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BRIEFING PAPER

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Tackling the under-supply of housing in England

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Summary

Estimates have put the number of new homes needed in England at between 240,000 and 340,000 per year, accounting for new household formation and a backlog of existing need for suitable housing. In 2017/18, the total housing stock in England increased by around 222,000 homes. This was 2% higher than the year before – and the amount of new homes supplied annually has been growing for several years – but is still lower than estimated need.

Housing need manifests itself in a variety of ways, such as increased levels of overcrowding, acute affordability issues, more young people living with their parents for longer periods, impaired labour mobility resulting in businesses finding it difficult to recruit and retain staff, and increased levels of homelessness.

The 2015 Government set out an ambition to deliver **1 million net additions** to the housing stock by the end of the Parliament, which was expected to be in 2020. Net additions include, for example, conversions and changes of use. Critics said that the figure did not take account of the backlog of housing need. The House of Lords Select Committee on Economic Affairs concluded in Building More Homes (2016), that the target "was not based on a robust analysis" and went on to recommend that the housing crisis required the development of at least 300,000 new homes annually "for the foreseeable future." In addition to questioning whether a target of 1 million homes is ambitious enough, there is some doubt over whether even this number is achievable.

The current Conservative Government was elected in 2017 with a manifesto pledge to meet the 2015 commitment to deliver 1 million homes by the end of 2020 **and to "deliver half a million more by the end of 2022."** The manifesto said that, if elected, the Government would deliver on the reforms proposed in the Housing White Paper (February 2017). The Autumn Budget 2017 set out an ambition "to put England on track to deliver 300,000 new homes a year." In January 2018, the Department for Communities and Local Government (DCLG) was renamed the Ministry of Housing, Communities and Local Government (MHCLG) to reflect the Government's "renewed focus to deliver more homes." The Homes and Communities Agency (HCA) was relaunched as Homes England on 11 January 2018:

> By bringing together their existing planning expertise and new land buying powers, the new agency will play a major role in securing land in areas where people want to live, support smaller and more innovative house builders into the market and resource brownfield sites from across the country to deliver homes for families.

There is consensus around the long-term under-supply housing and the need to address this, but there is less agreement within the industry about *how* best to achieve the necessary step-change in supply. Commentators agree that there is no 'silver bullet' and call for a range of solutions across several policy areas. The 2017 UK Housing Review Briefing Paper (September 2017) argues that **while supply is of critical importance, "so is the rather more neglected issue of affordability, in both the private and social housing sectors."** The Resolution Foundation has said that a greater proportion of genuinely affordable homes to rent and own will be needed "to make housing less of a living standards burden for families." In the foreword to the June 2017 IPPR report, What more can be done to build the homes we need? Sir Michael Lyons said: "We would stress that it is not just the number built but also the balance of tenures and affordability which need to be thought through for an effective housing strategy." This is echoed in research commissioned by the National Housing Federation (NHF) and Crisis from Heriot-Watt

University, which has identified a need for 340,000 homes each year to 2031 of which 145,000 "must be affordable homes".

The 2015 Government acted to stimulate housing supply through a variety of schemes. These schemes were referred to in the Government's response to Building More Homes which acknowledged that "we have much more to do as a country to build more homes and that the Government has a role to play in making sure our housing market works for everyone." February 2017 saw the publication of the Housing White paper Fixing our broken housing market, which set out "a comprehensive package of reform to increase housing supply and halt the decline in housing affordability." The White Paper identified a threefold problem of "not enough local authorities planning for the homes they need; housebuilding that is simply too slow; and a construction industry that is too reliant on a small number of big players." The White Paper focused on four main areas:

- Building the right homes in the right places.
- Building them faster.
- Widening the range of builders and construction methods.
- 'Helping people now' including investing in new affordable housing and preventing homelessness.

Consultation on proposals in chapters 1 and 2 of the White Paper closed on 2 May 2017. A separate consultation exercise on Planning and affordable housing for Build to Rent was launched alongside the White Paper, the outcome of which was published in August 2017. A summary of responses to the White Paper and the Government's view on the way forward was published on 5 March 2018. This date also saw the launch of consultation on proposed changes to the National Planning Policy Framework (NPPF) and further consultation on reforming developer contributions to affordable housing and infrastructure. A revised NPPF together with amended planning guidance was published on 24 July 2018. The Government response to reforming developer contributions was published in October 2018.

This briefing paper considers key trends in housing supply in the UK and goes on to focus on some of the of the key barriers and potential solutions to increasing supply in England. The paper takes account of the key measures announced by the 2015 Government in Fixing our broken housing market and subsequent developments.

The barriers and solutions cover issues including:

- The potential contribution of the local authority and housing association sectors. The delivery of more than 200,000 homes per year in England has, since 1939, only happened largely as a result of major public sector (local authority) housebuilding programmes.
- How to ensure that more land suitable for development is brought forward at a reasonable price, including how more public land can brought forward more quickly.
- How to properly resource local authority planning departments and tackle a planning system that is widely seen as slow, costly and complex. There is some agreement on the need to incentivise authorities and communities to approve development, and for measures to encourage developers to build-out permissioned land without unnecessary delays.
- Consideration of how essential infrastructure to support housing development can be funded.

- How to encourage and support more small and medium sized building firms into a market that is currently dominated by a small number of large companies.
- How to ensure that the construction industry is in a fit state to deliver the housebuilding capacity that England requires. The Government commissioned Farmer Review of the UK Construction Labour Model (2016) concluded that "many features of the industry are synonymous with a sick, or even a dying patient."

Government action to stimulate housing supply can be found in Library briefing paper 06416: Stimulating housing supply - Government initiatives (England).

Other relevant Library papers include:

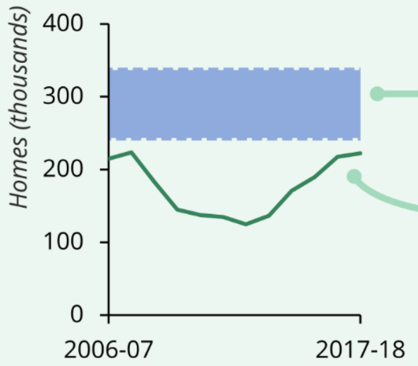
- What is affordable housing? (September 2018)
- What next for planning in England? The National Planning Policy Framework (October 2018)

Statistics on housing supply

Tables showing the data used in this briefing paper, as well as house building statistics for all UK countries, are available for download at this link or from the landing page for this briefing.

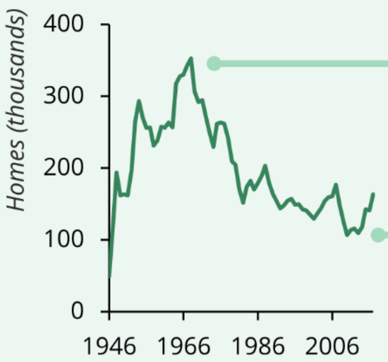
The Library has also produced an interactive tool, Housing supply for local authorities, for comparing trends in local housing supply in England.

IN CHARTS: HOUSING SUPPLY IN ENGLAND



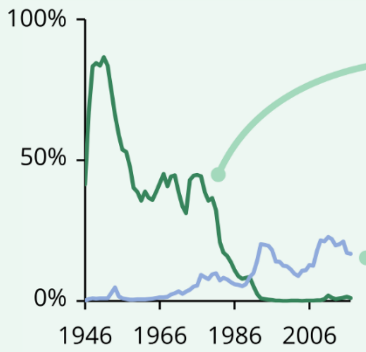
Estimates put the number of new homes needed per year at between 240,000 and 340,000.

New supply of housing has been increasing, but hasn't reached this level.



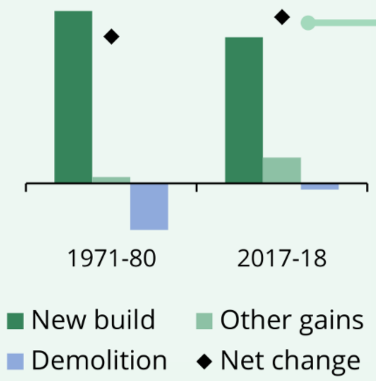
Housebuilding is now lower than its peak in the late 1960s.

But it has recovered from its low point, which happened in 2010 after the financial crisis.



The proportion of homes built by local authorities has also fallen since the 1970s.

At the same time, the proportion built by housing associations has risen.



The net supply of new housing was higher in 2017-18 than the estimated average from the 1970s.

While there were fewer new build completions, there was also less demolition and more change-of-use of existing buildings.

See sections 1 and 2 of this briefing for sources

1. How much new housing does England need?

Summary

- Household growth is one factor affecting overall housing need. The number of new households in England is projected to grow by 159,000 per year, based on current trends.
- The backlog of existing need for suitable, affordable accommodation is often cited as another pressure on housing need, as is demand for more space by households that can afford it.
- There has been a range of research into the amount of new housing needed, with estimates as high as 340,000 new homes per year.
- There is geographic variation in household growth and housing need, with more need in London and the south of England.
- New supply has been lower than estimated need in recent years.

1.1 Defining housing need

There is no strict definition of **housing need**, but it can be understood as the amount of housing required for all households to live in accommodation that meets a certain normative standard.

Projected growth in the number of households is often used as a proxy for housing need, but this measure doesn't give the whole picture. Projections don't attempt to accurately forecast future changes, and there is also an existing **backlog of need** – for example, households living in unsuitable or overcrowded accommodation. [1]

Housing need is different from **housing demand**, the amount of housing space that households will choose to buy, given their preferences and ability to pay.[2] Many households take up more housing space than they 'need', if they can afford to – for example, by living in a house with a spare bedroom or buying a second home. Dame Kate Barker's evidence to the Treasury Select Committee's inquiry into housing policy emphasised the role of income growth in driving housing demand:

> Indeed, house prices respond a lot to income growth because—this point is made in the review but not brought out enough—when people get richer they want more space. If you simply work on household projections then you will not supply as much space as people would like, given their incomes, and the result of that is that people with money do get the space they want. People without money do not get the space.[3]

1 DCLG, November 2010. *Estimating housing need.*
2 Ibid.
3 HC 861, 7 December 2016, Q2

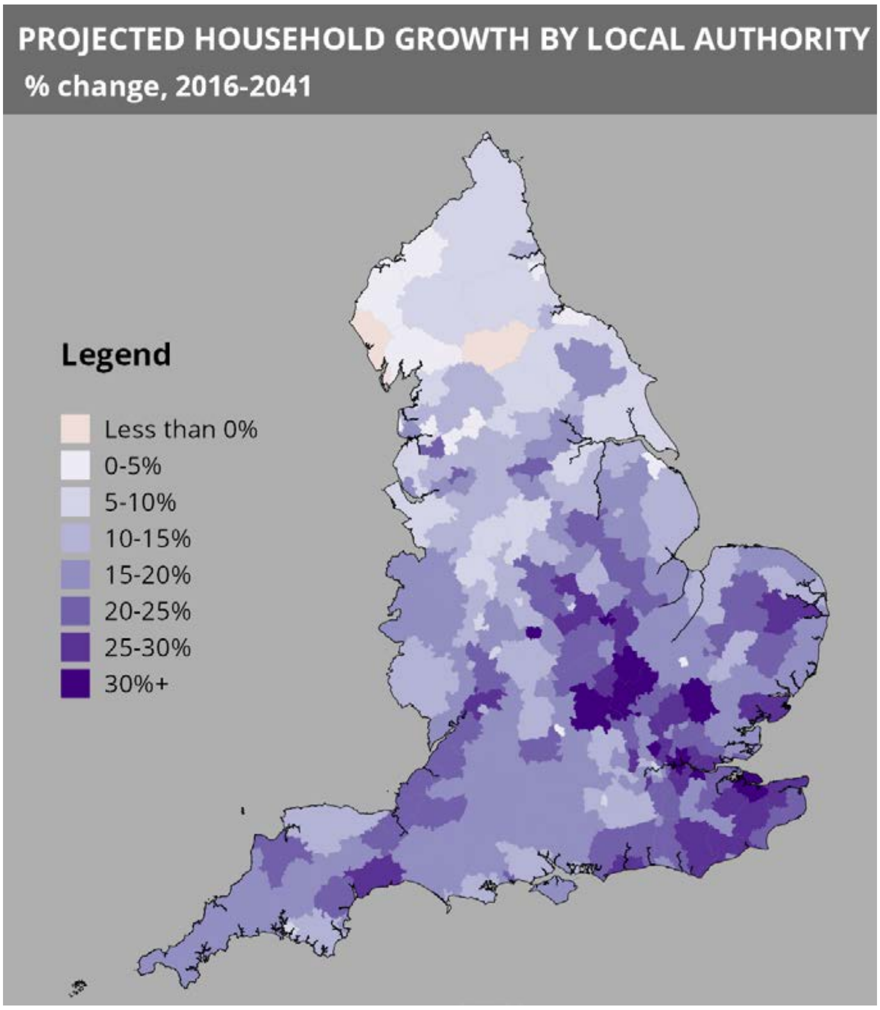
1.2 Estimating housing need

Household projections for England

Projections of the number of households that will form in future are often used as a baseline for talking about housing need.

The Office for National Statistics (ONS) is responsible for producing projections of the number of households in England. According to projections released in September 2018, the number of households in England is projected to rise from 22.9 million in 2016 to 26.9 million in 2041 – an average increase of around 159,000 households per year. [4]

These figures do not attempt to model the effect of future changes – for example, they don't try to account for the impact on migration of Britain leaving the EU. The projections make assumptions, based upon past trends, about how much the population will grow and the size of households that people will live in.



Source: ONS, Household projections for England: 2016-based

4 ONS, Household projections in England: 2016-based, 18 September 2018

Household projections are not uniform across England. The map on the previous page shows projected change for each local authority as a percentage change from its 2016 population. Growth is projected to be higher in London, the South East and parts of the Midlands and lower in the North. The number of households is projected to fall in three Northern local authorities (Barrow-in-Furness, Copeland and Richmondshire).

Change from previous projections

Before the September 2018 release, household projections were published by MHCLG. The previous set of projections published by MHCLG were higher, putting the average increase in households at 210,000 per year.[5] A number of methodological changes caused this difference.[6] Two key changes were:

- New, lower population projections were used. The 2016-based population projections assume lower numbers of births and less net international migration, as well as slower improvements in life expectancy, than the previous set.[7]
- The ONS made different assumptions about the rate of new household formation. The latest projections are informed by more recent, short-term trends in the average household size. The former projections were informed by trends from 1971-2011, during which time the average household size declined. For several reasons relating to data quality, the new projections only look at trends from 2001-11. The average household size was relatively stable during that period, so the new projections assume less new household formation than the previous set.

The Commons Library Insight article Housing targets: Can we predict future need? explains changes in the projections and their effects on local targets.

A number of factors have been suggested for the lower-than-expected growth in households between 2001 and 2011, including families choosing to keep living in one household where they otherwise might not have done (e.g. young adults continuing to live with their parents). The recession has been suggested as a cause for this, as has the constrained supply of suitable, affordable housing during this period.[8] Additionally, levels of immigration were higher between 2001 and 2011 than previously, and research suggests that recent migrants tend to live in larger household groups than long-term UK residents. [9]

Local planning authorities' housing supply targets are based in part on the latest available household projections – this has been the case since the launch of the new National Planning Policy Framework in July 2018. The government launched a consultation in October 2018 which stated that the lower household projections did not affect its existing target of building 300,000 homes per year. The consultation also states that the

[5] MHCLG, 2014-based household projections in England, 2014 to 2039
[6] See ONS, Methodology used to produce household projections for England: 2016-based, 20 September 2018
[7] ONS, National population projections: 2016-based statistical bulletin, 26 October 2017
[8] E.g. by A.E. Holmans in *Housing need and effective demand in England* (2014) and *New estimates of housing demand and need in England, 2011 to 2031*.
[9] A.E. Holmans in *Housing need and effective demand in England* (2014)

government is seeking, in the longer term, to review the formula that determines local targets so that it supports this goal. [10]

The consultation document cites several reasons for maintaining the target. It argues that new household formation is constrained by housing supply, and that this is part of the reason for the fall in the projections; that there has been historic under-delivery of housing which needs remedying; that increased supply allows local authorities to be more responsive; and that low supply has led to declining affordability.[11]

The consultation document also notes that:

> Population changes are only one aspect of the driver for housing supply. Rising incomes, changing social preferences and factors such as real interest rates and credit availability contribute to demand for housing.

The document concludes that "there is wider consensus that a significant increase in housing delivery compared to current levels is required".[12] Other estimates of housing need are discussed below. See section 4.1 for more detail on housing supply targets for local planning authorities.

Other estimates of need

Independent estimates of housing need have attempted to account for future trends in household formation and migration, as well as an existing backlog of need.

The Town and Country Planning Association (TCPA) made estimates in 2013, based on the most recent available projections at the time (the 2011-based projections from MHCLG).[13] The alternative estimates adjusted MHCLG's projections by assuming that the economy would improve, causing new household formation to increase. Migration was assumed to follow similar trends to 2001-11.[14] This led to an estimate that 240-245,000 homes would have to be built in each year to meet 'newly arising demand and need'.

Shelter in 2015 put forward a similar figure based on a review of the literature (the TCPA is cited as a key source). They estimate that around 250,000 new homes would be needed in each year to keep up with new household formation, and add:

> Demand is not uniform across the country, with some areas experiencing much higher population growth. Unsurprisingly, the highest levels of projected household growth over the next decade are in London and the South East, with high growth also expected in the South West and Yorkshire and Humber.

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[10] MHCLG, Technical consultation on updates to national planning policy and guidance, 26 October 2018, p11

[11] Ibid., p8

[12] Ibid., p9

[13] A.E. Holmans (2013), *New estimates of housing demand and need in England, 2011 to 2031*.

[14] In reality, migration is now higher than it was in 2011 (see ONS, *Migration Statistics Quarterly Report, December 2016*). Projections do not take account of future policy changes affecting migration, e.g. as a result of the UK exiting the European Union.

> Years of undersupply have also left a backlog of housing need, manifested in concealed households, rising overcrowding, homelessness and the rise in young adults living with their parents. The most recent estimates suggest the backlog may be as large as two million households. To clear this, England would need to build well over 250,000 homes each year for many years, or change the distribution of the existing housing stock - or most likely both.[15]

One of the stated reasons for the government's target of supplying 300,000 homes per year is that this will directly reduce affordability pressures. When giving evidence to the Housing, Communities and Local Government Select Committee on 12 March 2018, the former Housing Minister, Dominic Raab, said:

> First, the 300,000 target by the mid-2020s is the point at which we think that the affordability of homes will come down for the nurse, the teacher, and those on low and middle incomes, and particularly for those trying to get on the housing ladder for the first time.[16]

The 2017 UK Housing Review Briefing Paper (September 2017) argues that while supply is of critical importance, "so is the rather more neglected issue of affordability, in both the private and social housing sectors."[17] The Review argues that "we cannot assume more supply is the sole answer to the problem" and goes on:

> Indeed, as the evidence to the Redfern Review from Oxford Economics reminds us, it is unlikely to bring house prices down except in the very long term and with sustained high output of new homes relative to household growth. Even boosting (UK) housing supply to 310,000 homes per annum in their model only brings a five per cent fall in the baseline forecast of house prices. Oxford Economics says this has 'important implications for a policy debate that has focused heavily on supply as both the cause of the problem of high house prices and its solution.'[18]

More recent research has called for increased supply of *affordable* housing to meet affordability needs. Research commissioned by the National Housing Federation (NHF) and Crisis from Heriot-Watt University has identified a need for 340,000 homes each year in England to 2031 of which 145,000 "must be affordable homes". The press release for the research breaks down the type of affordable homes needed:

- 90,000 should be for social rent
- 30,000 should be for intermediate affordable rent
- 25,000 should be for shared ownership[19]

The full research report has yet to be published, which means it is not possible to describe or evaluate the methodology behind these figures.

15 Shelter and KPMG (2015), Building the homes we need: a programme for the 2015 government, pp19-20
16 Oral Evidence: MHCLG Housing Priorities, HC 830 Q3, 12 March 2018
17 2017 UK Housing Review Briefing Paper, Steve Wilcox, John Perry and Peter Williams, September 2017
18 2017 UK Housing Review Briefing Paper, Steve Wilcox, John Perry and Peter Williams, September 2017
19 NHF Press Release, England short of 4 million homes, 18 May 2018

However, an article in the 2018 UK Housing Review Briefing Paper gives further background:

> The current backlog of households with housing need is four million in England or 4.7 million across Great Britain (GB). We cannot meet all these needs instantaneously and it will take time to build up an effective programme to address existing and expected needs and demands. Fifteen years is a reasonable timeframe.
>
> Over that time horizon, the total level of new housebuilding required is estimated at around 340,000 per year for England (380,000 for GB). These numbers include significant allowances for suppressed household formation by younger adults resulting from previous inadequate supply and unaffordability, as well necessary provision for more demolitions and vacancies (including some fallout from Grenfell). This is why the numbers are significantly above official household projections. [20]

The article also addresses the geographic distribution of housing need:

> While size (population) of a country/region is a factor, the increase should be skewed towards regions where the pressures are greatest, currently the South and London. The exact optimal balance between 'within-London', 'near-to-London' and the 'Greater South East' is an issue for careful consideration. In this exercise we constrain London to a reasonable estimate of its capacity to build additional housing each year, and thereby accept that a higher number will have to be in the South of England. [21]

Other commentators have also drawn attention to geographic variation. A research report by the consultancy Residential Analysts uses a range of indicators of housing demand at local authority level to explore trends across the country. The report measures lack of supply using indicators including affordability, overcrowding and population growth, and concludes that "while the lack of supply is frequently assumed to be a national issue, it is very much a London and South East problem with some other localised hotspots". [22] Other indicators are used to assess areas of lower demand:

> To identify where weak demand is most severe we have created a ranking based on three sub-categories. These are: weak demographic demand where the population is ageing and people are leaving, weak housing market demand where house price and sales activity are weak, and weak economic demand where job opportunities are poor and incomes are low with limited growth.
>
> The local authorities most affected by weak demand are typically found in Wales, the north of England, south west Scotland, and Northern Ireland. The underlying causes for these high rankings vary. […]
>
> New supply is not a panacea for these markets. Indeed, it may even accelerate decline if the more affluent residents leave existing urban areas for new build estates. [23]

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[20] 2018 UK Housing Review Briefing Paper, October 2018, Mark Stephens, John Perry, Steve Wilcox, Peter Williams and Gillian Young , p7

[21] Ibid.

