

Review of the Local Authority Role in Housing Supply

Evidence submitted by the Centre for Comparative Housing Research at De Montfort University, Leicester

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Introduction

This evidence statement focuses, primarily, on the findings from the research and consultancy activities of the Centre for Comparative Housing Research (CCHR). It takes the form of 'additional supplementary evidence' rather than case studies or responses to specific questions (see Call for Evidence, March 2014, pp2-3). The key themes are:

- The housing supply crisis and the role of local authorities.
- The strategic enabling role of councils.
- Short-term initiatives.
- Medium and long term initiatives.

CCHR was established in 1996. It has been and is involved in research and consultancy projects for government departments (e.g. DCLG), councils (e.g. Hull City Council) and housing associations (e.g. Places for People). We also have a well-established track record of work on investigating the potential of lesson learning from other countries. This has included projects on social housing allocations, planning systems, institutional investment in the private rented sector and affordable housing supply. In relation to the latter, we recently completed an Economic and Social Research Council Knowledge Exchange Project with Places for People on 'boosting affordable housing supply using conditional tax incentives'. This is an approach that is used in a number of countries especially France and the USA. We held a number of workshops with major organisations and there was a strong in principle view

that this approach should be seriously considered in this country. This point is discussed in more detail in the final section of this paper.

Further information on our research can be found on our website at www.dmu.ac.uk/cchr.

Housing Supply Crisis and the Role of Local Authorities

Our starting point is that there is a housing supply crisis. In England, Holmans (2013) calculates that between 2011 and 2031, we need to build 240,000-245,000 units per year, 80,000+ of which should be affordable homes. We are currently building approximately 100,000 units per year of which between 30,000 and 40,000 are affordable. Current prospects are not promising especially in relation to affordable housing. For example, delivering affordable housing through the planning system is compromised. The Growth & Infrastructure Act, 2013, encourages housebuilders to appeal against previously approved planning agreements. In January, the Government and the Homes & Communities Agency announced a three-year funding programme from 2015-2018 for 165,000 affordable homes. But this equates to only 55,000 units per year. A recent Inside Housing survey (Youde, 2014) noted that the freedoms for councils using self-financing indicates that local authorities have plans to build over 15,000 houses, but over a timescale of up to the next 30 years. The announcement of a relaxation of council borrowing requirements by the Government could lead to the development of an extra 10,000 over the next few years. This is to be welcomed but it will not address the scale of the crisis.

We, therefore, need innovative solutions to tackle the housing supply crisis in the short term and in the medium / long term. One source is the role of local authorities. We have worked with many types of local authorities and their partners on affordable housing provision and there have been impressive initiatives. These include:

- Tackling housing supply issues in rural areas (see Brown et al, 2000): This highlighted, for example, the significance of individual rural housing enablers brokering deals on housing provision involving land owners, local communities, funders and local authorities.
- Strategic partnerships: We worked with the Welland Partnership in the early part of the last decade. This was a unique body comprising five councils in the rural East Midlands with similar housing issues covering parts of four counties (East Northamptonshire, Harborough, Melton, Rutland and South Kesteven). This geography made more sense than traditional county council boundaries in terms of housing markets and issues. It was also a partnership by choice. It delivered a far greater housing programme than would have been possible by the individual councils. This was because of the sharing of staff expertise, economies of

scale in dealing with housing associations and housebuilders and having a strategic vision.

- Community asset trusts and community land trusts: We worked with North Shropshire District Council in the mid part of the last decade on a project that involved setting up a community asset trust utilising receipts from stock transfer and council land as a local delivery vehicle for new housing provision and community facilities. Unfortunately because of local government reorganisation, this initiative did not proceed.
- Institutional investment in build to rent: We undertook a research project for the Department of Communities and Local Government in 2010 on 'promoting investment in private rented housing supply – international policy comparisons'. It highlighted that in a number of countries policies existed that provided tax incentives with conditions to provide affordable housing for, say, 15 years before this stock reverted to market renting. In the USA, local and state governments have a significant role in facilitating schemes that are developed by public, private and third sector agencies.
- Local housing councils: We have recently completed a paper on local housing companies. This highlighted that there are at least 15 schemes either in operation or at an advanced stage of development. They include
 - Red Door Ventures: This is a council owned company set up by the London Borough of Newham. It is proposed to build at least 3,000 new homes over 13 years as well as acquiring 500 existing properties. One-third of the homes will be for affordable rent, with two-thirds at market rent.
 - Matrix Homes: This is a joint venture company involving a partnership between Manchester City Council, the Greater Manchester Pension Fund and the Homes & Communities Agency. It also involves a contractor (Wates Living Space), a property manager (Places for People) and expert advisors. The initial pilot involves 5 sites that will provide 240 units. Half of these will be for market rent and the other half will be for sale.
 - Reside: This is a company set up by the London Borough of Barking & Dagenham. It focuses on providing homes for local residents that are unable to access social housing and cannot afford the bottom rung of the owner occupation ladder. It is initially providing nearly 500 units at 80% of market rents with a five-year tenancy.

