

Briefing 15/09 February 2015

The Elphicke-House Report From statutory provider to Housing Delivery Enabler. Review into the local authority role in housing supply

To: English contacts
For information – Contacts in Scotland, Wales and Northern Ireland

Key issues

A report on the role of local authorities as Housing Delivery Enablers
Promoting an enabling role for local authorities including descriptions of 29 innovative case studies
Report acknowledges need for huge building programme to address the lack of supply

1. Introduction

The Elphicke-House review was announced in the 2013 Autumn Statement to consider 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 terms of reference state that 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. Importantly they go on to say that 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. The remit includes both stock holding and non-stock holding councils and their role in increasing supply for their communities across all tenures.

The report can be found [here](#).

2. The Report

The report recommends that councils change from statutory providers to Housing Delivery Enablers and uses this term throughout the document.

The report's foreword highlights some fundamental points including that in years prior to and during the recession, UK housebuilding failed to deliver the homes needed in England. It notes that Government has made the building of new homes a priority and introduced reforms of the planning system and infrastructure guarantees to support housebuilding as well as providing over £18 billion of financial support to housebuilding and to housing providers. The Localism Act has transformed the roles and responsibilities of councils and the self-financing settlement for council homes is a further change. As such it claims that much has been achieved.

The core recommendation is that councils have primary responsibility to assess and meet the housing needs of their local population as Housing Delivery Enablers and should assess and drive housing activity and housing delivery in their areas and for their local population. The role of Housing Delivery Enabler can be met through (i) community leadership and strategic clarity; (ii) creating housing opportunity; (iii) business leadership; (iv) management of housing supply; and (v) shaping a stronger housing finance market.

The report notes that partnership is key with evidence pointing to councils being most successful when working in partnership with others – developers, housing associations and finance partners – and that councils are able to stimulate and support housing activity through active engagement with such bodies and that they can also borrow money cheaply and invest it in local housing delivery organisations or provide land. It states that some councils can pay for house building themselves, through receipts and other money.

It makes note of additionality, where councils have created additional housing activity to that delivered by other agencies without absorbing or hindering housing activity, and master-planning to ensure housing is at the heart of major redevelopment of the strategic area with a holistic approach. The need to promote SMEs in the sector is noted and it claims that councils are in a good position to do so.

The report acknowledges that an enhanced role for councils has to be paid for and goes on to note that Government's stated priority is to see a public sector surplus in 2017/2018 and that the scope of the Review was set in this context, so that recommendations must support, and not endanger, getting the country's books into balance. It states that unlocking innovative financing mechanisms for new housing development is essential if Housing Delivery Enablers are to deliver. The report recognises the urgency shared across the political spectrum to build the homes needed now and for the next generation. This context of fiscal responsibility has resulted in a strong focus on financial and business partnerships for established providers and new entrants to the market.

A further recommendation looks at councils exploring innovative financial mechanisms to support new housing developments, setting up local housing delivery organisations and promoting the use of local pension funds. The report notes that councils should be using the assets available to them, including borrowing capacity, to ensure that they are housing their populations by investing in appropriate housing provision.

Six principal ways of raising and providing funding for housing activity are noted as being common in councils – receipts from section 106 / planning gain; other capital receipts, for example from land sales; HRA borrowing; General fund borrowing (which included to council owned housing vehicles); through finance or investment raised in off balance sheet partnership vehicles to which the local authority is a partner; and from sale and lease back arrangements. A further series of ways are noted of how councils are active in the housing finance market. The report also includes 29 brief descriptions of initiatives underway in local authorities giving a range of examples of good practice covering issues such as sources of investment, addressing skills shortages, releasing land for development, master planning, joint ventures.

It refers to cross boundary working between local authorities and states they should take responsibility for making development happen in their area – to create a culture of house building. It explains that this can be done by providing strategic clarity around need, growth and opportunity; through community leadership such as addressing community needs and concerns, galvanising local support for housing and business activity and supporting community organisation skills and construction skills; through business leadership with a range of partners; through identifying land; through provision of planning consent; by providing resources to support housing including finance; by driving efficiencies especially in retained housing; and through working with partners for example through local housing organisations.

The circumstances in and around London are highlighted – it states that the current household challenge will not be met within 40 years on the basis of ambitions which would require London to deliver housing at double the rate it has achieved in recent years.

The issue of transparency is highlighted with the report calling for more transparency over land holdings with a list available publicly as this is a particularly important issue for prospective developers.

