

Highbury Group on Housing Delivery

Response to MHCLG Select Committee Inquiry into Long-term Delivery of Social and Affordable Housing

The Highbury Group is an independent group of specialists from public, private and independent sectors from housing, planning and related professions, which prepares proposals for Government and other agencies on policy options for optimising the output of housing including affordable housing.

- ***How can the Government ensure the sustainable delivery of social and affordable rented housing to meet long-term need and contribute to the Government's overall housebuilding targets.***

- What levels of central government funding will be required to support this delivery over the next 10 years?

The Government has not as yet disaggregated its national housing target of 300,000 net additional homes per annum into the different affordability and tenure sub-categories. Moreover, the current national and district level estimates derived from the Government's Objectively Assessed Needs methodology do not adequately reflect the extent of the backlog of housing need (as contrasted with an estimate of unmet demand) nor, being trend based do they reflect either the potential residential development capacity within a district or the potential for employment growth within an area. In our view, based on the evidence available, at least 50% of the 300,000 target should be for sub-market housing, with the majority of such provision being social rented housing. It needs to be acknowledged that the balance between market housing, social rented housing and other forms of sub-market housing (such as discounted sale, equity shared, shared ownership and sub-market rented housing including 'affordable rent') will vary widely between local authority areas, and often within these areas. These proportions not only reflect variations in income but variations in the cost of different types of housing. The level of government subsidy required varies according to both housing costs and relative changes in household income for different income groups. Cost reflects not only the cost of construction and the profit margins of builders and developers (where applicable) but the cost of land, which in some locations can comprise 70% or more of development cost. Reduction of land costs can therefore significantly reduce development costs and therefore reduce the need for direct or indirect subsidy.

In referring to subsidy, it is important to distinguish between 'bricks and mortar subsidy' such as grant to housing associations, councils or developers and financial support to households, whether in the form of equity loans for purchasers (such as Help to Buy) or through housing benefit/universal credit for renters. It should also be recognised that provision of land by public sector organisations to developers or housing associations on a discounted market value basis is a form of public subsidy, as is the use of section 106 planning agreements to support housing provision. It is therefore essential that central government provides national and regional estimates of the requirement for different types and tenures of housing, thus disaggregating its 300,000 target (or a revised national target) and estimating the level of subsidy required to meet each component. In this context, the priority for subsidy must be the provision of social rented housing for those unable to afford market provision or forms of subsidised home ownership or shared ownership. It should be recognised that unless land costs and/or development costs are reduced, in high cost areas such as central London, this objective requires an increase in the level of grant per home from the current level of £60,000- £100,000 to £200,000 or more depending on the specific scheme and type and size of housing required. It is therefore probable that the total grant requirement for England will be at least three times the current level of funding and possibly significantly

more. If the backlog of unmet housing needs, primarily for social rented housing is to be met more quickly than currently assumed (for example in 5-10 years rather than the 25-year timescale in the current draft London Plan), then the targets for social rented housing and consequently funding levels need to be increased further in the short term. It should be noted that the increase in social rented provision let at rents affordable by lower income households will lead to significant reductions in the cost to the exchequer of housing benefit/ universal credit payments in the short term, medium term and long term as well as generate significant savings to the exchequer and to local authorities in terms of education, social work, social care and criminal justice systems costs. This will however depend on the avoidance of further losses to the existing supply of social rented homes (whether through demolition, council house sales, or transfer of existing social housing to other forms of tenure, including higher rented or 'affordable rented' provision).

We note the recent estimates published by the National Housing Federation of the capital grant required to meet social housing need in England 2021-2031. This incorporates estimates recently published by the Mayor of London, which are based on the housing targets in the draft London Plan. However, the social rent component of this London target is significantly below the requirement identified in the Mayor's Strategic Housing Market Assessment. It therefore follows that the estimate of the grant requirement is too low. The estimate in the NHF paper of a national requirement of £14.6 billion per annum for ten years may therefore also be on the low side. It is also important that if the backlog in the need for social rented homes is to be met within the 10- year plan period, or preferably earlier, the programme needs to be frontloaded in the early years, given construction timescales. To meet the need for social rent more quickly, it may be appropriate and cost effective for local authorities and other social rent providers to acquire existing properties on the open market. Housing associations could also convert sub-market rented properties on vacation back to social rent provision and reverse the conversions from social rent to so called 'affordable' rent required by previous central government policy.

It should also be stressed that as well as ensuring new residential development is built in appropriate locations, it is important that new homes are of the appropriate size and type to meet the full range of housing needs. This includes housing which is appropriate for elderly persons, persons with disabilities or other special needs. There is in many areas, notably in London, a critical need for more family sized social rented homes, to replace the homes lost under council house sales. We also need more houses and flats in medium rise blocks, as the increasing trend towards higher rise developments is not appropriate for social rented homes for families, both in terms of design and service charge costs. A change in the form of new homes may mean increased capital costs but will in the longer term produce revenue savings, while building new homes appropriate for elderly people will lead to the release of under-occupied family size homes for families in housing need, which will lead to a much more effective use of the existing housing stock.

