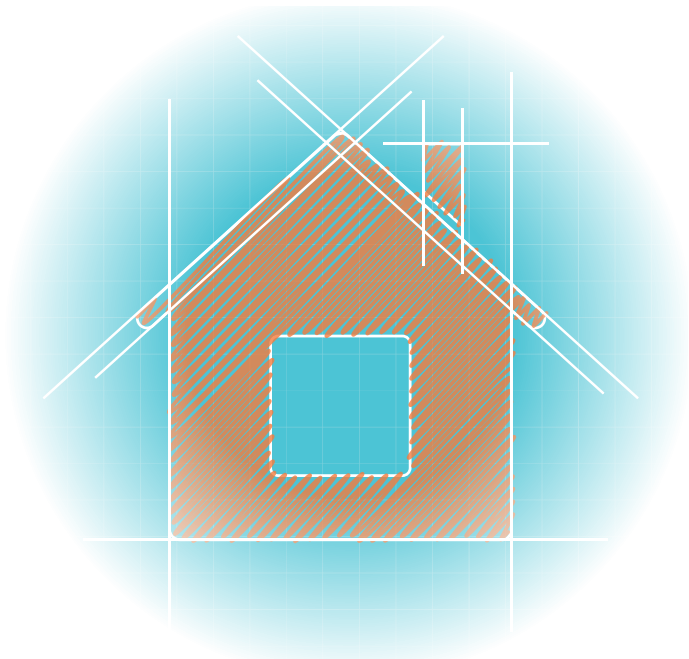


WHAT MORE CAN BE DONE TO BUILD THE HOMES WE NEED?

The Lyons Edited Collection



ESSAYS

Edited by Sir Michael Lyons, Luke Murphy,
Charlotte Snelling and Caroline Green

June 2017
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ABOUT IPPR

IPPR, the Institute for Public Policy Research, is the UK's leading progressive thinktank. We are an independent charitable organisation with more than 40 staff members, paid interns and visiting fellows. Our main office is in London, with IPPR North, IPPR's dedicated thinktank for the North of England, operating out of offices in Manchester and Newcastle, and IPPR Scotland, our dedicated thinktank for Scotland, based in Edinburgh.

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BIOGRAPHIES

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Sir Michael Lyons is chairman of the English Cities Fund and SQW Ltd and a former chairman of the BBC (2007-2011). He is a strategic adviser to CBRE and a non-executive director of Redrow PLC.

He chairs the Lyons Housing Commission which published its report in 2014 and continues to consider how the UK can boost housing supply.

He has had a distinguished public service career included 17 years running some of the country's largest local authorities (including Birmingham city council 1994-2001).

He led the 2007 Lyons Inquiry into the functions and funding of local government and other reviews concerning the relocation of government services (2004) and the management of public assets (2004).

He was formerly deputy chairman of the Audit Commission and professor of public policy at Birmingham University. He chaired the CBSO for six years and was both a board member and governor of the Royal Shakespeare Company.

He was knighted for services to local government in 2001.

Malcolm Sharp MBE

Malcolm spent 42 years in local government, is a past president of the Planning Officers Society and was awarded the MBE for services to town planning in 2016. He now works as a consultant advising local authorities as well as being chair of Nottingham City Homes.

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Simon Marsh

Simon Marsh is a chartered town planner and head of sustainable development at the RSPB. Before moving to the RSPB thirteen years ago he worked as a planner in the local authority sector.

Mark Clare

Mark Clare was the chief executive of Barratt Developments plc from 2006 to 2015. He sat on the governments Constructional Leadership Council, the UK Green Building Council and was a trustee of the Building Research Establishment. He now sits on a number of company boards as a non-executive director and became chairman of Grainger plc in 2017.

James Bailey

James Bailey is assistant director in corporate finance, leading PwC's residential and regeneration team in London and the South East.

David Orr

David Orr is chief executive of the National Housing Federation and a former president of Housing Europe, the European network for social housing. He is the chair of the board of Reall, previously known as Homeless International. He has recently retired from the board of The Housing Finance Corporation (THFC) and as chair of building lives. Previously, David has been chief executive of the Scottish Federation of Housing Associations and of Newlon Housing Trust, having also worked with Centrepont. David was awarded in 2010 an honorary membership of the CIH.

Bill Hughes

Bill joined Legal & General Investment Management in 2007 and is responsible for transforming its UK property fund management business into a global-reaching real assets platform. Operating in both the direct investment and lending markets, today it actively invests and manages over £23.2 billion AUM across commercial property, private residential, infrastructure, property lending and corporate credit.

Since the beginning of 2015, Legal and General has worked closely with government's Regeneration Organisation to identify and invest in critical regeneration projects that support UK growth.

Bill previously held positions at RREEF, the real estate fund management business of Deutsche Bank, and Schroder Property Investment Management. From 2012 to 2015, Bill was part of the presidential team at the British Property Federation.

He is currently chair of the Property Industry Alliance (PIA), bringing together the UK's leading property bodies to give them a stronger collective voice on issues such as policy, research and best practice. He also continues to play a role in Sir Michael Lyons' Housing Review.

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Grainia Long was a member of the Lyons Commission, is a non-executive director at Thames Valley HA and chief executive of the Irish Society for the Prevention of Cruelty to Children (ISPCC). She is former CEO of the Chartered Institute of Housing.

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Caroline has been assistant chief executive at Oxford city council since September 2015. She has a leading role in developing the city council's engagement with external partners, on devolution initiatives and promoting partnership work on housing supply, infrastructure, and economic growth. Prior to joining Oxford city council, Caroline worked for the Local Government Association as a lead advisor on housing and planning, environment and infrastructure. Whilst at the LGA she was seconded as director of the Lyons Housing Review. Previously Caroline worked for the Town and Country Planning Association on planning and sustainable development.

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Charlotte is a research fellow at IPPR working in the institute's housing and planning team, and has published reports on a range of topics including housing devolution, homesharing, private renting, and temporary accommodation. She holds a PhD in Politics from the University of Edinburgh.

Ed Turner

Ed is senior lecturer and head of politics and international relations at the Aston Centre for Europe. He has written extensively on German politics, and also takes a keen interest in all aspects of housing and planning policy – he recently held funding to explore the differences between Germany and England in this area. He is deputy leader of Oxford city council, and has been a member of a number of national reviews of housing policy.

PREFACE

SIR MICHAEL LYONS

The twelve essays contained in this book have been contributed by individuals who were either part of the original Lyons Housing Commission or closely associated with it. Originally convened to provide an independent view on how we could secure a step change in building new homes, we published our report, *'Mobilising across the nation to build the homes our children need'*, in 2014 and have collectively maintained our interest in this most urgent of subjects over the subsequent three years.

We publish now, immediately after the General Election, having postponed our original launch which was planned for early May. We hope that the thoughts and suggestions here, together with our original work, will help the new government to refine their plans and orchestrate a bold and sustainable increase in the supply of new homes, which more accurately reflects current levels of demand. (Our original estimate of 240,000 homes a year still seems valid.)

These essays were originally intended as a response to the previous government's housing white paper *'Fixing our Broken Housing Market'*. We were broadly supportive of that document, recognising that it represented a break from the narrow fixation with owner occupation that marked the Cameron government and offered a rather broader approach to increasing housing supply. The main question now is whether the government returned on 8 June, whatever its composition, will adopt an ambitious enough strategy to really tackle the housing crisis. We stress again, that what is needed is a comprehensive housing strategy not a single bright idea.

The housing crisis and the importance of building more homes has been a prominent issue in the election campaign with something tantamount to a bidding war between the parties as to who would build most. 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. All of the major parties have, at last, recognised that there is a bigger part to be played by local authorities and housing associations in commissioning the building of new homes. We have also seen a number of individual pledges which we would like to see included in future housing policy (including the Conservatives' willingness to reform CPO powers and Labour's commitment to suspending RTB unless the homes sold are replaced).

Our overall impression is that parties remain too strongly wedded to owner-occupation and particularly to the belief that they will be able to provide a significant response to the aspirations of first time buyers. We strongly believe that Britain's housing crisis cannot be solved by too narrow a focus on owner occupation. It is, we recognise, the tenure of choice for most of our fellow citizens but it simply cannot provide the number of homes needed or at a price which can meet this aspiration and it is time to be honest about that. All manifestos place greater emphasis on homes built to rent together with greater encouragement for the role that can be played by housing associations and local authorities as well as institutional investors. We believe this is a key development in beginning to provide homes for all circumstances and to relieve the pressure on rents and house prices.

The incoming government has an opportunity to demonstrate the positive impact that government can have in a modern market economy. The prime minister has made clear her willingness to intervene in markets where they are dysfunctional. Nowhere could this be better demonstrated than in the land market. There also needs to be a focus on the long-term objective of rebuilding the capacity of the housebuilding industry and especially its supply chain. We need to recognise a broadly based industry that includes the traditional housebuilders, but it must extend well beyond them if it is to maintain its efforts over the economic cycle and the most certain challenges of Brexit. Government can do more than just offer encouragement. It can spread its available investment with more precision; promote research and development; and support the risks that will have to be taken in board rooms, council chambers and in personal lives. Building confidence that we can and will avoid the stop-start experience that has been the cause of a housing crisis, where our homes have increasingly become assets for domestic and international speculation rather than the foundation of our own security, health and economic wellbeing. Most of all, government must be determined, for there is no more fitting subject to an industrial strategy than rebuilding this almost entirely domestic industry.

Each of the essays reflects the views of its author alone and do not necessarily reflect the views of their organisations, the sponsors or IPPR.

We are indebted to IPPR for their role in drawing this publication together, and especially to Luke Murphy and Charlotte Snelling for their editorial skills. I would also like to thank LGIM Real Assets and PwC for their support of the book. Finally, a warm vote of thanks to all my colleagues who went the extra step in preparing these contributions.

Sir Michael Lyons,

June 2017

1. INTRODUCTION AND OVERVIEW

SIR MICHAEL LYONS

The housing market is broken. That was the stark conclusion of Theresa May in introducing the government's white paper on housing published in February 2017. Few would disagree, and the impacts are clear for all to see. Rents are increasing faster than earnings, house prices are now at a record level when compared with wages, and our young people are increasingly unable to set up home for themselves. The cost, in terms of two generations who feel let down because they have been led to expect better, is yet to be fully counted. We know that the gap between the housing haves and have-nots is accentuating the wealth divide (SMB 2016). However, even this must be set against the economic impact, with house price inflation a complicating factor in the management of the economy, and the housing crisis inhibiting both labour mobility and our pressing need to improve educational and skill attainment. What's more, we are missing the opportunity to create up to 200,000 jobs and add at least 1 per cent to GDP – jobs and income which might be sorely needed as we leave the EU.

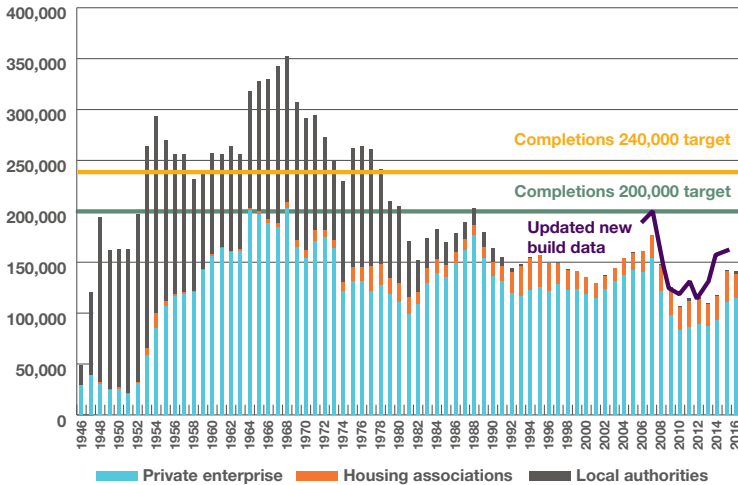
The white paper offered a wide agenda and suggested that a May government might be willing to question previous preoccupations and to promote a broadly based approach to housing in order to 'make Britain a country that works for everyone'. This book of essays has been written to support that ambition, and to urge the government to go further, as we offer additional thoughts about measures that could promote a sustainable increase in the supply of new homes to closer match prevailing demand.

The Lyons Housing Commission was drawn together at the invitation of Ed Miliband in 2014, and challenged to draw up a route map to increase housebuilding from 130,000 new homes per annum to 200,000 by 2020 – a rate that has only been

achieved twice in the last 30 years (figure 1)¹. The emphasis, in that mission, was on a sustainable increase which could then be further improved to meet housing need of circa 240,000–250,000 a year (TCPA 2013 and Barker 2004). Our report, *Mobilising across the nation to build the homes our children need* (Lyons 2014), was published in late 2014, and was widely welcomed – in great part because of the comprehensive view it took of the issues that need to be addressed if we are to build more homes.

FIGURE 1

There has been a significant decrease in the number of homes built by local authorities over the last 70 years
Number of historic housing completions in England, by provider type, 1946 to 2016



Source: DCLG 2017b; DCLG 2017c

Our report stressed the importance of building confidence and capacity across the whole industry, land release and winning public support for development, stability in the planning framework, and putting pressure on all communities to provide for future housing

1 This figure reflects both the continuous time series of housing completions by calendar year (DCLG 2017c) and the revised figures published by DCLG which show that 200,000 completions were also achieved in 2007 (DCLG 2017b). The original time series is imperfect but offers consistent evidence available to those interested in seeing sustainable growth in our house building capacity.

needs. We also emphasised that this increase in supply would not come from the volume housebuilders alone but would require new efforts from local authorities; housing associations and institutional investors capable of commissioning new homes and sharing the risks inherent in building them. We underlined the point that meeting our pressing housing needs requires a balanced approach to tenure, recognising that greater supply and choice of rented and shared ownership homes are crucial parts of the answer.

ARE WE ON COURSE?

Before introducing the essays which comprise this collection, it is worth taking stock of where we are. The recovery in housebuilding has been maintained with 164,000 new homes being built in 2015–2016 (DCLG 2017b)². The Cameron government elected in 2015 placed great emphasis on housebuilding, with a commitment to building 1 million new homes by the end of this parliament, and direct support for buyers of new homes through Help to Buy. However, the target of building 200,000 new homes a year, let alone 1 million by May 2020, seems to be beyond our grasp. So much so that the government has sought to dilute the original Cameron undertaking (NAO 2017) focussing on net additional dwellings instead of new homes completed,³ and extending the target period by seven months to December 2020.

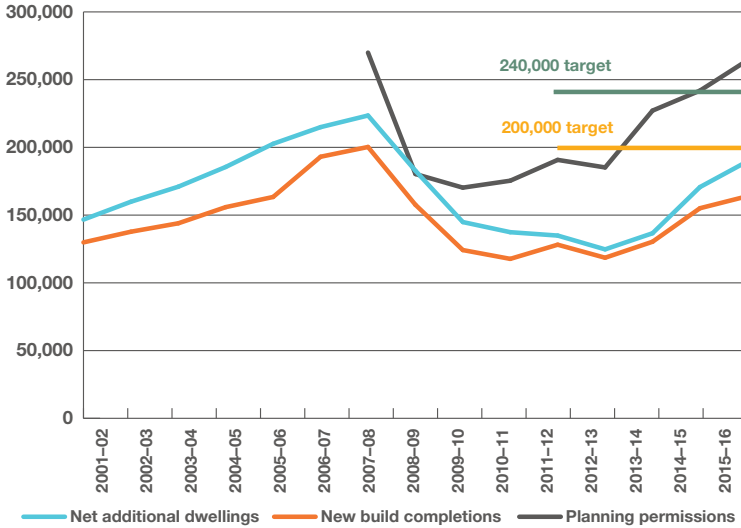
Does this matter? Some would argue that net additional dwellings might have been a more appropriate target in the first place, for this includes conversions and buildings brought back into use as homes – as well as netting off homes demolished. However, for those interested in rebuilding national housebuilding capacity which appears to have shrunk over the last two economic cycles (Shelter 2014), it is a distraction, and conversions, as well as often raising questions of quality, can't properly be seen as part of a sustainable level of provision over the long term. More worrying, though, is whether this changing of the goal posts for a major prime-ministerial undertaking is evidence of diluted ambition in the face of the undoubted difficulties involved.

-
- 2 The DCLG figures for the first quarter of 2017 (DCLG 2017a) suggest a sharp improvement in housing starts (up by 21 per cent) but we remain sceptical about suggestions that the volume house builders by themselves can secure, let alone maintain and exceed the 200,000 homes a year figure which must be the appropriate initial target for the incoming government.
 - 3 The department now measures new homes as net additions: this is not solely newly-built homes, but also includes converted properties.

FIGURE 2

New planning permissions are increasing at a much faster rate than either new build completions or net additions

Number of new build completions, net additional dwellings and planning permissions in England, 2001-02 to 2015-16



Source: DCLG 2017b, Glenigan and HBF 2017

The important point for the future is that effective encouragement of all the varied contributors to housing supply need consistent messages and benchmarks. Most of all, government must avoid overstating the progress being made on the challenging task of rebuilding capacity.

One other indicator of progress is the recent improvement in the granting of planning permissions, which have increased at a faster rate than new build completions (figure 2). The differential in the rate of the improvement is partly to be expected, as approvals are a leading indicator in the development process, but it does suggest that the granting of outline planning permissions is not the single major road block that the construction industry often suggests. That is not to imply that there are no continuing issues to be addressed in the development control process, but it does demonstrate that – as our review found back in 2014 – the planning system is not the central issue that many claim it to be.

