steps that Government could take to enable and encourage stock-owning councils to build more homes funded within the HRA:

1. Councils planning to build new homes, whether using HRA finance or other sources of funding, need to ensure they can also fund provision of associated infrastructure. We believe a substantial expansion of new housebuilding is not feasible unless current arrangements for funding infrastructure are overhauled and improved.
2. The recent invitation to bid for additional HRA borrowing was poorly timed, as it came too late to allow councils to link bids for additional borrowing with bids for HCA support, the deadline for which closed before the invitation was published. We would like to see better co-ordination of similar arrangements in future.
3. Current arrangements for replacement of homes sold under the Right to Buy, which is a significant component of current council building plans, are not adequate to allow one-for-one, like-for-like replacement in most areas, and include restrictive and unnecessary conditions on when replacement homes can be provided, what rents they should attract and how they should be funded. Relaxation of these restrictions would help to enable councils to build more homes.
4. Councils are no longer looking to build just social housing, but also homes for sale or low-cost home ownership and, increasingly, for market rent. A growing number of councils are planning to build or acquire new homes for letting at market rents. Under current rules they can only do this by establishing a trading company outside the HRA. We believe this to be an unnecessary and unhelpful restriction. Giving councils explicit powers to build for sale and market rent within the HRA would enable them to use the financial strength of the HRA to spread the associated risks and cross-subsidise additional social housing from the surpluses earned.

***Question 3: How could Government support local authorities that want to do more to deliver new housing? Are there challenges that could be made easier?***

The suggestions made in answer to question 1 would help councils considerably to do more to deliver new housing. However, stock-owning councils are not looking only to deliver new housing within the HRA. Many ARCH members have taken forward other approaches, often in partnership with housing associations, private developers or institutional investors. Examples include:

* Oxford City Council – establishment of the Barton Oxford LLP, a joint venture with Grosvenor Developments to develop a 36 hectare site at Barton for 885 new homes;
* Sheffield City Council – the Sheffield Housing Company, a partnership between the council, Keepmoat Ltd and Great Places Housing Group which plans to build 2,300 new homes over the next 15 years;
* LB Hammersmith & Fulham has ambitious plans for redevelopment of the former Earls Court Exhibition Centre and adjacent sites for a mix of private and social housing.

We are also aware of other stock-owning councils which have set up arms-length vehicles of several kinds (Partnerships, Special Purpose Vehicles, Local Asset-Backed Vehicles) to develop local authority-owned or other public sector land for housing. No doubt the review will be able to consider detailed submissions from the councils involved on the challenges they faced and how they overcame them. From a review of the initiatives that have so far been reported, however, we would draw the following conclusions.

Most, if not all, of the councils so far involved are cities, London Boroughs or other large urban authorities. This may be explained by the fact that establishing and operating a joint venture or partnership can be costly and time-consuming, involving substantial expenditure on legal and other professional advice. A LGA overview of such initiatives[[3]](#endnote-3) includes the following comments:

* Barking & Dagenham – provision of 477 new homes via a Special Purpose Vehicle: “Setting up a partnership with an institutional investor takes time and money. It takes longer and is more complicated that using more traditional forms of borrowing such as the Public Works Loans Board. With the benefit of hindsight the council would have simplified the contract arrangements. The number of organisations involved in the project led to a complex arrangement that created a large volume of contract documents.”
* Oxford – Barton LLP: “Oxford did not have significant prior experience of joint ventures and had to draw on external advice on tax and the accounting treatment. There were also costs for professional services, including architects, surveyors and lawyers and further due diligence, met by the HCA. … Running a joint venture takes time and effort from the council and initial investment to cover the cost of external expertise and the procurement process. Oxford has learnt that operating the joint venture takes more time than they had originally expected. … A joint venture requires resourcing by the council. Oxford has committed a lot of time to the partnership and other councils considering this approach will need to think about the demands on officer and member time. The skills and commercial experience needed to set up a successful joint venture will also be critical to success.”

