ARUP

Shelter

Council Housing Social Rent Delivery

Background report to inform Shelter's Build Social Housing Campaign

June 2024

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Section 1:

Introduction

Introduction
Context

Purpose of this report
Arup has been commissioned by Shelter to prepare this background report to inform their Build Social housing campaign. Shelter has identified that 90,000 social rented homes need to be built every year to meet demand. Shelter have therefore asked Arup to answer the following question: how many of the 90,000 social rented homes needed annually could be delivered by Councils?

This report focuses specifically on delivery of social rented homes. By this we mean homes which have rents linked to local incomes and provide a truly affordable, secure housing option for people across the country. We don't mean affordable rent, shared ownership, or any other so-called 'affordable' tenure.

The report also focuses on delivery of social rented homes specifically by Councils. It is recognised that other organisations, namely private housebuilders and Housing Associations, also deliver social rented homes, for example through Section 106 Agreements. However, to deliver at the scale needed, Councils need to resume a role as housebuilders, a role they have historically held but which has been lost. With Councils currently delivering on average just 1,900 social rented homes a year over the past five years, achieving the 90,000 target will require radical changes across Central and Local Government.

Background and context
The system for delivering social rented homes is well and truly broken. For the last 40 years there has been under-funding and under delivery, and a reliance on the private sector to deliver this type of housing. This combined with the loss of housing stock through the Right to Buy programme, has resulted in a huge shortfall of social rented homes. Shelter has estimated that 90,000 social rented homes need to be delivered every year in England for 10 years to meet the current need.

With a general election in the Summer and increasing recognition across all political parties that there needs to be a large-scale social housebuilding programme, there is no better time to act.

Arup are delighted to support Shelter in making a credible case to take to government to support their 'Build Social' housing campaign. The purpose of this report is to identify the number of social rented homes that Councils can build each year to make a contribution to achieving the 90,000 requirement. In calculating this number we have identified the interventions necessary to enable Councils to build more.

The findings of this report will be combined with data from other work Shelter are undertaking including on Empty Homes and Housing Association delivery. Together these studies will inform the interventions that Shelter will promote as part of their campaign.

It is widely recognised that more Government grant funding will be needed to bolster the delivery of social rented homes - with build and land costs significantly outstripping income for social rented homes - the need to inject funding into the system will continue. As well as grant funding, we have identified other interventions which could increase delivery of social rented homes.

Introduction
Context

Principles of assessment

The task of forecasting the future behaviour of Councils is extremely difficult, not least because at present Councils largely do not act as housebuilders and looking to past delivery is therefore of limited benefit. Achieving the ambitions of the Build Social housing campaign will require a complete culture shift and significant changes across the housing system to remove barriers. The housing system is complex - every site and every Council will be different. Interventions which make a difference in some places might not have the same effect elsewhere.

The numbers set out in this report represent our reasonable estimate of what could be achieved if all the barriers to delivery are removed. The numbers are forecasts, and as is the case with all forecasts, they need to be used with a degree of caution. We have developed an approach to forecasting the impact of interventions and the realistic increase which we can expect Councils to achieve, based as far as possible on reliable data sets typically produced by Central Government along with historical trends. Where we have had to make assumptions to progress the modelling, these are clearly set out. However, relying purely on statistical modelling cannot tell us the whole picture. The forecasts in this report are therefore also a result of applying our professional judgement to predict what councils could reasonably achieve given the necessary resources and the right environment to operate in.

The report firstly sets out the current context and the findings of the modelling. It follows by identifying and describing the package of interventions that we propose to remove barriers at every stage of the Council house building process. Other interventions which would reduce the loss of social rented homes or facilitate delivery by organisations other than Councils are presented in Section 4 .

It is clear that increasing delivery to 90,000 social rented homes a year will take a significant mindset change and huge effort from both Central and Local Government. Significant policy changes and additional funding will be needed to remove barriers and enable Councils to take on a new role as major players in this market. Together we can fundamentally change our housing system for the better and ensure that a decent home is available for all for generations to come.

Section 2:

Context

The history of Council housebuilding

It’s been 50 years since Councils were building homes at the rate needed

The drop in Local Authority building programmes has been stark in recent years. More than 100,000 homes were built a year in England during the 1950s, 1960s and 1970s – this has dropped to a few thousand annually in recent years (CMA, 2024).

Local Authorities have been required by law to provide Council housing since 1919, however it was not until after World War II that the age of Council house building truly began. With the impetus to replace homes destroyed in the war, Councils undertook a huge house building programme, with the vast majority (85%) being social homes (House of Commons Research Library, n.d.).

However, by the 1970s the rate of building began to decrease. Concerns about the quality of homes began to put the brakes on delivery and this was combined with a reduction in the availability of Government subsidies and funding. It’s very apparent from the chart on the right that Government legislation which increased subsidies led to an increase in Council delivery, and legislation which decreased subsidies led to a decrease in delivery.

Successive Right to Buy policies have further complicated the picture of Council delivery. The introduction of the 1980 Housing Act led to a sharp spike in homes sold under the Right to Buy policy. Successive Governments retained the Right to Buy policy, and in 1996 it was extended to include Housing Association tenants. The policy led to a depletion of Council and Housing Association stock, and restrictions placed on the ability of Councils to use the receipts to buy replacement homes meant that the homes haven’t been replaced at anywhere near the rate of loss. Today around 15,000 homes are lost each year in Right to Buy sales.

From the 1990s onward, Council house building has been an activity undertaken by a small number of Councils, on average around a quarter of Councils have directly delivered social rented homes over the last five years.

Recent lack of activity can be explained by a number of factors including austerity policies which reduced the in-house capacity and capability to build, and changes in grant funding.

The wider economic situation also impacts the ability of all house builders delivering any tenure, and Councils are not immune to these challenges. The rate of overall delivery declined in the 2008 financial crisis and again during the current ‘cost of living crisis’ where high inflation and interest rates have made viability even more challenging.

A national mandatory target of building 300,000 new homes (of all tenures) was introduced in 2017, and this was recently changed from a mandatory to advisory target. This change is likely to have further disincentivised Councils from delivering homes themselves.

What is clear from the history of Councils directly delivering is that the levels of building identified as necessary today, have only been achieved where Government subsidy was readily available.

