

# Unlocking the potential



Artist's impressions of the William Street Quarter, one of the first developments built by the new Local Housing Company in Barking

## Neil Merrick examines the opportunities for councils to build new homes and what barriers must be removed before they can.

Last year, Sheffield Homes became one of the first arm's length management organisations (ALMOs) to be awarded a government development grant.

Although the £280,000 it was allocated through the National Affordable Housing Programme was only expected to pay for seven homes, the money was seen as a significant breakthrough for local authorities as they gradually ease their way back into house building.

But more than 12 months later, Sheffield Homes has not taken up the grant. Instead, its parent council is considering an alternative route into construction via a local housing company (LHC).

Karl Tupling, director of housing at Sheffield Council, says the decision to focus on a LHC, which involve developers building on council-owned land, reflects the economic climate. "The council has never been particularly precious about who builds or owns [houses]," he says.

"It's always been a question of working with partners that are best placed to

bring funding together and deliver quality homes."

Mr Tupling welcomes the government's recent suggestion that councils should be able to keep all the rent they raise from new homes, as well as capital receipts from any right to buy sales, but says this alone will not be enough to stimulate a major house building programme.

Instead, the council is likely to ask the government if it can retain about £500,000 of the £6m that it pays to the Treasury each year in capital receipts.

By using this to pay for prudential borrowing, it could complement future grant it receives from the NAHP and raise enough money for about 100 properties. "It would probably be sufficient to bridge the gap between what we need and grant," he says.

The situation in Sheffield, which could easily end up with two council-owned housing companies, demonstrates the confused picture surrounding attempts by councils to build new homes. To date,

16 have expressed an interest in LHCs, although just four, including Barking and Dagenham [see below], are close to setting one up.

Meanwhile, 22 ALMOs (out of a total of 69) have pre-qualified as NAHP 'partners' and six (including Sheffield) have been awarded grants. Just three of these have signed agreements allowing them to receive money, although the Homes and Communities Agency says two more are on the verge.

The route to a development grant can be slow and tortuous. Gwyneth Taylor, policy officer at the National Federation of ALMOs (NFA), says applicants must complete a document of more than 300 pages to receive less than £1m, whereas ALMOs face far less tape when awarded significantly more to carry out decent homes work.

NAHP regulations mean that ALMOs are treated more like private developers than housing associations, which still receive the lion's share of grants. "It's

colossally bureaucratic," says Taylor. "They [the government] have to recognise that ALMOs are not private sector companies."

Even Stockport Homes, the first almo to sign a grant agreement [see box] criticises the process. Helen McHale, its chief executive, says: "We had a senior officer giving lots of time between July and November to make this happen. We've raised concerns but we worked with the local authority solicitors, which was helpful."

Sir Bob Kerslake, chief executive of the HCA, is sympathetic to complaints made by ALMOs and has offered to liaise with the NFA to try and simplify matters. Part of the problem is that ALMOs are not regulated in the same way as housing associations, although that will change next year when the Tenant Services Authority introduces a single regulatory system.

Sir Bob Kerslake is keen to see councils playing a full role in house building again, if only to increase the number of potential providers of affordable housing. "We should bring another player onto the pitch," he says.

In spite of the recession and delays in setting up local housing companies, he insists the LHC model is sound. "They are a means to an end," he says. "It's important to ask whether they suit a particular place. In some places, alternative processes may fit better."

As the former chief executive of Sheffield Council, Sir Bob is reluctant to comment on whether the city would be better off building through its almo, or a local housing company. But he is concerned that councils do not take too long to reach a decision and get work underway.

"We are in a market downturn and we need to take action now," he says. "LHCs may provide long-term solutions but we need to keep the supply of affordable housing going in the short and intermediate term."

All of which makes it increasingly frustrating that the government is taking so long to reform the housing finance system and give councils, especially those with traditional housing

departments, the spur they need.

Brian Reilly, deputy director of housing in Wandsworth, London, and spokesman for the Association of Retained Council Housing (Arch), says the rebirth of council house building and changes to the housing revenue account are "inextricably linked".

He sees plans to allow councils to retain rents and capital receipts from new homes are a "useful starting point" as they acknowledge that the current finance system is a disincentive to build.

But Arch wants local authorities to be able to keep the rents and capital receipts from all properties – not just newly-built homes – so that councils become self-financing. Even changes to the HRA would only provide part of the solution. "The other side of the coin is allowing us access to social housing grant in the same way as housing associations," he says.

In addition to the 22 councils with ALMOs eligible for grants through the NAHP, a further eight are members of special purpose vehicles (SPVs) with private sector or housing association partners.

But, adds Mr Reilly, SPVs and local housing companies are "hugely complicated and time-consuming" and only likely to provide funds for a small number of homes. "Why should we waste time and money helping firms of solicitors and consultants to get rich in the process?" he asks.

In January, Prime Minister Gordon Brown told a New Local Government Network conference that the government would not allow "old arguments and old ideologies" to get in the way of councils building homes again.

But Chris Leslie, director of the NGLN, believes this is easier said and done. Councils have not built on a significant scale since the early 1980s and, in 2007, completed just 350 homes. "There are only collective memories rather than the capacity to start-up again," he says.

Skills shortages are bound to mean that, in the short-run, most councils team-up with private builders and

housing associations that boast more recent experience of development schemes. "They're all going to be relying on one another much more," he says. "Each will bring something to the table."

Back in Sheffield, Karl Tupling hopes the council's LHC will eventually build about 2,500 homes – at least 20 per cent of which will be 'affordable'. "If the economics work out, using a combination of prudential borrowing and grant, we could deliver 500 new council homes," he says. "What's important is that we look for a partner that's in it for the long-term, over a 10 to 15 year period."

In Nottingham, where the council also hopes to set up a LHC, there are provisional plans to build 5,000 homes over ten years. About one quarter would be social rented and managed by Nottingham City Homes, the council's ALMO.

Alan Clark, portfolio holder for regeneration, says by taking a more direct role in providing social housing, the council should be able to manage estates better and tackle anti-social behaviour.

But how long is it all going to take? Nottingham does not expect its LHC to be up and running for another 12 months, while Sir Bob Kerslake says it is vital to tackle all the barriers that prevent councils building homes, including presumably the HRA system, "in one swoop".

What is clear is that, with private house building having almost ground to a halt and housing associations struggling to subsidise development schemes through sales of shared ownership homes, the government has to welcome councils back into the fold soon, and make it worth their while.

In the words of Brian Reilly, councils are "ALMOst the last option" left to ministers if they are going to get even close to their house building targets for the next decade. "We don't want prolonged bidding processes and pre-qualification requirements," he says. "We want access to resources so that we can get on and build."