ACCOMMODATING GROWTH

BOROUGH BUILDERS: DELIVERING MORE HOUSING ACROSS LONDON

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Summary

New housebuilding in London has persistently fallen short of housing targets, worsening the capital's housing affordability crisis. The role of councils in housebuilding has sharply declined since its heyday in the 1960s and 1970s, but councils are now using innovative approaches to start building homes again.

This report undertakes fresh analysis of council-led models of housebuilding in London (outside joint ventures), assessing the potential for scaling these up, the challenges and complexities facing councils, and the optimal methods of delivery.

London is facing a housing shortfall, and a low supply of new affordable housing.

- The bulk of housing, including affordable housing, is delivered by a fairly small pool of developers.
- Developers' concerns about risk and lowering sale prices are resulting in **slow rates of delivery**.
- This is compounded by **continuing loss of social housing stock**, with only about a third of homes sold through Right to Buy (RTB) being replaced.

In light of this, the time is ripe for councils to build more.

- With London's housing market cooling, new housing providers need to come forward to ensure the delivery of new affordable housing in London.
- This is to provide more and better **affordable, market-rate, and intermediate homes** – both for sale and in the private rented sector, where many homes are of poor quality.
- **Boroughs play a key role** in developing infill sites, and could contribute towards achieving the aims of the draft New London Plan on small sites, densification and placemaking.

Councils have already started to build again because of two key drivers...

- The need to **create more housing** for all tenures to meet local needs and deliver better places.

- The need to **generate a financial return**, in the context of austerity and cuts.

... and through different council-led approaches.

- **14 boroughs have direct delivery programmes** – i.e. on-balance-sheet development of public land using in-house teams – with 10,900 homes in the pipeline over the next five years.

- **17 boroughs have active wholly-owned development companies** – i.e. separate commercial companies owned by councils – with 12,700 homes in the pipeline for the next five years.

Current housing delivery plans under council-led approaches are significant...

- In total, **23,600 homes are to be delivered through council-led approaches** in the next five years, representing close to eight per cent of the new London Plan targets for London boroughs over this period.

... but if every borough were involved or did more, it could represent a real step change for new housing delivery in London.

- 22 boroughs have homes in the pipeline through active council-led delivery models, **meeting 10 per cent of London Plan targets** on average.

- If every borough was able to deliver a minimum of 10 per cent of their target, a total of **37,300 homes could be delivered** across the next five years in London.

However, there remain a number of challenges and complexities that prevent councils from increasing their housing delivery to its full potential.

- **Access to finance** to build more housing is a key challenge, owing to restrictions on use of RTB receipts and constraints on borrowing capacity.

- **Intra-council barriers, lack of political support**, and **legislative and regulatory issues** in setting up wholly-owned companies can also hamper delivery.

- Councils face a range of planning and development issues that are also exacerbated by a **lack of internal capacity and expertise**, as it is challenging for councils to attract and retain staff.

Boroughs are ready to play a bigger role in delivering housing and making the most of their existing assets…

- **Councils need to be clear on the balance** between generating financial returns to the council and providing affordable housing at lower rents.

- **Councils should identify where greater sub-regional collaboration** could help make the most of scarce resources.

- **Councillors** should **encourage more council housing delivery**.

- **Better data on council housing delivery activity levels** is needed. The GLA and the government should play a role in this, but councils also need to communicate more clearly on the numbers of new homes they are delivering.

… but policymakers need to do more to support and encourage councils in order to allow delivery at scale.

- The government should **relax the conditions attached to various funding streams** and recognise the key role that councils can play in delivering more housing.

- To boost capacity, the **GLA should develop the existing Public Practice scheme** to give more boroughs access to the development staff that they will need as they start building homes again.

- The **Mayor** should use his funding powers to **support the development of sub-regional consortiums or delivery bodies**.

Following the May 2018 borough elections, with the Mayor of London pledging his support, there is a real opportunity for boroughs to get building again.

Introduction

In recent years, new housebuilding in London has persistently fallen short of targets set in the London Plan. This has worsened the housing affordability crisis: buying a home and renting privately are increasingly unaffordable for Londoners, with businesses identifying this as a major challenge to staff recruitment and retention.[1]

The role of councils in housebuilding has sharply declined since its heyday in the 1960s and 1970s, when London boroughs were the primary agencies for housebuilding in the capital and built many schemes showcasing excellent design – as well as some of more questionable quality. Since then, councils have been discouraged from getting involved in housing supply, partly through cuts in housing subsidies and caps on borrowing.

Against significant political and economic uncertainty, some councils have used innovative approaches to start building more homes again.

Recent years, however, have seen a shift. Against significant political and economic uncertainty, some councils have used innovative approaches to start building more homes again, spurred by greater financial independence and new powers granted to them through "localism" – as well as a sense that other developers won't deliver the mix of market and affordable homes that are needed in their areas.

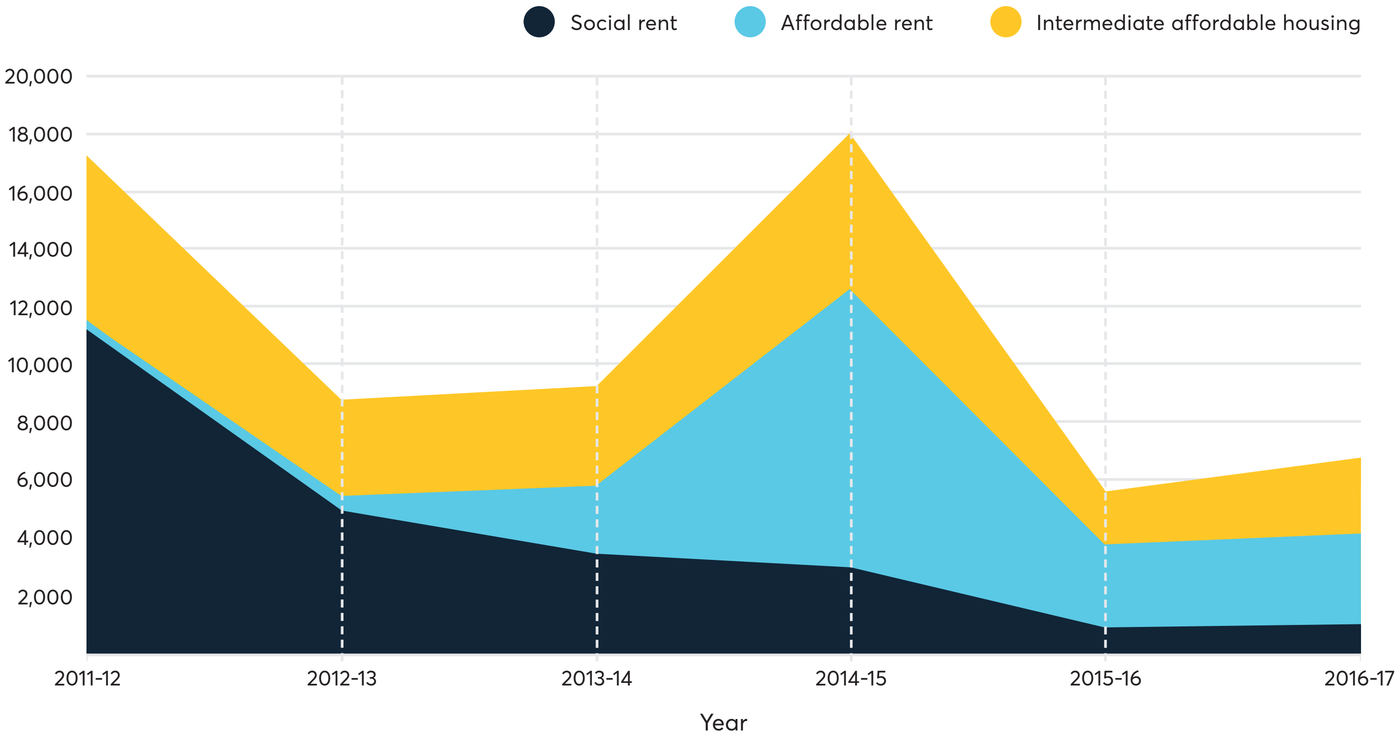
As the Mayor's draft New London Plan sets ambitious housing targets, this report will look at councils' efforts to boost housebuilding in London to date. It will focus on approaches that are primarily led by councils, such as direct delivery and delivery through wholly-owned companies – rather than approaches such as joint ventures with private sector partners, which involve different financial and risk-sharing models.

