

MAYOR OF LONDON

Building London's Future

THE NEXT GENERATION
OF COUNCIL HOMES

October 2020



COPYRIGHT

**Greater London Authority
October 2020**

Published by
Greater London Authority
City Hall
The Queen's Walk
More London
London SE1 2AA

enquiries 020 7983 4000
minicom 020 7983 4458

Photographs ©

Copies of this report are available
from www.london.gov.uk

CONTENTS

Foreword	4
Executive Summary	7
Introduction	9
Background and context	12
What are the benefits of council homebuilding?	13
The Mayor of London's role and powers	16
Section 1: Land supply, acquisition and assembly	18
The current profile of council land supply: GLA research	18
Land supply challenges: Council perspectives	20
Recommendations	22
Section 2: Funding and financing	28
Cross-subsidy: Limitations and constraints specific to councils	30
Wider HRA restrictions	31
Public Works Loan Board	34
Funding and finance challenges: Council perspectives	35
Recommendations	36
Section 3: Skills and capacity building	40
Bloomberg Associates	42
Skills and capacity: Common challenges	42
Recommendations	44
Appendix 1: Summary of recommendations	51
Appendix 2: Working group participants and other contributors	58



Foreword

When I was elected Mayor, I committed to doing everything in my power to help councils start building homes once again in London. I grew up in a council house, so I know first-hand how valuable they are in helping Londoners fulfil their potential. My family had security at a rent we could afford, and I don't underestimate how vital this was in giving me the best start in life.

London has a great history of municipal housing and some of the earliest estates were built in our city – including the Boundary Estate, which was built in the 19th century and remains standing today. Throughout the 20th century, councils were instrumental in first building and then rebuilding modern London, and that legacy is still visible in the streets and estates that shape the capital today.

However, since the 1980s, local councils have been increasingly underfunded by central government, have faced years of austerity and have had their hands tied by a range of restrictions. At times, this has reflected a deliberate and counterproductive attempt to prevent councils from building new homes that meet the needs of their communities. These challenges mean that even the most ambitious and innovative councils have not been able to build houses at the level London once saw.

Despite these ongoing barriers, City Hall has been helping local authorities across London to rise to the challenge and to start building again. Last year, I'm proud that with the support of my Building Council Homes for Londoners programme, 3,300 new council homes were started in London – the highest number since 1983. Alongside over £1 billion in capital funding, we have also provided over £10 million to council housing teams to ensure they have the resources and skills they need.

This report reflects on the success of the Building Council Homes for Londoners programme, whilst also looking at how we can go even further to help councils return to their role as major homebuilders. The COVID-19 pandemic has exposed the terrible level of housing inequality in our city and the impact this can have on people's health and wellbeing. As we plan for our economic recovery, I believe it's more important than ever that we address our city's inequalities and build the right types of homes that future generations of Londoners will be proud to live in – particularly more council houses.

With the right leadership and large-scale investment from the Government, which will be absolutely crucial, we can collectively reboot London's housing sector to be more resilient, more dynamic and more innovative – with council homebuilding at the very heart of this effort.

A handwritten signature in black ink, appearing to read 'Sadiq Khan', with a small mark below the 'n'.

Sadiq Khan
Mayor of London

Executive Summary

1. This report sets out the findings of research undertaken by the Greater London Authority (GLA) to explore new opportunities to significantly increase council homebuilding in London, drawing from the perspectives and experiences of local authorities.
2. The findings and recommendations of this report are structured around three main themes: **land, funding and finance**, and **skills and capacity**. These three themes commonly recurred in our research and in our discussions with councils as presenting the greatest challenges – and potentially, the greatest areas of opportunity – when it comes to considering how local authorities might be supported to upscale delivery.
3. In examining how councils, government and the wider housing sector might collectively address these challenges, we identified the following opportunities as key to ensuring the success of a more ambitious City Hall council homebuilding programme:
 - Councils require significant additional capital funding from Government. The proportion of Government subsidy for affordable housing grant has decreased significantly in recent years – from around 50 per cent of the total cost of housing development in 2008, to just 15-20 per cent in 2019. Ultimately, councils are being expected to deliver more with less and a major increase in Government investment is critical to the success of any future council homebuilding programme – particularly as local authorities face increased funding pressures as a result of Covid-19.
 - Government, the GLA and councils themselves should explore how to maximise land opportunities for local authority housing development, noting that access to public land is a key advantage for some councils over other developers – particularly in London, where land values are significant. Local authorities should be incentivised to utilise more complex council-owned sites that may typically be restricted for affordable housing delivery and be given practical support to develop a longer-term, strategic pipeline of land for affordable housing – including through the acquisition of land currently held by other public sector organisations and the private sector.
 - Councils should embrace opportunities to collaborate with other development organisations – particularly other councils and housing associations - to address skills and capacity gaps. These opportunities could take the form of new housing delivery partnerships between councils and high-performing housing associations, as well as city-wide purchasing of Modern Methods of Construction (MMC) components to deliver a new generation of sustainable, high-quality homes.

- The Government should immediately remove counterproductive constraints imposed on council financing regimes – such as the ongoing imposition of restrictive conditions on use of Right to Buy (RtB) receipts, the lack of certainty about retention of new social homes (due to potential loss to RtB), the impact of four years of rent reduction and repeated changes to Public Works Loan Board (PWLB) interest rates – all of which create unnecessary barriers and an uncertain environment in which to build new homes.
4. This paper does not set out detailed proposals – rather, it provides a summary of the emerging policy themes that arose through discussions with councils and other housing experts, to set a blueprint for the future of council homebuilding in London. To truly tackle London's housing crisis, we need to see a huge increase in the number of new homes. In the absence of sufficient government funding, it is critical that all sectors of the homebuilding industry are fully mobilised to work together to achieve this aim.



Introduction

5. This research started in October 2019, one year after City Hall released over £1 billion in funding to councils as part of the landmark Building Council Homes for Londoners programme. City Hall spent £10 million on a programme of work to help boost skills and knowledge to facilitate council house building in London local authorities. This research reflects on that process and identifies next steps in improving the capacity of local authorities to build council housing.
6. This research has been informed by the perspectives, experiences and insights of 11 senior council housing officers, who participated in a working group that met four times between November 2019 and February 2020. Representatives provided perspectives from a spread of geographic, political and operational interests across London – including representatives from Conservative and Labour boroughs; councils who directly deliver housing; boroughs who deliver housing through wholly owned delivery companies – as well as councils who have no housing delivery programmes with the GLA. The GLA would like to thank these council representatives for the significant amount of time contributed this work.

Table 1 – Working group members

Name and title	Council
Alan Benson, Assistant Director of Housing	Haringey Council
Deborah Heenan, Chief Executive	Populo Living ¹ (Newham)
Graham Ward, Interim Managing Director	BexleyCo (Bexley)
Hakeem Osinaike, Director of Housing	London Borough of Brent
Jennie Coombs, Head of Affordable Housing	BeFirst (Barking & Dagenham)
Jennifer Daothong, Commercial Director of Housing Delivery	Waltham Forest Council
Joanne Drew, Director of Housing and Regeneration	London Borough of Enfield
Osama Shoush, Regeneration Programme Manager	London Borough of Southwark
Pippa Hack, Director, Regeneration, Enterprise & Skills	Royal Borough of Greenwich
Rhys Makinson, Director, Housing Support Services	Camden Council
Richard Dickson, Senior Asset Development Strategist	Westminster City Council

¹ Previously Red Door Ventures.

7. In addition to the input of council representatives, this report was also supported by the following organisations and inputs:
- **London Councils** is the local government association for London, representing London's 32 councils and the City of London. It is a cross-party organisation that works on behalf of all member authorities, regardless of political persuasion. London Councils' Housing and Planning team helped to establish the working group that drove this research, including by nominating representatives. London Councils also provided advice and input into the development of policy ideas, including through participating in working group discussions, and these contributions are reflected throughout this report.
 - **Bloomberg Associates** is a New York based, pro-bono consultancy that was engaged by the Mayor in September 2019 to identify ways to enhance the skills and capacity of London councils to increase the future delivery of council homes. Their report 'Increasing Skills and Capacity to Support Council Homebuilding' is published separately alongside this report. Several of their recommendations will be adopted by the Mayor, with these priority interventions discussed in Section 5 of this report.
 - **Beacon Partnership** is a specialist housing, development and regeneration consultancy firm. Beacon Partnership was commissioned by the GLA to develop an evidence base about the current funding and financial constraints of council housing delivery in London.
8. The GLA thanks these organisations for their significant contributions to this report, as well as the other individuals, academics, practitioners and council officers that we met and that helped to shape the findings and recommendations of this research.



Background and context

9. Throughout most of the twentieth century, London's councils were major housebuilders. In the 1970s, at their peak, councils in London (including the Greater London Council) were collectively building over 20,000 homes a year. However, since the early 1990s councils have built less than two per cent of the city's new housing stock and have faced a range of regulatory, operational and financial constraints that have significantly impacted the potential for councils to drive large-scale delivery programmes, including substantial loss of social rented homes through the Government's Right to Buy (RtB) policy – which remains an impediment to large-scale council housing delivery to this day.
10. Many London councils have taken bold and creative steps in efforts to return to large-scale delivery in the face of these constraints, including through the creation of new delivery vehicles. Last year, 3,300 new council homes were started in London – the most in any year since 1983. The recent revival in homebuilding has been aided by the Mayor's inaugural Building Council Homes for Londoners (BCHfL) programme in 2018, the first ever City Hall council homebuilding programme, which aims to deliver over 10,000 new starts by 2023. Under this programme, over £1 billion of capital funding has been provided to councils, alongside over £10 million of revenue funding to build the skills and capacity of in-house delivery and planning teams. The BCHfL programme also introduced a new 'Right to Buy Ringfence Offer' to councils, which enables the GLA to hold RtB receipts on behalf of councils in order to deliver new housing at social rent. Councils housing delivery teams have also benefited from wider policy changes – including the lifting of the Housing Revenue Account (HRA) borrowing cap by central Government in 2018.
11. However, while councils are starting to become more active in housing delivery today, councils' overall contribution remains fairly small; today, council homebuilding accounts for less than a tenth of annual delivery compared with around two thirds during the 1970s. We believe that a more ambitious programme – supported by an equally ambitious package of reforms – can be developed if appropriately matched by the right levels of central government investment. A new era of council homebuilding is on its way – building on the success of the first BCHfL programme and coinciding with the 100-year anniversary of the Addison Act 1919, which kick-started the growth of council homebuilding over much of the 20th century.

