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Cllr Keith House and Natalie Elphicke
c/o Review of Local Authorities' Role
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Submitted by email to: Lareview@communities.gsi.gov.uk &
Lahousingreview@communities.gsi.gov.uk

21 May 2014

Dear Keith and Natalie

Response to Review of the Local Authority Role in Housing Supply - Call for Evidence

We write on behalf of South East England Councils (SEEC) and South East Strategic Leaders (SESL). Together we promote the views and interests of all tiers of local government across the South East, representing over 8.7 million residents.

We are pleased to contribute to your important review. The South East already builds the most homes in England but demand for housing is not expected to diminish given the scale of projected population growth.

Our response, attached, concentrates on your call for evidence issues 1-4. We highlight examples of how councils are making the most of current opportunities to deliver housing. However we also identify a range of powers, freedoms and financial resources that would help unlock development further and free councils and partners to drive forward locally-agreed housing plans. Individual member local authorities may also respond with more detailed views based on local experience and expertise.

We would be pleased to discuss any of these issues further with you.

Yours sincerely

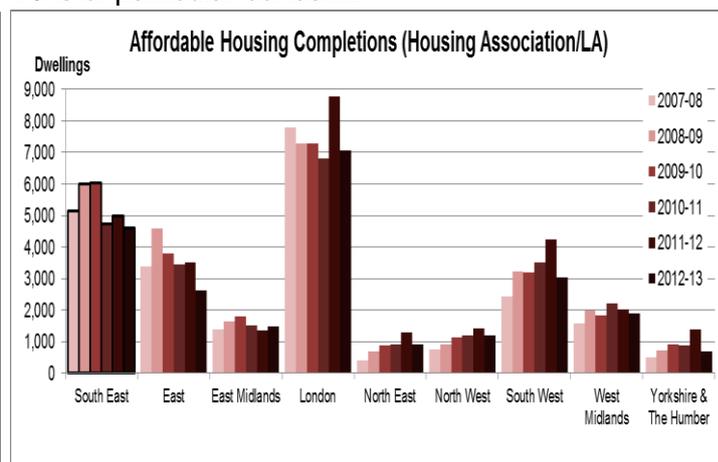
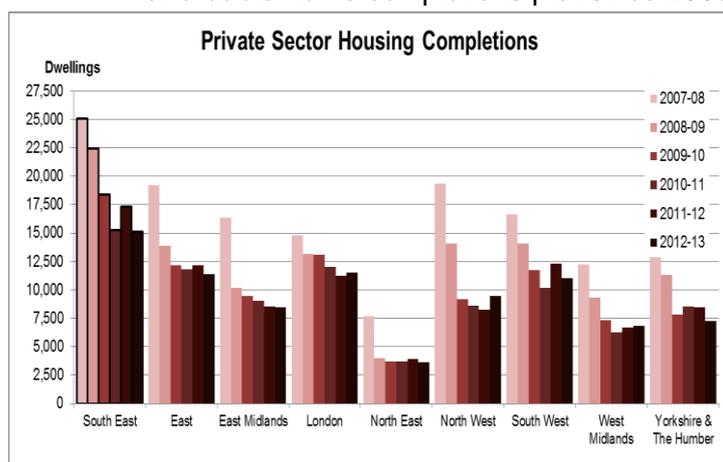
Cllr Gordon Keymer CBE
Chairman
South East England Councils

Cllr David Burbage MBE
Chairman
South East Strategic Leaders

'Review of the Local Authority role in Housing Supply' - Call for Evidence Response from South East England Councils and South East Strategic Leaders May 2014

Introduction & Summary

- i. The South East has the largest population in England, some 8.7m people, projected to increase to over 9.4m by 2021. We consistently build more homes than any other part of England - a total of 19,700 private sector and affordable homes in 2012-13, some 1,100 more than the next highest, London. However this is a significant fall from the South East's peak of over 30,000 homes in 2007-08. Housing affordability is a key challenge in the South East, with average house prices around 11 times average earnings, and the drop of over 1,300 affordable home completions p.a. since 2009-10 is of particular concern.



