RESPONSE TO FIXING OUR BROKEN HOUSING

HIGHBURY GROUP ON HOUSING DELIVERY

Introduction

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. The current core membership is set out in a footnote to this submission.

The Highbury Group welcomes the publication of the Housing White Paper. We would also like to thank Michael Bingham and his colleagues for their presentation to the Highbury Group meeting on 27th February. We were pleased that CLG is open to proposals as to the best way to implement the Government's housing policy objectives. In this spirit, our response below focuses on approaches to implementation, based on the previous work of the Highbury Group, including research presentations and statements which are available on our website: https://www.westminster.ac.uk/highbury-group-documents

The Group's response does not seek to cover all aspects of the White Paper. The comments below focus on those areas where we felt that the group had specific expertise. Before discussing these specific components, we would like to emphasise that we strongly support the shift in the focus of Government policy on housing supply to recognise the importance of increasing supply of a range of housing products, including different forms of rented provision and to move away from the previous focus on increasing the supply solely of home ownership products.

Section 1 Planning for the Right Homes in the Right Places

Objectively Assessed Need

We welcome the proposal that the Government issues revised guidance on Objectively Assessed Housing Need. At present, too few Local Planning Authorities are planning for a reasonable share of housing growth compared to the national need and less than 50% have an up-to-date adopted Local Plan. While Strategic Housing Market Assessments have become a time consuming process, many have very weak methodology – a presentation of data is often an insufficient case for new supply in a specific locality Moreover, the concentration on price as the main market signal misunderstands housing economics.
We suggest that Government should have regard to the experience to date of a standardised approach to OAN in Scotland, which has was based on methodology from the former National Housing and Planning Advisory Unit the best at its time, but now since 2008 has become outdated and has "ossified" the Scottish system. The system has delivered spreadsheet tables produced nationally that are not understood by the LPAs leading to lots of data but no attempt at understanding or learning and resulted in actual output of housing growth (new supply and net additions by LPA) that has low correlation with the determined OAN.

House prices are a reflection of house price demand but have weak relationship with physical demand. There are other "market signals" we can use, such as vacancy levels and trends in residential space per person.

There are a number of limitations with relying on DCLG (ONS next) household projections, which are trend based and do not account for policy and economic conditions. We need a methodology on migration effects on household numbers, and to a lesser extent the deceleration of trends in age at birth of first child and in longevity. We need a fundamental review before we lock these projections into a standard method, and we should allow for the continued improvement in understanding of the dynamics of our housing markets. We nevertheless strongly support the development of a standard methodology for the assessment of housing need, which should be applied consistently across the country, which would allow for a national aggregation of data collected on a consistent basis to present a national assessment of the spatial distribution of housing need.

Data trend analysis at national, regional and LPA level is showing the limitations of majoring on the house price signal, weaknesses in use of backlog measures, and possible benefits of alternative approaches. We also need to review the relationship between assessing housing need and the setting of housing supply targets at regional, sub-regional and local level. This should reflect the need to rebalance residential and employment growth between regions, and to develop a strategy for a spatial distribution of growth which is supported by the spatial distribution of new infrastructure investment. An approach to identifying locations for growth and local housing targets also needs to take into account geographical and policy constraints, and recognise that some locations are more appropriate for residential growth than others. We would draw attention to the Prospectus published by the Common Futures Network on 1st May 2017.

Section 2 Building Homes Faster

Creating the capacity that is needed

The Housing White Paper, in Chapter 1.27 asks *'what additional powers or capacity they (local authorities) need to play a more active role in assembling land for development', and goes on to 'welcome ideas on how planning policy can further encourage more innovative uses of land in areas of high housing need.'* In Chapter 2 Building Homes Faster it points out (2.18) *Previous governments have failed to align new infrastructure with new housing.'* Specifically Question 20 asks local authorities to *'identify the additional development opportunities which strategic infrastructure improvements offer'*.

The Highbury Group's response on this question has been put together drawing on research into what works in other European countries as well as UK experience of what slows strategic developments down.[1]

Despite the crisis in home building and the overheating of the credit market, the solution cannot lie in just building more houses. That will result in congestion and pressure on infrastructure in areas of high demand, and possibly 'ghost towns' in areas with low demand. As the NPPF recognises in Footnote 88 on page 73, housing needs to be balanced with access to jobs and adequate infrastructure. This is going to be even more important after Brexit, with the need to focus limited investment where it will do the most good, and release bottlenecks. Most of the intentions and analysis in the White Paper seem sound: the problem is generating the necessary capacity to overcome inertia and vested interests. Even an exemplary project such as the Joseph Rowntree Housing Trust's Derwenthorpe on the edge of York took over 12 years before a start on site could be made. A study tour to Dutch new settlements such as Vathorst in Amersfoort or Houten near Utrecht shows how to build better, faster and at less cost.[2]

[1] Peter Hall with Nicholas Falk, Good Cities Better Lives: how Europe discovered the lost art of urbanism, Routledge 2014
[2] Solutions: how local government can build sustainable urban neighbourhoods, URBED for JRF, February 2012

Experience in places in England that are judged to have grown well, such as Trumpington Meadows in Cambridge's Southern Fringe (case study page 87), confirms the importance of collaboration between all the stakeholders.[3] Developing brownfield land for housing simply because it is redundant, owned by a public body, or covers a large area is insufficient justification, and will inevitably be opposed. The following five principles need to be at the root of any government's vision for new housing to ensure that it does not have to be rebuilt after a few decades., and should be enshrined where any public investment is made, such as through City Deals:

1. Homes should be built where they have, or will have, good access to a good range of jobs. (Hence strategic housing needs to figure in the government's Industrial Strategy).
2. Infrastructure, including community infrastructure like local shops, schools and healthcare facilities, must be provided in tune with the occupation of new homes. Housing densities must be appropriate to the carrying capacity of local infrastructure and public spaces. Generally, this means higher densities near well-served public transport hubs. (The National Infrastructure Commission in its work on the Oxford/Milton Keynes/Cambridge Corridor shows how this can be done).
3. Development should either contain a mix of uses, not just housing, or be part of a larger neighbourhood which has a good mix of uses, with affordable public transport. Neighbourhoods should be mixed socially and in tenure.
4. Development needs to meet high standards of environmental sustainability not just in the home, where the Building Regulations apply, but in the wider neighbourhood. Thermal masterplans, green and blue infrastructure, and low carbon transport are all relevant.
5. Private developers, investors and, most importantly, existing neighbours and future residents must be given the confidence that public infrastructure will be in place in time to serve completed homes. This may require using New Town Development Corporation powers (where a NTDC exists) or their equivalent to ensure that land value uplift is ploughed back, or grants provided where essential.

The Housing White Paper relies on reforms to housing target setting, joint planning across local authority boundaries and performance monitoring to encourage local authorities to deliver more homes. Experience suggests, however, that it will still be hard to persuade some councillors that building new homes is preferable to facing NIMBY hostility. A larger carrot is needed to complement the sharpened stick of targets and monitoring.

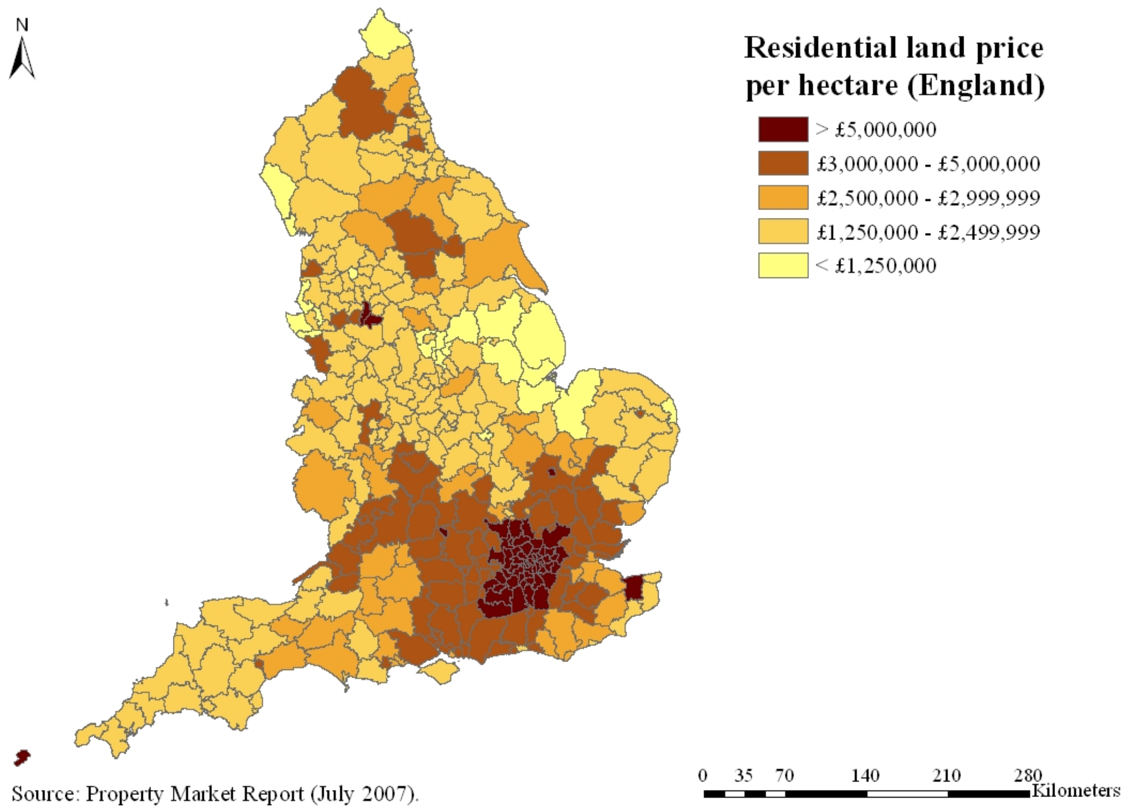
The ability to create Development Corporations with New Town powers to provide additional capacity and expertise may persuade more councillors that there are positives to fostering new housing schemes. The £2.3 billion Housing Infrastructure Fund may also be persuasive; but it will not be sufficient to assist every local authority area. **We recommend that the government should look further at increasing incentives to local authorities and communities that engage positively in setting up delivery vehicles and/or allocating land for new homes in local and neighbourhood plans.**

[3] Cambridgeshire Quality Charter for Growth, URBED for Cambridgeshire Horizons

1. **Investing public money in the right places**

The White Paper does not distinguish adequately between remedies for London and its catchment area, and other, less prosperous parts of the UK. While it talks about allocating the £2.3 billion Housing Infrastructure Fund (HIF) to *'unlock the most homes in the areas of greatest housing need'*, it is not clear how this grant programme will relate to the ability of areas to support infrastructure funding from land value capture. This needs to be thought through further. Cities are not simply uniform 'engines' or 'drivers of growth'. Any strategic growth plan has to take account of the prosperity of the city's wider Functional Urban Area. Comparisons between British and Continental cities show that, while London is in a class of its own as a 'World City', our provincial cities lag behind in many aspects. [4]

It is, therefore, important to distinguish between different types of location. The map below sets out land values from CLG's 2007 Property Market Report. The darker brown areas where land sells for £3 million or more a hectare should provide enough land value uplift to meet social and environmental obligations, such as making housing affordable to local people.