What are the benefits of council homebuilding?

12. Councils are uniquely well-placed to deliver housing – both in terms of constructing new homes, as well as overseeing and managing these homes once built through their role as landlords. There are a range of practical and special benefits that councils can offer above other organisations which develop homes, and which underpin the Mayor's support for a continued revival in council homebuilding in London. These include:

- **Greater accountability:** Councils are elected to represent the interests of their community, and therefore have a democratic duty to respond to, and be attuned to, the specific needs and priorities of the residents within that community (which, in London, means access to affordable housing). Moreover, elected councillors are subject to democratic processes and can ultimately be voted out in circumstances where residents become dissatisfied with the services they provide – including in the context of housing, where they operate as landlords. In practice, this means that, with the right models in place, councils can be particularly well-suited to ensuring that homes built are attuned to the specific needs of the community.
- **Greater efficiencies:** In comparison to housing associations and private developers, councils have greater access to public land (because they can build on land they already own), at times avoiding the incurrence of significant costs relating to land acquisition. In addition, councils have access to a broader range of funding sources, including the ability to borrow more cheaply through the Public Works Loan Board. While these efficiencies are subject to limitations, and recognising that councils also face their own unique constraints, there is opportunity for these benefits to be maximised to expand delivery of council housing.
- **Greater additionality:** For the Mayor to meet his ambitious housing targets, it is critical that all sectors of the homebuilding industry – including councils – are fully mobilised to maximise homebuilding efforts across the city, and at the rate that London needs. The Affordable Housing Funding Requirement² research showed that delivering the affordable homes needed in London each year, as well as requiring higher levels of grant subsidy, would also likely involve a broader range of organisations to develop than is currently the case in order to broker additional borrowing capacity into the sector, and to unlock additional land supply.

13. While councils may be well-placed to meet local needs and to address London's broader housing challenges, councils also face specific challenges when delivering housing – and are likely to become even more constrained as a result of the economic impact of Covid-19. These constraints are unpacked further in this report.

² GLA. (2019). *The 2022-2032 Affordable Housing Funding Requirement for London: Technical Report*. London.



The Mayor of London's role and powers

14. In London, the Mayor has a strategic role to support the delivery of housing. Increasing the number of genuinely affordable homes – particularly council homes and homes at social rent – is the Mayor's number one housing priority. In relation to delivery of council housing specifically, some of the Mayor's primary powers and levers of influence include:

- **Direct investment through funding programmes:** The Mayor mainly allocates capital and revenue funding to councils to deliver affordable housing primarily through his BCHfL Programme and Affordable Homes Programme, and also through Land Fund programmes. Within the bounds of his agreements with central Government, the Mayor has autonomy to set elements of programme design and administration, including through incentives and conditions on grant funding. The Mayor also has some limited direct delivery powers, which are primarily implemented via GLA Land and Property (GLAP) and other Mayoral Development Corporations.
- **Lobbying central Government:** Central Government is responsible for enacting a range of legislative powers that affect council housing delivery. The Mayor plays an active role in lobbying Government on behalf of the sector to ensure these powers meet the needs of London. He also lobbies to ensure that the funding available for affordable housing delivery reflects London's needs.
- **Planning powers:** The Mayor's threshold approach to viability helps councils to secure new affordable homes through section 106 agreements. The London Plan introduces a range of pro-homebuilding policies and provides a strategic framework for the types of homes needed in the city – including where they should be located, guidance to optimise land use and key infrastructure requirements. The London Plan 2017 Strategic Housing Market Assessment (SHMA) provides detailed indication of the types of housing that London needs.³
- **Strategic leadership and practical guidance:** The Mayor acts as a strategic convenor and can offer a range of practical support, including practice notes, tools and educational guidance about good practice. The Mayor also oversees and manages public sector procurement frameworks, provides funding and coordinates training and secondment opportunities and plays a central role in the formal and informal brokering of relationships (such as organising conferences and roundtables, as well as partnership agreements between different organisations).

³ 2017. *The 2017 London Strategic Housing Market Assessment*. Greater London Authority: London.

15. In developing policy ideas, we have considered how these Mayoral levers could best be used to support council delivery. The next sections of the report outline our research findings and ideas for a future programme.

Building Council Homes for Londoners: Agar Grove, Camden Council



The first phase of construction of Agar Grove was funded using Right to Buy receipts. A further phase is under construction and includes 34 units at social rent, funded by Building Council Homes for Londoners grant.

Agar Grove is expected to be complete in 2023. Once completed, Agar Grove is expected to be the largest passivehaus development in the United Kingdom. The architect for this development is Hawkins\Brown with Mae.

Agar Grove is the recipient of numerous design awards, including the Sustainability Prize & Overall Winner, NLA Awards 2019 and the 2019 Mayor's Award for Sustainable and Environmental Planning, and Good Growth.

Section 1: Land supply, acquisition and assembly

16. Research undertaken by the Royal Town Planning Institute in 2019 estimated 95 per cent of councils across the UK are building homes on land they already own.⁴ Given this, the GLA undertook research to better understand the current profile of land supply in London – including whether the existing supply of council-owned land could sustain twice as many council homes under a future programme, or whether land supply constraints could present an impediment to increased delivery.

17. In considering the types of land that councils own or may seek to acquire for affordable housing delivery, this research considers three primary types of land:

- **Council-owned land:** This includes land held in a borough's Housing Revenue Account (HRA), which is a ring-fenced account within the General Fund that manages all transactions relating to the council's function as a social housing landlord; as well as the General Fund, which manages all other services and assets. Further information about these accounts is set out in the text box at page 14 below.
- **Other publicly owned land:** This refers to any land owned by a public sector agency or body (other than a council), including central government and the GLA family.
- **Privately held land:** This relates to land held in private ownership, including by individuals and private corporations.

The current profile of council land supply: GLA research

18. Drawing from a range of internal datasets, we undertook a review of the types of land being utilised for council housing in the current BCHfL programme. The review revealed the following key findings relevant to London:

- **In line with the national picture, most councils in London are building homes on land they already own.** Most council housing schemes in the current BCHfL programme comprise developments on council-owned freehold land, with an additional proportion delivered on council-owned long leasehold land. Little land is being acquired from other private or public landowners for use in council housing delivery.

⁴ Morphet, J. & Clifford, B. (2019). *Local Authority Direct Delivery of Housing: 2019 Continuation Research*. RTPI.

- **When building on council-owned land, new housing development is generally on HRA land.** There are still comparatively fewer examples of housing developments on council-owned land held within the General Fund (noting there are legal limitations to the types of housing that can be managed by councils on this type of land).
- **Development on more complex sites (for example, on those with existing industrial or retail uses) make up a small proportion of the current programme.** Under the current programme, councils are predominantly making use of existing HRA assets to support their homebuilding programmes including via estate regeneration, and developments on infill and garage sites.
- **Council-led housing developments are typically for a smaller number of homes in comparison to other social developers.** BCHfL bids include an average of 29 affordable homes per scheme. This is notably lower than the estimated average bid size under the main 2016-22 programme (51 affordable homes), delivery of which is dominated by housing associations.

19. As well as reviewing of the land profile for council schemes funded under the current BCHfL programme, we also overlaid GLA Land Registry data with the 2017 Strategic Housing Land Availability Assessment (SHLAA) to estimate the future housing capacity of London's borough-owned sites to consider the likely profile of future developments. Analysis of this data uncovered the following key findings:

- **At the aggregate level, there is enough council-owned land across London boroughs to significantly increase rates of homebuilding.** However, many of these remaining council-owned sites are likely to be more challenging to build out and councils should consider land opportunities beyond their HRA, including non-council owned land and land held in their General Fund, to ensure land supply does not become a barrier to delivery.
- **Councils have notable freehold ownership of industrial, retail and office land.** Some of this land has the potential to accommodate new homes in addition to, or in place of, commercial uses where supported by the London Plan and the relevant Local Plan.
- **The profile of council-owned land is highly divergent across different London boroughs.** Many prime inner London boroughs have very limited land capacity. Other councils (particularly in outer London) have significant land supply, including several councils that do not currently receive BCHfL investment funding from the GLA.

20. These findings highlight that land supply is a potential constraint for a future programme – but not a binding one. Rather, the fact that the more straightforward opportunities have been pursued already means that boroughs must take a more ambitious and strategic approach to develop land held outside of the HRA and which may have existing non-residential uses. This is particularly relevant for inner-London boroughs, many of which have had large homebuilding programmes under the BCHfL.

The General Fund and the Housing Revenue Account

The Housing Revenue Account (HRA) is a ring-fenced account within a council's General Fund. The HRA is intended to record expenditure and income on running a council's own housing stock and closely related services or facilities, which are provided primarily for the benefit of the council's own tenants. Any local housing authority that owns 200 or more social dwellings is legally required to account for these homes within their HRA (and not all councils have an HRA). Any council homes held within Part II of the Housing Act 1985 must be held within the HRA (regardless of tenure).