- ii. Delivering the right types and quantities of housing and other infrastructure is vital to sustain the South East's role as the engine room of the national economy, whilst protecting and enhancing quality of life and the environment. Councils are at the forefront of balancing these key issues - a challenging but vital role given the South East's existing and planned high levels of development, extensive Green Belt, statutory environmental constraints (e.g. National Parks, Special Protection Areas, Areas of Outstanding Natural Beauty) and other factors (e.g. flood risk and overstretched infrastructure).

- iii. Councils are keen to ensure locally-agreed housing plans are delivered quickly and efficiently, but barriers exist which hold back local potential. **Our response highlights how councils are successfully working with partners to take housing development forward, but also identifies key changes that will help unlock development and free councils to drive forward locally-agreed housing plans:**

- Remove the HRA borrowing cap to maximise local council house building potential.
- Provide preferential borrowing rates to help fund councils' housing ambitions e.g. LGA bond issuing agency.
- 100% local retention of 'Right to Buy' receipts to reinvest in housing and freedom to set appropriate discounts locally.
- Provide City Deal powers and innovative finance to all councils and allow a greater local share of taxes and financial freedoms to supplement Government funds for housing & infrastructure.
- Minimise Government barriers to effective local delivery, including state aid rules.
- Ensure Government plays its part releasing public-owned land for housing development.
- Provide discretionary local powers to ensure agreed planning permissions are developed and streamline and speed up the national statutory consultee process.
- Simplify council Compulsory Purchase Order powers to help unlock stalled sites.
- Allow councils to drive the local planning system without unnecessary Government interference.
- Ensure section 106 developer contributions for affordable housing remain under local control to help meet housing needs.
- Ensure the housing industry takes agreed development forward more quickly, plus move skills funding under council control to better meet local construction sector needs.

Changes are needed nationally that will free local authorities to build more council homes.

1.1 Remove the Housing Revenue Account cap

- 1.1.1 Self-financing through the Housing Revenue Account (HRA) is a key opportunity for councils to build new council homes. Whilst some councils in the South East are successfully using HRA to deliver homes, the current cap on local authority borrowing is holding back councils' full potential and should be removed (see examples below), a view backed up by recent Local Government Association (LGA) [research](#). This is particularly important in the South East given the high demand for affordable housing and large population growth.
- 1.1.2 Removal of the cap is supported by a wide range of partners nationally including the Local Government Association, Shelter and the Home Builders Federation. The Chancellor's recent increase of HRA borrowing limits (raising them by £150m per year in 2015/16 and 2016/17) is a move in the right direction but still represents an unnecessary financial constraint on local government.
- 1.1.3 **We ask the review to recommend Government removes the HRA borrowing cap to maximise councils' potential to build homes.** This would align council borrowing for housing with the wider approach to local government borrowing ie that local government can borrow what it can afford to pay back, a principle which is enshrined in the Prudential Code.

Ashford Borough Council in Kent is using HRA to build 72 new homes by March 2015 and another 71 by March 2016. However it is at the ceiling of its £120m debt cap so has asked, as part of the South East Local Enterprise Partnership growth plan, for extra borrowing capacity of £35m to allow it to provide a further 250 new homes.

As England's largest new town, **Milton Keynes Council** owns some 11,700 homes and over 1,000 shared-ownership properties, mainly built in the 1960s-90s. Lack of investment in the past is now leading to structural problems and asbestos is present in over 95% of their properties. Significant investment is needed in repairs as well as new development. However lack of borrowing headroom hinders the council's ability to invest, despite its long-term business plan generating sufficient resources to fund higher levels of borrowing.

Oxford City Council owns and manages around 7,800 properties but the city has an ongoing shortage of affordable housing. The council is using HRA to deliver new homes in addition to maintaining and improving its existing stock, ensuring its financial interest is protected to allow reinvestment in the future. There is scope under HRA to add more than 5% additional stock over the next 10 years, but removal of the cap could provide scope to achieve more.

1.2 Allow councils to borrow more at better rates

- 1.2.1 [Research](#) undertaken by think-tank Localis for SEEC identified that the limited number of financial incentives, combined with an inability to access and control local revenue streams and funding for major infrastructure projects, has hindered the delivery of councils' development aspirations.