Sharing in land value uplift could, therefore, make a major contribution to funding local infrastructure in London and its wider catchment area. For example, studies for Transport For London by KPMG and Savills suggest that £13-£28 billion could be raised towards the cost of eight transport schemes from the

[4] Centre for Cities, Competing with the Continent, 2016

uplift in Business Rates as well as zonal retention of land value increases, and a 'transport premium charge'.

But this will only help areas where housing land values are high (the areas coloured darker brown in the map). House prices determine land values, and therefore development viability. For example in Cambridgeshire, land in Cambridge City (which is 45 minutes from Kings Cross) is valued at £5.7 million an acre, compared with £1.0 million in East Cambridgeshire (where Ely is growing fast), and only £370,000 in Fenland, (where Wisbech is currently too cut-off to attract good housing.)

So, a distinction needs to be made according to the role of the area and the buoyancy of its property market. Places such as Stoke have quite different potential to pay for their own infrastructure from the uplift in land values when compared with London, which differs again from Metropolitan cities such as Manchester. There are similar differences between Growth and Regeneration Areas.

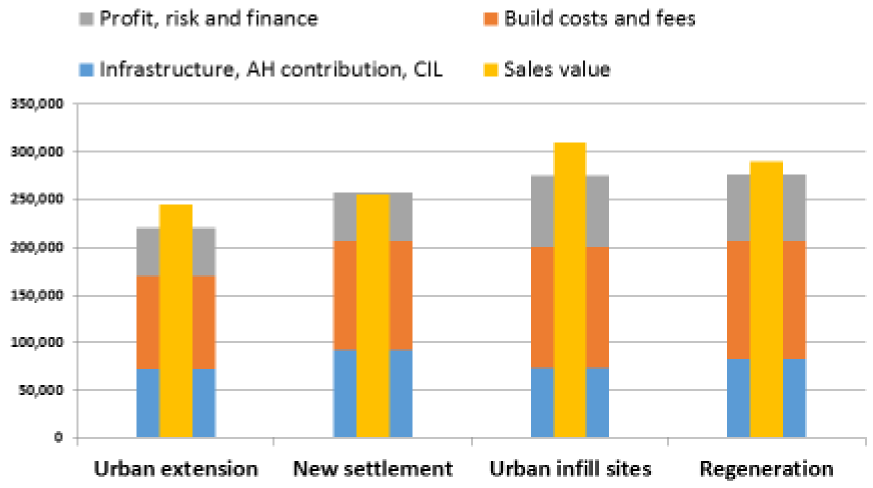
We recommend that the government should fund further economic modelling to target public resources to where they will have the greatest positive impact. This could mean supporting local authorities to the use of land value uplift to fund infrastructure where it is financially viable, rather than calling on public funding.

Large projects that are not Garden Cities/Towns/Villages (GCTVs) will be crucial. Garden cities, towns and villages are not the only way of building large volumes of new homes, as the White Paper recognises. There is also a need to develop large urban sites and, as URBED's Wolfson Prize-winning Garden City proposal established, extending existing urban areas such as Oxford is more cost-effective, and makes better use of existing infrastructure than stand-alone developments.

Sustainable urban extensions in the places where people most want to live and work are, in fact, most likely to achieve the levels of demand balanced with supply needed to tackle our housing crisis.[5] Pete Redman, URBED's Wolfson competition financial consultant and a Highbury Group member, has shown that very different returns on investment are possible from urban infill, or extending areas with infrastructure capacity compared with developing new communities from scratch (which tends to requires very substantial subsidies).[6] While urban infill sites can involve lower costs and risks, extensions are most profitable over the longer-term: but do still involve upfront investment and managed inputs for design and coordination.

[5] David Rudlin and Nicholas Falk, Uxcester Garden City, www.urbed.coop

[6] The analysis for URBED's Wolfson submission was prepared by Pete Redman of Trade Risks, who calculated that land value uplift from development on the edge of Oxford was sufficient to build the first stage of a tram system



We recommend that the government should extend its encouragement for the establishment of local delivery agencies to cover urban infill and urban extensions. These projects are different from GCTVs but still need coordination, investment and focused leadership. Often, sites will not be contiguous in the way a GCTV will be and the description 'New Town' will not apply. For this reason, we propose that these bodies should be called **Neighbourhood Development Corporations**, rather than Locally Accountable New Town Development Corporations.

2. Achieving integrated infrastructure investment plans

The introduction of spatial planning into the English planning system in the 1990s should have led to a more cooperative and integrated approach to infrastructure planning. Unfortunately, continually shifting institutional and legislative frameworks made this more a dream than a reality. We applaud the White Paper's proposed extension of the government's attempts to encourage collaboration between local planning authorities, though it was possibly much simpler when Regional Economic and Spatial Strategies were the means of coordinating investment.

As a result of its patchy adoption of spatial planning, the English planning system does not, unlike systems on the Continent, properly engage with the critical aspects of infrastructure provision. It does not, for example, co-ordinate rail or bus investment and service provision, or investment by water and sewerage companies, or the electricity and gas industries. This is partly because local planning authorities do not have sufficient powers to achieve this coordination and partly because consideration is only given to sites reckoned to be 'viable' when a developer is involved, by which time the value will start to escalate. Planning interacts with them only when planning applications are made for new facilities, or to some extent through transport planning in the case of rail and bus operators, while utilities wait until all the uncertainties have been resolved. The exception is London, where Transport for London's franchise and contracting systems enable closer collaboration between the planning and transport entities, at least in term of the area within the GLA boundary. These investments and their operation are however crucial to the ability of places to accommodate new homes comfortably.