- How effective existing government incentives and programmes are and what further incentives should the Government provide to key stakeholders to stimulate delivery?

It has been demonstrated by a series of reports, including the recent NAO report, that Help to Buy, while enabling developers to sell a significant proportion of their development pipeline has not had a significant positive impact on increasing new market led development or in increasing housing affordability in terms of sales prices. The programme has however led to a substantial increase in the profit margins of the leading

housebuilders. Historical experience has demonstrated that a significant boost to overall housing output relies on a significant programme of public sector provision, whether undertaken directly by local authorities, indirectly through housing associations or through a combination of the two. Provision through new agencies such as Community Land Trusts or through self-build or 'custom build' are welcome, especially where the homes are provided at social rent, but these programmes while growing and including more lower rent homes, remain relatively marginal and will not meet the full range of housing requirements in terms of volume of output and provision of homes affordable by lower income as opposed to middle income households. It is essential that public subsidy, whether direct or indirect, is focused on bricks and mortar subsidy for new rented homes affordable by lower income households and with access targeted at such households. Other forms of subsidy carry the risk of inflating house-prices, which in the longer term reduce rather than increase affordability. Un-targeted or poorly targeted assistance for home purchase also carries the risk of providing financial assistance to households who do not need it, as demonstrated clearly by the recent NAO report.

- Are supply subsidies the best way of supporting delivery, or should other approaches be considered?

Yes, if targeted in the manner proposed above. Revenue support will however continue to be required for lower and middle-income households unable to access social rented housing. Increased regulation of the private rented sector could however reduce this need for revenue support if this led to a reduction in rent levels. Clearly rent levels would be reduced if privately rented housing, or elements of the PRS stock, were transferred to the management of public sector bodies or other organisations not requiring a profit margin/ return on investment.

However, there are other forms of intervention by the public sector which would both support the delivery of new housing, especially in terms of ensuring that both new and existing homes were appropriate to meeting the full range of housing requirements in terms of location, housing type and affordability. It is therefore important that in addition to both increasing the volume and quantity of housing supply, and increasing affordability through managing costs of production, it is important that demand is managed in terms of ensuring that both new and existing homes are put to effective use.

Production costs can be reduced through a number of mechanisms:

- 1) Ensuring appropriate sites are made available for residential development at a cost closer to Existing Use Value. This can be achieved through amending the 1961 Land Compensation Act, as proposed in previous representations by the Highbury Group and in the recent SHELTER report *Grounds for Change*.
- 2) Local Authorities specifying explicitly in Local Plans and in Development Briefs for specific development sites, requirements in terms of built form, dwelling type, density of development, bedroom size mix, tenure and affordability, which is consistent with the housing requirements identified in their Strategic Housing Market Assessment (SHMA). This will have the effect of ensuring that site acquisition costs reflect published planning policy. In appropriate cases, planning briefs should restrict housing provision to social rented housing or other forms of sub-market housing. This approach is only effective if planning consent is only granted for schemes which are fully policy compliant.
- 3) A significant proportion of housing provision should be undertaken by local authorities or by non-profit making housing associations. This can reduce development costs by 15-20%.
- 4) Public sector land developed for housing should be retained by the local authority, or made available for development by a non-profit making body.

Access to new homes can be controlled through a number of mechanisms:

1) Where land is sold for housing development by a local authority or other public body, this should be on the basis of strict covenants to ensure that all homes or on a significant proportion of homes, being affordability to low or middle income households in the longer term. For homes for market sale or discounted market sale, the Local Authority should retain powers to nominate purchasers. This could be based on residence and or employment requirements and would stop investor purchases or purchases as second homes. Local authorities should also be able to impose such requirements through planning conditions on the development of land in private ownership.

2) National legislation is required to limit purchase of both new and existing properties to owner occupiers occupying properties as their primary residence, thus debarring purchase for investment or as second homes, except where the Local Authority has determined that the homes are surplus to the housing requirements identified in their SHMA. New homes for market or sub-market letting would require specific planning consent.

3) The effective use of both new and existing housing stock and the reduction of under occupation and partial occupation could be incentivised by a number of measures such as:

a) The reform of council tax to introduce higher levels of tax for higher value properties and to relate the level of tax to the level of occupation of the property (ie: persons in residence relative to habitable rooms/space. with a higher level of tax for under-occupation above a specified threshold)

b) Higher rates of council tax on vacant property and on property only occupied for part of the year.

c) Re-introduction of schedule a tax on imputed rental value for owner occupied property.

d) Replacement of stamp duty by either an annual tax on property value or on a tax on capital gain on disposal of property (subject to allowances for an owner occupier moving to a smaller property)

e) Reforms to inheritance tax including consideration of replacement by a lifetime gifts tax, to ensure that purchase is financed by earned income rather than by inherited or gifted wealth. This will reduce effective demand and therefore house-prices, and ensuring that households with inherited or gifted wealth are not preferred in terms of access to the housing market.