- 1.2.2 Local authorities' borrowing powers are highly constrained, limited to raising capital investment from the Public Works Loan Board (PWLB) when they meet the Prudential Code. Whilst the Chancellor's announcement of a new concessionary loan rate for Local Enterprise Partnerships (LEPs) is a small step in the right direction, the total amount available for the whole of England is only £1.5bn. This compares to a Government guarantee for TfL's extension of the Northern Line worth £1bn.
- 1.2.3 The LGA is developing plans for a collective bonds issuing agency to provide competitive rates and reduce councils' dependence on the PWLB. This could save councils more than £1bn in borrowing costs, which would increase potential to invest in new homes as well as critical infrastructure. **We ask the review to recommend Government supports local authority efforts to develop a collective bond issuing agency, such as that proposed by the LGA, and extend the PWLB preferential loan rate to councils.**
- 1.3 Need for local retention and control over Right to Buy capital receipts**
- 1.3.1 80 per cent of councils responding to a recent LGA [survey](#) felt that restrictions on the retention of capital receipts from Right to Buy sales means they do not provide enough capital to replace homes sold under the scheme.
- 1.3.2 **We ask the review to recommend Government allows councils to retain 100 per cent of receipts from Right to Buy sales, to enable reinvestment in new affordable housing.** This could be achieved through amendments to the Deregulation Bill currently going through Parliament. **We also call for councils to be allowed to set Right to Buy discounts locally so that they reflect housing costs in the area.**

**Call for evidence issue 2: Councils supporting housing supply
& Call for evidence issue 4: Innovative finance**

Councils are helping seize local housing delivery opportunities through current powers, resources and funding mechanisms, but changes are needed nationally to release the full local potential.

(Note, we have grouped our response to issues 2 and 4 as finance is an integral part of councils' ability to support housing supply).

- 2.1 Allowing all councils City-Deal type fundraising powers & access to innovative finance**
- 2.1.1 South East councils need increased financial resources and devolved powers to fully deliver local growth ambitions. Despite making a bigger economic contribution (GVA) than the eight core cities combined (South East £200bn vs £180bn total for the core cities 2007-2012) and having the largest population in England, many of the Government's City Deal opportunities have bypassed the South East. Resources and powers are not only vital to deliver housing but also the infrastructure needed to make communities sustainable and demonstrate to residents that locally-agreed growth can be accommodated.

2.1.2 As [work](#) undertaken by the County Councils Network emphasises, areas such as the South East “outperform cities across a raft of indicators, have potential for further growth and, as large administrative areas, possess the strong and decisive leadership demanded of City Deal areas without the need for new institutional arrangements.” Whilst Single Local Growth Deals from 2015 have the potential to give some greater freedoms to partners across LEP areas, **we ask the review to recommend that Government gives all councils equal access to the freedoms and flexibilities needed to meet their growth potential, and to ensure that non-City Deal areas are not disadvantaged in the 2015 Local Growth Fund process.**

2.1.3 We also **ask the review to recommend Government allows all councils greater local opportunities to supplement national funds to deliver housing and infrastructure e.g. allowing councils to retain a greater share of business rates, allowing the South East to receive a share of the area’s tax revenues, and greater freedom to raise funds to invest in strategic projects e.g. Tax Increment Financing (TIF).** These moves are vital to ensure delivery of sufficient housing and supporting infrastructure in the South East, the most populous part of the country. We also support the continuation of councils' direct receipt of all New Homes Bonus payments which allows effective and efficient infrastructure investment to support development.

2.2 Enabling effective council-led action to deliver housing

2.2.1 As the examples below highlight, councils are leading innovative public-private sector partnerships to seize housing opportunities, including using council-owned land to deliver homes. Such approaches not only provide much-needed development but can also generate income streams to reinvest locally.

2.2.2 To ensure the success of these schemes, significant time and resources are required to navigate national or European bureaucracy that could impede local progress. **We ask the review to ensure Government does not put any barriers in place that restrict effective and efficient locally-led action, including ensuring state aid rules to not restrict the potential for investment in much needed housing.**

2.2.3 It is important all brownfield development opportunities are explored given the high housing demand and constraints in many parts of the South East. The Government has a key role to play alongside councils in making land available through the sale of central government estates, such as defence estates and land belonging to NHS Property Services Ltd. At present we understand the Treasury instructs Government departments to maximise the financial return from the sale of sites. This can make departments reluctant to agree deals with councils for schemes that could result in significant social benefits, for example housing and community facilities such as schools. **We ask the review to ensure all Government departments demonstrate the same commitment as councils to identifying and releasing the potential of their land assets for housing and other development to support local growth plans.**

Having hit its HRA borrowing cap, **Ashford Borough Council** is setting up a council owned housing company to build new homes for rent, to tackle gaps in rented accommodation and options for people without sufficient income to buy their own homes. Experience of building council homes, PFI projects and a proactive approach to

housing development has given the council a base of commercial and entrepreneurial experience to build on.