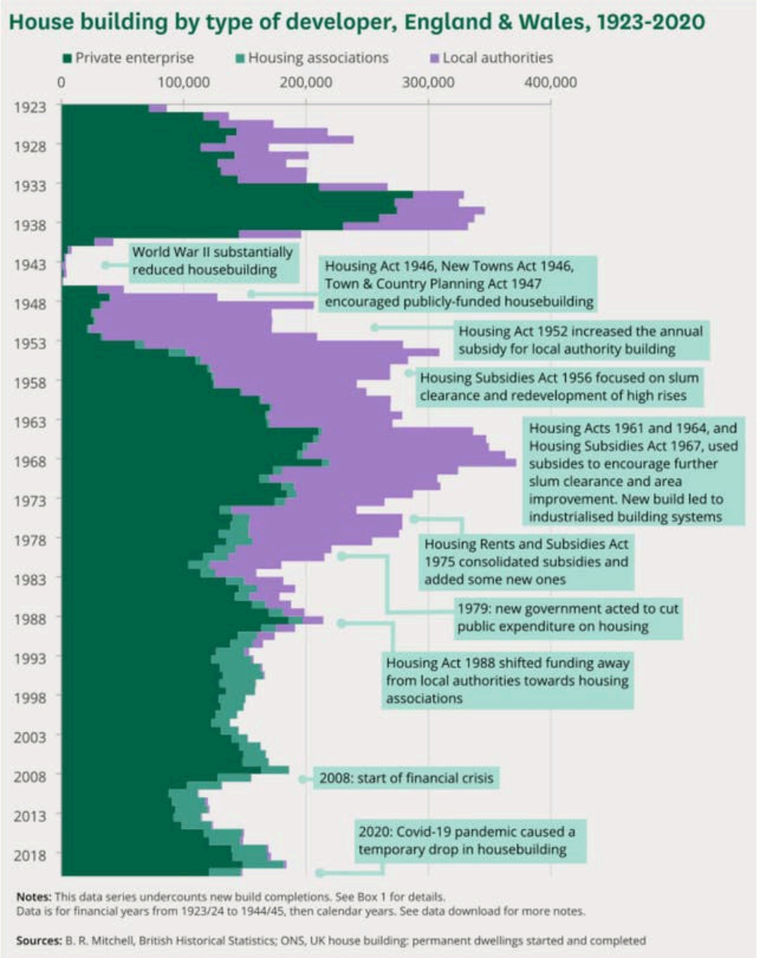


Figure 1: Historical house building by type of developer – CMA (2024)

The complex process of Council house building

There are significant challenges for Councils across the social housing development project lifecycle

The diagram below illustrates the process which Local Authorities must go through to build new social rented homes. There are barriers faced at every stage which need to be overcome. From the start Councils need to have the desire to build. The drivers for this will vary by Local Authority, whilst most will want to see enough social rented homes provided to meet the needs of their communities and a reduction in their Temporary Accommodation bill, not all will have the risk appetite to start building. Housing development is an inherently risky process, particularly in the current market with high inflation, instability of interest rates and supply chain issues. Councils need the support and confidence to know that they can carry and proactively manage these risks.

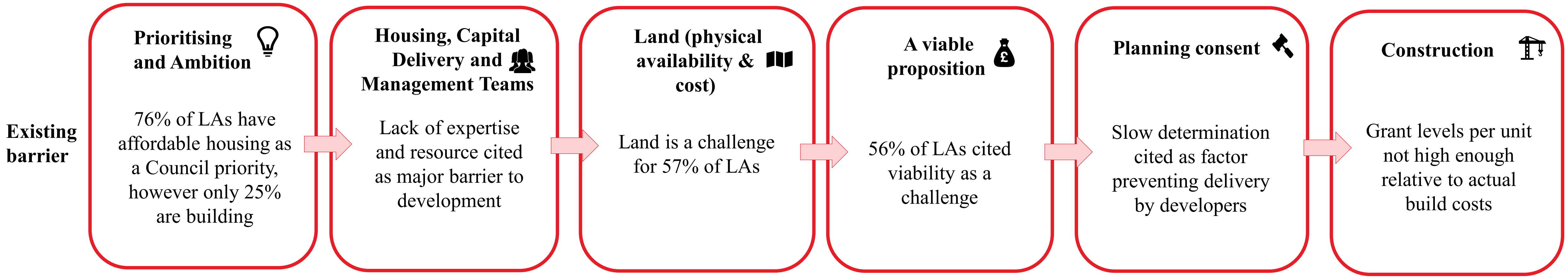
Next comes the requirement to have the in-house skills and resources to initiate the building process and see sites through to delivery. The vast majority of Councils haven't delivered any homes for many years, and any experience which historically existed has been lost. This is further exacerbated by the wider financial pressures Local Authorities are under, many of whom are struggling to deliver their statutory requirements and are focused on reducing activity and expenditure.

Councils then need to have land on which to build the homes and there are a number of sources available to them – they may already own land, they can acquire land through the One Public Estate or they can acquire sites in private ownership.

The next requirement is a viable proposition which, in the majority of cases, is the most significant stumbling block. With social rented housing typically costing £350sqft to build and existing grant only covering a third to a half of total cost, there is a significant funding gap to bridge, either through cross subsidy, grant funding, loan funding or other funding. The proposed homes then need to secure planning consent. Local Planning Authorities (LPAs) are already under significant pressure, and additional resources will be needed if they are to determine an increased application load.

The homes need to be constructed. Councils building social rented homes face the same construction challenges as all other builders, including availability and increasing costs of labour and materials. Finally, housing management teams are already lacking the skills and resource, if Councils are building more stock, resource and expertise in these management teams will need to substantially increase.

Figure 2: Existing barriers to Council social housing development



Case Studies

Despite the challenges faced, some Councils are managing to directly deliver new Council homes. However, the ability to build needs to be considered in the wider context of Council operations.

London Borough of Hackney

Since 2011, Hackney has led the way in building new Council homes. So far, their in-house teams have delivered more than 1,000 new homes, prioritising Council homes for social rent.

Hackney has benefitted from high land values which has enabled them to develop and deliver market homes to cross subsidise social homes. Between 2018 and 2022, they started, completed or received planning permission for 1,984 homes, of which 613 homes were for social rent. They have committed to starting work on 1,000 new homes for social rent between 2022 to 2026, and have agreed more direct Council investment that will mean 75% of homes in a new programme of Council housing are available for social rent.

The Council has developed a pioneering cross-subsidy model, through which more than half of the homes the Council have built have been for genuinely affordable social rent, shared ownership, or Hackney Living Rent. With the remainder sold outright to fund them in the absence of Government funding.

As part of their house building programme they are co-delivering with the community a new programme of around 400 homes on 15 Council-owned locations on Hackney's Council estates, focusing on underused garages and car parks. 75% of these will be for social rent, funded through a one-off direct Council investment, with the remainder sold as market housing. They also plan to accelerate the delivery of 255 social rent homes on existing programmes of Council homes.

Source: LB Hackney (2024)

Birmingham City Council

Birmingham City Council has historically been the biggest house builder of all Local Authorities, with more than 4,000 homes built since 2009 through its municipal homes trust. In 2022 it built 185 homes, of which 97 were for social rent.

However, in 2023 the Council issued a Section 114 notice, which meant that all new spending stopped immediately, with the exception of statutory services.

The Section 114 notice has had consequences for the Council's house building programme which has shifted away from house building towards renovating and improving the existing stock.