Councils can also purchase land and buildings, and develop these for housing, under general powers to generate income. These other assets are held within the council's General Fund account, or within a property or development company. Properties and land held within the General fund can be moved into the HRA (if the council has one) at a cost to the council, and vice versa, with transfer costs varying at a borough-by-borough level.

Land supply challenges: Council perspectives

21. The above analysis was tested with councils via the working group and they confirmed the GLA research findings as accurate, particularly in relation to the increasing challenges involved in accessing easily developable HRA sites. These additional council observations are outlined in more detail below.

- **Not all council-owned land outside of the HRA is readily accessible for housing delivery.** When transferring land from the General Fund to the HRA, councils are often required to dispose of this land at market value or pay a fee, set at a locally determined rate. There is legal provision for a statutory discount to be applied in these circumstances, however there is ambiguity about how these provisions should be applied to minimise costs to support housing delivery.⁵ In addition, councils may be reluctant to dispose of General Fund sites to the HRA where this will affect local businesses or result in loss of revenue to the council (such as retail sites and car parks, which can be high-yielding in some areas) or where there are competing pressures to use this land for other council services (for example, social care services).

⁵ Local Government Act 1977.

- **Unlocking public sector land for housing delivery is challenging and lacks effective coordination.** There is a lack of coordination between public sector organisations and councils regarding the disposal and acquisition of surplus land for housing. Multiple councils noted the challenges in accessing surplus land owned by themselves but in educational use (such as for schools), due to complex and lengthy administrative requirements in obtaining consent from the Secretary of State, even where there was agreement among all parties to dispose of the land because it is genuinely surplus.⁶ In addition, many public sector landowners do not have a clear asset management strategy or teams with a clear remit for consolidating services to free-up and dispose of land, and there is nothing compelling them to handover surplus land – creating further challenges for councils seeking to explore public land opportunities that fall outside of their HRA or General Fund.
- **All councils take a different approach to monitoring and prioritising land suitable for development.** For some councils, this lack of clear good practice can place a limitation on developing a long-term, sustainable pipeline of sites. Councils with long-term business plans and who have dedicated in-house resource (such as planners) to systematically identify a broad range of sites for housing development (including land outside of the HRA and privately held land) generally appeared to have a more strategic, long-term pipeline of sites set aside for housing. Several councils referenced the success of the Homebuilding Capacity Fund in providing this type of skillset to council delivery teams. However, there was a broad consensus that councils lack the resources or incentives to develop a long-term pipeline of sites, compounded by internal resourcing constraints and a prioritisation to deliver new homes quickly.
- **Skills and capacity challenges limit the ability for some councils to identify, acquire or assemble larger or more complex sites.** Most councils have only recently returned to homebuilding; some councils are very advanced with large development portfolios and others are just starting out. In addition, many councils are under-resourced due to a long-term decline in central Government investment. Most councils therefore do not have the in-house skills or expertise to undertake more complex activities required to unlock larger sites – such as negotiating sale by private treaty, or compulsory purchase.
- **Proactive land assembly and industrial intensification projects could generate significant additional affordable housing. However, councils view these opportunities as complex, time consuming and resource intensive.** There was a clear consensus among councils that council-owned retail sites and non-council public land are considered more attractive and more feasible in

⁶ Section 77, School Standards and Framework Act 1988.

thinking about securing a longer-term pipeline of developable land, which will be critical to the expansion of delivery for some councils under a future programme.

Case study: Southwark Council – Land acquisition to maximise council housing delivery

Southwark Council is building 11,000 new council homes to meet the high demand for genuinely affordable housing in the borough. As well as delivering traditionally tendered new build schemes on council owned land, the council is purchasing private land to support a longer-term strategic pipeline of sites for affordable housing delivery.

The council has acquired numerous private land sites over the last four years, all of which offer opportunities for residential and mixed-use redevelopment in the short, medium and long term. One such example is the Curry's PC World Store site at 585-589 Old Kent Road, which the council purchased in March 2019. At the same time the council also acquired 593-613 Old Kent Road, an adjacent site which is currently a B&M store. Due to early engagement with the market where the council shared its priorities for local development, national agents who understood Southwark council's land acquisition criteria introduced them to these sites when they became available on the market. Southwark successfully acquired the sites via a competitive bidding process.

Across both sites the council will deliver at least 500 new homes, with 50% being new council homes for social rent. The prominent location of the sites also means there is an opportunity to provide a significant amount of new commercial floor space. Sites such as these will enable the council to strengthen its pipeline of long-term housing delivery and meet the acute shortage of housing in the borough.

Recommendations

22. As outlined above, if councils seek to significantly increase rates of homebuilding in the future, they will need to focus on more complex sites held outside of the HRA – including those held within the General Fund (including retail and commercial sites), through better access to surplus public land (including land owned by both central Government and the GLA group) and through an increase in acquisitions of privately owned sites. As demonstrated through working group engagement, there would also be benefit in councils taking a more systematic approach to housing delivery that is coordinated with the preparation of spatial planning policy, to ensure a longer-term, strategic pipeline of sites is available. Some of this will need to be driven by education and additional resource for in-house teams.
23. The section below sets out interventions the Mayor will commit to explore in efforts to free up land for council homebuilding, alongside recommendations for councils and central Government to consider in addressing these challenges.

Maximising public land opportunities

24. In considering how best to maximise public land opportunities (including council-owned land outside of the HRA) for council delivery under a future homebuilding programme, the Mayor will:

- Publish legal guidance about the framework that governs land appropriations between the HRA and General Fund for the purposes of affordable housing development, including basic principles and pointers that councils can apply to limit the administrative complexity and cost incurred with these appropriations.
- Publish and maintain an online map showing all registered public sector land in London, including central Government, GLA-family and council-owned land. Due to administrative complexities, this map will not distinguish between surplus (or otherwise developable) land and registered land more generally but should assist councils to identify strategic opportunities to unlock and uplift the value of land within their borough for the purpose of affordable housing.⁷
- Engage with public sector landowners to improve the coordination of public land disposals to councils and, similarly, proactively notify boroughs where relevant public land opportunities within their geographical area arise that could support affordable housing development.

25. To complement these interventions, central Government should:

- Clarify that disposal of surplus land for the purpose of affordable housing-led development (including disposals from council General Funds to the HRA) be considered at nil or low value, on a par with maximising capital receipt, through changes to the relevant regulatory framework.
- Incentivise councils to dispose of surplus land held in the General Fund to the HRA through the introduction of a New Homes Bonus top-up payment where this land is transferred for the purposes of affordable housing delivery.
- Incentivise public landowners to dispose of surplus public sector land for affordable housing development, including by disposing sites at values that contribute to affordable housing delivery and other public benefits (rather than selling this land to the highest bidder).
- Provide the Mayor the same right of first refusal over public land sales as Homes England has in the rest of the country, where they are given first priority

⁷ This resource has since been published and is available online at: <https://maps.london.gov.uk/public-land>.

for acquiring sites disposed of by other public landowners (such as land held by other Government departments).

- Streamline the process for councils to dispose of surplus school land under the requirements of Section 77 of the School Standards and Framework Act 1998, including by removing the requirement for councils and regional Government to gain approval from the Secretary of State to dispose of land at less than best consideration in these instances.
- Commit to achieving affordable housing targets on central Government-owned land in London, supported by HM Treasury guidance that enables Government departments to enter into more flexible and long-term site disposal arrangements to unlock more affordable housing.
- Expand the current One Public Estate programme, in order to provide councils with additional, long-term funding to support the identification and release of public sites for housing.

26. Councils should also increase their levels of engagement with all public and private landowners that hold land within their borough to identify any potential surplus, or soon-to-become surplus, public land for acquisition.

Developing a long-term pipeline of sites

27. Councils will need to be supported to identify and monitor a long-term pipeline of sites if they are to be successful in delivering against a more ambitious programme in the future. Collectively, across the three tiers of government, there are a range of programmes and funding pots that (if coordinated more effectively) could provide an opportunity to free up land for councils. To this aim, the Mayor will:

- Provide councils with practical support to systematically evaluate the feasibility of development on the sites within their borough, including sites not currently in council ownership.
- Provide as much targeted GLA support as possible to councils to unlock housing developments on larger and more strategic sites. This type of support will be most effective where central Government provides a long lead-in time and early communication about the parameters and terms of future funding programmes (including total settlement).
- Explore how other programmes and tools administered by the Mayor (outside of the BCHfL programme) – including planning powers, land and infrastructure funds and pilot programmes – could help councils to identify opportunities to



unlock sites for homebuilding in the longer-term, beyond the standard four-year investment programme cycle attached to the current BCHfL programme.

28. To support this, central Government should:

- Building from the success of the Homebuilding Capacity Fund, provide councils with revenue funding to undertake a comprehensive assessment of all land opportunities for affordable housing, with a view to establish their development potential and suitability for development.

29. Councils should also explore how a pipeline of sites can be developed at a local level, including developing systematic approaches to identify and evaluate the potential of all land within their borough to provide affordable homes, including non-council owned public land and private sites. This could be achieved through adopting a plan-led approach to site identification, which could be practically achieved through the secondment of council planning staff into housing delivery teams.