We recommend that the government should require the production of integrated infrastructure plans through partnerships including not only local planning authorities and LEPs but infrastructure and service providers, on a city-regional and sub-regional basis related to travel to work areas. The government should make it explicit, through its statutory powers and the use of regulatory bodies as necessary, that assisting in the delivery of new homes is a priority that infrastructure and service providers are expected to support. Where there is a City Deal, the government should use its leverage to ensure that there is an integrated infrastructure plan aligned with housing development before funds are released.

3. Enabling local authorities to deliver serviced sites

The various measures in the White Paper to assist and encourage local authorities to assemble and dispose of land are welcome. Experience on Continental Europe shows, however, that one of the most effective ways to increase both the certainty that new homes will be built, and that they will be of good quality, is for local authorities to assemble land, then plan and lay out serviced sites which are leased or sold to developers of all kinds.[7] This reduces risk to the developer because infrastructure is already in situ, ensures that the local authority can set high standards and model in the infrastructure provided, gives the local authority closer control over delivery, and avoids problems such as infrastructure not being built to adoptable standards. It also makes it much easier to provide the kinds of affordable housing that are needed in the area.

Some of Europe's most outstanding housing has been built on this principle.[8] Concerns that the infrastructure might not meet developers' requirements can be met easily by following the example of Malmo in Sweden, where standards for the development of a dockland area were agreed jointly between the city council and a forum of local house builders.

We recommend that the government should extend the provisions in the White Paper better to enable and encourage local authorities to provide serviced sites within approved masterplans and development frameworks.

Building agencies need to last the course Development of a site for, say, 10,000 houses can take over two decades. Even if housebuilders could be persuaded to accelerate production and sales, large projects take many years to build out, during which time the property cycle can lead to slumps in demand and builders going bankrupt. Delivery requires not only that the private sector remains committed to construction, but that public bodies remain committed to delivering infrastructure and planning services in a timely manner;

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[7] Nicholas Falk, Masterplanning and Infrastructure in New Communities in Europe, in Urban Design in the Real Estate Development Process, ed Steve Tiesdell and David Adams, Blackwell, 2011

[8] Beyond Ecotowns: PRP, URBED and Design for Homes, 2009

and that communities are able to engage throughout the life of projects, as designs and delivery dates change to meet unexpected circumstances.

Although some delivery mechanisms – notably the New Town Development Corporations (NTDCs) and the first two Urban Development Corporations (UDCs) – had reasonably long lives, governments of all persuasions have tended either to set up agencies with deliberately limited lives that were usually too short (e.g. City Challenge companies), or to abolish delivery vehicles when there has been a change of government (e.g. some of the UDCs; Housing Market Renewal and Growth Area agencies in 2011).

While it is prudent not to create self-perpetuating bodies and regularly to review the utility of agencies, governments have seldom sought to match the life of delivery vehicles to the real length of the tasks they are set. This the government should do if it establishes new agencies itself, and require where it encourages or supports agencies to be set up by others.

While recognising the challenges inherent in achieving political consensus, **we recommend that the government should:**

1. **Anchor all new delivery vehicles firmly in the local community through democratically accountable organisations, as is proposed in the White Paper for Locally Accountable NTDCs.** This would reduce the risk that changes in national government will lead to abandonment of successful delivery vehicles before their work is done.
2. **Seek consensus, as far as possible, that delivery vehicles are task-oriented bodies rather than political entities,** and should have the staffing and durability to enable them to complete their task(s).
3. **Conduct, or require to be conducted, an audit and risk assessment of the task(s) set for delivery vehicles.** From this, an anticipated life for the vehicle should be estimated. This should be based on what it has to achieve, rather than setting, or later imposing, an arbitrary closure date**.** The life expectancy should be adjustable, within reasonable parameters, to accommodate risks such as market fluctuations, or third party failures to deliver components critical to the vehicle's task(s).

4. Funding enough infrastructure

The £2.3 billion of grant aid in the Housing Infrastructure Fund will make a valuable contribution to ensuring that lack of infrastructure is not a barrier to new home building in areas where it is applied. While welcoming the Fund, we have some reservations about its application:

1. The Fund is only available for four years. While government financial planning is based on short-term spending review cycles, large-scale housing development and its associated infrastructure provision normally takes longer than four years from initial planning, through land acquisition to site preparation and housing construction.
2. It is not clear from the White Paper how ability to pay for infrastructure from land value capture will be offset against grants. We assume that DCLG's recent project appraisal methodology based on Land Value Uplift will apply, which is rather dismissive of Multiple Criteria Assessment. But

gaining agreement, for example where land is to be released from the green belt, often depends on other criteria, such as social inclusion and environmental or natural capital.

3. The use of grant simplifies administration and makes negotiations with the Treasury easier, whereas better value may come from recovering funds downstream through a share in the land value uplift when houses are sold and occupied.[9]

The government should look at using at least part of the £2.3 billion as a rolling fund through loans to projects, rather than as grants. Homes England could act as 'banker' and recycle repayments back into the Fund. We recognise that this would need to be balanced against local land value capture for infrastructure provision but it could offer a more equitable mechanism for distribution of funds. High land value uplift areas could receive and repay loans. Grants could be offered where appraisal shows that uplift will be unlikely to make repayment affordable.