Rather than directly delivering sites, the Council now intends to to sell sites for housing associations to create their own building, with the Council retaining nomination rights to house tenants in the new homes.

Whilst there is no indication that the Council's house building activities contributed to its financial situation, this case is a good demonstration of the wider challenges faced by Local Authorities.

Birmingham is one of eight Local Authorities which have declared themselves bankrupt since 2018 and one in five Councils have reported that they are at risk of bankruptcy. For Authorities currently focused on delivering core services as efficiently as possible there is likely to be little appetite to take on the new activity of house building without significant policy intervention and support in resources.

Source: Birmingham Live (2024), DLUHC

Section 3:

Interventions to support Council delivery in social rent housing

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The baseline

Only a small number of Councils are building (25%) and those that are building, are only delivering in very small quantities. The viability gap is stark, with AHP funding covering only one third to half of build costs

Who is building?

The majority (55%) of Local Authorities have failed to directly build a single social rent home over the past five years. In 2022/23 80 out all Local Authorities (317) directly delivered 2,500 social rented units (DLUHC).

This means that today only a small number of Councils are building (25%) and those that are building, are only delivering in very small quantities. Out of the Local Authorities that are directly delivering, the average number of social rented units delivered by each authority is 27 per year (based on an average of the last five years) or 31 per year (based on 2022/23 DLUHC data).

The UCL (2024) Local Authority Housing Report identified that 76% of all Local Authorities have affordable housing as a Council priority. If the number of Councils who delivered homes increased from 25% to 76%, and they delivered homes at the same volume as those who are building it could be assumed that a total of 7,500 homes could be built per annum.

It's recognised that all Councils are different. Each have different approaches to risk, capacity to build, land values and viability challenges which vary hugely across the country. Nevertheless, the Councils who are building have proven that it is possible for Councils to deliver in the current context, albeit in low numbers.

However, this scale of delivery is no way near the level needed to make a significant contribution to meeting need. Private housebuilders will continue to focus on maximising profit for shareholders – they are focused on achieving a profit rather than maximising the number of units delivered. It therefore falls to Housing Associations and Councils to make up the shortfall, and with Housing Associations currently prioritising retrofit and enhancement of existing stock, there is an imperative need for Councils to build.

What is the viability gap?

The provision of social rented housing at around 50% of market rents requires a degree of subsidy. This has traditionally taken the form of a capital grant from central government. The Affordable Homes Programme (AHP) is largely administered on behalf of the Government by Homes England.

Within London, AHP funding is allocated by the Greater London Authority (GLA). The 2023 Spring Budget announced further devolution of AHP funding to Greater Manchester and West Midlands Combined Authorities.

The costs of development varies from site to site, and the amount of grant funding available will typically cover one third to one half of the build costs. In London the average grant funding per unit was around £260,000, and it was £160,000 outside of London (CEBR (2024), Arup analysis).

The balance of the net costs is typically met by borrowing or a cross-subsidy model. Councils can borrow against the future rental income from the social rented units. In 2018 the Housing Revenue Account (HRA) borrowing cap was removed. In that year's budget the then-Chancellor announced that this enabling Councils in England to increase house building to "around 10,000 homes per year."

Alternatively Councils can build a proportion of market sale units and use these to cross subsidise the social rented homes.

Site A – 30 Social Rent units

Blended average unit size: 850sqft.
Total area: 850sqft x 30 = 25,500sqft
Build cost: £350sqft x 25,500sqft = £8.9m (~£300k per unit)
AHP grant: £160k per unit = £4.8m
GAP = £4.1m (£140k/unit)
Sources: DLUHC, CEBR (2024), Arup analysis

Figure 3: Average figures to demonstrate the viability gap (Arup)

Findings

If barriers related to ambition, resourcing, land, viability, planning and construction are addressed, Councils could deliver approximately up to 34,000 social rent homes per year by 2030

Modelling the potential of Local Authorities to deliver more social rent housing

Step 1 – Tackle ambition to get Councils building and assume ramp up of delivery

Currently, only a quarter of Local Authorities are directly building social rent homes and, the ones that are have been doing so in very small quantities. However, the UCL (2024) Housing Report found that 76% of Local Authorities have affordable housing as a Council priority. We have assumed that if there is the political drive and mandate to solve the social housing crisis and Councils are given the resources they need to commence house building, the proportion of Councils building social homes could rise from 25% to 76%, which could deliver 7,500 homes per annum in FY 25 (assumed as Year 0) if today's completions rate is matched. To achieve this the following barriers need to be addressed immediately:

- Ambition - Culture shift across all levels of Government to raise the profile of social rented homes and set expectations for the role of Councils
- Resourcing –Significant additional resource to Councils to set up housing delivery and management teams

This increase is considered to be challenging but achievable because its predominantly achieved by many more Councils building, albeit in low numbers to start with. The Councils who are building represent a wide variety of types, size and geography, including Blackpool, Doncaster, Haringey, Exeter, Wiltshire and Dacorum, setting the expectation that most Councils should be able to build.

However, there are likely to be some Councils who do not wish to build or remain unable to, this is accounted for by increasing the number of Councils building to 76% (i.e. those who have set affordable housing as a priority) rather than assuming all Councils build. Nevertheless, this does represent a significant increase and a culture change combined with additional resources will be necessary to kick start such a large number of Councils to resume an activity which they have not undertaken for many years.

We have then projected a 'ramp-up' in annual delivery from this baseline figure (7,500 homes) over the subsequent five years, with increases in delivery starting at 20% in FY26 and 30% in each of the following years until FY30 (Year 5). Forecasting the future behaviour of Local Authorities is challenging. The data demonstrates that trends for housing completions are incredibly variable across Local Authorities with performance varying significantly year on year and by each Council. Therefore the ramp up assumed is based on a projection that is both reasonable yet ambitious, considering all interventions identified in this report are implemented and acknowledging that constraints to housing delivery will remain incredibly varied across the country.

There are examples of Local Authorities who have achieved increases of greater than 20% each year. For example, in Hackney, social rent starts, completions, and planning permissions granted grew at an approximate compound annual growth rate of 30% between 2011 and 2022. The Borough now plans to increase this year-on-year growth to an ambitious 41% with targets (LB Hackney, 2024).

However, there are also many authorities across the country who have not achieved such an increase or at such consistency. Thus if the barriers to delivery that are discussed further in this report are removed (namely under the themes of land, planning and construction), we can assume that an initial increase of 20% followed by 30% p.a is a realistic ramp up to project.

If the barriers related to ambition, resourcing, land, viability, planning and construction are removed, Councils could deliver nearly 26,000 social homes per year FY30.

Step 2 - Add effect of Intervention 4: support package to encourage and enable Councils to use their CPO powers

The Levelling-up and Regeneration Act 2023 introduced a significant change by removing the requirement for Councils to pay hope value when using a Compulsory Purchase Order (CPO) to acquire land. We have estimated that this could reduce the cost of land acquisition by approximately 15% for Councils intending to build social housing (see Intervention 8 for more detail and Appendix A for method). If Councils are supported to make use of this amendment and cost savings are reinvested into delivery in line with the ramp up outlined on Figure 4, output could increase further.