- ***What the role of (a) local authorities – as enablers and providers, (b) Homes England (c) housing associations and (d) other providers should be in that long-term delivery?***

The role of local authorities in relation to providers, enablers and regulators is critical. As set out above, both the funding base of local authorities and the powers of local authorities need to be significantly strengthened. Homes England and the Mayor of London should focus grant resources on the provision of social rented housing, either by local authorities or by non-profit-making housing associations or co-operatives. Public subsidy in the form of grant should not be made available to developers, other profit-making providers or to individual households. Any public investment, whether direct or indirect, in housing owned or part-owned by a corporate body or individual should be in the form of an equity stake, with investment repayable to the public sector based on the equity stake, ie: which reflects any increased in the value of the property.

Local authorities are still being held back from providing housing in the same way as all other OECD countries by HMT's decision not to implement their international commitment to apply the International Financial Reporting Standard for council house building. Instead it is maintaining a rules-based HRA which does not comply with the IFRS. As a result, local authorities have to count housing expenditure under 1985 Housing Act as debt and not as investment. They are also not permitted to raise investment funding on the basis of current stock values.

Implementing this aspect of the IFRS would allow for a significant increase in local authority house building, retrofitting and maintenance of existing stock.

- ***How does the Government ensure long-term provision (a) meets the needs of tenants and (b) is adequately regulated?***

Provisions which would ensure that new and existing homes would more effectively meet the range of identified housing requirements in a specific locality are set out above. Conditions on effective use of housing, whether through planning conditions or through disposal covenants should be strictly enforced. Regulation of physical and environmental standards should apply to all housing irrespective of tenure. There should be stricter regulation of management standards for all rented and leasehold residential property. There is a need for much stricter regulation of construction and refurbishment standards, relating to both materials and completion of works. The government should promote improved construction and design and require all developers and managers to carry out post occupation surveys to include occupant satisfaction and to provide information on occupation and use of completed dwellings.

- ***How can the Government's approach to delivery best meet the different needs of individual regions and area?***

The planning of housing to meet housing requirements needs to be undertaken on an inter authority basis by groups of authorities based on functional economic/ travel to work areas. Government should require such groups of local authorities to prepare joint strategic plans based on a common evidence base including a joint Strategic Housing Market Assessment (SHMA) and a Joint Strategic Housing Land Availability Assessment (SHLAA). Any government targets for housing provision at regional, sub-regional or district level, should reflect the backlog in unmet housing need as well as the potential for both economic and residential growth within an area. The allocation of grant by central government to local authorities or to housing providers within a local area should be based on a) comparative housing needs assessments including assessment of household's ability to afford market housing based on nationally set income related affordability criteria, and b) comparative development costs, including land costs.

- ***What lessons can be learned from alternative approaches to social and affordable rented housing delivery in other countries and jurisdictions?***

There are a wide range of reports on experience in other countries, some of which are listed below. In applying such policy and practice in the UK context, it is however necessary to have regard to the specific English governance regime, including the tax and benefit systems as well as the existing economic and social context, including patterns of residential and employment location and the wider economic context including tenure distribution, land ownership and residential property asset holdings, appreciation and distribution. Some of the recent experience in the devolved UK administrations of Scotland, Wales and Northern Ireland has demonstrated more positive experience of planning and housing policy and practice than currently applies in England.

References:

NAO Report on Help to Buy: Progress Review

<https://www.nao.org.uk/wp-content/uploads/2019/06/Help-to-Buy-Equity-Loan-scheme-progress-review.pdf>

SHELTER: Grounds for Change

https://england.shelter.org.uk/professional_resources/policy_and_research/policy_library/policy_library_folder/report_grounds_for_change

National Housing Federation. Capital grant required to meet social housing need in England 2021-2031

<https://www.housing.org.uk/resource-library/browse/capital-grant-required-to-meet-social-housing-need-in-england-2021-2031/>

Reports and presentations on International experience:

Capital Gains: <http://www.urbedtrust.com/wp-content/uploads/2019/02/GLA-Capital-Gains-Report-WEB.pdf>

Regeneration in European Cities: http://urbed.coop/sites/default/files/get_binary_doc_object_1.pdf

Ten Group: Reports of European Study Tours: <http://static.urbed.coop/projects/ten-group>

Funding Infrastructure: Lessons from Continental Europe:

https://www.ucl.ac.uk/bartlett/planning/sites/bartlett/files/infrastructure_and_lessons_from_europe_nicholas_falk_-_urbed.pdf

JRF International Review of Land and Planning: <https://www.irf.org.uk/sites/default/files/jrf/migrated/files/land-supply-planning-full.pdf>

Note: The views and recommendations of the Highbury Group as set out in this and other papers are ones reached collectively through debate and reflect the balance of member views. They do not necessarily represent those of all individual members or of their employer organisations. The group's core membership and previous statements and research presentations are on the group's website:

<https://www.westminster.ac.uk/highbury-group-on-housing-delivery>

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