



Department for
Communities and
Local Government

Review of local authorities' role in housing supply

Progress Update

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Background

1. The review of the role of local authorities in housing supply was announced in the Autumn Statement 2013. Its purpose is to consider how councils - both stock holding councils and non-stock holding councils – can help to increase supply for their communities across all tenures.¹
2. The review's terms of reference explain the context and purpose of the review and are set out in Annex A. The review is to report by the end of 2014, jointly to the Chief Secretary to the Treasury and the Secretary of State for Communities and Local Government.

Methodology

3. In carrying out the review, we have taken a fresh approach² to thinking how local authorities can increase housing activity in their area, across all tenures. We have considered what is working and what isn't, and have looked at innovative approaches that local authorities are taking to support increased housing.
4. To ensure a broad geographical and cross-market understanding of opportunities for better delivery, we have engaged widely across local authorities, ALMOs, housing associations, residents, the commissioning and delivery sectors, housebuilders, the finance and investor markets, as well as key government departments, the Homes and Communities Agency, the Greater London Authority together with a large number of industry and sector representative groups.
5. We have been delighted by the excellent response and positive commitment to our work. Over 250 responses have been received from the programme of work to date which has included:
 - *issuing a call for evidence* – on the Gov.uk website³ between 25 March and 23 May 2014 – including a survey monkey questionnaire;
 - *holding consultative events* – which provided an opportunity to hear about the issues, opportunities and barriers, as well as ideas for improvement and whether innovative approaches could be replicated elsewhere;
 - *analysing published housing data as well as policy/ research papers* supplied by a variety of organisations and individuals;

¹ <https://www.gov.uk/government/policy-advisory-groups/review-of-local-authorities-role-in-housing-supply>

² https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/294934/140319_Progress_update_by_NEKH.pdf

³ <https://www.gov.uk/government/consultations/review-of-local-authority-role-in-housing-supply-call-for-evidence>

- *reviewing good practice examples* – received from a variety of organisations showing effective engagement and innovative approaches undertaken and including site visits.

We are grateful to everyone who has contributed to date and provided support and assistance to the review. Particular acknowledgements will be made in our report.

Key headlines

6. **Housing matters:** There is widespread agreement that the supply of housing activity should be increased across all housing tenures, and that local authorities have a key role to play in promoting housing activity and ensuring delivery to meet the housing market needs of their local population.
7. **Local authorities can be central to housing delivery:** Having examined the evidence received so far, there is a strong agreement that housing is a priority at both national and local level, recognising that it is a key driver for other strategic ambitions such as growth, education, health and for stronger communities. We consider that there is a pressing need for a step change in the role that local authorities can play in supporting housing activity and housing supply, which includes renewing and refreshing housing in line with local need, and being more pro-active in using existing powers, levers and opportunities to lead housing growth. It is our view that local authorities should be centre-stage, assessing and planning for current and future housing market needs across all tenures, co-ordinating action with partners, and ensuring delivery on the ground.
8. **Harness private finance, unlock capacity:** There are also clear signs that this step change can be delivered through collaboration between public and private sector partners and market-supported solutions. Local authorities are already demonstrating how locally led, market-supported approaches, including local housing vehicles, can help to lever in investment, harness experience and unleash capacity. Building on these examples, the next phase of the review will explore further opportunities for local authorities to lever-in private finance and expertise to support local housing activity.

Emerging themes

9. **A bigger role for local authorities:** There are many positive signs that local authorities are well placed to drive this step change in housing activity and delivery. For example:
 - recognition that housing is a priority at local level, not just to meeting projected household increase and affordability, but also to deliver local ambitions such as growth, education, health and wellbeing, and stronger, more sustainable, communities;

- growing self confidence amongst local authorities in the role that they can play. Some authorities have set out a clear housing vision, which they are starting to deliver, in collaboration with partners, via a mix of levers and interventions. Authorities are increasingly demonstrating that they are best placed to assess and deliver local housing needs;
- localism of decision making for planning strategic housing is working well in many places, with increasing numbers of sites for housing development granted planning permission;
- the introduction of self-financing in 2012 for stock owning local authorities has been universally welcomed, and is starting to drive positive activity with authorities building, or planning to build, council homes for the first time in many years, remodelling tired homes and estates and beginning to provide for older and specialised needs.

10. **Challenges to overcome:** But the evidence also points to a number of challenges for local authorities and their partners in delivering this step change:

- **Communication of housing market need and opportunity:** a number of respondents questioned the processes for assessing, planning, and monitoring local housing markets and local housing need. Concerns were expressed about whether communication on these issues was open and transparent, and whether there was a sufficiently clear articulation of how they linked to the local authority's strategic vision and ambition for its area;
- **Accelerating development:** whilst local authorities are delivering strongly on their established roles of assessing housing need and providing planning consent, respondents questioned whether this translated into making delivery happen on the ground. They pointed to the increased time taken to build-out sites where planning permission had been granted, and perceived delays in unblocking stalled sites;
- **Competition and supporting SME activity:** respondents pointed to skills and capacity challenges associated with an increase in housing supply. Many examples were cited of small local builders who had exited the sector in recent years, and smaller new entrants who had found it difficult to break into the market. Additionally, some local authority respondents pointed to the challenges of internally upskilling, for example in financing, risk assessment, land disposal and estate management;
- **Land holding accessibility:** although some local authorities noted that their land and asset holdings were reported on their website, other respondents questioned the accuracy, usability and comprehensiveness of such data collection and reporting arrangements. Housing associations, prospective developers and investment parties reported difficulties in identifying potential sites for housing development;