[22] Residential Analysts, A housing crisis? More like a series of local crises needing local solutions, October 2018, pp 5-6

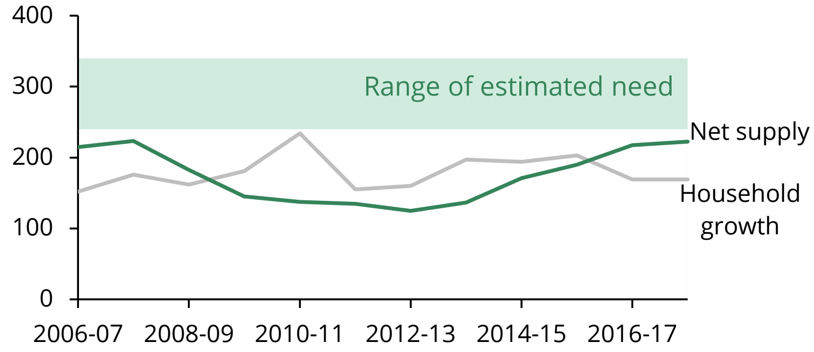
[23] Ibid., p13

1.3 Is new supply meeting housing need?

Section 2 discusses trends in housing supply in more detail. The key measure of housing supply in England is MHCLG's net housing supply series. This measures the total gain in the number of homes in each financial year, factoring in gains from conversions and change-of-use as well as new build.

The chart below compares net supply in each year since 2006-07 with household growth (estimated as part of the ONS' latest projections) and the range of estimates of housing need discussed above. Net supply has been lower than household growth in most years and it has consistently been lower than the broad range of estimated overall need.

NET HOUSING SUPPLY, HOUSEHOLD GROWTH AND ESTIMATED NEED (ENGLAND)



Sources: MHCLG, Live Table 120; ONS, Household projections for England: 2016-based; estimated need referenced in this section.

2. Trends in housing supply

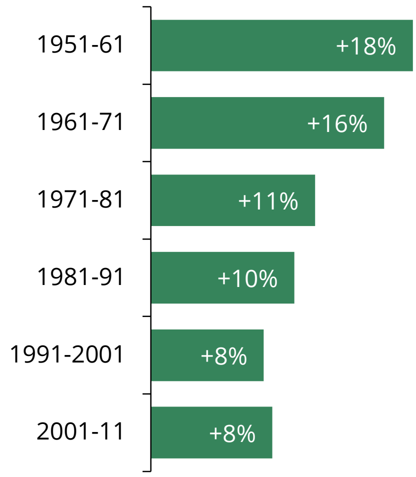
2.1 Growth in housing supply

There were approximately 27.7 million residential dwellings in Great Britain on 31st March 2016. Of these, 23.7 million were in England, 1.4 million were in Wales and 2.6 million were in Scotland. [24]

The total housing supply increased by 94% over the sixty years between 1951 and 1961. As the chart on the right shows, there was more growth in the housing stock in 1950s and 1960s than in later decades. The housing stock in Great Britain increased by 18% between 1951 and 1961, and 16% between 1961 and 1971. By contrast, the stock increased by 8% between 2001 and 2011.

Change between the 1991 and 2011 censuses can be examined in finer detail (see map, below). In both England and the UK the overall increase was 16%, but many regions saw less growth than this – the North East (9%) and the North West (11%) had the lowest growth. The South West had the largest increase in dwelling stock in England (22%), while Northern Ireland had the largest in the UK (32%).

GROWTH IN HOUSING STOCK
10-year periods, Great Britain



Source: MHCLG, Live Tables 104, 106 and 107

GROWTH IN THE NUMBER OF DWELLINGS, 1951 to 2011
UK, nations and regions

	Number of dwellings (thousands)			Change 1951 to 2011	Change 1991 to 2011
	1951	1991	2011		
England	11,678	19,671	22,814	95%	16%
North East	..	1,072	1,164	..	9%
North West	..	2,792	3,111	..	11%
Yorkshire & the Humber	..	2,021	2,294	..	14%
East Midlands	..	1,634	1,961	..	20%
West Midlands	..	2,079	2,358	..	13%
East of England	..	2,093	2,520	..	20%
London	..	2,912	3,318	..	14%
South East	..	3,099	3,683	..	19%
South West	..	1,968	2,403	..	22%
Wales	711	1,184	1,384	95%	17%
Scotland	1,375	2,160	2,495	81%	16%
Northern Ireland	354	573	759	114%	32%
UK	**14,118**	**23,588**	**27,452**	**94%**	**16%**

Source: MHCLG, Live Tables 104, 106, 107, 108 and 109.
.. = data not available.

24 MHCLG, Live Tables 104, 106 and 107

2.2 Components of new housing supply

This section looks at changes in the different components that have contributed to new housing supply in England. The box below clarifies the different statistical sources used in this section.

Which housebuilding series?

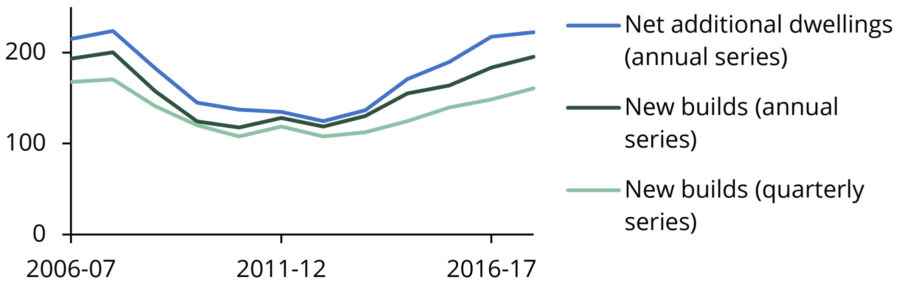
MHCLG publishes two separate time series on housing: a quarterly publication that covers new builds only and an annual series covering overall net supply of housing.

The annual net supply series covers new builds, conversions, change of use, demolitions and other changes in the dwelling stock. See below for more on how these factors contribute to net supply.

The quarterly series covers new builds only, but its figures are generally lower than the new-build figures given in the annual net supply series. Since 2006-07, it has recorded about 15% fewer dwellings than the annual series.

MHCLG describes the annual series as 'the primary and most comprehensive measure of housing supply', while the quarterly series is a 'leading indicator' of the trend in supply. The quarterly series has some other advantages: it covers a longer time-span, provides a breakdown by tenure and has figures for the whole of the UK. For these reasons, the quarterly series is used in this briefing paper when a comparison of building by time, tenure or geography is likely to be useful.

COMPARING HOUSING SUPPLY MEASURES
Thousands of dwellings, England



Sources: MHCLG, Live Table 120 (annual series), Live Table 209 (quarterly series)

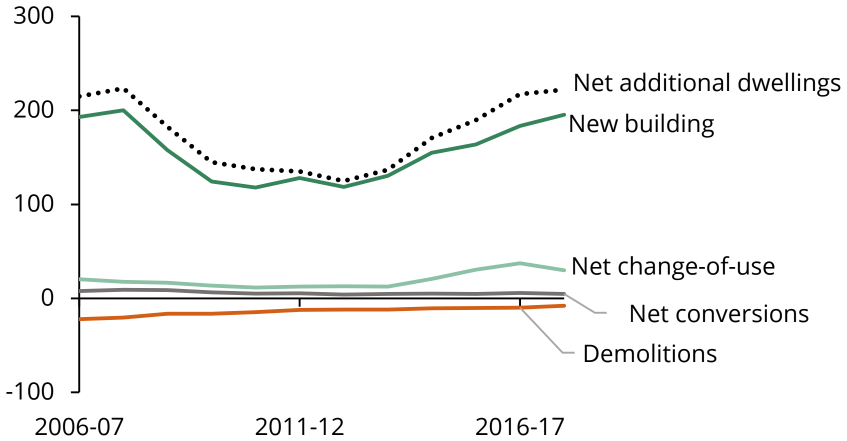
Recent trends in England

In 2017-18, England's housing stock increased by 222,190 homes. Change in dwelling stock is not just a product of building new houses. Conversions and change of use can add to the dwelling stock, while demolitions and other damage also reduce it.

The chart overleaf shows trends in the components of net supply since 2006-07 in more detail. New building has accounted for less of the net total in recent years, as change of use from non-residential to residential property has become more common. Additions through change of use grew by 65% between 2013-14 and 2014-15, and continued to rise over the next two years. However, change-of-use completions fell by 20% in 2017-18.

The growth in change-of-use conversions is due to extensions to permitted development rights (a right to develop without the need to apply for planning permission). Permitted development rights were temporarily extended to include office to residential change of use in 2013, and made permanent in April 2016.

COMPONENTS OF NET SUPPLY OF HOUSING
Thousands of dwellings, England



Source: MHCLG, Live Table 120

Notes: The net additional dwellings total also includes adjustments based on the 2011 Census, and a small number of gains labelled as 'other'.

Get housing supply data for your area

The Library has published an online dashboard that provides housing supply statistics for local authorities in England. The dashboards shows current housing stock by tenure, components of net supply in the area, and new supply of affordable housing.
Find the dashboard at commonslibrary.parliament.uk/local-data

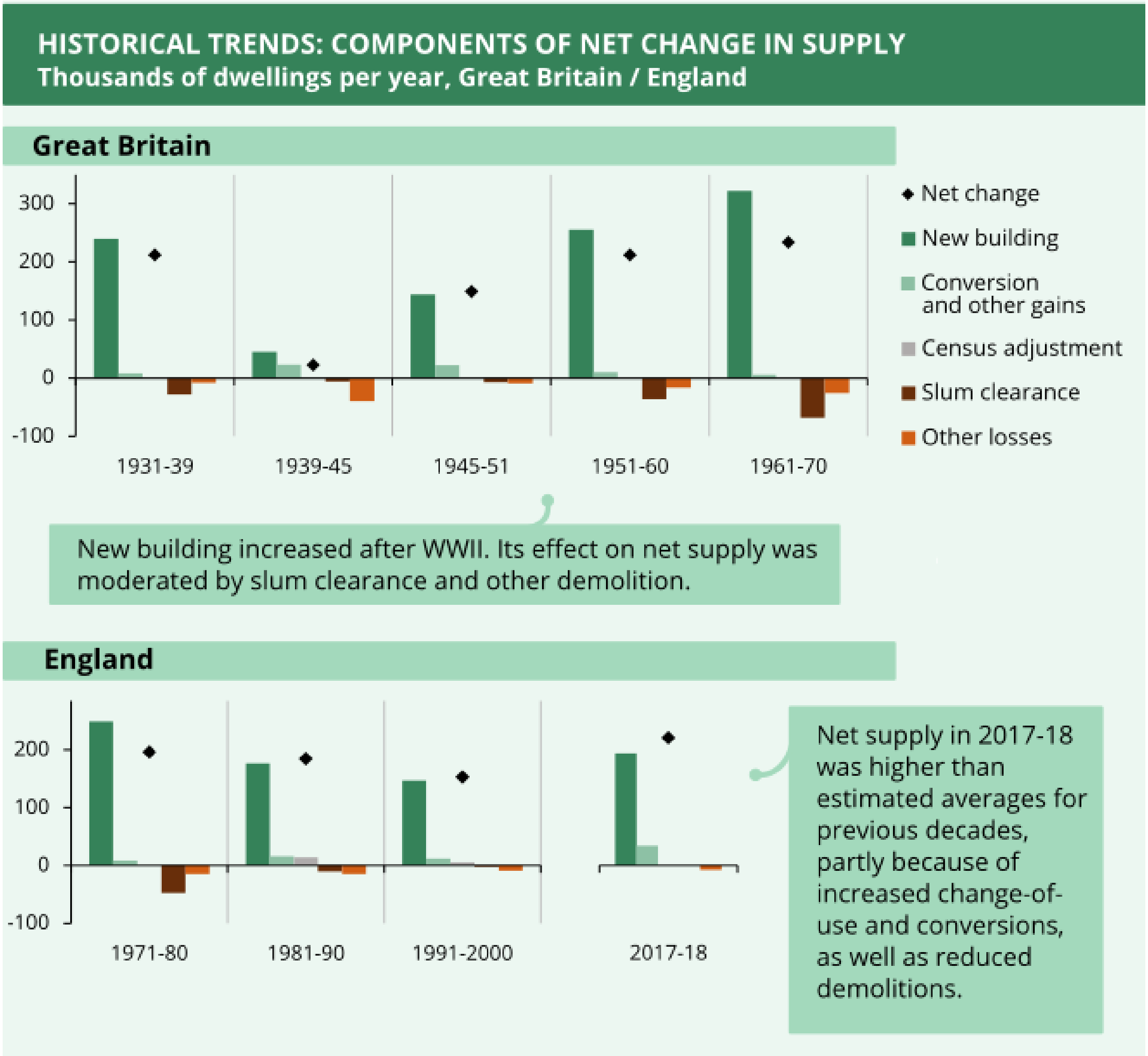
How does this compare with past trends?

Historical data shows how the components of change have changed across the 20th and 21st centuries. The graphic overleaf summarises the trends.

Before 1980, the net increase in housing stock was generally lower than the number of houses completed because of high levels of demolition activity. Losses due to enemy action also played a role during WWII, although overall net changed remained marginally positive. The 1960s saw more demolition activity – mostly slum clearance – and more building than any point previously.

Since 1980, the net increase in housing stock has tended to be higher than the number of completions as activity has shifted away from demolition and towards conversion of existing properties.

There was a net gain of 222,190 dwellings in 2017-18: higher than the estimated average for the seventies, despite the seventies having more new-build completions per year. This is partly because there were considerably more demolitions in the seventies. Additionally, change of use from non-residential into residential property has accounted for an increasing proportion of new housing supply. Change of use produced 29,720 new dwellings in 2017-18 compared to 20,150 in 2006-07.[25]



Sources: A.E. Holmans, *Historical Statistics of Housing in Great Britain*, Table B.17; MHCLG, Live Table 120

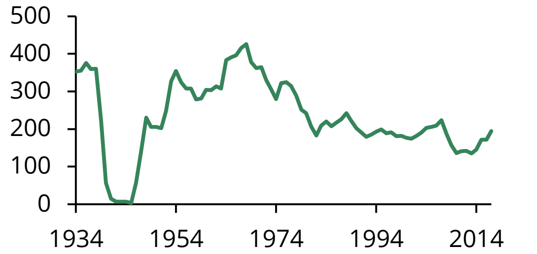
Notes: Holmans reports the total number of dwellings for each time period; this chart shows the average per year. 'Slum clearance' refers to demolitions carried out by local authorities using specific powers for removing unfit dwellings under the Housing Act 1930 and Housing Repairs and Rents Act 1954.

[25] Source: MHCLG, Live Table 120

2.3 Long-term trends in house building

Housebuilding is the main driver of change in overall housing supply, although other factors are involved (see *Components of new housing supply*, above).

HOUSE BUILDING, UK 1934-2017
Thousands of dwellings



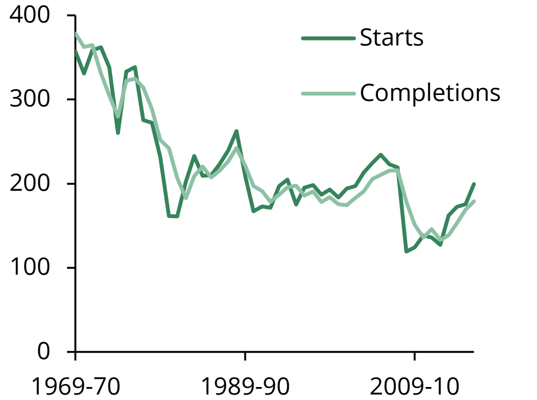
Sources: B.R. Mitchell, *British Historical Statistics*; MHCLG, Live Table 246
Notes: Total incorporates some financial year data. See data download for full notes.

Housing starts and completions

The first chart on the right shows trends in housebuilding in the UK since 1935. Housebuilding recovered after dropping substantially during WWII, reaching peak levels in the late 1960s (the highest number of completions was 425,830 in 1968). Housebuilding has seen an overall decline since then, with the most recent drop taking place after the 2008 financial crisis. 2013 had the smallest number of completions since 1946, but housebuilding has increased year-on-year since then with completions in 2017 higher than the number in 2008.

Housing completions figures don't instantaneously reflect changes to policy or the economic climate, because the house building process takes time and is influenced by multiple factors. Trends in housing starts tend to be starker. For example, the financial crisis caused housing starts to fall by 46% between 2007/08 and 2009/09, whereas completions decreased more gradually over the following years.

HOUSING STARTS & COMPLETIONS, UK 1969-70 to 2016-17
Thousands of dwellings



Source: MHCLG, Live Tables 208 and 209

House building by type of developer

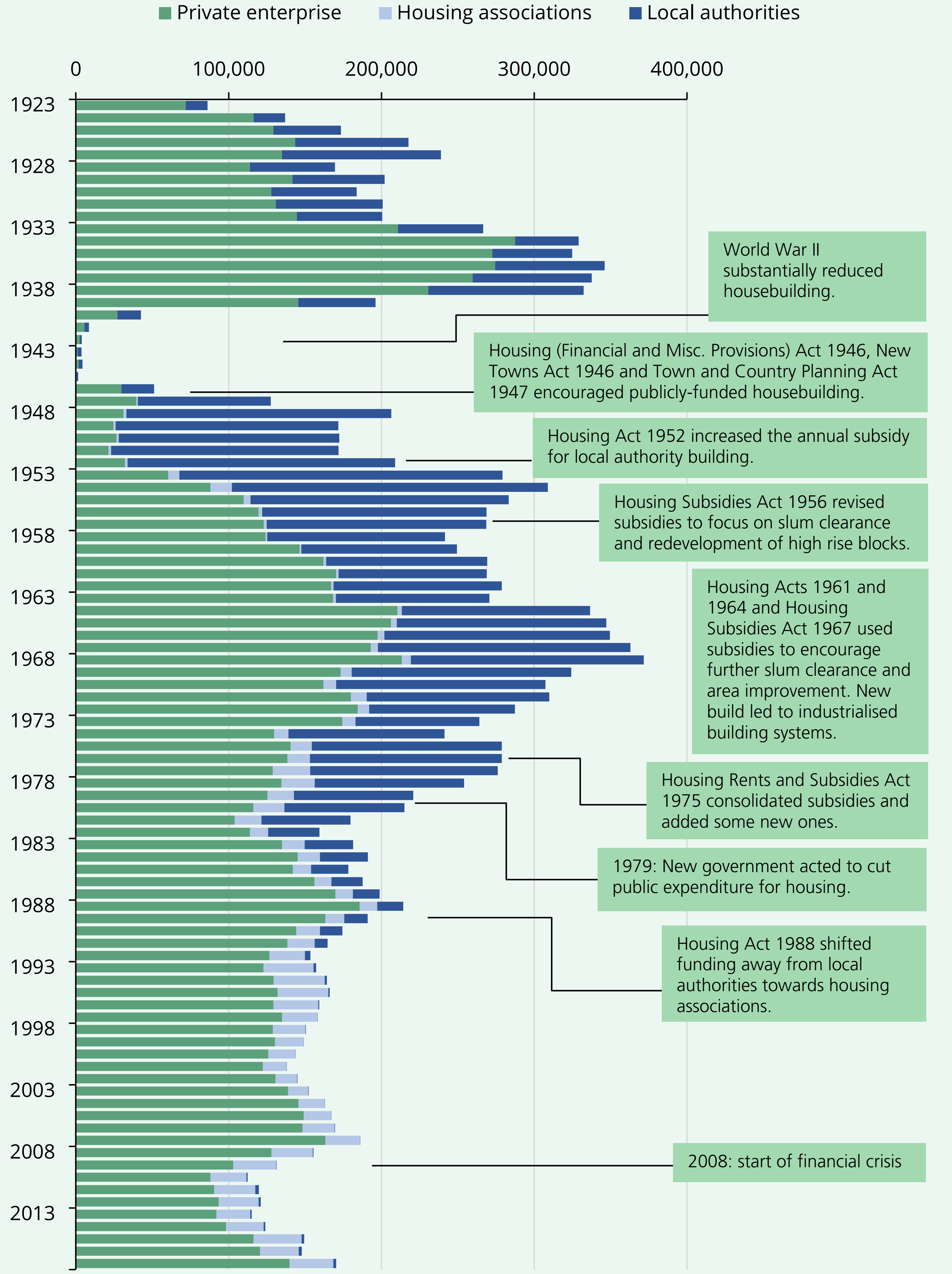
The chart overleaf shows housing completions broken down by type of developer: private enterprise, local authorities and housing associations. The annotations show some of the trends and policies that shaped the number and type of homes being built.

The type of developer building a property doesn't always correspond to the property's final use. For example, homes built by private enterprise may end up being let in the social rented sector.

The proportion of homes built by the social housing sector has changed considerably since 1945. The subsequent charts show trends in the proportion of dwellings built by local authorities and housing associations in the post-war period.

Statistics on trends in the tenure of existing housing stock are available in the Library briefing paper Home ownership and renting: demographics (CBP 7706).

HOUSE BUILDING BY TYPE OF DEVELOPER: ENGLAND AND WALES, 1923 TO 2017



Sources: B.R. Mitchell, *British Historical Statistics*, MHCLG, Live Tables 244 and 245
Notes: Data is for financial years from 1923/24 to 1944/45, then calendar years. See data download for full notes.