LOOKING FORWARD

In our 2014 report, we explored the importance of land availability, and our strong conviction that the problems often associated with the planning system were rooted in communities' scepticism about new development. This was born in great part from a history of inadequate and slow provision of new infrastructure to support new development, as well as anxieties about both the quality of both homes built and inadequate investment in placemaking. All of that is, of course, compounded in places by a desire to protect all current amenities, and to 'pull up the drawbridge', denying the opportunity for new homes. Nowhere is that clearer than in the continuing debate about the greenbelt. Here, ministers intent on a sustained increase in the provision of new homes face continuing opposition from their own colleagues, who argue that current boundaries are sacrosanct; a simple rallying cry which delays the need for an urgent review of the role, boundaries and quality of current greenbelt provision. In no other area would a policy fixed in 1955 be considered untouchable in perpetuity; policies have to be reviewed and updated over time – imagine if the NHS had not been reformed since its inception in 1947. Nevertheless, a review of sorts is taking place on a piecemeal basis, as individual and combined authorities take a closer look at the scope for revising boundaries, often swapping low grade or previously developed land for new designations which offer higher amenity value. Ministers must continue to support well-argued cases.

The National Planning Policy Framework (NPPF) appears to provide a robust framework for consideration of all land release; we welcome the fact that it has been retained, and that ministers are continuing to emphasise that every planning authority must have an up to date local plan detailing land release for five years, and are now taking the line we suggested of imposing penalties on the recalcitrant.

BUILDING THE HOMES WE NEED

Malcolm Sharp's contribution builds on the Lyons Review's detailed discussion of land release and the planning framework. He picks up not only the continuing concerns about staffing levels and skills in planning departments, but also the continuing debate about 'land banking', and whether there should be stronger sanctions to ensure that land is developed once it has planning permission. Ministers fully understand the difficulties of encouraging communities to agree to development if they in turn can point to permissioned land which is not being developed. Malcolm underlines that the problem is less likely to be with the housebuilders, who are normally eager to build once they have a permission, than with others seeking to hold land for speculation. He makes the case for stronger measures to capture uplifts in

land value, and real teeth in legislation to make sure that land with permission is brought forward.

Kate Henderson's essay explores the scope for garden cities, 'new towns' and garden suburbs to play a bigger part in the supply of new homes. She acknowledges the local initiative, industry support and government encouragement behind a range of recently announced developments, but calls for greater emphasis on an approach which has been proved to create high quality, sustainable attractive places across the UK. She does, however, warn against badging inappropriate developments, and argues that democratic accountability, ambitious placemaking objectives, the capturing and sharing of land values, and long-term stewardship are essential to delivering successful garden cities.

Simon Marsh asks whether high quality homes are a utopian ideal. He argues for the full recognition of social and environmental costs and benefits, and concludes that mandatory national standards can help reduce the costs involved. Both Simon and Kate underline the importance of avoiding a dash for extra housing which compromises on the quality of both homes and places.

Mark Clare brings his experience of leading one of the country's largest volume housebuilders to the question: 'What more can the big housebuilders do?'. He rightly acknowledges that they are at the very heart of the challenge, and have significantly increased output since 2009 when many faced collapse. Mark stresses the part that housing should play in the government's proposed industrial strategy, and calls for the creation of 'an Industrial Strategy Group to drive innovation in product delivery, to improve the quality and speed of build, while using the scale of the opportunity to drive down costs. Within this it would harness the opportunities provided by digitisation (BIM) and explore the scope to 'pull through' production techniques used in other sectors.'

The four papers by Bailey, Orr, Hughes and Long each develop different aspects of the commission's conclusion that we will only be able to reach and exceed the sustainable levels of housebuilding that we last saw in the early 1980s if we mobilise a wider range of bodies to commission new homes, and to share in the risk and the role of land assembly.

James Bailey looks at the potential contribution of local authorities, and sees evidence of their enthusiasm to contribute to this nationwide challenge in the rapid establishment of a new generation of housing development companies. Companies capable of working with other partners to respond to local housing needs ensure early development of council land and the reshaping of existing housing estates. He argues for greater encouragement

from government and a more benign approach to local powers and freedoms, including ‘bespoke agreements to increase individual debt caps in exchange for commitments on increased delivery numbers to target areas of need’.

David Orr continues his powerful argument for the bigger contribution that housing associations stand ready to make within a more strategic approach to housing investment (one of the review’s recommendations). He looks at the changes in this sector and its steadily increasing contribution, and argues that this can be accelerated by stronger government vision focussed on the creation of robust communities, rather than being preoccupied with national tenure targets. He calls for support in terms of selective land release and measure to underpin the risks involved.

Bill Hughes looks at the bigger contribution that could be made by the market rented sector, especially with the support of institutional investment. Acknowledging that this is an urgent need in our cities, and will initially focus on the housing needs of younger people, he argues that the lessons learned (including the extended role of offsite manufacture) could be applied to family and shared accommodation. He looks at the growth in build to rent schemes and argues that this could be further encouraged by a range of measures, including ‘fast track’ arrangements for detailed planning permission, and ‘reduced S106 requirements based on speed of delivery’.

Grainia Long contributes a distinctive essay on the growing contribution of employer-led housing partnerships. She concludes that: ‘While the white paper has recognised the significant impact that housing costs are having on labour mobility, access to the labour market for employees and to talent management and growth plans for employers, it must ensure concrete plans are put in place to encourage employers to make best use of their assets – land and otherwise – to add to new supply, and increase access to affordable homes for employees.’

Caroline Green and Michael Lyons return to the subject of older people’s housing, and argue that giving it a higher priority in public policy would somewhat counterintuitively benefit the young, as capital is released to assist house buying elsewhere in the family and family homes are released. ‘Extra care and other forms of specialist housing should be prioritised in government subsidy or incentive policies, and the use of public land to support it pursued as part of an inclusive communities agenda. Focussing on NHS surplus land in close proximity to continuing health facilities might be a first move. Encouraging a greater role for councils and housing associations in commissioning and partnership working

with health commissioners and providers should also enable them to increase supply of suitable and affordable sites.'

Joe Dromey and Luke Murphy explore in more detail one of the major constraints to expanded housebuilding: the need to train more skilled people for the industry and bring an explicit Brexit focus to their work. While the commission found evidence of some limits on the supply of materials, these seemed possible to resolve by investment from suppliers, if they can be confident of sustained demand. Not so the already serious shortage of skills across the industry; skills that encompass design and control as well as construction. Responsibility is diffuse and the track record poor. In addition, the situation could be catastrophically complicated by Brexit, given the industry's current reliance on EU labour. They conclude: 'Government will have to consider the use of a transitional system that will avoid a cliff edge and ensure access to the appropriate skills after the UK leaves the EU, and that it should consider focussing unspent [apprenticeship] levy funds on the sector, and on other sectors which are currently reliant on EU migrant labour.'

Bill Davies and Charlotte Snelling look at the special case of London, but argue that the same issues can be found in other cities and areas of intense housing demand. They develop the commission's emphasis on devolution to engage local energies, understanding and commitment, but conclude that 'fiscal devolution was notably absent in the white paper. Devolution of stamp duty using revenues from rising prices to help stabilise them – especially retention of that related to new homes – would be a good place to start. It would allow London to retain a substantial proportion of income from property taxes, and provide a powerful incentive to see more homes built in the local area. Boroughs would also be able to adjust rates to better reflect local pressures, including a reduction in duty on larger build-to-rent projects – to improve viability, increase transactions, improve affordability and contribute to more varied tenure mix developments.'

Ed Turner contributes an interesting international perspective, exploring German experience where the state at national and particularly the regional and local levels plays a bigger and more leading role in land assembly and the financing of housebuilding. He concludes: 'the fact that, since the 1950s, Germany has built roughly twice as many homes as the UK, suggests this more active state role has proved a success.'

The twelve essays taken together represented a cautious welcome for the breadth of the white paper. We saw evidence that the May government was taking a wider view of both the problem and the potential solutions to it, but strongly felt that there was room to go

much further. We encourage the government elected this month to be bold in looking at all tenures, rather than focussing solely on owner occupation. We urgently need to recognise that many young citizens have already recognised that home ownership may be a distant – if not unachievable – prospect, but want to get on with their adult lives and establish homes in rented accommodation which are both secure and affordable. That doesn't mean ignoring home ownership – far from it – but we do need to plan for more and better rented accommodation to ensure that there are good homes available for those who plan to buy but are not yet able to, and those who will never be able to.

It was also clear that the May government was beginning to take some of the longstanding issues in the land market more seriously, but recognition must be met with action, and additional measures to ensure the capture of the uplift in land value are essential. We also saw signs that ministers were beginning to look beyond the traditional housebuilding industry, important though it is, to better involve institutional investment and a greater contribution from both housing associations and local authorities. This is crucial to getting back to the rates of housebuilding that were taken for granted in the 1970s, when England was a country of just 43 million compared to today's 55 million plus. It is important that the new government works creatively with each of these sectors, understanding their constraints and helping to resolve them, and avoiding the temptation to introduce initiatives which weaken confidence and deter innovation. We continue to believe that a new generation of development partnerships is crucial to achieving the scale of new build which is urgently needed.

Most of all, we encourage incoming ministers to take heed of our headline conclusion. Tackling the woeful undersupply of new homes in this country requires not just some of these policies, but an integrated strategy for the whole industry which combines all of them.

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2.

PLANNING AND INCREASING LAND SUPPLY TO BUILD THE HOMES WE NEED

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INTRODUCTION

The relationship between the UK's land use planning system and the availability of land for housing is clearly an important one, since the use of land is restricted through this process. Some would argue that this is a fundamental reason behind the current housing crisis. However, this was not the conclusion of the 2014 Lyons Commission Housing Review Report, *Mobilising across the nation to build the homes our children need* (Lyons 2014). Whilst the report acknowledged that the shortage of land made available on which to build houses was the biggest constraint, it demonstrated that the solution was much more complex, and could not be fully understood by merely focussing narrowly on the planning system and how it operates. Nevertheless, the report included important recommendations concerning the planning system and the wider question of why land was not coming forward to meet the nations' urgent need for housing – themes also picked up in the subsequent House of Lords Select committee report (HoL 2016) and LGA Housing Commission report (LGA 2016).

Indeed, there has been a growing consensus that action to tackle the housing crisis needs to take place across all sectors, culminating in the government's recent white paper 'Fixing our broken housing market'¹ (DCLG 2017). While this still identifies planning challenges that need to be addressed, it also highlights the pace of development and the very structure of the housing market as key problems.

This essay reviews the emerging policy responses to the housing crisis in respect of planning and land, and makes constructive recommendations about what more the government could do to build on existing policy and initiatives. The essay is structured around the following themes:

- bringing more land forward through the planning system

- simplifying getting planning permission and getting it built out
- local need and affordable housing
- land value capture
- local authority resources and capacity.

BRINGING FORWARD MORE LAND THROUGH THE PLANNING SYSTEM

When the original Lyons Review reported in 2014, there was considerable concern over the partial coverage of up-to-date local plans across the country and the time it was taking for local authorities to get plans in place. In line with the Lyons Review recommendations, the government adopted a deadline to drive the submission of plans which fully met objectively assessed need (OAN) and a five-year supply of sites, as required by the National Planning Policy Framework (NPPF) (NPPF 2012). Despite this robust approach, although 72 per cent of authorities have plans in place, there are still 242 authorities (which make up 65 per cent of the total) without local plans which have been adopted since the publication of the NPPF (PI 2017). The white paper refers to the provisions in the current Neighbourhood Planning Bill (NIP 2017), which states that the Secretary of State for the Department of Communities and Local Government (DCLG) will intervene to ensure plans are put in place. In reality, there are still many areas where, even if there is an up-to-date plan, it will require early review in order to meet newly calculated OAN and emerging issues of unmet need in neighbouring authorities. In some cases, in Birmingham for example, plans have been found sound as a pragmatic response to the need to get one in place, even if there is more work to do with surrounding authorities in meeting the authority's needs (NPB 2017).

In assisting adequate land to come through the planning system by bringing plans forward, it is clear that there is still much to do. This is especially true in the case of cross boundary issues and making plans easier to produce. The white paper deals with these matters, but it provides only a weak response on cross-boundary issues through the proposed 'statement of common ground', which contrasts with the more robust recommendation made in the Lyons report to require authorities to complete a Strategic Housing Plan, with intervention powers should local cooperation fail. The existing 'duty-to-cooperate' (Localism Act 2011) has assisted cooperation in some areas, especially with regard to data collection and OAN studies, but it is not a duty to agree distribution of growth, which is still problematic and can introduce long delays whilst negotiations are carried out. More substantive progress may well be made where devolution deals through combined authorities are including work on joint strategic

frameworks in their offer, which bring together strategic plans and key infrastructure delivery plans. The white paper proposal to enable spatial development strategies to allocate strategic sites is a welcome development. The government is also promoting the wider use of joint plan-making powers which already exist. This approach is being adopted by a consortium of authorities in North Essex (Braintree, Colchester and Tendring). Each authority is producing a local plan, with a common part one dealing with strategic issues including distribution of OAN, and with separate but concurrent part twos dealing with delivery, allocation of sites and more detailed matters. Either of these approaches would give practical effect to the Lyons recommendation on joint working.

There are other examples, such as non-statutory frameworks and memoranda of understanding, but an essential point remains: given the extent of the housing crisis and the need for more land in tightly bounded urban areas which cannot meet their own need, some more formal requirement to work together should be brought forward. This could take the form of a statutory requirement to produce key strategic elements in a joint plan, or spatial development strategy at, least at housing market area level.

In dealing with cross-boundary issues, incursion into greenbelts still gives rise to considerable debate. The government has made clear its continuing commitment to protecting the greenbelt. Local councils should remove land only in exceptional circumstances. However, the minister has drawn attention to the point that: 'the white paper clarifies what that means: when they can demonstrate that they have fully examined all other reasonable options for meeting housing need' (Hansard 2017). A number of strategically important local plans, for example in large cities such as Birmingham and Manchester, are doing just that. We can therefore expect a continuing use of land designated as greenbelt for housing; the white paper clarification is perhaps the first formal acceptance that this is the reality. Despite the government's reluctance, preferring to let these plans be decided according to local circumstances, further detailed guidance is essential to assist this process and make a real difference to the timely review of greenbelt through local plans and release of appropriate land for development.

In terms of bringing land forward through local plans speedily and effectively, improving the process is important. Here, the Lyons Review urged the simplification of plan-making. It particularly recommended the two-stage approach; this was subsequently recommended by the Expert Group (LPEG 2016) set up by the government, which also recommended other key proposals to assist timely plan-making, such as standardising the methodology for OAN, also included in the white paper.

SIMPLIFYING PLANNING PERMISSION AND GETTING HOMES BUILT OUT

The Lyons commission judged that producing the annual completions needed to meet housing demand required a broader range of developers to be actively engaged in building homes. In order to achieve this, the report recommended proposals to de-risk planning, to assist small and medium-sized (SME) builders in particular; their number having drastically declined over the last three decades (HBF 2017). The de-risking proposed was threefold: greater use of master planning and planning performance agreements, the introduction of ‘red line’ applications,¹ and applying timescales to signing off conditions.

The ‘red line idea’ has emerged in the shape of a new form of planning application, ‘Planning in Principle’ (PIP), contained within the Housing and Planning Act 2016 (HIP 2016). PIP involves a two-stage process whereby the location, uses and amount of development are the principle matters to be determined, with technical detail approved at a later stage. While this may result in less technical detail at an early stage, the principle matters may require a good deal of work, depending on the complexity of the site in question – perhaps not dissimilar to an outline application. The benefit to the SME sector will need to be carefully monitored to assess if PIP really is more advantageous over outline consents, or just an unnecessary complication in the planning system.

The government is also acting on the issue of conditions in the neighbourhood planning bill currently going through parliament. This intends to introduce a measure by which applicants will need to agree to the inclusion of pre-commencement conditions, and to give power to the Secretary of State for DCLG to prohibit conditions which do not meet the tests set out in NPPF.

From the preceding paragraphs, it can be seen there has been a measure of agreement regarding simplifying the process of obtaining planning permission. More controversially is the issue of getting land built out once it benefits from planning permission being granted. The Lyons Report tackled this through recommendations relating to the limiting of the life of permissions and the requirement for a more substantive start on site to keep a permission alive. However, it and the recent House of Lords (HoL 2016) report also put forward a more radical proposal to levy a charge equivalent to Council tax if land was not brought

1 For developments of less than 10 homes, which are not in conservation or similarly protected areas, the principle of development would be established by the submission of an application. This would be accompanied by a plan with the site outlined in red, and a short statement justifying the number of units, intended design and dealing with the likely impacts.

forward for development in a timely manner and that compulsory purchase powers should be strengthened and streamlined to make it easier for public bodies to acquire land again where not being brought forward.

There has been a continuing rise in the award of planning permission for housing whilst housing starts continue to lag significantly behind, with 261,644 permissions in 2015 compared to just 139,680 starts (Bentley 2016). The white paper has also drawn attention to this issue, and proposes to consult on strengthening local authority use of compulsory purchase powers on stalled sites. It is doubtful whether this will prove useful in many circumstances, especially given the limited capacity and appetite for risk of cash-strapped authorities. The more radical approach of taxing unused permissions would likely be much more effective. It would also target speculative landowners, rather than housebuilders who will only develop out sites at the pace they can sell their product and need reasonable land banks for their business model to work. The council tax idea deserves more consideration.

LAND VALUE CAPTURE

Any essay about planning and land availability would not be complete without reference to land value capture. The current mechanisms for securing the uplift in land value, Section 106 and the Community Infrastructure Levy (CIL), only secure a fraction of the value uplift secured by obtaining planning permission. In 2014/15, it is estimated that land value uplift from gaining planning permission amounted to £12.38 billion, while Section 106 and CIL receipts combined captured less than quarter at £2.79 billion (CPC 2017). Nevertheless, Section 106 has been critical in securing affordable housing, and thereby contributing to overall build numbers over recent years. Commentators have put forward ways of reforming these mechanisms, including removing pooling restrictions, a comprehensive review of CIL, a robust methodology to test viability, and an arbitration service for Section 106 negotiations because they can considerably lengthen the process of obtaining planning permission. The government established a review team which reported on these matters in October 2016 (CRT 2016), but no substantial measures were included in the white paper. Further action on making these processes more effective in line with the review team's approach would be welcome.