With interventions to facilitate the use of CPO powers an additional 4,000 social homes could be delivered per year by FY30.

Findings

AHP grant funding would need to increase to £6.2bn, specifically for social housing, to deliver the projected growth

Step 3 – Add effect of Intervention 8: Programme to coordinate Councils in order to gain agglomeration benefits

It is estimated that an agglomeration scheme where Local Authorities 'club together' on construction materials and make greater use of MMC to realise cost savings, could unlock savings of 15% (Appendix A).

With interventions to create agglomeration benefits, an additional 4,000 social homes could be delivered per year by FY30.

The combination of the removal of barriers related to ambition, resources, land, viability, planning and construction, combined with the use of CPO powers plus agglomeration benefits could lead to Councils being able to deliver 33,600 social homes per year by FY30 (Year 5). However this is all contingent on sufficient grant funding being available, this is calculated in Step 4.

Step 4 – Calculate residual funding required to fund 33,600 social rent homes

The total grant funding required to deliver the projected 33,600 new homes annually from FY30 for social rent is estimated to be **£6.2 billion per annum.** This amount is more than 2.7 times the current AHP budget allocated for all affordable housing tenures.

To address the viability gap and achieve the goal of delivering 33,600 homes per year from FY30, **an equivalent amount of £6.2 billion per annum of alternative funding would also be necessary, this is most likely to come from loans**. This funding could be sourced through private loans, assuming interest rates are sufficiently low, or through public loans from the Public Works Loan Board (PWLB).

This has not been modelled, but we propose that these loans have extended repayment periods to enhance flexibility for Local Authorities. Additionally, we recommend increasing the current discount rate for social rent building beyond the existing 0.4% discount (from the Certainty Rate) at which most Councils typically borrow from the PWLB. This approach would provide further financial incentives and support the construction of social housing, helping plug the viability gap. Alternatively, Councils can continue build a proportion of market sale units and use cross subsidy.

Figure 4: Ramp up in modelled social rent delivery per annum – Arup analysis

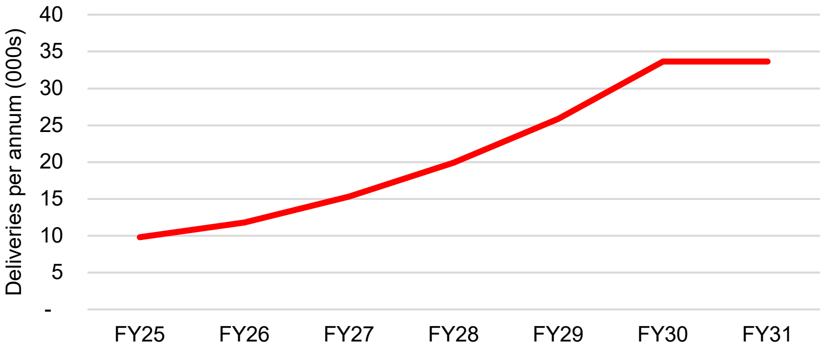

Table 1: Projected ramp up - Arup analysis

	FY25	FY26	FY27	FY28	FY29	FY30	FY31
Growth in delivery % per annum	-	20%	30%	30%	30%	30%	0%
Delivery p.a. (without considering effect of HV and MCC/agglom)	7,550	9,060	11,778	15,311	19,904	25,876	25,876
Additional units due to HV (15% additional delivery p.a.)	*1,132*	*1,359*	*1,767*	*2,297*	*2,986*	*3,881*	*3,881*
Additional units p.a due to MMC/agglom (15% additional delivery p.a.)	*1,132*	*1,359*	*1,767*	*2,297*	*2,986*	*3,881*	*3,881*
Total delivery p.a. (with hope value and MMC/agglom interventions)	**9,815**	**11,778**	**15,311**	**19,904**	**25,876**	**33,638**	**33,638**

Proposed package of interventions

Councils could deliver up to approximately 34,000 social rent homes per year by 2030 if the below package of interventions are implemented

There is no one silver bullet solution to the complex problem of Council delivery of social housing in England as barriers are faced at each stage of the house building process. Addressing the issue will require holistic interventions that support each other including changes to policy, funding and a transformation in attitude and ambition. The diagram below describes the interventions necessary for Councils to deliver that aim and to address the barriers identified in Section 2 .

The interventions listed below are specific to delivery by Councils, they are described in more detail on the following pages. Broader interventions have been identified which could increase the supply of social rented homes delivered by others and these are described in Section 4.

Figure 5: Interventions necessary for Councils to build 34,000 social rented homes

Prioritising and Ambition

1. Culture shift across all levels of Government to raise the profile of social rented homes and set expectations for the role of Councils

Housing, Capital Delivery and Management Teams

2. Significant additional resource to Councils to set up housing delivery and management teams

Land (physical availability & cost)

3. An increase in land availability

4. Support package to encourage and enable Councils to use their CPO powers to consolidate land in light of the removal of Hope Value

A viable proposition

5. Significant increase in AHP funding, including restructure of AHP

6. More low interest loan funding

Planning consent

7. Significant additional resource to Planning Policy Teams to get Local Plans in place and to Development Management Teams to enable efficient determination of applications

Construction

8. Programme to coordinate Councils in order to gain agglomeration benefits

9. Social Housing Contractor Framework

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Interventions

Prioritising and Ambition

The lack of delivery of social rented homes is a persistent problem which has not been solved by the vast array of policy changes or funding announcements made in recent decades.

There will be no change in delivery without a big change in attitudes. Councils need to feel both inspired and supported to start building social rented homes.

Intervention 1: Culture shift across all levels of Government to raise the profile of social housings and set expectations for the role of Councils

Delivery of social housing is widely talked about as being a Government priority, but the poor track record of delivery and impactful interventions suggests that it is not the case. A new Government has the opportunity to change this.

A step change requires a new Prime Minister to be bold and ambitious in their vision for a new Council House Building Programme. This means initiating the process of culture change from the very top and providing Local Government with the support, resource and powers it needs to deliver.

The new Prime Minister should set the expectation that all Councils must directly deliver to meet the need and provide confidence that the support and funding they need to do this will be put in place.

Government should be specific about what they mean when referring to social housing (helping to avoid confusion between other affordable tenures, that arguably are not genuinely affordable). They should hold themselves, and Councils, to account for delivery.

At the Local Government level, a culture shift could start with all Local Authorities appointing a ‘Social Rent Champion’, covered by Lead Members for Housing. This champion, as well as the Leader of the Council, should have ultimate responsibility for delivering social rented homes.