Land assembly and acquisition

30. As part of identifying and developing this longer-term pipeline of sites, councils should be practically supported to proactively assemble and acquire additional land for affordable housing, including on more challenging and complex sites. These skills will be particularly pertinent for councils that are land constrained (including those that have minimal HRA land that is suitable for housing development) and who wish to implement ambitious homebuilding programmes. The Mayor can support councils to do this in the following ways:

- Provide advice and technical support to councils acquiring land through voluntary treaty or by compulsory purchase. Such advice should be aimed to help councils to prepare spatial planning documents, which would lay the groundwork for proactive land assembly interventions and in the longer term could achieve additionality for council-led housing developments. This could be provided through a new GLA-led 'Centre of Expertise for Land Assembly' and through sessions run by Future of London's Council-led Housing Forum.
- As mentioned above, consider how the Mayor's land and infrastructure funds could be deployed to support councils to invest strategically in sites that would be suitable for housing development.

31. To support councils with land assembly and acquisitions, central Government should:

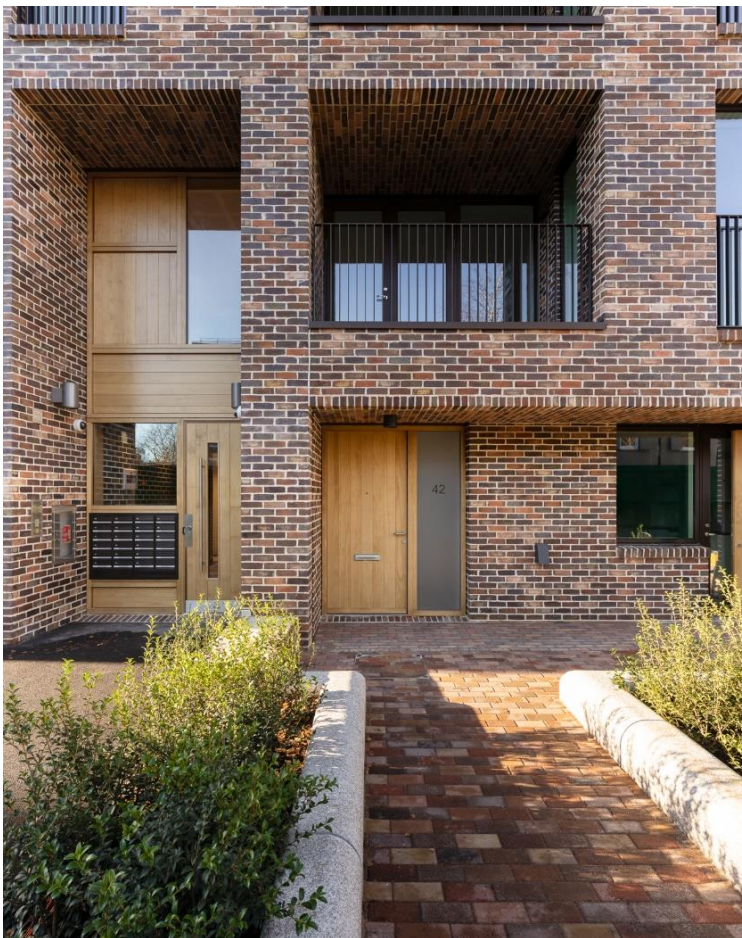
- Amend the 1961 Land Compensation Act to remove hope value from compensation for compulsory purchase (by councils and the wider public sector). This would enable councils to capture more of the land value uplift

created through development to reinvest in new genuinely affordable housing and other priorities.

- Provide significant additional financial capacity for the GLA and London boroughs so they can take a more active role in the land market by agreeing London's share of the forthcoming Single Housing Infrastructure Fund, and ensuring this share is commensurate with the scale of housing needed.
- Increase the capacity of the MHCLG team responsible for CPOs, as well as the Planning Inspectorate and the Upper Tribunal (Land Chamber), to ensure that CPOs can be dealt with and issued much more quickly.

32. Councils should prepare spatial planning documents (local plans, area action plans, and supplementary planning documents) that lay the groundwork for proactive land assembly interventions, including compulsory purchase of land.

Building Council Homes for Londoners: Colville Estate, Hackney Council



Sitting next to the Regent's Canal in Hoxton, Colville is one of Hackney's biggest building projects, comprising over 900 high quality new homes – with 70 homes set at social rent. This development was part-funded with Building Council Homes for Londoners grant.

The design was led by Karakusevic Carson Architects. The scheme was a Civic Trust Award winner in March 2020, following on from its Award by the RIBA in 2019 with the Hoxton Press scheme, and it was shortlisted for the inaugural RIBA Neave Brown Award.

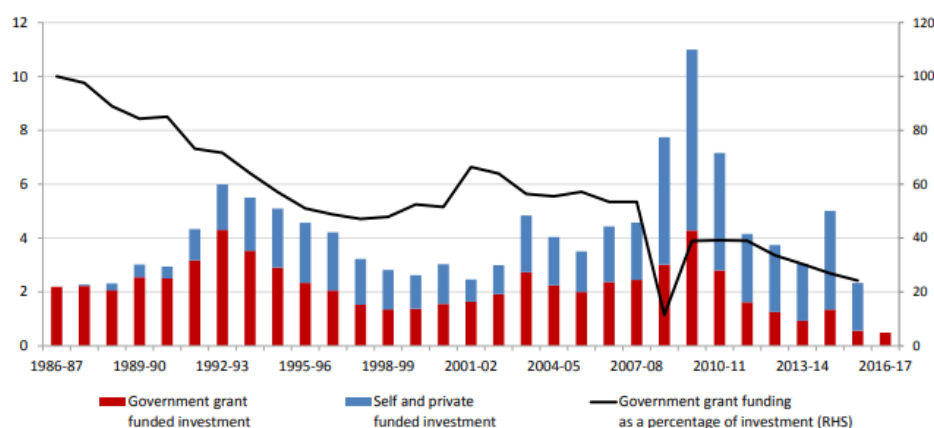


Section 2: Funding and financing

33. It is widely understood that councils face significant funding challenges, driven primarily by the decade of budget cuts imposed by central Government due to years of austerity. Between 2009/10 and 2017/18, total funding for UK councils fell by over 20 per cent. Housing and planning units were particularly impacted by central Government cuts – with over 50 per cent of investment in these services cut.

34. In addition, the proportion of central Government subsidy for affordable housing grant has decreased significantly in recent years; from around 50 per cent of the total cost of housing development in 2008, to just 15-20 per cent in 2019. This research showed that an average of £4.9 billion of capital investment is needed each year to deliver the homes that London needs – over seven times what the GLA currently receives, which is around £700 million per year.⁸ To put it simply: councils and other homebuilders need significantly more Government subsidy to build the homes that London needs.

Figure 1: Sources of funding for housing delivery, 1986-2017



35. In recognition of their recent return to homebuilding and acknowledging that some council schemes can be more expensive and complex than others, the current BCHfL programme offers councils a higher capital grant for homes at social rent and London Affordable Rent (LAR)¹⁰ in comparison to the mainstream Affordable Homes Programme. However, it is widely established that a larger capital settlement from

⁸ Harris, T, Hodge, L, and Phillips, D. (2019). *English local government funding: Trends and challenges in 2019 and beyond*. Institute of Fiscal Studies: London.

⁹ Shelter. (2014). *Increasing investment in affordable housing: Towards a level playing field for affordable housing*. Capital Economics Limited: London.

¹⁰ £100,000 per unit, compared to £70,000 per unit through the mainstream Affordable Homes Programme.

central Government is required if we want to significantly upscale council delivery and reduce reliance from an increasingly broken cross-subsidy model to fund housing.¹¹

Cross-subsidy: Limitations and constraints specific to councils

36. Current levels of capital grant do not cover the full (or even half of) the subsidy gap for housing development and this shortfall is particularly acute for councils looking to build homes at social rent levels. When bridging the subsidy gap, other sources of government funding (such as RtB receipts or s106 funding) are generally finite and not set up to generate significant additional finance in the longer term, as they are accumulated and generated in a somewhat piecemeal way. In practice, this can mean that councils are not financially geared (nor incentivised) to unlock longer-term developments.
37. To generate finance, councils can borrow against reserves within and across several sources - including their General Fund and, for those who have them, their HRA and their wholly owned companies – with some restrictions. In respect of HRAs, councils can legally manage and borrow against a range of tenures in their HRA – including affordable rent, intermediate rent and shared ownership – although councils must manage these homes in line with relevant regulations (such as the Rent Standard, which sets rent levels and restricts social or affordable rent being converted to intermediate rent). Despite these flexibilities, it is not always practical (or politically palatable) for councils to charge above social rent, particularly if many residents in their borough receive housing benefit or where councils have a particularly long housing register waiting list. Conversely, councils who have a wholly owned company are typically more likely to manage a broader range of tenures and have greater opportunities to leverage external finance.
38. Importantly, compared to their housing association and private sector counterparts, councils are restricted by regulations from generating cross-subsidy to expand housing development. As such, many councils are rightly cautious of engaging in highly financialised models of housing delivery. Councils are rightly expected and regulated to run as public services, rather than commercial investment bodies, and have been penalised when attempting to operate in this manner in the past.
39. Despite these restrictions, in recent years, councils have been increasingly seeking to generate greater levels of income to address the shortfall in capital funding available for housing delivery – including through investment in commercial and retail sites.¹² Guidance recently issued by CIPFA noted this type of borrowing is ‘not consistent with the primary function of local authorities’, which is the delivery of local services to the

¹¹ Greater London Authority. (2019). *The 2022-2032 Affordable Housing Funding Requirement for London: Technical Report*. GLA: London.

¹² Morphet, J. (2019). *Local Authority Direct Delivery of Housing: 2019 Continuation Research*. RTPI.

local population. This increasingly commercialised approach to council financing among councils formed the rationale for hikes to PWLB interest rates in 2019 (subsequently reversed this year).¹³ As such, while many councils are cross-subsidising housing delivery, it is not realistic to expect councils to generate finance for housing in the same way as other non-public sector actors have done previously.