The aim of this research is to evaluate the current landscape of council-led housing delivery in London and appraise the potential for councils to build more, as well as the financial implications of this. This report will highlight the existing drivers of council-led housing delivery, and the challenges and complexities of scaling up. It draws on interviews with politicians, council officers, researchers and experts in the field, as well as a survey of senior housing officers, and qualitative and quantitative desktop research. From these, the report develops recommendations on how to optimise council housebuilding for the near future.

1. The context: housing affordability and supply

This chapter outlines the key housing challenges in London, including slow housing delivery, lack of variety in housing providers and the loss of social housing in the capital over time.

Figure 1: Total number of additional affordable housing completions in London, 2011-2017



Source: Ministry of Housing, Communities and Local Government: Affordable Housing Supply Statistics, November 2017

London is not building enough new homes. Between 2012 and 2016, there was a shortfall of 177,600 homes built in London against household projections, the worst shortfall in England.[2] The draft New London Plan published in December 2017 set an ambitious target of 65,000 new homes to be built per year across London from 2019, even though only sixteen boroughs delivered against the targets of the previous London Plan in 2016/17. These slow rates of housebuilding have contributed to rising prices and rents, increasing pressures on the cost of living.

The supply of affordable housing has also declined, though the government has recently made grants available to deliver more affordable homes in the capital,[3] with the Mayor having a target of 116,000 affordable homes by 2022. Indeed, data on additional affordable housing completions in Figure 1 shows that the number of social rented units built has fallen progressively, with a sharp fall around 2012, despite a peak in affordable and intermediate housing delivery in 2014-15, and more starts in 2017/18.

Housing providers

The housebuilding industry in London is not diverse, with large housebuilders developing the bulk of housing, including affordable housing, alongside housing associations.

The housebuilding industry in London is not diverse, with large housebuilders developing the bulk of housing, including affordable housing, alongside housing associations. In 2013, half of housing delivery in London on large sites was provided by nine firms.[4] Local authorities are currently much smaller players. Table 1 shows the breakdown of affordable housing delivery in London by provider (similar data is not available for other types of housing). Currently, neither the Ministry of Housing, Communities and Local Government (MHCLG) nor the Greater London Authority (GLA) separate out data on housing provided by local housing companies.

Table 1: Additional affordable housing by provider in London for 2016/17

	Starts				Completions			
Provider	Social rent	Affordable Rent	Intermediate affordable housing	Total	Social rent	Affordable rent (including RTB additions)	Intermediate affordable housing	Total
Housing associations	40	2,709	2,784	5,533	92	686	716	1,494
Private sector	148	1,461	1,487	3,099	275	1,443	1,003	2,721
Local authorities	272	206	125	603	330	419	95	844
Other[5]	18	372	158	548	61	127	240	428

Source: Ministry of Housing, Communities and Local Government: Affordable Housing Supply Statistics, November 2017

Slow delivery

Research has indicated that in London, permission was granted for nearly 55,000 homes in 2014: however, in 2017 fewer than 30,000 homes had been built or were under construction, an attrition rate of 46 per cent.[6] Although this may be characterised as "land banking", an alternative analysis is that housebuilders are motivated by "absorption rates" and are reluctant to build too many homes in one area at any one time for fear of lowering sale prices.[7]

Loss of social rented homes to Right to Buy

The period between 2006 and 2016 saw local authority housing stock in London fall by 13 per cent, with 456,800 dwellings in 2006 compared to 397,600 in 2016.[8] One factor in the reduction in social housing stock in London is the implementation of the Right to Buy (RTB) policy, which enables council tenants to buy their properties at a significant discount to market values, and the failure to replace social housing that has been sold through this scheme. The RTB scheme has seen sales of 285,000 homes in London since it began in 1980,[9] bolstered by discounts for buyers of up to £100,000 in London from 2013.[10] A 2012 report [11] found that in London it takes 1.6 RTB sales to fund a new council home, and previous Centre for London research has highlighted the difficulties councils have in mixing funding streams to fund replacements.[12] For instance, between 2012 and 2017, of the 15,000 homes in London sold under the scheme[13] fewer than 5,000 have been replaced.[14]

As a result, several councils have had to return RTB funds to the Mayor because they have been unable to spend them locally within the three-year deadline imposed by MHCLG: more than £50 million has been returned to the GLA since 2012. In his Housing Strategy, the Mayor has indicated that he wants to see fundamental reform of RTB and an effective approach that will enable like-for-like replacement;[15] in the meantime, he has offered to ring-fence council RTB receipts for later use by councils.[16]

Why we need councils to build more

Diversifying housing providers

In the Autumn Statement 2017, the Chancellor announced a review into the disparity between the numbers of homes built and the number of planning permissions being granted, to be led by Sir Oliver Letwin. Emerging findings from the build-out review show that housebuilders are concerned about the "absorption rate" of their products into the market: that is to say, the speed at which homes can be sold without lowering prices locally. Sir Oliver acknowledged a number of other challenges – including availability of capital, labour and materials – but suggested that broadening the range of tenures and of housebuilders could make a significant difference to build-out rates.[17] Alongside a more diverse pool of private developers, there is a clear opportunity for council delivery to play a part. Given the focus on affordable and rented homes, it is also possible that council-led delivery will be less susceptible to market slowdowns.