It could be argued that tinkering with these existing mechanisms is far from an adequate response to the present crisis, and that it is of greater importance to develop more radical approach, which would secure a greater proportion of land value uplift arising from the grant of planning permission. This approach could ensure that adequate infrastructure was there to open up sites and

complement new housing without impacting on the public purse, as well as encouraging communities to accept new development more readily. Such mechanisms enabled the new towns to be built after the second world war, even making substantial returns to the Treasury. In the words of the Royal Town Planning Institute (RTPI): ‘the white paper could have greater impact by including a mechanism to capture rising private land values... the single most useful instrument to channel more value... into housing and infrastructure without public debt’ (RTPI 2017). Enabling local authority development companies, for example, to buy land at existing land value plus a reasonable uplift would go a long way to helping create quality places with appropriate infrastructure.

LOCAL NEED AND AFFORDABLE HOUSING

There is little doubt that the current government’s initial approach to the housing crisis was to put forward policies and funding to increase home ownership. This included defining a new form of affordable housing as ‘starter homes’. Their intention was to seek 20 per cent of homes on all relevant sites as starter homes. These would be subsidised at 20 per cent of market value, with a maximum purchase price of £400,000 in London and £250,000 elsewhere, and available to first-time buyers between the ages of 25 and 40. By requiring this amount as a national standard, irrespective of local area characteristics and local housing need, together with the effect of including these homes within the affordable definition, would have had a direct impact on the ability of local planning authorities to secure affordable homes, including social rented products. The white paper proposals, while they don’t remove starter homes, do appear to indicate a less directive approach in favour of a lower target and local needs.

One of the overriding themes of the Lyons report was that, if the housing crisis is going to be dealt with effectively, there needs to be an expansion of all sectors and tenures. This remains the case, and enabling the planning system to facilitate an increase across all tenures to meet the particular local needs is a critical area for further government policy development. As it is, the current proposals will still have the effect of restricting local authority’s ability to bring forward much-needed council and housing association social rented products through the planning system, in favour of higher cost models and in contradiction to local needs.

RESOURCES AND SKILLS

The concern identified in the Lyons report that councils faced an increasingly difficult task to adequately resource planning services and attract people with a broad range of appropriate

skills has continued to be picked up by various organisations across the industry. Reports including that from the House of Lords (HoL 2016) suggest that local authorities should be able to set their own planning fees in exchange for a commitment to providing a high level of service. In response, the white paper includes a proposal for a 20 per cent increase in planning fees, with a potential for a further 20 per cent for those authorities who ‘deliver homes their communities need’. Although this is welcome, it must be seen against the 50 per cent reduction in local authority planning resources (ibid). However, the government has also indicated that it wishes to introduce an element of competition, by establishing pilot areas where registered providers can process planning applications, leaving determination in the hands of the local planning authority. Going forward, the adequate resourcing of local planning authorities – both financial and the availability of people with the right skills – is vitally important. Other mechanisms for competition do not fit well with the complexities of democratic planning decisions, and seem an unwarranted distraction from the real issues restricting housing delivery.

CONCLUSION

The planning system never was the only or even the most important reason behind the housing crisis especially, compared with other factors, such as the policy of ceasing to build public housing by successive governments over the last three decades. It is certainly true that the way some local authorities choose to use the system to restrict development, either by not bringing forward adequate land through plans (or not bringing plans forward at all), or by failing to cooperate with neighbouring authorities, needed and still needs addressing. Rather than being a contributing factor to the crisis, the planning system, used creatively, can be part of the solution, and even become a key tool in creating great places.

If it is to aspire to be more effective in that role – for which it emerged at the beginning of the last century in the first place – some further bold decisions are required. Chief among these are: dealing effectively with land value capture, properly joined up planning at a ‘city region’ or housing market area level, and real teeth in legislation to get land with permission or being hoarded to be brought forward. Local authorities should then be left to enable quality development which meets local needs and is truly sustainable with adequate infrastructure. That role, together with a more proactive role for local authorities in building, either themselves or with partners, will require more resources, and new ways of addressing the lack of skilled and experienced practitioners in the public sector.

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3. WHAT IS THE SCOPE FOR GARDEN CITIES, NEW TOWNS AND GARDEN SUBURBS?

KATE HENDERSON

INTRODUCTION

Over 110 years, since the first garden city started and 70 years since the first new town was designated, the government has committed to 'legislate to enable the creation of locally accountable New Town Development Corporations, enabling local areas to use them as the delivery vehicle if they wish to. Updating the new towns legislation is the most tangible and positive proposal on planning reform in the recently published housing white paper (DCLG 2017b).

The use of locally-led development corporations would solve many of the problems identified in the white paper, from securing affordability and diversifying the housing market, to securing land value capture and the long-term stewardship of assets on behalf of the community.

However, in order to achieve these outcomes, the new legislation must contain ambitious place-making objectives, including the requirement to deliver long-term stewardship. There will also be a need for a wider package of support, including expertise and the re-direction of existing and new funding streams to create confidence for both local authorities and institutional investors.

The Lyons Review called for a new generation of garden cities and garden suburbs and advocated using development corporations. Through the commitment to update the new towns legislation in the housing white paper, the government has an opportunity to make this ambition a reality.

WHY GARDEN CITIES?

The white paper sets out the scale of the housing crisis and how this impacts on many people's wellbeing. There are three powerful reasons why new garden cities are part of the solution.

First, the scale of the housing crisis means that the current plot-by-plot approach is not sufficient to meet the nation's needs. There needs to be a more strategic approach and delivery of larger-scale developments.

Second, well-planned new communities provide an opportunity to create high quality sustainable places, allowing for the highest sustainability standards, genuinely affordable homes, and better use of infrastructure.

Third, history has shown (for example through the New Towns programme) that when properly managed, and underwritten by the capture of land values, new communities can be good for the economy as well as society.

WHAT IS THE DIFFERENCE BETWEEN GARDEN CITIES AND NEW TOWNS?

Inspired by radical utopianism, and driven by environmental and social concerns, Ebenezer Howard's invention of the 'Garden City' in 1898 was based on a vision of combining the 'advantages of the most energetic and active town life, with all the beauty and delight of the country', in a high quality and sustainable community. The idea was to revolutionise the way people thought about building towns and cities. Ultimately, the garden city experiments led to the conclusion that government needed to take the lead in shaping the post-war programme of new towns.

The New Towns programme became a ground-breaking achievement in the history of large-scale planned development. The new towns were essentially an evolution of the garden city concept, up-scaled in both the size of population and the strategic economic purpose, and with very different methods of delivery, reflecting the specific political and social contexts in which they were developed.

SUSTAINABLE URBAN EXTENSIONS OR GARDEN SUBURBS?

More recently, sustainable urban extensions have been a popular approach to accommodating new development. The benefits of linking into existing infrastructure networks, such as transport, jobs and social infrastructure, include lower short-term costs. Depending on the site, sustainable urban extensions are also sometimes perceived to have fewer environmental impacts. However, unless they are properly planned, urban extensions can result in 'bolt-on estates', as ambitions fall away over time from the original vision. In practice, such bolt-on estates can encourage increased car use, as they are usually little more than dormitories, often without an economic or community centre. However, well-planned garden suburbs or urban villages could address these possible failings, if they follow the Town and

Country Planning Association (TCPA)'s garden city principles, which the Lyons Housing Review supported (TCPA 2014).

In making these choices, the challenge is to determine the best long-term solution. This means thinking at a minimum of 20- or 30-year timescales, rather than in terms of the five-year housing supply requirements set out in the current planning system. Over the long term, substantial growth in housing need is forecast; potentially more than currently anticipated, should the white paper's proposed methodological changes for assessing housing need come into force. If a long-term approach is taken, would endless bolt-on housing estates be the solution, or would a new community better resolve the issues raised by housing growth while also meeting the aspirations of the area as a whole?

WHO ARE GARDEN CITIES FOR?

New garden cities should be inclusive places for meeting the needs of everyone in society, providing affordable homes for young people to bring up a family, and offering older generations the opportunity to comfortably 'downsize'. Garden cities must include genuinely affordable housing for essential workers – whose employment underpins an economy on which we all depend. They must also deliver intermediate forms of tenure for people on average incomes trying to get onto the housing ladder. To achieve this aim, garden cities should set clear targets for different housing tenures, including sub-market housing. Targets should be based on a detailed analysis of not just local needs but also the wider demographic, social and economic trends in the region, and the vital planning objective of socially mixed communities which reflect the diversity in age, household composition and ethnic background of modern Britain. This means a significant proportion of homes will need to be available for social rent and other forms of sub-market housing, such as shared-equity and low-cost or discounted ownership. In Letchworth Garden City today, 31 per cent of homes are socially rented which is part of the town's success (ibid).

DELIVERING A DIVERSE HOUSING MIX

The white paper is emphatic that our current housing delivery model is broken, and sets out a range of policies to 'diversify the housing market, opening it up to smaller builders and those who embrace innovative and efficient methods' (DCLG 2017b). Garden cities provide a unique opportunity to ensure housing delivery is by a diverse range of providers; from development corporations or local authority housing companies in partnerships with housing associations, private sector house-builders and SMEs, through to smaller, citizen-led models such as cooperatives and community land trusts.

The use of locally-led New Town Development Corporations announced by the government would help diversify the housing market. One of the huge advantages of this approach is being able to control the build out rate and ensure a range of housing providers are on site at any one time.

Garden cities provide an opportunity to attract new entrants into house-building, by accessing government programmes such as the Build to Rent Fund, supporting SME house builders, and encouraging a greater contribution from the wider construction industry.

Community co-housing and community land trusts are both models that could be incorporated in garden cities today. This is not a new idea. Letchworth and Welwyn Garden Cities both included co-partnership housing models, and this has been significant in providing a unique form of tenure, combining features of a tenant cooperative with a limited dividend company.

Self and custom-build homes should also feature as an important part of the housing mix in new garden cities, and land should be designed for this purpose; potentially as serviced plots, for example. The white paper supports custom-build homes, stating that government will provide 'greater access to land and finance, giving more people more choice over the design of their home' (DCLG 2017b). Self-build rates in the UK currently lag behind those in Europe, where the model is flourishing. A 2017 House of Commons Library briefing highlights the scale of the gap between the UK and the rest of Europe, with self and custom-build in the UK accounting for 'around 7–10 per cent of new builds while in Austria 80 per cent of housing completions are self-build; in France the figure is nearer 60 per cent' (HoC 2017). Barriers identified in the UK include access to land, availability of finance, the complexity of planning and other regulations. However, new garden cities provide a tremendous opportunity to develop self or custom build housing at scale in Britain.

Private rented homes will also be an important component of the housing offer in new garden cities. Build to rent is given a boost in the white paper, and could provide a positive option for people looking to rent in the private market.

POLITICAL SUPPORT FOR GARDEN CITIES

Since the Lyons Review called for a new generation of garden cities and garden suburbs, the appetite for new large-scale communities from national and local government and the development sector, has grown considerably.

In April 2014, the then Coalition government published the ‘locally-led garden cities’ prospectus, inviting expressions of interest for proposals for new communities with 15,000 or more homes that demonstrate ‘local support’, ‘scale’, ‘connectivity’, ‘robust delivery arrangements’ ‘commercial viability’ and will favour sites with a ‘high proportion of brownfield land’.

The Conservative, Labour and Liberal Democrat parties all made pledges to deliver garden cities in their general election manifestos, and in March 2016 the then chancellor, George Osborne, made a commitment to updating the new towns legislation in the Budget Red Book, as well as publishing a ‘Garden Villages, Towns and Cities’ prospectus, designed to encourage smaller-scale developments.

DCLG’s first announcement of 2017 (DCLG 2017a) has been a sign of things to come by announcing the local authorities that will receive support for ‘garden towns’ and new ‘garden villages’. The prospectus invited ambitious proposals that do not ‘use ‘garden’ as a convenient label’ but ‘embed key garden city principles to develop communities that stand out from the ordinary’.

In February 2017, the housing white paper made clear the government’s commitment to ‘a new generation of new communities’.

THE GOVERNMENT’S CURRENT APPROACH TO SCALE DEVELOPMENT

The government’s proposal to update the new towns legislation could be transformative by putting in place the tools for councils to capture, share and reinvest land values. This would provide the means to create and maintain great places, and demonstrate a commitment to truly sustainable, high quality, affordable and climate-resilient communities.

The government’s programme of support for new ‘garden towns’ and ‘garden villages’ is also a step in the right direction. However, without standards or policy requirements in place, it will be up to those delivering these developments to commit to the garden city principles in practice and ensure that they meet the commitment to quality, affordability and sustainability that their name implies.

WHAT CONTRIBUTION COULD GARDEN CITIES MAKE?

The Lyons Review recommended that, in order to make a difference, we need an ambition broadly equalling the 1946 New Towns programme’s achievements. It is worth highlighting that the UK’s 32 new towns are home to over 2.8 million people today. During their peak, the New Towns programme built almost 20,000

homes per year (Alexander 2009),¹ and we should match that scale of ambition over a 20-year timescale.

As set out by the Lyons Review, to be successful, a new generation of garden cities will need to deliver a social contract with their communities which delivers on their expectations. The Garden City Principles (TCPA 2017), if taken together, provide a clear framework to ensure this happens.

Finally, the new towns legislation has a proven track record on delivery, and, with the right reform, this could be a highly effective way of enabling local authorities to deliver well-designed homes and great local services in vibrant garden cities. How the government reforms this legislation is key. New Town Development Corporations are not just a means of delivering housing units faster; they have the potential to create thriving mixed economies.

Using new towns' powers to deliver garden cities will only be successful if the updated legislation ensures greater democratic accountability at the local level. It must contain ambitious place-making objectives; enable the capture, share and reinvestment of land values; and include the requirement to deliver long-term stewardship.

1 From 1,975, housing completions across the New Towns programme accelerated significantly to almost 20,000 homes per year as the larger-scale third generation new towns began.

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4.

ARE HIGH QUALITY HOMES JUST A UTOPIAN IDEAL?

SIMON MARSH

INTRODUCTION

Building homes is not simply a matter of increasing housing supply, but – as the housing white paper recognises – ‘creating healthy and attractive places where people genuinely want to live’ (DCLG 2017). People benefit in a number of ways from well-designed and sustainable homes, whether it is from the health and wellbeing benefits of living in a secure home with adequate space and ready access to greenspace, or from the financial benefits of lower utility bills and long-term property value. The emphasis in the housing white paper on the importance of good design – including, for example, recognising the value of standards such as Building for Life – is welcome. However, high quality design and environmental standards are too often perceived as a barrier to delivering a substantial increase in housing supply on the grounds of cost.

The Lyons Housing Review (Lyons 2014) made a number of recommendations on housing standards, including on space, energy and the local environment. The subsequent Housing Standards Review (DCLG 2015b) forms the background to this chapter, and the housing white paper also makes a number of proposals in this area, but still leaves some questions unanswered.

This chapter will explore whether high quality design and environmental standards really are such a barrier to increasing the housing supply, or whether there are other obstacles. It will examine this question through the lens of four specific issues: space, energy, water and biodiversity.

SPACE

The average size of new homes in England and Wales is among the smallest in Europe, so it is not surprising that public opinion surveys report a lack of space to meet people’s needs as the key problem for those living in recently-built homes (Ipsos 2013; Garvie 2013).

Research carried out by the Royal Institute of British Architects (RIBA) on the size of typical three-bed homes in England shows that there has only been a small improvement in the size of homes over the previous four years. London, the South East and east of England are the only parts of the country where homes meet or exceed the minimum recommended size (RIBA 2015).

The Lyons Housing Review recommended that space standards should be introduced across all tenures and that work should be undertaken to establish the most appropriate standards and any local flexibilities (Lyons 2014). Following the Housing Standards Review, the government introduced a new ‘nationally-described space standard’, which replaced the existing different space standards used by local authorities. It is not a building regulation and remains solely within the planning system as a new form of technical planning standard. Where a local authority identifies a need for an internal space standard, it must justify this through the local plan, taking into account need, viability and timing (DCLG 2015b).

This approach has the benefit of replacing a complex set of different requirements throughout the country with a single space standard. However, it represents a very weak form of standard as it depends entirely on local planning authorities adopting it through the local plan process, which involves a complex viability test: a further regulatory barrier to widespread adoption. The justification is presented as a deregulatory approach which will result in cost savings to business without attempting to monetise the social benefits (DCLG 2015a). It is essentially a voluntary measure.

In their global review of voluntary approaches, McCarthy and Morling (2015) conclude that the impact of most voluntary schemes is limited, and that they are rarely – if ever – an effective substitute for regulatory or fiscal measures in seeking to achieve public policy objectives.

Revealingly, the economic assessments carried out for the Housing Standards Review assumed that 80 per cent of the additional costs of building to higher space standards are recouped through higher market value (DCLG 2015a). However, the extensive assessment did not consider the most important question: what would be the economic, social and environmental costs and benefits of a mandatory standard?

The Lyons Review noted that space standards would have the greatest effect on the affordable end of the market, possibly limiting choice for consumers. Perhaps in response to this issue, the housing white paper proposes a further review of the standard

‘to ensure greater local housing choice’, and implies a desire to introduce smaller homes in some situations (DCLG 2017).

It is worth reflecting that very similar arguments were used when outlawing back-to-back houses was proposed in the mid-19th century (Burnett 1986). Society’s notion of what is acceptable was changing then, and it will continue to change; the question is whether we can take a perspective that recognises the wider benefits for people’s quality of life and resolves the arguments over cost and regulation.

ENERGY

Energy-efficient new homes bring clear benefits to consumers in lower fuel bills, and are also a key part of strategies to reduce dangerous levels of greenhouse gas emissions.