Under the title of management of housing supply, it notes that councils should identify land suitable for housing development and small sites for custom build, community housing and local builders whilst they should have a role in relation to larger public land sites in their area.

The report notes that during the review, a number of non-stock-owning councils said they were interested in building homes themselves, but had been deterred because they did not wish to open a Housing Revenue Account. The report makes a point of noting that all councils can build and hold housing stock outside a

Housing Revenue Account (HRA), unless it is housing to which the legislation applies, colloquially known as 'council housing'.

The report talks about establishing a Housing and Finance Institute which will unlock opportunities, boost skills and support increased capacity including improving understanding of finance and development risk/appetite and asset management, sharing precedents/best practice, such as 'how to' guides, starting with 'how to' set up a local housing delivery organisation and increasing access to finance. It might also address improving quality and efficiency of housing management and housing services, improving understanding of how councils work and how decisions are made, informing business about what councils want and how to pitch and position for council's work as well as undertaking a technical explanation and problem solving role between central government, local government and business, on matters such as public accounting, consents, finance, procurement and value for money.

3. Key Conclusions and recommendations

The local authority as Housing Delivery Enabler

R1 Councils have primary responsibility to assess and meet the housing needs of their local population as Housing Delivery Enablers. Councils should assess and drive housing activity and housing delivery in their areas and for their local population. The role of Housing Delivery Enabler can be met through (i) community leadership and strategic clarity; (ii) creating housing opportunity; (iii) business leadership; (iv) management of housing supply; and (v) shaping a stronger housing finance market.

Community leadership and strategic clarity

R2: Government considers strengthening advice to encourage more councils to pro-actively support neighbourhood planning and for councils to engage residents in shaping housing needs more regularly.

R3: Councils develop more robust housing approaches that include housing demography, mobility of tenure, economic growth and business needs as well as broader choice for residents, including the impact on the physical and economic wellbeing of residents' changing needs in older age, as well as affordability and financial inclusion.

Creating housing opportunity

R4: Councils, including county councils in two-tier areas, consider potential models for funding Rural Housing Enablers, including the potential for forward-funding from future development value.

R5 Recommendation: the LGA considers how it can encourage councils to fulfil more of the role of Housing Delivery Enablers, including through its peer challenge processes.

R6: At its next review, Government considers guidance to councils on: (i) the importance of transparency about the findings of housing market assessments – given their link to housing delivery; (ii) the accessibility of assessments, for example through publication of a very short executive summary of Strategic Housing Market Assessments setting out the key information; and (iii) the importance of reporting progress in monitoring housing need and delivery annually to residents.

R7: That where the strategic housing market assessment covers a wider geography than the council's own area, councils clarify their individual responsibility – accounting for their part of their housing market in the own area, in accordance with the expectations in the National Planning Policy Framework.

R8: Government considers within its overall current spending plans flexibilities in any possible further HRA borrowing programme to enable councils to use both additional borrowing and 1:1 receipts to enable councils to deliver replacement units for Right to Buy stock.

R9: Government publicises the freedom available to all councils to build outside the HRA, and opportunities to dispose of non-strategic sites both inside and outside the HRA.

R10 Recommendation: Government raises the guideline threshold for the number of 'council' units that can be built outside the HRA for all councils from 50 to 200 units.

R11: Government considers ways to simplify the process for obtaining the directions and general consents needed from the Secretary of State where a local housing authority proposes to build units outside the HRA, before writing to all councils setting out the new approach.

R12: Councils periodically test value for money from their contracts, so savings and service quality benefits might be generated by operating different procurement models.

Business Leadership

R13: Government considers issuing guidance on development panel best practice so that HCA, GLA and other public bodies with panels invite applications from developers/ builders/ new entrants/ specialist providers to be on a development panel each year, and actively enable greater diversity and opportunity.

R14: Councils, in their role as Housing Delivery Enablers, consider how they can actively support smaller and start-up housing businesses locally with land, finance, and skills/ business training and opportunities for partnerships and collaborative working.

R15: Government monitors its schemes to support small builders, and considers further support to help expand this sector of the building industry.

Management of housing supply

R16: Government consults on extending the Transparency Code to cover all HRA land and assets, and that councils should start to make preparations for publishing data ahead of this extension.

R17: Government works with public bodies to develop an electronic platform allowing data on all land – owned and leased – that is held by public interest bodies to be open and transparent.