Providing affordable and secure homes for Londoners

Council building can plan an important role in providing more affordable and secure homes for Londoners.

Council building can also play an important role in providing more affordable and secure homes for Londoners. This includes providing higher proportions of social and affordable rented homes than are delivered by private developers, but also means developing better quality products for rent ("build to rent"), as in many areas the private rented sector does not offer quality and secure tenancies for local people – especially the "squeezed middle".[18]

Placemaking and small sites

The draft New London Plan, which was published in December 2017, proposed that small sites should play a much greater role in housing delivery, and called for boroughs to proactively support delivery of new homes through planning decisions and plan-making. Beyond this, boroughs could play a key role in developing infill sites, and our research suggests that wholly-owned companies have focused their efforts on small sites so far. In bringing such sites forward, wholly-owned companies could contribute towards achieving the aims of the new London Plan, densifying London and contributing to placemaking.

Change ahead?

As the section above outlines, housing supply in London, including affordable housing supply, has failed to meet need for several years. Factors behind the failure to increase supply include a limited pool of developers, slow build-out rates, and challenges in replacing homes sold through RTB. A slowdown in the London housing market in early 2018 threatens to slow delivery by private developers further, but in May 2018, the Mayor announced a new programme to support the building of 10,000 new council homes by 2022, with initial funding allocations announced in October 2018.[19]

Councils are starting to take a more active role in housing delivery in the capital, and the next chapter looks at the origins and scale of their contribution.

2. Borough building in London

In this chapter, we look in more detail at councils' rationale for restarting building programmes, provide a picture of the current landscape of council-led housing delivery in London, and evaluate the potential contribution that this could make in the future.

What has driven councils to start building again?

There are two principal motivations behind the renaissance of council housebuilding.

Providing more housing

On the one hand, as suggested in the previous chapter, councils want to create more and better housing in order to both meet local needs and deliver better places.[20] This means creating more affordable housing for local people through affordable and social rented units,[21] as well as providing market rental properties – responding to the poor quality of much private rented sector property – and properties for specific groups such as the elderly and homeless.[22]

Creating a financial return for the council

On the other hand, councils are setting up separate companies in order to generate financial returns in the context of austerity and cuts. London local authorities have seen their budgeted service expenditure fall significantly over the last eight years, from £7bn in 2010/11 to £6.3bn for 2017/18 (excluding education and public health). When population growth is accounted for, the fall is even steeper, from a budgeted spend per head of £879 in 2010/11 to £715 in 2017/18 (not accounting for inflation). Some of the largest reductions have come in inner London boroughs, with a fall in spending per capita of 33 per cent[23] in Newham.[24]

How are councils contributing to housing delivery in London?

Councils have adopted a variety of strategies to deliver more housing, shifting from approaches where councils simply sell council land, to approaches where councils retain a long-term stake in development.

Spurred by the factors above, councils have adopted a variety of strategies to deliver more housing, shifting from approaches where councils simply sell council land – sometimes underpinned by a development agreement – to approaches where councils retain a long-term stake in development, such as joint ventures, wholly-owned companies and direct delivery.[25] This report focuses on long-term approaches that are council-led (either through an in-house team or through a wholly-owned company) in order to try to assess how much councils can contribute by themselves, and to focus on the issues for councils. A previous Centre for London report looked in more detail at joint ventures with private developers and housing associations.[26]

We have undertaken a desktop review of wholly-owned council companies and direct delivery initiatives in London, further refining results through a survey of senior housing officers in the 32 London boroughs in March and April 2018. The survey aimed to establish:

- whether councils were undertaking direct housing delivery;
- if so, what the scale of their direct delivery programme was;
- whether they had a wholly-owned company;
- if so, what their ambitions for this company were;
- whether they intended to set up a company in the future

The survey focused on wholly-owned companies aiming to undertake development, rather than companies set up to focus on the management and acquisition of homes. The latter do not provide additional housing, although they can be key in achieving the council's objectives in providing housing for local people and relieving affordability pressures.

In total, we received responses from 19 boroughs, which are marked with an asterisk in Table 2.

Direct delivery

One approach that councils have taken to deliver their housing and affordable housing programmes is direct delivery – i.e. on-balance-sheet development of public land using in-house teams.[27] Some local authorities have continued to build housing for a number of years using the HRA, their RTB receipts and in-house teams, sometimes in conjunction with a wholly-owned company.

Table 2: Overview of council-led approaches in London

	Wholly-owned development company?	Direct delivery programme from 2018?
Barking and Dagenham*	Yes	No
Barnet*	Yes	No
Bexley*	Yes	No
Brent*	Yes (not active)	No
Bromley*	No	No
Camden	No	Yes
Croydon*	Yes	No
Ealing*	Yes	Yes
Enfield	Yes	Yes
Greenwich	Yes	No
Hackney*	No	Yes
Hammersmith and Fulham	No	No
Haringey*	No	No
Harrow*	Yes	Yes
Havering*	Yes	No
Hillingdon*	Yes (not active)	No
Hounslow	Yes	Yes
Islington	No	Yes
Kensington and Chelsea*	Yes (not active)	No
Kingston upon Thames	No	No
Lambeth	Yes	No
Lewisham*	No	Yes

	Wholly-owned development company?	Direct delivery programme from 2018?
Merton	Yes	No
Newham	Yes	No
Redbridge	Yes (not active)	No
Richmond upon Thames*	No	No
Southwark*	Yes (not active)	Yes
Sutton	Yes	No
Tower Hamlets*	Yes	Yes
Waltham Forest*	Yes	No
Wandsworth*	No	Yes
Westminster	No	No

There are currently 14 boroughs that aim to undertake direct delivery within the next five years – with councils such as Hillingdon including provision for this in their budgets, but not having calculated the number of homes they will deliver. Their targets for the next five years add up to approximately 10,900 homes in the pipeline.

There are currently 14 boroughs that aim to undertake direct delivery within the next five years – with councils such as Hillingdon including provision for this in their budgets, but not having calculated the number of homes they will deliver. Their targets for the next five years add up to approximately 10,900 homes in the pipeline.

Lewisham is an outlier in using an existing "arm's-length management organisation" (ALMO) – Lewisham Homes, which manages the council's housing stock – as development agent and project manager for Lewisham's direct delivery programme. This is an approach that may be favoured by other councils in the future. In Richmond's case, as the council has transferred its social housing stock to housing associations, the approach has been to have a capital programme that supports housing association development.

In light of the recent GLA grant programme to support council housebuilding, and the future possibility for councils to bid for a share of the increase of the HRA borrowing limit (by up to £1 billion) – announced in the

Autumn Budget 2017 and to be split equally between London and the rest of England– direct delivery by councils is likely to increase. Table 3 reflects the pilot deals struck under that programme between the Mayor and the Boroughs of Lewisham, Newham, and Waltham Forest.[28]

However, this approach is subject to a number of barriers which have in some cases driven the emergence of wholly-owned companies. We will look at these in the next chapter in more detail.