The current system of Land Value Capture, through Section 106 Agreements and the Community Infrastructure Levy (CIL), operates outside the normal principles of taxation and levies. This works to everyone's disadvantage. It creates uncertainty for the private sector and local communities and is unnecessarily complex. It leads to unnecessarily complex negotiations and to the potential for legitimate returns to the community to be lost.

Most taxes and levies are based on income received. S.106 and CIL, by contrast, are based on estimates of what net income might be earned from a development, made before it has begun. One must question whether, by contrast, HMRC would accept an estimate of future earnings as a satisfactory basis for assessing income tax. It would not.

We recommend that the government should move to a system where Land Value Capture is based on the actual sale price of properties, net of audited costs of development.

We recognise that some objections could be raised to this but we believe that they are not insuperable:

1. Local authorities might not put in funds in time to build infrastructure. This problem can be overcome by a system of agreed down-payments, or by a government loan scheme recoupable once development was completed.
2. Developers might offer misleading accounts of actual expenditure. We think that this objection has little foundation in fact. Developers are responsible companies and already submit tax returns, so there is no reason to assume that they would behave dishonestly.
3. Developers might go out of business before paying their dues. This would be guarded against through charges on the land. Additionally, some form of insurance scheme might need to be put in place by the industry to cover otherwise irrecoverable payments.

[9] H Suzuki et al, Financing Transit-Oriented Development with Land Values, World Bank Group, 2015

5. Making Local Delivery Vehicles (LDVs) work

The governance of locally accountable delivery vehicles is crucial to their ability to engage local communities, while responding appropriately and quickly to market demand. The government has been relatively agnostic in its stated views on the governance of agencies with New Town Development Corporation powers. These need to be structured in ways that are best suited to their locality and task(s). For example, where there is an elected mayor or a joint authority, it would make sense for them to have a leading role. However, there is well established good practice in agency governance, which should be applied to avoid these risks as larger numbers of local vehicles are set up:

- It may be difficult to find enough suitably qualified and experienced directors.
- Areas with limited capacity, or little experience of this type of vehicle, may find it difficult to get governance structures right and balance their boards appropriately.
- There may not be enough suitably skilled and experienced staff to go round.

We recommend that the government should:

1. **Use the public appointments system to make a call for potential directors, who could be pre-qualified and placed in a pool.**
2. **Offer access to sources of trusted, experienced advice on the establishment and operation of delivery vehicles.** This could be done through online information and advice and/or a mentoring programme**.**
3. **Set out model rules for establishing a local delivery vehicle (LDV) cost-effectively.** We assume that the Housing Infrastructure Fund will include resources to fund setup and running costs for delivery vehicles (if our assumption is ill-founded, we consider that this should made be a legitimate call on the Fund). Mechanisms such as sharing services, contracting out and managing workflows efficiently can reduce the burden of administration. The City Challenge model is worth repeating as it produced boards that were locally accountable, business friendly and delivery focused by:
    a. Balancing the board with local authority, local community, business (local and wider-than-local) and public body representatives.
    b. Having a clear Memorandum of Understanding about the company’s task(s) and the timetable for implementing its delivery plan. All parties were involved in agreeing the plan, signed up to the memorandum and became bound by it.

The challenge of accelerating the rate and quality of housebuilding can seem daunting, as it involves so many other aspects of the economy, especially the provision of infrastructure (hard and soft). The Housing White Paper therefore offers an exceptional opportunity to introduce the more integrated and holistic approach to planning and local finance that is essential if British towns and cities are to match the standards of their Continental rivals. Short-term self-interest should not be allowed to prevail.

Section 3 Diversifying the Market

Affordable rented housing

The Government proposes a new sub-market product to encourage Build to Rent:

> "**Affordable Private Rent** housing is housing that is particularly suited for providing affordable housing as part of Build to Rent Schemes. It is made available for rent at a level at least 20 per cent below local market rent. Eligibility is determined with regard to local incomes and local house prices. It should include provisions to remain at a discount for future eligible households or for alternative affordable housing provision to be made if the discount is to be withdrawn."

At first sight this looks like the Affordable Rent product delivered through Registered Providers but closer inspection shows it to be a method of enabling developers to avoid housing associations on their developments and to meet planning obligations for affordable housing in a way that gives them increased return. Closer reading of the existing definition of affordable housing, see end note [i], would class this new product as intermediate housing, which already allows for provision by non-registered providers.

The proposal to change this definition must therefore be driven by a desire to put pressure on Local Planning Authorities to accept proposals for Affordable Private Rent in lieu of any form of social housing.

Government proposes a minimum of 20% of development to be affordable rented housing.
We view this as a strange requirement but one which has similarities to an aspect of the Starter Home Proposal, i.e. to reduce or eliminate the amount of any (higher subsidy) social housing in a planning obligation.

There is the suggestion that this minimum would help to ensure that "professionals" manage the APR. Apparently, such professionals, and funders, prefer single tenure blocks of sufficient size to give efficiencies although 20% of a 20 dwelling scheme would seem to undermine the reasons for this requirement.

It is proposed that the discount be to local market rents (in the PRS) and not to the value of the new dwelling. We think that this is nonsense. A new dwelling can have markedly different characteristics and values, both higher and lower, than surrounding dwellings in the Private Rented Sector.

The separate Government consultation document considers the issue of clawback in some detail, but in one place promotes a formula and in another leaves the calculation to the LPA.

We think that the general principle is good. If a sub-market product is no longer used for its original purpose then some, or the entire implied subsidy should be used to provide an alternative sub-market product or a commuted sum paid to the LPA to achieve the same.