Wider HRA restrictions

40. When financing housing delivery, councils have access to cheaper borrowing rates through the PWLB than are commercially available and have benefited from the recent lifting of the HRA borrowing cap in 2018¹⁴. However, these benefits have been undercut by the high levels of existing HRA debt among some councils, as well as the Government's approach taken to rent restructuring, which limit borrowing capacity. Challenges are further augmented by ongoing central Government restrictions placed on councils including:

- Limitations to the ways in which councils can borrow against assets in their HRA, related to legal ambiguity about the types of rents that can be managed.
- Restrictions on how RtB receipts are used to fund housing and loss of social rented homes through RtB, limiting councils' ability to plan for long-term debt.
- Changes to Government-imposed policies that impact council financing practices, including the rent reduction policy in place between 2016-20 and recent changes to PWLB interest rate.

HRA borrowing

41. In 2012, as part of the introduction of the self-financing reforms, central Government assumed that most HRAs would accumulate significant surpluses over the medium to long term. This was because, at the time, the growth in net rental income was expected to exceed growth in expenditure on revenue costs, investment and debt interest. However, in 2019, the National Audit Office (NAO) noted that local authorities' overall debt servicing costs had in fact grown as a proportion of revenue spending, with revenue resources falling.¹⁵ HRA revenue surpluses on existing council homes have been further constrained by the 1 per cent rent reduction, from 2016 until 2020.

¹³ www.cipfa.org/cipfa-thinks/cipfa-thinks-articles/investing-in-commercial-property-and-the-need-for-new-guidance

¹⁴ MHCLG data: In 2018/19, 73 per cent of all council borrowing comprised loans from the PWLB.

¹⁵ www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing



42. In 2018, the HRA borrowing cap was lifted to give greater flexibility to councils to self-finance. While this change was welcomed by the sector, commentators predicted that the impact would be minimal due to significant existing council debt and inability for rents to cover the cost of new homes.¹⁶ Analysis undertaken by the GLA at the time predicted there would be greater incentive and more risk appetite among councils to generate surpluses to support new borrowing – this prediction has eventuated, with 89 per cent of councils across the UK now considering an expansion of their homebuilding programmes as a direct result of the HRA borrowing cap.¹⁷ While this shift is positive, significant subsidy gaps continue to inhibit housing delivery. Ultimately, more grant is required.

Right to Buy receipts

43. In addition to GLA grant, many London boroughs also have access to Right to Buy (RtB) receipts that can be used to support delivery of new build homes. Last year, London's RtB receipts collected by the Treasury amounted to an annual total of £319 million – and since 1980, over 300,000 council homes in London have been sold through the RtB regime. However, under current rules, receipts for these homes can fund no more than 30 per cent of the costs of replacement units – meaning that councils in London missed out on over £200 million that could be spent on new homes at social rents but were instead returned to the Treasury as unusable within these parameters.¹⁸ Councils are also unable to use receipts in combination with other public subsidy to fund individual units, including GLA grant, and must spend receipts within three years of receiving them.

44. Central Government consulted on RtB in August 2018, with a view to introducing reforms. The consultation acknowledged that councils were unable to build enough properties to match either the pace of sales or meet the commitment to replace every additional home sold through the RtB scheme. Last year in London the number of RtB replacement homes started was 1,561, down 38 per cent from 2,499 in the previous year (2017/18). This compares to 1,709 homes sold through the RtB scheme last year – despite commitments made by central Government to ensure one-to-one replacements. As of August 2020, the Government has published no response to the consultation.

45. The current BCHfL programme introduced a new 'ring-fence offer' for councils. This new offer enables the GLA to 'ring-fence' RtB receipts that a council collects and returns to the GLA (via central Government) for use by that council. The GLA effectively acts as a custodian of the receipts and redistributes these to councils on approval of a credible delivery plan for new affordable housing. The level of 'in-

¹⁶ London Councils; OBR estimated the change would enable 9,000 new homes across 5 years in England.

¹⁷ Local Government Association. (2019). *Housing Revenue Account Cap Removal: Survey Results*.

¹⁸ MHCLG data. Note this is total receipts (rather than borough shares) and reflects the annual rather than cumulative total received.

principle' uptake for the voluntary ring-fence offer is encouraging, with over 20 councils opting into the offer.

Building Council Homes for Londoners: Levitas House, Tower Hamlets



Levitas House on Jubilee Street in Tower Hamlets was completed in February 2020.

The estate is built on an old carpark and comprises 24 new council homes, new landscaping and a play park. 20 of the homes are funded through the Mayor's Building Council Homes for Londoners grant and the remainder are funded with Right to Buy receipts.

The architects for this scheme are Bell Philips and Potter Raper.

Public Works Loan Board

46. The most common source of borrowing for councils to fund their capital investment is through loans from the PWLB, which is managed through the UK Debt Management Office. The PWLB is an attractive source of finance for councils, as it provides loans at the lowest market interest rates available. In October 2019, central Government increased the interest rate by one per cent overnight. Councils expressed concern that the hike threatened the viability of existing housing delivery schemes, particularly among those who were encouraged to borrow more ambitiously following the lifting of the HRA borrowing cap in 2018.¹⁹
47. As part of the recent Budget, and off the back of widespread lobbying on behalf of local government across the UK, on 11 March 2020 the Chancellor reversed this PWLB interest rate increase – returning interest rates for HRA borrowing to 0.8 per cent as of 12 March 2020. This return has been welcomed; however, it further emphasises the uncertain climate that councils operate within in relation to the imposition of top-down policy changes, which limits the ability for councils to effectively plan for long-term debt.

¹⁹ Southwark Council suggested it would bring an additional £9 million a year to cover debt servicing costs associated with its new homes programme as a direct consequence of the interest rate hike.

The Government remains committed to a future consultation on revising the terms of PWLB, in explicit efforts to limit council borrowing for the purposes of investment in commercial assets to generate finance.

Funding and finance challenges: Council perspectives

48. The above constraints, challenges and opportunities to funding and finance were discussed and tested with working group members. The following additional observations were made by councils:

- **The subsidy gap for housing is too high and capital grant rates are too low, particularly for social rent.** In addition to the factors highlighted above, councils emphasised higher costs associated with estate regeneration and expectations to deliver 'exemplar' homes, such as homes that are carbon-neutral and a greater proportion of family-sized homes. While this is positive, these pressures can mean the size of a council's overall delivery programme is reduced (for example, in comparison to other developers in a similar financial position) and can undercut viability on specific schemes.
- **The rules determining the types of properties that can be held in the HRA should be clarified.** Councils spoke positively about the ability of housing delivery companies and ALMOs to finance housing delivery with fewer restrictions than those councils directly delivering and observed that there is some ambiguity about the types of homes that can be kept in the HRA, with rules interpreted differently by different boroughs.
- **Councils who take a long-term approach to business planning will have greater success in delivering more homes.** There is a lower risk appetite to take on large amounts of loan finance or borrow over longer periods of time, particularly among councils who are more fiscally conservative. Councils have also cited pressures to deliver housing quickly to meet targets, compounded where particularly ambitious bids were submitted for the programme and councils have subsequently encountered challenges in delivering on these commitments. These challenges are somewhat ameliorated by the development of more robust business plans among some councils, providing greater confidence to Cabinet members to 'best use' financing capacity – a case study of which is provided below.

Case study: Enfield Council - Maximising investment capacity in 3,500 council homes

With the welcome lifting of the HRA debt cap, Enfield Council sought to develop a financial framework within which judgements could be made about ambitious but prudent capacity for investment in housing development via its 30-year HRA Business Plan. Drawing from the housing association sector key metrics for judging the viability of the HRA Business Plan, similar metrics were developed and aligned to the Councils Capital and Treasury Strategy.

These metrics included:

- A minimum closing reserve balance of 5% total revenue expenditure and 5% capital expenditure budgeted for each financial year.
- Interest Cover Ratio – defined as net operating surplus divided by HRA interest costs – set at a minimum 1.25.
- Loan to Value ratio – defined as outstanding HRA borrowing (HRA Capital financing Requirement) divided by total asset valuation of HRA assets in the balance sheet – set as a maximum 70%.

By adopting such measures and testing changes to the plan against these, this enabled the council to maximise its outcomes whilst ensuring a sustainable business plan and ensuring that decision making on future HRA capital schemes are efficient considering long-term income and expenditure forecasts. This overall framework enables consideration of the balance between investing in new homes, in existing stock and in services alongside income generating strategies.

On development, the framework is supported by a scheme and programme-based set of viability indicators to judge individual investment decisions. Performance against these are reviewed on an annual basis having regard to the economic climate, grant rates and our product requirements.

Recommendations

49. The following priority interventions should be borne in mind when considering the design of future programmes, with specific consideration to the role of councils, the Mayor and central Government in reforming the council funding and financing regime to support council housing delivery. These interventions emphasise the role of central Government, given the centrality of capital grant funding and the top-down regulatory framework in ensuring councils are adequately funded to deliver housing.

Capital grant funding and programme structure

50. As noted above, councils (and other housing providers) do not currently receive enough capital grant funding to deliver the number of affordable homes that London needs. The Mayor supports this view and has been lobbying central Government for £4.9 billion per year as part of his capital grant settlement – seven times more than what he currently receives – to support delivery of his Affordable Homes Programme. The following reforms to capital grant funding levels would further increase supply.

51. Central Government should:

- Significantly increase the amount of capital grant available at a per unit level for councils in the next programme, with an emphasis on higher grant rates for homes at social rent levels.
- Address the funding shortfall attributed to new building safety and zero-carbon requirements on new affordable housing developments, which councils are increasingly expected to deliver against without any additional capital funding.
- Provide longer-term certainty to councils through a much longer-term capital funding settlement, ideally 10 years. This would provide certainty to councils when taking a position on large or complex sites, encouraging acquisition of a land pipeline for future programmes, and contribute to improved quality and cost control.