The importance of delivering enough social rented homes should become a golden thread running through all Council activities and departments, in much the same way that tacking the climate emergency has for many Local Authorities.

If Local Authorities are provided with the tools, funding and support, it will provide the framework and confidence for them to get building. Local Authorities understand the desperate need for more social rented homes and want to address the problem – they just need the right environment in which to do so.

Finally, Councils have cited the fear of losing stock to Right to Buy as a deterrent to them directly delivering. As part of instilling a culture change, the Right to Buy policy should be abolished giving Councils further impetus to get building again. This is discussed further in Section 5.

Interventions
Capacity and capability

With all barriers overcome, ultimately Councils need in-house resource to be able to deliver their ambition with an increase in capacity and capability of housing delivery and management teams.

We know that a key barrier to housing delivery is the lack of capacity and capability within Local Authorities. Local Authorities struggle to recruit the right staff and expertise who deeply understand the process of planning, financing or constructing new homes.

This is particularly pertinent under the current immense financial challenges that Local Authorities are facing. An LGA (2023) survey found that almost one in five Council leaders and chief executives in England think it is very or fairly likely that they will need to issue Section 114 notices due to a lack of funding to keep services running. A survey by Public Practice (2023) stated that almost 66% of built environment teams believe they don't have the capacity to deliver strategic roles that go beyond minimum statutory responsibilities, an increase from 2022.

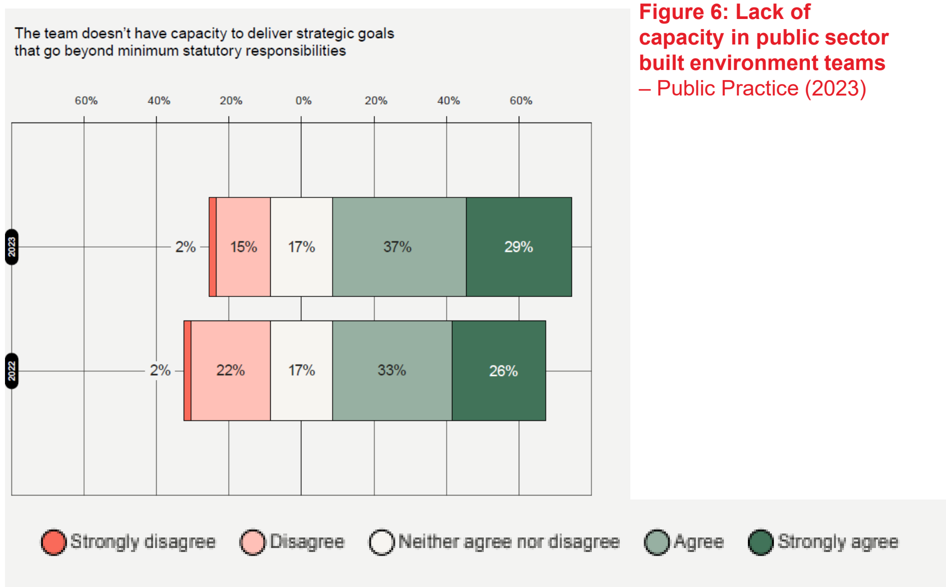

Figure 6: Lack of capacity in public sector built environment teams – Public Practice (2023)

Intervention 2: Significant additional resource to Councils for housing delivery and management teams with the appropriate skills and knowledge. See also Intervention 8 regarding Local Planning Authority capacity.

If Councils are to deliver the ambition of social housing delivery, significant investment needs to be made in in-house housing delivery teams. Regardless of the delivery vehicles used to deliver social rent housing, from JV's, housing companies to direct delivery, there are much needed skills in demand. These include; surveyors, designers, real estate, finance, viability and construction specialists who should have the skills and commercial acumen to develop quality projects, get them on site and successfully manage the contracts during construction through to completion.

If Councils are building a significant amount of more social homes, increasing capacity of housing management teams, including roles such as voids managers, asset managers and neighbourhood housing managers, will also be critical to ensure stock is managed well to last and relationships with tenants are maintained. With recent new qualification requirements for housing management teams, investment into upskilling of existing staff will also be required. Research by the LGA (2023) reported that 66% of senior housing managers were not sufficiently qualified to meet new requirements.

Local Authorities have traditionally struggled to recruit into housing delivery roles, facing competition from private housebuilders. There are existing initiatives in place, including Public Practice, but much more funding for resources and incentives for qualified expertise to join the public sector is required if we expect Councils to be delivering a substantial amount more of social housing.

Interventions

Land

A lack of land and a lack of suitable sites was reported by 57% and 56% of respondents respectively in UCL's Local Authority Direct Provision of Housing Report.

Physical availability of land

In England, over 90% of the land is of non-developed use, with agriculture (63.1%), forestry, open land and water (20.1%), and residential gardens (4.9%) being the top 3. As land supply is limited and fixed, more transparency is needed (Knight Frank, 2023). Similarly, the Green Belt covers nearly 13% of England. Current policy has been to prevent urban sprawl by keeping land permanently open and maintaining a clear physical distinction between town and country, however, we know that a lot of green belt land is low quality and could be suitable for development.

The graph below demonstrates that for those authorities that are directly delivering housing, their own landholdings remains critical.

Figure 24: Analysis of survey responses as to what type of land is being used to support direct delivery of housing by local authorities (total adds to more than 100% as respondents could select any barriers applying)

Figure 7: Significance of Councils' own landholdings – UCL (2024)

Intervention 3: Further solutions to provide more options for land availability for Councils include:

- Increased transparency of available land through the Land Registry or national mapping of publicly owned land
- Review of the green belt to identify 'grey-belt' sites that could be developed
- Continuation and promotion of the One Public Estate Programme
- Enabling more Development Corporations to be formed who have land, planning and delivery powers.

Cost of land

A significant amount of research has identified that the cost of land is one of the most significant barriers to delivering social housing. Camden Council have reported that 'land can be more than half the cost [of development] in London'.

Despite the recent reform under the Levelling Up and Regeneration Act to remove 'hope value', allowing Councils to acquire land at Existing Use Value (EUV) under certain circumstances, Councils are lacking the experience and confidence to exercise these powers and legal professionals have warned that the process by which hope value can be exempted remains open to judicial review by landowners (Centre for Cities, 2024).

Intervention 4: Support package to encourage and enable Councils to use their CPO powers to consolidate land in light of the removal of Hope Value

We propose that the Government provides subsidised legal advice, expertise to Councils around CPO processes and provide Government backed liability insurance so that Councils have the authority and confidence to exercise their newfound CPO powers.

If Councils begin to make further use of these powers, we estimate development costs could be reduced by up to 15% overall, leading to a delivery of an additional 15% of social rent homes that could be built per year from FY2025 (if this cost saving was solely spent on delivery). The 15% saving would be across all developments (i.e. those with and without CPO) and we would expect the proportion of developments using CPO to increase over time as CPO becomes more attractive.