However, we think that this is better than having time limited covenants, such as the GLA proposal for 15 years for Build to Rent. The government now appears to accept this. We suggest that this is better than creating a market rent, or sub-market, planning use class, with all the difficulties that that would create with lower valuations, and with reduced exit routes.

The proposed clawback calculation (at the original discount % of the open market value) is flawed. Subsidy to deliver a sub-market product is not a linear proportion of OMV related to the percentage discount on rent. The subsidy is also sensitive to changes in cost of money, rental yields, and in operating costs relative to house price inflation. For example, a £250,000 dwelling offered at 80% of market rent would today require a subsidy of 27% of OMV, not 20%, and this percentage would change in future. Rather than try to produce a formula, we think it might be better just to say that change of use or removal of the discount requires alternative additional replacement provision, pro rata. At these price levels the APR product would require no “developer” subsidy to meet the obligation. The subsidy would come purely from reduced land prices, that is, a “land-owner” subsidy.

The White Paper discusses encouraging tenure-blind built forms and designs. The Paper also refers to discreet blocks purely for this new tenure. Unfortunately, we see, even on our better-quality developments, an increasing trend for tenure segregation by block with features that distinguish the tenures, such as treatment of entrance areas, quality of materials, and size of balconies. Housing associations are also driving this trend.

We should not be “locking-in” tenure by built form. Not only does this devalue any social sub-market product and label its occupiers, but also takes no account of the need for a dwelling to change tenure over time and as market conditions, and policy, adapt to new circumstances.

An APR tenure on a £250,000 OMV dwelling would, at 80%, deliver a rent of £200pw which would be affordable to households on gross incomes of around£45,000 and above. Whilst in some markets this would undoubtedly meet a need, it will do little other than trap 70% of households nationally into benefit dependency, and at high cost to the Exchequer, who have gross incomes below this level.

It appears to be the intention of the White Paper proposals that local authority nomination systems are not part of the selection process. The wording of the proposal suggests that this will be left entirely to the developer, and their manager. There is no suggestion of how the private sector will select eligible households, or how they should be monitored to ensure that the Direct Rent Subsidy, of the discounted rent, is appropriate for the household as its income changes.

It is our strong view that a community good, which the APR would be, should be used as directed by the local authority as trustees for the community.

Section 4 Helping People Now

The Government’s Proposals on Private Rented Housing

The Highbury Group has assessed current Government proposals on private rented housing as set out in the White Paper “Fixing our broken housing market” (February 2017) together with the DCLG announcements in April namely “Banning Letting Agents Fees” Consultation paper and the Guidance “Civil penalties under the Housing and Planning Act 2016”.

The Housing White Paper contains very few specific proposals on private renting. Of the 38 questions asked in the final section only one (albeit a four part question) directly concerned private renting, namely the ‘Proposed definition of affordable housing’.

The number of households living in private rented home numbers has almost doubled in the last ten years and there are now over 4 million.

Six in every seven private rented lettings are for 12 months or less. Three in five private tenants have been in their present private rented accommodation for less than three years. The average stay figure of four years quoted in the White Paper is misleading and only applies to a relatively small number of long-term lettings. Evictions from private rented housing are now the most common reason given by homeless households in priority need accepted as homeless by local authorities. The number of households and the length of stays in temporary accommodation of the homeless are rising, as are the numbers placed outside the receiving local authority.

It is noticeable that there is increasing use of the accelerated possession process by private landlords leaving tenants less time to react, get advice and /or find an alternative home.

While over four out of five (82%) private tenants are satisfied with the physical condition of their accommodation, far fewer (65%) are satisfied with their tenure. This actually indicates substantial dissatisfaction with the legal framework. The 35% of private rented tenants dissatisfied is double the 18% of social tenants dissatisfied. The figure of 35% is lower than the 52% dissatisfied in 2004-5, but the latest survey cautions against the comparison because of a definitional change which has reduced recorded dissatisfaction across all tenures. While indirectly the ‘Buy to Let’ programme has had an impact on physical conditions (although 28% of private rented homes are non-decent), problems of high rents and lack of security remain.

The White Paper highlights that private rents in 2014/15 were over half gross household incomes. After benefit the figure falls to 45%, but the contribution from housing benefit is set to fall as the restrictions on Local Housing Allowances progressively bite. The figure of 45% is almost one and half times the proportion for (the generally poorer) social renters and more than double those buying on a mortgage.

The increase in both households having to access private renting and rising rent levels is the biggest single cause of rising housing benefit bills.

The White Paper also states that private rented dwellings are most likely to be non-decent, points to the decreasing proportion which are non-decent down from 47% to 28% between 2006 and 2014. However this largely reflects housing built for or changed from other tenures, as the total number has risen. The absolute number of non-decent private rented homes has slightly increased. Private tenants are only too aware of the risk of landlord action including eviction if they complain about disrepair or other faults. Protection against revenge evictions only applies to new lettings.

The Highbury Group has reached the following general conclusions:
Given the pattern of relatively worse housing outcomes and higher costs, the scale of the relative failure of private renting requires a much more substantial response than the White Paper offers. It is hard to disagree with the HQN view that the changes in taxation of buy to let landlords will have a much greater impact than anything in the White Paper.

The Highbury Group considers that a more appropriate response to the range of problems should ideally cover;

1. Greater security of tenure
2. More effective constraints on sharp rent rises
3. Arrangements which make it financially feasible for regulatory agencies notably cash-strapped local authorities to be able to afford to take effective enforcement action on disrepair.
4. Funding for comprehensive advice and aid services for private tenants who are almost always ineligible for legal aid, including a more interventionist approach to the licensing of private landlords.