52. Noting the higher costs associated with estate regeneration, councils should prioritise grant funding for new build developments within their boroughs unless there is a clear need to regenerate existing stock (for example, due to safety risks).

Revenue funding

53. In addition to a lack of capital funding, levels of revenue funding are also currently insufficient, and councils would benefit from more of this type of investment to increase their homebuilding capacity. Central Government should provide:

- Additional ring-fenced revenue funding for councils with a focus on funding to undertake feasibility work, building on the success of Homebuilding Capacity Fund grants in this area.
- Additional funding to the existing cladding funds to cover other important types of building safety remediation, to ensure critical safety works can be carried out sustainably and mitigating impacts on future development (such as displacement of cross-subsidy generated elsewhere in the HRA).

54. Revenue funding made available to councils through the Mayor's Homebuilding Capacity Fund has been viewed as a significant support to help councils upskill in-house delivery teams and expand homebuilding efforts. Building on the success of this current initiative, the Mayor should explore:

- Providing practical information to enable councils to maximise the limited amount of revenue funding available to them (for example, opportunities to effectively capitalise revenue costs to expand housing delivery). This could be achieved through a practice or guidance note, or through other training and educational opportunities.

55. Councils should consider exploring opportunities to 'pool' existing revenue funding to support shared services, particularly where this is underutilised or could generate efficiencies at a pan-London level (for example, Apprenticeship Levy for shared educational resource).

Right to Buy

56. The current RtB regime unjustifiably constrains the ability for councils to properly fund affordable housing developments and to undertake longer-term HRA business planning, due to the potential loss of stock through this scheme.

57. To address these challenges, central Government should immediately:

- Remove restrictions on how RtB receipts can be combined alongside other capital receipts held in the HRA and on public land, putting councils on a level playing field with other developers and providing greater freedom to actively manage assets and reinvest receipts from the sale of assets in a way that they see fit. This including permitting councils to retain 100 per cent of future and existing RtB receipts.
- Allow councils to transfer RtB receipts to council-housing companies or Arm's Length Management Organisations.

- Implement the recommendation from the Communities and Local Government Select Committee that councils and housing associations are offered first refusal on resale of some homes sold through RtB. New measures should be introduced to limit the number of homes sold through RtB that later end up in the private rented sector.
- Publish the Government response to the 'Use of receipts from Right to Buy sales' consultation, which was released in 2018.

58. The Mayor will review how the GLA RtB ring-fence offer can best operate in a future programme.

Reforming council financing

59. As outlined earlier in this paper, councils face a range of constraints when seeking to finance housing developments – and some of these constraints are appropriate when considering the role and function of public sector institutions. However, some aspects of the council financing regime should be reformed – particularly where there is justification to do so, and where changes could enable additional affordable housing.

60. Central Government should:

- Clarify restrictions around management of intermediate tenures within HRA, including by considering greater devolution to councils to determine the most appropriate requirements for their council, based on the needs of their community and within the bounds of the GLA's definitions of affordable. Any changes to these restrictions should be introduced in a way that protects existing social housing stock managed in a council's HRA.
- Agree an index linked, long-term rent settlement over the same period as a long-term capital settlement, giving councils and housing associations the certainty that they need to significantly expand their delivery of affordable homes.
- Agree a similar index linked, long-term PWLB interest rate, to provide councils with certainty for longer-term HRA borrowing.

61. Where they haven't done so already, councils should introduce a long-term HRA business plan to support a measured, long-term approach to financing housing delivery. This business plan should be aligned to the councils' Local Plan and consider how more complex, larger, more strategic sites could be brought forward for housing.



Section 3: Skills and capacity building

62. In the 1950s, the former London County Council was the largest architecture office in the world.²⁰ But today, few councils in London benefit from the levels of in-house resource and development expertise that they had in the past. Funding restrictions imposed by central Government, compounded by recent years of austerity, have gutted the capacity of in-house planning and housing services, meaning that many teams are now understaffed and under-equipped to oversee the types of large-scale development projects that London would benefit from. In thinking about a future programme, councils have made it clear that capital funding is not enough – and that revenue funding and other educational supports are critical to grow the capacity of in-house council delivery teams over the long term.
63. This constraint was acknowledged by the Mayor at the beginning of the current BCHfL programme, demonstrated through the £10 million Homebuilding Capacity Fund (HCF) offer which was released to councils alongside the capital funding prospectus. This initiative provides revenue funding to councils to develop in-house skills and expertise within internal homebuilding teams. The programme was significantly oversubscribed, signalling the interest among councils to build internal capacity, as well as the scale of the challenge faced by councils.
64. In addition to the HCF, the Mayor has supported the following successful initiatives to upskill and resource council housing delivery teams:
- Establishment of **Future of London's Council-led Housing Forum**, which provides a forum for practitioners to share best practice and receive technical advice on topics relevant to council-led delivery of homes; and,
 - Establishment and funding to support the start-up of **Public Practice**, a social enterprise initiative that aims to address the longstanding skills gap between public and private sector delivery teams through secondment opportunities (with a focus on staff specialising in planning, architecture and urban design).
65. These initiatives have been viewed as highly successful; however, it is clear that more can be done – including at a pan-London level.

²⁰ In 1953 the London County Council Architects' Department employed 1,577 staff, making it the largest architecture department at the time.

Bloomberg Associates

66. In September 2019, the Mayor commissioned Bloomberg Associates to consider what further interventions could enhance the skills and capacity of London councils to increase homebuilding in the future. The findings of their research were submitted to the GLA in February 2020, alongside a range of recommendations that could be implemented by the GLA and a range of partner institutions as part of thinking about a future council delivery programme. The report 'Increasing Skills and Capacity to Support Council Homebuilding: Final Report' has been published independently alongside this report.

67. The section below summarises the key findings of this report, highlighting the recommendations, ideas and solutions that the GLA and working group members viewed as having the greatest impact. The summarised findings below also build on earlier sections of this report that relate to land, funding and finance – in recognition that skills and capacity challenges impact all parts of the development process.

Skills and capacity: Common challenges

68. While council delivery teams are at different levels of maturity, and are subject to unique internal pressures and priorities, engagement with councils and the wider housing sector identified a range of common challenges and opportunities in relation to skills and capacity. These issues are outlined below.

- **Despite in-house delivery teams being at different 'maturity stages', many councils have similar skills and capacity gaps and development needs.** For example, many established delivery units face shortages of senior directors and development managers and many in-house delivery teams do not have systematic processes in place for long-term business planning. Skills and capacity gaps that affect housing delivery extend beyond direct delivery teams (for example, among in-house finance, legal and procurement units).
- **Educational institutions are not currently generating enough graduates that have the right skillset to meet council homebuilding needs.** Councils struggle to attract, retain and develop highly-skilled staff that have the right knowledge, skillset and experience relevant for council homebuilding, partly due to the number of competing players in London's housing industry, and partly due to the lack of dedicated education programmes to develop this skillset.
- **Several dedicated programmes are helping councils to deliver homes but could be developed and more fully utilised.** Some of these programmes include Public Practice and the Small Sites, Small Builders programme, established by the GLA, and the Pan-London Accommodation Collaboration

Scheme (PLACE), which is funded by the GLA and hosted by the London Borough of Tower Hamlets, with support from London Councils.

- **Councils could benefit from more formalised collaboration with each other and housing associations.** Councils currently lack incentives or resources to share knowledge with each other in a more systematic way. In addition, private developers and housing associations could be well positioned to provide additional assistance to councils if they were more directly and explicitly engaged to so.



Recommendations

69. Building on the above common themes and challenges, the sections below summarise some potential initiatives that could be pursued in the future to ensure councils are equipped to successfully deliver against significantly higher targets – not only by the GLA, but also by organisations across the sector, including educational institutions.

Formalising partnership arrangements to leverage skills from across the sector

70. It is common knowledge that private sector organisations, and some housing associations, offer more lucrative employment opportunities for employees specialising in development or project management functions. These benefits include higher salaries, greater opportunities for professional development, and at times greater stability – as private sector development portfolios are not interlinked with the changing priorities of local and central Government election cycles. This stability is somewhat negated in times of recession or where the housing market otherwise stalls.

71. Moreover, while there is value in investing in tertiary education courses targeted at homebuilding skills in the long-term, the skills of project officers, development managers and housing directors that are needed by councils are often learnt in the job rather than the classroom. One way that these skills are best developed is through rotation programmes, where staff rotate through different departments (or across organisations) to learn the range of skills associated with housing delivery.

72. With a few notable exceptions, including the Public Practice initiative, only housing associations and private developers currently offer rotation programmes of this kind and council housing delivery staff have limited opportunities to come together to share learning and examples of best practice – with the Council-led Housing Forum offering a successful example of one such scheme. Both schemes have been viewed favourably by councils.

73. One way that councils have historically leveraged private sector expertise and resources to meet housing delivery objectives has been through the use of new delivery models – typically through public-private-partnerships, such as joint ventures (JVs) or other types of special-purpose delivery vehicles. While there have been successes with this approach, these types of vehicles are viewed with caution among some councils, and some private sector counterparts – due to high-profile fall-outs, and perceptions among councils that their adoption can result in a net loss of council-owned land, lower levels of affordable housing, resident distrust and minimal gain in terms of upskilling in-house council homebuilding teams.