A majority of ARCH members are district councils with smaller budgets and less in-house capacity and expertise than is available in large unitary councils. Yet they have a crucial contribution to make to increasing housing supply. We believe that such councils should, first of all, be encouraged and supported to make the maximum use of their capacity to build in the HRA, where the legal and other complexities of partnership arrangements do not apply. If, in addition, such councils wish to undertake additional construction in partnership with others, we would like to see Government support to help with the costs of setting up partnership arrangements (as the HCA did in the case of Oxford), and examination of the feasibility of councils working together to share expertise and costs; local circumstances differ but the basic legal and financial framework is the same in each case; there should be no need for each new entrant to this area of work to reinvent the wheel. ARCH is planning an event for stock-owning councils and ALMOs in the East Midlands to explore the scope for working together.

***Question 4: To what extent are councils actively valuing, assessing stock condition/cost, or otherwise managing their asset portfolio to support new developments?***

Implementation of the Decent Homes Programme means that stock-owning councils generally have good information on stock condition. ARCH members report that they are actively considering options for the long-term future of every part of their existing stock, including retention and improvement, redevelopment and disposal.

***Question 5: How are councils using their own land to support house building by themselves or with others? What more might be done to bring surplus/redundant land back into use?***

Much of the new housebuilding initiated by councils since the introduction of self-financing has been the development of infill and unused sites, such as redundant garages, on existing council estates, since such sites offer the opportunity of “quick wins” since the council already owns the land and planning issues are generally straightforward. Now that we are in the third year of self-financing, we would expect a growing proportion of council development to involve larger sites. We see the best way to encourage maximum use of council-owned land as being to encourage councils to develop it, either alone, or in partnership as discussed above.

***Question 6: How are councils using their capacity and skills to support locally-led larger development? How are councils assessing housing needs and working to include the needs and wants of communities when considering housing developments? How might councils tap into the skills or capacity from development partners, particularly in larger-scale developments?***

***Question 7: What innovative finance mechanisms have councils used to support housing developments? How were risks identified and shared, and challenges overcome in utilizing innovative finance models? What other factors would need to be in place to ensure success?***

***Question 8: What innovative finance mechanisms are used in funding private sector housing development? To what extent could these mechanisms be replicated or extended/improved to help secure investment for local authority-led housing developments? What could the Government do to better support such innovation?***

Our response to all three of these questions is essentially the same. We believe there is a good variety of potential development models already being tried and tested by councils in different parts of the country. The challenge is to make it easier for other councils, particularly smaller district councils, to select the model that is appropriate for their local circumstances, and to successfully implement it, by sharing learning so that mistakes are not repeated, providing help with up-front costs and enabling councils to share costs where feasible.

***Question 9: How have local authorities improved the efficiency of their management and development of social housing? How does the cost of local authority and private sector-led housing development compare? How is value for money assessed for housing developments? How might councils reduce the costs of and improve value for money in housing developments?***

In comparing the costs of local authority and private sector-led housing developments it is important to look not just at development costs, but whole of life costs, and to compare like with like. There has been relatively little local authority-led development in recent years, and much of what has been built has been built on infill and other small sites, for reasons explained above. We do not have detailed data on local authority development costs, but it seems likely that, being on smaller and perhaps difficult to access sites, they may be higher than can be achieved building at volume on larger sites with unimpeded access. However, this must be set against the fact that, in most cases, the land comes free as it is already owned by the local authority and held within the HRA. Local authority borrowing costs are significantly lower than those applying to private investors, and the marginal cost of managing and maintaining additional units on existing estates in likely to be low. In any case, local authority management and maintenance costs have historically been lower, on average, per unit, than those of ALMOs or housing associations, and councils continue to pursue improvements in efficiency to reduce costs and improve value for money.

1. http://www.arch-housing.org.uk/media/53865/arch\_innovation\_and\_ambition\_full.pdf [↑](#endnote-ref-1)
2. http://www.local.gov.uk/web/guest/research-housing/-/journal\_content/56/10180/6009823/ARTICLE [↑](#endnote-ref-2)
3. http://www.local.gov.uk/web/guest/publications/-/journal\_content/56/10180/5956672/PUBLICATION [↑](#endnote-ref-3)