The new property company will be council owned and funded initially by council borrowing. The company will offer a balanced portfolio of homes for rent and sale, with a mix of rent levels to meet the gap in the commercial market. Setting up a council owned company has not been straightforward and the question of state aid has been particularly complex. This model was preferred by Ashford as it allows the council to maintain control and ensure that the company has appropriate governance. It will also provide an income stream for the council.

Through its Strategic Land Programme and the release of major surplus property assets and appropriate elements of the County Farms Estate, **Hampshire County Council** has made effective use of its land and assets to help deliver housing, maximise capital receipts and reinvest in operational public services and facilities. As well as helping to ensure development meets local needs, the council takes a medium-long term view to support an effective supply of land and assets for the future. The council also works closely with the Hampshire's 11 district councils to bring forward sites for affordable housing through the 'Project 500' initiative where opportunities arise.

Partnerships with councils and the private sector are important to the County Council and it is exploring options for how it might take on a wider developer role to draw down revenue income, not just capital. Using the General Power of Competence, the council has a development programme including nine sites up to 2029 which should bring forward 5-6,000 homes. To date this has enabled the delivery of several key sites, such as Merton Rise in Basingstoke, including 1000 units and a new school, and the site has now been sold on to a developer to deliver a further 900 units.

Kent County Council and Kier's property arm have agreed a deal to build 150 homes for private rent across the county. By harnessing its assets effectively, the council hopes to help deliver much needed housing and will also benefit from a long-term income stream which can be reinvested in local services. The council will provide the land, whilst Kier and an international pension fund will finance a mix of market sale, rental and affordable housing, delivering much needed new homes without Government subsidy.

It is hoped the pension fund, local housing provider, developer and council tie-up will provide a model for others to follow. As part of the deal, Kier will fund and develop the sites, providing private market and affordable housing which will be leased to a registered provider, creating a residential investment income. The long-term investment is provided by a fund that seeks to invest pension funds/monies into affordable housing projects to provide stable returns.

Oxford City Council owns a 36 hectare site at Barton, allocated as a strategic housing site, critical to help deliver the city's much needed market and affordable homes and wider growth aspirations. However it needed significant infrastructure investment (£25-30m), making traditional development routes difficult. Following a procurement process the council entered into a 50:50 limited liability joint venture partnership (LLP) with Grosvenor in October 2011. Extensive background preparation led to the decision for the developers to provide infrastructure funding alone, as this meant the procurement of the joint venture partner was not subject to European public procurement rules, avoiding a time consuming OJEU exercise.

The scheme is expected to deliver 885 homes of which at least 40 per cent will be for social rent. Establishing the joint venture took significant initial investment and resources from the council to cover the cost of external expertise and the procurement process. However it has enabled development on a difficult site and allows the council to retain a degree of control over how the site is delivered.

Woking Borough Council is working with house builder Cala as part of a scheme to provide nearly 300 new homes. Cala paid £17m for the council-owned land and grant of rights on the 16-acre site at Brookwood Farm. The council has also negotiated a bonus payment if the market value of the properties constructed rises above expected valuations.

The council has secured £8.6m through a section 106 agreement and approximately £2.8m in New Homes Bonus payments from central government, bringing the total public benefit resulting in the sale of the land to at least £28m. The development will make a significant contribution towards meeting the borough's housing need.

2.3 Ensuring timely delivery of locally-agreed plans

2.3.1 Given the South East's large and growing population, it is important that councils' locally-agreed plans for housing are delivered. At present despite councils' best efforts there are significant numbers of unimplemented planning permissions. Recent LGA [research](#) identifies South East councils gave the most planning permissions nationally over the last six years, but had the second highest number of unimplemented permissions, some 56,000 units in March 2013, second only to London. This stalls locally-agreed plans for housing and other development.