74. In response to these experiences, the Mayor will commit to exploring some possible 'partnership' interventions to support council delivery as part of planning for a future programme, including:

- Working with Public Practice to consider whether the council homebuilding sector would benefit from a broader range of 'public sector homebuilding' associates. This work could consider which roles, skillsets and levels of experience are in highest demand among council housing delivery teams, in thinking about how the model might be adapted to serve an expanded homebuilding programme in the future.
- Developing and brokering a more formalised partnership framework between housing associations and local authorities to deliver council homes. The GLA could explore establishing a platform to assist councils to set up partnerships with housing associations, ranging from more informal staff placements to more formalised special purpose joint delivery vehicles. Further work will be undertaken to ensure the model provided benefits for all parties and does not replicate challenges or issues experienced elsewhere.

Incentivise uptake of Modern Methods of Construction

75. The UK's construction skills challenge is well-documented. The construction workforce is ageing, with 25 per cent of the workforce currently over 50 years old and over 400,000 people set to retire over the next ten years.²¹ In addition, London's homebuilders are especially vulnerable to Brexit; around half of London's homebuilding construction workers comprising non-UK EU citizens, with expected downturn in migrant labour post-Brexit.²² Overall, the shortage of skilled workers is viewed by many to be one of the primary constraints in increasing levels of homebuilding in the UK. A lack of skilled workers leads to increased costs, through delays in on-site construction, poor quality builds and liability issues.²³ In practice, this means rising costs for financially constrained council delivery units, as well as delays and uncertainty in meeting timeframes associated for delivery targets.

76. For these reasons, the Mayor has made a strong public commitment to support greater uptake of Modern Methods of Construction (MMC) in London. In addition to the systemic factors noted above, councils often lack the needed experience to effectively manage builders and contractors and lack the necessary knowledge about how to advance schemes using precision manufactured homebuilding methods and materials.

77. To support this agenda, the Mayor will commit to:

- Engaging with the UK's MMC research agenda, to better understand opportunities, weaknesses and future trends and to ensure any wider adoption

²¹ Construction Industry Training Board (CITB). (2018). *Report: Fuller working lives in construction*.

²² Homebuilders Federation. (2017). *Homebuilding Workforce Census*.

²³ Farmer, M. (2016). *Modernise or Die: The Farmer Review of the UK Construction Labour Model*.

of MMC within London's affordable housing sector can contribute to a wider emerging evidence base.

- Championing new initiatives that promote greater uptake of MMC to deliver affordable housing in London, including interventions that specifically help councils to standardise products and to achieve cost efficiencies (while not compromising on design or quality). This work will consider the experience of the Pan-London Accommodation Collaborative (PLACE) in considering how the Mayor could aggregate demand, but for permanent homes.

Building Council Homes for Londoners: Lister Terrace, Greenwich Council



Lister Terrace is a pilot scheme built by Greenwich Builds – the Royal Borough of Greenwich's council homebuilding programme, which is part-funded by Building Council Homes for Londoners grant. These recently completed two-bedroom homes are all zero-carbon, featuring solar panels, air source heat pumps and gardens, and are built using modular construction techniques. All homes are for social rent. The developer was Engie and the modules were manufactured by Ilke Homes.



Develop additional specialist resources for council delivery teams

78. As outlined earlier in this paper, there would be significant benefit in further developing existing tools, training and specialist resources that will upskill in-house housing delivery teams. In addressing this common challenge, the Mayor will undertake further work to consider what kinds of specialist resources would be helpful to councils to support the in-house skills and capacity of housing delivery teams, including through:

- Reviewing the range of procurement frameworks available to councils that can facilitate and streamline otherwise complex and timely procurement activities that relate to development, including the GLA's London Development Panel 2 framework agreement. Any review should consider whether there are gaps in the current range of frameworks and explore opportunities to better publicise the existing range of services and documents, including procurement frameworks that enable the adoption of developments constructed using MMC.
- Exploring how to better utilise 'sector experts' to provide advice to councils on an ad-hoc basis, including through educational resources, outreach services and greater information sharing across the sector.

79. At a local level, council delivery teams and other educational forums (such as the Future of London's Council-led Housing Forum) should explore:

- Offering a new or expanded educational offering to legal, finance and procurement teams within their council to upskill other affiliated teams on the priorities of the housing delivery teams. There is benefit to this intervention being led at a local level, to ensure that other business units are able to understand the specific needs, priorities and operational experiences of the housing delivery team that they work alongside.

Development of the longer-term workforce pipeline

80. While short-term interventions are worthwhile, council delivery teams suffer from systemic issues – including wider issues that are outside of the control of any single borough. Several longer-term interventions are outlined in more detail below, that aim to promote council homebuilding as an attractive career prospect and mobilise universities and further education colleges.

81. Councils should explore:

- Tapping into existing under-utilised apprenticeship funding for staff development (including post-graduate degrees) and identifying local opportunities to pool funding to maximise joint educational opportunities.

- Using job commitments or guarantees to encourage employees to continue working in councils for a set period, following attainment of a council-funded post-graduate degree.
- Forming partnerships with universities, technical schools and other institutions to better market the council home delivery sector to students to increase the talent pipeline, including through convening key professional associations and educational providers to ensure any future curriculum matches industry needs. This could be supported by the Mayor, if there was appetite to form London-wide partnerships.

82. The Mayor and the GLA will also do further work to consider how the Mayor's leadership role and public platform could be utilised to promote the council homebuilding sector as an attractive career prospect, including by potential campaign activities in the future.

Appendix 1: Summary of recommendations

Land supply, assembly and acquisition

Responsible party	Recommendation
Central Government	<p>Central Government should clarify that disposal of surplus land for the purpose of affordable housing-led development (including disposals from council General Funds to the HRA) be considered at nil or low value, on par with maximising capital receipt, through changes to the relevant regulatory framework.</p>
	<p>Central Government should incentivise councils to dispose of surplus land held in the General Fund to the HRA through the introduction of a New Homes Bonus top-up payment where this land is transferred for the purposes of affordable housing delivery.</p>
	<p>Central Government should incentivise public landowners to dispose of surplus public sector land for affordable housing development, including by disposing sites at values that contribute to affordable housing delivery and other public benefits (rather than selling this land to the highest bidder).</p>
	<p>Central Government should provide the Mayor the same right of first refusal over public land sales as Homes England has in the rest of the country, where they are given first priority for acquiring sites disposed of by other public landowners (such as land held by other Government departments).</p>
	<p>Central Government should streamline the process for councils to dispose of surplus school land under the requirements of Section 77 of the School Standards and Framework Act 1998, including by removing the requirement for councils and regional Government to gain approval from the Secretary of State to dispose of land at less than best consideration in these instances.</p>
	<p>Central Government should commit to achieving affordable housing targets on central Government-owned land in London, supported by HM Treasury guidance that enables Government departments to enter into more flexible and long-term site disposal arrangements to unlock more affordable housing.</p>
	<p>Central Government should expand the current One Public Estate programme, in order to provide councils with additional, long-term funding support the identification and release of public sites for housing.</p>
	<p>Building from the success of the Mayor's Homebuilding Capacity Fund, central Government should provide councils with revenue funding to undertake a comprehensive assessment of all land opportunities for</p>

	<p>affordable housing, with a view to establish their development potential and suitability for development.</p>
	<p>Central Government should provide significant additional financial capacity for the GLA and London boroughs so they can take a more active role in the land market by agreeing London's share of the forthcoming Single Housing Infrastructure Fund, and ensuring this share is commensurate with the scale of housing needed.</p>
	<p>Central Government should increase the capacity of the MHCLG team responsible for Compulsory Purchase Orders, as well as the Planning Inspectorate and the Upper Tribunal (Land Chamber), to ensure that Compulsory Purchase Orders can be dealt with and issued much more quickly.</p>
<p>Mayor of London</p>	<p>The Mayor should publish legal guidance about the framework that governs land appropriations between the HRA and General Fund for the purposes of affordable housing development, including basic principles and pointers that councils can apply to limit the administrative complexity and cost incurred with these appropriations.</p>
	<p>The Mayor should publish and maintain an online map showing all registered public sector land in London, including central Government, GLA-family and council-owned land. Due to administrative complexities, this map will not distinguish between surplus (or otherwise developable) land and registered land more generally but should assist councils to identify strategic opportunities to unlock and uplift the value of land within their borough for the purpose of affordable housing.</p>
	<p>The Mayor should engage with public sector landowners to improve the coordination of public land disposals to councils and, similarly, proactively notify boroughs where relevant public land opportunities within their geographical area arise that could support affordable housing development.</p>
	<p>The Mayor should provide councils with practical support to systematically evaluate the feasibility of development on the sites within their borough, including sites not currently in council ownership.</p>
	<p>The Mayor should provide as much targeted GLA support as possible to councils to unlock housing developments on larger and more strategic sites. This type of support will be most effective where central Government provides a long lead-in time and early communication about the parameters and terms of future funding programmes.</p>

	<p>The Mayor should explore how other programmes and tools administered by the Mayor (outside of the Building Council Homes for Londoners programme) – including planning powers, land and infrastructure funds and pilot programmes – could help councils to identify opportunities to unlock sites for homebuilding in the longer-term, beyond the standard four-year investment programme cycle attached to the current Building Council Homes for Londoners programme.</p>
	<p>The Mayor should provide advice and technical support to councils acquiring land through voluntary treaty or by compulsory purchase. Such advice should be aimed to help councils to prepare spatial planning documents, which would lay the groundwork for proactive land assembly interventions and in the longer-term could achieve additionality for council-led housing developments. This could be provided through new a GLA-led ‘Centre of Expertise for Land Assembly’ and through sessions run by Future of London’s Council-led Housing Forum.</p>
	<p>The Mayor should consider how to deploy land and infrastructure funding that could support councils to invest strategically in sites that would be suitable for local authority housing development.</p>
<p>Local authorities</p>	<p>Councils should increase their levels of engagement with all public and private landowners that hold land within their borough to identify any potential surplus, or soon-to-become surplus, public land for acquisition.</p>
	<p>Councils should also explore how a pipeline of sites can be developed at a local level, including developing systematic approaches to identify and evaluate the potential of all land within their borough to provide affordable homes, including non-council owned public land and private sites. This could be achieved through adopting a plan-led approach to site identification, which could be practically achieved through the secondment of council planning staff into housing delivery teams.</p>
	<p>Councils should prepare spatial planning documents (local plans, area action plans, and supplementary planning documents) that lay the groundwork for proactive land assembly interventions, including compulsory purchase of land.</p>