Since the adoption in 2006 of the target of zero carbon homes for new build by 2016, significant progress was made, including through the adoption of greater energy efficiency standards in building regulations. However, in the last few years the trajectory seems to have gone into reverse. The Code for Sustainable Homes was abolished in 2015, and the government announced that it did not intend to proceed with the Allowable Solutions carbon offsetting scheme, or the proposed 2016 increase in on-site energy efficiency standards (HMT 2015). Subsequently, the Zero Carbon Hub was closed.

The housing white paper states that work has started on a review of the cost effectiveness of current energy performance standards, which will have due regard to domestic fuel poverty and climate change targets (DCLG 2017). This is welcome if it will lead to renewed progress on energy efficiency, but, as with space standards, the long-term benefits to households need to be properly taken into account.

Although Britain’s exit from the EU may remove the requirements of the Energy Performance of Buildings Directive for all new buildings to be ‘nearly zero’ by 2021, buildings are still a key area for achieving targets under the UK Climate Change Act 2008 (RICS 2016).

The Climate Change Committee’s (CCC) Fifth Carbon Budget noted that although progress had been made since 1990 with reducing greenhouse gas emissions from the building sector, future emissions scenarios are dependent on policies such as zero carbon homes. Delivering the CCC’s scenario ‘would therefore require strengthening of current and planned policies to ensure they deliver in full’ (CCC 2015).

Building zero carbon homes requires novel technologies and so is technically demanding, yet the setting of a clear and challenging target by successive governments drove significant investment and innovation by the industry in finding workable and affordable solutions. There is evidence that the additional costs of building to the zero carbon standard have fallen over time. Analysis carried out by the Zero Carbon Hub suggests that in many of the scenarios considered, costs roughly halved between 2011 and 2014, and were likely to continue to fall (ZCH 2014).

Furthermore, the evidence indicates that new homes built to 2013 energy efficiency standards could be up to 57 per cent cheaper to run compared to improved Victorian homes of a similar size, and that savings for consumers could be even larger for zero carbon homes. The balance between the upfront costs and the long-term benefits to consumers needs to be properly factored into policies, rather than focussing purely on costs to business.

Recent research by the Royal Institute of Chartered Surveyors highlights the vital significance of the design of policies and standards for steering the industry towards ambitious CO₂ emissions reductions, and shows that there is wide acceptance among stakeholders that zero carbon standards are viable in cost terms (RICS 2016). However, both continuing construction costs savings and running costs savings are at risk in the current policy environment, to say nothing of the cost of carbon saved. The forthcoming Clean Growth Plan will need to set out a clear pathway to delivering energy-efficient homes at scale.

WATER

Like energy, water-efficient homes potentially reduce utility costs for consumers as well as reducing environmental impacts. Water standards were also subject to the Housing Standards Review. A water efficiency standard of 125 litres per person per day was introduced by the 2010 Building Regulations, and the new approach introduced in 2015 introduces a higher, optional standard of 110 litres per person per day. As with energy and space, the optional regulations can only be applied where there is a local plan policy based on evidenced local need, and where the viability of development is not compromised.

Water standards differ significantly from energy in that there is a clear justification for a spatially-differentiated approach; the availability of water resources and the impacts of their extraction on habitats and land use varies across the country. The Environment Agency defines areas of water stress in England, typically in London, the South East and East Anglia, which account for around 40 per cent of all new homes (DCLG 2015a).

The optional standard is equivalent to level 3 to 4 of the Code for Sustainable Homes Standard. However, higher standards equivalent to code level 5 to 6 were not considered acceptable as they, in practice, require new homes to incorporate grey-water/rainwater harvesting. This is relatively expensive at £900 to £2,700 per unit according to the impact assessment, and also has ongoing cost implications in relation to maintenance and energy use (DCLG 2015a).

Again, the new standard is presented as a deregulatory, cost-saving measure. Yet the additional costs of building to the optional standard are small, and it is estimated that it will fall to zero over ten years as supply chains adjust (DCLG 2015a). This suggests that the viability test will prove less of a barrier to uptake than for zero carbon, but also raises the question as to why the optional standard was not made mandatory at least in all water stress areas.

The housing white paper does not explicitly address water standards, but proposes to keep regulatory requirements under review, which includes 'looking at further opportunities for simplification and rationalisation while maintaining standards' (DCLG 2017).

BIODIVERSITY

People greatly value access to nature, with surveys showing that 90 per cent of the UK population feel that our wellbeing and quality of life are based on nature and biodiversity (EC 2013). There is an increasing body of evidence that points to the positive social benefits of access to quality green infrastructure which includes biodiversity, including for health and wellbeing. This may also extend to the enhanced value of homes (Rolls 2014).

However, many species – which are the building blocks of ecosystems – are undergoing significant decline: 47 per cent of urban species have declined over the long term between 1970 and 2013, with 31 per cent showing strong or moderate declines. The picture is similar over the short term; between 2002 and 2013, 49 per cent of species declined (Hayhow 2016). Although the National Planning Policy Framework (NPPF) strongly supports biodiversity enhancement, there are now no national standards for biodiversity in housing developments following the abolition of the Code for Sustainable Homes.

The housing white paper proposes to roll out a new – although not yet properly tested – strategic approach to streamline the licensing system for managing great crested newts. Rather than see nature as a barrier, though, new housing should be seen as an opportunity to enhance and create new biodiversity. The housing white paper's

support for high quality environments in garden cities, towns and villages is therefore welcome (DCLG 2017). The greenbelt also has great potential for giving people access to green space, and where it is exceptionally released for development, the proposal to ‘make compensatory improvements to the environmental quality or accessibility of remaining greenbelt land’ is certainly worth exploring (ibid).

Biodiversity is a challenging issue to regulate for, as it spans the fabric of the home (nest bricks, for example), the curtilage of the building (wildlife-friendly garden planting) and the wider environment (publicly-accessible green infrastructure). Biodiversity is also highly context-specific. In addition, it is challenging to objectively assess the biodiversity quality of new development across the board; while there are a number of examples of successful outcomes, the Royal Society for Protection of Birds’ experience of working with a major housebuilder suggests that these examples are exceptions rather than the norm.¹

Many biodiversity interventions are low-cost, but could make a significant difference if taken up on a large scale. One example is the recent development of a new low-cost swift brick, designed to be an attractive nesting space for swifts and house sparrows and to be easy to install. The development of this product highlights the importance of innovative design, partnership working and production at scale.

For biodiversity, technical knowledge, rather than cost, appears to be a barrier to more widespread good practice. As the Lyons Review noted, a number of submissions highlighted the importance of ensuring local authorities retain the skills and expertise necessary to maximise opportunities. Yet the evidence suggests that, along with other specialist disciplines, ecologists are spread very thinly in local authorities, many of which do not have either the capacity and/or the competence to undertake the effective, or even lawful, assessment of planning applications where biodiversity is a material consideration (Oxford 2013). The housing white paper’s proposals to allow local planning authorities to raise more fee income from planning applications is therefore welcome if this money can be used to support specialist functions as well as front-line planning staff.

CONCLUSION

High quality homes are not just a utopian ideal; there are many examples of developers who are already building them. The issue

1 See <http://www.rspb.org.uk/our-work/conservation/conservation-projects/details/411790-kingsbrook-new-standards-in-wildlifefriendly-housing>

is rather whether high quality can become the norm for the mass market, and whether high quality can be achieved across a range of criteria, not just a few, without constraining supply. This essay suggests that cost is not necessarily a barrier to the wider uptake of high quality standards, and needs to be seen in the context of the benefits to both people and the environment, whether they can be monetised or not. Technical expertise is important, but possibly the most significant issue is a stable long-term policy direction, supported by a well-considered national regulatory framework, which will drive innovation and lower costs across the sector. Although the housing white paper makes some positive proposals, with the promise of more to come, it falls short of a more ambitious approach to quality standards which would help to achieve this.

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5. WHAT MORE CAN THE HOUSEBUILDERS DO?

MARK CLARE

INTRODUCTION

Since the late 1970s, annual housing output has failed to meet demand, and this has led to the severe housing shortages that we face today (Shelter 2014). As a result, house prices have continued to rise, those who are less well-off are often poorly provided for, and the quality of the stock that exists, in some cases, is below an acceptable standard.

Added to this, we have an industry that builds using very traditional methods and is heavily reliant on an ageing workforce (Farmer 2016). It has limited appeal for new workers, and does not have the infrastructure to deliver the level of training and new learning required. Consequently, Britain has become very reliant on migrant labour from abroad (ibid).

Over the last few years, there has been a strong recovery in output following the financial crash of 2007/8. This has been supported by very low cost mortgages, like government programmes such as Help to Buy, and some improvements to the planning system. However, there are still a number of uncertainties ahead, including higher borrowing costs, inflation and a potential squeeze on skills. It would be wrong to assume that this output will continue to rise without further significant interventions.

The solutions to our housing crisis are many and varied and will affect every participant from national and local government, to land owners, mortgage providers, affordable housing providers and the considerable supply chain to the industry. This paper focusses on the role of housebuilders and what more they can do.

PROGRESS TO DATE

The original Lyons Review set out a detailed plan of how 200,000 homes could be built a year in England by 2020 (Lyons 2014). In 2015/16, the total delivery of homes, including refurbishments, demolitions and conversions, was 190,000, of which 164,000 were

new build (DCLG 2016). This is an increase of 52 per cent from 2012/13, with new build comprising 70 per cent of the increase (ibid). If this rate of increase was sustained, the 2020 target would be achieved.

The biggest contributor to the growth from new build has been from larger house builders who have increased their output by an estimated 57 per cent from 2013.¹ If they were to continue to grow at that rate, they would double their output by 2019. However, sustaining that rate of growth is considered to be very unlikely, and to achieve the balanced recovery envisaged by the Lyons Review, it is important that we see similar rates of improvement in small and medium-sized enterprises (SMEs) and for new sources of supply such as build to rent.

This paper focusses on five key areas:

1. driving output harder
2. an industrial strategy for housebuilding
3. increasing the number of SME housebuilders
4. skills availability and training
5. quality and not just quantity.

DRIVING OUTPUT HARDER

Housebuilders had little choice but to significantly reduce their capacity after the financial crash. While they have grown their capacity since then, given the risks outlined above, it is unlikely that housebuilders will deliver the levels of growth seen over the last few years. Perhaps the biggest opportunities to deliver higher levels of output in the short to medium term are by increasing the number of producing ‘outlets’ from existing land holdings,² and to increase the speed of build through a focussed ‘industrial strategy’.

The Lyons Review called for more transparency of land holdings from all owners, including developers, which is supported in the

1 Estimate calculated by the Home Builders Federation (HBF) as follows: National Home Building Council (NHBC) data suggests that national builders (2000+ per year) were responsible for 52 per cent of NHBC registrations in 2012/13, growing to 59 per cent in 2015/16. If you apply these market shares to the new build completions recorded through the Net Supply of Housing statistics, it's possible to estimate that the nationals were responsible for approximately 62,000 completions in 2012/13. By 2015/16 it was around 97,000: an increase of 57 per cent. This estimate relies on the NHBC definition of large builders, which has then been applied to the Department for Communities and Local Government (DCLG) figures.

2 An outlet refers to a sales operation of which there may be a number on larger sites.

government's housing white paper. This is still a critical ingredient to understanding how output could be increased and where blockages exist: i.e. infrastructure.

Larger housebuilders have agreed to review all of their big sites to identify opportunities where output can be increased. This could involve adding new outlets on larger sites, or parcelling up surplus land and selling it to other developers or smaller housebuilders. Alternatively, changing the tenure mix on larger sites to include private rented or shared ownership properties would accelerate delivery. Importantly, this process will enable local authorities to understand the reality of their own plans and whether they are deliverable without further action.

To deliver the full benefit of such a substantial exercise it must be extended to cover the whole industry, including medium sized builders, residential providers and financial investors. The results of this work must be assimilated by local authorities and used to provide an update to their housing delivery plans, and, importantly, to drive additional action where those plans fall short.

INDUSTRIAL STRATEGY FOR HOUSEBUILDING

Historic methods of construction are still employed to build the majority of homes in Britain. This provides the maximum flexibility in terms of what is built, is seen by the industry as lower cost, and meets the desire of consumers and planners for 'conventional product'.

In reality, other than the external structure itself, most major components are manufactured offsite. This can include foundations, roofs, window and door sets, and all internal fittings. Even with the external structure, which is largely 'brick and block' built, there is a rapidly increasing use of timber or steel framed solutions.

The level of pre-fabrication increases substantially where apartments are built, where the basic structure will often be steel or concrete frames with various types of cladding solutions or a form of 'modular' build. Increasingly, the internals of these buildings are fabricated offsite using 'pod' methodology for bathrooms, kitchens and other standard requirements such as lifts.

As the requirements to improve quality, increase the speed of build and reduce reliance on scarce on-site skills, the industry has begun to industrialise how it builds. Perhaps the biggest barrier to further rapid change is the lack of any common standards and cross industry cooperation. For industrialisation to be effective, developers, suppliers, lenders, regulators, research bodies and

warranty providers must come together as a group to set out an industrial strategy for the future of the industry.

This was successfully delivered when the industry went through a significant set of changes to deliver lower carbon homes, which did have a transformational effect on the quality of homes being built. This was facilitated by the Zero Carbon Hub, which was an industry/supplier and government group set up to deliver.

The objectives of an industrial strategy group should be to drive innovation in product delivery, and to improve the quality and speed of build, while using the scale of the opportunity to drive down costs. Within these objectives, it would harness the opportunities provided by digitisation such as Building Information Modelling (BIM) and explore the scope to ‘pull through’ production techniques used in other industries and in other countries. The results of this work would then be available to all developers, including SMEs, through the extensive supply chain that exists.

While the housing white paper refers to ‘off-site’ manufacture, it doesn’t offer solutions as to how it might be adopted by the industry. We need to go much further and faster, with the aim of driving innovation into the whole supply chain, by engaging developers to deliver.

INCREASING THE NUMBER OF SME BUILDERS

The Lyons Review made clear that, without a reversal in the decline of smaller builders, it would be difficult to deliver the rate of increase in output required overall. In 1988, 40 per cent of the output from housebuilders came from SMEs, while today it is just 12 per cent (HBF 2017). In the period between 2007 and 2009, one-third of the remaining SME builders ceased to operate as a result of the impact of the financial crisis (ibid). While it would be useful to mandate SMEs to lift their output levels, it will not happen without significant further intervention from government.

From research undertaken by the Home Builders Federation (HBF 2017b), the two main challenges for smaller housebuilders are access to consented land, and financing. These factors, along with the increase in complexity of the industry, have significantly reduced the attractiveness of the sector for smaller companies because of the risks involved.

This research outlines a number of suggested actions outlined that could allow SME housebuilders to increase production, and these should be followed up by policymakers. However, the key focus of attention must be the delivery of smaller consented sites by local authorities, packaged together with some form of ‘risk

capital', or guarantees to those who would provide it on their behalf by government.

The opportunity for SMEs could be delivered through a 'portal' hosted by the local authority and expanded to include smaller sites released by larger housebuilders (listed on the Home Builders Federation Landshop site (HBF 2017a)) and those available from other land owners in the location. This would then provide a ready pool of sites of say under 20 units, for SMEs and custom builders to deliver.

The government's white paper refers to the actions already taken to make planning easier and to provide funding for SMEs. There was consideration given to driving delivery through a register of consented sites held by local authorities as part of their delivery obligations, but this has not been pursued. Without such a focus, it is unlikely that the number of SMEs will change materially.

SKILLS AVAILABILITY AND TRAINING

One of the most significant challenges for the whole development industry is the quality and availability of skills it relies on, and this is inextricably linked to the delivery of an industrial strategy for the sector.

Surveys have demonstrated that the industry is not seen as an attractive place to work for young people (NHBC 2015).³ As a result, the average age of the existing workforce is increasing. Estimates for the whole construction industry show that around 20 per cent of the workforce are within 10 years or less of retirement, but that only around 3 per cent are aged between 16 and 19 (CITB 2013).

Historically, the gap between supply and demand for resources has been filled from overseas, but this may be harder to achieve in future, depending on the outcome of Brexit negotiations. It is also worth noting that there are significant differences between regional markets in terms of reliance on overseas labour; for example, the South East would be impacted disproportionately if restrictions or other factors meant that fewer workers from Europe were coming to Britain.

3 The 2015 NHBC Foundation report, *A career of choice: Attracting talented young people into house building*, found that only 24 per cent of a sample of 14 to 22 year olds were interested or very interested in working in building or construction. The most commonly cited reason for this lack of interest when considering housebuilding as a career (28 per cent) was the overall image of the industry. A 2013 CITB study showed the appeal of construction was low among 14–9 year olds, scoring 4.2 on a 10-point scale.

Predictions suggest that the number of additional skills required by the housebuilding industry to hit a 'run rate' to deliver the one million homes target from government would be around 100,000 more by 2020,⁴ an increase of 20 per cent to 25 per cent.

Housebuilders have already taken the initiative and come together to form the Home Building Skills Partnership (HBSP) to try and tackle these shortages. The first area of focus for this group is to make the industry more attractive to young people by providing greater clarity on key roles, the training on offer, and the career paths available. These requirements must take account of the role that technology and innovation will have on the sector.

Perhaps the main barrier to this programme delivering on its aims is the diverse nature of the industry itself. It includes developers of all sizes, their many subcontractor suppliers, equipment suppliers, further education providers and the government agencies who have access to funding. The relationship between the Construction Industry Training Board (CITB) and the industry is critical to success, and this should be re-examined to ensure there is a 'laser like' focus on housebuilding and the funding required – i.e. a sector deal for housebuilding.

Working together, the HBSP and the CITB must define the skills required by the industry over the next five years, taking account of output growth, retirements and the potential loss of a proportion of overseas skills. It must review the standards required for key skills and how that can best be delivered more quickly, without compromising capability. Lastly, it will need to drive a programme of localised training facilities, working with existing and new training providers.

