CIH Response to: Review of the local authority role in housing supply

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‘Shaping Housing and Community Agendas’
Consultation:  
CIH Response to Review of the local authority role in housing supply

1. Introduction

The Chartered Institute of Housing (CIH) is the independent voice for housing and the home of professional standards. Our goal is simple – to provide housing professionals with the advice, support and knowledge they need to be brilliant. CIH is a registered charity and not-for-profit organisation. This means that the money we make is put back into the organisation and funds the activities we carry out to support the housing sector. We have a diverse and growing membership of more than 22,000 people who work in both the public and private sectors, in 20 countries on five continents across the world. Further information is available at: www.cih.org

CIH contact: John Perry john.perry@cih.org

General points

Need for a planned approach to a major step-change in housing supply
CIH welcomes this Review and calls on the government to use it to refocus its attention on housing supply rather than on promoting housing demand. There is a clear need to more than double current supply and build at least 240,000 homes per year to meet current and future needs. Every year in which we fail to do this, the backlog of needs gets larger. CIH believes that a plausible output of 240,000 units could be achieved by encouraging the private sector to increase its output by about 50% to 160,000 units, with the remainder built by HAs (around 65,000 units) and LAs (rising to 15,000 subject to the issue of borrowing limits being addressed – see below).

CIH is concerned that the government’s current housing strategy, Laying the Foundations, refers to the need to build at very similar levels to this but lays out no clear plan as to how this will be achieved. As can be seen from actual housing output figures since the strategy was published (DCLG live table 213), the average annual level of completions since then – 113,000 – is less than half the numbers required. For this reason CIH is pleased that the review is focussing on local authorities’ contribution but is concerned that, to have any impact, the government must look at the roles of all agencies in house building. To achieve a step-change in output that is sustainable over the medium term, a fully developed plan is needed to deliver at least the 240,000 units per year required, looking ahead over the next decade. The problem is too big and too intransigent to be susceptible to short-term solutions.
Need to take full advantage of HRA self-financing
In responding to the remit of the Elphicke Review, the CIH urges recognition that local authorities have significantly increased their output of new housing in the last four years, and the aim should be to build substantially on this new higher level of output, making full use of the benefits of self-financing. While recognising that this is not within the remit of the Review, we advocate much more flexibility for councils to make use of their self-financed council housing accounts, including the relaxation or removing of the borrowing caps, so that councils are able to operate in a similar way to housing associations.

Need to recognise marked variations in local circumstances
The Review should also recognise that self-financing and the state of the housing market place authorities in different parts of the country in very different positions in terms of their ability to develop. Self-financing itself has had a very variable impact in terms of borrowing headroom. In the north of England, the potential for new development is also constrained by low rents and low market values. Availability of suitable public sector land also varies considerably. The Review should therefore recognise that performance is bound to be highly variable regardless of factors such as skills, capacity and local political attitudes on which the Review may have more influence.

Need to acknowledge the vital role of social rented housing
Another overall concern is the run-down in the overall size of the social rented stock and the likelihood that this will accelerate. Social rented housing is vital in an era of low-wage, insecure and often part-time work. In the year 2012/13 CIH calculates that only about 5,000 net additions were made to the social rented stock. In the last year (up to April 2014), LA and HA returns will almost certainly show a marked decline in the numbers of social rented homes as the switch to Affordable Rent continues and right to buy sales increase. CIH believes that the Review should consider the effects of this radical change, which inevitably increases benefit dependency. We return to this point in our detailed comments.

In the main body of this response we stay within the remit of the review and respond to the questions posed in the call for evidence.
1 Local authority build

Question 1: What are the experiences of stock owning councils 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?

Many councils want to build new homes and – to meet local needs, as encouraged by government – need to provide a range of types of stock, including in most cases a significant proportion of new homes at social rents. Most are using their new borrowing capacity to do so.

Example: Wandsworth Council had a self-financing settlement which involved taking on £434m of extra debt. It has opted to pay this off over 12 years using the surplus income that otherwise would have gone to the government as negative subsidy. While for the moment this constrains its ability to build, it has decided to concentrate on regeneration of existing estates and has taken on extra debt to do this in two priority areas.