Funding and finance

Responsible party	Recommendation
Central Government	Central Government must significantly increase the amount of capital grant available at a per unit level for councils in the future, with an emphasis on higher grant rates for homes at social rent levels.
	Central Government should address the funding shortfall attributed to new building safety and zero-carbon requirements on new affordable housing developments, which councils are increasingly expected to deliver against without any additional capital funding.
	Central Government should provide funding certainty to councils through a much longer-term capital funding settlement, ideally 10 years. This would provide certainty to councils when taking a position on large or complex sites, encouraging acquisition of a long-term pipeline of sites for future programmes, and contribute to improved quality and cost control.
	Central Government should provide additional ring-fenced revenue funding for councils with a focus on funding to undertake feasibility work, building on the success of Homebuilding Capacity Fund grants in this area.
	Central Government should provide additional funding to the existing cladding funds to cover other important types of building safety remediation, to ensure critical safety works can be carried out sustainably and mitigating impacts on future development (such as displacement of cross-subsidy generated elsewhere in the HRA).
	Central Government should immediately remove restrictions on how Right to Buy receipts can be combined alongside other capital receipts held in the HRA and on public land, putting councils on a level playing field with other developers and providing greater freedom to actively manage assets and reinvest receipts from the sale of assets in a way that they see fit. This including permitting councils to retain 100 per cent of future and existing RtB receipts.
	Central Government should amend rules to allow councils to transfer RtB receipts to council-housing companies or Arm's Length Management Organisations.
	Central Government should implement the recommendation from the Communities and Local Government Select Committee that suggests councils and housing associations should be offered first refusal on resale of some homes sold through RtB. New measures should also be introduced

	<p>that limit the number of homes sold through RtB that later end up in the private rented sector.</p>
	<p>Central Government should publish the Government response to the ‘Use of receipts from Right to Buy sales’ consultation, which was released in 2018.</p>
	<p>Central Government should clarify restrictions around management of intermediate tenures within HRA, including considering greater devolution to councils to determine the most appropriate requirements for their council, based on the needs of their community and within the bounds of the GLA’s definitions of affordable. Any changes to these restrictions should be introduced in a way that protects existing social housing stock managed in a council’s HRA.</p>
	<p>Central Government should agree an index linked, long-term rent settlement over the same period as a long-term capital settlement, giving councils and housing associations the certainty that they need to significantly expand their delivery of affordable homes.</p>
	<p>Central Government should agree a similar index linked, long-term Public Works Loan Board interest rate, to provide councils with certainty for longer-term HRA borrowing.</p>
<p>Mayor of London</p>	<p>The Mayor should provide practical information to enable councils to maximise the limited amount of revenue funding available to them (for example, opportunities to effectively capitalise revenue costs to expand housing delivery). This could be achieved through a practice or guidance note, or through other training and educational opportunities.</p>
	<p>The Mayor will review how the GLA Right to Buy ring-fence offer can best operate in a way that maximises housing delivery for councils.</p>
<p>Local authorities</p>	<p>Councils should prioritise grant funding for new build developments over regeneration schemes within their boroughs unless there is a clear case in favour of regeneration (for example, requirement to address safety risks).</p>
	<p>Councils should consider exploring opportunities to ‘pool’ existing revenue funding to support shared services, particularly where this is underutilised or could generate efficiencies at a pan-London level (for example, Apprenticeship Levy for shared educational resource).</p>
	<p>Councils should introduce a long-term HRA business plan to support a measured, long-term approach to financing housing delivery. This business plan should be aligned to the borough’s local plan and consider how more complex, larger, more strategic sites could be brought forward for housing.</p>

Skills and capacity

Responsible party	Recommendation
Central Government	Central Government should continue to make available valuable revenue funding for councils to ensure appropriate capacity and skills development can be supported.
Mayor of London	<p>The Mayor will engage with Public Practice to consider whether the council homebuilding sector would benefit from a broader range of 'public sector homebuilding' associates. This work could consider which roles, skillsets and levels of experience are in highest demand among council housing delivery teams, in thinking about how the model might be adapted to serve an expanded homebuilding programme in the future.</p> <p>The Mayor will explore developing and brokering a more formalised partnership framework between housing associations and local authorities to deliver council homes. The GLA could explore establishing a platform to assist councils to set up partnerships with housing associations, ranging from more informal staff placements to more formalised special purpose joint delivery vehicles. Further work will be undertaken to ensure the model provided benefits to all parties and does not replicate challenges or issues experienced elsewhere.</p> <p>The Mayor will continue to engage with the UK's MMC research agenda, to better understand opportunities, weaknesses and future trends and to ensure any wider adoption of MMC within London's affordable housing sector can contribute to a wider emerging evidence base.</p> <p>The Mayor will champion new initiatives that promote greater uptake of MMC to deliver affordable housing in London, including interventions that specifically help councils to standardise products and to achieve cost efficiencies while not compromising on design or quality. This work will consider the experience of the Pan-London Accommodation Collaborative (PLACE) in determining how the Mayor could aggregate demand for MMC systems in the future, but for permanent homes.</p> <p>The Mayor will review the range of procurement frameworks available to councils that can facilitate and streamline otherwise complex and timely procurement activities that relate to development, including the GLA's London Development Panel 2 framework agreement. Any review should consider whether there are gaps in the current range of frameworks and explore opportunities to better publicise the existing range of services and documents, including procurement frameworks that enable the adoption of developments constructed using MMC.</p>

	<p>The Mayor will explore how to better utilise ‘sector experts’ to provide advice to councils on an ad-hoc basis, including through educational resources, outreach services and greater information sharing across the sector.</p>
<p>Local authorities</p>	<p>Councils and associated educational forums should explore how to provide a new or expanded educational offering to legal, finance and procurement teams within their council to upskill other affiliated teams on the priorities of the housing delivery teams. There is benefit to this intervention being led at a local level, to ensure that other business units can understand the specific needs, priorities and operational experiences of the housing delivery team that they work alongside.</p>
	<p>Councils should explore tapping into existing under-utilised apprenticeship funding for staff development and continue to identify local opportunities to pool funding to maximise joint educational opportunities.</p>
	<p>Councils should consider utilising job commitments or guarantees to encourage employees to continue working in councils for a set period, following attainment of a council-funded post-graduate degree.</p>
	<p>Councils should form partnerships with universities, technical schools and other institutions to better market the council home delivery sector to students to increase the talent pipeline, including through convening key professional associations and educational providers to ensure future curriculum matches industry needs. This could be supported by the Mayor, if there was appetite to form London-wide partnerships.</p>

Appendix 2: Working group participants and other contributors

The findings in this report are underpinned by the insights, discussions and contributions of the senior council officers who participated in the 'Expanding Council Delivery Working Group'. This working group was hosted by the GLA and convened four times between November 2019 and February 2020.

The GLA would like to warmly thank the following working group participants for their time and wider contributions to this work:

- **Alan Benson**, Assistant Director of Housing, Haringey Council
- **Deborah Heenan**, Chief Executive, Populo Living
- **Graham Ward**, Interim Managing Director, BexleyCo
- **Hakeem Osinaike**, Director of Housing, London Borough of Brent
- **Jennie Coombs**, Head of Affordable Housing, Be First
- **Jennifer Daothong**, Commercial Director, Housing Delivery, Waltham Forest Council
- **Joanne Drew**, Director, Housing and Regeneration, London Borough of Enfield
- **Osama Shoush**, Regeneration Programme Manager, London Borough of Southwark
- **Pippa Hack**, Director, Regeneration, Enterprise and Skills, Royal Borough of Greenwich
- **Rhys Makinson**, Director, Housing Support Services, Camden Council
- **Richard Dickson**, Senior Asset Development Strategist, Westminster City Council.

The GLA would also like to thank the following individuals and supporting organisations for their contributions to this work:

- **Alex Sewell**, Special Projects Lead, Housing and Planning, London Councils
- **Eloise Shepherd**, Strategic Lead, Housing and Planning, London Councils
- **Steve Beard**, Beacon Partnerships Ltd.

The following GLA officers were involved in this work:

- **Alexis Harris**, Senior Policy Officer, Housing and Land
- **Francesca Lewis**, Housing Policy Manager, Housing and Land
- **Philip Waters**, Senior Policy Officer, Housing and Land
- **Marcus McPhillips**, Senior Policy Officer, Housing and Land
- **Daniella Dávila Aquije**, Principal Project Officer, Housing and Land
- **James Clark**, Head of Housing Strategy, Housing and Land
- **Kate Webb**, Head of Housing Strategy, Housing and Land.

Other formats and languages

For a large print, Braille, disc, sign language video or audio-tape version of this document, please contact us at the address below:

Greater London Authority
City Hall
The Queen's Walk
More London
London SE1 2AA

Telephone **020 7983 4000**
www.london.gov.uk

You will need to supply your name, your postal address and state the format and title of the publication you require.

If you would like a summary of this document in your language, please phone the number or contact us at the address above.