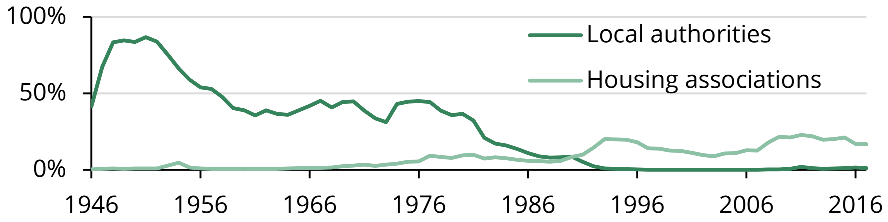
Housebuilding by local authorities has declined substantially across the UK. The proportion of homes built by local authorities peaked in the 1940s and 1950s in Great Britain. In England, the peak was 87% in 1950. In Northern Ireland, the peak came later, in 1977 – unlike the rest of the UK, housing associations were already contributing to a substantial proportion of housebuilding immediately after the war.

By the early 1980s local authority housebuilding made up less than a quarter of the total across the UK. Building by housing associations increased, however, and in 2017 made up 17% of all completions across the UK.

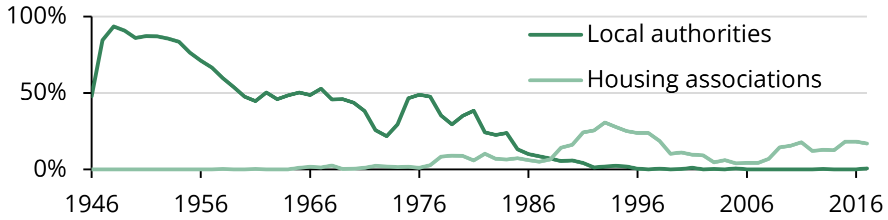
In all nations, the overall proportion of building by the social sector increased relative to the private sector in the years following the financial crisis. The private sector experienced a greater drop in the volume of completions during this period.

PROPORTION OF NEW HOMES BUILT BY SOCIAL HOUSING PROVIDERS

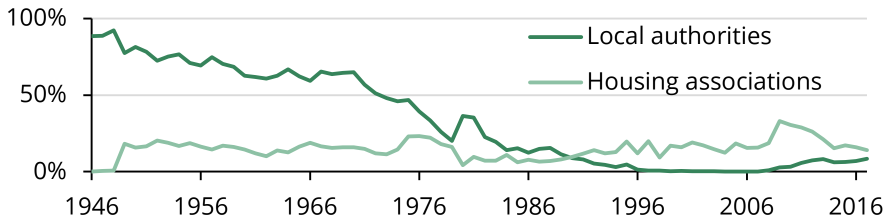
England



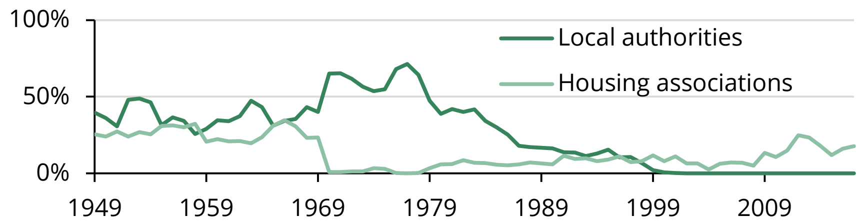
Wales



Scotland



Northern Ireland



Source: MHCLG, Live Tables 244, 245, 246 and 247

2.4 Profile of new builds in England

The English Housing Survey (EHS) provides data on the characteristics of new dwellings built in England (i.e. those built during or after 2005). According to the estimates for 2014, new-builds are more likely to be flats (44% are, compared to 18% of older dwellings). They also tend to be smaller. Over half (54%) of new-builds have one or two bedrooms, compared to 37% of older dwellings. The total number of habitable rooms in a new-build is also likely to be lower: 44% of new homes had three or fewer habitable rooms compared to 23% of older homes.

Floor space is generally lower for new-builds in the owner-occupied and private rented sectors. However, new-builds which are currently in the social rented sector tend to have more floor space than older social rented homes.

In general, new-builds are more likely to be let by a housing association and less likely to be let by a local authority. They are also more likely to be rented privately and less likely to be owner-occupied compared to older dwellings.

HOUSING STOCK PROFILE BY AGE
England, 2014

	New dwellings (2005+)	Old dwellings (pre-2005)
Dwelling type		
Terrace	24%	30%
Semi-detached	13%	28%
Detached	19%	23%
Flat	44%	18%
Number of bedrooms		
1	14%	10%
2	40%	27%
3	24%	43%
4 or more	22%	20%
Number of habitable rooms		
3 or less	44%	23%
4	16%	22%
5	16%	29%
6 or more	23%	26%
Current tenure		
Owner occupied	57%	63%
Private rented	24%	19%
Local authority	1%	8%
Housing association	18%	10%

Mean floor area (m^2) by current tenure	
New dwellings	87
Owner occupied	*98*
Private rented	*72*
Social rented	*73*
Old dwellings	94
Owner occupied	*107*
Private rented	*77*
Social rented	*67*

Source: MHCLG, English Housing Survey 2014-15: Housing stock report, Annex Tables 2.1, 2.3 and 2.4

2.5 Expenditure on housing

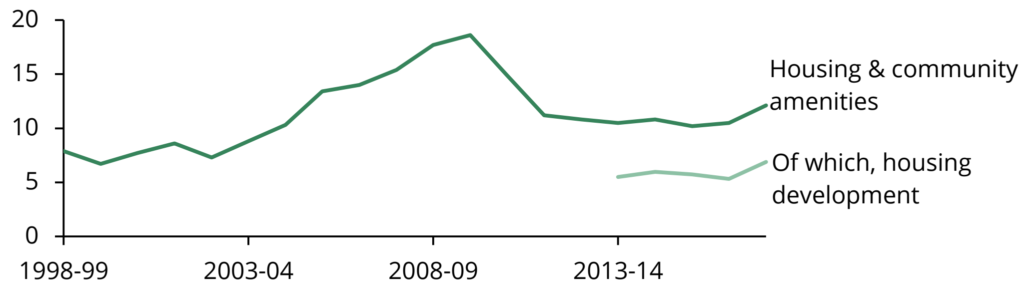
While it is difficult to produce a consistent estimate of public spending on new housing supply, figures on broader expenditure on housing and related areas are available from the Treasury's *Public Expenditure Statistical Analyses* (PESA).

PESA records spending by the UK government on 'housing and community amenities' – a category that includes spending on items such as water supply, street lighting and planning. However, the bulk of spending in this category is on 'housing development', including building, improvements, land acquisition and administration. Housing development accounted for 57% of housing and community amenities spending in 2017-18.

PESA's longest time series covers spending on housing and community amenities in the UK. As the chart below shows, spending on housing and community amenities increased fairly steadily from 1998-99 onwards, reaching a peak of £18.6bn in 2009-10.[26] Spending then began to decline, averaging £10.6bn between 2012-13 and 2016-17. Spending increased by 15% between 2016-17 and 2017-18, rising from £10.5bn to £12.1bn.

Data on housing development spending is only available for 2013-14 onwards. £6.9bn was spent in 2017-18, an increase of 32% on 2016-17.

SPENDING ON HOUSING & COMMUNITY AMENITIES AND HOUSING DEVELOPMENT (UK, £bn 2017-18 prices)



Source: HM Treasury, PESA 2018, Tables 4.3 and 5.2

The table overleaf shows regional expenditure on housing and community amenities, including per capita expenditure. The most recent data available is for 2015-16. Per capita spending was highest in London (£218) and the North East (£190).

[26] All spending in this section is given in 2017-18 prices. Adjustments made using the Treasury's GDP deflators for October 2018.

IDENTIFIABLE EXPENDITURE ON HOUSING & COMMUNITY AMENITIES
England and regions, 2016-17

	Total (£ million)	£ per head
London	£1,793	£203
North East	£484	£183
West Midlands	£811	£138
Yorkshire and the Humber	£753	£138
East Midlands	£601	£126
East of England	£678	£110
North West	£790	£109
South East	£868	£96
South West	£430	£77
England	£7,206	£130

Source: HM Treasury, PESA 2018, Table 9.10; ONS, mid-year population estimates for mid-2017 via nomisweb.co.uk

Comparison with Housing Benefit expenditure

Comparisons have been made between the Government's investment in housing supply and its expenditure on Housing Benefit. For example, in a 2014 report Shelter commented:

> Housing benefit is widely recognised as having facilitated a switch from supply side to demand side subsidies. The period following 1975 saw a move away from investment in bricks and mortar with a corresponding rise in expenditure on housing benefit. This was not an accidental shift. Successive governments remained committed to the idea that support should be targeted at individuals rather than bricks and mortar investment to increase the supply of housing.[27]

It is possible to draw an approximate comparison between Housing Benefit expenditure and housing expenditure as recorded in PESA. However, there are some limitations to this analysis:

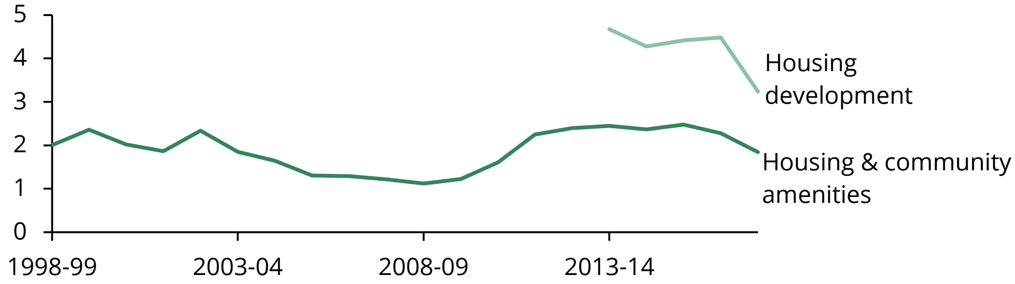
- The geographical extent of the two sources is different. PESA statistics cover all spending in the UK. Housing Benefit expenditure recorded by the Department for Work and Pensions (DWP) covers Great Britain.
- As discussed above, PESA statistics cover spending in a broad range of areas related to housing and community development, and not just the development of housing stock.

The chart overleaf shows how spending in the two areas compares. Although spending on both Housing Benefit and housing and community amenities increased during the 1990s and 2000s, the gap between the two narrowed. Housing Benefit expenditure was 2.3 times higher than housing and community amenities expenditure in 1999-00; by 2010-11 the ratio had fallen to 1.6.

[27] Shelter, 2014, *Bricks or Benefits?*, p.9

After 2010-11, decreased spending on housing and community amenities coincided with an increase in Housing Benefit expenditure, meaning that by 2016-17 the ratio was 2.3. Spending on housing development was 4.5 times higher than spending on Housing Benefit in 2016-17. In 2017-18, a combination of increased spending on housing development and decreased spending on Housing Benefit caused this ratio to fall to 3.2.

RATIO OF HOUSING BENEFIT SPENDING (GB) TO OTHER HOUSING SPENDING (UK)



Sources: HM Treasury, PESA 2018, Tables 4.3 and 5.2; DWP, Benefit expenditure and caseload tables, Outturn and forecast: Autumn budget 2018, Table 1a; HM Treasury, GDP deflators at market prices

3. Increasing supply in England: barriers and solutions

Box 1: Manifesto commitments General Election 2017

Conservative Party: A commitment to meet the 2015 commitment to deliver a million homes by the end of 2020 and deliver half a million more by the end of 2022. The Manifesto referred to the implementation of proposals in the Housing White Paper (February 2017).

Labour Party: A commitment to invest to build over one million new homes over the Parliament. By the end of the Parliament councils and housing associations would be building at least 100,000 homes a year.

Liberal Democrats: A commitment to build 300,000 homes per year by 2022.

Green Party: A commitment to build affordable, zero carbon homes, including 100,000 social rented homes each year by 2022.

UKIP: A focus on factory-build modular homes which, together with a traditional home building programme "could build another one million homes by 2022."

Although there is consensus around the long-term under-supply of housing and the need to address this, there is less agreement within the industry about *how* best to achieve the necessary step-change in supply. Commentators agree that there is no 'silver bullet' and call for a range of solutions across several policy areas. For example, the UK Housing Review 2015 called for "a comprehensive housing strategy" with "actions coordinated and sustained over at least a decade."[28] Shelter and KPMG in Building the homes we need: a programme for the 2015 government (2015), set out a series of measures aimed at reversing "the model of a high cost, low output housing sector to a low cost, high output one" having identified that there are "a number of self-sustaining and self-reinforcing problems that must all be addressed if the housing shortage is to be rectified."[29]

There is no 'silver bullet' that will increase housing supply. A range of policy responses is required.

As discussed in **1.2** of this paper, there is a lot of focus on the need to increase supply **but affordability in the private and social sectors is also regarded as critical**.

Supply is 'critical' but affordability in the private and social sectors also needs to be considered.

The 2015 Government set out an ambition to deliver 1 million net additions to the housing stock in England by the end of the Parliament, which was expected to be in 2020.[30] This translated into around 200,000 net additions per year. This 'target' was arrived at after consideration of the household formation statistics.[31] Critics said that the figure did not take account of the backlog of housing need, section 1.2 of this paper refers to studies which have identified a need for between 240-245,000 homes new homes in each year to meet newly arising demand and need. Some estimates go higher; Shelter's 2015

28 UK Housing Review 2015, Steve Wilcox, John Perry and Peter Williams, March 2015
29 Shelter and KPMG (2015), Building the homes we need: a programme for the 2015 government, p32 and p50
30 Net additions includes, for example, conversions and changes of use in addition to newly built housing.
31 22 Mar 2016 - Economics of the United Kingdom Housing Market - oral evidence, Q237

literature review identified a need to develop 250,000 new homes annually[32] while research by Heriot Watt University for the National Housing Federation (NHF) and Crisis, calls for 340,000 new homes each year up to 2031.[33] This research identifies a need for 145,000 affordable homes per year of which 90,000 should be for social rent.[34]

The current Conservative Government was elected in 2017 with a manifesto pledge to meet the 2015 commitment to deliver 1 million homes by the end of 2020 and to "deliver half a million more by the end of 2022." The manifesto said that, if elected, the Government would deliver on the reforms proposed in the Housing White Paper (February 2017).[35]

The current commitment is to build one million homes by 2020 and 500,000 more by 2022.

In addition to questioning whether a target to deliver 1 million homes is ambitious enough, there is some doubt over whether even this number is achievable. The House of Lords Select Committee on Economic Affairs put this question to the then Housing Minister, Brandon Lewis, during its Building More Homes inquiry. The Committee concluded that the target "was not based on a robust analysis" and went on to recommend that the housing crisis required the development of at least 300,000 new homes annually "for the foreseeable future".[36] The Committee called on the Government to "recognise the inability of the private sector, as currently incentivised, to build the number of homes needed."[37] Knight Frank's housebuilder survey 2018 reports that 61% of respondents thought that between 200,000 and 250,000 net additional homes would be achievable by 2022 in current market conditions:

> A quarter believe net supply will be fewer than 200,000, and 13% said levels would reach 250,000-300,000. Only 1% of respondents thought more than 300,000 was achievable by 2022.[38]

The 2015 Government took action to stimulate housing supply through a variety of schemes.[39] In its response to Building More Homes, the Government referred to these schemes and also to additional funding and measures announced during the Autumn Statement 2016.[40] The response acknowledged that "we have much more to do as a country to build more homes and that the Government has a role to play in making sure our housing market works for everyone."[41]

32 Shelter and KPMG (2015), Building the homes we need: a programme for the 2015 government, pp19-20
33 National Housing Federation (NHF) Press Release, England short of 4 million homes, 18 May 2018
34 Ibid.
35 Conservative Party Manifesto 2017, p70
36 Select Committee on Economic Affairs, 1st Report of Session 2016-17, Building More Homes, HL Paper 20, 15 July 2016, para 84
37 Ibid., para 85
38 Knight Frank, Housebuilding Report 2018, July 2018, Figure 3, page 3.
39 For more information see Library briefing paper 06416: Stimulating housing supply - Government initiatives (England)
40 Government response to the House of Lords Economic Affairs Committee Report: "Building more homes" CM 9384, December 2016
41 Ibid.

February 2017 saw the publication of the Housing White paper [Fixing our broken housing market],[42] which set out "a comprehensive package of reform to increase housing supply and halt the decline in housing affordability."[43] When giving evidence to the Public Accounts Committee in February 2017, Melanie Dawes, Permanent Secretary at DCLG, was questioned on when the gap between net additions to the stock and the demand for new housing, estimated to be 189,000 and 277,000 respectively, would be eliminated. She replied:

> It will continue as it has done for decades. I agree, and that will show itself primarily in affordability and in some places in homelessness. I am simply being honest with you. For something on this scale and of this magnitude, we do not have some neat line that tells us when those paths will cross.[44]

The following sections highlight some of the key barriers and potential solutions to increasing housing supply which have been identified by commentators. As noted above, there is a lack of consensus around all the issues and possible approaches. Some proposals, such as building on the green belt, are particularly contentious. The paper has been updated to include reference to proposals contained in the Housing White Paper, and subsequent developments, where appropriate.

A request made by the economist, Dame Kate Barker, when giving evidence to both the House of Lords Economic Affairs Committee[45] and the Treasury Committee, during its inquiry into housing policy following the Autumn Statement 2016,[46] was for housing policy to be joined up between the Treasury, Department for Work and Pensions (DWP), Department for Communities and Local Government (now the Ministry of Housing, Communities and Local Government, MHCLG) and the Bank of England.

3.1 The local authority and housing association contribution

The table on page 19 of this paper demonstrates that the delivery of more than 200,000 homes per year in England has, since 1939, only happened largely because of major public sector (local authority) housebuilding programmes. The Shelter and KPMG report Building the homes we need: a programme for the 2015 government (2015) states that, since World War II, private housebuilding has been through three major periods of expansion followed by contractions and after each crash the recovery has been slower, with the result that:

> …for more than half the period, private house building has either been contracting or stagnant, and total output has ratcheted steadily down with each cycle.[47]

Since 1939, the delivery of 200,000 new homes per year in England has largely been due to major public sector building programmes.

42 Cm 9352, Fixing our broken housing market, February 2017
43 Cm 9362, Autumn Statement 2016, November 2016, para 3.11
44 HC 958, 22 February 2017, Q132
45 Select Committee on Economic Affairs, 1st Report of Session 2016-17, Building More Homes, HL Paper 20, 15 July 2016, para 59
46 HC 861, 7 December 2016, Q50
47 Shelter and KPMG (2015), Building the homes we need: a programme for the 2015 government, p20

In this context, the contribution of the local authority and housing association sectors could be significant in achieving the necessary step-change in housing supply. The House of Lords Select Committee on Economic Affairs was emphatic on this point:

> To achieve its target the Government must recognise the inability of the private sector, as currently incentivised, to build the number of homes needed.[48]
>
> Local authorities and housing associations need to make a much bigger contribution to housebuilding if it is to reach required levels.[49]

The NHF said that with Government help, housing associations could deliver 335,000 homes over the lifetime of the Parliament – which was expected to run up to 2020.

A further argument which is used to support the development of more social and affordable rented housing, is its potential to reduce Housing Benefit expenditure over the long-term.[50] While there is agreement that overall supply is important, commentators are increasingly focusing on the need to deliver more truly affordable housing to tackle living standards and "loosen the grip of poverty."[51]

The local authority and housing association sectors are keen to do more and argue that they have the capacity to deliver.

The National Housing Federation's (NHF)[52] submission on the 2016 Autumn Statement expressed a desire in the housing association sector to work with the Government to "deliver 335,000 homes over the lifetime of this Parliament" with an offer of "£6 of private investment for every £1 of public money, maximum flexibility in the way we use our existing resources and a guarantee that all profits are reinvested in homes and communities."[53] The NHF welcomed the commitment contained in the Social Housing Green Paper (August 2018) to "protect and grow" the contribution of social housing to the housing market.[54]

The NHF's submission to the 2018 Budget referred to the "series of welcome commitments made to the housing associations sector" over the previous 12 months.[55] These commitments include:

- An increase in funding for affordable housing of £2 billion – increasing the Affordable Homes Programme to £9.1 billion.[56]

Alongside the £2 billion announced in Budget 2017, the Government said that this support could be used for social housing in addition to affordable rent and low-cost home ownership products.

48 Select Committee on Economic Affairs, 1st Report of Session 2016-17, Building More Homes, HL Paper 20, 15 July 2016, para 85
49 Ibid., para 56
50 Ibid., para 201
51 Joseph Rowntree Foundation, Affordable housing: why current plans to invest don't go far enough, 27 March 2018
52 The representative body of housing associations.
53 NHF, An offer for everyone, October 2016
54 Cm 9671, MHCLG, A new deal for social housing, August 2018, p11
55 NHF, Submission: Budget 2018, 28 September 2018
56 Announced at Budget 2017.

- Confirmation of a five-year rent settlement from 2020.[57]
- A further £2 billion initiative announced in September 2018. Under this scheme, associations can apply for funding and enter into longer-term partnerships up to 2028/29.[58] The NHF described this as lending further "long term certainty to associations' operating environment".[59]

The submission called for measures to build on Homes England's strategic partnerships and the £2 billion up to 20128/29 to deliver "**ten-year certainty over housing investment**". There was also an emphasis, as there had been in previous submissions, **on a more flexible funding system**:

> We are keen to see Homes England consolidate its existing funding streams into a single fund, and to remove restrictions around where future funding for social rent can be spent. Instead, Homes England should be allowed to work with local areas, to deliver according to local need.[60]

To achieve the 145,000 new affordable homes needed per year identified in the Heriot-Watt research[61], the NHF estimates that around £8.1 billion of grant funding would be needed annually. An alternative approach, suggested in the 2018 submission, is to **close the funding gap by capturing a greater proportion of land value and to use this to fund affordable housing**. The NHF estimates that this could bring annual investment down to £2.43 billion.[62]

As well as a focus on capturing land value, the NHF returned to the issue of **securing affordable housing on public land** in its 2018 submission. This 'ask' was also included in the NHF's 2017 Budget submission, alongside a call for a national minimum threshold for affordable housing required on new housing developments.[63] The revised version of the NPPF published on 24 July 2018, states that where major development involving the provision of housing is proposed, planning policies and decisions "should expect at least 10% of the homes to be available for affordable home ownership."[64]

The 2018 submission called on the Government to "use its position of influence to ensure that publicly held land makes the biggest possible contribution to tackling the housing crisis" – the NHF believes that Homes England should be directed to deliver 50% affordable housing across its land disposal and development programme.[65]

From April 2020 social landlords will be able to apply annual rent increases for five years of CPI+1%. Setting Social Rent (Capital Economics, February 2018) concluded that higher increases could be sustainable in some areas to provide more properties.