However, even with self-financing councils still face many obstacles. Some of these include the following:

Access to HCA grant
Not all councils or schemes need grant, and of course councils and ALMOs are eligible for (and do) make bids under the Affordable Homes Programme. However, in doing so they are constrained by the programme’s requirements, which will be tightened further after 2015. The obstacles include:

- Grant now being dependent on properties being let at Affordable Rent (AR) when this does not necessarily address the profile of local needs and LA assessments of tenants’ ability to pay in the current environment of low-paid, part-time and insecure work. According to a 2013 survey by ARCH, Innovation and Ambition, councils plan 50% of their new build output over the next few years to be at social rents.
- Grant not being available for housing linked to section 106 schemes, despite the importance of s106 in delivering homes at social rent (and its greater importance in the recent past).
- Grant in future being dependent on asset sales and/or conversions to AR rents, when this may not be appropriate in local circumstances.
Proposal 1.1: That an appropriate level of grant be available under the AHP to assist in financing social rent schemes where the majority of costs can be met from LAs’ other local resources - reserves, revenue contributions, capital receipts and borrowing financed from rents – and from LA land.

Proposal 1.2: That the strict requirement that s106 schemes be ‘nil grant’ be replaced by a scheme-by-scheme assessment of the VFM of schemes.

Example: In North Manchester, the council has bid for AHP funding for 55 new homes at AR rents. However, to maintain dwelling mix and replace poor-quality existing stock, it is having to use HRA resources to build new social rented homes on LA land (mainly clearance sites).

Borrowing caps
While we appreciate that the Review cannot question the principle of having caps, it should recognise that the way that the caps were implemented created many anomalies – some councils were given ‘headroom’ yet have lower levels of need, while in some cases those with highest needs have limited or no headroom. There are two possible solutions to this: councils being able to ‘share’ headroom and a review of cases where no/limited headroom is available and councils need to build. The former will, we believe, be of limited value but is still worth implementing for the possibly small number of cases that it might benefit.

Proposal 1.3: Allow neighbouring councils to ‘share’ spare borrowing headroom.

Proposal 1.4: Conduct a review of borrowing headroom, with the aim of lifting borrowing caps in the most constrained cases, paid for by compensatory reductions elsewhere in DCLG programmes.

Rental income
The government has halted the process of convergence of social sector rents, which means that councils have less potential than they otherwise would to finance part of the costs of new build from rental income, and that existing anomalies where different rents are charged for similar or identical properties will remain. LAs need to be able to sensibly structure their rents, taking into account local circumstances: the convergence policy allowed more scope for this to happen.

Proposal 1.5: Revert to the previous policy of social rents converging within a reasonable timescale.
Right to buy receipts
The rules about RTB receipts are complex and carry high administrative costs, provide councils with an insufficient proportion of receipts and prevent the full replacement of properties sold. This is evident from the bald figures, with RTB sales running at over 11k per year while LA new build is less than one-fifth of this. The government’s specific promise to replace every additional home sold with a new one is simply not being met, and is most unlikely to be met under current rules. While current average receipts are about £72k per sale after discount, the rules mean that the average retained locally is far less than this. In the recent LGA Self-financing Survey, only one in five councils said they were able to replace RTB sales and respondents placed this as one of their most urgent priorities for reform.

Proposal 1.6: Urgently review the rules on right to buy receipts to examine why one-for-one replacement is not being achieved; ensure, if possible, that all receipts are returned to local level for reinvestment in replacement housing.

Proposal 1.7: Allow like-for-like replacement (i.e. ability to use receipts to replace a social rented unit with another social rented unit).

Right to buy cost floor rules
When RTB discounts were increased, the application of the cost floor rule was extended from ten years after the sale to 15 years. While this of course gave welcome protection to investment made in existing properties (for example, to achieve the Decent Homes Standard) it does not adequately protect investment in new properties. As councils build more, they risk not only losing relatively new stock but also – after 15 years – getting a receipt which will be totally inadequate to cover the still outstanding debt. This is a serious deterrent to the building of properties which will eligible for RTB and should be addressed so that public sector investment (including possible HCA grant) is protected.

Proposal 1.8: Review cost floor rules that apply to RTB so that they protect investment in new build. Either exempt properties built after the discount change in 2012 from the RTB, or else extend the cost floor for those properties so that it applies indefinitely.
Question 2: To what extent are non-stock owning councils interested in building council houses? What challenges might be preventing non stock owning councils from building council homes?

The majority of councils who have transferred their stock retain good relations with the stock transfer HA. One motive for wanting to build new LA-owned stock might however be the breakdown of this relationship – for example if the LSVT association has been absorbed into a wider group that no longer prioritises needs and investment in the LA area concerned.

