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Councils to turn developers as Treasury backs '£20bn' housebuilding drive

English local authorities will be at the forefront of a new wave of housebuilding with a Treasury review set to recommend more councils establish their own development companies

According to the AJ's sister title *Construction News*, at least four councils have put in place plans to establish their own housebuilding companies since December alone, with a leading consultant saying that many more are looking to follow suit.

Under the majority of blueprints seen by the publication, work will be put out to tender rather than carried out in-house, creating a major new income stream for contractors - and architects.

The review of local authority housing, due to be unveiled this month (January 2015), is expected to promote the use of such firms as a means of easing the housing crisis.

In total, the four councils have pledged to spend £130million through their own firms and plan to develop or refurbish almost 9,000 homes.

These will largely be available for private rent or sale, rather than as affordable rent.

Under most models, councils plan to borrow the capital costs from the Treasury's Public Works Loan Board. This will then be invested in the new companies in the form of share purchases.

Despite the surge in the number of authorities planning such organisations, the review team is understood to be concerned about the failure of similar ventures in the past.

An attempt by the previous Labour government to kick-start a new breed of 'local housing companies' failed to materialise, with just two of 14 planned pilots getting off the ground.

Led by housing finance lawyer Natalie Elphicke and Eastleigh Borough Council leader Keith House, the review aims to help councils exploit their rental income and assets to boost housing supply.

While scores of authorities have had control of this income since 2012 – as well as around £2.9bn of borrowing power – few have used it to build new homes.

Only 34 out of 326 English councils which post housing starts told the government they had begun construction of new homes in 2013/14, with three-quarters of these building fewer than 50 homes.

To encourage wider participation in housing development, the review will suggest that councils with land but no current landlord role should begin developing new homes.

It will flag up a little-known Whitehall rule which permits the 150 or so authorities without housing departments to develop and manage a limited number of affordable homes.

Elphicke told *Construction News* the ‘re-activation’ of council housing in 2012 could create billions of pounds of business for the housebuilding industry.

‘For more than a decade there has been an ambition to increase housebuilding by about an extra 100,000 each year,’ she added.

‘That hasn’t happened. That’s a £15billion to £20billion opportunity for housebuilders which has been left on the table.’

Grant Thornton head of real estate Chris Shepherd said he was advising ‘large numbers’ of authorities that wanted to establish standalone firms. ‘The phone doesn’t stop ringing,’ he added.

According to Shepherd, many authorities saw them as a way of generating a ‘significant return’ to help with their current ‘tight’ financial states.

Homes built through development companies could also avoid the government’s ‘right to buy’ rules, which allow long-term tenants to purchase their homes at huge discounts.

‘Depending on how the company is structured, the right to buy is removed and the asset base won’t be eroded, although this shouldn’t be a driver for these companies,” he added.

County councils, which have historically not held a landlord role in local government, are also now looking at housing development to feed deflated budgets, according to Mr Shepherd.

‘The traditional model was local housing authorities building homes. These new models can be seen as a way of creating income for councils’ general funds.’

An analysis of council papers shows that authorities anticipate significant returns on their development projects.

Basildon Council expects a £5.1m return on the initial £10.6m investment it plans to plough into its housing company, Sempra Homes.

And Telford & Wrekin Council expects to raise an extra £8.6m over 10 years by building 425 homes.

Long term, the authority predicts boosting its budget of £80m over three decades, when additional council tax and new homes bonus income is taken into account.