The housing white paper does acknowledge the challenge around skills, but mainly refers to existing mechanisms to grow the workforce (DCLG 2017). What is needed is something far more substantial led by the industry, that quantifies the size of the challenge, looks at different training options and engages with providers to deliver, all supported by the right funding arrangements.

QUALITY AND NOT JUST QUANTITY

While the challenge laid down to the industry is often described in terms of the number of additional homes required, it is key that this is balanced with a drive to improve the quality of what is delivered. This is critical to the industry if it is to build its reputation with

4 HBF internal projections

customers and local communities, and deliver the sort of places in which people want to live.

The first element of this is around design, and today there is a sizeable gap between what the best developers deliver and others. In the Lyons Review it was felt that schemes like Building for Life, that focus on good design and delivering great places, should become mandatory for local authorities to consent to planning applications (Lyons 2014). This remains a key recommendation and should, at very least, be introduced on all public sector land. While the white paper says that Building for Life should be taken into account when considering the planning process, unless it is made mandatory and promoted through local authorities, its rollout will be patchy.

The scheme is currently in the process of being relaunched. If substantial support was given by government to encourage all local authorities to insist that the tool is used, it would quickly take off as a standard, alongside robust building regulations that would drive up the quality of place and not just the houses themselves.

The second element to improving quality is to make more information available to customers who are interested in buying new build. The industry is constantly reviewed and monitored by third parties, and a large amount is known about the quality of what is delivered based on the data collected. At present, customers have very limited access to this information unless it is provided by the housebuilders themselves.

It would seem sensible that an independent review from a consumer organisation could make recommendations as to what should be provided to customers and in what form. As part of this 'overhaul', there should be a review of customer satisfaction surveys used and of the Consumer Code. It should also consider whether there is a need to 'beef up' arrangements to protect customers, given recent events. Done well, these measures would inevitably raise standards across the sector as individual companies compete for customers locally.

CONCLUSIONS

While much progress has been made in the last few years, more must be done to maintain and build on the momentum achieved.

To drive output harder across the industry, transparency of land holdings, a review of all major sites and a better understanding of blockages to development should be used to inform local authority housing delivery plans. The industry must come together to deliver a coordinated industrial strategy to deliver faster build and lower costs while reducing the requirement for scarce resources. To help

diversify the industry, packaging up and delivering consented land for SMEs with simple financing options attached will be vital.

To tackle the workforce challenges in the industry, the HBSP should be given the mandate and all the necessary support from government to deliver the quality and quantity of skills required by the sector, against a common set of requirements, with the funding to make it happen. Finally, it will be important to help the industry to raise the quality of what is built by making tools like Building for Life mandatory, providing customers with better information about developers' performance, and delivering more support when things go wrong.

Meeting housing need over the medium to long term will require concerted action and interventions across a whole range of areas. It will need action from all involved across the industry and government working in partnership to build the homes our country needs.

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6. WHAT ARE LOCAL AUTHORITIES DOING AND WHAT MORE COULD THEY DO TO ADDRESS THE HOUSING CHALLENGE?

JAMES BAILEY

INTRODUCTION

The long-awaited housing white paper signals the government's commitment to tackling England's housing crisis. However, while stronger leadership from government is welcome at a strategic level, it is local authorities who are uniquely positioned to take decisions on housing and development and play a leading role in shaping their places (PwC 2016a).

As long-term stakeholders in their communities, local authorities can take a holistic approach to housing and development, building alignment around common goals, creating collaborative partnerships, and acting as custodians of quality in a way that other organisations cannot. Local authorities' responsibilities for statutory housing strategies and local development plans provide them with some of the key levers needed to shape development. They are particularly well-placed to leverage their land assets and access low cost sources of finance in order to make an active contribution to increasing housing supply directly, creating strategic partnerships that unlock the delivery of new homes, and supporting market diversification. Local authorities therefore have a vital role to play in the government's headline ambition: 'fixing our broken housing market' (DCLG 2017a).

Our annual survey of local authorities shows that councils themselves are ambitious in terms of the role they could play in delivering homes, with 85 per cent saying they would like additional housing powers (PwC, 2016b). However, since the Lyons Review recommended that local authorities and their communities should be provided with the tools, flexibilities and funding needed to build the homes their areas needed, the financial position of local councils has become more precarious and yet ever more important.

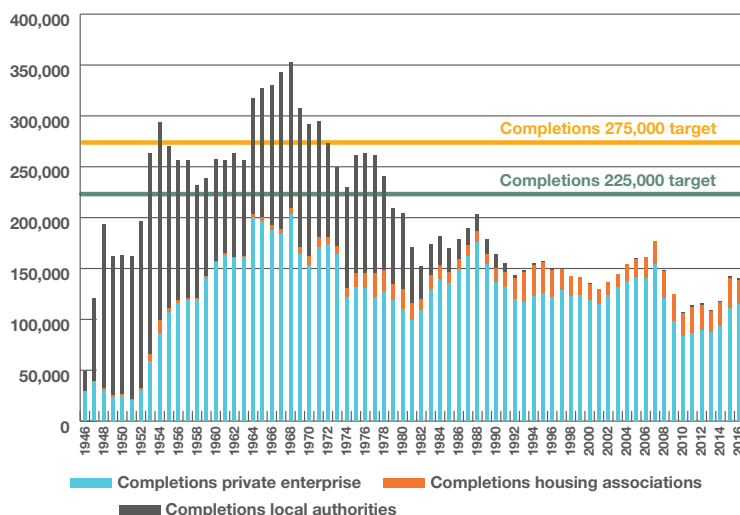
Their strategic roles are recognised clearly in the housing white paper, with councils' responsibilities for planning and proposals for a new housing delivery test receiving particular focus. However, the combination of the new methodology for calculating housing need and the housing delivery test proposed in the housing white paper, risks holding local authorities to account without giving them the powers they need to deliver. This challenge is also exacerbated by the wider backdrop of pressures on funding, skills and capacity that councils are facing. This essay considers what steps local authorities are beginning to take to address the housing challenge and, crucially, where there is potential to go further, and how government can facilitate this.

LOCAL AUTHORITIES' CONTRIBUTION TO HOUSING SUPPLY

Local authorities currently have a much diminished role in terms of direct contribution to national housing supply. Of the 140,660 homes that were completed in 2016, only 1.5 per cent were delivered by local authorities. This is in stark contrast to 1970, when local authorities in England delivered approximately 45 per cent of the 291,790 permanent dwellings completed (figure 6.1).

FIGURE 6.1

There has been a significant decrease in the number of homes built by local authorities over the last 70 years
Number of historic housing completions in England, by provider type, 1946 to 2016



Source: DCLG (2017b)

Yet, as acknowledged in the housing white paper, the country needs to deliver between 225,000 and 275,000 homes each year in order to keep up with population growth and begin to address long term undersupply (DCLG 2017a). As figure 1 illustrates, these levels have only ever been achieved during the post-war period where local authorities have contributed significantly towards supply directly.

While their current contribution is low compared with decades past, some councils have begun to deliver more homes directly, and many are beginning to gear up to deliver more homes in future.

When the self-financing reforms for the Housing Revenue Account (HRA) were introduced in April 2012, many believed it would offer a route for the 165 stock-retaining local authorities to deliver increased volumes in new development. However, the reality has been rather different for two key reasons. First, a cap on borrowing that local authorities are allowed to make in relation to directly owned housing stock, which is unrelated to the value or income-generating potential of that stock, has eroded investment capacity. Second, policy changes – such as to rent policy, welfare reform and Right to Buy – have, amongst other impacts, undermined revenue from rents.¹

As a result, confidence in local authorities for the deliverability of long-term business plans has been undermined, leading to increasing uncertainty that inhibits investment and plans for growth. This is compounded by constraints on the capacity and capability of many local authority in-house development and planning teams, due to the impact of the budgetary squeezes since 2010.

The importance of flexibility in the HRA debt cap is widely recognised, to encourage the release of land which would otherwise not be attractive to private developers, and to unlock additional borrowing capacity where other providers find themselves more highly leveraged (PwC and the Smith Institute 2013). While many local authorities have sought new ways since then to deliver developments, in order to free up local authorities further, the government should, at the very minimum, allow bespoke agreements to increase individual debt caps in exchange for commitments on increased delivery numbers of homes in areas of identified need, as recommended in the Lyons Review (2014). The government should also explore flexibilities

1 On rent changes, local authorities are required to reduce rents by 1 per cent per annum in real terms for four years, as opposed to being permitted to increase them by Consumer Price Index (CPI) plus 1 per cent per annum, with a net reduction in rents of around 12 per cent over the four-year period.

in terms of introducing new HRA pooling mechanisms across combined authorities.

In addition, there must be a review of how current housing policies such as Right to Buy, social rent cuts, and welfare reform are impacting, and will impact on, investment capacity and confidence within authorities who still hold significant housing stock.

BUILDING MORE HOMES THROUGH ARM'S LENGTH BODIES

In addition to a shortage in the quality and supply of homes across all tenures, a combination of factors – including HRA borrowing restrictions, skills and capacity shortages, and uncertainty around longer term funding streams – mean that local authorities are becoming increasingly entrepreneurial in how they perceive their role and purpose with regard to housing and place-making.

Utilising powers in the Localism Act (2011), more than a third of local authorities (98 out of 252) either have already established, or are seeking to establish, arm's-length housing companies (Barnes 2016). It is notable that as well as urban authorities (Liverpool, Sheffield and Bristol, for example), county authorities (such as Surrey and Essex) are also developing plans for how they can use their capital assets and access to low cost capital finance (via the Public Works Loan Board) to generate long-term income streams, as well as provide a quality product that can meet local housing need.

There is also further evidence of experimentation from a product perspective. Delivering via an arm's-length company allows local authorities the scope to provide housing across a wider range of tenures than they could otherwise, including market and sub-market rent. For example, Telford and Wrekin Borough Council has practically completed 132 houses for market rent across two sites – all of which are currently occupied – and construction has commenced on a further three sites which can deliver 124 units. Under these models, units are typically delivered by contractor partners, particularly where local authorities lack the skills, capacity and expertise to deliver units themselves.

The greater flexibility that these models allow, means that local authorities can become far more responsive to addressing local housing market failures and be more adept at meeting housing need and demand, as well as controlling the quality of the end product and the terms of tenancy and rental agreements.

Many of the companies that have been established to date are in their relative infancy, and the scale of ambition varies widely. The majority tend to be targeting delivery on smaller sites (such as garage sites) with capacity for fewer than 150 units per annum.

However, there are examples of some authorities proposing more ambitious plans. For example, the London Borough of Croydon has recently finalised plans to establish a wholly-owned company (Brick by Brick Croydon Limited) with a view to delivering over 1,000 units, of which 50 per cent will be affordable housing. This compares with affordable housing provision on other mixed tenure schemes across the borough between 2011 and 2015 of 23 per cent. These proposals therefore represent a positive increase in much needed affordable housing in the borough.

The government's move to endorse these delivery models in the housing white paper is welcomed. However, greater clarity on how its caveat that tenants who occupy new affordable units are offered equivalent terms to those in council housing is required.

It is recommended that government provides a stable policy environment that allows local authorities to pursue these models in a controlled, risk-aware manner, while simultaneously encouraging innovation.

CREATING STRATEGIC PARTNERSHIPS

Local authorities also have a critical role to play in enabling development through establishing strategic partnerships with the private sector and housing associations, and with other local authorities and the wider public sector. The nature of these partnerships can be wide-ranging and structured for a range of purposes – for example, to utilise Right to Buy receipts, to further regeneration and place-making ambitions, or to identify and secure planning on potential development sites. We are also seeing more innovative practices emerging as local authorities seek new ways to invest in housebuilding.

Meridian Water, in the London Borough of Enfield, is one example of a local authority taking a lead role in unlocking sites that can deliver long-term strategic objectives. Meridian Water is a redevelopment of over 80 hectares of brownfield industrial land that will deliver 10,000 mixed tenure homes, as well as new shops and facilities, over a 20-year period.

To enable this development, the council has taken the lead with on-site assembly, borrowing from the Public Works Loan Board to finance site acquisition. Further support from the Greater London Authority's Housing Zone initiative will be utilised to meet some early infrastructure requirements, and Barratt Homes has been appointed as the council's preferred development partner. Key aspects of the deal include the provision of a minimum land value to support the council to recover and make a return on its investment outlay, as well as a number of other mechanisms to

provide the council with multiple sources of ongoing revenue from the scheme.

Similar strategic partnerships for large-scale developments will need to be established elsewhere across the country as demand requires and resources allow. For local authorities to play their full potential role in these partnerships, it will be important that they have access to funds and powers to acquire land and deliver enabling infrastructure.

In this context, the government's support for locally accountable New Town Development Corporations and reforms to Compulsory Purchase Orders (CPOs) are welcome. Opportunities to capture uplifts in land value, and use these to fund the delivery of enabling infrastructure, will be integral to sustainable place-making at scale. The proposed review of 'best consideration' requirements is also welcome, particularly where it allows additional 'value' in a wider place-making sense to be secured. However, more detailed proposals on how these will be implemented is needed to enable local authorities to plan long-term.

From an infrastructure perspective, the range of funding packages proposed by the government – including the £2.3 billion Housing Infrastructure Fund and the £3 billion Home Building Fund – will be vital in providing support to local authorities and their strategic partners to unlock and accelerate new housing opportunities. An injection of funding, however, is not the only way in which government can support local authorities to pursue these models of delivery. There is a need to explore options for financial incentives, such as reduced interest rates via the Public Works Loan Board, where local authorities are able to produce viable and deliverable investment plans.

Local authorities are also increasingly partnering with neighbouring authorities, creating scale through devolution deals and combined authorities. The wider powers and funding available to combined authorities for skills, employment and transport mean that they can take a more holistic approach to development within the context of broader good growth objectives. Opportunities for bringing together other public sector bodies, such as the NHS and Ministry of Defence, to pool assets and identify areas where new housing might be delivered, also offer significant potential. This is recognised by all 10 of the combined authority deals published between November 2014 and March 2016, where public land commissions and/or joint asset boards have been established (Snelling and Davies 2016; Sandford 2016). Where these commissions can identify a pipeline of potential developments, this will give the private sector confidence to invest in the supply chain. Integrated approaches, which include a focus on the skills and capabilities required to make the most of

these opportunities, should form part of combined authorities' wider asks of government.

DIVERSIFYING THE MARKET AND IMPROVING PRODUCTIVITY

The housing market requires diversification in terms of supply and improvements in productivity if the number of new homes required is to be delivered.

Currently, volume housebuilders have a circa 60 per cent share of the housing market – up from 31 per cent in 2008 (DCLG 2017a). In part, this has been driven by the reduced output from small and medium enterprises (SMEs) (ibid).² However, SMEs have an important role to play in bringing forward key developments on smaller sites, in which larger housebuilders are unlikely to invest.

The housebuilding sector is also less productive than the wider economy. It is estimated that modern methods, for example modular construction, could deliver units 30 per cent quicker and 25 per cent cheaper (ibid), while, as Murphy and Dromey in this collection highlight, there are significant skills shortages which need to be addressed.

Local authorities have a key role to play in enabling the step-change that is needed in terms of productivity. This includes providing access to finance and pipelines of development to underpin the levels of upfront investment required by business to build the factories needed to deliver improved construction methods, as well as working closely with both business and local education and training providers to deliver the skills needed (PwC 2017).

The ability to support SMEs through breaking up larger sites and structuring deals on a deferred payment basis offers the potential to diversify local markets. Where serviced plots can be provided this can further reduce risk for, and help build the capacity of, SMEs. Authorities can also utilise the government's recently announced £1.7 billion Accelerated Construction programme, which aims to speed up housebuilding on public sector land through partnerships with private sector developers, including SMEs.

However, in addition to access to land, access to finance is also a common barrier for SMEs. Despite that, only one combined authority has agreed specific 'housing loan' powers and responsibilities, although at least four more are now discussing this. The Greater Manchester Combined Authority has created a

² Note, the number of homes registered by small builders is down from 44,000 in 2007 to 18,000 in 2015.

£300 million Housing Investment Fund that will invest in housing development over the next ten years. The intention is to address constraints in the residential financing market – particularly with regard to development finance – to unlock and accelerate delivery of new homes. A small loans fund to provide flexible lending arrangements when considering loans of less than £2 million has also been established. To date, the fund has committed £97 million to build 1,184 units across nine sites (GMCA 2016).

CONCLUSION

This essay has set out the critical role local authorities have to play in overcoming today's housing challenges. While not discounting the importance of national leadership, at a strategic level, local authorities have an influential role as planning authorities and long term stakeholders in their communities. As owners of land with access to low cost finance, they are uniquely placed to make a direct contribution to supply, create strategic partnerships and help diversify the market.

The government has signalled its intent to empower local areas through bespoke deals, but local authorities will need to embrace this opportunity by demonstrating the bold leadership and innovation that is needed to fix today's housing crisis. Given their unique position, local authorities should challenge themselves to be more ambitious in relation to housing, playing a strategic role in transforming their local markets to make a significant impact locally and nationally.

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7. DO HOUSING ASSOCIATIONS HOLD THE KEY?

DAVID ORR

INTRODUCTION

The 2016 Autumn Statement and recent housing white paper demonstrate the ambition of the government to increase housing supply. As the government themselves acknowledge, they will only achieve their housing ambitions if all parts of the sector play their part, and the contribution of housing associations will be crucial.

Last year housing associations built 40,000 homes (NHF 2016a) – a third of all new homes in England – but they want to do more. Housing associations want to be building 120,000 new homes of all type and tenure every year by 2033 (NHF 2016b), delivering a great place to live for everyone. This would be almost half of all the new homes required to meet housing need – compared to the 220,000 needed per year according to the Town and Country Planning Association (McDonald and Whitehead 2015). Increasingly housing associations are delivering homes for every part of the market, including homes for market rent and outright sale.