This could mean an additional 4,000 homes per year by 2030, if applied alongside all other interventions outlined in this report.

An increase in the use of Council's newfound CPO powers could lead to an additional **4,000 social rent homes per year** by 2030

Interventions
A viable proposition

A lack of funding is the biggest barrier to Council delivery of social housing

The level of Government subsidy to pay for social homes has been severely reduced over the years. The 2011-2015 AHP was cut by 60% compared to the previous programme (2008-2011) (Shelter, 2021). The level of grant support provided through AHP has not kept pace with the rising costs of construction, exacerbating viability challenges and meaning more building for sale or market rent homes are being built to cross-subsidise delivery.

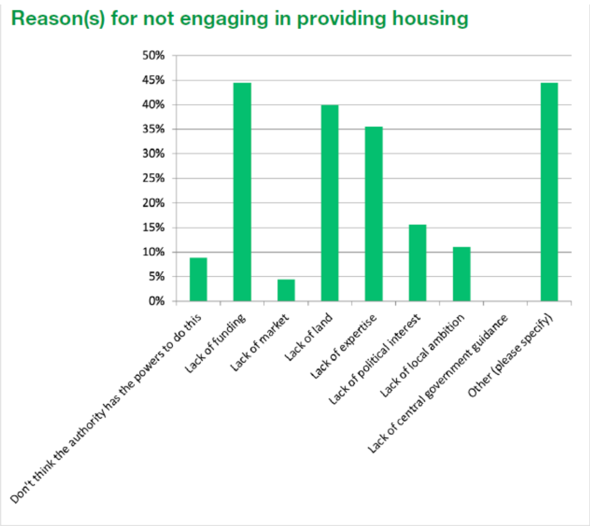

Figure 8: Why Councils are not engaging in providing housing – UCL (2024)

£6.2bn of grant for social rent homes is needed to deliver the **33,600 social rent homes per year from 2030**

Intervention 5: An increase of AHP grant funding for social rent homes, specifically for Councils, and a restructure of the AHP.

We propose that AHP grant funding for social rent homes should increase to £6.2bn (from approximately £1.2bn) to deliver 33,600 homes per annum from 2030. This would increase the total annual budget for the AHP, which considers all affordable tenures, to £7.3bn, which is over three times the current budget (of £2.3bn).

If it is assumed that two-thirds of homes are funded by government grant and the remaining third is covered by S106 or equivalent, £4.2bn would be required to deliver the 33,600 social rent homes per year from 2030. This calculations behind this are presented in the accompanying spreadsheet annex.

Restructure of the AHP

As well as additional grant funding we propose restructuring of the AHP, which could also have huge benefits to Local Authorities. We propose that the AHP is:

- Devolved to the regions and Combined Authorities (as managed in London and piloted in Greater Manchester and the West Midlands). We have seen what benefit this has had in London, with the Mayor being able to take more of a strategic direction on funding, and stronger relationships being able to be built with applicants.
- Made easier to access by removing the scheme by scheme application and bidding process and rather allocated through longer term strategic partnerships or indicative proposals. This is implemented already, and indicative proposals are possible in London. This would provide the much needed longer term certainty and security in planning for their pipeline.
- Delegated back to DLUHC from HMT for approvals, for increased ease and efficiency.
- Extension of the programme from 5 years to 10 years, to allow longer term planning and certainty for Councils.

Interventions

A viable proposition (2)

Intervention 6: More low interest loan funding

We propose that £6.2bn in loan funding is made available per year from FY30 and is fixed on low interest to provide a greater degree of flexibility, including longer repayment periods.

Research undertaken by UCL states that the financial turbulence over the last few years and subsequent increase in interest rates has led to a reduction of housing completions (UCL 2024). As AHP grant typically only covers half of the cost of developing a social rent unit, to cover the viability gap outlined earlier in this section, borrowing options Councils have are; to borrow from the PWLB, Government backed recoverable investment or private loans against future rental income generated from the social rent units.

Councils need security of lower rates and longer term repayment periods to allow them to plan longer term and invest in strategically important sites. Compared to the other sources Councils have to borrow, the PWLB is the most commonly used and is specifically targeted to providing loans to Local Authorities and other specified bodies in the UK to support infrastructure and capital projects. It aims to facilitate investment in public services and community improvements by offering competitive borrowing rates. The PWLB currently offers a 0.4% discount from its 'Certainty Rate' for loans that support social rent construction and delivery. Therefore, we propose an additional discount and extended repayment periods on the PWLB loans to offer greater flexibility and financial assistance to Local Authorities in building social rent homes.
Councils would need to continue to bridge the viability gap by using profits generated from market-rate homes for sale to cross-subsidise the social rented homes. They should also continue to have access to other housing and regeneration focused funding programmes.

Note. The increased loan funding has been calculated by understanding the amount of funding required to plug the viability gap per year.

Interventions

Planning consent

Across the country planning departments are under-funded and under-resourced. Lack of capacity and capability in LPAs is widely cited as a barrier to delivery. Applicants feel that the process of securing planning consent is too long, there is uncertainty about what is consentable in the absence of up to date policy and the obligations attached to consents are too onerous. Overall, this adds risk to the process and in some cases will discourage potential applicants from progressing opportunities.

Planning reform has been a main focus for the current government, particularly over the last couple of years as the Levelling up and Regeneration Act has been making its way through the parliamentary process. There have been countless consultations and "adjustments" in relation to the planning system intended to lead to more efficient planning services and unlock national growth. Planning professionals and developers generally hold the view that constant "tinkering" around the edges of planning policy was in fact, having the opposite effect of slowing down the planning process.

Housebuilders need consistency and certainty. This requires clear policy and spatial frameworks at area, Local Authority, and cross – boundary levels that set out how places should develop and change over the long term. Around nine in ten Councils have an adopted Local Plan, however these are not consistently kept up to date, and they don't all allocate sufficient land to meet housing need.

The twin challenges of a lack of up-to-date planning policy and slow determination of applications are not exclusive to applications for social rented homes but apply to applications for all types of development.

A complete overhaul of the system is likely to create uncertainty and delay the progression of applications. Whilst there is certainly room for improvement, the main intervention likely to speed up decision making is the proper resourcing of development management teams so that they can deal with the applications submitted by developers and Councils promptly and efficiently.

The Planning Delivery Fund will support 180 Local Authorities to clear the backlog of planning applications. Government also announced the introduction of a 'super squad' of planners, however the impact this will have on typical planning departments is not yet known.

If social rented homes are to be delivered at the scale necessary, the application caseload will increase in a system which is already failing to manage – further reiterating the need for resources to be bolstered.

Intervention 7 : Significant additional resource to Planning Policy Teams to get Local Plans in place and to Development Management teams to enable efficient determination of applications

In seeking planning consent, Councils need to have comfort that their application will be determined quickly and that fair, predictable and consistent decisions will be made in accordance with an up-to-date Local Plans.