This list is illustrative of the opportunities and challenges for councils. There is an appetite for innovation to tackle the housing supply crisis. But it requires considerable resources in terms of building up staff skills and knowledge, brokering effective partnerships and buying in expertise on topics such as institutional investment and legal matters. It is not surprising, therefore, that innovation may take many years before reaching fruition in terms of the

completion of new homes. For example, a number of local housing companies that are now beginning to deliver new properties were first discussed in 2007 following the Labour Government's Green Paper on Housing.

We strongly recommend, therefore, that consideration should be given to setting up an independent innovation unit to work with councils and their partners to speed up the development and delivery process. This could be based on a system that operated in the Netherlands in the 1990s and 2000s through a 'social housing experiment unit' (SEV).

Strategic Enabling Role of Councils

There are a huge number of reports on the strategic enabling function stretching back, for example, to an influential study by Goodlad (1993). We strongly believe that the strategic enabling role of councils should be highlighted and that updated guidance is needed to reflect the challenges and opportunities of the second decade of the 21st century. This should cover the following interrelated topics:

- Housing market and housing needs assessments: CCHR has undertaken many studies on behalf of councils and their partners as well as contributing to a good practice guide (Line et al, 2007). One of the frustrations has been the lack of a co-ordinated approach with other local assessments. It is vital that there is a comprehensive and co-ordinated approach that links these housing studies with strategic economic assessments (by local enterprise partnerships), joint strategic needs assessments, local health and well-being surveys and Gypsy and Traveller accommodation assessments (GTAAAs). This will provide a more effective evidence-base for local housing policy making.
- Comprehensive assessment of the local housing market: Despite government guidance since the mid 1970s, the focus of some councils has, primarily, been on affordable housing provision. The private rented sector has, in particular, often been marginalised. The Montague Review¹ highlighted that strategic housing market assessments and local housing policies should explicitly deal with the role of the private rented sector especially in relation to institutional investment and build to rent.
- Policy co-ordination: Following on the first point, it is vital that councils and their partners ensure effective policy co-ordination between housing, economic development, environment, health, regeneration, social care and transport. Ensuring sustainable communities and contributing to a good quality of life requires that housing policy and delivery is effectively co-ordinated with other strategies.

¹ Dr Tim Brown, Director of the CCHR, was a member of the Montague Review.

- Geographical co-ordination: Over the last few years, there has been a growth of city region and sub-regional initiatives. These include city deals, city growth strategies, combined authorities and local enterprise partnerships. In part, this is a recognition that local authority administrative boundaries do not reflect local housing and labour markets. However, the role of housing in these 'new' arrangements is hugely variable and is often unclear. We have previously submitted evidence to and participated in seminars as part of the Royal Society of Arts City Growth Commission that is also considering this issue. Clarification is, therefore, required as a matter of urgency on geographical co-ordination.
- Local housing commissions: A small number of councils have set up housing commissions (e.g. Birmingham and Bristol) to help develop local strategies. These are independent bodies that take evidence from a wide range of organisations (including local communities) and produce evidence-based recommendations. We believe that this approach should be more widely adopted as it helps to explore challenges and opportunities as well as contributing to community engagement.
- Local authority powers: There is a strong case for bringing together the changes in guidance on the use of assets. For example, there has been a gradual reduction in the requirement for councils to get specific approval from the Government over the disposal of land and property. It would be useful to have a comprehensive up-to-date guide.

Short Term Initiatives

The scale of the housing supply crisis and the challenges of the innovation process (see above) necessitates that councils and their partners have a short term strategy (say one to three years) as well as a medium / long term vision (three years plus).

The former should focus on maximising the output of additional housing using existing policies, powers and initiatives. This includes national programmes such as the Homes and Communities Agency affordable housing policy, build to rent fund and the use of freedoms for councils under self-financing regime. It also involves taking a robust approach to the delivery of affordable housing through planning agreements, as well as targeting new homes bonus funding on housing.