On some specific issues the Highbury Group has the following views:

The Government Consultation Paper issued in April 2017 on proposals for "Banning Letting Agents Fees as sensible in intent even if it results in higher rents by spreading the cost of fees over the term of a tenancy.".

The regulations issued by Government in April 2017 based on the Housing and Planning Act 2016 to allow local authorities to charge civil penalties rather than prosecute for breaches by landlords of Improvement Notice, offences on private rented licensing and breaches of an Overcrowding Notice are too restricted.

The standard of proof required is still beyond reasonable doubt. In so far it goes it would help councils which lack funding for private renting services. However, it covers only a few limited instances.

The White Paper talks (para 4.35) about encouraging longer term private tenancies and highlights the possible role for institutional investors. However it is noticeable that where insurance companies have funded private rented housing at a discount to market rents, they have tended to insist on being able to sell into owner-occupation after a given period of time such as five years. It is therefore questionable whether that such investment would have a long term impact.

On Affordable Housing the White Paper proposes (Question 31 in the Annex para 122) to define affordable private rented housing as being housing which is at least 20% below local market prices.

That market prices rise faster than incomes and could again rise, we think it is a recipe for unaffordability to link the definition of affordability to market prices, especially in localities subject to speculative in-flows of capital from, but not limited to, overseas owners.

The Highbury Group is convinced that any workable definition of affordability has to be based on incomes. An approach based on a suitable proportion of the income of households other than owner-occupiers is recommended. This would be similar to the definition of the London Living Rent in a recent proposal from the London Mayor but based on incomes other than those of owner –occupiers.

Para 4.43-4 of the Housing White Paper refers to Downsizing

We know that new housing supply will not meet the need identified for existing and future households, especially for family homes, and making better use of the existing housing stock in **all** tenures makes sense – the 'space' in housing is there but occupancy is 'all out of kilter'. In the past members of the Highbury Group have conducted research and made policy comment on the issue of under occupation. Both long-term social renters and home owners have expected to stay in their homes for life. Therefore, the key questions are about how to or what would persuade an increase in the numbers of older households to 'downsize' to move to a smaller or different home?

Social housing tenants under occupying their homes have been the target to ‘get moving’ since the late 1980s. Social landlords have always been under pressure in high demand areas to deliver larger under occupied homes and most have tried a variety of ways to achieve moves. This has continued as the stock of such housing has reduced but the need for affordable housing to rent has grown ever more urgent. The bedroom tax introduced in 2012 under the Welfare Reform Act was not directed towards older households – a politically sensitive group –but has affected families and communities and demonstrated in some areas the need for appropriate sized homes for households to move to.

Under occupation of owned housing far exceeds the level in all the other tenures. Census analysis published by ONS in 2014 shows that about 83% of owner occupiers under occupy by one bedroom or more. Headlines suggesting that older households are ‘stealing the futures of the young’ or that older people have a “moral duty to downsize” do not facilitate rational discussion. The reasons for looking at ‘downsizing’ should be about personal choice but it is difficult to ignore the perception that it is really about releasing the estimated £billions in the value of owned housing to provide the resources for health, care and welfare bills, developing a market in retirement homes and producing without building more family sized housing for younger households.

There is a body of literature on ageing households, their housing needs and options, including housing design that the Government can use. We think there should be more up to date survey evidence collected to understand needs and desires. There is some social survey evidence that a proportion of older households would like to or would consider moving to the ‘right home in the right place’. Demos and the New Policy Institute have also analysed the demographic, financial and survey data to show the quantity and size of housing and financial resources that could be released from both older households dying or choosing to down size.

The Highbury Group believes that the Government needs a ‘whole chain’ focus rather than simply looking to first time buyers as it has required social landlords to achieve. We recognise that the need for generating “vacancy chains” or a chain of moves requires more profile in planning and housing strategy. While there are ideas for and focus on the housing options, of particular interest to developers of retirement homes, thinking more widely about new communities containing older households is missing.

From existing research, the Highbury Group suggests that there are actions that could be implemented relatively quickly and easily and issues that require further research and deliberate policy development. Generally, our strong view is that, like key workers, not all older households want to be ‘institutionalised’ in special housing like retirement housing schemes. That is not to say that there is no demand for such housing or for special housing such as sheltered schemes. However, we strongly recommend that the Government looks at the hidden fees in the leases (see Law Commission) and conduct independent research on the attractiveness of these schemes to older people and also their families.

Encouraging households to move is going to require a conversation between government and households about the reasons for the need for more mobility; clear and trusted information about options and personal financial consequences; and, a range of desirable homes to move to. For many older households and their families their housing is an investment good. If older people are to make prudent use of their assets and have sufficient confidence to make use of assets to pay for care (for instance through equity loans secured against property) they will need to have access to products they can trust. It should also be acknowledged by Government that some older households wish to move from their homes into renting from a social landlord and this could be facilitated.

There are a range of ideas from the existing literature and the Highbury Group recommends that these are assessed as part of a programme of strategic housing, planning and economic research into housing and an ageing population (if this is not already in train) and not least to provide guidance to local authorities, developers and households:

The Highbury Group recommends revising tax arrangements which have negative market impacts:

Overall, the limited and skewed tax on residential property encourages ever more investment in housing and higher house prices and current taxation is at variance to achieving the level of downsizing required.

Stamp Duty Land Tax ('stamp duty') levied on sales is effectively a tax on mobility.