Council planning teams have been significantly affected by the wider issues in relation to Local Government funding. This has led to a lack of resource and incredible pressure on Planning teams. Significant investment is needed to ensure Development Management teams have the capacity and skills to appropriately deal with not just the current volume of applications, but a significant increase in line with the ambitions in this report. This will require additional Planners to be recruited into planning departments and an enhancement of training to ensure they have the skills needed. Some of this could potentially be funded by the private sector who have indicated that they are willing to play their part through planning fees.

Additional capacity is also required in Planning Policy teams to achieve comprehensive up to date Local Plan coverage. Achieving this will meaning that Council Housing Delivery teams can prepare applications with a good understanding of the policy requirements which they need to meet in order to achieve consent, thereby derisking the costly process of preparing applications.

There are wider opportunities to simplify the planning system, including through digitisation. These have the potential to improve the system for all users, including Councils submitting applications for socially rented homes.

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Interventions
Construction

The rise in construction costs, labour and building materials over the last few years have only furthered the viability challenges faced by Councils in delivering social rent housing. BCIS project that building costs will further increase by 15% over the next five years (BCIS, 2024). Furthermore, we know that on large and complex sites, early infrastructure requirements to unlock a scheme can be significant.

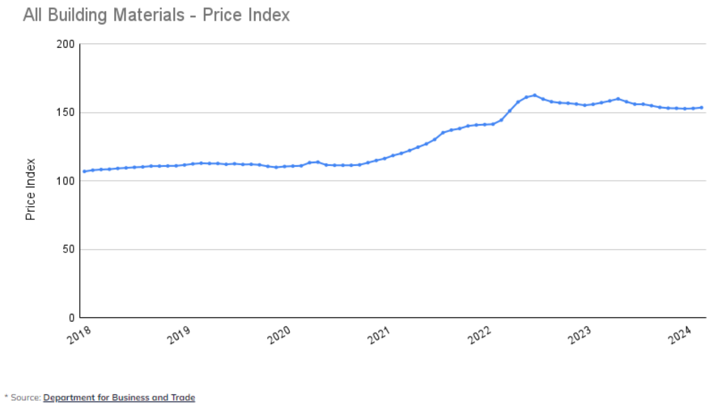

Figure 9: Significance of Councils' own landholdings – BCIS, DBT

A decrease in construction costs could support increased social rent delivery through easing viability constraints.

Intervention 8: Programme to coordinate Councils in order to gain agglomeration benefits

To create better economies of scale, an agglomeration scheme could be formed where Councils 'club together' on construction materials and labour to realise cost savings. It is assumed this could unlock an additional 4,000 homes per year by 2030 (in line with the ramp up modelled on Figure 4) if this is intervention is implemented in conjunction with the others recommended in this report.

4,000 homes p.a. by **2030**

MMC has the potential to enable social rented homes to be constructed more efficiently. Social rented homes lend themselves well to MMC because they can be of a relatively standard base design, which is then made suitable for the local context, for example through the choice of facade materials. However, there have been mixed successes across Councils and suppliers ceasing operations, including Legal & General (L&G). One of the main challenges of MMC is that there are large initial set up costs when there isn't always a secure pipeline of orders. An agglomeration scheme between Council's could offer more certainty to MMC providers by providing greater visibility of a longer-term pipeline of orders.

Intervention 9 : Social Housing Contractor Framework

To further increase efficiencies and decrease constructions costs, we propose Homes England procure a social housing specific contractor framework for Council direct delivery that all Local Authorities and Combined Authorities are able to access. Although an existing Homes England framework exists, the Homes England Delivery Partner Panel, a specific framework for development of social housing could set maximum rates for materials for each year and have standard contract templates and terms and conditions.

In England the top ten biggest housebuilders typically build 40-50% of our homes (University of Reading, 2023). We know that in the past SME housebuilders had a much larger role to play in the market, in 1988 SME housebuilders delivered 40% of our homes, in 2020 this figure was just 10% (House of Commons Library, 2023). A new framework could stimulate the SME housebuilder market, including contractors of a variety of sizes, suited to large, medium and small sites. A new social housing specific framework could mean:

- Councils have access to a pre-qualified selection of suppliers, ensuring confidence in the quality of the supplier and thus quality of homes
- Councils gain cheaper rates and tender prices than if they were to procure from the open market
- Contractors have more confidence in a secure pipeline
- Diversification of the housebuilder market

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Section 4:

Interventions that could support wider delivery over and above the 34,000 by Councils

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Interventions that could support wider delivery

Suspending Right to Buy for new and existing homes could save over 10,000 social rent homes per year

The introduction of Right to Buy has decimated England's social housing stock. To date, over 2 million social homes have been sold with only 4% of these replaced. Between 1980 and 1984, nearly 500,000 social rent homes were sold (New Economics Foundation, 2022). The scheme continues to add to the viability challenges of building social rent, with one Council finding that they need to sell six social homes via Right to Buy to create enough funding to buy a new one (The Housing Forum, 2024).

Note we focus exclusively on Right to Buy sales of Council-owned social rent stock, excluding those owned by Housing Associations. The figures here are distinct from the Council direct delivery package discussed in Section 4, as Right to Buy reform aims to stem losses rather than contribute to additional delivery. Consequently, these figures reflect prevented losses relative to current rates of delivery and are not adjusted according to the ramp up modelled in Section 3 - making direct comparisons with the impacts of interventions in Section 3 would be inappropriate.

After modelling three options to reform Right to Buy, we recommend a complete suspension of the scheme for new and existing homes to preserve the stock – saving over 10,000 Council homes per year.

Option 1 - Right to Buy suspended for all new and existing homes

Prevent loss of **10,100 homes** p.a

The most impactful out of the Right to Buy interventions, terminating the scheme could prevent the loss of 10,100 Council homes per year. This would increase Councils' incentives to build social homes, creating a virtuous cycle that could stimulate future delivery beyond this figure.

Method

We estimated the rate of loss of social rent properties by Local Authorities due to Right to Buy over the previous five years, assuming this will continue at the same rate for the next decade.

Option 2 - Right to Buy restricted to not apply to newly built homes for at least 10 years

Prevent loss of **5,400 homes** p.a

This measure, recently suggested by Andy Burnham, would prevent the loss of approximately 5,400 new Council homes per year. This would also increase the incentive for Council s to build social rent as the homes will be 'safe from loss through 'Right to Buy' .

Method

Based on historic rates of Council social rent delivery, we estimate Council delivery over the next 10 years and compare this to historic data on Right to Buy losses to estimate a rate of loss for social rent properties. Assuming no losses for three years after the first completion and the historic rate of social rent losses continues for the next decade, we estimate the prevented losses from suspending Right to Buy from newbuild social homes.

Option 3 - Enable Councils to fund 100% of a new home through Right to Buy receipts

Additional delivery **of 1,000 homes** p.a.