Housing associations are independent businesses, driven by their social purpose. Any profit they make, which can be considerable in some high value markets, is ploughed back in to building new homes and to cross-subsidise the development of social and affordable homes. Not only do housing associations make a significant contribution to increasing overall supply, but they also build homes to buy and rent for people not currently served by other parts of the housing market.

Housing associations are committed to continuing to drive up standards in the market rented sector. As some of the country's biggest not-for-profit landlords, housing associations have significantly increased the number of homes they offer to rent on the open market to 50,000 (HCA 2016). They are investing many millions over the coming years to grow this offer and build thousands of new homes for market rent, driving up standards and transforming the private rented sector.

Recent measures, including increased and more flexible public investment for affordable housing, will certainly help housing associations build more homes. However, building on the recommendations of the original Lyons Review, we believe there are a number of areas where the government needs to go further (Lyons 2014). This chapter sets out what more we think the government can do to create the conditions necessary to ensure that housing associations can maximise their capacity and ambition to increase housing supply. Our recommendations focus on three key areas: land, certainty and investment.

THE POTENTIAL OF THE SECTOR

A number of the recommendations of the original Lyons Review have been introduced by the government recently, and will help housing associations increase their contribution. The shift to increasing supply, rather than just stoking demand, signalled in the white paper, and the focus on land release, improving planning, and continuing investment in affordable homes, are important and very welcome steps in the right direction.

We were concerned that the previous commitment to increasing home ownership above all else could work against increasing housing supply, and could come at the expense of delivering other types of homes, such as affordable and market rent. The announcement in the Autumn Statement that this money can be used more flexibly, including for affordable rent, should help to mitigate this risk to some degree (HMT 2016). These measures mean that the funding framework is starting to enable housing associations to deliver an offer for everyone, in line with the sector's ambitious future plans. Moreover, the government has explicitly acknowledged that, in order to address the housing shortage, we need to build homes of all types and tenures. We welcome the government's move to set the tone that housing providers are increasingly empowered to deliver in line with their social purpose. However, to maximise this potential, they need increased flexibility and the freedom to manage their own businesses.

Housing associations are increasingly acting as the main developer on very large sites, such as L&Q at Barking Riverside and Peabody at Thamesmead. They are also forming strategic partnerships, with local authorities and others, to deliver at scale on large sites. For example, Home Group works closely with a number of local authorities, such as Gateshead, to deliver strategic complex sites. Mergers underway between some housing associations will create very large organisations, with over 100,000 homes. If this continues, it will mean housing associations will feature in the top 10, and even the top five, developers in the UK. However, all

parts of the sector are ambitious to do more, regardless of their size, geography and the markets where they operate. Now we have some of the basics in place, in order to reach our ambition of building 120,000 homes a year, we need to move from introducing more specific measures, to creating the conditions that will allow every part of the sector to thrive. This will involve ever more innovative partnerships with local authorities, NHS providers and other partners.

Housing associations plan, invest, build and reinvest over the long-term. In order to maximise the number of homes they can build, they need a steady supply of affordable land, certainty over their income stream, and a more strategic approach to investment.

ACCESS TO LAND

The availability and affordability of land continues to be the biggest constraint on house building. Housing associations are often out-bid when land comes to the market because of their commitment to building affordable homes as well as homes for the market. The government have already taken on a number of recommendations of the original Lyons Review, and have sought to release more public land and deal with issues of land banking. However, we believe they still need to go further. If the long-term social and economic value of what is built on land was the primary consideration in selling land, then housing associations could deliver even more affordable homes, as well as homes for market, and make the best use of public assets.

The government should ensure that competition for land focusses not on the price paid, but on who can deliver the highest quality and best long-term value for money. We believe they could do this in one of two ways. First, they could directly encourage or incentivise public bodies to sell their land at a fair price, and update Treasury guidance on 'best value' to reflect this. This may involve setting a value for the land before the point of sale, and allowing open competition based on what will be built. Alternatively, they could give priority access to land to those building a mix of homes including affordable housing, by giving housing associations and other providers the chance to bid for land for a set period of time before it goes on the open market.

The local and national contribution to the economy of housing and housing associations is clear. For every £1 invested in affordable housing, a further £1.42 is generated in the wider economy (Centre for Economic and Business Research analysis for National Housing Federation conducted in 2014). Enabling housing associations to fairly compete for land, along with other measures recently announced – such as ensuring there is more transparency in the

land market – will help housing associations secure a long-term supply of affordable land.

CERTAINTY AND CONTROL OVER INCOME STREAMS

Housing associations currently have no control over their main income stream - the rents they charge their tenants. Housing rent policy is set by the government, and this means housing association boards are not able to decide the rents they charge, which significantly hampers their ability to make the most effective use of their assets. It also means that housing associations do not have any certainty over their future rental income; this is critical for them to be able to secure the long-term investment they need in order to increase their contribution to housing supply.

Despite a previous commitment to a 10-year rent settlement of consumer price index plus 1 per cent, housing associations have had to reduce their rents by 1 per cent a year, for four years, from 2016. Not only has this taken significant capacity out of the system which could have been used to build new homes, it has also undermined the confidence of the sector and investors.

The lack of clarity regarding the rent regime post 2020 is making it very difficult for housing associations to plan and invest long-term. While the government is still in control of rent setting, we think this will always be the case. We believe that the best way of giving housing associations the certainty they need over their future income stream is to put them in control of their own rents.

Having the freedom to set their own rents could allow housing associations to take account of the markets where they operate, and flex their rents to better meet the needs of their tenants and communities. Contrary to assumptions that rents would automatically be forced dramatically upwards, housing associations have not adopted such an approach when the opportunity has previously been available to them. Mindful of the charitable status of most housing associations, it seems unlikely that the great majority would be in a position to pursue such a policy, even if they wished to. Of course, in this environment we would expect boards to set their rents transparently, so that they are accountable to their tenants and communities. However, control over their rents would also allow housing associations to make the most effective use of their assets.

A MORE STRATEGIC APPROACH TO INVESTMENT

Housing associations already make a significant contribution to supply across a range of tenures. Building homes for market sale and market rent allows housing associations to generate a profit that in turn allows them to build more homes for social

and affordable rent. The housing association business model is unique in that it is structured to deliver a range of tenures with a mix of finance. The advantages of this model mean that housing associations can take on large and small sites, and build mixed tenure schemes with homes for every part of the market. In order to help housing associations further increase their contribution to supply, the government should create conditions that build on the strengths of this business model, and minimise the risks where possible.

Building on the recommendations of the original Lyons Review, the government has introduced more flexibility in the investment programme, which once again gives housing associations the opportunity to build affordable rent with government support. This will help the sector, to some extent, to manage the risks they are exposed to in being more dependent on the market. It will also help housing associations to continue to build in lower value areas where it is very difficult to generate profit from sales to cross-subsidise the development of social and affordable rent.

However, this flexibility is quite limited, and we believe the government should go further and take a really strategic approach to investment, consolidating funding streams and basing investment on outcomes rather than schemes. This would allow the government, national and local, and the sector, to have a genuine and strategic conversation about what is most needed in each area and how support can be targeted to deliver those outcomes and drive growth in every area.

By consolidating funding in this way, the government would not only make more effective use of its investment, it would also ensure that housing associations, and others, are able to build the right homes in the right places and to a high standard.

Regenerating homes in some areas of the country is a much more pressing issue, and would make a much bigger difference than building new homes. Regeneration can add to the overall supply of high quality homes in an area that people want to live in. It also generates economic growth, but does so in a way that doesn't always require new land or infrastructure, and keeps communities together. We would therefore extend this strategic approach to investment to cover regeneration, rather than having separate discrete funding streams for new homes and regeneration.

HOW THE SECTOR IS CHANGING

The housing association sector has changed significantly over the last few years. Housing associations have been looking closely at how they use their assets and capacity to continue to build new

homes in constrained economic times. Not only has this led to more mergers in the sector, but we have also seen more strategic partnerships emerge between housing associations and developers and local authorities, as well as between housing associations themselves. This is particularly true in areas where devolution is the most advanced, such as in Greater Manchester. This agenda is likely to continue and possibly speed up in the next few years, as housing associations continue to explore and create new opportunities to use their collective capacity do more.

This change in the sector does present some challenges, and housing association boards need to have the right skills and experience to assess and manage risk in a different way. Housing associations need to continue to strengthen their boards and their relationships with their tenants, customers and communities, to make sure that any growth is sustainable, well-managed, and continues to deliver their social mission.

Housing associations are only just beginning to explore and embrace recent innovations in housebuilding and the supply chain. In an environment where land is likely to continue to be expensive for some time, and public investment will remain relatively constrained, bringing down the cost of construction and speeding up development could bring crucial benefits that allow the sector to build more with the same resources.

CONCLUSION

We believe that we have the beginnings of a long-term plan to build more homes, and that the ambition of the government is starting to reflect the nature of the housing crisis. In this chapter, we have outlined the approach we think the government needs to take to ensure housing associations can make the fullest possible contribution to housing supply. Recent interventions and measures have been helpful in shoring up the contribution of housing associations, particularly following the vote to leave the EU, and giving them the confidence to plan to take on additional risk and do more over the medium term.

Every part of the housing association sector needs to step up, but in order to do this we need to move from individual measures to creating the right conditions that will encourage housing associations all of sizes to be as ambitious as possible in their plans for the long term.

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8.

ACCELERATING THE GROWTH OF BUILD TO RENT

BILL HUGHES

INTRODUCTION

As the Lyons Review highlighted, there is a chronic need to deliver more housing at scale across the country, covering all types of tenure (Lyons 2014). The need for greater diversity in housing supply was also a strong message in the government's housing white paper (DCLG 2017), and marked a departure from the recent almost exclusive focus on home ownership. At the same time, UK and global financial institutions have the investment firepower to provide a material increase in equity to help expand housing supply – something that has started to shift in recent years and seems only set to continue.

A century ago, insurance and pension funds were large-scale investors and developers in residential properties, looking to match rental cashflows with long term liabilities (L&G 2016). Changing legislation and increased regulation of the private rented sector over many decades made investment into the sector increasingly unattractive (Wilson 2013).¹ In recent years, successive governments have recognised the value of institutional investment in the sector, and have sought to understand the barriers and find ways to encourage new investment (HMT 2010, DCLG 2012). The housing white paper (DCLG 2017a) released in February also clearly recognised the importance of attracting new business models to the housing sector, and gave attention to the benefits of an institutionally backed, purpose-built rental sector.

The current rental market in England remains dominated by individual landlords (75 per cent) rather than companies or institutions (Ball 2010). Much of the debate on private renting in England is centred around the inadequate management standards and unpredictable rents that tenants have to endure. This includes expensive moving fees, unresponsive lettings managers,

1 The Increase of Rent and Mortgage Interest (War Restrictions) Act 1915, for example.

and private landlords who want to minimise upkeep costs and maximise rents. A culture of short-termism exists within the existing rental sector.

Long-term investment at scale provides opportunities for residents to have the occupational security typically only seen in home ownership, while offering increased flexibility and utilising economies of scale to reduce living costs. The Build to Rent (BTR) market is capable of providing renters with the access to high quality, well-managed accommodation in the urban locations that they want to live.

AN INCREASINGLY ATTRACTIVE SECTOR?

Currently, around 19 per cent of the population in England lives in private rented housing (DCLG 2017b). This number has doubled since the mid-1990s, yet few homes are built specifically for the rental market. The size of the wider residential rental market continues to grow, and contains the full socio-economic demographic. It is not simply populated by the young, but is increasingly a long-term housing solution for people at different stages of their lives, and therefore a much wider range of demographics, than in the past.

Much like it has been for years in other parts of Europe and North America, renting is beginning to be considered as an active and aspirational choice for residents. It is not just a response to the unaffordability of home ownership as has historically been the case. Residents value living in social communities close to transport links, with their day-to-day needs taken care of, such as home deliveries and maintenance. The fact that more and more people graduate from university having experienced positive purpose-built student accommodation, where many of these aspects are enjoyed, means they may have increasingly higher expectations when it comes to renting in their professional lives.

In tandem, the sector is becoming increasingly attractive from an investor and developer perspective; the delivery of BTR accommodation is a highly efficient use of land, labour and equity. Internationally, institutional investors are drawn to BTR's income characteristics of relatively low volatility and steady inflation-linked growth. Investors are focussed on income generation and not capital growth; the incentive is to fill schemes as quickly as possible rather than to leave properties empty, waiting for capital growth. This means the model is deliverable across the whole of the UK, because investment can concentrate on areas of greatest need, irrespective of capital value constraints. This extends to regeneration sites where BTR can act as a catalyst; the quick delivery of housing and fast lease-up rates are often crucial to

establishing vibrant new communities, which go on to enable further viable development.

With institutional investors in a BTR model being motivated to maximise occupancy rates within their apartments, BTR has a greater impact on housing supply by plot and per pound of investment. Purpose-built accommodation can be targeted at both sharers and families, and with good property management residents can move within a scheme and 'right-size' as required, avoiding wasted underutilised bedrooms as their requirements shift.

An established institutional rental sector also brings with it a new business model which provides stability to the construction industry through creating a-cyclical demand. Access to very long-term pension fund capital removes a focus on short-term market cycles. To build new homes, it is not dependent on mortgage availability and the strength of the wider financial markets.

Unlike build to sell (BTS), there is no need to phase delivery due to the source of capital and the speed of letting up the homes, as well as the requirement to generate rental income quickly. Modern methods of construction, including modular, are crucial to provide the fast delivery of housing that supports the BTR business model.

A GROWING OPPORTUNITY?

Successive governments have recognised the benefits of BTR and have increasingly sought ways to expand output. The last Labour government commissioned a review to look at investment in the private rented sector (HMT 2010) and the Coalition government commissioned the Montague Review to look at barriers to investment and how they could be overcome (DCLG 2012).

There has been an increase in schemes being developed across the country in recent years. In London, the residential research company Molior reported that in 2016 nearly 4,000 build to rent units were completed, and a further 3,600 started construction (Molior 2017). However, many of these are not true BTR in our view. For a scheme to be noteworthy we believe it should have scale, be specifically designed for rent, and push the boundaries in terms of service, design and integration into the wider community.

Examples of notable schemes include a development by Essential Living, which is currently under construction in Creekside Wharf in Greenwich and will be their first truly bespoke BTR scheme. Centred on two buildings, this 249-unit scheme is designed with families in mind; from the unit mix to the amenities offered. Planning has also been approved for L&G's own scheme in Waltham Forest, which is comprised of 440 units in a major

regeneration area overlooking 211 hectares of wetland. Construction will commence in the latter part of 2017, and will set a new standard for resident services, occupational security and amenity offering.

We are also seeing the beginnings of investment into other cities such as Leeds, York, Bristol, Bath, Glasgow, Edinburgh, Southampton and Birmingham.

Nevertheless, institutional investment into build to rent remains relatively embryonic in the UK; only 1 per cent of the residential rental market is owned by institutions. This compares to more established markets such as the US in which 13 per cent of PRS is owned by institutions, and 37 per cent in the Netherlands (Scanlon 2011). There is therefore the potential for huge investment in the sector, materially boosting housing supply.

MORE TO BE DONE

Despite the clear advantages, delivery of housing by institutional landlords is on an uneven keel compared with traditional forms of housing delivery through build to rent housebuilders. Through the housing white paper, the government has recognised that, despite plenty of available capital, political desire and a well-defined business model, BTR remains a new sector which is still struggling to operate within planning and taxation regimes that were designed not to facilitate investment, but to control the short-term ambitions of BTR developers.

There is work to do to improve conditions in order to support the sector's expansion. The recommendations set out below can broadly be divided into three sections: tax, planning and investment.

Recommendation 1: Untangle the VAT system

Where development sites are exempt from VAT, BTR cannot compete with BTS. This is because the VAT cannot be recovered by investors whose business models are based on long-term investment rather than short-term development profit. A fairer VAT system must be introduced that puts BTR developers and investors on an equal footing with BTS housebuilders.

The professional management of a BTR scheme also involves employing staff and services which are not found in a traditional BTS development. They are more akin to a hotel, student or serviced apartment offering. Associated VAT costs cannot currently be recovered, which creates a need to increase the rents charged, or otherwise lower investor returns and in turn their appetite to invest in the first place.

The other key factor is that there remains an additional 3 per cent stamp duty surcharge on second homes, which also captures large-scale residential property owners. This makes some schemes unviable, as end value is below development cost.

Recommendation 2: Create a better planning environment

There are many aspects of the planning system which could be improved to support the growth of BTR, as the Lyons Review recognised. It is welcomed that the housing white paper explicitly states that BTR should be directly referred to as part of all area housing plans. Currently, many local authorities have no policy in place for BTR as it has only recently come to the fore. This lack of consideration is greatly increasing the time taken to secure planning permission compared with other types of development.

There needs to be a different approach to affordable housing provision in respect of BTR. The housing white paper recognises that discount market rent homes are a crucial part of any local housing plan, but there needs to be an understanding of how BTR schemes are operated and managed, and recognition that institutional landlords need to maintain control over a scheme in its entirety to allow for efficient management.

The economics of a BTR development are different to BTS, and this creates issues in terms of viability testing by planners. Current testing is predicated on a BTS scheme and is not incompatible with BTR. A BTS developer sells the homes and recovers all capital invested shortly after completion, sometimes before completion, whereas a BTR developer may take 15–20 years to recover the development costs. An alternative viability test for BTR schemes is needed; one that recognises the long-term investment horizon and removes the need for large near-term capital payments.

We also believe that the social and economic value provided by BTR should be explicitly recognised through the planning process. The greater impact on supply meets an immediate need, but this social benefit is not considered. The BTR business model is significantly impacted by any delays in construction and completion. A continued increase in pre-commencement conditions is slowing housing delivery. In some cases, these delays can lead a BTR scheme to become unviable. BTR schemes should benefit from a fast tracked post-planning approval, with reduced Section 106 (S106) requirements based on speed of delivery. The housing white paper made encouraging reference to a review of community infrastructure levy (CIL) and S106 towards the end of 2017. It is hoped that any revision in policy would reward speed of delivery, and that payment of CIL and S106 contributions should be paid from rental income over a number of years.