Possible challenges they would face in renewed building programmes include:
- Development and housing management expertise having been transferred to the LSVT association.
- Having to reopen an HRA, with no ability to pool costs across a large stock.
- No access to land on previous LA-owned estates (since this will also have been transferred).

A compromise might be use of LA General Fund borrowing to sponsor development by the LSVT association, with the LA having a strong influence on the nature of the development (see below).

2 Councils supporting housing supply

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?

Planning issues
It is very important that government supports LA roles not only in new supply overall but in achieving a satisfactory proportion of affordable housing as part of any new supply. On this issue, the government gives mixed messages: on the one hand the Affordable Homes Programme (AHP) has an ambitious output target and will continue to do so after 2015; on the other many of the mechanisms to achieve affordable output are or are in danger of being weakened. For example:
- While the simplification provided by the NPPF is welcome, this has represented a big move away from the previous system, particularly as regards affordable housing requirements.
The government is restricting the scope of s106 agreements by encouraging or requiring their renegotiation and by making certain types of scheme (e.g. those of less than ten units) ineligible for s106.

The Community Infrastructure Levy (CIL) is still in the early stages of development, but if it is taken up more widely it too could displace s106 as a form of ‘planning gain’.

At the same time the evidence is that s106 has a vital role in providing affordable housing: until recently s106 was involved in over half of affordable output, and even now nil-grant s106 schemes account for nearly 5,000 units per annum.

**Proposal 3.1:** That the Review should argue for a stronger – not reduced – role for s106 as a key part of affordable housing provision. It should flag up the dangers of eroding the part it plays (especially as CIL is rolled out) and should look at good practice in delivering affordable housing in mixed developments and in rural areas using s106.

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

**Resources needed to reinvest in the existing stock**

Councils have been operating business plans for their housing stock for more than a decade but only with self-financing in April 2012 did they gain much of the flexibility they need to properly manage their asset base, and many are now looking at how they can make creative use of their assets to:

- Reconfigure their stock or remodel estates to better meet current profiles of need.
- Deal with issues arising from unpopular or under-utilised stock.
- Deal with stock that gives poor NPV, e.g. is expensive to maintain or costly to retrofit to current expected standards of energy efficiency.

LAs are also increasingly looking at tenants’ total housing costs, i.e. not only rent but service charges, energy and water, and evaluating their stock on this basis.

The Review must bear strongly in mind the imperative to ensure that stock meets the Decent Homes Standard and the investment needed to sustain the stock at this standard (e.g. as bathrooms/kitchens need replacement). Many councils, in consultation with tenants, also aim for higher standards or are incorporating higher
standards of energy efficiency in their planned maintenance of the existing stock. These priorities are bound to be a first call on available resources.

Proposal 4.1: That the Review takes into account needs for investment in the existing stock, recognising the priority that attaches to (a) maintaining the Decent Homes Standard, (b) working towards energy efficiency standards commensurate with the targets in the Climate Change Act 2008 and (c) other work needed to ensure that estates remain attractive places in which to live (e.g. security features to combat crime and ASB and to ‘design out’ poor estate layout).

Potential for more creative use of assets
That said, there is certainly potential to look for opportunities within the asset base either to dispose of assets and generate receipts or to reuse assets (and land) for new development. Typically, in addition to poor quality/unpopular stock, councils may look to individual high-value assets (e.g. park lodges) or to LA-owned ‘street’ properties for potential sales. There are however constraints or points of caution in looking to such sales:

- First, given the high pressures on council waiting lists, any sales have to have demonstrable benefits – usually in leading to a net gain in stock.
- Second, while some councils (especially in London) have pursued the route of demolishing whole estates, there are real concerns that while this may result in net housing gain the proportions of affordable and especially social rented stock that result will be much smaller. Most councils want to work alongside tenants to ensure that any redevelopment schemes take strong account of their needs.
- Third, another priority may be to use receipts to acquire stock: for example many councils actively acquire former right to buy properties in estates, in part because they meet needs and in part because they carry only marginal extra management costs and may be poorly managed in the private sector if they are now rented.

Proposal 4.2: That the Review recommends government and councils to continue to consult closely with and respect the needs of existing tenants in schemes involving disposal of council assets for redevelopment.