Allowing Councils to fund 100% of a new home through Right to Buy would prevent the loss of approximately 1,000 homes per year. Enabling Councils to retain proceeds of Right to Buy on a permanent basis and use receipts in conjunction with other grants would further increase flexibility to unlock delivery and help ease the financial pressure on Local Authorities.

Method

We collected historic data on Right to Buy receipts (in 2024 prices) and delivery of social housing through Right to Buy receipts to determine the value of receipts currently required per home delivered. Next, we estimated how many units could be delivered if all Right to Buy receipts were spent on new social rent homes and compared to this to the current rate of delivery.

Interventions that could support wider delivery

NPPF Planning reform

Policy and legislation – Planning reform

Stipulating, as part of the NPPF, that a minimum percentage of homes delivered as part of major developments should be for social rent, or equivalent made through CIL payments.

12,700 – 38,000 additional homes p.a. (depending on % stipulation) delivered predominantly by private developers

Increasing social rent requirements for major developments in the NPPF could lead to the delivery of 13,000 to 38,000 social rent homes annually, depending on the percentage of social rent that is stipulated on major developments. The results of this are presented on Table 2. These would be separate and in addition to social rented homes delivered by Councils as described in Section 3 of this report.

This shift would refocus the NPPF on the only truly affordable tenure, though it would result in a reduction in the delivery of other 'affordable' housing types. This requirement would also add to the viability challenge faced by private developers. An increase in the availability of grant funding is likely to be needed to support delivery.

Note that the resulting social rent delivery from this intervention would be carried out by the private sector, not Council direct delivery. Furthermore, these figures estimate additional delivery over current rates and are not adjusted in line with the ramp up modelled in Section 3, making direct comparisons between this and the impacts of interventions in Section 3 would be inappropriate.

Method

Using data from the DLUHC Planning Applications Statistics, we found that 91% of all units granted permission were part of major developments (10 units or more) in 2022/23. Assuming the proportion of homes delivered through major developments aligns with the share granted permissions, we estimated the delivery of homes through these developments. We then applied the minimum stipulations outlined in Table 2 to this estimate.

This intervention focuses on numbers that would be delivered by the private sector through the planning system, rather than Council direct delivery.

Minimum social rent requirement on major developments in NPPF	Additional social homes delivered per year
10%	12,700
15%	19,000
20%	25,300
25%	31,700
30%	38,000

Table 2: Additional social rent homes delivered per year on major developments by % requirement – DLUHC, Arup analysis

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Section 5:

Recommendations

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Conclusion

Summary of the total package

The table to the right summarises our recommended total package of interventions that we believe will enable Councils to deliver approximately up to 34,000 social rented homes per year by 2030.

The interventions have been specifically considered by theme to address barriers that exist across the housing development project lifecycle from inception to completion and beyond through to management. This is to ensure barriers are responded to holistically rather than in isolation, critical to seeing maximum impact. Although it is recommended all are delivered together, it is important to recognise that some will have greater impact than others.

We believe the most impactful interventions are; 1, 2 and 5. With only 25% of Councils building, Central Government needs to be bold and ambitious and set a clear mandate and message that inspires Councils to prioritise delivery of social homes. Critical to the ambition and ramp up in delivery, is greater grant funding, this is reported to be the biggest barrier in delivering social homes . Finally, ambition and funding, will not have the impact unless Councils have the appropriate resource to identify, plan, develop and manage sites. With Councils across the country under significant financial constraints, the appropriate capacity and capability is essential.

Intervention theme	No.	Intervention
Ambition	1	Culture shift across all levels of Government to raise the profile of social rented homes and set expectations for the role of Councils
Housing, Capital Delivery and Management teams	2	Significant additional resource to Councils to set up housing delivery and management teams
Land (physical availability & cost)	3	An increase in land availability
	4	Support package to encourage and enable Councils to use their CPO powers to consolidate land in light of the removal of Hope Value
A viable proposition	5	Significant increase in AHP funding, including restructure of AHP
	6	More low interest loan funding
Planning consent	7	Significant additional resource to Planning Policy Teams to get Local Plans in place and to Development Management Teams to enable efficient determination of applications
Construction	8	Programme to coordinate Councils in order to gain agglomeration benefits
	9	A new Social Housing Contractor Framework

Table 3 – Summary of the total package of recommendations

Conclusion

Combining the two additional interventions related to RTB and the NPPF with those directly linked to Council delivery could result in the following numbers of additional social rented homes.

Intervention	Number of Social Rented homes (per annum, from FY30)	Delivered by
Removal of barriers related to prioritisation/ambition, resources, land, viability, planning and construction	26,000	Councils
Facilitating use of CPO powers	4,000	Councils
Agglomeration benefits	4,000	Councils
Subtotal – Council social rent delivery from FY30 through interventions	**34,000**	
Suspension of RTB	10,000 (not lost)	NA – these are homes prevented from being lost
Change to NPPF to require a minimum percentage of homes delivered as part of major developments should be for social rent	12,700 – 38,000	All organisations involved in delivery of homes, predominantly private house builders

Table 4: Summary of potential impact of interventions

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Section 6:

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Appendix A:

Methodology – Hope value and Agglomeration

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Methodology – Hope value and Agglomeration
Overview

Methodology and assumptions

Intervention 4: Support package to encourage and enable Councils to use their CPO powers to consolidate land in light of the removal of Hope Value

Methodology

1. Due to a lack of data, it is not possible to estimate the proportion of land acquired through CPO for social housing, so we instead analyse the cost savings associated with the removal of hope value on development costs.
2. Using the development cost per unit, we determined the proportion of costs on the purchase of land, both at present (i.e. market values) and with new CPO powers which allow for land purchase at closer to the current use value.
3. We used case studies and land value estimates from recent previous research on hope value, using this to estimate an average saving per unit across all council development (considering the overall impact of the new legislation on land prices). This cost saving on development cost of a social rent unit is 15%. Assuming this cost saving was solely spent on additional delivery in line with the ramp up on Figure 4, this intervention would lead to an addition 4,000 social homes per year by 2030.

Intervention 8: Programme to coordinate Councils in order to gain agglomeration benefits

Methodology

1. We collected data on potential future cost savings from the use of MMC, which was 20% - 40% (RIBA, Parliamentary Committee, n.d.)
2. Cost savings data from agglomeration was then sourced using a high-level construction cost calculator (Costmodelling, 2024) that analyses construction costs relative to development size
3. We then assumed that an agglomeration where three Local Authorities 'club together' and benefit from cost reductions from ordering in bulk (3 LAs vs 1 LA) using adjustment factors from the above calculator. This cost saving was 5-10%.
4. The cost savings from greater use of MMC and agglomeration were then combined to an average cost saving of 15%. Assuming this cost saving was solely spent on additional delivery in line with the ramp up on Figure 4, this intervention would lead to an addition 4,000 social homes per annum by 2030.

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