Table 3: Direct delivery approaches in London boroughs

Borough	Number of homes (over next 5 years)
Camden	1,100
Ealing	450
Enfield	725
Hackney	500
Harrow	468
Hillingdon	To be confirmed
Hounslow	900
Islington	500
Lewisham	1,000
Newham	1,000
Southwark	2,100
Tower Hamlets	1,000
Waltham Forest	525
Wandsworth	600
Total	**10,868**

Case study: Hackney Council

In Hackney, private renters have seen rents rise by 20 per cent since 2011. House prices have risen 750 per cent in 20 years – the biggest rise in the country – and nearly 13,000 people are waiting for a council home.

In addition to an estate regeneration scheme undertaken directly by the council, Hackney's Housing Supply Programme focuses on infill development, aiming to build 500 more new homes on underused council land – with more than 70 per cent for social rent and shared ownership.

Hackney uses a self-funding direct delivery model, where the council builds homes for outright sale, which part-funds the social rent and shared ownership tenures Hackney needs. Hackney has recruited a skilled in-house development team of a similar scale to a large housing association's. In addition, a separate brand, Hackney Sales, has been set up to sell and manage these homes, reinvesting profit into providing new social housing.

The borough takes a long-term portfolio approach: this means that instead of selling land to commercial housebuilders, the borough retains rent receipts and income, and can reinvest capital receipts. Unviable projects in one part of the borough are subsidised by others elsewhere.

The programme is primarily funded by a mix of prudential borrowing within the Housing Revenue Account borrowing cap, sales receipts from homes built for outright sale, capital investment, and Right to Buy (RTB) receipts. Hackney Council has limited headroom (borrowing capacity) within its HRA, so capital investment is generated by profiling the expenditure and receipts associated with individual projects over a number of years in order to remain within the debt cap. Borrowing is from General Fund balances and Public Works Loan Board loans, but the programme is also funded from receipts from outright sales, first tranche equity sales receipts from shared ownership properties, and RTB receipts.

Hackney estimates that with a modest flex of the Housing Revenue Account borrowing cap and the ability to fully reinvest their RTB receipts, they could build a further 2,000 homes through their current model. They estimate this could save £126 million in temporary accommodation costs, create nearly 9,000 jobs, and bring in nearly £200 million in stamp duty, income tax, corporation tax and council tax receipts to government.

Wholly-owned companies

The Local Government Act 2003 allowed local authorities to set up companies to make a profit, and the Localism Act 2011 further eased restrictions, allowing councils to do what any other company or individual can do, unless explicitly prohibited.[29] Local authority companies can be wholly or partly owned by

Table 4: Delivery structures in London boroughs

Borough	Delivery structure	Number of homes (over next 5 years)
Barking and Dagenham	Be First	2,000
Barnet	Opendoor Homes	500
Bexley	BexleyCo	550
Brent	Set up	Inactive
Croydon	Brick by Brick	2,500
Ealing	Broadway Living	1,000
Enfield	Enfield Innovations	57
Greenwich	Meridian Home Start	250
Harrow	Concilium	53
Havering	Mercury Land Holding	109
Hillingdon	Set up	Inactive
Hounslow	Lampton 360	844
Kensington and Chelsea	Set up	Inactive
Lambeth	Homes for Lambeth	500
Merton	Merton Development Company	77
Newham	Red Door Ventures	3,000
Redbridge	Set up	Inactive
Southwark	Southwark Housing Company	Inactive
Sutton	Sutton Living	93
Tower Hamlets	Seahorse Homes	100
	Mulberry Housing Society	200
Waltham Forest	Sixty Bricks	900
Total (within approximately 5 years)		**12,733**

the council; this report focuses on the former. In terms of housing, this means that these companies can develop, buy and manage properties within and outside a local authority area.[30] Since then, many councils have set up council companies, supported by both the government-commissioned Elphicke-House Review into the local authority role in housing supply (2015),[31] and the Housing White Paper (2017).[32]

In terms of funding, housing companies are capitalised in different ways. Previous research[33] suggests that the principal sources are loans from the Public Works Loan Board (PWLB), which can be drawn down by councils through prudential borrowing and then lent on to a subsidiary company with an interest rate margin providing a revenue stream to the council;[34] and council equity investment, which is mostly land at market value. Other sources of funding, in addition to councils' own land and finance, have included commercial borrowing and developer contributions.[35] Although companies can be complex to set up, they can generate long-term financial returns to support council services, and unlike new social housing built through the HRA they are not subject to RTB.[36] A detailed "How To" guide has been published to help councils navigate the financial and legal complexities of setting up companies, and considers options depending on specific council circumstances.[37]

How many wholly-owned development companies are there in the capital?

There are currently 17 boroughs that have active wholly-owned development companies, with homes in the pipeline or building underway. This represents a total of 12,700 homes for approximately the next five years. We also received evidence that some boroughs (namely Brent, Hillingdon, Kensington and Chelsea, Redbridge and Southwark) have set up housing companies that are not yet active but could be in the future – depending on the business case and decisions taken by the administrations formed following the May 2018 council elections.

The split between affordable and market housing varies between housing companies. Tower Hamlets decided to set up two distinct companies, one aiming to provide market housing (Seahorse Homes) and the other a community benefit society aiming to deliver affordable housing (Mulberry Housing Society). Greenwich's Meridian Home Start was converted from a wholly-owned company to a community benefit society in 2014, and is not-for-profit and not council-owned.[38] In Barnet, Opendoor Homes was established as a Registered Provider and wholly-owned subsidiary of Barnet's established ALMO, Barnet Homes. Finally, some boroughs that are able to pursue direct delivery, such as Hackney and Wandsworth, stated that they didn't feel a wholly-owned company was required for them to deliver housing.

Case study: Brick by Brick

Brick by Brick was established in 2016 by the London Borough of Croydon as a wholly-owned commercial company aiming to provide a mix of housing in the borough. It aimed to offer high design standards, policy-compliant levels of affordable housing, and commercial returns to the borough as shareholder.

Brick by Brick has a board of four directors, two of whom are nominated by the borough and two of whom are independent appointments. Its core delivery team currently comprises borough employees who are directly commissioned by Brick by Brick, and whose costs are charged to projects. Brick by Brick acquires sites (mainly from the borough) either at their book value, or at a Section 123 compliant residual value identified on the basis of a policy-compliant level of affordable housing delivery.

The company then appoints consultant teams (architects and engineers) and construction contractors (focusing on smaller and local firms where possible) to design and build the schemes. On completion, the company sells units either privately or as shared ownership homes. Affordable rent properties are purchased by Croydon Affordable Homes, an independent charity set up to own and manage affordable housing in the borough.