Inheritance Tax changes (from1st April 2017) exacerbates under occupation as it is an incentive to stay and possibly for older households to upsize.

The Highbury Group recommends that the Government considers a range of measures to encourage and support older households to move bearing in mind that not all households are in high value family sized homes and to include:

The development of clear, objective and trusted advice on the benefits of and options for down sizing

1. Special advice and information services
2. Support with legal fees.
3. Reduction in or abatement of council tax for downsizers or buyers of retirement homes
4. Providing help in the actual process of moving
5. Consideration of extending 'Help to Buy' to older households

The Highbury Group recommends that the Government considers existing ideas to achieve more options for downsizing including, for example:

1. How to attract "social investment" through equity and pension funds?
2. Whether there are models of funding to attract new funders to provide specialist housing on the scale needed? (For example, local authorities' prudential borrowing strategies could use Tax Increment Financing and with potential changes to the Housing Revenue Account, to fund capital development and investment in the existing stock)
3. Whether outright owners downsizing at the top end of the market help subsidise homes for purchasers with less equity, or for rent? (The purchase price of the apartment in an Extra Care scheme or retirement village is excluded from the present means testing regime for care payments is a factor in stimulating demand for places).
4. Whether any shortfalls in scheme funding could be met in areas with slow markets where people find it hard to sell existing homes? (The reduction of NAHP grant per unit generally leaves a significant shortfall in scheme funding which needs to be met).
5. What incentives could be used for 'chain breaking' to sell existing homes? (In some areas it can take 2/3 years for developers to completely sell properties (in a retirement scheme) because of delays in reselling former homes).
6. Finding new ways of funding the modernisation and energy efficiency of existing property by, for example, (reducing VAT for remodelling outmoded sheltered schemes)
7. Developing a wider range of more attractive Equity Release products as many current Equity Release schemes are perceived as poor value.

The Highbury Group recommends urgent consideration of the following within the planning system:

1. The National Planning Framework should address demographic change, ageing, health and wellbeing. Many planning strategies do not adequately address the needs of older people.
2. More detailed consideration of older peoples' housing needs should be included in the revised SHMAs and how to analyse the potential for downsizing chains.
3. Local Development Frameworks could highlight sites suitable for older people. Planning policies be more closely aligned with relevant local authority strategies.
4. Giving retirement housing special planning status akin to affordable housing, given its clear and demonstrable social value.
5. Planners should allow business plans to include flexibility in tenure to reflect viability.

The Highbury Group recommends that the Government reviews the role of specially built retirement schemes (their costs, land requirements and contribution as communities) within the overall range of possible options of homes that older households might prefer, especially as this sector has arguments for changes in the planning system to make development easier.

Concluding comments

While the Housing White Paper seeks to adopt a comprehensive approach to 'fixing our broken housing market', in our view the White Paper fails to discuss the need for more focused housing investment and the need for fundamental reforms to the current system of land and property taxation. While members of the Highbury Group have published separate proposals in relation to these issues, most recently in Duncan Bowie's recent book *Radical Solutions to the Housing Supply Crisis* (Policy Press 2017) ,we would strongly recommend that the Government undertakes a review of tax policy as it impacts on both the production of new homes and the effective use of the existing housing stock. This would including revisiting the proposals in the Mirlees review. We would welcome the opportunity to discuss these aspects further with appropriate Government officials.

Footnote

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.

The group was established in 2008. The group now meets at the University of Westminster, London. It comprises the following core members: Duncan Bowie -University of Westminster (convener); Stephen Ashworth – SRN Denton ; Julia Atkins - Consultant; Bob Colenutt – Oxford Brookes University ; Kathleen Dunmore - Three Dragons ; Michael Edwards - Bartlett School of Planning, UCL; Deborah Garvie/Sarah Mahmoud- SHELTER ; Stephen Hill - C20 Futureplanners ; Angela Housham - Consultant ; Andy von Bradsky -Consultant ; Seema Manchanda – planning consultant; Tony Manzi - University of Westminster; James Stevens - HomeBuilders Federation ; Peter Studdert – Planning consultant ; Janet Sutherland - JTP Cities; Paul Watt - Birkbeck College ; Nicholas Falk- URBED; Richard Donnell – Hometrack; Pete Redman – TrasdeRisks; Richard Simmons - UCL; Richard Blyth /Joe Kilroy – RTPI ; Shane Brownie , Stephen Battersby- Pro-Housing Alliance; Roger Jarman – Consultant/ Housing Quality

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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 individual members or of their employer organisations.

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[i] **Affordable housing**

Social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market. Eligibility is determined with regard to local incomes and local house prices. Affordable housing should include provisions to remain at an affordable price for future eligible households or for the subsidy to be recycled for alternative affordable housing provision.

Social rented housing is owned by local authorities and private registered providers (as defined in section 80 of the Housing and Regeneration Act 2008), for which guideline target rents are determined through the national rent regime. It may also be owned by other persons and provided under equivalent rental arrangements to the above, as agreed with the local authority or with the Homes and Communities Agency.

Affordable rented housing is let by local authorities or private registered providers of social housing to households who are eligible for social rented housing. Affordable Rent is subject to rent controls that require a rent of no more than 80% of the local market rent (including service charges, where applicable).

Intermediate housing is homes for sale and rent provided at a cost above social rent, but below market levels subject to the criteria in the Affordable Housing definition above. These can include shared equity (shared ownership and equity loans), other low cost homes for sale and intermediate rent, but not affordable rented housing.

Homes that do not meet the above definition of affordable housing, such as "low cost market" housing, may not be considered as affordable housing for planning purposes.