2.3.2 The LGA research also highlights the problems of land-banking, where developers purchase and then hold prime development land undeveloped while its value rises. Findings showed that the average period between planning permission being granted and building completion had increased to over two years in 2012/13. This not only delays development but a shortage of viable sites can lead to speculative development, rendering the process of identifying and consulting on prime sites a wasted effort.

2.3.3 [Research](#) undertaken by think-tank Localis in 2013 also highlighted the often slow response of statutory consultees such as English Heritage, Natural England and the Environment Agency, compounded by their single-issue view of sustainable growth and economic benefits. While the Government reviewed the role of consultees in 2012, the resulting amended guidance covered cost only and did not advise on expected response times.

2.3.4 To help councils effectively deliver their locally-agreed housing plans, **we ask the review to recommend Government provides local authorities with discretionary powers to tackle land held back unnecessarily, for example introducing 'use it or lose it' powers to revoke planning permissions (or a shorter default period of validity e.g. 18 months); and/or permitting the levying of local charges (including council tax) on stalled developments.** We also ask the review to recommend **a broad assessment into the standing advice for statutory consultees**, encouraging streamlined speedier responses.

2.3.5 In addition while the Homes and Communities Agency (HCA) has wide-ranging Compulsory Purchase Order (CPO) powers and councils can enact a CPO

(following approval by the Secretary of State) where they make a compelling case in the public interest, the process remains lengthy and expensive, utilised only as a last resort. **We therefore call on the review to ask Government to undertake a review of CPO powers.** This would involve incorporating those held by local authorities and the HCA, with a view to considering whether such powers can be streamlined and speeded up so as to be used more effectively by local authorities to develop sites for housing.

Call for evidence issue 3: Local authority skills and capacity

Councils' local knowledge and understanding of development needs and opportunities are vital to success.

3.1 Councils' vital role in understanding housing needs

3.1.1 As the examples below demonstrate, councils are using their capacity and skills to take forward development and understand local needs. We support the abolition of regional strategies and the move to localism. Councils are working hard to make the new system work to meet local needs, undertaking extensive work such as Strategic Housing Market Assessments and Strategic Housing Land Availability Assessments to underpin Local Plans, often in partnership across boundaries. This work is particularly important but complex in the South East given the high levels of existing and planned development, housing demand, complex migration patterns (given our proximity to London), Green Belt and significant development constraints. These include coastline, flood risk and statutory designations such as Special Protection Areas, National Parks and Areas of Outstanding Natural Beauty.

3.1.2 We are concerned to ensure the new locally-driven planning system must be allowed to operate without unnecessary interference from Government, freeing areas to take forward plans suitable to their local circumstances. **We ask the review to ensure that Government allows councils to drive forward the localist planning system and avoid unnecessary interference that can undermine local progress.**

To help the council take a strategic, long term and sustainable approach to development and its delivery, **Hampshire County Council** has invested significantly in staff and broken down departmental barriers creating a multi-faceted team within its Development Management Function. This team brings together development surveyors, architects, planners, urban designers and landscapers to provide a holistic service.

Hampshire is also engaging with other counties through the South East 7 partnership to share learning and expertise and to explore future ways of working, for example to increase the viability of smaller sites.

Kent Housing Group (KHG) is a local authority-led strategic housing partnership that provides a coordinated approach to housing in Kent, bringing together district, unitary and county council housing ambitions. KHG delivers the Kent and Medway Housing Strategy, the only county-area housing strategy in the country, on behalf of Kent Local Authority Leaders.

KHG has increased understanding between housing and planning partners and developers, helping facilitate delivery of new homes. Members have worked with the HCA to maximise delivery through the Affordable Homes Programme, receiving around £62m of funding to build nearly 4,000 new homes by 2015, the greatest allocation to a single area.

Oxfordshire Spatial Planning and Infrastructure Partnership is a Councillor forum on planning, economic development, housing, transport and infrastructure issues. It operates by consensus to advise on issues of collective interest and to seek agreement on local priorities and influence local and national bodies.

Recent work includes the Oxfordshire Strategic Housing Market Assessment (SHMA), a technical study to help planning authorities understand housing needs over 2011-31. It has also produced an Oxfordshire Local Investment Plan (LIP), setting out a shared vision and priorities for delivering housing growth, economic development, regeneration, and infrastructure to 2030.