Brick by Brick has gained planning consent on 40 different sites in the last 12 months or so, and anticipates building 1,050 homes by 2020, of which 479 will be affordable. The first units will be completed in 2018. It is also negotiating land purchases and undertaking design work for a significant pipeline of future sites. A further 218 homes will be built as part of the first phase of the redevelopment of the Cultural Quarter around Fairfield Halls. For these first phases, the projected costs and revenues are as follows:

	£m
Private sales	309
Shared ownership sales	99
Affordable rent sales	47
Commercial rents capitalised	4
Other	4
Total revenues	**463**
Land and construction	-370
Fees and contingency	-48
Planning	-10
Capitalised interest	-17
Sales costs	-8
Working capital (staff costs etc)	-5
Grant for shared ownership	21
Total costs	**-437**
Net profit/(loss)	**26**

The borough provides development finance on a commercial basis, secured against assets. It borrows funds where needed from the Public Works Loans Board, though Brick by Brick may also seek other investors in the future. The borough's returns consist of:

- Land receipts, including for land not previously identified as an asset (estimated to be £1.54m in 2018/19).
- Profit, set at a minimum of 15 per cent of costs for the private elements of schemes – compared to 20 to 25 per cent charged by private developers (estimated to be £9.28m in 2018/19).
- The difference between loan repayments from Brick by Brick and repayments due to PWLB (estimated to be £6.15m in 2018/19).

- The saved costs of staff working in the borough's development team, whose salaries and on-costs are now counted as part of the capital cost of development (included in working capital, above).

In addition to these returns, Brick by Brick is investing £30 million into the redevelopment of Fairfield Hall, and is providing other workspace and community space within developments. Local people will have exclusive rights to buy new Brick by Brick properties for a limited period, and Brick by Brick report strong interest from local residents in their units for sale.

Brick by Brick considers that it has taken a conservative approach to cost and value inflation over the next five years, but has developed a risk management strategy that could include putting for-sale property into the private rented sector, or leasing it back to the borough to be rented out, in the case of a sustained housing market downturn.

The company has strong support from the current Croydon administration, though the opposition group on the council have said they would review its operations and some local residents have opposed the scale and tenure mix of some developments. Brick by Brick Chief Executive Colm Lacey argues that ultimately, the best guarantor of its survival is the successful delivery of high-quality affordable housing and financial returns to the council as a shareholder. He also has plans to develop new revenue lines such as providing development, design (via in-house architecture practice Common Ground Architecture) and advisory services outside Croydon in future years.

What is the potential for council housebuilding to boost housing delivery in London?

Councils are increasingly ambitious in their housing programmes, and council-led delivery has been growing since 2011, though it still represents a relatively small proportion of housing and affordable housing provision. London's councils built more than 2,100 homes in 2011-2018, compared to only 70 homes in the preceding seven years.[39]

Data on "starts" for 2016/17 and our survey findings suggest their output could grow considerably, with 12,700 homes planned through wholly-owned companies and 10,900 through direct delivery within the next five years – i.e. a cumulative total of 23,600 homes. Taking the yearly London Plan target of 65,000 new homes and adjusting it over five years, that means a contribution of close to eight per cent towards the targets set for London boroughs.

(Key data limitations to be considered are that this is a snapshot of councils' ambitions as of April/May 2018; and that it remains to be seen how many of these homes will actually be delivered within the next five years.)

Active London boroughs (see Table 5) would meet 10 per cent of London Plan targets on average through council-led approaches. This ranges from around 20 per cent in Newham and Camden, to nearer one per cent for outer London boroughs with smaller programmes and high housing targets such as Havering and Merton (see Figure 2 on page 35).

Table 5: Overview of council-led approaches' targets in London

	Number of homes	5-year London Plan target	Contribution to London Plan target
Barking and Dagenham	2,000	11,320	18%
Barnet	500	15,670	3%
Bexley	550	6,225	9%
Camden	1,100	5,430	20%
Croydon	2,500	14,745	17%
Ealing	1,450	14,035	10%
Enfield	725	9,380	8%
Greenwich	250	16,020	2%
Hackney	3,000	6,650	8%
Harrow	521	6,960	7.5%
Havering	109	9,375	1%
Hounslow	1,100	10,910	16%
Islington	500	3,875	13%
Lambeth	500	7,945	6%
Lewisham	1,000	10,585	9%

	Number of homes	5-year London Plan target	Contribution to London Plan target
Merton	77	6,640	1%
Newham	4,000	19,250	21%
Southwark	2,100	12,770	16%
Sutton	93	4,695	2%
Tower Hamlets	1,300	17,555	7%
Waltham Forest	1,425	8,970	16%
Wandsworth	600	11,550	5%

There is a notable disparity in councils' delivery plans. However, if every borough were able to match the 10 per cent average delivery of those councils that are building (see Figure 3 on page 36), a total of 37,300 homes could be delivered across the next five years across London.

The potential is considerable and represents a real step change in the efforts of councils to build more housing in a constrained context. But there remain a number of political and cultural challenges, as well as financial and legal complexities, that prevent councils from increasing housing delivery to its full potential. The next chapter will consider these.