Need for more pro-active asset management
It is also the case that proactive asset management is less-developed in LAs than in HAs. This was not part of the LA culture although is becoming more so under self-financing – but with a long way still to go. LAs would benefit from a process of
tracking asset and neighbourhood performance through a wide range of indicators (both physical e.g. quality of the home and non-physical e.g. levels of ASB) to understand the value of their stock and where they need to invest/dispose. This is not just about identifying high value properties to sell off but about really understanding the value of what they have and how to maximise their use of it. For example, sometimes the right investment might be to market an estate better rather than to improve the fabric. Active asset management is critical to new LA house building if they are bidding for grant because the HCA will expect it and because it can be an alternative to rent conversions and so help to retain social lettings.

Associations have a guide published by the NHF – "Managing the Assets: A guide for associations." The Review could look at the potential for a similar guide for LAs so as to ensure that long-term assessment management principles are fully incorporated in their self-financing business plans.

**Proposal 4.3:** That a comprehensive asset management guide is developed for the LA sector.

**Example:** Manchester’s new homes strategy is predicated on its asset management strategy - looking to replace existing homes where the asset (in terms of NPV) is not performing well, where external/estate layout is poor, where future demand is predicted to fall or where they cannot achieve a target level of energy efficiency.

Northwards (the Manchester ALMO) is working with the council on the Riverdale estate regeneration strategy – new homes on existing clearance sites; tenants rehoused from maisonette blocks and sites redeveloped for new social-rent homes; acquisition of private shops and replacement with new homes of mixed tenure.

**Example:** LB Hackney is partnering with L&Q to regenerate the Haggerston estate and provide over 700 homes over a number of phases. This is a mixed-tenure scheme that includes rehousing a number of current residents in new homes. Future proceeds from the agreement will be used towards providing additional social housing within the borough.

**Example:** Working with the LB Ealing over 15 years, L&Q and Countryside Properties will increase the number of homes at the South Acton regeneration site from approximately 1,800 to 2,600: a mix of private and affordable housing as well
as a community hub, new retail space, new links to the surrounding areas, and new green areas and parks.

**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?**

Many councils are actively using both HRA and non-HRA land to support house building. The recent *LGA Self-financing Survey* said that 98% of councils responding were planning to release their own land for housing over the next five years. Examples are given below.

**Constraints on making land available**
Obviously, sites vary considerably in their suitability for different kinds of housing. For example, reconfiguring an existing estate in consultation with tenants is likely to result in a need for new LA units in addition to HA or private sector ones. Redevelopment of brownfield sites will need to take into account needs and social mix in the neighbourhood where each site is located. Through acquisition or release for development of virgin sites, LAs will want to balance factors such as the mix of needs (including for social rent), the ability to bring in HAs and/or private developers and the overall value and cross-subsidy potential of the resultant scheme, among a range of other factors.

Constraints on such schemes include:
- Limited HRA borrowing headroom in many areas, restricting the potential for new development by councils themselves.
- Potential for General Fund borrowing limited by pressures on the General Fund and need to secure a quick return.
- Need to access HCA grant in certain cases to make schemes viable (and inability to use HCA grant to provide social rented homes).
- Infrastructure costs.
- Costs of acquiring ex-RTB property and other private land to achieve comprehensive redevelopment.

**Proposal 5.1:** Local authorities should be incentivised to make their own land available for housing development. If borrowing caps are retained (see the CIH introductory comments), then additional borrowing could be permitted where it is linked to land release.
Example: Plymouth’s ‘Plan for Homes’ scheme aims to generate 1,000 new units per year and takes the lead by releasing 100 acres for housing and strategically reviewing the possibilities for release of all available council land.

Short-term v. long-term approaches
There is often tension between LAs’ desire for a short-term capital receipt (understandable in their current funding environment) and the value that they put on new affordable housing development. This means that they are increasingly reluctant to offer land at nil value or even to consider a deferred receipt and may not recognise the value for money of ‘donating’ £5k per plot for a house that will cost an HA some £120k to build. In addition they may retain the higher value sites for market sale as this is where they can generate a decent receipt but in doing so they may sacrifice longer-term needs. A more strategic approach might see them build council/affordable housing on sites such as these with a view to ‘churning’ the assets once they have secured capital growth and/or refinancing the stock so as to release funds for new housing supply.

Proposal 5.2: The Review should bear in mind and highlight the need for a longer-term perspective from LAs, i.e. beyond the current financial crisis – since they are building for 60+ years and shaping the longer-term pattern of housing provision for their community. The need to do this is even greater, notwithstanding the current financial climate, than short-term gain to help balance the LA’s books.