R18: Government updates and re-issues guidance about land disposals and in particular clarifying public procurement considerations and options, so councils are clear about the factors that need to be taken into account in disposing of land.

R19: Councils take a proactive role in identifying smaller sites suitable for custom build and local builders.

R20: Councils consider using land covenants, development licences, and overage to secure best value at a later point in time in order to release small sites for priority housebuilding.

R21: Government consults on proposals, ahead of legislation, to give councils a new direction power allowing them to dispose of larger sites in their area which are owned by other public bodies.

R22: Councils take responsibility to work with developers, local businesses, agencies and others to ensure that sites with planning permission are taken forward in a timely manner to delivery.

Shaping a stronger housing finance market

R23: Government, with support from the Local Government Association, establishes an independent Housing and Finance Institute to support a step change in housing activity leading to better understanding and assessing of options, faster implementation, increased housing delivery over the long term and which can help to shape a stronger housing finance market.

R24: Councils that are considering expanding their housing offer beyond their traditional one consider setting up local housing delivery organisations.

R25: Councils consider the benefits in developing private finance opportunity utilising models to support their role as Housing Delivery Enablers that are not dependent on local authority or national borrowing constraints.

R26: If Government decides to consult on detailed proposals for creating common investment vehicles, consultation on residential housing asset classes is also undertaken.

R27: Government works with the sector to ensure that local decision making committees are given appropriate information and advice about where pension investments can be made. This would encourage greater choice of investment and more investment in housing and infrastructure.

R28: Councillors responsible for local pension fund investment consider the benefit of a 3% Pension Fund Challenge to encourage active consideration of opportunities to invest in local housing and social infrastructure in their areas.

Making the change; monitoring the change

R29: That, if a Housing and Finance Institute is established, (i) that it collects and makes available a library of policy and practical papers and research for utilisation across the housing sector as a whole; and (ii) that measures of housing market performance are developed and maintained for utilisation across the housing sector as a whole.

R30: Government maintains a public record of formal Governmental reports in each Parliament together with reports on the progress of recommendations which are subject to further work by Government.

4. APSE comment

This report is welcome in that it adds to the recent Lyons Report which also looks at housing delivery and raises many of the same issues and contributes to giving them a higher profile. There is no doubt that the need to build more homes is recognised within this report however one of the first comments in the report refers to Government's stated priority is to see a public sector surplus in 2017/2018 and that recommendations must

support, and not endanger, getting the country's books into balance. It goes on to say that Government was clear that the review should aim to support stability in that local authority housing sector and must not produce recommendations that breach Government's fiscal consolidation plans or require changes to Government's national accounting framework. As a starting point this immediately limits the ability of local authorities to make a significant impact upon the current housing situation. There is room for efficiencies and innovation within the current financial context of local authorities but to expect them to tackle a problem which is much greater now than it was prior to the recession and to deal with budget restrictions, is asking a lot to say the least.

The core recommendation is that councils have primary responsibility to assess and meet the housing needs of their local population as Housing Delivery Enablers and should assess and drive housing activity and housing delivery in their areas and for their local population. The role of Housing Delivery Enabler can be met through (i) community leadership and strategic clarity; (ii) creating housing opportunity; (iii) business leadership; (iv) management of housing supply; and (v) shaping a stronger housing finance market.

The focus above is on interpretation of the term 'drive'. Local authorities already have responsibilities in terms of assessing and meeting housing need. It is of course desirable that local authorities 'drive' housing activity but this is a vague statement. It is desirable that they also drive effective transport, energy, education, social care and a raft of other services. Housing is not alone in that it is a fundamental requirement for a successful locality. The question is not therefore whether local authorities should be 'driving' this agenda – the report acknowledges that many are already doing that - but the extent to which it is able to do so. The issues of land supply, the capacity of the housebuilding industry and availability of finance are key factors.

The report acknowledges that "UK housebuilding has failed to deliver the homes needed for our country". It notes that "there is a strong degree of consensus about the scale of housing needed nationally, upwards of 220,000 to keep pace with housing demand (per annum)" and that "nearly a decade ago a previous major report on housing, the Barker Review, identified the need for a step-change in housing delivery. Yet, in spite of Government action, that step-change did not occur." It goes on to state that the average number of houses built over the last decade has been 136,521 homes each year. The recession has had an impact on the housebuilding and construction sector but this cannot be used as a reason for the industry being unable to meet the target for new homes.