Figure 2: Delivery plans compared to five-year London Plan targets

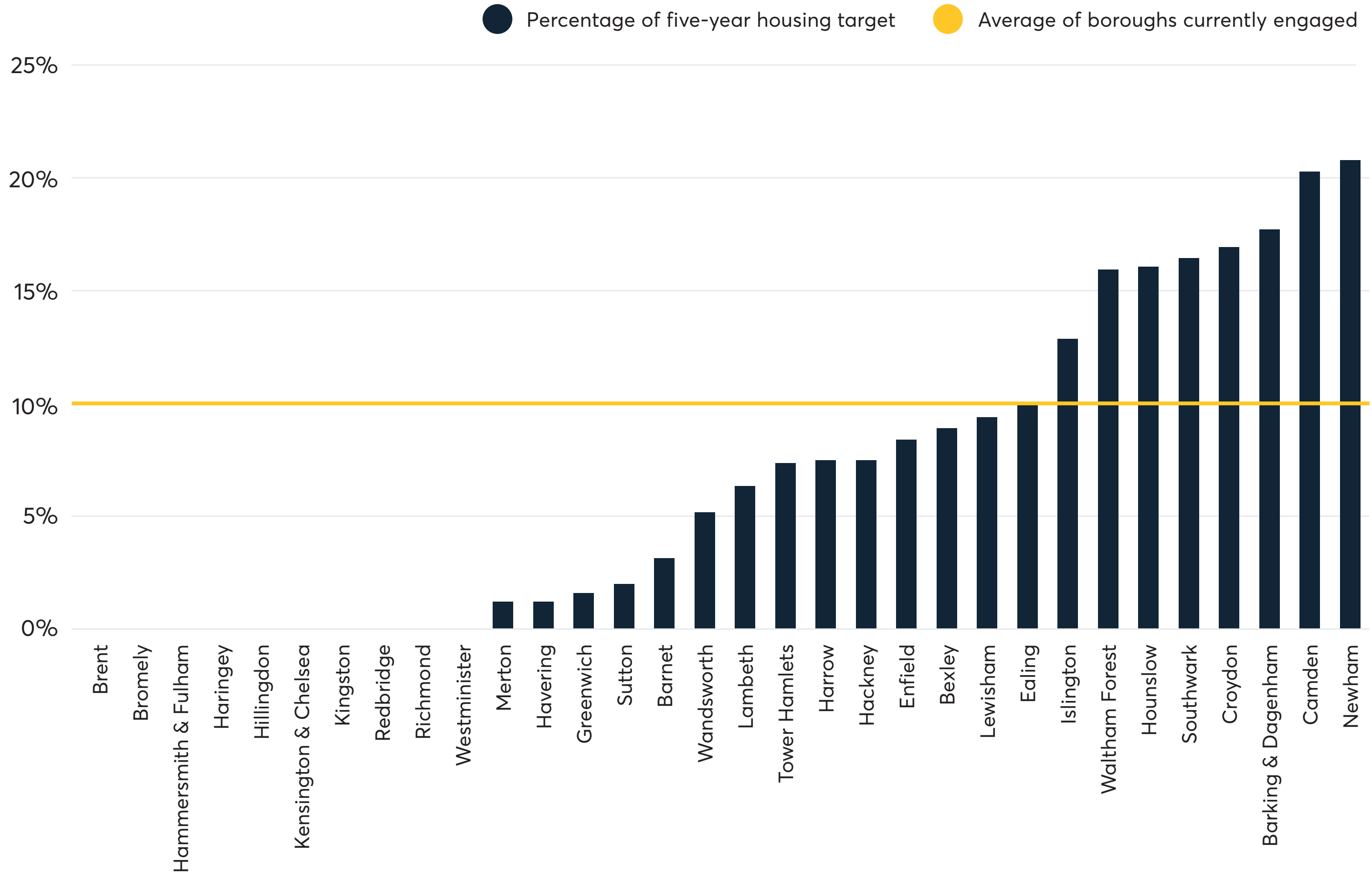
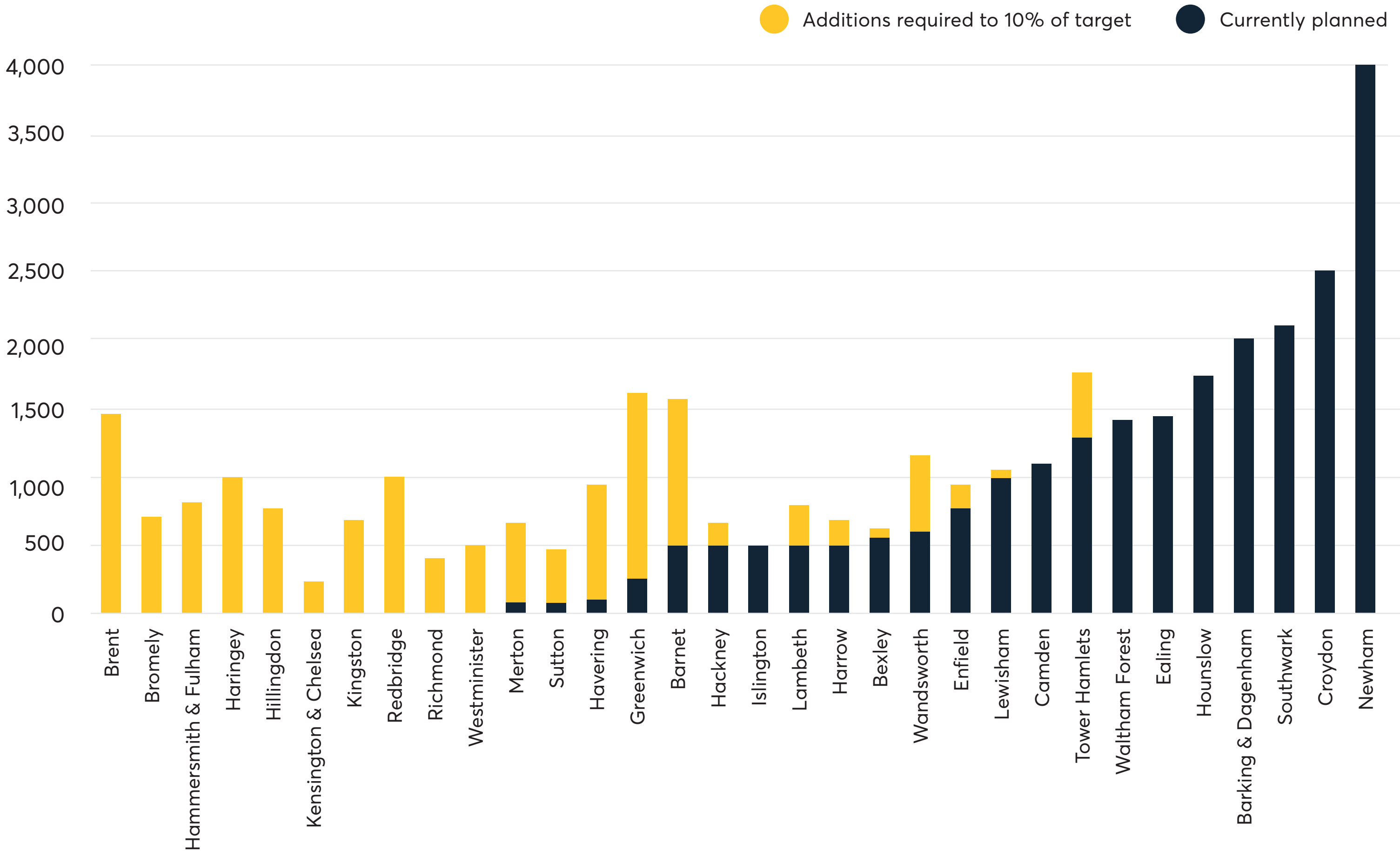


Figure 3: Five-year delivery if every borough aimed for 10%+ of London Plan 2017 target



3. Challenges and complexities

In this chapter, we outline the challenges and complexities that prevent councils from building more housing. These range from financial and legal issues to politics and development capacity.

Finance

Access to finance to build more housing is a key challenge for councils, with interviewees citing "artificial government restrictions" on funding.