Land acquisition from other public bodies
At the same time, many LAs no longer have developable land available and may be looking to acquire land, e.g. from the county council or other public body.

Proposal 5.3: The Review should consider how to empower LAs who wish to secure land held by other public bodies in their areas, for housing development, at realistic prices.

Making land release attractive to LAs
The ability of LAs to build for market rent and for open market sale does of course exist but is little promoted. Yet either or both can act as a significant incentive to land release since they allow the LA to realise part of the profit from the disposal.

Proposal 5.4: Reinforce and provide examples of LAs releasing land involving their own (or partnership) development for open market sale or rent.
3 Local authority skills and capacity

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?

General Fund cost pressures
The Review should recognise that the majority of local authority work to support housing supply is financed from councils’ General Funds, which are under severe pressure. It is understandable if, despite the importance of addressing housing need, strategic housing teams, planning teams and estates/property management staff have seen cutbacks in response to pressures to maintain other frontline services. This has inevitably affected capacity and the availability of skilled staff. While it is true that these might to some extent be available from elsewhere (e.g. consultants, shared resources with neighbouring LAs, partnerships with HAs/developers, etc), cost pressures and possible loss of lead project skills, especially in smaller LAs, is a real issue.

Proposal 6.1: Guidance could be developed (with examples) on capitalising staff costs and charging them against expected capital receipts or other proceeds from future development packages that will bring in private funding, and on pooling of costs/joint working arrangements as between the Greater Manchester Authorities.

Proposal 6.2: Encourage LAs to use the skills available in trusted HAs to deliver new build schemes on their behalf, which could be financed as a cost to the scheme.

Land assembly capacity
Local authorities have in the past had a strong land-assembly role and this should be strengthened and encouraged. Powers still exist to make CPOs for development land, but many LAs now lack the capacity to undertake complex and lengthy CPO processes.

Proposal 6.3: The Review should consider whether CPO processes could be simplified and propose guidance on how the costs of land assembly could be capitalised so that they can be recovered on disposal of the sites.
The *LGA Self-financing Survey* indicates that partnership with HAs and private developers are widespread, with more than 80% of councils planning to use them for housing development in the next five years. By grossing up the responses from this survey, the LGA suggests that likely output from partnerships will be 77k units over the next five years. However, this is probably best considered as a broad indicator of the scale of partnerships rather than a numerical estimate. This figure is likely to cover a mix of large and small developments.

**Example:** The London Legacy Development Corporation (LLDC) has been granted the full range of planning functions which a local planning authority would usually have in the four London Boroughs involved - Tower Hamlets, Hackney, Newham and Waltham Forest. The planning decisions committee will include five members on the panel from the four boroughs which ensures local representation and involvement. L&Q and Taylor Wimpey are delivering over 800 new homes at Chobham Manor on Queen Elizabeth Olympic Park.

**Example:** Private finance (PFI) schemes, although not now being extended further, provide several current examples of partnership arrangements which in many cases have involved better use of the assets (i.e. LA properties) that are part of the PFI.

*Powers for site assembly and to ensure developments are built out expeditiously*  
LAs have key roles in site assembly and, in facilitating purely private sector development, aiming to ensure that approved development actually takes place expeditiously. Their powers to do both could be strengthened.

**Proposal 6.4:** Mechanisms to allow councils to assemble land at previous-use value should be strengthened. This is vital if major new developments such as new towns or urban extensions are to go ahead on agricultural land, as the value can be recovered to reinvest in the development or in the new community facilities that will be required. Shelter has proposed ‘New Home Zones’ to achieve this.¹

**Proposal 6.5:** Councils should be empowered to charge council tax after a certain period on land that remains undeveloped after planning permission has been granted, as if the development were complete.

**Cross-boundary working**
There are now several constructive examples of cross-boundary working between LAs, from the large-scale collaboration in Greater Manchester to the smaller-scale  

partnership between Cambridge and South Cambridgeshire. The previous government had begun to promote such arrangements through Multi-Area Agreements.

**Proposal 6.6:** The Review should examine current and revisit recent past examples of cross-boundary working, to establish what incentives are needed to turn it into a more widespread approach in areas where LA boundaries make no sense in terms of local housing markets.