For more information on ideas about capturing land value see section 3.2 of this paper.

After the Autumn 2017 Budget, the NHF said that there was "a distinct lack of radial solutions to the long-standing issues of public sector land and the sanctity of the greenbelt.

57 Summer Budget 2015 announced that social housing providers would have to reduce their rents by 1% each year for four years up to 2020. Analysis of the impact on associations by Savills Housing Consultancy, and seen by *Inside Housing*, reported that the sector's financial capacity had reduced by 9% since the rent cut began in April 2016. *Inside Housing*, Sector's capacity down 9% since rent cut, research shows", 9 March 2018
58 PM to address the National Housing Federation summit, 18 September 2018
59 NHF, Submission: Budget 2018, 28 September 2018
60 Ibid.
61 See p27
62 NHF, Submission: Budget 2018, 28 September 2018
63 NHF, Submission: Autumn Budget 2017, 22 September 2017
64 MHCLG, National Planning Policy Framework, 24 July 2018, para 64 [exemptions to this requirement will be allowed in certain circumstances]
65 NHF, Submission: Budget 2018, 28 September 2018

Unlocking private finance – associations use public funding to lever in private finance for housing development. In its 2016 submission to the Autumn Statement, the NHF argued that there was a "strong case" for the continuation of the Affordable Homes Guarantee scheme (AHGS) which had given them access to long-term, competitively priced finance to deliver affordable homes:

> By the time the scheme is complete, it will have provided £2.5bn of guaranteed lending to 70 housing associations to deliver 27,000 new affordable homes. In addition to the affordable homes directly funded under the AHGS, by virtue of its lower cost of finance, the programme has produced an estimated interest saving capable of financing a further 6,000–6,500 homes.
>
> The sector's no default record means it came at no cost to the taxpayer, so there is a strong case for it continuing. A total of £10bn of guarantee capacity was committed by the Coalition Government via the Infrastructure (Financial Assistance) Act 2012. We understand that there is up to £4bn of unused guarantee capacity that could be allocated to support additional affordable housebuilding. To make more effective use of the Government's strong balance sheet, and the confidence funders have in the sector, this guarantee capacity could also be extended to cover refinancing of existing debt. This would allow housing associations to lower the cost of historic debt and take on more private finance to fund affordable housing.[66]

The 2018 submission welcomed the announcement contained in the Autumn Budget 2017 of a further £8 billion of guarantees but urged the Government to "announce how this will be used, and to ensure support for affordable homes forms an important part."[67]

Shelter and KPMG have proposed **the establishment of a national Housing and Infrastructure Bank funded from Housing ISAs** along the lines of the Dutch Bank, *Nederlandse Gemeenten* (BNG):

> A similar structure could be set up in the United Kingdom, with ownership of the bank exclusively in the hands of the government, shared with local authorities or as a not-for-profit vehicle. The bank would need to raise finance so that it could extend loans to housing associations and other providers of new affordable housing. This could come from issuing bonds to the capital markets, as is the case with BNG, and the bank could also use special savings accounts (housing ISAs) to raise finance from retail deposits, as in the french livrét A scheme. The Bank could be a new institution, or part of an existing or planned institution such as the Green Investment Bank, British Investment Bank or homes and communities Agency (HCA).[68]

Reflecting on the 2018 Budget, Kate Henderson, CEO at the NHF, expressed disappointment that the opportunity to overhaul how land is sold had not been taken to ensure the delivery of more social rented homes.[69]

66 NHF, An offer for everyone, October 2016
67 NHF, Submission: Budget 2018, 28 September 2018
68 Shelter and KPMG (2015), Building the homes we need: a programme for the 2015 government, p75
69 *Inside Housing*, "Budget a 'missed opportunity' on housing says NHF", 30 October 2018

The local authority contribution to new housing supply had been contracting since the early 1980s, but many authorities are keen to explore how they can increase their contribution. The self-financing settlement, which became operational from April 2012, gave authorities the opportunity, within certain parameters, to use their rental income to support housing investment.[70] These opportunities have been limited by the imposition of borrowing caps and, more recently, the requirement on social landlords to reduce rents by 1% in each year for four years from April 2016.

Authorities that are keen to develop new social housing have taken a cautious approach due to borrowing caps and social sector rent reductions.

A report by the Chartered Institute of Housing (CIH) and the Chartered Institute of Public Finance and Accountancy (CIPFA), Investing in Council Housing (2016), estimated that the 2012 settlement originally offered the potential for authorities to develop 550,000 new build properties over 30 years. Inflationary changes by 2016 had reduced this to 160,000 units, while rent reductions reduced capacity further to 45,000 units.[71] Financial uncertainty, coupled with challenges posed by Government proposals on selling higher-value properties and changes to Housing Benefit entitlement,[72] which, in turn, threaten local authorities' rental streams, means that authorities have tended to take a cautious approach to new housing development.

Since 2012 there have been various calls for **a relaxation of local authority borrowing caps**.[73] Opponents of the caps argued that local authorities should be able to borrow to build social housing within the existing prudential regime. The Government, until recently, resisted these calls on the basis that additional borrowing would have an impact on the Public Sector Borrowing Requirement (PSBR):

Both the Labour and Liberal Democrat 2017 manifestos committed to lift local authority borrowing restrictions to stimulate house building.

> The borrowing caps were introduced as part of the Housing Revenue Account self-financing settlement, which entailed a once and for all rebalancing of housing debt. There are no plans to lift the caps, which are part of the government's strategy to manage the overall level of public debt.
>
> Local authorities do have the capacity to borrow to build new homes, there is nearly £3.4 billion headroom available nationally and £2.9 billion in reserves.[74]

In Building More Homes, the House of Lords Economic Affairs Select Committee described restrictions on authorities' ability to borrow to build housing as "arbitrary and anomalous" and recommended "that the Government allows local authorities to borrow under the prudential regime to build all types of housing."[75]

70 See Library briefing paper 06776, Local housing authorities - the self-financing regime: progress and issues
71 CIH and CIPFA, Investing in Council Housing, July 2016
72 The Government has said that the higher value sales policy will not be implemented and Local Housing Allowance rates will not be extended to cover claimants living in the social rented sector.
73 See Library briefing paper 06776, Local housing authorities - the self-financing regime: progress and issues
74 HL3457 – Written Question - 7 December 2016
75 Select Committee on Economic Affairs, 1st Report of Session 2016-17, Building More Homes, HL Paper 20, 15 July 2016, para 220

When challenged on borrowing caps, the Government referred to the fact that authorities were not utilising their existing borrowing headroom. Evidence submitted to the Communities and Local Government Committee's inquiry, Capacity in the homebuilding industry (April 2017), suggested that this is a reaction to funding cuts and uncertainty: "They argue that the chance for increased borrowing headroom is no longer seen as an opportunity to take additional action, but as a necessary protection from further cuts and intervention."[76] In an article for *Inside Housing* on 26 July 2018, John Perry explained in some detail why authorities might not be using their full borrowing capacity.[77]

The Government argued that local authorities were not using their existing borrowing headroom.

However, the **Autumn 2017 Budget announced that councils in areas with high affordability pressure would be able to bid for increases in their borrowing caps from 2019-20**. Up to £1 billion in additional borrowing will be possible by the end of 2021-22.[78] Bidding guidance for local authorities outside of London was published on 26 June 2018. A parallel prospectus was published for London which secured half of the additional borrowing capacity.

Bidding guidance has been issued for authorities seeking additional borrowing capacity.

This was followed by the Prime Minister announcing, during her speech to the Conservative Party Conference on 3 October 2018, **that borrowing caps would be lifted to support more housebuilding.**[79] The Chancellor announced the lifting of borrowing caps with effect from 29 October 2018 during the Budget:

> …the Housing Revenue Account cap that controls local authority borrowing for house building will be abolished from 29 October 2018 in England, enabling councils to increase house building to around 10,000 homes per year. The Welsh Government is taking immediate steps to lift the cap in Wales.[80]

The announcement was warmly greeted within the sector. The Resolution Foundation commented on the potential impact:

> The Office for Budget Responsibility (OBR) estimates that councils could complete an additional 20,000 new units by 2023-24 (and we estimate a further 7,000-plus units could be started by this point). Construction on this scale would represent a significant step-change for local authorities: in England and Wales they built a mere 1,900 new homes in 2017-18.[81]

The blog identifies potential savings for individuals due to lower social rent levels compared to private rents, and for the State due to Housing Benefit savings. Several factors are identified as explanations for the OBR's assessment of "uncertainty around local authorities' use of the extra borrowing room as 'medium to high" including:

76 HC 46, Tenth Report of session 2016-17, 29 April 2017, para 54
77 *Inside Housing*, Why councils don't use all their existing borrowing capacity?", 26 July 2018
78 HC 587, November 2017, para 5.23
79 Prime Minister's Conference Speech, 3 October 2018
80 HMT, HC 1629, 2018 Budget, para 4.56
81 Resolution Foundation blog, Lifting the lid on the borrowing cap, 31 October 2108

- The continuation of the Right to Buy which could temper councils' appetite to build. Some authorities may prefer to build through local housing companies.
- The requirement for additional funds to combine with borrowing:

  "money available for affordable homes still below the levels we saw in 2008-2010, and much already allocated to ongoing activities, councils may not be able to take full advantage of new borrowing opportunities without additional grant finance."
- Existing in-house capabilities of many councils to manage complex building programmes should not be over-estimated.[82]

Prior to the Budget, research conducted by Capital Economics for the Local Government Association (LGA) was reported as having identified that councils could generate £320 billion for the economy over the next 50 years if they were able to build "a new generation of high quality council housing". The research found:

- Every £1 invested in a new social home generates £2.84 in the wider economy.
- Every new social home would generate a saving of £780 per year in Housing Benefit.
- Every new social home would generate a fiscal surplus through rental income.[83]

160 English local authorities currently have a Housing Revenue Account.[84]

John Perry, housing policy advisor at the Chartered Institute of Housing **argues that the Government should adopt international accounting conventions to take borrowing for council housing investment out of the main measure of government debt**.[85]

There is no correlation between an authority's need and desire to invest in its existing stock or develop new housing and its ability to utilise additional borrowing capacity under self-financing. London Councils' evidence to the Communities and Local Government Select Committee's inquiry into Financing New Housing Supply (2010-12) highlighted this issue and **proposed that authorities should be able to share their borrowing capacity**:

> This would in effect merely re-distribute existing debt around local authorities and would not add to the aggregate HRA-related debt. However, at the moment it is not possible and would need central government's approval to happen. As such a move would not add to the aggregate debt, and would allow boroughs to act far more like the housing business managers that HRA devolution implies, the freedom to swap headroom in this manner is something that

In February 2018 *Inside Housing* reported that the Welsh Government was "in talks" on moving unused borrowing capacity around the sector.

82 Ibid.
83 LGA, "Potential £320 billion windfall from new generation of high quality council housing", 28 October 2018
84 Written question -181173, 29 October 2018
85 John Perry, Public Finance, Lifting the HRA borrowing cap should come with accounting changes", 22 October 2018

> we would strongly urge the Government to actively consider in the coming months.[86]

This approach, which the Committee recommended, was also supported by Labour Party-commissioned Lyons housing review (2014).[87] The Coalition Government rejected the proposition.[88]

A further area where authorities argue for flexibilities is to enable them to **replace properties sold through the Right to Buy (RTB), for example by**:

Statistics on the RTB published in March and June 2018 show that the aim of replacing all properties sold under the incentivised RTB is not on track.

> …allowing councils to keep all of the receipts from sales and relaxing rules on how these are reinvested, for example by extending the three year time limit and removing restrictions which prevent receipts from being used to fund more than 30 per cent of the cost of a new home.[89]

On publication of the March RTB 2018 statistical bulletin the former Housing Minister, Dominic Raab, issued a Written Statement commenting on the failure to meet the three-year replacement target in which he raised the possibility of additional flexibility on authorities' use of capital receipts.[90]

Subsequently, the Government published a consultation paper on Use of receipts from Right to Buy sales in August 2018; submissions were invited up to 9 October 2018. Responses are being analysed.

The 2013 Autumn Statement announced that the Coalition Government would launch a review into the role local authorities could play in supporting overall housing supply.[91] The Elphicke-House report of January 2015 also expressed concerns about the ability of local authorities to offer local one-for-one replacement of sold RTB properties and supported additional borrowing flexibilities in certain limited circumstances:

> Government considers within its overall current spending plans flexibilities in any possible further HRA borrowing programme to enable councils to use both additional borrowing and 1:1 receipts to enable councils to deliver replacement units for Right to Buy stock.[92]

Overall, The Elphicke-House report recommended that local authorities should become "**housing delivery enablers**", through the use of innovative financing mechanisms including: the creation of housing companies funded by the General Fund; private finance initiatives; and housing investment from local authority pension funds:

> A number of stock owning council respondents indicated that they would not be able to build more homes without additional borrowing capacity. However, local authorities with little or no borrowing headroom have developed innovative finance models,

86 HC 1652, Eleventh Report of 2010-12 Volume I, Financing New Housing Supply, May 2012, Ev 134-5
87 The Lyons housing review, 2014 p145
88 Cm 8401, July 2012, para 17
89 CIH submission to the Autumn Statement 2016, October 2016
90 Social Housing Update: Written Statement – HCWS614, 29 March 2018
91 Cm 8747, 2013 Autumn Statement, December 2013, para 1.229
92 The Elphicke-House report, January 2015, para 4.27

> including via local housing delivery vehicles, to lever-in private finance to support house building programmes.[93]

The CIH submission to the Autumn Statement 2016 noted that many councils *are* exploring alternative models for housebuilding such as housing companies and other means of funding development outside of the HRA. The CIH called on the Government to "consider options to support this kind of development."[94] The Smith Institute has predicted that on current trends, up to half of all councils in England could have a local housing company by 2020[95] although this was before the lifting of the HRA borrowing caps. The LGA published Innovation in council housebuilding in October 2018 which provides examples of innovative approaches councils have adopted to housing development.

The Housing White Paper said the Government would seek to support local authority owned housing companies and help them to build. (para 3.28)

Fixing our broken housing market expressed support for local housing companies:

> There are a number of good examples of Local Development Corporations, local housing companies and/or joint venture models building mixed sites, which include new market housing for sale or private rent, as well as affordable housing. We welcome innovations like these, and want more local authorities to get building. To that end we will seek to address the issues that hold them back. However, we want to see tenants that local authorities place in new affordable properties offered equivalent terms to those in council housing, including a right to buy their home.[96]

Commentators are concerned that a requirement to offer the Right to Buy to tenants occupying properties built by council owned housing companies could threaten the viability of schemes.[97] Support for local authority housing companies was reiterated in A new deal for social housing (August 2018), as is the requirement to ensure that residents will have the opportunity to become homeowners.[98]

The Housing White Paper said the Government would consider bespoke deals with local authorities to deliver additional housing. (para 3.33)

The White Paper also included a commitment to consider 'bespoke deals' with local authorities:

> Housing markets are different right across the country, and we are interested in the scope for bespoke housing deals with authorities in high demand areas, which have a genuine ambition to build. We will look seriously at any request from local authorities for Government powers to be used to support delivery in their local area, and will be prepared to consider all the levers at our disposal to do so, so long as this results in genuinely additional housing being delivered.[99]

The representative bodies of both housing associations and local authorities agree that to make a significant contribution to housing

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93 The Elphicke-House report, From statutory provider to housing-delivery enabler, January 2015, para 4.24
94 CIH submission to the Autumn Statement 2016, October 2016
95 Smith Institute, Delivering the renaissance in council-built homes – the rise of local housing companies, October 2017
96 Cm 9352, Fixing our broken housing market, February 2017, para 3.28
97 See for example: LGA Briefing on the Housing White Paper, February 2017
98 MHCLG, A new deal for social housing, 14 August 2018, paras 154-156
99 Cm 9352, Fixing our broken housing market, February 2017, para 3.33

supply, **the sectors require certainty around public policy matters**. The House of Lords Select Committee on Economic Affairs concluded:

> Government must recognise the effect that constant changes in public policy have on the housing market; housebuilders, housing associations and local authorities are unlikely to commit to large building programmes amid such uncertainty.[100]

3.2 Land supply and capturing value

Around 10% of land in England is classed as 'urban' and 1% has domestic buildings on it.[101] While there is sufficient land to build on, land is scarce in economic terms as its supply is inherently limited and fixed. This leads, it is argued, to developers having to undergo 'fierce' competition for land "while remaining uncertain as to what planning permission they will be able to secure."[102] The price of land is certainly viewed as a barrier to housebuilding. **The gain in value that planning permission offers is said to encourage strategic land trading, rather than development**, "resulting in the most profitable beneficiaries of residential development being the land owner, not the developer."[103] High land prices can, in turn, force down the quality and size of new homes and present difficulties for small and medium sized enterprises (SMEs) when seeking to compete for sites to develop. The New Economics Foundation (NEF) in What lies beneath (July 2018), argues that unaffordable land is "at the heart of the housing crisis" and that "any solution to the housing crisis will never succeed unless it takes major steps to address our broken land system."[104]

Shelter and KPMG suggest that combined features of the land market mean that there is little competitive pressure at the consumer end of development process:

> …the development process is highly vulnerable to shocks, requiring developers to minimise build costs and maximise sale prices by building at a rate that is not related to demand for homes, but demand for homes at certain prices. This strategy is only possible because barriers to entry and market concentration mean there is little competitive pressure at the consumer end of the development process, which might otherwise drive down margins. Competition is focused on acquiring land, rather than satisfying consumers. the result is a vicious circle in which high land prices ensure housing output remains low and house prices high – which in turn feedback to sustain higher land prices.[105]

One potential response to this could be a **Land Value Tax (LVT)**. Essentially, under this system land owners would be required to make

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100 Select Committee on Economic Affairs, 1st Report of Session 2016-17, Building More Homes, HL Paper 20, 15 July 2016, para 61
101 UK National Ecosystem Assessment, 2011, p23
102 Shelter and KPMG (2015), Building the homes we need: a programme for the 2015 government, p8
103 Ibid.
104 NEF, What lies beneath: how to fix the broken land system at the heart of our housing crisis, July 2018, p2
105 Shelter and KPMG (2015), Building the homes we need: a programme for the 2015 government, p39

payments based on the current market value of land, irrespective of whether, or how well, the land is used. Proponents argue that:

> The necessity to pay the tax obliges landowners to develop vacant and under-used land properly or to make way for others who will.[106]

In What lies beneath (July 2018), the NEF proposes taxation mechanisms "to redistribute unfair gains which accrue to landowners through public investment and land value increases."[107]

The New Economics Foundation suggests that taxation mechanisms could "either involve capturing one-off increases in value that come with new development or capturing some or all land value increases over time."

There is some support amongst economists for a LVT to replace business rates, and, ultimately, Council Tax and Stamp Duty Land Tax. These ideas have not garnered wide political support.[108] However, the Labour Party's 2017 Manifesto said:

> We will initiate a review into reforming council tax and business rates and consider **new options such as a land value tax**, to ensure local government has sustainable funding for the long term.[109]

A March 2018 briefing note by thinktank Civitas proposed that councils should be allowed to buy sites at valuations that exclude potential future planning permission. This, it is argued, could reduce upfront development costs for 100,000 units from an estimated £24 billion to £15 billion using a new code for valuing land.[110]

There does appear to be growing support for reforms to *the Land Compensation Act 1961* and for changes to the prospective use value that landowners can charge for sites. Labour's Green Paper, Housing for the Many (April 2018) contains the following commitment:

> A Labour Government will establish an English Sovereign Land Trust to work with local authorities to enable more proactive buying of land at a price closer to existing use value. As part of this we will consider changes to the rules governing the compensation paid to landowners.[111]

The NHF's submission on Budget 2018 said "the cost and availability of land remains the single biggest barrier housing associations face to building more homes, more quickly."[112] The NHF called for:

- Reform of the Land Compensation Act 1961 to enable a fairer proportion of the uplift in land value to be shared with the community, including for affordable housing.
- A commitment to deliver 50% affordable housing on public sector land.

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106 Land Value Taxation Campaign [accessed on 4 January 2017]
107 NEF, What lies beneath: how to fix the broken land system at the heart of our housing crisis, July 2018, p2
108 Institute for Economic Affairs, The case for a Land Value Tax, 15 February 2016
109 Labour Party Manifesto 2017, p86
110 Civitas, Reform of the land compensation rules: How much could it save on the cost of a public-sector housebuilding programme? March 2018
111 Labour Party, Housing for the Many, April 2018, p22
112 NHF, Submission: Budget 2018, 28 September 2018

- A transparent database of land ownership.[113]

There is growing support for reforms to the Land Compensation Act 1961 to enable land purchase at current use value.