Right to Buy receipts

Investment in affordable homes through the use of RTB receipts has proved to be a challenge. Receipts can only provide 30 per cent of the costs of a replacement home, and must be used within three years before funds are passed to HM Treasury (and then the GLA).[40] This leaves councils with short timescales to put together a funding package, secure planning, appoint contractors, and commence construction. As sales of former council properties are rapidly increasing, boroughs struggle to find the remaining funds within their balance sheets, meaning that the GLA has received more than £50 million in unspent RTB receipts from councils since 2012.[41] A new initiative announced by the Mayor of London in May 2018 will allow receipts to be passed by boroughs to the GLA, and ring-fenced for investment in affordable housing by the same councils.[42] Further, the government recently announced a consultation on the flexibility of RTB receipts as part of the upcoming Social Housing Green Paper.[43]

Borrowing capacity

Borrowing through the Housing Revenue Account is heavily constrained (see following page), and only around seven London boroughs have both regular revenue from council-owned housing stock (which can be borrowed against) and the headroom required to take advantage of HRA borrowing.[44] The lack of borrowing capacity and flexibility hampers some councils' housebuilding efforts in the medium-term, more councils are set to reach their headroom capacity, though government has announced that half of the £1 billion borrowing cap raise will go to London. This is often the driver behind setting up a wholly-owned company to enable financing from outside the HRA that can support mixed market and affordable housing – or entering into joint ventures with partners who have better access to finance.

HRA headroom

As outlined in previous research undertaken by Centre for London on affordable housing in London,[45] some councils have been undertaking housebuilding through borrowing on the Housing Revenue Account (HRA) – a primary means of funding local authority housebuilding programmes. HRAs hold the income and expenditure relating to council-owned housing, and this income is ring-fenced so that it can only be spent on local affordable housing provision.

In 2012, the government introduced the self-financing regime, which meant that any gap between income and projected spending would now be covered by borrowing rather than national government subsidy, and that the amount that local authorities can borrow is capped by local finance regulations. A council's capacity to borrow through the HRA is thus dependent on there being a gap, or "headroom", between historic debt levels and agreed borrowing capacity, rather than on more conventional criteria such as the authority's ability to service the debt (which applies to prudential borrowing).[46]

As a result, there is a large variation in the amount of headroom between boroughs, which ranges from zero in Harrow to £148m in Lambeth. In 2012 only around seven London boroughs had both regular revenue from council-owned housing stock (which can be borrowed against) and the headroom required to take advantage of HRA borrowing.[47]

Legislative and regulatory issues

Legal and taxation issues emerged during interviews as a barrier to setting up wholly-owned companies, with different legal advisors advising boroughs in different ways and sometimes discouraging councils from setting up companies. There was a perceived lack of clarity in the process of setting up a wholly-owned company, and some boroughs argued that setting up a company represents a significant cost in terms of time and finance which isn't justified by the scale of their programme.

Although setting up a wholly-owned company can be complex, it can also generate revenue in the long term, and several councils have set up a company for future development. The complexities of setting up a company from scratch have encouraged some councils to use an existing ALMO to undertake development in the first place, although this arrangement may not be as flexible to future changes and may come with financial and tax constraints.[48]

Intra-council issues

Politics

Political leadership seems key to enabling council-led delivery. Politicians can increase confidence locally and garner support from different teams across the council, but local politics can also hamper delivery – for instance, when constituents oppose development for a number of reasons.[49] Some interviewees also observed that local political support can itself be problematic if it tips over into micromanagement. Wholly owned council companies have governance outside formal council structures, and may be more resilient to political cycles – although many are still in their infancy and have yet to face significant political change.

Finance and housing teams

Interviewees suggested that the enthusiasm of housing and regeneration teams for investing in council-led delivery is not always shared by finance teams, who may take a more risk-averse approach. Other research has shown that in some cases, local authority housing officers do not want to establish housing companies, because they think this will lead to a loss of control.[50] The challenge of securing "buy-in" across the council serves to underline the importance of clear political and managerial leadership.

Capacity and expertise

Attracting and retaining the right staff is a challenge for councils, which often offer lower salaries than the private sector does for equivalent roles. Several councils have managed to build in-house teams, attracting staff for whom working for a public purpose is a strong motivator. Councils are also working with freelancers (in long-term appointments) with expertise in project management and deal-making. Design and other professional services are generally commissioned from consultant teams, though some councils are building their own in-house architectural and urban design teams, both for direct delivery – such as Islington (Islington Architects) and Hackney – and as part of wholly-owned companies (for example, Brick by Brick).

Planning and development issues

As councils increasingly act as developers, they face developer issues – such as the lack of land in some boroughs or sites that are difficult to unlock. Many councils, even when undertaking development in-house, are encountering barriers to affordable housing delivery such as a scarcity of brownfield sites and escalating land values.[51]

Another issue is the ability to find contractors. This is an issue for all developers but is especially challenging for infill sites, where much council-led delivery is focused.

Cuts have also affected capacity: budgets for planning and development fell by almost 50 per cent per capita between 2010 and 2018, the steepest reduction of all service areas in London.[52]

In addition, going through the planning process can be challenging when the council is the applicant. Councils face much more upfront local opposition – sometimes driven by suspicion about the relationship between development and planning functions – and have a brighter spotlight shone on their planning commitments and policy adherence.

Risk
A market slowdown could affect the business case for council-led approaches, particularly cross-subsidy models, which depend on buoyant private sales. Councils' risk exposure increases – alongside potential benefits – when they undertake development themselves, rather than simply selling land. However, councils also retain their assets and can put in place policies and procedures to assess and respond to the level of risk. Councils have developed a number of exit or mitigation strategies, including switching tenure mix (for example, from sale to rental), seeking alternative sources of funding, or adopting an altered timeline.

The range of approaches taken by councils

The challenges outlined in this chapter are hampering both the speed and the quality of development, meaning council housebuilding is not fully realising its potential.

The challenges outlined in this chapter are hampering both the speed and the quality of development, meaning council housebuilding is not fully realising its potential. What emerges from this analysis of barriers is that different councils use different vehicles to deliver new housing, depending on local circumstances, needs and cultures. Some interviewees felt that company structures offered the opportunity to operate entrepreneurially; others felt that they were an awkward "fix" of the broader barriers to council housebuilding. But some common challenges – those of financing, capacity and political leadership – apply in most if not all cases.

Nonetheless, our research indicates that to date, 21 boroughs have set up a wholly-owned development company (16 of which are active), and 14 boroughs are building new homes through direct delivery. In total, 22 boroughs have homes in the pipeline through active council-led delivery models. Although there are pros and cons to each option – as outlined in the table below – it seems that with political will and vision, boroughs can play a bigger role in delivering housing locally, retain a longer-term stake in the development of their areas, and make the most of their existing assets.

	Pros	Cons
Direct delivery	• In-house • Doesn't rely on new structure • More accountable and flexible	• Funding restrictions and susceptible to RTB • Organisational barriers within councils • Risk of political micromanagement
Wholly owned company	• Access to finance outside HRA • Can generate return for General Fund • Separate brand	• Difficult to set up • Less accountable
Using existing ALMO	• Faster option • Existing relationship with council	• Short-term solution – may not be fit for building a large number of homes
Joint ventures	• Works for large sites which council hasn't got capacity to deliver for • Shares risks	• Complex • Harder to get a good deal for council and communities • Shares reward

4.
Strengthening council-led initiatives

This chapter outlines recommendations for councils, the GLA and the government to ensure that the potential of borough building is maximised.