4 **Innovative finance**

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

**Wide range of solutions already available**

CIH is concerned about the potential for the Review to be distracted by suggestions of ‘innovative’ financial solutions that turn out in practice to be variants on the many solutions that have been pursued in the past. For example, in response to calls for innovative solutions under the last government HouseMark published *The Potential for House Building by Local Authorities – Can it be turned into bricks and mortar?* This was a guide to the various financial options available to LAs and it largely still applies even in the new context of self-financed HRAs. More up to date is the LGA’s *Supporting Housing Investment: A case study guide.* Both reports cover the range of models currently available, e.g. local asset-backed vehicles (LABVs).

**Example:** Bournemouth’s LABV with Morgan Sindall Investments covers a potential 17 sites, some of which are large developments. One is a 62-flat development part-funded by a Get Britain Building grant from the HCA.

**Example:** In South Werneth, Oldham, following the loss of Housing Market Renewal funding, the council developed a plan with residents to continue the regeneration. This included:

- clearance of 40 properties and acquisition of empty homes
- sales of 38 empty homes to be refurbished ‘under licence’
- a £1.6m scheme with Great Places Housing Group to covert 33 empty terraces into 20 new social-rented homes
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- clearance for a development site and agreeing plans to sell at market value land for 37 new homes for the largest community-build scheme in Greater Manchester

Opportunities for residents interested in custom build were promoted in the former HMR areas. Residents formed Community Build Werneth Ltd, which, with professional advisers, has now developed plans for the 37-home site.

*Potential for lending by LAs to HAs*

Some LAs are using their ability to borrow for their General Funds to offer loan facilities to HAs, e.g. Warrington and Plymouth. This can be an attractive option for both sides providing it delivers the housing mix required by the LA. Often of course it may be combined with offers of LA land. However, it needs to be borne in mind that it adds to public borrowing. While it remains small in scale and just one aspect of LA treasury management this may not be sufficient to trigger a reaction from the Treasury, but the danger has to be considered.

**Proposal 7.1:** The Review should take account of the range of innovative solutions already being tried and which are documented in the publications above.

**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 Government do to better support such innovation?

*Build to Rent*

Many councils are now working constructively to improve the quality of the private rented sector, e.g. through lettings, management or leasing schemes. Build to rent can be a logical extension of such initiatives, but councils will need to ensure they have good knowledge of the potential market and other key differences from letting even Affordable Rent schemes.²

**Example:** Manchester is using Build to Rent round 1 funding to convert three obsolete tower blocks and has a further bid in round 2. Manchester also has a partnership with Places for People which will use council land and finance from the Greater Manchester Pension Fund to deliver 241 new homes in 2014, half for market rent and the rest for sale.

Example: Grainger was selected by LB Kensington & Chelsea in September 2012 to develop and manage two local authority-owned sites. More than 50% of the homes across both sites will be built specifically for the private rented sector. These homes will be managed by Grainger under a 125-year agreement, for which it will receive a management fee. The local authority will retain the freehold and will share the long-term rental income with Grainger.

5 Costs and efficiency in developing social housing

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?

Performance measures
There are various ways in which local authorities have in the recent past or do still have to demonstrate their effectiveness and efficiency. These include:

- Assessing the potential for creative use of their assets to support (for example) HCA bids and right to buy replacement.
- Making scrutiny reports to elected members and to tenants on key performance indicators.
- Complying with the HCA consumer standards that apply to all registered providers.
- Potentially using the HCA governance and VFM standards on a self-regulatory basis (they are not a requirement for LAs).
- Following the CIPFA and CIH Voluntary Code of Practice for a Self-Financed HRA.
- Reporting on compliance with the Decent Homes Standard (DHS) and on locally-set targets on issues such as energy efficiency. (Note: the LA sector has outperformed all other sectors in meeting the DHS).
- Meeting legal requirements on gas safety and other issues.
- Benchmarking (e.g. through HouseMark) of their performance compared with the performance of other LAs with similar characteristics.
- Using STAR (Survey of Tenants and Residents) to collect tenant satisfaction data on a consistent and comparable basis.
In the past, complying with Audit Commission requirements including the inspections regime and meeting performance requirements (for example) to secure DHS funding.

In the future, complying with the new local audit framework for LAs (yet to be introduced) which replaces the Audit Commission framework.

However, there are no external requirements about performance on development issues, apart from those that apply to development control and processing of planning applications. These now rest entirely on whatever local/internal performance standards are set by each LA.