Councils in **coastal West Sussex and the greater Brighton area** recently set up a Strategic Planning Board (SPB) to help guide cross-border planning priorities, including housing, and maximise opportunities for investment in the area. It has developed a Local Strategic Statement (LSS) providing a clear, deliverable framework for strategic planning and investment priorities. Local Plans will play a critical role in implementing the LSS, and a Delivery and Investment Framework is being prepared by the partnership with the Coastal West Sussex economic partnership to support its delivery, align other investment plans and be the delivery arm to the Coast to Capital Local Enterprise Partnership's emerging Strategic Economic Plan.

This approach has helped develop political consensus on key issues and built stronger relationships between councils, businesses, public agencies and other key partners which will underpin effective delivery over the coming years.

3.2 Councils are best placed to determine developer financial contributions for affordable housing and other community needs

- 3.2.1 Our members are keen to ensure that adequate infrastructure, including affordable housing, is provided alongside development. In a localist system we believe the Government must continue to allow local authorities to determine - working with developers - the appropriate and viable level of section 106 contributions from all forms of development reflecting local circumstances.
- 3.2.2 The South East has a large number of small scale housing sites, sometimes referred to as 'windfalls', which play a key role in housing delivery in parts of the South East that have limited large scale development site opportunities. As such, local discretion to gather section 106 contributions from these small developments plays an important part in many councils' ability to fund affordable housing.
- 3.2.3 **We therefore ask the review to support our call to Government to rethink its current plans to introduce centrally-imposed thresholds or exclusions for section 106 affordable housing contributions or other tariff style contributions for infrastructure.** Instead these should remain issues for local determination. Not only would centrally-imposed rules be at odds with the localist approach promoted by the Government, they could also impact on our ability to

fund much-needed affordable housing and wider infrastructure to underpin successful communities and businesses in the South East.

3.3 Industry capacity and skills funding

3.3.1 Housing completions in areas such as the South East and London could be restricted if total construction industry capacity is not increased to meet demand for building. Housing supply would also be improved if developers were required to complete and release homes as quickly as possible. These are factors outside individual councils' control and needs wider action, along with ensuring adequate investment in public and privately-funded housing and freeing up mortgage availability. **We ask the review to recommend Government should work with councils, the housing/development industry and other key partners such as Local Enterprise Partnerships to find ways to help developers increase delivery of locally-agreed development, as well as ensuring development is completed and released as quickly as possible.**

3.3.2 There is also a need for stronger engagement between the construction industry and education and training providers, to ensure that people of all ages are equipped with the skills needed by developers and the wider industry. Recent [research](#) by think-tank Localis identified the South East faces deficiencies in the skills base for many key industries, including construction, compounded by a wide-ranging mismatch between the supply of skills and training provision and the needs of businesses. It concluded this emerging skills gap is a potential threat to growth. Councils have the local knowledge and understanding of future development plans and potential skills deficiencies, so **we ask the review to recommend that Government should devolve the commissioning of skills provision to local government.**

About South East England Councils and South East Strategic Leaders:

South East England Councils (SEEC) was established in 2009. It is a membership organisation representing all tiers of local authority. The SEEC area covers Berkshire, Buckinghamshire, East and West Sussex, Hampshire, Isle of Wight, Kent, Oxfordshire and Surrey. SEEC's objectives are:

- To strive for a **fair funding deal** for the South East
- To promote the South East's position as a **leading global economy**
- To act as **single democratic voice** for South East interests
- To **monitor the pulse** of the South East.



SEEC is chaired by Cllr Gordon Keymer CBE, Leader of Tandridge District Council.

South East Strategic Leaders (SESL) is a partnership of upper tier authorities committed to nurturing the engine room of the UK economy and promoting public service excellence. SESL supports its members to create the conditions within which individuals, communities and businesses thrive. We aim to:

- **Influence** – speaking with a stronger, united voice for South East strategic councils.
- **Inform** – producing robust evidence relevant to practice.
- **Inspire** – connecting people, sharing ideas, sparking innovation.



SESL is chaired by Cllr David Burbage MBE, Leader of Royal Borough of Windsor and Maidenhead.