- **Speed of public land release:** many respondents, both private and public sector, expressed concern at the speed with which vacant land owned by government, its agencies, and other public bodies (including authorities that do not have planning responsibility) was made available for development. In some places, delays in releasing such land was having a detrimental impact on local acceptance about the need for housing development on other sites;
- **Focus on smaller sites:** some respondents felt that local authority priorities appeared to focus on developing larger sites. Whilst this offered wider regeneration potential, there was a perception that this focus was at the expense of developing smaller sites;
- **Unlocking capacity, harnessing private finance:** some stock owning local authority respondents indicated that they would not be able to build more homes without more borrowing capacity. However, local authorities with little or no borrowing headroom have developed innovative finance models, including via local housing vehicles, to lever-in private finance to support house building programmes. They are showing that where there is strong leadership, political commitment, and willingness to think innovatively, a lack of Housing Revenue Account headroom does not need to stand in the way of house building.

How these challenges might be addressed

11. The next phase of the review will involve in depth work to understand these challenges in more detail, and to explore how they might be addressed, for example:

- **Whole of market delivery approach:** how local authorities can take more responsibility for “whole of market” housing delivery – including articulating a clear vision for how housing can contribute to other strategic priorities, and being more transparent about ensuring housing delivery to meet assessed local housing market need;
- **Boost local authority skills and capacity:** how to boost skills, capacity building and pace to support increased housing supply across local authorities of all sizes and geographical range. Looking in particular at risk assessment, finance, land disposal and estate management and recognising internal skills and resources challenges;
- **Smaller sites focus:** how local authorities can help in delivering-out small sites in order to generate momentum, and foster a culture of housebuilding at the local level. For example, by exploring options for releasing non-strategic land, such as garages, for housing development;
- **Simplified access to private finance:** how innovative finance and local delivery vehicles can support local authorities’ approach to housing delivery. Building on experiences, including approaches to legal/ public accounting issues, we will explore options for sharing knowledge and scope for

guidance/ standardised documentation, for example on local housing delivery vehicles. We will also explore potential appetite, scale and shape for creating a stronger finance market to support local authorities of all sizes in accessing private finance;

- **Better land transparency:** how to improve the transparency of land and asset holdings available for housing. We will look at options for open reporting of all 'public interest land', including local authority land, so that communities and potential developers are aware of the land available for future housing development. We will also explore issues of transparency and potential levers to encourage such land to be brought forward more quickly, where there is clear local support.

Next steps

12. In the next phase of the review we will focus on the options for addressing the challenges identified above. Additionally, we will explore information around efficiency, including the comparative cost of housebuilding, efficiency in stock and asset management, and the importance of securing value for money. We will be assisted by a group of public sector and private sector expert advisors. We will engage with finance industry specialists on how private finance can better support local authorities in increasing supply and meeting housing need. We will continue our cross market engagement process, and our email address is LAhousingreview@communities.gsi.gov.uk. We are on track to publish our report by the end of the year, in accordance with the terms of reference for the review.

Natalie Elphicke and Keith House
Co-reviewers, Review of Local Authorities' Role in Housing Supply

Role local authorities can play in supporting housing supply: terms of reference

Context

The coalition agreement committed the Government to reviewing the unfair Housing Revenue Account subsidy system to give local authorities the freedoms and responsibilities of running their own housing businesses.

In April 2012, following years of consultation with the sector, the Housing Revenue Account subsidy system was abolished. Local authorities have welcomed this move, creating long-term business plans to manage their stock responsibly for the benefit of their local communities.

Purpose of the review

This review, announced in the 2013 Autumn Statement, considers the role that councils' can play going forward in helping to meet the housing needs of their local population, within the context of the need to ensure good value for money and fiscal discipline.

The review should aim to support stability in the local authority housing sector and take as its context recent reforms such as the self-financing reforms and the Affordable Homes Programme. All recommendations would need to include an assessment of the impacts on local government, and national accounts.

The review must not produce any recommendations that breach the Government's fiscal consolidation plans or require changes to the Government's national accounting framework.

It would include both stock holding and non-stock holding councils within its remit, and cover councils' role in increasing supply for their communities across all tenures.

Particular issues the review should consider are:

- how stock-holding councils are using their new freedoms under Housing Revenue Account self-financing to support housing supply and whether the current framework of local authority Housing Revenue Account borrowing is supporting this objective.
- what more councils, stock holding and non-stock holding, could do to support housing supply including:
 - making maximum use of their existing asset base to support new development through asset sales
 - capacity and skills issues in supporting locally led larger scale development

- how councils are using their own land to support their own or others' house building and what more could be done to bring surplus or redundant local authority land into productive use.
- What innovative financing mechanisms councils have used to increase house building while ensuring value for money, and managing impacts on public sector borrowing and what central government could do to better support such innovation. This should include consideration of institutional investment, including pensions.
- How local authorities can best drive efficiency improvements in both their management and development of social housing to free up more resources to support new housing development.
- How data on local authority Housing Revenue Account owned assets, including housing and land can be made more transparent, building on the Government's recent Transparency Code measures.
- How the public sector costs of local authority-led housing development compares with private sector driven routes, including housing association led development. What local authorities can do to reduce costs and increase value for money in their housing development, e.g. through working with private sector partners.

Timing and Reporting

The review will commence in January 2014 to report by the end of 2014. It will report jointly to the Secretary of State for Communities and Local Government and the Chief Secretary to the Treasury.