Recommendation 3: Encourage capital investment

Finally, we believe that the government should encourage long-term liability driven investors to look to the residential sector as a way of meeting their needs. To help this we urge a review of how Solvency II treats long-term income focussed investments into the residential sector. Encouraging pension funds to match liabilities with rental income reverts back to the model of the early twentieth century that allowed for large-scale private sector house building.

CONCLUSION

The Lyons Review and the recent housing white paper both put emphasis on offering a range of tenures and on supporting a diverse and broadening array of players that can contribute to housing supply. The BTR sector is a vital component of this housing strategy, but should complement and not compete with more traditional forms of housebuilding. It brings a new business model offering genuine new supply, supporting the UK housing shortage while also improving returns to pensioners.

Supporting those institutional investors with a long-term view allows for the development of a more sophisticated rental sector that champions the rights of residents. The reference in the white paper to family-friendly leases is one example of how the interests of long-term investors and residents are aligned to provide social good.

BTR can materially reduce the gap between annual housing demand and under-supply. It can attract new equity, provide stability to the construction industry and lead in the regeneration of urban areas. Existing institutional demand for UK residential property is estimated to be up to £50 billion (BPF 2016) – enough to support the supply of over 1 million new homes – but the taxation and planning systems are slowing development.

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9. AN INTERGENERATIONAL SOLUTION TO THE HOUSING CRISIS

CAROLINE GREEN AND SIR MICHAEL LYONS

INTRODUCTION

The impact of Britain's housing crisis is most heavily felt by the young. Without a change in approach, this impact is set to become increasingly severe for future generations. It is understandable, therefore, that the political and policy focus of recent years has been on helping first-time buyers. However, counterintuitive as it may seem, we are likely to make faster progress in helping these younger generations if we devote as much of our energies to meeting the housing needs and aspirations of their parents and grandparents.

It is estimated that half of older householders are living in homes larger than they need,¹ while high property prices are squeezing young families into small and overcrowded homes. What is more, while research suggests that over half of households over the age of 60 are interested in moving home (Demos 2013), only 9 per cent have done so in the last three years (DCLG 2016).

Providing better housing options for older people, both as homeowners and tenants, would deliver a wide range of direct benefits.

- Boosting overall housing supply by unlocking untapped demand for new homes.
- Releasing much-needed family homes with knock-on benefits for first- and second-time buyers further down the chain.²

1 The English Housing Survey 2014–15 estimates that 51 per cent of households headed by someone over 55 are under-occupying their present home (i.e. have 2 spare bedrooms) (DCLG 2016).

2 The London Assembly identified that releasing a 6-bedroom home would free up housing for 36 people by unlocking the housing chain (London Assembly Planning and Housing Committee 2011).

- Enabling families to release capital to support younger generations to access their own home.
- Tackling the rising costs of meeting the health and care needs of an ageing population, by providing homes which can keep people healthier, happier and independent for longer.³

The housing white paper (DCLG 2017) marks an important step in recognising that, in order to tackle the housing crisis, we need to move beyond the pre-occupation with first-time buyers and over-reliance on the dominant housebuilders' model of developing homes for private sale. This new strategy must include an explicit focus on maximising the multiplier effect that stimulating the housing market for older people can achieve.

The white paper references the new statutory duty to be introduced through the neighbourhood planning bill, which will provide guidance for local authorities, with much clearer expectations on meeting the needs of older and disabled people in local plans. It also says that the new supported housing funding model will continue to provide the means for older people to live independently for longer.

However, as the white paper itself acknowledges, these measures alone will not be sufficient, and more work is needed to provide a better choice for older people, tackle the barriers to downsizing, and stimulate the market for older people's housing. Within this, there is a commitment to working with stakeholders across both housing and health to explore solutions, including: advice on adaptations, supporting custom build for older people, and looking at how community living could work, as well as innovative models of housing with support available.

This approach is to be welcomed and should be progressed with urgency, but, to be successful, it must include a concentrated effort on driving up the supply of homes that are attractive to older people, both as homeowners and tenants.

WHO ARE YOU CALLING OLD? UNDERSTANDING OLDER PEOPLE'S NEEDS AND ASPIRATIONS

The term 'older people' covers a range of income groups and a diversity of aspirations, lifestyles and cultures, as well as a spectrum of care needs. Older people are just as interested as their children and grandchildren in the choice of location and lifestyle that their home offers. In creating attractive housing

3 For fuller discussion of how increasing choice for older people can deliver these benefits, see Lyons et al (2016).

options for older people, we need to recognise their aspirations as well as their needs.

Many of those in their 60s, 70s, and even their 80s will be still be active, fit and healthy and may be looking to free up equity and have an easier-to-manage home that allows them to pursue in new opportunities for the later stages of their life. Encouraging this group ready for their post-retirement 'gap year' of world travel to downsize, and to plan earlier for a longer old age, will not be achieved by trying to attract them with chair lifts and handrails.

Economic and financial concerns are a key motivation for downsizing for many older people; one in six pensioners in the UK live in poverty (Age UK 2011), and an estimated 10.7 million people can currently expect inadequate retirement incomes (Demos 2013). Older people with fixed or declining incomes, or those looking to release equity to support their children, have an interest in and an incentive to reduce housing running costs by moving to a smaller or more efficient home.

Others are driven by the need to move to a smaller home as a result of bereavement, isolation, inability to manage and maintain a large family home, or poor health, mobility and care requirements. Many of these people need homes which are easier to manage and can adapt as they grow older, and may well need housing that offers care and support services on site.

INCREASING SUPPLY

Specialised homes and extra care

With the 'very old' increasing in number more rapidly than other segments of the population, and the number of people aged 75 and over projected to rise by 89 per cent, to 9.9 million, by mid-2039 (ONS 2015), the need for care-assisted housing is certain to increase. Meeting it must be a leading priority. Despite increased provision and clear benefits of extra care housing,⁴ supply in the UK is woefully inadequate to meet both current and projected needs (Housing LIN 2014). The Joseph Rowntree Foundation have identified that there is only enough specialist housing to accommodate 5 per cent of the over-65 population (Pannell and Blood 2012). Savills (2015) suggests that increasing the provision of retirement homes to availability for 10 per cent of older people would require an additional 60,000 homes per year above those

4 Extra care housing allows residents to continue living independently, typically in self-contained units with access to communal space and onsite care support. Residents living in properties run by the Extra Care Charitable Trust cost the NHS £1,115 less per person, per year, than the costs incurred by comparable residents in the surrounding areas – representing an NHS spending reduction of 38 per cent (Extra Care Charitable Trust 2015).

currently being delivered. Given the very significant contribution housing of this sort will make to reducing future health and social care costs of an ageing population, combined with the benefits of releasing larger homes, supporting increased supply here, particularly in terms of extra care homes, is likely to have far greater impact than the delivery of small number of starter homes.

However, expansion of specialist housing for older people is constrained, by the costs of providing communal services and facilities, difficulties accessing finance, and the high service charge costs which are off-putting to potential buyers. Additionally, competition for sites that would be attractive to older people (often located close to town centres and with good transport links) mean that developers have to compete with traditional residential and other property type developers for the best sites where land availability may be sparse and viability a real issue (Housing LIN 2014).

Extra care and other forms of specialist housing should be prioritised in government subsidy or incentive policies, and the use of public land to support it pursued as part of an inclusive communities agenda. Focussing on NHS surplus land in close proximity to continuing health facilities might be a first move. Encouraging a greater role for councils and housing associations in commissioning and partnership working with health commissioners and providers should also enable them to increase supply of suitable and affordable sites.

Increasing mainstream housing choices

Although addressing the need and demand for specialised housing is crucial, it is only part of the solution. With only about 5 per cent of the older population living in specialised retirement housing (Savills 2015),⁵ the availability of suitable and affordable mainstream housing is likely to have a greater impact on the ageing population and their propensity to move.

Legal and General (2014) have identified capacity for greater investment in retirement homes for sale in recognition of opportunities for equity release if demand could be mobilised. New models are emerging that are focussed on providing high quality accommodation, built to Housing our Ageing Population: Panel for Innovation (HAPPI) standards,⁶ but without the support traditionally associated with retirement housing (CIH 2014). This is partly in

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- 5 The extra care sector houses 0.6 per cent of older people, and 4.8 per cent of older people live in retirement housing. A further 5 per cent of people aged 65 and over live in the nursing and care home sector (Savills 2015).
 - 6 The HAPPI sets out key adaptability and suitability features of housing for older people (Homes and Communities Agency 2009).

response to reduced funding and the high costs and difficulties associated with extra care developments, but also in recognition that a more attractive offer would encourage more people to actively plan for their future housing needs.

However, there is a notable British aversion to homes designed specifically for older people, which are perceived as ‘ghettoisation’ (Hill et al 2009, Bazalgette and Salter 2013). Older people themselves cite a lack of suitable and attractive properties as a key reason they do not move. This highlights the need for a more imaginative offer to older people, not limited to traditional retirement settings and age-segregated communities, but instead increasing the supply of housing that is attractive and adaptable for older people as part of inclusive communities.

Maintaining the security of owning a home will continue to be important to many older people. Given that 83 per cent of over-60s living in England are currently owner-occupiers, and only 23 per cent of retirement housing is for sale, there is a need to greatly expand supply of mainstream homes on the market that are attractive to this group (Demos 2013). National and local government policies could support this in three ways.

1. By ensuring that new communities, for example garden villages and urban extensions, include developments which will be attractive to older people.
2. By promoting opportunities for self-build, or self-commissioning as an option for those with equity, enabling them to design and specify a home which caters for their own lifestyle choices and potential longer-term needs.
3. By ensuring that policies support ‘future proofing’ for all new houses to ‘lifetime standards’, so that they can be adapted as lifestyles, mobility and support needs change – which would provide greater choice to for those looking to downsize.⁷

For some older people, financial concerns are a significant barrier to moving. Older people’s organisations have called for a stamp duty exemption for downsizers to reduce the costs of moving, since the overall effect on the housing market would mean the Treasury would not incur a loss. Other financial measures could include offering financial support for the costs associated with moving, or revising the Help to Buy scheme to include ‘later-life buyers’ who face an affordability gap. The expansion of support for shared ownership schemes also offers potential to encourage

⁷ Currently only 3.4 per cent of homes have the four basic recommended features: level access, flush threshold, WC at entry level and circulation space (Age UK 2014).

downsizing for older people who cannot afford the full market price of a new home, or wish to free-up capital with the attraction of continuing to own their home.

A more attractive rental offer

There is also significant potential to drive up supply by supporting better options for older private renters. In the last four years, 200,000 older adults joined the rental market, and it is estimated that a third of over 60s could be living in private rental accommodation by 2040 (Centre for Ageing Better 2017). Providing a better rental offer with secure tenancies, quality standards and confidence of rent stability is needed not only to ensure that these people's housing and health needs are met, but will also make a significant contribution to driving up overall supply. Legal and General's recent decision to invest £600 million in building over 3,000 apartments for rent is evidence of the potential for large-scale institutional investment in the private rented market (L&G 2016). Supporting the right conditions for a strong rental market will deliver a faster increase in housing supply by broadening overall demand, bringing in a wider range of commissioners of housebuilding. This in turn will enable greater density of development, and greater scope for the use of modern manufacturing methods to address constraints on materials and labour supply.

A BIGGER ROLE FOR LOCAL AUTHORITIES AND HOUSING ASSOCIATIONS

The opportunity to free up family homes exists in the social and affordable rent sector as well as the private market. Crucially, the government has now recognised that the number of homes we need will not be built without local authorities and housing associations playing a much greater role in commissioning and actively facilitating a wider range of housing not currently provided by the market. This was a key conclusion the Lyon's Review, and applies even more so now to building homes to meet the needs and aspirations of older generations.

There are significant challenges arising from government social housing policies which will need to be overcome, including the impact of the reduction in social rents, and the threat of a levy to pay for the extension of Right to Buy for housing associations, which are impacting on councils' and housing associations' plans for investment in housing. If implemented, this would have a disproportionate effect on homes for older people (JRF 2016). Government needs to resolve the question of future funding for supported housing quickly, as ongoing uncertainty is impacting on investment plans (Spurr 2016). In view of the importance of developing additional housing for older people, new homes that

are developed by local authorities specifically for older people should be exempt from Right to Buy. This will encourage local authorities to increase supply of homes designed for older people at affordable rent.

CONCLUSION

A new and increased emphasis on meeting the housing needs and aspirations of older people offers the opportunity to unlock a bigger and more secure market for newly-built homes and can make a direct contribution to meeting the housing needs of younger generations. Crucially, however, reaping those benefits will depend on increased supply of housing that is more attractive to older people to both rent and buy. There is now an opportunity for government to ensure that policies on the use of public land, support for shared ownership, specialist and extra care housing, rented homes, and a greater role for local authorities and housing associations in commissioning development, all form part of a coherent strategy which supports development of housing that better suits older people's lifestyle, needs and aspirations.

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10. DELIVERING DECENT LIVING STANDARDS THROUGH EXCELLENT PARTNERSHIPS: A NEW ROLE FOR EMPLOYERS?

GRAINIA LONG

INTRODUCTION

The case for recognising housing as a form of infrastructure, capable of contributing to economic growth, has been made by housing bodies and economists for years, and gained particular salience as new housing development reached historically low levels. Since the market crash, continuing challenges in driving new supply upwards, changing tenure patterns and increased overall cost of housing has prompted employer organisations such as the Confederation of British Industry (CBI) to enter the debate in earnest - and they have cited the housing crisis as creating a distinct problem for business. In its report *No Place Like Home*, the CBI (2016) pointed to the dearth of affordable housing as hampering firms' ability to recruit and retain talented staff, leading to long commutes which impact on workers' productivity. Several studies have demonstrated the impact of the housing crisis for employers, the operation of the labour market and broader economy. Research by the Centre for Economics and Business Research (2015) for the campaign 'Fifty Thousand Homes' argued that the shortage and the cost of housing generates a wage premium which accounts for 22.6 per cent of the differential in London wages and wages elsewhere in the UK.

Business is right to voice its concern. The relationship between the cost of housing and incomes has been dysfunctional for years. This is evident from data which shows the extent to which housing costs constitutes a drag on incomes. A recent Resolution Foundation report (2016) shows that when costs were included in a wider consideration of living standards, over half of households across the working age population have seen flat or falling incomes since 2002. The role of housing wealth, housing debt and housing costs in households needs to be much better understood

by policy makers as we plan for the future. But it also needs to inform employment and local economic policy. The availability of affordable housing is critical to employers' access to talent, and to their competitiveness.

Attracting talent from outside the UK also requires flexible and interconnected labour and housing markets, in spite of the politically contentious nature of the debate on housing and migration. Research from the London School of Economics (2011) found that in the early years of a move to the UK, even better-off migrants tend to form fewer households when compared to the indigenous population, to live disproportionately in private renting, and to live at higher densities. According to the research, the longer they stay, the more their housing consumption resembles that of similar indigenous households. Releasing the UK's competitive potential will therefore rely on a much more effective relationship between housing supply and trends in the labour market.

The Lyons Review in 2014 made a strong case for boosting housing supply in order to ensure greater complementarity between the labour and housing markets. It reinforced the wider economic benefits of building new homes – not just in terms of additional jobs in the construction industry, but also to alleviate pressures on employers to increase wages to keep pace with housing costs. The report was timely – published just months after the governor of the Bank of England had cited 'deep structural problems' in the housing market as the biggest risk to financial stability and economic recovery (BBC 2014).

On this basis, and following several years in which supply has followed an upward trend – albeit slowly – the publication of the white paper in February 2017 was an opportunity to provide renewed policy focus on the relationship between the housing market and the labour market, between house prices and wages, and in particular to set a policy direction for greater involvement of major employers – public and private – in new housing supply. The paper was strong on analysis, making important references to the prohibitive costs of housing and referencing the 2.2 million people with below average incomes who spend more than a third of their disposable income on housing (DCLG 2017). It also recognised the importance of the proximity of a skilled workforce for growing businesses. However, the solutions offered in the white paper to these problems are generic; they are linked to boosting supply overall, rather than focussing specifically on practical actions to bring together employers, local authorities, planners and housebuilders. Nevertheless, it included a welcome commitment to 'do more to support hospitals, schools and other public sector landowners to deliver more homes for their employees within new and existing sites' (ibid). This focus on the role of employers

– in partnership with other stakeholders – presents significant opportunity. In this essay I argue that employer partnerships have the potential to provide a unique new source of housing supply.

EARLY TARGETING OF KEY WORKERS

Early attempts to target affordable housing to particular profiles of workers were mainly government-led – from the Starter Home Initiative to its more ambitious replacement, Key Worker Living, in 2004, a £690 million programme aimed at building homes for a relatively wide group of public sector roles such as social workers, nurses, teachers and police. While Key Worker Living included intermediate rent, it also enabled provision of interest-free equity loans. The scheme is widely considered to have been a positive introduction of new measures to recognise that new models were required to enable young low- to middle-income workers to access housing on an affordable basis. The models were straight forward, and often consisted of a partnership between a local authority and housing association or developer. However, it did lead to questions around how to define and assign ‘key worker’ status, with local authorities often exercising their own discretion when setting application criteria, leading to inconsistencies across local authority areas. Nevertheless, early key worker partnerships were a counter-cyclical measure available to workers when year-on-year rises in house prices meant that homes were constantly moving out of their reach.

Since then, many new models have developed, but these are not without their critics. Shelter has highlighted (Shelter 2013) the sheer number of key worker schemes now available, confusing the customer, while also criticising minimum income requirements which often lock out those on incomes below £35,000.