Former Conservative Planning Housing Minister, Nick Boles, has expressed some support for giving authorities the ability to buy land at current use value[114] and, in Green, Pleasant and Affordable (June 2018), Neil O'Brien, writing for the Conservative think tank, Onward, said:

> Give councils borrowing power to buy land and grant themselves planning permission, to enable councils to capture more of the gains from development. Reform the 1961 Land Compensation Act to clarify that local and central government can purchase land at current market use values, not inflated or speculative "hope" values. Reform Section 106 to relax constraints on what councils can charge.[115]

The Housing, Communities and Local Government Select Committee conducted an inquiry into land value capture which reported on 13 September 2018.[116] The Government response was published in November 2019.[117] **The Committee concluded that there was scope for central and local government to claim a greater proportion of land value increases through "reforms to existing taxes and charges, improvements to compulsory purchase powers, or through new mechanisms of land value capture."[118]** The Government agrees that there is scope to claim a greater proportion of land values but intends to "evolve the existing system of developer contributions to make them more transparent, efficient and accountable". There is an intention to "continue to explore options for further reforms to better capture land value uplift, providing it can be assured that the short-run impact on land markets does not distract from delivering a better housing market."[119]

On the Committee's call to reform the *Land Compensation Act 1961* to allow authorities to compulsorily purchase land at a fairer price, the Government said:

> Through the Housing and Planning Act 2016 and Neighbourhood Planning Act 2017, the Government has recently taken forward wide-ranging reforms to make the compulsory purchase process clearer, fairer and faster for all. These reforms include extensive changes to the Land Compensation Act 1961. We are keen to let these recent reforms bed in but will continue to monitor their practical application and remain open to considering practical improvements to the framework.[120]

There is support for an **increase in transparency of the land supply system** through the release of data on land market activity and for **incentives to promote the development of stalled sites**. Better data would, it is argued, create a more level playing field and enable

113 Ibid.
114 *Financial Times,* "Tory MP's housing reforms divide industry," 14 November 2017
115 Neil O'Brien MP, Onward, Green, Pleasant and Affordable, June 2018, p8
116 HC 766, Tenth Report of 2017-19, 13 September 2018
117 CM 9734, November 2018
118 HC 766, Tenth Report of 2017-19, 13 September 2018
119 CM 9734, November 2018, para 11
120 Ibid., para 29

small builders to find sites more easily.[121] The Lyons Housing Review of 2014 recommended that the Land Registry should open up land ownership information to the public and that it should be made a legal requirement to register land option agreements, prices and transactions:

> Greater transparency about ownership, options and transactions would deliver a number of important benefits that would result in better operation of the land market. It would assist in effective plan making by enabling local authorities to properly assess land availability and the record of landowners, agents and developers in bringing forward sites. It would greatly assist local authorities and other developers in land assembly, and provide information on achievable prices to landowners. It would also improve understanding of the viability of schemes to assist in negotiations of planning obligations. This would also increase the chance of planning gain being financed by a landowner rather than a developer.[122]

Fixing our broken housing market set out measures the Government intended to take to increase the transparency of land ownership and interests, including:

- A target for HM Land Registry to achieve comprehensive land registration by 2030 with all publicly held land in areas of high housing need registered by 2020, with the rest to follow by 2025.
- Consult on improving the transparency of contractual arrangements used to control land with legislation to follow "at the earliest opportunity."
- The release of the commercial and corporate ownership data set and the overseas ownership data set free of charge, and publication of a draft Bill on the reform of restrictive covenants and other interests.[123]

The Housing White Paper contained measures aimed at improving the transparency of land ownership and interests in land. (paras 1.17-21)

The annex to the White Paper contained consultation questions on these proposals. Responses could be submitted up to 2 May 2017.

[121] Shelter and KPMG (2015), Building the homes we need: a programme for the 2015 government, p13
[122] The Lyons Housing Review, 2014, p63
[123] Cm 9352, Fixing our broken housing market, February 2017, paras 1.17-21

Box 2: Is land banking a problem?

Land banking describes the practice of land owners who retain land while its value grows until it can be built on more profitably, sold on at an increased price, or is simply retained as an asset.

Several studies have considered whether land banking takes place. For example, a report by Molior for the London Mayor in 2012 found that of the 210,000 existing planning permissions for new homes in London, 55% were in the control of building firms while 45% were in the control of non-building firms such as investment funds, historic land owners, government and 'developers' who do not build. Molior concluded that accusations of land banking directed at builders were 'misplaced.' An update report in 2014 found a smaller percentage of planning permissions held by non-developers.

It is acknowledged that developers retain stocks of land with planning permission as a strategy for managing pipelines and 'smoothing out peaks and troughs in resource allocation.' There are also holdings of 'strategic land banks' which are sites without planning permission which are generally held 'under option,' i.e. not recorded as in the developer's ownership. Shelter and KPMG conclude that incentives to get strategic land through planning are 'very high' and expect any issues to be:

> …more at the strategic and local planning level, with a lack of visibility over land control and intent meaning that it is less each to match planning strategy with land that is controlled by developers and hence more likely to be able to be brought forward quickly for development.[124]

If land banking is not the main problem, there does appear to be a case for ensuring that the majority of suitable land for development is held by firms who intend to build on it.

Release of public sector land for housing

Government activity since 2010 in relation to land supply has been focused on **ensuring that land in public ownership is released for housebuilding**. Evidence submitted by the Home Builders Federation to the Lords Economic Affairs Committee said that between a quarter and a third of all potential residential land was controlled by the public sector.[125] In June 2011, the then Minister for Housing announced a plan to release enough public land to build up to 100,000 new homes by 2015.[126] The Autumn Statement 2015 saw a commitment to sell land for more than 160,000 new homes up to 2020, while the then Housing Minister told the Economic Affairs Committee that the 2015 Government was aiming for 320,000 homes on public land in the Parliament.[127]

The Coalition Government's land release programme attracted criticism from both the National Audit Office and the Public Accounts Committee (PAC).[128] Progress in disposing of sites was described as 'slow' and many of the potential sites were considered to be at 'high risk' of falling out of the programme. The PAC concluded that the disposals programme

124 Shelter and KPMG (2015), Building the homes we need: a programme for the 2015 government, p37
125 Select Committee on Economic Affairs, 1st Report of Session 2016-17, Building More Homes, HL Paper 20, 15 July 2016, para 154
126 DCLG Press Release, 8 June 2011
127 Select Committee on Economic Affairs, 1st Report of Session 2016-17, Building More Homes, HL Paper 20, 15 July 2016, para 162
128 HC 634, Twenty-second report of 2016-17, 2 November 2016

up to 2015 "could not demonstrate the success of the programme in addressing the housing shortage or achieving value for money."[129]

Progress in delivering the 2015-2020 disposals programme had improved, according to the PAC:

> The Department has put in place guidance and monitoring arrangements for the 2015–2020 programme, although it has yet to publish these. It has also made clearer other departments' roles and responsibilities. We are also pleased that the Department has now agreed to monitor the number of homes actually built; the programme is an important part of addressing the current housing shortage and the taxpayer has a right to know how many homes are built as a result of it.[130]

An update on Government action to release public sector land for housing was provided in response to a PQ on 23 November 2017.[131] Ordnance Survey has been commissioned to monitor the progress of homes built on land released through the 2011-15 and 2015-20 Public Land for Housing Programme, this data "will be released in due course."[132] August 2018 saw the publication of an updated handbook on the Public Land for Housing Programme 2015-2020.

In Building the homes we need: a programme for the 2015 government Shelter and KPMG suggested that local authorities could set up **joint ventures to lease land to affordable house builders**, or institutional investors, while retaining the freehold. Leasing the land would mean that authorities could receive a share of any rental income:

> Capital Economics modelling shows that such a model could be set up which requires no upfront grant funding to build the affordable homes and returns between 15% and 30% of rental income to the local authority dependent on location. The downside to local authorities would simply be the opportunity cost of not selling the land to a developer for full market value at that point (although freehold ownership would be retained).[133]

The Lords Select Committee on Economic Affairs expressed support for these types of initiative and referred to calls from Orbit Group, a large housing association, for the identification and release of government owned land specifically for the building of rented properties. Orbit's suggested model would involve deferring the land costs for a period, e.g. 30 years, to ensure rents charged are affordable.[134]

The Government response (November 2018) to the Select Committee's inquiry into land value capture set out the local authority and Homes England role in land assembly:

> The revised National Planning Policy Framework encourages local authorities to take a proactive approach to land assembly, supported where necessary by the use of compulsory purchase

129 Ibid., para 8
130 Ibid., p3
131 Public sector land – Written question – 111227, 23 November 2017
132 Housing: Construction: Written question – 163754, 18 July 2018
133 Shelter and KPMG (2015), Building the homes we need: a programme for the 2015 government, p76
134 Select Committee on Economic Affairs, 1st Report of Session 2016-17, Building More Homes, HL Paper 20, 15 July 2016, para 176

> powers, where doing so would help to secure better development outcomes. This work is supported by MHCLG's Land Release Fund which supports councils to bid for funding for land remediation and small-scale infrastructure, which will help bring sites forward for housing that would not have otherwise been developed. Additionally the £1.3billion Land Assembly Fund, launched in September 2018, enables the acquisition of land needing work to get it ready for the market.
>
> Homes England also have an important role in assembling land for housing. They use mechanisms enabling control of the pace of development on land it disposes through the Public Land for Housing Programme. Instead of freehold sales, Homes England in many cases use building leases, which grant developers permission to build homes on its land. Freeholds are passed directly to homeowners. Conditions within the building lease set development milestones. In the event of failure by developers to meet milestones or other requirements within the lease, Homes England have the power to terminate leases and bring the land back to the market. Homes England already have broad compulsory purchase powers under section 9 of the Housing and Regeneration Act 2008 which can be used to assemble land for housing development and regeneration projects. In the Housing White Paper, Homes England committed to making more proactive use of these powers.[135]

The New Economics Foundation is critical of the sale of public land to the highest bidder and is calling for public land to be "put to the service of long-term public good":

> Recommendation: End the fire sale public land, instead using surplus land to form the basis for a People's Land Bank. This should be used in partnership with communities to meet local need, primarily affordable housing. The freehold for public land should remain in the public sector, with long leases provided to Local Authorities, Housing Associations and community land trusts, increasing affordable housing and providing long term income stream for the public sector. This would enable governments to begin to break the link between economic growth and housing unaffordability.[136]

The NEF also supports the **establishment of a Land Commission**:

> Recommendation: Following Scotland's lead, an English Land Commission should be established to identify policies for an equitable distribution of land, and land values, and a fairer land system.[137]

[135] CM 9734, November 2018, paras 43 and 44
[136] NEF, What lies beneath: how to fix the broken land system at the heart of our housing crisis, July 2018, p5
[137] Ibid.

The Housing White Paper said the Government would consult on extending flexibility to dispose of land at less than best consideration. (para 1.27)

The Lords Select Committee supported **the relaxation of the requirement to achieve best market value when releasing public land** but concluded that this would only work "if there is a central scheme that approves and compensates public bodies who sell land below market value."[138]

The annex to the Housing White Paper contained consultation questions on disposal at less than best value:

> We will consult on using powers in the Growth and Infrastructure Act 2013 to issue a new General Disposal Consent, which would enable authorities to dispose of land held for planning purposes at less than best consideration without the need for specific consent from the Secretary of State. The consultation will seek views on a threshold below which specific consent would not need to be obtained. We will also consult on revising the existing £2m threshold for the disposal of other (non-housing) land.[139]

The Housing Communities and Local Government Select Committee also concluded that public land should not always be sold to the highest bidder:

> The Government owns tens of thousands of acres of land across the UK and so there is much that can be learned from Germany and the Netherlands with regard to capturing increases in value from publicly-owned land. The Government should reflect on the experience of Freiburg and Amsterdam to ensure that, where public land is put forward for residential development, the maximum value is captured for new infrastructure and public services. This may not always equate to selling public land to the highest bidder, but instead on the basis of the proposed levels of affordable housing or commitment to providing the necessary infrastructure.[140]

The Government's response is reproduced below:

> Government recognises that, in some instances, it may be appropriate to dispose of land at less than best consideration (undervalue) where this is justified in the wider public interest, for example, to enable the regeneration of land to deliver new housing. The Government is also consulting on giving local authorities additional freedom to make the most of existing brownfield land and dispose of surplus land that could instead accommodate new homes.[141]

Consultation on the rules governing disposal of public land at less than best value is open until 14 January 2019.

Consultation on "the disposal of surplus local authority land - rationalising and updating the rules which govern disposal of public land at less than best value" is ongoing – responses can be submitted up to 14 January 2019.[142]

The NHF's submission to the 2018 Budget called on the Government to commit to deliver at least 50% affordable housing on all publicly owned land:

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138 Select Committee on Economic Affairs, 1st Report of Session 2016-17, Building More Homes, HL Paper 20, 15 July 2016, para 177
139 Cm 9352, Fixing our broken housing market, February 2017, para A47
140 HC 766, Tenth Report of 2017-19, 13 September 2018, para 118
141 CM 9734, November 2018, para 41
142 MHCLG, Planning reform: supporting the high street and increasing the delivery of new homes, October 2018

We argue that the Government should:

- Direct Homes England to deliver 50% affordable housing across its land disposal and development programme. Aligning the Land Development and Disposal Plan with the Affordable Homes Programme could help ensure both meet their targets.
- Introduce a target of 50% affordable housing into the remaining years of the Public Land for Housing Programme (2015-2020). Post 2020, the successor to the Public Land for Housing programme should have affordable housing at its heart.
- Incentivise local authorities to offer fast-track planning approval for developments that offer at least 50% affordable housing on public land.
- Update guidance on 'best consideration' so that it's clear that public land can be sold with conditions attached on affordable housing provision. This would reassure public bodies that they are entitled to set a price for their land that can support delivery of 50% affordable housing.[143]

Direct commissioning

Housing organisations welcomed the inclusion of housing development in the Coalition Government's National Infrastructure Plan 2014 (published on 2 December 2014). This plan set out an intention to trial a new delivery model with the Homes and Communities Agency (HCA, now Homes England) taking the lead role. Essentially, direct commissioning involves Homes England leading on site delivery (public land) on which the development of new homes is directly commissioned by Government. An extension of direct commissioning was announced on 4 January 2016.[144] This approach was also aimed at supporting smaller companies and new entrants to the housebuilding market.

The 2015 Government launched a £45m Land Release Fund and an Accelerated Construction Programme. (White Paper para 1.26).

The Lords Select Committee on Economic Affairs **called for direct commissioning to form a bigger part of the housebuilding programme**:

> We welcome the trial of direct commissioning but it should be a much bigger part of the housebuilding programme. The implementation of our recommendations on the financing of local authority building would help with this. Direct commissioning would also provide opportunities for smaller builders.[145]

The Communities and Local Government Select Committee questioned the Chairman of the HCA (now Homes England), Sir Edward Lister, about progress with the pilots during its inquiry into capacity in the homebuilding industry over 2016-17. Sir Edward said that progress had been slower that they would have liked.[146] Direct commissioning appears to have been overtaken by the accelerated construction

143 NHF, Submission: Budget 2018, 28 September 2018
144 PM: The Government will directly build affordable homes, 4 January 2016
145 Select Committee on Economic Affairs, 1st Report of Session 2016-17, Building More Homes, HL Paper 20, 15 July 2016, para 172
146 HC 46, Tenth Report of 2016-17, 29 April 2017, para 46

programme. The Office of Budget Responsibility (OBR) confirmed a reduction in funding for this program in its November 2017 report.[147]

New Towns and Garden Cities

The Conservative Manifesto 2015 contained a commitment to support locally-led garden cities and towns in places where communities want them. The package of support available was set out in the prospectus: Locally-led Garden Villages, Towns and Cities (March 2016). The aim is for developments to take place on brownfield and/or public land. There is a commitment to work with bidders in exchange for guaranteed delivery; additional planning freedoms may be available to support housing growth in certain circumstances.

The White Paper said the Government would legislate to allow locally accountable New Town Development Corporations to be set up (para 1.36). Following a consultation exercise, new Regulations came into force on 23 July 2018.

The Lyons Housing Review (2014) referred to "a growing consensus, clearly reflected in the evidence to this review that a new programme of Garden Cities and New Towns would make an important contribution to delivering the homes we need."[148]

Dame Kate Barker also said she supported a return to thinking about new towns in her evidence to the Treasury Select Committee:

> ***Dame Kate Barker:*** There are two things I would favour the most. One would be a return to thinking about new towns. I stress "towns" rather than villages. I am not opposed to garden villages, because we need a whole range of solutions. In some ways, however, I do not find them totally attractive, because we have a view in England—maybe it is not right—that what we like is quite close urban areas and then open countryside. While garden villages remove the objection that you are building next to somebody, they will inevitably impinge on open countryside. They may very well not be places large enough to sustain a secondary school, which means you have to bus children all around. They may not be places where there is huge local economic activity.
>
> **Chair:** I also mentioned expansion of existing villages.
>
> ***Dame Kate Barker:*** Yes, I would very much prefer to see existing towns and villages expanded rather than moved to garden villages, given some thought about the appropriate transport links and, as I say, education.[149]

Dame Kate emphasised that she would want to see "as much land as possible brought in at existing use value" to use the resultant planning gain to fund infrastructure.[150]

New powers introduced on 23 July 2018 mean that councils can now seek Government approval to launch a New Town Development Corporation which will be responsible for delivering new towns and garden communities in their area. The measure is described as "part of the government's wide-ranging programme of planning reform and

147 OBR, Economic and Fiscal Outlook, November 2017, para 4.111
148 The Lyons Housing Review, 2014, p90
149 HC 861, 7 December 2016, Q5
150 Ibid., Q8

targeted funding to deliver 300,000 homes a year by the mid-2020s."[151] Dominic Raab said:

> We need to build the homes our communities need and I'm committed to giving councils the tools they need to deliver.
>
> That's why we're giving councils the option of applying to establish development corporations. These will be locally accountable and must listen to the views of the community to ensure that the right homes are built in the right places.[152]

The Government is consulting[153] on draft guidance on the use of New Town Compulsory Purchase Order powers to "provide additional clarity and certainty to those with an interest in proposed new settlements, including promoters, investors, infrastructure providers, landowners and local communities."[154]

The Autumn Budget 2017 said:

> The government will bring together public and private capital to build five new garden towns, using appropriate delivery vehicles such as development corporations, including in areas of high demand such as the South East.[155]

In December 2017, the then Housing Minister, Alok Sharma, said that the Government was supporting "24 locally-led garden cities, towns and villages, which have the potential to deliver around 220,000 homes." He announced a further £3 million to support the delivery of 14 garden villages as part of the existing programme.[156]

Paragraph 72 of the revised NPPF encourages authorities to take a strategic approach to developing new settlements.

The Secretary of State, James Brokenshire, announced a new garden communities programme on 15 August 2018.[157]

3.3 Funding infrastructure

A large-scale housebuilding programme requires investment in infrastructure. Shelter and KPMG (2015) were critical of the failure to recognise housing formally as a national infrastructure asset and "a particularly effective route to economic growth."[158] The Autumn Statement 2016 announced a new Housing Infrastructure Fund (HIF) of £2.3 billion by 2020-21:

> …funded by the NPIF [national productivity investment fund] and allocated to local government on a competitive basis, will provide infrastructure targeted at unlocking new private house building in the areas where housing need is greatest. This will deliver up to 100,000 new homes. The government will also examine options

The Housing White Paper committed to a more coordinated approach across government to provide the right infrastructure to unlock housing delivery. (para 2.18)

151 MHCLG, New powers for councils to deliver new homes for local families, 4 June 2018
152 Ibid.
153 MHCLG, Planning reform: supporting the high street and increasing the delivery of new homes, October 2018 (consultation closes on 14 January 2019)
154 CM 9734, November 2018, para 37
155 HC 587, 23 November 2017, para 5.17
156 DCLG Press Release, 4 December 2017
157 MHCLG Press Release, 15 August 2018
158 Shelter and KPMG (2015), Building the homes we need: a programme for the 2015 government, p46

> to ensure that other government transport funding better supports housing growth.[159]

Bidding for the HIF opened in 2017. The Autumn Budget 2017 allocated an additional £2.7bn to bring total funding up to £5bn.[160] Budget 2018 announced a further £500 million for the HIF bringing total funding to £5.5 billion "unlocking up to 650,000 new homes".[161]

The Lyons Housing Review (2014) pointed out that much of the infrastructure for the post-1949 New Town developments was publicly funded with Government loans over 60 years.[162] Lyons went on:

> A key challenge will be balancing the large up-front infrastructure costs against the longer term receipts and uplift. The lessons from the New Towns and the financial modelling conducted by some entrants to the Wolfson Prize shows that new settlements could be largely self-financing over the long term if they have an effective means of land value capture. This will need to be underpinned by reforms to powers for compulsory purchase which we propose. However, up-front financing will be required to support early, up-front costs incurred by the new development.[163]

The Housing & Finance Institute launched a pilot scheme with the aim of unblocking infrastructure delays on housing developments. The scheme brought together various parties and was focused on housing developments that had been delayed due to a lack of water, sewage, electricity, gas or road connectivity. In November 2017, the Institute published a consultation paper which set out eight core areas of recommendations from its research work. The consultation ran until 31 December 2017.[164]

Fixing our broken housing market said that the Government would amend national planning policy so that **local authorities will be expected to identify development opportunities arising out of new infrastructure**. The NPPF published on 24 July 2018 states:

> The supply of large numbers of new homes can often be best achieved through planning for larger scale development, such as new settlements or significant extensions to existing villages and towns, provided they are well located and designed, and supported by the necessary infrastructure and facilities. Working with the support of their communities, and with other authorities if appropriate, strategic policy-making authorities should identify suitable locations for such development where this can help to meet identified needs in a sustainable way. In doing so, they should:
>
> a) consider the opportunities presented by existing or planned investment in infrastructure, the area's economic potential and the scope for net environmental gains…[165]

159 Autumn Statement 2016, para 3.11
160 HC 587, 23 November 2017, para 5.18
161 HC 1629, October 2018, para 4.56
162 The Lyons Housing Review, 2014, p92
163 Ibid., p93
164 Housing & Finance Institute, Proposed recommendations to improve the delivery of housing related infrastructure, November 2017
165 MHCLG, National Planning Policy Framework, 24 July 2018, para 72

The revised NPPF requires local plans to set out policy requirements for **developer contributions** towards infrastructure and affordable housing:

> Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure). Such policies should not undermine the deliverability of the plan.[166]

There is also recognition in the revised NPPF of the need for authorities to plan for the provision of **high quality digital infrastructure:**

> Advanced, high quality and reliable communications infrastructure is essential for economic growth and social well-being. Planning policies and decisions should support the expansion of electronic communications networks, including next generation mobile technology (such as 5G) and full fibre broadband connections. Policies should set out how high quality digital infrastructure, providing access to services from a range of providers, is expected to be delivered and upgraded over time; and should prioritise full fibre connections to existing and new developments (as these connections will, in almost all cases, provide the optimum solution).[167]

Section 3.2 of this paper touches on the debate around capturing increases in land value for the public benefit once planning permission is granted. Currently, the Community Infrastructure Levy (CIL) and section 106 agreements (see section 3.4 below) are the main means through which this increase in value is captured. Evidence submitted to the Housing, Communities and Local Government Committee's inquiry into land value capture by the Chartered Institute of Housing argued that there is scope for an improved system to achieve a higher contribution towards the cost of infrastructure:

> Analysis by the Centre for Progressive Capitalism identified that Section 106 agreements and CIL together captured £2.8 billion of the increase in land value for public benefit, leaving £9.3 billion as windfall profit, largely accruing to landowners/traders. They estimate that, at that rate, £185 billion of increased value over the next 20 years would be lost, which otherwise would be able to contribute towards the infrastructure required for that development, and the benefit of local communities. A system is required that enables a more balanced share of the increase in land value between landowner, developer and the public.[168]

The Committee made several recommendations on funding infrastructure for housing developments. These include reforms to section 106 and CIL (see section 3.4 below), and:

- Consideration to be given to introducing a Local Infrastructure Tariff (LIT). The Government said it would continue to explore

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166 MHCLG, National Planning Policy Framework, 24 July 2018, para 34
167 MHCLG, National Planning Policy Framework, 24 July 2018, para 112
168 Written evidence submitted by the Chartered Institute of Housing to the HCLG Committee inquiry into land value capture, LVC 052, March 2018

options, including a LIT but that there is no precise model for it currently.[169]

- Further consideration of how Strategic Infrastructure Tariffs (SITs) could be used to capture value for specific large infrastructure projects. The Government consulted on proposals to take forward SITs for Combined Authorities earlier in 2018 – a summary of responses and the Government response was published in October 2018.[170] In the longer term there is an intention to allow joint planning committees to charge the SIT and to "review options for giving other groups the power to levy a tariff." Guidance will be amended to encourage groups of charging authorities to use existing powers to support the delivery of strategic infrastructure by pooling their local CIL receipts.[171]
- Build on reforms to the Compulsory Purchase Order (CPO)process to make it faster and less expensive. The Committee said that CPO powers could be important in enabling the provision of necessary infrastructure on sites. The Government confirmed that CPO powers would be kept under review.[172]
- Consideration of how Tax Increment Financing (TIF) could be used "more extensively to fund infrastructure in enterprise zones". The Government said that there are no plans to change this process.[173]

3.4 The planning system

The planning system in England is frequently cited as a 'blocker' to achieving the necessary rates of housing delivery. The planning system regulates, amongst other things, where housing development takes place, density levels, the necessary supporting infrastructure, and the obligation to provide a proportion of affordable housing as part of a development.