This report has considered the current strained housing context in London – the ways that boroughs are becoming more active in housing delivery, the factors making it difficult for them to build more, and the potential (and need) for greater council involvement. Both the Mayor's Housing Strategy and the government's Housing White Paper identified the need for local authorities' involvement, and this has recently been boosted by the Mayor's May 2018 announcement of dedicated funds for council housing, including capacity building in the sector.[53] With new councillors arriving at town halls across London and getting to grips with the local consequences of the housing affordability crisis, the time is ripe for a step change.

But how do we move towards a framework that allows councils to deliver at scale?

Recommendations

Setting a clear vision for housing companies

Councils need to set a clear direction for council companies, and articulate the balance between generating returns to sustain other areas of council responsibility and providing affordable housing at lower rents.

If there are several strategic objectives for wholly-owned companies, councils need to be clear on the hierarchy of priorities, as these objectives will influence the type and scope of housing companies as well as their funding arrangements. Councils need to set a clear direction for council companies, and articulate the balance between generating returns to sustain other areas of council responsibility and providing affordable housing at lower rents.

For instance, in Barking and Dagenham's Be First, objectives in terms of tenure mix have been clearly set out from the start. Political leaders should communicate clearly internally and externally about the purpose of wholly-owned companies – whether these are aiming to increase (affordable) housing supply and/or generate a return.

Given the current state of austerity faced by councils, it is understandable that some have focused on generating a return for the General Fund in the medium to long term. However, demographic and cost pressures will continue to put pressure on council services in coming years.[54] Therefore, long-term investment in affordable housing – and approaches where returns are reinvested into housing supply at all tenures and social infrastructure – would likely benefit local residents more, reduce cost pressures on council budgets by lifting the burdens associated to poor-quality housing,[55] and contribute to pan-London housing targets.

Fostering collaboration and subregional delivery

Councils express support for collaboration – and in some cases, pooling resources with other councils – but they do not necessarily see the benefits, having different aims and business models. As resources are limited and housing companies are not constrained to operate only within their own borough, there is a strong argument for inter-borough collaboration to optimise capacity and delivery. This might be based on development agreements between boroughs with allocations of affordable housing agreed up front, and any surpluses allocated on the basis of risk sharing. Alternatively, services may simply be delivered for a development management fee.

With limited resources and housing companies which are able to operate outside the borough, there is a strong argument for inter-borough collaboration to optimise capacity and delivery.

An example of this is the Pan-London Accommodation Collaborative Enterprise (PLACE), a not-for-profit company and delivery structure set up in May 2018 by London Councils and backed by a GLA allocation grant of £11m. 16 councils are collaborating to build temporary modular housing to tackle homelessness, with an initial target of 200 homes by 2021. Extending this to permanent housing, councils should identify opportunities for collaboration and take the initiative in working together better. In his London Housing Strategy (May 2018), the Mayor has expressed his commitment to explore the long-term potential for a London-wide municipal homebuilding programme.

This does not necessarily imply a pan-London delivery structure, but greater sub-regional collaboration by boroughs could help make the most of scarce resources such as highly skilled project managers; it could also achieve economies of scale, with different boroughs specifying requirements in line with local policies. This might particularly help boroughs that have not yet developed their own in-house capacity. It could be done by using the Mayor's funding powers to support or encourage the development of sub-regional consortiums or delivery bodies.

Funding

Major changes are needed in two areas:

- **HRA borrowing:** the government should release the borrowing caps for councils, allowing prudential borrowing against the HRA. In January 2018, the Treasury Select Committee argued that the HRA borrowing cap should be abolished to allow local authorities to increase supply.[56] This could contribute towards meeting ambitious London Plan targets.

- **Right to Buy reform:** the government should relax the restrictions on combining receipts with other grant funding and on the time period during which homes must be replaced. In addition, the government should confirm that homes delivered through wholly-owned companies will not be subject to RTB. In the meantime, a new initiative announced by the Mayor of London in May 2018 will allow receipts generated by specific councils to be passed to the GLA and then ring-fenced for investment in affordable housing by the same councils.

Developing capacity and skills for borough building

The Public Practice programme, launched in 2017, is backed by the Mayor and aims to support councils' capacity to deliver homes and growth by placing skilled planning, design and regeneration practitioners into councils for one-year placements at affordable rates. The GLA should develop the Public Practice scheme to include the development staff that councils and wholly-owned companies will need as they start building homes again, perhaps sourcing them from established local authority or private sector development companies.

Sharing data on local housing companies

There is currently no coherent framework for housing statistics in the UK.[57] The GLA and the government should gather more data on local housing companies and provide better data on how many housing units – for all tenure types – are delivered by different types of provider, including councils and council-owned companies.

Official data on local housing companies is currently almost non-existent, and councils should communicate more clearly about the numbers of new homes that they are delivering (although the same could be said of other housing providers).

Future trajectories for borough building in London

Ultimately, for more affordable housing delivery in London, the government must relax the conditions attached to various funding streams and recognise the key role that councils can play in delivering more housing as part of its upcoming social housing Green Paper. However, in the possible absence of government reform, we need to think practically about what could be done at London level, using London policy levers.

By introducing the first GLA programme to support council housebuilding, providing funding, and helping to build skills and capacity in councils, the Mayor has recognised that local authorities can play an important role in housing delivery in the capital. The next step would be for the Mayor to use his powers to promote a co-ordinated approach to council housebuilding across London, to encourage boroughs to be more involved and to scale up their programmes, and to contribute to knowledge sharing.

The Mayor should use his powers to promote a co-ordinated approach to council housebuilding across London, to encourage boroughs to be more involved and to scale up their programmes, and to contribute to knowledge sharing.

Much will come down to the boroughs themselves. Some boroughs are pioneering active approaches to housebuilding in London, but not all are active. However, current examples show that with the right political will and delivery structures, councils can make a much bigger contribution to the housing needs of Londoners. Following the May 2018 local council elections, many newly elected members will want to find ways of delivering more of the housing needed by their communities. As a slowdown in the London housing market threatens to slow delivery by private developers, it is crucial that boroughs become builders again.

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New housebuilding in London has persistently fallen short of housing targets, worsening the capital's housing affordability crisis. The role of councils in housebuilding has sharply declined since its heyday in the 1960s and 1970s, but councils are now using innovative approaches to start building homes again. Borough Builders examines council-led models of housebuilding in London, assessing the potential for scaling these up, and outlines how the challenges and complexities facing councils could be addressed in order to increase the role of councils as housing providers in the capital.

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CENTRE FOR LONDON