A summary of and guide to VFM work in relation to LA landlord services (including new build, and with a range of case studies) is provided by the recent HouseMark publication *A Sense of Purpose*.

**Example:** Derby Homes has worked over a period of years to make substantial savings for its parent council, using the flexibility it has as a standalone company. It has agreed annual efficiency targets with the council, including target cost savings, and has regularly achieved or exceeded them. Some of these savings have been in areas of the housing service such as repairs and back-office costs; others have been more general savings e.g. call centre costs. When originally awarded a renewal of its contract to manage the Derby council stock, Derby Homes was able to put forward a comprehensive case for the VFM net savings it had achieved against the extra costs involved in keeping the standalone company.

**Comparative costs**

On the overall cost of new development, LAs compare favourably with HAs. A 2011 study found their average unit costs at the time to be £119,000 compared with the then average cost of £127,000 under the AHP. Typical grant figures for LAs have been about £10,000 lower than for HAs (in London, £36,000 lower).

Councils have lower borrowing costs than HAs for new debt and their rents for new lettings are on average £12 lower.

None of these figures is offered as definitive proof of councils’ greater efficiency since other factors complicate the comparisons. However, they do indicate that –

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at the very least – councils’ development and operating costs compare well with those of housing associations.

As far as comparison with the private sector is concerned, this is more difficult as products are different. However, given that practically all LA new build is implemented via private contractors, it would be surprising if there were any differences except those due to LAs’ higher standards (e.g. space standards) or (on the other hand) the lower profit margins from building to contract as opposed to developing for sale.

**Value for money assessment and potential for improvement**

Local authorities and ALMOs are starting to use activity-based accounting and other methods to better understand and benchmark their operating costs, i.e. voids, lettings, arrears, repairs, etc.

ALMOs have led in offering new, value-for-money services to councils to replace either in-house or private providers. For example, Brent is running social care, Northwards runs a common housing register for LA and HAs stock in Manchester, St. Leger in Doncaster has a management/lettings service for private landlords, etc. These are demonstrably competitive against the costs of previous or alternative services.

**Example:** Places for People’s ‘Neighbourhub’ system, developed in partnership with Visualmetrics, aims to deliver sustainable neighbourhoods and assess neighbourhood performance with a performance dashboard and red/amber/green approach. It has given them a better understanding of ‘places’ and how they change so housing management and other action can be taken. It has increased profitability, reduced turnover, relet times, arrears, ASB, repairs costs and improved satisfaction. They have achieved savings on repairs through a 26% reduction in demand; staff resources better targeted and management costs reduced.
6 Local authority assets

Question 10: How easy have you found it to locate details about local authorities’ housing/land assets? Did this help to support housing development?

Land release
CIH does not consider that land release should be tackled in isolation, since the outcome should not be ‘release LA assets at any price’ but for LAs to ‘make the most positive use of their assets to support housing supply’. Seen in this way, effective use of assets – whether by the LA itself or in partnership with other bodies – should be an integral part of the LA’s strategic housing role. Strengthening that role (see above) is vital if performance on making LA land available for housing is to be improved.

Some LAs simply do not have large land holdings (e.g. Broadland, Luton) and are open for conversations with larger HAs to bring land to them for development (conflicts of interest can arise but can be dealt with).

Proposal 10.1: The Review should be cautious in its approach to land release and bear in mind the points made in this submission about the need for LAs to take a long-term strategic view of their land holdings.

Management of land holdings
There is still considerable variation in local authorities’ performance in making clear what assets they have available and how developers can bid for them. A common problem reported by HAs is for assets held for different purposes to be the responsibility of different staff members or different departments, even if their potential next use is (say) housing. There may be no obvious point of contact/process to engage with an LA around land holdings, availability, joined-up approaches, etc. The process for releasing land can be very stringent and often takes a long time. Even with HAs, many LAs approach any land discussion as if they were a large developer looking to capitalise on a deal – rather than potential partners.

Proposal 10.2: LAs should be required to have a comprehensive and publicly available asset register and the review should consider whether this should apply to the public sector more generally.
**Example:** Manchester is releasing land it owns for new homes through outright sale and deferred purchase. Manchester has identified and worked with HAs and developers to assess infill sites (generally less than 20 homes) across the city on their housing development potential - all housing tenures using both council and privately owned land. Example - Redrow Homes schemes in Harpurhey on former clearance sites through deferred purchase/profit share arrangement with the council, aided by site assembly through strategic land acquisition.