It is an area that has attracted a good deal of Government attention. The Coalition Government abolished nationally set housing targets and regional planning bodies with the *Localism Act 2011.* National planning policy is now set out in the Government's National Planning Policy Framework (NPPF), originally published in March 2012 and revised on 24 July 2018. The NPPF and its accompanying Planning Practice Guidance gives some broad guidance to local authorities about calculating the supply of housing.

For an overview of the revised NPPF see Library paper: What next for planning in England? The National Planning Policy Framework.

Following the election of the Conservative Government in May 2015, there were several planning related consultations and announcements. Changes to the planning system by the 2015 Government have already been made through the *Housing and Planning Act 2016* and *Energy Act 2016*. Additional reforms were included in the *Neighbourhood Planning Act 2017*.

169 CM 9734, November 2018, para 17
170 MHCLG, Government response to supporting housing delivery through developer contributions, October 2018
171 CM 9734, November 2018, para 21
172 Ibid., paras 23-28
173 Ibid., para 38

The 2015 Government's response to the Lords Economic Affairs Committee's report Building More Homes (2016), set out how the reforms made up to that point had impacted:

> The Government strongly believes that our planning reforms to date have done much to streamline the planning system and remove barriers to development. 83 per cent of major applications were determined on time between April and June 2016, which is the highest percentage on record.
>
> In addition, in the year to 30 June 2016, the reformed planning system has given permission for 277,000 new homes. Finally, our reforms to Permitted Development Rights have led to a strong contribution to housing supply from conversions and changes of use in addition to new house building.[174]

The response went on say that the forthcoming Housing White Paper "will set out a further package of reforms to ensure that our planning system better supports housing delivery.[175] Fixing our broken housing market was published in February 2017. A summary of its proposals on planning, together with initial reactions, can be found in Library briefing paper Planning reform in the housing white paper (7896).

As noted above, a revised version of the NPPF was published on 24 July 2018.

There is **no groundswell of support for another round of major planning reform**. The industry requires certainty and where this is lacking housing supply can be constrained. The Lyons housing review (2014) said:

> The evidence submitted to the review overwhelmingly cautioned against further fundamental and wholesale reform of the system which would lead to widespread uncertainty and undermine a rapid increase in housing supply.[176]

Witnesses to the Lords Economic Affairs Committee expressed a variety of opinions on the need for planning reforms. Some thought that reform was 'critical' while others thought that planning 'was not a problem'.[177]

Planning conditions

Planning is clearly an essential part of the delivery process, but many argue that reforms to planning alone will not provide the answer to the housing supply crisis. The Home Builders Federation (HBF) has pointed to **an increase in the number of planning permissions granted**, but still describes the planning system as a 'constraint:'

> Permissions for 76,242 homes were granted in England between July and September, with the total number for the 12 months to September reaching 289,011, the highest since the survey began in 2006.

The number of planning permissions granted has increased but this does not mean that work on those sites will start quickly.

[174] Government response to the House of Lords Economic Affairs Committee Report: "Building more homes" CM 9384, December 2016

[175] Ibid.

[176] Lyons housing review, 2014 p43

[177] Select Committee on Economic Affairs, 1st Report of Session 2016-17, Building More Homes, HL Paper 20, 15 July 2016, para 148

> […]
>
> This is an encouraging headline figure but few of those recently permitted will yet be buildable. Permissions are recorded once one of the 'conditions' attached to them by the Local Authority is satisfied- or 'discharged'. Many will have dozens of 'pre-commencement' conditions attached and so builders will not legally be entitled to commence construction until they are all discharged- a process which could take some months and is dependent on the ability and capacity of the authority to provide this service.[178]

The Secretary of State has gained powers to prohibit conditions that do not meet national policy tests. A deemed discharge provision has operated since 2015.

The HBF welcomed measures in the *Neighbourhood Planning Act 2017* to introduce a new process for agreeing pre-commencement conditions, but said it would like to see **a limit on the number of conditions authorities can impose, and authorities prevented from imposing 'spurious' conditions** that, the HBF argues, could be dealt with later in the construction process to enable builders to get on site more quickly:

> Many conditions – such as the Local Authority needing to approve a final children's play area design – should not be holding up building work and could be agreed once work is underway through the imposition of a 'pre-occupation' condition. Information collected by HBF shows how authorities are holding up construction with demands for scale drawings of the placement of picnic tables and refuse bins in children's play areas and detailed statements on the 'engagement and recruitment of local artists' to provide public art on the new estate.[179]

A consultation process ran between 30 January and 27 February 2018 during which comments were invited on draft regulations to create an exemption to the requirement in the *Neighbourhood Planning Act 2017* that local planning authorities obtain the written agreement of an applicant before imposing a pre-commencement condition on a grant of planning permission.[180] The Government response to the consultation exercise was published in May 2018. *The Town and Country Planning (Pre-commencement Conditions) Regulations 2018* have been made and came into force on 1 October 2018.

[178] HBF, New home planning 'permissions' up – but system remains a constraint, 3 January 2017
[179] Ibid.
[180] MHCLG, Improving the use of planning conditions: consultation on draft regulations, January 2018

Section 106 agreements and the Community Infrastructure Levy

There is a divergence of opinion on the merits of section 106[181] and Community Infrastructure Levy (CIL)[182] requirements. Section 106 has been credited with ensuring a substantial supply of affordable housing; in 2016/17 more than 18,000 affordable homes in England were provided through planning gain, representing 43% of the total.[183] Data from the National Housing Federation's survey of housing associations indicates the importance of section 106's contribution to affordable housing development in 2017/18:

There is a divergence of opinion on the merits of section 106 agreements and Community Infrastructure Levy.

- 48% (17,065) of affordable starts were delivered through Section 106 agreements
- 49% (17,388) of affordable completions were delivered through Section 106 agreements[184]

It is worth noting that the extent to which section 106 can be used to deliver affordable housing will inevitably be limited where private housing development is already constrained.

Witnesses to the Lords Economic Affairs Committee commended the flexibility of CIL. However, others, including small builders, believe that section 106 and CIL are ineffective and act as an obstacle to development. One company, Pocket Living, told the Committee that it took 16 weeks to get planning consent and a further 22-44 weeks to negotiate the section 106 agreement.[185] Small builders face the same level of complexity as larger developers – the Committee was told that an increasing number buy-in expertise to navigate the system.[186]

David Orr, then CEO of the National Housing Federation, referred to the complexity of section 106 agreements which make it difficult to calculate the value of the contributions made. Professor Paul Cheshire of the London School of Economics told the Committee that section 106 and CIL should be replaced by a single, national development charge of 20% of the sale value of land.[187]

The Lords Committee recommended that, as part of its ongoing reviews of planning obligations and CIL, **the Government should aim for simplicity, transparency and a system that is responsive to**

181 Developers and local authorities agree a contract relevant to a specific development that will mitigate its impact. This can include the provision of affordable housing and payment for additional infrastructure.
182 A local authority may set a levy on all new building in their area. The money raised is used to fund general infrastructure.
183 Stephens; Perry; Wilcox; Williams and Young, 2018 UK Housing Review, Heriot-Watt University and the Chartered Institute of Housing, March 2018, p65
184 NHF, How many homes did housing associations deliver in 2017/18? June 2018
185 Select Committee on Economic Affairs, 1st Report of Session 2016-17, Building More Homes, HL Paper 20, 15 July 2016, para 115
186 Ibid., para 116
187 Ibid., paras 140-46

smaller builders. The value of developer contributions should act as a sufficient incentive to local authorities to grant planning permission.[188]

In November 2015, the Government asked Liz Peace, former chief executive at British Property Federation, to chair an independent group to conduct a review of the CIL. The aim was to assess the extent to which CIL does or can provide an effective mechanism for funding infrastructure, and to recommend changes.[189] The group's report was submitted to Ministers in October 2016 and published in February 2017.[190]

The Incidence, Value and Delivery of Planning Obligations and Community Infrastructure Levy in England in 2016-17 was published by MHCLG on 5 March 2018. **At the same time, the Ministry launched a consultation on proposals to reform developer contributions to support housing delivery and infrastructure** – a summary of responses and the Government response was published in October 2018.[191]

The consultation paper set out the perceived shortcomings of the existing system, including delay in negotiating and renegotiating section 106 planning obligations and lack of transparency. It set out the Government's objectives for reform, centred on reducing complexity and increasing certainty; supporting swifter development; increasing market responsiveness; improving transparency; and allowing local authorities to introduce a Strategic Infrastructure Tariff to help fund or mitigate strategic infrastructure. Specifically, the restriction on pooling section 106 planning obligations would be lifted in certain circumstances to promote flexibility. The consultation paper also referred to the possibility of nationally set contributions to affordable housing:

> In the longer term, the Government will continue to explore options for going further. One option could be for contributions to affordable housing and infrastructure to be set nationally, and to be non-negotiable. [192]

After considering responses to the consultation exercise, the Government announced plans to build on reforms in the NPPF by "introducing legislative reforms to developer contributions."[193] Consultation will take place on draft regulations "in due course". **A summary of the main measures the Government intends to take forward is provided below**:

[188] Select Committee on Economic Affairs, 1st Report of Session 2016-17, Building More Homes, HL Paper 20, 15 July 2016, para 147
[189] HM Government, Review of the Community Infrastructure Levy: Terms of Reference, November 2015
[190] MHCLG, Community Infrastructure Levy review: report to government, 7 February 2017
[191] MHCLG, Government response to supporting housing delivery through developer contributions, October 2018
[192] MHCLG, Supporting housing deliver through developer contributions, 5 March 2018
[193] MHCLG, Government response to supporting housing delivery through developer contributions, October 2018, p1

- Improved guidance on viability to support local authorities to adopt and revise CIL charging schedules.[194]
- Regulations will continue to require charging authorities to consult on draft charging schedules for CIL but will remove the statutory requirement for two separate rounds of consultation in every circumstance.[195]
- The section 106 pooling restriction will be lifted in all areas. To ensure the CIL remains an effective mechanism for collecting contributions towards addressing the cumulative impact of development, "the Government will ensure measures are in place to incentivise uptake and continued use of the Levy."[196]
- Changes to the penalties associated with the failure to submit a Commencement Notice prior to development being started.[197]
- Guidance will be updated to support local authorities to set differential rates of CIL related to the existing use of land more effectively.[198]
- There will be further consultation on the indexation of CIL rates.[199]
- Authorities will be required to report on developer contributions from the CIL and section 106 planning obligations through the Infrastructure Funding Statement.[200] Authorities will be able to seek a fee from applicants towards monitoring planning obligations.[201]
- Guidance will be amended to encourage groups of charging authorities to use existing powers to support the delivery of strategic infrastructure by pooling their local CIL receipts.[202]

Viability tests

There has been an increased focus on the role viability tests can play where developers seek to reduce/remove the affordable housing contribution from a proposed development. To assist a sluggish housing market in the wake of the financial crisis, the Coalition Government acted to allow certain section 106 agreements to be renegotiated where they rendered a scheme unviable – this was a temporary measure.

The UK Housing Review 2018 considered some examples of developers using viability assessments to reduce their affordable housing contributions and concluded that, although the examples looked at were "illustrative rather than representative" …this is "clearly an area of potentially great significance".[203]

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194 Ibid., para 10
195 Ibid., para 15
196 Ibid., para 25
197 Ibid., para 31
198 Ibid., para 42
199 Ibid., para 46
200 Ibid., para 51
201 Ibid., para 52
202 Ibid., paras 57-60
203 Stephens; Perry; Wilcox; Williams and Young, 2018 UK Housing Review, Heriot-Watt University and the Chartered Institute of Housing, March 2018, p26

The New Economics Foundation has also recommended the closure of "viability loopholes" as a way of reducing the cost of land:

> Reforming the planning system by closing viability loopholes, which enables developers to evade building affordable housing, and strengthening the obligations on developers are ways that land price increases can be collectivised. Developers would have to factor these more fixed contributions to affordable housing and other community benefits into their bids on land, making it cheaper overall.[204]

The planning practice guidance on the use of viability tests was updated alongside the publication of the revised NPPF on 24 July 2018. The guidance makes it clear that plans should set out "the levels and types of affordable housing provision required, along with other infrastructure" and goes on:

> Policy requirements should be clear so that they can be accurately accounted for in the price paid for land. To provide this certainty, affordable housing requirements should be expressed as a single figure rather than a range. Different requirements may be set for different types of site or types of development.
>
> […]
>
> It is the responsibility of site promoters to engage in plan making, take into account any costs including their own profit expectations and risks, and ensure that proposals for development are policy compliant. It is important for developers and other parties buying (or interested in buying) land to have regard to the total cumulative cost of all relevant policies when agreeing a price for the land. **Under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan**.[205]

The NHF has said that if the changes on viability are well implemented they "should increase the numbers of affordable homes".[206] There is still some concern about the 'front-loading' of the process:

> I'm still concerned though that 'front loading' the process means considerable efforts are required upfront to assessment viability. That's a big ask for hard-pressed local authorities who have only just managed to achieve 50% coverage of up-to-date local plans. And the options for application-specific assessment remains.[207]

The Housing, Communities and Local Government Select Committee's inquiry into land value capture welcomed moves to increase transparency in the viability process but emphasised "the need to ensure the changes lead to real improvements". The Committee asked for a report on the impact of these reforms from Government in 12 months' time. The Government agreed to report back at the end of 2019.[208]

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204 NEF, What lies beneath: how to fix the broken land system at the heart of our housing crisis, July 2018, p4
205 MHCLG, Planning Practice Guidance – Viability, 24 July 2018
206 NHF, Initial thoughts on the new National Planning Policy Framework, 26 July 2018
207 Ibid.
208 CM 9734, November 2018, para 12

Resourcing authorities' planning capacity

One area where there appears to be a good deal of agreement in the industry is on the **need for proper resourcing of local authority planning departments**. The Lords Economic Affairs Committee noted that cuts in local government expenditure "have fallen particularly heavily on planning departments."[209] Local authority witnesses told the Committee that they were "under resourced and "desperately short of …staff." **There is a view that the balance of power has shifted towards developers when negotiating planning matters**.[210]

Planning departments are under resourced and under staffed. The balance of power in negotiations has shifted towards developers.

A potential solution would be to introduce **a more flexible planning fee system to allow authorities to invest in their planning capacity**. The Lords Economic Affairs Committee recommended that the Government:

> a) allows local authorities to set and vary planning fees in accordance with the needs of their local area. To prevent abuse there should be an upper limit or cap on the level of fees. To allow sufficient discretion to local authorities, this cap should be significantly higher than the current fees that can be charged; and
>
> b) provides that the money raised from these fees is ring-fenced for expenditure on planning and development.

Fixing our broken housing market set out the Government's intention to increase nationally set planning fees:

> Local authorities will be able to increase fees by 20% from July 2017 if they commit to invest the additional fee income in their planning department. We are also minded to allow an increase of a further 20% for those authorities who are delivering the homes their communities need and we will consult further on the detail. Alongside we will keep the resourcing of local authority planning departments, and where fees can be charged, under review.[211]

The 20% fee increase was introduced on 17 January 2018. Consultation on additional increases in planning application fees in those areas where local planning authorities are delivering the homes their communities need was launched in September 2017.[212] A summary of responses to this process, together with the Government's view on the way forward was published on 5 March 2018.[213] The Government said it would assess the impact of the fee increase introduced in January when considering any further increases.[214]

Planning authorities have been able to charge higher fees since 17 January 2018. Based on activity at that time, the uplift was estimated to generate over £75 million of additional fee income annually.

209 Select Committee on Economic Affairs, 1st Report of Session 2016-17, Building More Homes, HL Paper 20, 15 July 2016, para 119
210 Ibid., para 120
211 Cm 9352, Fixing our broken housing market, February 2017, para 2.15
212 MHCLG, Planning for the right homes in the right places: consultation proposals, 14 September 2017
213 MHCLG, Government response to the Planning for the right homes in the right places consultation, 5 March 2018
214 Ibid., p31

Revised Planning Practice Guidance has a section on Fees for planning applications.

The Housing White Paper also set out an intention to consult on the introduction of a fee for making a planning appeal on the basis that "unnecessary appeals can be a source of delay and waste taxpayer's money."[215]

The Housing, Communities and Local Government Committee raised the capacity of local authority planning departments in its report on Land Value Capture (September 2018). The Government referred to the increase in fees in January 2018, and referred to a further consultation:

> The Government consultation "Planning for the right homes in the right places" sought views on the principle of introducing a further 20 per cent increase for those authorities who are delivering the homes their communities need. We are currently considering the options in taking forward any future fee increase.[216]

Delivering a variety of sites for development

The Home Builders Federation (HBF) has proposed that **authorities should not rely on one large site to meet local housing needs** given the significant infrastructure requirements that this can entail, and should instead be approving a range of site sizes.[217] This position was supported in a report from Nathaniel Litchfield & Partners (NPL), Start to Finish – How quickly do large-scale housing sites deliver? (November 2016):

> Large-scale sites can be an attractive proposition for plan-makers. With just one allocation of several thousand homes, a district can – at least on paper – meet a significant proportion of its housing requirement over a sustained period. Their scale means delivery of the infrastructure and local employment opportunities needed to sustain mixed communities.
>
> But large-scale sites are not a silver bullet. Their scale, complexity and (in some cases) up-front infrastructure costs means they are not always easy to kick start. And once up and running, there is a need to be realistic about how quickly they can deliver new homes. Past decades have seen too many large-scale developments failing to deliver as quickly as expected, and gaps in housing land supply have opened up as a result.[218]

NLP suggest that if authorities' Local Plans and five-year land assessments are placing reliance on large-scale developments, including Garden Towns and Villages, to meet housing need, then "the assumptions they use about when and how quickly such sites will deliver new homes will need to be properly justified."[219]

215 Cm 9352, Fixing our broken housing market, February 2017, para 2.17
216 CM 9734, November 2018, para 13
217 HBF, New home planning 'permissions' up – but system remains a constraint, 3 January 2017
218 NLP, Start to Finish – How quickly do large-scale housing sites deliver?, November 2016 p1
219 Ibid.

On 5 March 2018, the Government announced proposed **revisions to the NPPF to encourage the use of smaller sites**. The revised NPPF (2018) says that authorities should:

- identify, through the development plan and brownfield registers, land to accommodate at least 10% of their housing requirement on sites no larger than one hectare; unless it can be shown, through the preparation of relevant plan policies, that there are strong reasons why this 10% target cannot be achieved;
- use tools such as area-wide design assessments and Local Development Orders to help bring small and medium sized sites forward;
- support the development of windfall sites through their policies and decisions – giving great weight to the benefits of using suitable sites within existing settlements for homes; and
- work with developers to encourage the sub-division of large sites where this could help to speed up the delivery of homes.[220]

Smaller sites are often built out relatively quickly and can make an important contribution to meeting the housing requirement of the area.

The NHF has raised some potential issues with the impact of the NPPF on securing affordable housing in rural areas:

> Proposals for 'entry-level exception sites' are retained in the final NPPF – and threaten the established rural exception site policy. The latter have stricter affordability and local connection criteria, and are already at odds with some landowners' land price expectations. Entry-level exception sites are likely to fetch higher prices, making the already-demanding process of securing rural exception sites even harder.
>
> Also on small sites, the Government has maintained the exemption on affordable housing contributions from 'non-major' (i.e. fewer than 10 homes) developments, with some limited exceptions. This prolongs the challenge of providing affordable rural homes where market developments tend to be smaller.[221]

The duty to cooperate and housing market areas

The Lyons Housing Review (2014) called for **more cooperation across local authority boundaries when identifying land suitable for development**:

> The responsibility of councils to identify sufficient land for new homes in local plans should be strengthened, as should their ability to deliver these plans. Where there is a failure to cooperate across boundaries to meet needs in a housing market area, councils will be required to produce a joint strategic plan, with the Secretary of State having the ability to intervene and instruct the Planning Inspectorate to ensure that it happens. This will address the weaknesses in the current Duty to Cooperate and ensure that places that need it can exercise a "Right to Grow".[222]

Provisions in the *Neighbourhood Planning Act 2017* will allow the Secretary of State to direct a group of authorities to work together to produce a joint plan.

