

# How councils build houses

Janice Morphet identifies 29 ways that local authorities are providing housing, most of which are being used in London

The Mayor of London's policy paper on affordable housing (2016) and consultation on a viability SPG set out the ways in which he will distribute the funds provided for London from Central Government through the Autumn Statement and apply planning tests to provide more affordable housing. These funds will be made available to a variety of providers and will allow London Boroughs (LBs) to apply to develop some affordable housing schemes.

What is less discussed are the different ways in which LBs are already providing housing including affordable and social rent dwellings using other powers that are available to them.

This article identifies 29 ways that local authorities are providing housing, most of which are being used in London. The examples given here are not based on a full and in-depth survey (although it is hoped that this will follow) but rather a snapshot view based on a variety of sources. These examples are summarised and set out in Table 1 which includes some additional means that have not been identified as yet as being used in London but may be on further investigation. Additional methods may also be identified through a full survey.

Secondly, this approach has not yet identified the net contribution of these methods to London's housing stock or the way that these initiatives are being introduced or managed. In some examples, LBs have purchased property on the open market. This may not provide a net addition to the total stock but may change the way that it is managed so that it adds to specific types of stock.

## How can London Boroughs provide housing directly?

Most discussion on local authority provision of housing including LBs is focused on the role and use of the Housing Revenue Account (HRA). This remains an anomaly within the local authority devolved finance model and has a continuing disadvantage that any dwellings provided through this funding will be subject to right to buy legislation. This has had the effect of diminishing the housing stock available for affordable and social renting and primarily adding it to the private rented sector. This an unintended consequence of this political initiative to offer wider home ownership and leaves local authorities, with a diminished stock, having to rent back dwellings at market rents on their own estates to support the homeless. Some LBs are using the HRA where there are appropriate opportunities and the assumption is that the Mayor's 2016 fund will be offered to LBs on HRA terms.

However, less noticed and discussed are the many ways that local authorities, including LBs, are engaging directly with housing initiatives using other powers which allow them to purchase, manage or build dwellings that are not subject to right to buy legislation and can generate a revenue stream to

LBs to support other investment and services. These initiatives include all forms of renting, including private renting and housing for sale. LBs also have powers to charge social and affordable rents on these properties if they wish so that they can add to their stock for specific purposes.

The powers that are available for local authorities to engage in housing are set out in s 1-7 in the 2011 Localism Act which enables local authorities to undertake the same activities as any individual. This includes opening a company, making and receiving loans and gifts and raising funding for capital investment. As with individuals, these powers allow local authorities to capitalise investments across the whole of their assets. Hence a LB can raise funds to undertake a range of housing initiatives across the borough based on their asset portfolio in the same way as patient investors such as the Crown or Grosvenor Estates.

Local authorities can also offer mortgages to those purchasing housing – and a number of local authorities have been using a specific scheme drawn up with Lloyds Bank. This was a service offered by the GLC although as yet it has not been possible to find a current example in London of this or a similar scheme. There are no powers to restrict LB rents as long as the local authority achieves best value but this can be undertaken within the terms of the Local Government Act 2000 s2 which sets of duty on local authorities to promote the economic and social well being of its area.

The use of the powers in the 2011 Act is supported by the introduction of the new International Financial Reporting Standards (IFRS) that are being applied across the whole of the public sector in all OECD countries. This implementation will be concluded in 2017 and all local authorities are already providing government with their accounts in this new reporting framework. The effect of the use of the IFRS is that local authorities are now using the same accounting methods as the private sector, allowing them the use of private sector models of capital investment and also assisting in working together in partnership with private sector organisations.

Although there are many local authorities nationally using these new powers to support housing provision, it is clear that their application is being limited by the culture and practices of those working in each local authority, particularly those providing financial and legal advice. The examples identified here and in a wider discussion of the use of these methods across England could illustrate the options available should there be internal issues about powers and application. In 2015 over 50% local authority leaders indicated that they had or were proposing to establish a housing company while in some local authorities, eg Birmingham there are a range of local authority activities that have been developed to include wholly owned housing development companies which provide



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another means of generating revenue for council services.

What are LBs doing to provide housing again in London?

Some are using the HRA including Ealing and the City of London, which has bought out its HRA debt this providing access to new funding from the government. A number of LBs have set up one or more housing companies to undertake a range of developments either in conjunction with the private sector or other public sector partners such as Croydon and the NHS. LBs active in this approach are Harrow, Enfield, and Barking and Dagenham, the latter two of which have taken loans from the European Investment Bank (EIB) to fund their development.

In Hackney, the council has developed new dwellings designed by the architect David Chipperfield as a means of achieving premium sales income to cross invest to other housing provision as part of their estate regeneration strategy. The EIB is open for loans until the day that the UK leaves the EU and may be available beyond that. The funding is not competitive and has been used for a variety of housing developments across the UK including providing loans to the Mayor for improving London's housing stock.

Some LBs are reviewing potential development on their own housing estates and property outside the larger estate renewal schemes that are being delivered in Lambeth, Southwark, Hackney and elsewhere. In Wandsworth, through the Hidden Homes initiative, this has resulted in additional floors and new units added to the ends of existing housing blocks together with a full review of garages as potential housing sites. This approach has also been taken by Harrow.