In addition, there is evidence that they are quick wins to be had from the adoption and effective resourcing of initiatives that sometimes are regarded as marginal to mainstream programmes. These are listed in the table below:

Table One: Housing Policy Initiatives – Short Term

Examples of	Commentary	Examples of Links to
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Policy Initiatives		Other Policies
Empty homes	This could involve private sector leasing, housing associations as managing agents, use of CPO powers etc. There is a growing body of evidence that a dedicated team of staff can make significant progress. Increases available housing.	Neighbourhood regeneration. Generates new homes bonus payments.
Conversion of redundant commercial and industrial premises	Increases the amount of stock	Generates new homes bonus payments. Tackles under-used / neglected assets that might be of concern to local communities. Provides local jobs and training.
Living over the shop (LOTS)	Increases the amount of stock	High street regeneration
Supporting third sector initiatives	Specific types of initiatives include community land trusts, housing co-operatives and mutuals, custom-build / self-build etc	Community engagement. Local jobs and training.
Tackling under-occupation	Instead of punitive measures, a proactive incentive-based approach in all tenures (i.e. 'carrot rather than stick approach'). Makes more effective use of existing stock.	

Medium and Long Term Initiatives

Councils need to have a balanced approach involving short term as well as medium / long term initiatives. In relation to the latter, mention has already been made of the potential of, for instance, local housing companies that are widely used in parts of North Western Europe (e.g. Sweden). It would be of significant benefit in speeding up their development in this country if there was a greater appreciation of the opportunities and challenges faced elsewhere.

Lesson learning from other countries is, thus, a fruitful source of innovative ideas. For example, non-mainstream initiatives in this country (e.g. community land trusts, co-operatives / mutuals and custom build / self build – see above) often play a much greater role in housing provision in other countries. For example, community land trusts and community development corporations in the USA are frequently operating on a much larger scale in terms of number of units and activities. The Champlain Housing Trust in Vermont was set up in 1984 and now has a housing stock of 1,800 units. In addition, it manages over 500 shared equity properties through its stewardship programme. It also runs housing advice services, refurbishment programmes and supports five housing co-operatives.

As has already been pointed out, a current area of research for CCHR is on boosting affordable housing supply using conditional tax incentives. This work is being carried out in collaboration with Places for People and was initially funded by the Economic and Social Research Council. We have been

researching policies in France and the USA that have been in operation for over 25 years and have used conditional tax incentives to boost affordable housing supply. It is based on governments providing tax incentives for developers who in return provide housing at less than market rents and which are targeted at low income households for a set period of time. In the USA, this was originally for 15 years and is now more commonly for 30 years.

Output has been impressive. In France, between 1995 and 2004, it accounted on average for over a third of private sector production (30,000+ units per year). In 2009/10, it amounted to over 50% of private sector production (60,000+ units). This system in France is based on attracting individual investors. In the USA, conditional tax incentives have helped to build, renovate or conserve more than 2.5 million affordable housing units since 1986. Of particular interest is the state and municipal influence over the programme. The Federal Government allocates tax incentives or tax credits on a dollar per person rate, which is annually upgraded, to each state within overall conditions on targeting low income households. Each state in collaboration with local government produces an allocation plan based on local requirements. This might prioritise refurbishment rather than new build or urban rather than rural communities. It might also set stronger targets in terms of housing low income households. This is localism in action and, thus, the programme has support across the political spectrum from 'tea party' republicans to left of centre democrats as well as from local communities. In the USA, the tax credits are provided to the successful public, private or third sector developers who sell them on to institutional investors. The tax credits last for ten years and are tradable. More details of the schemes in France and the USA can be found on our research project website at <http://housingsupply.our.dmu.ac.uk/>.

But can these policies be transferred to this country? The straightforward answer is 'no'. Simplistic transfer of strategies is problematic because of the different economic, political and social systems in countries. For example, America has a federal system of government compared to our unitary top-down approach. Nevertheless, this is not the end of the story. Lesson learning from France and the USA provides the opportunity to develop new innovative policies that address affordable housing supply while, at the same time, taking account of the economic and political framework in England. During autumn 2013, CCHR and Places for People held a number of seminars with, for example, representatives of large housing associations, professional bodies, think tanks and civil servants. No one categorically ruled out a conditional tax incentive approach and the vast majority considered that new approaches such as this are badly needed. We are now in the process of working with a number of organisations on developing a detailed model so that the costs and benefits can be assessed at a national scale as well as by public, private and third sector organisations at the local level.

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