The duty to cooperate has been criticised for not being a duty of any substance.[223] It is a duty which does not require agreement, it simply requires that evidence is shown that attempts to cooperate have been

220 MHCLG, National Planning Policy Framework, 24 July 2018, para 68
221 NHF, Initial thoughts on the new National Planning Policy Framework, 26 July 2018
222 The Lyons Housing Review, 2014, p8
223 "The duty to cooperate: What next?" The Planner 14 March 2016

made. As noted in an article in the Planner, there is little incentive for a neighbouring authority to cooperate and its enforcement relies on planning inspectors taking a "robust approach".[224]

In its final report to Government, the Local Plans Expert Review Group (LPEG)[225] said that it received "strong representations" that the duty to cooperate was "not effective in ensuring agreement between neighbouring authorities about the distribution of housing needs and that this was one of the most significant constraints to effective plan making."[226] The LPEG recommended changes to planning policies to strengthen the duty, as well as an expectation that where there has been no agreement across boundaries on distributing housing needs, the Government should take and use powers to direct the preparation of a high level Joint Local Plan for the housing market area.[227]

Shelter and KPMG also referred to the limitations of local boundaries in Building the homes we need: a programme for the 2015 government:

> If local authorities could capture more of the returns of their spending across a functional economic or "travel to work" area, it may incentivise those areas usually resistant to a certain type of development to coordinate.[228]

The NPPF has been amended to include an expectation that statements of common ground will be prepared in line with planning guidance:

> In order to demonstrate effective and on-going joint working, strategic policymaking authorities should prepare and maintain one or more statements of common ground, documenting the cross-boundary matters being addressed and progress in cooperating to address these. These should be produced using the approach set out in national planning guidance, and be made publicly available throughout the plan-making process to provide transparency.[229]

Incentives to develop: speeding up and monitoring build-out rates

Witnesses to the Lords Economic Affairs Committee inquiry considered that **the system does not provide authorities with sufficient incentives to allow developments** and that this lack of incentives also affects local residents and developers. Three linked problems were identified:

- Local opposition creates pressure on local councils to resist development.

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224 "The duty to cooperate: What next?" The Planner 14 March 2016

225 The Local Plans Expert Group (LPEG) was established by the then Communities Secretary, Greg Clark and the Minister of Housing and Planning, Brandon Lewis MP, in September 2015, with a remit to consider how local plan making can be made more efficient and effective.

226 Local Plans Expert Review Group, Local Plans Report to Government, March 2016, p3

227 Ibid.

228 Shelter and KPMG (2015), Building the homes we need: a programme for the 2015 government, p48

229 MHCLG, National Planning Policy Framework, 24 July 2018, para 27

- The lack of any immediate financial benefit to the local authority from the planning process. In contrast, a 'windfall' created by the granting of planning permission is retained by the landowner. The Community Infrastructure Levy (CIL) can act to address this disparity but it is not transparent, and it is not always clear to residents what a development has funded. **One suggestion is to reward developing authorities with the retention of business rates.**
- A lack of incentives for builders to develop permissioned land.[230]

In terms of solutions, there is some support for a **'use it or lose it' approach**. For example, the Labour Party Manifesto 2015 included a commitment to:

> …introduce greater transparency in the land market and give local authorities new 'use it or lose it' powers to encourage developers to build.[231]

The Lyons Housing Review (2014) **proposed disincentives to holding a planning permission and not building it out, in addition to measures to incentivise swift delivery of land allocated in a plan**, for example:

- Shortening the lifetime of planning permission to 2 years with higher fees for renewal.
- Requiring greater substantive progress to demonstrate that works have started on site.
- Giving local authorities the option to charge Council Tax on the land owner in respect of the number of proposed dwellings where development has not started on sites with planning permission within an expected timeframe.
- Compulsory Purchase Order powers strengthened and streamlined to make it easier for public bodies to acquire land where it is not brought forward and where it is a priority for development.[232]

These options were also considered by the Lords Economic Affairs Committee. Developers said that they were not in favour of these schemes, arguing that a range of factors outside their control can influence build-out rates.[233] **The Committee supported giving local authorities the power to levy Council Tax on developments that remain incomplete within a given time period**.[234] The Government's response did not address this specific recommendation but said that the Housing White Paper would set out a further package of reforms to "ensure that our planning system better supports housing delivery".[235] The Government also said: "We are also clear that it is the

230 Select Committee on Economic Affairs, 1st Report of Session 2016-17, Building More Homes, HL Paper 20, 15 July 2016, paras 110-14
231 Labour Party Manifesto 2015, p46
232 The Lyons Housing Review, 2014, p67
233 Select Committee on Economic Affairs, 1st Report of Session 2016-17, Building More Homes, HL Paper 20, 15 July 2016, paras 131-33
234 Ibid., para 139
235 Government response to the House of Lords Economic Affairs Committee Report: "Building more homes" CM 9384, December 2016

responsibility of the house building industry to be more transparent and forthcoming in agreeing a trajectory for build-out rates on sites with local authorities."[236] **The revised NPPF (July 2018) sets out an expectation of how authorities should monitor the supply and delivery of new housing within their areas**:

> To maintain the supply of housing, local planning authorities should monitor progress in building out sites which have permission. Where the Housing Delivery Test indicates that delivery has fallen below 95% of the local planning authority's housing requirement over the previous three years, the authority should prepare an action plan in line with national planning guidance, to assess the causes of underdelivery and identify actions to increase delivery in future years.
>
> To help ensure that proposals for housing development are implemented in a timely manner, local planning authorities should consider imposing a planning condition providing that development must begin within a timescale shorter than the relevant default period, where this would expedite the development without threatening its deliverability or viability. For major development involving the provision of housing, local planning authorities should also assess why any earlier grant of planning permission for a similar development on the same site did not start.[237]

More information on the Housing Delivery Test can be found in section 4.2 of this paper.

Lyons specifically commented on the **need to persuade communities of the benefits of housing development**:

> The public is frequently concerned that houses are often built in the wrong place, for the wrong people and without adequate attention to the pressures created for existing infrastructure. As new housing changes and shapes the places in which people live, communities should make the decisions about how they grow. It is the job of elected local authorities to do this with their communities and to ensure the homes they need are provided. We therefore recommend that local authorities play a much more energetic role in leading housing development for their communities.[238]

Also relevant here are references in the previous section to the desirability of incentives to encourage authorities to work across boundaries with a better focus on functional economic areas:

> In housing, the responsibility for need assessments and land use planning rests at the individual local authority level, when the reality is that people live and work across administrative boundaries.[239]

The LGA argues that the planning system is not a barrier and that developers with permissioned land are failing to build it out.

January 2018 saw the publication of updated data commissioned by the Local Government Association (LGA) which purported to show an increase in unimplemented planning permissions in England and Wales

236 Ibid.
237 MHCLG, National Planning Policy Framework, 24 July 2018, paras 75-76
238 The Lyons Housing Review, 2014, p8
239 Shelter and KPMG (2015), Building the homes we need: a programme for the 2015 government, p48

from 365,146 in 2015/16 to 423,544 in 2016/17, representing an increase of 16%.[240] Based on this data, the LGA argues that "**the planning system is not a barrier to building…councils are approving nine in every 10 planning applications."[241]** Instead, the LGA is calling for councils to have more powers to deal with unbuilt land which has planning permission.[242]

Fixing our broken housing market (February 2017) said **that the Government wanted development to happen as soon as possible where planning permission is granted.**[243] The White Paper contained proposals aimed at achieving this, several of which picked up on some of the themes set out above. The outcome of consultation on these proposals was announced on 5 March 2018 and relevant changes have now been included in the revised NPPF published on 24 July 2018:

- The Government considered the implications of amending the NPPF to encourage authorities to shorten the timescale in which developers should implement planning permission from the default three years to two years, with an exception where this could hinder viability.[244] Following mixed responses, the NPPF has been amended to "**encourage local authorities to consider shorter timescales for implementing planning permissions where appropriate.**"[245]
- A proposal to simplify and speed up the completion notice process under which planning permission can be withdrawn where no substantive progress is made on a site[246] is to be taken forward through changes to primary legislation when an opportunity arises. Guidance will, in the meantime, support local authorities in their use of completion notices under current procedures.[247]
- Authorities will have strengthened compulsory purchase powers which the Government wants to see authorities use to promote development on stalled sites. Separate consultation will take place on new guidance to encourage authorities to use these powers in this way.[248]
- Planning application forms have been amended to include information on estimated start dates and build out rates for schemes including housing development.[249]
- A duty on developers was proposed to provide planning authorities with basic information on progress in delivering the

Feedback on these proposals demonstrated support for more transparent data. The Government said it would continue to explore opportunities to increase transparency on housing delivery. Reponses are also informing the Letwin review of build-out rates.

240 LGA, Unimplemented planning permissions: Permissions under construction (units) England, January 2018
241 LGA Press Release, 16 February 2018
242 Ibid.
243 Cm 9352, Fixing our broken housing market, February 2017, para 2.41
244 Ibid., para 2.41
245 MHCLG, Government response to the housing White Paper consultation: Fixing our broken housing market, 5 March 2018, p48
246 Cm 9352, Fixing our broken housing market, February 2017, para 2.42
247 MHCLG, Government response to the housing White Paper consultation: Fixing our broken housing market, 5 March 2018, pp48-50
248 Cm 9352, Fixing our broken housing market, February 2017, para 2.44
249 Ibid., para A97

permitted number of homes after planning permission is granted.[250]

- There was a proposal to add new requirements to the Authority Monitoring Report produced by local authorities to provide more standardised information on the delivery of the housing plan.[251]
- Consultation has taken place on an amendment to the NPPF to encourage authorities to consider how realistic it is that a site will be developed when granting planning permission for housing. This would be relevant in regard to sites where there is evidence of previous non-implementation of planning permissions for housing.[252]
- Consultation has taken place on whether an applicant's track record in delivering previous housing permissions should be taken into account in regard to large-scale sites.[253] The NPPF has been amended to make clear that, for major sites, the planning history of the site and the non-implementation of earlier similar schemes "may be a relevant consideration in the determination of an application."[254]

The Letwin review of gap between housing completions and planning permissions granted

On 14 January 2018, MHCLG launched an independent review chaired by Sir Oliver Letwin which is looking to "explain the gap between the number of planning permissions being granted against those built in areas of high demand."[255] Some of the responses received to questions posed in the Housing White Paper informed the work of this review.[256]

Sir Oliver published an Independent review of build out: preliminary update on 13 March 2018, in which he said that the first stage of the work would focus on an analysis of the reasons why build out rates "are as they are". A draft analysis was published in June 2018: Independent review of build out: draft analysis – at this point Sir Oliver highlighted absorption rates on large sites as a key determinant of build-out rates. The final report was published alongside Budget 2108: Independent review of build out: final report. Sir Oliver recommended that the Government should:

- adopt a new set of planning rules specifically designed to apply to all future large sites (initially those over 1,500 units) in areas of high housing demand, requiring those developing such sites to provide a diversity of offerings, in line with diversification principles in a new planning policy document; and
- establish a National Expert Committee to advise local authorities on the interpretation of diversity requirements

250 Ibid., para A97
251 Ibid., para A97
252 Ibid., para A99
253 Ibid., para A102
254 MHCLG, Government response to the housing White Paper consultation: Fixing our broken housing market, 5 March 2018, p45
255 MHCLG, Independent review to tackle barriers to building, 14 January 2018
256 MHCLG, Government response to the housing White Paper consultation: Fixing our broken housing market, 5 March 2018, p44

for large sites and to arbitrate where the diversity requirements cause an appeal as a result of disagreement between the local authority and the developer.

- To give the greatest possible chance that the new planning rules for large sites will have an effect in the near-term I recommend that the Government should:
  - provide incentives to diversify existing sites of over 1,500 units in areas of high housing demand, by making any future government funding for house builders or potential purchasers on such sites conditional upon the builder accepting a Section 106 agreement which conforms with the new planning policy for such sites; and
  - consider allocating a small amount of funding to a large sites viability fund to prevent any interruption of development on existing large sites that could otherwise become non-viable for the existing builder as a result of accepting the new diversity provisions.
- To give the greatest possible chance of significant change in the build out rates and quality of large scale development in the longer-term I recommend that the Government should:
  - introduce a power for local planning authorities in places with high housing demand to designate particular areas within their local plans as land which can be developed only as single large sites, and to create master plans and design codes for these sites which will ensure both a high degree of diversity and good design to promote rapid market absorption and rapid build out rates;
  - give local authorities clear statutory powers to purchase the land designated for such large sites compulsorily at prices which reflect the value of those sites once they have planning permission and a master plan that reflect the new diversity requirements (with guidance for local authorities to press the diversity requirements to the point where they generate a maximum residual development value for the land on these sites of around ten times existing use value rather than the huge multiples of existing use value which currently apply); and
  - also give local authorities clear statutory powers to control the development of such designated large sites through either of two structures (outlined in Annex C):

    a. the local authority could use a Local Development Company (LDC) to carry out this development role by establishing a master plan and design code for the site, and then bringing in private capital through a non-recourse special purpose vehicle to pay for the land and to invest in the infrastructure, before "parcelling up" the site and selling individual parcels to particular types of builders/providers offering housing of different types and different tenures; or
    b. the local authority could establish a Local Authority Master Planner (LAMP) to develop a master plan and full design code for the site, and

> then enable a privately financed Infrastructure Development Company (IDC) to purchase the land from the local authority, develop the infrastructure of housing as in the LDC model.[257]

The Government response to the findings will be published in February 2019.[258]

Better use of green belt land

Government statistics on green belt land in England for 31 March 2018 estimated that it covered 1.63 million hectares, i.e. around 12.5% of the land area of England.

The Government's policy on protection for the green belt is set out in chapter 13 of the revised NPPF. The fundamental aim of green belt policy is to prevent urban sprawl by keeping land permanently open. The NPPF states that that the construction of new buildings should be regarded as "inappropriate" for the green belt, although there are some exceptions, which are listed.[259]

Greenbelt policy is generally regarded as having been effective in preventing urban sprawl and maintaining a clear physical distinction between town and country. The 2010 Natural England and CPRE report, Green Belts: A greener future, concluded green belt policy was "highly effective" in its principal purpose, but called for "more ambition" to further enhance the green belt protection for future generations.[260]

It is inevitable that discussions about securing a sufficient supply of land suitable for housing development often turn to the question of whether some areas of green belt land should be utilised for this purpose. The question was put to Dame Kate Barker during the Treasury Select Committee's evidence session on housing policy:

> ***Dame Kate Barker:*** I have not said anything about the green belt. I would not put too much weight on the green belt, on both sides. The people who do want to build on green belt talk about it as though the whole thing was some wonderful environmental preserve, and the people who do want to build over it talk as though it was all complete scrub and purposeless. Neither of those things are true. Green belt is a planning designation, and there are lots of places in which the green belt is quite important. It should be used up rather thoughtfully, but I find it hard, particularly—
>
> **Chair:** I am sorry. Can I just interpret that? You used the phrase "rather thoughtfully". You mean that it should be built on, but thoughtfully.
>
> ***Dame Kate Barker:*** You should ask yourself about each piece of green belt, whether the planning purpose that caused it to be put in is as true today as it was originally. The sentence I disliked most in the original green belt policy, which was called PPG2, explained that the key characteristic of the green belt was its

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[257] CM 9720, 29 October 2018
[258] HC Deb 5 November 2018 c1216
[259] Para 145 of the NPPF. Background information on green belt policy can be found in Library Briefing Paper 0934: Green Belt
[260] Natural England and CPRE, Green Belts: A greener future, 2010, p90

> "permanence". That is quite an odd thing to say about a piece of land that is a planning designation.
>
> If we are going to use the green belt, however, particularly around London, I would prefer for us to take very strategic views. You have to build quite a significant place, a place big enough to have a proper transport link. I find the lack of solution for London overspill around London very difficult. Commuting into London gets harder and harder all the time; I say this with feeling.
>
> If we are going to build around London, my preference would be to do something that was less piecemeal and more strategic, linked to either the transport links we are already thinking about putting in—Crossrail is an obvious one—or where we are thinking of having some new transport links altogether. I am sort of reluctant to see further building around that is not really going to help resolve some of the problems. Transport linkages are a real issue.[261]

Witnesses to the Lords Economic Affairs Committee's inquiry expressed divergent views. Martin Wolf, chief economics correspondent at the *Financial Times* said that building on the green belt was "probably not the whole solution" but noted that a lot of protected fields are "not particularly beautiful" and that building on them could form part of the solution.[262] Trudi Elliot of the Royal Town Planning Institute said that green belt land served "a very important purpose" and building on it "is a complex issue that is not really helped by some of the simplistic debate we have about it."[263]

Shelter and KPMG point out that the value of land mainly depends on what it can be used for. In this context, the planning system drives the motivations of key participants in the development process:

> …restrictions on land use reduce the supply of land at the right price in the right places. for example, green belt designation in the south east restricts development around London and forces expansion beyond the green belt with people commuting across it in huge numbers.[264]

Paul Cheshire, Professor Emeritus of Economic Geography, LSE, has argued that **building on the least attractive and lowest amenity parts of green belts could solve housing supply and affordability problems**.[265] His evidence to the Lords Economic Affairs inquiry stated that it is 'imperative' for land supply decisions and demand to "systematically respond to price information since this is the signal allowing our economy to provide enough of any good or service: with the single exception of land for development."[266] He set out a method for achieving this outcome:

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261 HC 861, 7 December 2016, Q7

262 Select Committee on Economic Affairs, 1st Report of Session 2016-17, Building More Homes, HL Paper 20, 15 July 2016, para 149

263 Ibid., para 150

264 Shelter and KPMG (2015), Building the homes we need: a programme for the 2015 government, p35

265 "Greenbelt myth is the driving force behind housing crisis" The Conversation, 13 September 2013

266 Select Committee on Economic Affairs, 1st Report of Session 2016-17, Building More Homes, HL Paper 20, 15 July 2016, [written evidence EHM0156]

> …the price differential between land in any use and its alternative proposed use, if it exceeds some threshold, should constitute a 'material consideration'. There would then be a presumption that the alternative development would be permitted **unless** (and this is an important 'unless') it can be demonstrated that the environmental or amenity benefits generated by keeping the land in its existing use were of sufficient value to society to refuse the proposed development. It would be necessary to decide on an appropriate 'threshold' level for price differentials not to trigger a potential presumption of development. If the threshold was set at, say, £1 million, this would represent a significant hurdle to changes of use since the costs associated with such changes would not normally be as much. One can envisage, for example, agricultural land on the urban fringe or land zoned for industrial use in places where there is an undersupply of housing, so housing land prices exceed agricultural or industrial land prices by £1m or more. In neither case is it likely that basic infrastructure investment to make the land suitable for development in the new use would exceed £1m per Ha. So, if one was envisaging developing agricultural land on the urban fringe, a threshold of £1m could be viewed as the equivalent of a tax on Greenfield development, reducing the total urban land take.[267]

There are calls on all sides for green belt principles to be re-evaluated in a 21st century context. The Royal Town Planning Institute, in a November 2016 policy statement called for the purpose of green belts to be revisited:

> But it is important to revisit the purposes that green belts need to fulfil over the coming generation. The value of green belts is not simply about what is ugly and what is attractive, as some argue. We need to talk about who green belts are for, and about their social impact, along with their continued role in shaping and managing urban growth.
>
> Green belt boundaries may well need to change, but only through careful reviews over wider areas than single local authorities, and where safeguards are put in place to ensure that development is sustainable, affordable and delivered in a timely manner, and without prejudice to the renewal of brownfield land.[268]

Following consultation on proposed amendments to the green belt provisions in the NPPF, set out in the Housing White Paper, the Government announced on 5 March 2018:

The revised NPPF published on 24 July 2018 contains changes to guidance on the green belt (chapter 13).

> In the revised Framework we are proposing to make clear the criteria that must be satisfied before the release of Green Belt land may, in exceptional circumstances, be justified. We are proposing to state that, as well as optimising density and co-operating with neighbouring authorities, local authorities should give priority to suitable brownfield and land well-served by public transport.
>
> We are proposing to create an expectation that loss of land from Green Belt should be off-set by means of compensatory improvements to environmental quality and access on remaining Green Belt land. We are proposing to make it explicit that rural exception sites can be created in Green Belt, and that development under neighbourhood development orders and

[267] Ibid., [written evidence EHM0156]
[268] RTPI, Where should we build new homes? November 2016

> changes of land-use for outdoor sport and recreation or provision of burial grounds is 'not inappropriate' in Green Belt if it preserves its openness and would not conflict with its purposes.[269]

3.5 Support for SME developers

Most of England's new housing is built by a small number of large firms. By 2012, 70% of homes in England were built by large firms operating on similar business models.[270] This concentration of market power is felt to inhibit competition and can exacerbate the impact of market shocks when all the large firms simultaneously reduce output. Section 3.2 of this paper considers the barriers that smaller and medium sized enterprises (SME) face in trying to compete for land.