Some authorities have been very proactive in negotiating shared housing as part of their planning agreements and Wandsworth has achieved a high number of units. Some LBs have undertaken joint developments with Housing Associations to deliver shared housing and other tenures including Harrow, Hillingdon, Hounslow, Hammersmith and Fulham, Merton and Greenwich. Some have used their New Homes Bonus to directly reinvest in addition housing units including Croydon.

Some types of funding for housing development have been used by fewer authorities. Islington has both used its pension funds to develop housing and also set up its own housing association. Pension funds are increasingly used outside London with Greater Manchester being one of the most active investors in this area. Also outside London, some local authori-

ties are managing their own assets and properties differently. In Bath and North East Somerset, for example, the council has established its own estate agency to manage much of its property above shops. This has enabled the council be more directly involved in lettings policies. In Luton, the local authority has entered into a financial arrangement with a hedge fund that will provide the local authority with new housing development that the authority will use for social rent and not be subject to right to buy.

Some LBs are purchasing properties and land on the open market to add to their stock in locations outside London, similar to the approach adopted by the LCC when it developed Becontree. Elsewhere local authorities are purchasing properties on the open market within their areas to provide dwelling for the homeless or these with low incomes. These dwellings generate income, reduce costs on other revenue budgets and increase the size of the local authority's asset portfolio. Overall the principles governing the management of any council's asset portfolio are critical. The generation of income through asset rents can be used to support other services and the council can engage in purchasing land for future development – an approach that is widely seen and much praised in the Netherlands but not operationalised in the UK as yet. Although there are concerns about land values driving up the costs of housing development, local authorities are equally able to act as developers, purchasing land, assembling sites and then providing infrastructure if they wish using a range of powers including CPO. In the past, local authorities obtained planning consents on sites that they did not own in order to give some comfort to small landowners to support loans or sales for housing development as part of planning implementation.

There are also sites in London that were developed in the past for retail and warehousing but are less justified in these uses today. In 1986, the then Secretary of State, Nicholas Ridley, weakened the planning system to allow out of town retail development. Cities had much vacant and under-used land then and it was difficult to challenge the benefits of this type of development even if job levels were low. Now it may be time to think again. The development of Nine Elms has demonstrated, that some of these warehousing and distribution centres were useful in their time but perhaps are now better thought of as meanwhile uses and capable of redevelopment for housing. The benefits to an owner of retail or warehousing >>>

ABOVE:

New homes at Gatward Green, Edmonton by Enfield Council (Peter Barber Architects, HTA Design Planning)

>>> uses are that they produce an income stream through rents. This means that this type of site might be better used for private residential schemes that are built for rent. Local authorities have a role in considering active intervention into site development to achieve their objectives through council well-being, housing, planning and asset management policies. This has been the approach in Wandsworth where over time, the council's property department has painstakingly worked its way through frontages and sites, talking to owners, identifying how upper floors could be opened up or built on to create more dwellings and identifying many small sites that could be useful for independent local builders or self build.

The approaches outlined here are not exhaustive and there are certain to be more LBs involved in a wider numbers of initiatives. However, the focus of this article has been to point out that LB housing provision initiatives are being introduced without much comment on their role and value. The answer to providing more housing in London is not through single solutions. It may be about managing the existing built stock better as in Redbridge where the council supported older people through downsizing their homes when they found that these older owner occupiers did not trust their families to assist them or through the larger new build and regeneration schemes. All these types of LB housing provision have a place in managing and increasing the stock — but at the moment the range is not fully acknowledged nor the many ways of providing housing applied in practice. ■

BELOW:  
Dover Court for London Borough of Islington



BELOW:

TABLE 1:

London Boroughs Housing provision and interventions: types and examples

No	Intervention type	Local authorities
1	Direct development using HRA	Ealing
2/3	Council owned housing company/ Local housing company	Enfield; Hammersmith and Fulham; Camden; Croydon; Sutton; Southwark; Wandsworth; Westminster; Ealing
4	Special purpose vehicle	Barking and Dagenham
5	Local asset backed vehicle	Croydon;
6	Joint Venture	Lambeth, Waltham Forest
7	PFI	Islington
8	Development with housing association	Harrow, Hillingdon, Hounslow, Hammersmith and Fulham, Merton, Greenwich
9	Pension Fund investment	Islington
10	Planning obligations	Wandsworth, Lewisham
11	Providing mortgages	(Hertfordshire)
12	Housing broker	Redbridge
13	Taking on HRA debt	City of London
14	New Homes Bonus funds used for housing provision	Southwark, Croydon
15	Hedge Fund	(Luton with Cheyne)
16	Bond scheme	Pan London Group
17	Asset management	TfL
18	Regeneration	Lambeth
19	Using existing housing land	Wandsworth; Lambeth; Harrow
20	Partnership with builder	(Kent CC)
21	Unimplemented consents funding	(Greater Birmingham LEP)
22	European Investment Bank	Barking and Dagenham; Enfield
23	Establishing housing association	Islington
24	London Devolution Funds	GLA for distribution
25	Housing Loan Fund	(Manchester)
26	Housing Grant Fund (through GLA)	Newham