For example in 2001, around 133,000 houses were built in England and this was the lowest number since the second world war. Since then little has changed. Eight of the years between 2000 and 2014 produced fewer dwellings than any year since 1945. All the evidence points to an industry which is not big enough to deliver the number of homes needed, either during boom time or recession.

Furthermore those old enough to remember building sites 45 years ago, will recall a completely different picture from today. There have been developments in terms of building materials, plant and machinery, the application of ICT, advances in design, new approaches to logistics as well as advances in training mean that the construction industry is unrecognisable now from then. However in terms of output it has been unable to deliver what is needed.

There are actions that local authorities can take to support house building but the industry must be able to deliver and currently it cannot do so.

There are a range of financial options noted in this report but their success is dependent upon the sector being able to build the homes. Having an adequate numbers of bricklayers, project managers, quantity surveyors, plumbers, architects, plant operators and many more skilled workers in place is a pre-requisite to building these homes. However, there is currently a shortage of skilled workers and with a predicted boom in demand for these skills, a shortage is likely to continue for many years. In such circumstances, the housebuilding industry will be competing with projects such as HS2, Crossrail and other large infrastructure projects. In other words expanding the industry is a long term exercise. The same is true of plant and materials – the supply cannot be turned on overnight.

The concept of a Housing Delivery Enabler is not explained in any detail – it is described more through the recommendations. For example it states that councils, as a Housing Delivery Enablers, consider how they can

actively support smaller and start-up housing businesses locally with land, finance, and skills/ business training and opportunities for partnerships and collaborative working, or they consider expanding their housing offer beyond their traditional one consider setting up local housing delivery organisations. The idea of local authorities building homes themselves within or outside of the HRA is noted but not promoted as a significant option to build. There are a number of local authorities who have funded houses through HRA borrowing and are aiming to do so in future. This source of dwellings is an option which can grow and the removal of borrowing restrictions within the HRA would provide a further avenue for councils to explore.

The report notes that the local authority self-financing system has been successful in achieving local responsibility for housing investment. This has worked well and reflects that fact that local authorities manage their stock successfully and tenants benefit from access to the range of other services provided by the council.

Another of the recommendations notes that Government should consider within its overall current spending plans flexibilities in any possible further HRA borrowing programme to enable councils to use both additional borrowing and 1:1 receipts to enable councils to deliver replacement units for right to buy stock. Given the way the terms of reference of this review were written the former of these is unlikely whilst official figures reveal that only one new affordable home has been constructed for every five purchased under right to buy scheme, despite the Government pledging to replace each home sold within the social housing sector. (16,596 properties bought since 2012 with construction beginning on only 3,141. Shelter, 2015).

There is a role for local authorities and part of that is an enabling role – but that is only a small part of the role and local authorities are only one part of the solution. Local authorities should be fully aware of supply, demand and the factors affecting both in their locality. They should use all options and tools that are available and build on their skills as landlords. The report recognises that many councils are using new powers to make achievements and that the very best councils shape a vision for the communities they serve, and are dynamic, original and active in making that vision happen. The report highlights the benefits of some widely used approaches such as pro-active support for neighbourhood planning, councils testing value for money of contracts and looking to ensure sites with planning permission being taken forward in a timely manner. These are not new ideas and there are some local authorities who are more effective in these areas than others.

There are doubts over whether a Housing and Finance Institute which is recommended would be necessary. APSE alongside such as HCA, LGA, the councils involved and others, provide a range of services which this institute appears to be duplicating – not least of which is sharing good practice.

All those who are able to, need to, play a role in the supply of homes – private sector and public sector; through the HRA as well as through other options such as a local housing company; on big sites and small sites; for younger people entering the market and for the elderly looking for supported housing; big companies and self-build; community funded or pension fund backed. Input needs to come from all possible sources.

This report acknowledges that there are not enough dwellings in existence, nor enough new ones being built and it is a problem we have not been able to solve in the recent past. Therefore we need a new approach. If the recommendations from this report are all implemented there will be a positive impact on the number of properties but it will not solve a problem of the current scale. If the sector can't build enough dwellings then there may need to be incentives put in place to grow the sector – for example, the government paying the entire cost of apprenticeships and a greater number of them; subsidies for companies producing building materials; allocation of more green belt land for housing; significant financial incentives to develop brownfield sites; new ways of thinking about land ownership; and a greater number of new towns proposed especially around London.

The Report quotes from the Barker Review of 2004. The recommendations from this report will not stop the topic of under supply of homes being an issue in another 11 years.

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