Housebuilding requires considerable up-front investment, meaning that in most cases, new housing developers need access to finance. In common with the rest of the economy, finance was less readily available in the construction sector after the financial crisis, although this situation has improved.[271]

For the housebuilding industry, a particular concern is access to finance for SME developers. The Aldermore Group, a bank specialising in finance to small businesses, have stated:

> …smaller developers continue to struggle with access to finance, with a recent industry survey showing that more than 50,000 construction and real estate firms have begun the year in 'significant' financial distress…unless more is done by lenders to increase funding to smaller regional developers, the potential for the industry to reach… [the Government's house building target]…will be less likely.[272]

Problems accessing finance can have an impact on house builders' ability to produce high quality housing, as well as on the overall capacity of the house building industry. With reduced access to upfront investment, house builders may choose to use cheaper, less skilled

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269 MHCLG, Government response to the housing White Paper consultation: Fixing our broken housing market, 5 March 2018, pp23-25
270 Shelter and KPMG (2015), Building the homes we need: a programme for the 2015 government, p9
271 BBA, High street bank lending, July 2016
272 Mortgages for business, Smaller property developers struggling to access finance, 18 January 2016

construction workers or lower quality materials. Both these strategies or cost saving can have a direct impact on the quality of completed homes.

Budget 2014 included a commitment:

> To support SME access to finance, the government will create a £500 million Builders Finance Fund, which will provide loans to developers to unlock 15,000 housing units stalled due to difficulty in accessing finance.[273]

In July 2015, the then Housing Minister announced that the Fund would be extended; Spending Review and Autumn Statement 2015 said that the £1 billion Fund would be extended to 2020-21.[274]

October 2016 saw the launch of a £3 billion Home Building Fund under which builders, including SME builders, can obtain loan finance to assist with development costs and infrastructure work. Autumn Budget 2017 announced a further £1.5 billion for this Fund "providing loans specifically targeted at supporting SMEs who cannot access the finance they need to build."[275] The 2017 Budget also said: "The government will explore options with industry to create £8 billion worth of new guarantees to support housebuilding, including SMEs and purpose built rented housing."[276]

The Housing White Paper said that the Accelerated Construction Programme would support diversification in the market "through partnering with small and medium-sized firms and others as development partners and contractors. There was also a commitment to continue to work with the British Business Bank to encourage investment in SMEs. (para 3.9)

In Building the homes we need: a programme for the 2015 government Shelter and KPMG recommended the **provision of government guarantees for bank lending**:

> This would work through a guarantor bank, which would guarantee certain tranches of the loans to SME builders, conditional on the funding being used to develop homes. The loan guarantees would be made by government, but this doesn't mean that government would take all of the risk. Risk sharing arrangements would be put in place, to reduce the government's risk and ensure that the guarantor bank remains incentivised to lend to those firms most likely to succeed.[277]

This proposal was described as a 'mirror' of the Help to Buy: Mortgage Guarantee scheme (now closed). KPMG and Shelter argued that the biggest impact of such as scheme would be to improve the percentage of loan to value (LVT) that SMEs could achieve. Capital Economics estimated that reducing SME builders' funding costs and restoring their credit allocation to pre-2007 ratios would support the development of an extra 3,000 homes per year.[278]

SME developers are less able to withstand market shocks. This is illustrated by the fact that their share of total housing starts declined after each of the last two house price crashes. A factor that would reduce risk and improve confidence in the development process is house price stability. Shelter and KPMG called for the launch of a **review led**

[273] HC 1104, Budget 2014, March 2014, para 1.141
[274] Cm 9162, November 2015, p41
[275] HC 587, 23 November 2017, para 5.21
[276] Ibid., para 5.22
[277] Shelter and KPMG (2015), Building the homes we need: a programme for the 2015 government, p64
[278] Capital Economics, Increasing investment in affordable homes, 2014, section 6.4

by the Bank of England "on the impact of house price volatility on the economy and the policies that would be required to stabilise prices relative to incomes over the long term."[279] They also called for a **review of property taxation** to consider "potential extra revenue for the affordable house building programme but also in the context of economic and housing market stability."[280]

When giving evidence to the Treasury Select Committee on housing policy, Dame Kate Barker was asked what key housing measure she would introduce if given the opportunity, she said:

> ***Dame Kate Barker:*** I fear that I would be Chancellor of the Exchequer for a very short time, because I would probably wish to put capital gains tax on your first property.
>
> **Chair:** So it is the absence of a tax on imputed rent, for which most people consider the gains relief as a rough and ready substitute, that most concerns you. This is the abolition of schedule A.
>
> ***Dame Kate Barker:*** Yes, it is.[281]

The Lords Economic Affairs Select Committee considered changes to the taxation system and, while supporting amendments to Council Tax, the Committee concluded that "it is wrong to create specific tax rules, as is the case with recent changes to capital gains tax and inheritance tax, around housing."[282]

The Home Builders Federation (HBF) published an analysis of the position of SME builders and possible measures to tackle the issue: Reversing the decline of small housebuilders: Reinvigorating entrepreneurialism and building more homes (2017).

3.6 The construction industry

For any package of solutions to deliver a step-change in housing supply, the construction industry must have capacity to be able to deliver. Several issues have been identified within the industry which require strategic intervention to address them.

Labour market and skills

A 2015 report from Arcadis, a built-environment design consultancy, identified significant problems in attracting and retaining sufficient trained recruits in the construction industry:[283]

- Arcadis argued that if the government's target for building new houses was to be met, then the industry would **need to recruit** 224,000 new people by 2019.

279 Shelter and KPMG (2015), Building the homes we need: a programme for the 2015 government, p67
280 Ibid.
281 HC 861, 7 December 2016, Q50
282 Select Committee on Economic Affairs, 1st Report of Session 2016-17, Building More Homes, HL Paper 20, 15 July 2016, para 253
283 Arcadis, People and money: fundamental to unlocking the housing crisis, 2015, pp4-7

- The fact that **the number of people joining the sector has been declining** for some years led Arcadis to argue that there is a weak "pipeline of talent" into the house building sector.
- Arcadis found that many construction workers are **retiring early**, meaning that around 700,000 new recruits would be required just to replace the current (2015) workforce by 2019.
- Another issue is a **lack of relevant skills needed to build houses among existing construction workers**. Arcadis reports that the following trades or professions are constraining house building due to under-supply of labour: bricklayers, plasterers, architects and quantity surveyors.
- **Training or re-training existing workers is more difficult** in the construction sector compared with other sectors due to above average rates of self-employment and "the fragmentation of the supply chain". These factors make organising widespread training difficult.[284]
- Arcadis report that a large number of **construction workers are operating in different sectors**. But there is also evidence that people with relevant skills are operating in shrinking sectors (such as manufacturing), suggesting a potential source of new labour for the construction sector.
- **The construction sector is "heavily reliant" on non-UK born workers**: around 12% of construction workers are non-UK born, according to *Inside Housing*.[285] Construction and house building trade associations have expressed concern that the UK's new relationship with the EU could adversely affect the supply of migrant labour, which, combined with the other labour issues mentioned above, could cause considerable "damage" to the sector's capacity. The Federation of Master Builders said:

  > …It is now the government's responsibility to ensure that the free-flowing tap of migrant workers from Europe is not turned off…

Innovation in construction

Innovation in construction methods and materials can mean more homes being produced quickly, cost-effectively and to modern standards. Among other things, this can increase the life-span of housing, improve energy efficiency and reduce the need for major repairs.

The UK construction industry has been slow to adopt technological and other innovations which are frequently used by house building industries in other countries.[286]

The Housing White Paper said that the Government would support a joint working group to ensure mortgages are readily available for a range of tested methods of construction. (Para 3.40)

[284] The Construction Index, Ministers tell industry leaders to sort out skills shortage, 1 February 2016
[285] *Inside Housing,* Builders: immigration rules must protect construction workers, 1 July 2016
[286] Innovate UK, Construction industry summit, blog post, 18 September 2015

These innovations include:

- Increased use of data and data management in the design and planning of house building. This forms an important part of the Construction strategy 2016-20 (March 2016).
- Innovation in the way the workforce and businesses involved in house building are organised might provide a way to standardise more house building, and so make the industry more efficient, according to Innovate UK.
- Mass produced modular components are a feature of commercial building, but are less regularly used in house building in the UK. These methods speed up the time required to build houses and require less manpower. They also help to ensure standardised levels of quality and durability.

The Housing White Paper said that the Government would consider how the planning system operates to support modern methods of construction (MMC) developments. (para 3.40)

Adopting modern construction methods can also lead to increased productivity in the sector, meaning that fewer people are required to build the same number of houses.

Between 1998 and 2015, labour productivity in the construction sector grew by 0.4%. Productivity in the whole economy, despite stagnating since 2007, increased by 22.7% over the same period.[287]

The Government launched its Accelerated Construction prospectus on 3 January 2017:

> Through our new Accelerated Construction programme, we now want to provide a tailored package of support to ambitious local authorities who would like to develop out surplus land holdings at pace. The programme aims to deliver up to 15,000 homes (housing starts) on central and local surplus public sector land in this Parliament through £1.7 billion of investment. In doing so, we want to use Accelerated Construction to tackle broader constraints to seeing more homes built. The programme is designed to support our market diversification objectives by supporting non-major builders and help tackle the construction skills gap, including through greater use of Modern Methods of Construction (MMC).[288]

The Housing White Paper said that the Accelerated Construction Programme and Home Builders' Fund would create new opportunities for the use of modern methods of construction. (para 3.40)

During a speech to the Northern Powerhouse Summit on 5 July 2018, Business Secretary, Greg Clark, announced **£420 million investment in construction technology**. The Government is contributing £170 million and industry is contributing £250 million to innovation in construction techniques and materials.[289]

The Farmer Review's recommendations 2016

A combination of these issues led the 2015 Government to commission research from the Construction Leadership Council into how the industry's skills and manpower problems might be overcome. The Farmer Review of the UK Construction Labour Model: 'Modernise or die' was published in December 2016. The review concluded that the construction industry and clients that rely on it are "at a critical

287 ONS, Labour productivity Oct-Dec 2015, figure 1, 7 April 2016
288 DCLG, Accelerated Construction: expressions of interest, 3 January 2017
289 The Planner, "£420 to be invested in smart construction", 5 July 2017

juncture". The following symptoms of failure and poor performance were identified:

- Low productivity.
- Low predictability.
- Structural fragmentation.
- Leadership fragmentation.
- Low margins, adversarial pricing models and financial fragility.
- Dysfunctional training funding and delivery model.
- Workforce size and demographics.
- Lack of collaboration and improvement culture.
- Lack of RandD and investment in innovation.
- Poor industry image.[290]

Amongst these, the review identified the industry's workforce size and demographic as "the real ticking time bomb." There is potential, according to the review, for the workforce to decline by 20-25% within a decade:

> This scenario has never been faced by UK construction before and would be a capacity shrinkage that would render the industry incapable of delivering the levels of GDP historically seen. Just as importantly, it would undermine the UK's ability to deliver critical social and physical infrastructure, homes and built assets required by other industries to perform their core functions.[291]

The review proposed the establishment of a **tripartite covenant** "between the construction industry, its end clients (private and public) and government" with the latter acting as a strategic initiator to pump prime change.[292]

The review's ten headline recommendations are set out below:

1 Construction Leadership Council (CLC) to have strategic oversight of the implementation of the review's recommendations and evolve to coordinate and drive the process of delivering the industry change programme.

2 Construction Industry Training Board (CITB) to be comprehensively reviewed and a reform programme instituted.[293]

A review of CITB opened in February 2017 and closed in March 2017. The Government has decided that CITB should be retained but reformed. The report of the review was published in November 2017.

[290] Farmer Review of the UK Construction Labour Model: 'Modernise or die', December 2016, p7
[291] Ibid., p8
[292] Ibid., p10
[293] Building Support: the review of the Industry Training Boards was published in November 2017

3 Industry, clients and government to work together leveraging CLC's Business Models workstream activity, to improve relationships and increase levels of investment in R&D and innovation by changing commissioning trends from traditional to pre-manufactured approaches.

4 Industry, clients and government, supported by academic expertise and leveraging CLC's Innovation workstream activity, to organise to deliver a comprehensive innovation programme. Programme to be aligned to the market and generate a new shape of demand across the industry with a priority on residential construction.

5 A reformed CITB to look to reorganise its grant funding model for skills and training aligned to what a future modernised industry will need. Bodies to play a more active role in ensuring training courses produce talent appropriate for a digitally enabled world.

6 A reformed CITB or stand-alone body should be challenged and empowered to deliver a more powerful public facing story and image for the holistic 'built environment' process. To include an outreach programme to schools and draw on existing industry exemplars and a vision for the industry's future state.

7 Government to recognise the value of the construction sector as part of its industrial strategy and be willing to intervene by way of appropriate further education, planning and tax/employment policies to help establish and maintain appropriate skills capacity.

8 Government to provide an 'initiation' stimulus to innovation in the housing sector by promoting the use of pre-manufactured solutions through policy measures. To be prioritised either through the conditional incentivisation of institutional development and investment in the private rented sector; the promotion of more pre-manufactured social housebuilding through Registered Providers; direct commissioning of pre-manufactured housing; or a combination of any of the above.

9 Government, as part of its housing policy planning, should work with industry to assemble and publish a comprehensive pipeline of demand in the new-build housing sector. This should be along the same lines as the National Infrastructure Pipeline, seeking to bring private developers and investors into this as far as possible to assist with longer term innovation and skills investment planning.

10 In the medium to longer-term, particularly if a voluntary approach does not achieve the necessary step-change, government to consider introducing a charge on business clients for the construction industry to further influence commissioning behaviour and to supplement funding for skills and innovation at a level commensurate with the size of the industry. The charge should be set at no more than 0.5% of construction value with a clear implementation timetable. Clients would be able to avoid payment by showing how they are contributing to industry capacity building and modernisation.[294]

A new route into construction was due to be launched in September 2019 An apprenticeship levy has operated since 6 April 2017. (Housing White Paper para 2.33)

The Government will work with the CLC to challenge housebuilders and companies to deliver more training. (Housing White Paper para 2.33)

294 Farmer Review of the UK Construction Labour Model: 'Modernise or die', December 2016, p11

A schedule of responses to the review was published in 2016 while the Government's response was published in a letter of 19 July 2017:

> Since its publication in October, we have been incorporating the review's findings and recommendations into policy development. The attached annex sets out more fully how the Government has responded to each of Mark's recommendations. In particular, Mark's recommendations influenced the measures in the Housing White Paper to support increased housing supply, and helped inform the review of the Construction Industry Training Board (CITB).[295]

The Autumn Budget 2017 included the following announcement on construction skills:

> **Construction skills** – The government will support industry to help ensure that there is a workforce fit to build these homes, providing £34 million to scale up innovative training models across the country, including a programme in the West Midlands. The government is working with industry to finalise a Construction Sector Deal that will support innovation and skills in the sector, including £170 million of investment through the Industrial Strategy Challenge Fund. Construction skills will also be a focus for the National Retraining Scheme.[296]

On 31 October 2018, the Government responded to a question on the allocation of construction skills funding:

> The CITB Construction Skills Funding is currently being agreed with the successful Construction Training Hubs providers across the country. We expect up to £9.2 million to be granted in 2018/19. A ministerial announcement about the successful projects will be made later this year.[297]

[295] Government Response to the Farmer Review 19 July 2017
[296] Autumn Budget 2017, November 2017, para 5.25
[297] Training: Expenditure: Written question -184443, 31 October 2018

4. Housing White Paper: additional proposals

The sections below cover key commitments in the White Paper which are not referred to elsewhere in this paper.

4.1 A standard method for calculating housing need

The *Neighbourhood Planning Act 2017* contains provisions to ensure that all areas must be covered by a plan – new powers will enable intervention to ensure that plans are put in place. The White Paper said that the current approach to assessing housing requirements as part of the planning process is "particularly complex and lacks transparency" – the NPPF does not provide guidance on *how* housing need should be calculated.[298] The Government proposed:

- a more standardised approach to the assessment of housing need which is "more realistic about current and future housing pressures." This assessment will take account of the needs of specific groups, e.g. older people and the disabled. The proposed methodology will be subject to consultation;
- councils will be incentivised to use the new approach; and
- by April 2018 the new methodology for calculating objectively assessed need will apply as the baseline for assessing five-year housing land supply and housing delivery.[299]

Savills has made the point that assessed need in England using the new methodology should add up to at least 300,000 new homes per year.

Consultation on Planning for the right homes in the right places took place between 14 September and 9 November 2017. The paper included proposals on a standard method of calculating local authorities' housing need. A summary of responses and the Government's view on the way forward was published on 5 March 2018: Government response to the planning for the right homes in the right places consultation. The Government published How is a minimum annual local housing need figure calculated using the standard method? alongside the revised NPPF in July 2018. In addition, the Government said that consideration would be given to adjusting the methodology after new household projections were released in September 2018.[300]

On publication of the new household projections, the Government noted that they would "lead to a significant reduction in the overall numbers generated by the standard method for assessing local housing need." A Technical consultation on updates to national planning policy and guidance, was published on 26 October 2018 – responses were accepted up to 7 December 2018. The paper sets out the Government's reasons for deciding **not** to change its aspirations in terms of new

298 Cm 9352, Fixing our broken housing market, February 2017, para 1.12
299 Ibid., paras 1.12-16
300 MHCLG, National Planning Guidance website, [accessed 8 August 2018]

housing supply.[301] Subject to the outcome of this consultation exercise, there is an intention to publish updated planning guidance on housing need assessment and a new version of the NPPF incorporating policy clarifications.[302]

The pressure of expectation placed on authorities with high demand and low affordability was welcomed by some, including the NHF. However, commentators raised the issue of local authorities in areas of lower demand cutting their land supplies where new housing could drive improvements in quality and regeneration. The fact that the figure of assessed need does not break down into housing types has also been raised.[303]

4.2 A housing delivery test

A new test was proposed to "ensure local authorities and wider interests are held accountable for their role in ensuring new homes are delivered in their area."[304] The test would be designed to show whether the number of houses built is below target and provide a mechanism for establishing why this is happening and, where necessary, trigger policy responses to ensure more land comes forward:

> The first assessment period will be for financial years April 2014 – March 2015 to April 2016 – March 2017.
>
> To transition to a housing delivery test we propose to use an area's local plan (or, where relevant, the figure in the London Plan or a statutory Spatial Development Strategy) where it is up-to-date (less than 5 years old) to establish the appropriate baseline for assessing delivery. If there is no up-to-date plan we propose using published household projections for the years leading up to, and including, April 2017 - March 2018 and from the financial year April 2018 - March 2019, subject to consultation, the new standard methodology for assessing housing need.
>
> In line with responses to our previous consultation, housing delivery will be measured using the National Statistic for net additional dwellings over a rolling three year average. Where under-delivery is identified, the Government proposes a tiered approach to addressing the situation that would be set out in national policy and guidance, starting with an analysis of the causes so that appropriate action can be taken:
>
> - From November 2017, if delivery of housing falls below 95% of the authority's annual housing requirement, we propose that the local authority should publish an action plan, setting out its understanding of the key reasons for the situation and the actions that it and other parties need to take to get home-building back on track.
> - From November 2017, if delivery of housing falls below 85% of the housing requirement, authorities would in addition be expected to plan for a 20% buffer on their five-year land supply, if they have not already done so.

301 MHCLG, Technical consultation on updates to national planning policy and guidance, 26 October 2018
302 Ibid., para 31
303 NHF, Initial thoughts on the new National Planning Policy Framework, 26 July 2018
304 Cm 9352, Fixing our broken housing market, February 2017, para 2.47

> - From November 2018, if delivery of housing falls below 25% of the housing requirement, the presumption in favour of sustainable development in the National Planning Policy Framework would apply automatically (by virtue of relevant planning policies being deemed out of date), which places additional emphasis on the need for planning permission to be granted unless there are strong reasons not to.
> - From November 2019, if delivery falls below 45% the presumption would apply.
> - From November 2020, if delivery falls below 65% the presumption would apply.
>
> The phased introduction of the housing delivery test consequences will give authorities time to address under delivery in their areas, taking account of issues identified in their action plans and using the 20% buffer to bring forward more land.[305]

In response to feedback on the test, the Government said:

> While acknowledging respondents' concerns that housing delivery is not wholly within the control of local authorities, the Government believes that, as part of the wider changes to planning policy, the Housing Delivery Test has a significant role to play in helping to deliver authorities' housing commitments. The Government welcomes the general support for these specific recommendations, and proposes to reflect them in the revised Framework and guidance
>
> Concern that a plan's annual requirement does not take fluctuations into account has been recognised. Where appropriate, stepped trajectories and requirements will be taken account of in the baseline. Steps will also be taken to prevent penalising ambitious authorities. The Government acknowledges the concerns raised about using household projections and new standard methodology for Local Housing Need as the baseline in the absence of an up to date plan. However, this will not apply where local authorities have an up to date plan in place and the Government expects authorities to move toward Local Housing Need based plans as soon as possible. In assessing delivery, the Government will also ensure that the delivery of communal accommodation is also included in the Housing Delivery Test calculation.[306]

The Housing Delivery Test measurement rule book was published on 24 July 2018. The planning consequences of not meeting the Housing Delivery Test are set out in paragraphs 73-75 of the revised NPPF. On 3 December 2018, PlanningResource reported that MHCLG had failed to publish the results of the housing delivery test to the November 2018 deadline.

4.3 Build to rent

The White Paper identified a need for more good quality privately rented homes. The 2015 Government wanted to build on the work of

[305] Ibid., paras 2.47-50
[306] MHCLG, Government response to the housing White Paper consultation: Fixing our broken housing market, 5 March 2018, p52

the Private Rented Sector Taskforce to attract "major institutional investment in new large-scale housing which is purpose-built for market rent."[307] A separate consultation exercise was initiated, Planning and affordable housing for Build to Rent - a consultation paper, the key proposals of which were to:

- amend the NPPF so authorities know they should plan proactively for Build to Rent developments where there is a need and to make it easier for developers to offer private rented homes at affordable rents instead of other forms of affordable housing; and
- ensure family friendly tenancies of three or more years are available for tenants that want them on schemes benefiting from changes introduced by the Government.[308]

The outcome of this consultation was published in August 2017.[309] The revised NPPF includes build-to-rent schemes in the definition of affordable housing.[310]

307 Cm 9352, Fixing our broken housing market, February 2017, paras 3.20-21
308 Ibid., para 3.23
309 MHCLG, Planning and affordable housing for build to rent: Summary of consultation responses, August 2017
310 MHCLG, National Planning Policy Framework, 24 July 2018, Annex 2

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