A small but growing number of employers have identified access to housing as a key part of their strategy to recruit and retain talent, and look to the private rented sector as a key partner. This assistance is taking many forms. In London, the professional services firm Deloitte has recently completed a pilot aimed at supporting younger graduates to access the private rented sector, through a partnership with a property management company to ‘block lease’ properties for 85 employees. While the firm recognizes that it may choose to partner with housebuilders to provide homes for employees in the future, at present, it sees the private rented sector as a key source of supply (Barber 2016).

As new models are trialled, there are lessons to be learned from early adopters in order to enable growth in employer partnerships, deliver new supply and improve living standards for workers.

EMPLOYER PARTNERSHIPS IN ACTION

Alongside the development of government-led schemes, some employers had begun their own work to secure affordable housing for their staff. NHS Keyworker first emerged as a concept in the early 2000s, and, as it has evolved, the employer has increasingly shared both the risk and the reward from a development with a housing partner. With 1.7 million workers across the UK, the NHS has faced significant challenges to recruit and retain staff in key sites across England. By proactively using its land assets, it established partnerships with housing providers to develop affordable residential accommodation for its staff. Use of NHS land as subsidy-enabled development at scale (at the time, the St. Georges NHS Keyworker Scheme in London) was the largest key worker scheme in Europe.

Since then, the model has developed both in scale and popularity, with several large housing associations in England developing sites in partnerships with NHS employers. Thames Valley Housing Association has developed a successful NHS Key Worker partnership in Frimley, close to Frimley Park Hospital. The scheme will provide accommodation at affordable rent for NHS staff, with rents aligned to entry-level employment, at one-third of income. In this case, the NHS Trust has a clear vision for a scheme which would mix outright sale with rented accommodation, close to the main street in Frimley, bringing much-needed economic activity to the local area.

Universities across the UK have also increasingly considered large-scale development of staff accommodation, using their own land, as a key opportunity to attract global talent. Oxford University has well-publicised plans to build up to 2,000 homes for staff over the next decade, using its own land. It is currently seeking to build schemes in which 100 per cent of units are key worker housing; however, local planning policy requires proportions of all developments to be set aside for affordable housing. As employers face the same requirements as other providers of housing, their ability to navigate conditions of development could be a key test in their appetite to build (Oliver 2017).

The success of employer partnerships is determined by several factors.

- **Availability of land for use as subsidy.** Earlier 'key worker' models were all dependent on the availability of government subsidy to make the schemes viable. Without previous levels of grant, land is the key subsidy component.
- **Strong and proactive vision and leadership on the part of the employer.** The model requires that the employer invest its own land, thus foregoing a sale on the open market, and providing the employer (in this case, the NHS)

with a revenue stream from rental accommodation. In some instances, depending on the site, if outright sales are part of the mix, the employer can also benefit financially from profit 'overage' from sales. However, many NHS Trusts with severe budgetary constraints are under pressure to sell land; accounting requirements which state that trusts must declare land as surplus and achieve 'best value' often close off opportunities to enter partnerships to build homes for employees. Other major employers face similar constraints – universities, for example, often face barriers to developing housing partnerships because of tensions between achieving open market value on a piece of valuable land, or investing land as subsidy towards achieving affordable housing for staff and students.

- **Strong partnerships with housing associations**, who can provide a range of flexible products add to viability, and de-risk development. As set out above, the ability of Thames Valley Housing to offer a range of homes for sale, shared ownership and rent at the Frimley site enhanced viability and reduced risk to the NHS. A well-defined nominations agreement ensures that NHS staff get priority in terms of allocations, but where demand stalls, the option to open up the market remains.

EMPLOYER PARTNERSHIPS: A DELIVERY OPTION FOR THE FUTURE?

Scaling up this model throughout England and further afield is possible, but its growth is dependent on more employers being prepared to – and capable of – investing land assets in housing, on making the model more flexible, and allowing employers to find new ways to use subsidy more effectively.

- Options should be sought to attract other entrants to employer partnerships; for example, an NHS Trust in partnership with a local commercial employer, where land and other capital is used as subsidy, with further sharing of risk.
- There should be a removal of existing financial barriers to enable employer partnerships. Relaxation of some of the rules on use of recycled capital grant (RCGF) could play a very positive role in enabling housing association partners to contribute to key worker/employer partnership schemes, with particular benefits for the local community.
- Planning policy could play a greater role in encouraging employer partnerships. If employer partnerships in health (partnering with health trusts) are considered a priority, plans should be made through section 106 and the community infrastructure levy to contribute to local health needs.

- VAT exemptions on affordable housing schemes should be extended to key worker schemes delivered through employer partnerships. This additional financial incentive may ease pressures within trusts to sell land on the open market, rather than invest in key worker housing. Other tax incentives, such as changes to stamp duty and tax incentives for employers, should be examined.
- Models should be considered to attract other public sector employers who could invest land as subsidy, or other forms of subsidy, to invest. Lessons can be learned from models developed by local authorities, who have established their own commercial companies to scale up development. Other public sector employers, including NHS Trusts, should examine similar opportunities to give them the flexibility they need, and to make best use of their ability to access affordable finance.
- Local authorities, with their ongoing strategic housing role, are best placed to offer commercial incentives to companies who are considering investment in their area. Examples exist of authorities offering leases to retailers on a competitive basis to attract them to the area – authorities should consider their role in enabling employer partnerships to ensure the delivery of affordable housing and attract talent to the area.

The soaring cost of housing on employee incomes, and the scale of in-work poverty, presents an enormous challenge for government and for employers to recruit and retain talent. While the white paper has recognised the significant impact that housing costs are having on labour mobility and access to the labour market for employees and to talent management and growth plans for employers, it must ensure concrete plans are put in place to encourage employers to make best use of their assets – land and otherwise – to add to new supply, and increase access to affordable homes for employees. No single model will provide all the solutions. However, there are excellent lessons to learn from partnerships between NHS Trusts and housing associations, and in time, between other public sector employers with land to invest in housing. At present, the model is small-scale, though showing signs of potential. However, a combination of vision, proactivity and smart use of land assets by employers, local government and housing associations give great cause for optimism. While there are benefits to be gained for all stakeholders, the ultimate prize – not beyond our capabilities – is a productive and happy labour force, with decent living standards.

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11.

BUILDING BRITAIN AFTER BREXIT

LUKE MURPHY AND JOE DROMEY

INTRODUCTION

The Lyons Review found that the housing industry faces workforce constraints that are familiar across British industry, but that they are particularly acute in the housebuilding sector (Lyons 2014). Indeed, addressing the skills shortage in the construction sector has long been seen as a necessity if we are to increase housebuilding to a level where we are able to meet housing need.

The Farmer Review, commissioned by the Construction Leadership Council at the request of the government, pointed to a ‘deep-seated market failure’. In hard-hitting conclusions, the report warned of the ‘real ticking ‘time bomb’ of an ageing workforce and insufficient numbers of new entrants to the industry. It predicted that this could result in a 20–25 per cent decline in the available labour force within a decade (Farmer 2016).

In its housing white paper, the government acknowledges the skills shortages that the sector faces and the barriers that they represent to building homes (DCLG 2017). It also acknowledges the concerns of industry regarding its reliance on migrant labour, particularly in some areas such as London and the South East. The government has resolved to take action to address these barriers and to work with the industry to help it invest in its future workforce (ibid).

However, the Farmer Review concluded its work just as the UK voted to leave the EU. While the review acknowledges that Brexit might affect the availability of migrant labour for the industry moving forward, it reaches its blunt conclusions without being able to take full account of the impact of Brexit. In short, the market failure and demographic trends already represented huge challenges for the sector at the best of times, but Brexit and the reduced access to migrant labour could turn this growing challenge into an imminent crisis.

Despite this, there has not been a significant debate about the tensions between the government's ambition to build one million homes over this parliament, and its aim to end freedom of movement and reduce net migration to under 100,000. This essay seeks to explore that tension, in order to prompt a wider debate about these issues and look at some of the potential solutions.

THE EXISTING WORKFORCE CHALLENGES IN HOUSEBUILDING AND CONSTRUCTION

There are 2.3 million people currently working in construction, slightly below the level reached ahead of the financial crash. In recent years, the construction workforce has been growing, but at a slower rate than the workforce as a whole. Construction currently accounts for 7.3 per cent of the workforce, down from 8.6 per cent a decade earlier (ONS 2016).

Construction faces long-standing workforce and skills challenges that risk placing increasing constraints on output over the medium to long term. A recent Royal Institute of Chartered Surveyors (RICS) sector survey showed that, after financial constraints and planning and regulation, the shortage of labour was the third most significant constraint on building, cited by 50 per cent of respondents (RICS 2017a). UKCES has also found that one in three vacancies in the construction sector in 2015 were a result of skills shortages; the joint highest for any industry (UKCES 2016).

While skills shortages are not uncommon in different parts of British industry, there are several factors that help explain the construction skills shortage.

First, the cyclical nature of the industry makes the recruitment and training of the workforce far more difficult. Numerous studies have found that housebuilding is susceptible to cyclical fluctuations in the housing market and recessionary forces (Lyons 2014, Shelter 2014), which have a series of wider impacts on the industry, including the workforce. For instance, in the aftermath of the economic downturn in 2008, the construction sector lost 400,000 jobs, with one of the highest redundancy rates of any industry (CPI 2014). This severe contraction saw skilled and experienced workers leaving the industry to find work elsewhere.

Second, the structure of the industry presents a challenge. The industry is fractured, and there is a culture of subcontracting with long supply chains (Farmer 2016). This means there are fewer training opportunities than there otherwise would be, as large firms contract from smaller firms to whom the responsibility for recruitment and training often falls. The industry is also characterised by very high levels of self-employment: 41 per cent

of construction workers are self-employed, compared to just 15 per cent of workers across the rest of the economy. Construction has been a major driver of the increase we have seen in self-employment across the economy, accounting for 22 per cent of the growth since 2000 (ONS 2017a).

Third, the construction workforce has an older age profile than other UK industries, and faces losing a fifth of its workforce through retirement within the next decade. According to a Construction Industry Training Board study in 2013, 406,000 of UK construction workers then aged 55 years or over were set to retire in the next 5–10 years, while 518,000 workers aged 45–54 were set to retire in the next 10–20 years (CITB 2013). Construction therefore faces a very high level of replacement demand – with the sector having to recruit many workers each year to replace those leaving the trade.

Fourth, the industry has a poor record of attracting, training and investing in talent. While the total number of apprenticeships has soared, the number of construction apprenticeships has not. Between 2005/6 and 2015/16, the number of apprenticeships across all industries nearly trebled, increasing by 191 per cent. Over the same period, the number of apprenticeships in construction, planning and the built environment increased by just 2 per cent (SFA 2016). As the Farmer Review highlighted, this is largely due to a dysfunctional training and funding deliver model (Farmer 2016). It is also due in part to the poor image of the construction industry (CPI 2014); the industry performs poorly in terms of representation of young people, women and ethnic minorities (ibid).

Fifth, the industry is plagued by extremely poor levels of productivity (Ball 2005, Farmer 2016). Where other industries have made significant productivity gains over the past decade and longer, productivity in construction has remained broadly flat (Farmer 2016). In the absence of improvements in productivity, the growing workforce skills shortage has increasingly become a constraint on output.

The construction industry therefore faces significant skills gaps, stagnant productivity, and low levels of investment in skills. These systemic weaknesses have increasingly become a constraint on our ability to build the homes that we need. While these challenges would be a concern at the best of times, the result of the referendum has provided the burning platform that demands action.

BREXIT AS A CONSTRAINT ON HOUSEBUILDING?

In the wake of the vote to leave the EU, the government has pledged to leave the single market and end freedom of movement for EU citizens, as well as re-stating its objective of reducing net migration to below 100,000. The latest figures have shown net migration to be currently nearly three times higher at 273,000 (ONS 2017a).

While EU nationals already in the UK are likely to be granted the right to remain in the country, there are signs that, following the referendum, some of those working in construction are already returning home. Some large construction firms have warned that a large number of their workforce have left the country, with the decline in the value of sterling (as it has reduced the value of remittances and savings) and uncertainty about future rules seen as possible factors. Rob Tincknell, chief executive of Battersea Power Station Development Company, has said that construction workers from eastern Europe have begun to leave: 'Brexit is bringing uncertainty. You have changes in exchange rates and uncertainty around the construction labour force' (Times 2017). Beyond the impact on existing workers, the real risk for the sector is of a restriction in the supply of the skilled staff that housebuilders need.

Over the past 15 years, the construction industry has become increasingly reliant on migrant labour, particularly from the EU. The 2011 census showed that 9.6 per cent of construction workers had been born outside of the British Isles, up from 3.5 per cent in 2001. Recent IPPR analysis of the Labour Force Survey showed this has increased further still; EU nationals alone now account for 8 per cent of the construction workforce (LFS 2016). In London, where demand for new homes is the greatest, just over half of construction workers are from the UK, with 27 per cent coming from the EU (GLA 2017).¹ The Mayor of London has warned that a 'hard Brexit' could have a 'crippling effect' on housebuilding in the capital. The census and the Labour Force Survey (LFS) are likely to undercount the true prevalence of EU workers in the sector, due to high levels of self-employment, and because the LFS doesn't pick up temporary migrants as well as it could. Moreover, the RICS has suggested that, should Britain lose access to the single market, £500 billion worth of infrastructure and construction projects could be put at risk (RICS 2017b).

WHERE NEXT?

There is recognition of the need for change, both in government and the industry. The government has called on the industry to step up and increase the level of training, to work with local colleges

1 IPPR analysis of the Labour Force Survey [LFS] (2015 Q3 to 2016 Q2).

to ensure a sufficient supply of skills, and to look at retention of labour and preventing early exit. For its part, the government has committed to changing the way it supports training in the construction industry, including conducting a review into the Construction Industry Training Board and launching a new route into construction by 2019.

However, government and industry have not yet set out a clear plan for reform to enable the increase in housebuilding that is so needed, and to allow the government to meet its ambition of reducing net migration to below 100,000 (which IPPR has long argued is counter-productive) without severely damaging the construction industry. In the short, medium and long term, the government – alongside the housebuilding and wider construction industry – will need to take several steps to ensure that skills shortages do not become a permanent barrier to increasing housing supply.

As a first step, and to inform all else that follows, government and the industry must develop a clear understanding of current skills needs, and how these may be affected by Brexit. They must examine both the potential impact of Brexit on the availability of skilled workers, and what this means in terms of the labour requirement for the government's infrastructure pipeline and housebuilding targets. The assessment must consider the demand for skilled construction workers; both replacement demand driven by the aging workforce, and the demand to boost housebuilding to the levels we need. A realistic assessment should also be conducted of what the current training system can deliver, what a reformed system could deliver, and the time it would take to ramp up training. Analysis of this kind will help inform what needs to be done in terms of funding and infrastructure for training, as well as what flexibility the sector will need around immigration rules in the short to medium term.

Second, there will need to be a significant increase in the training capacity of the sector. It is unlikely that we currently have either enough appropriate workshop premises for off-site training, or enough instructors, to increase training to the scale that would be required. There may be a case for prioritising capital investment in further education on construction, and for additional investment in the training of new lecturers, assessors and instructors to provide training at the scale that will be necessary.

Third, there must be an overhaul of training and investment in training in the sector led by the industry itself. For too long, the industry has muddled along without significantly investing in its workforce. There must also be a central focus on improving the attractiveness of the industry. This must be assisted by

government, who should examine the incentives and requirements on housebuilders to invest in training. It should start by examining how the apprenticeship levy will work in relation to the construction industry. As explained above, while apprenticeship figures have increased significantly in recent years, the number of construction apprenticeships has stagnated. The levy, which came into effect in April, will have a limited impact in construction due to the structure of the sector. Only firms with a payroll of £3 million or more will be hit by the levy, and therefore encouraged to invest in apprenticeships to recoup their levy funds. Just 0.5 per cent of employers in construction will pay the levy, compared to 1.3 per cent across the economy as a whole (DfE 2016). The large number of self-employed workers will of course be unaffected. The government should therefore consider focussing unspent levy funds on the sector, and on other sectors which are currently reliant on EU migrant labour and may experience a challenge post-Brexit.

Fourth, the industry and the government should work together to develop an industrial strategy for housebuilding, with investment in skills and modern methods of construction at its heart. The Farmer Review found there is low investment in research and development and innovation within the construction sector compared to other industries (Farmer 2017). The vast majority of housebuilders still employ traditional methods of construction and there has been little innovation within the industry as a whole. There is often widespread suspicion of these methods as they are associated with the pre-fab era of the past, which was plagued by quality and other issues. As argued elsewhere in this collection by Mark Clare, increasing the use of modern methods and industrialising the way the sector builds could increase productivity, reducing the amount of labour required to build each additional home, particularly the on-site labour which is often in short supply. This could also potentially reduce build costs and increase speed and quality.

Finally, assuming the government does go ahead with implementing stringent restrictions on EU labour, as part of any planning post-Brexit the government will have to use a transitional system that will avoid a cliff edge, and ensure access to the appropriate skills after the UK leaves the EU. Even if we saw a sudden and dramatic improvement in investment in skills in the sector from current levels, it would most likely not be enough to provide the supply of additional workers that we would need in the aftermath of leaving the EU if access to migrant workers were severely restricted. The government has floated the prospect of flexibility for a period following the UK leaving the EU, with sectors which are currently more reliant on EU migrants having greater access to migrants. RICS have already mooted that construction professionals, such as quantity surveyors, should feature on the 'UK Shortage Occupations List' as means to ensure sufficient

supply in the short term (RICS 2017). Given the sector already faces a high level of skills shortages, interim arrangements will need to be put in place to ensure that these are not significantly exacerbated in the short to medium term.

CONCLUSION

The workforce constraints and skills shortages in the housebuilding industry are not new, and they have been well documented in recent years. Even before the vote to leave the EU, the skills challenges in the industry were becoming very serious. But with the prospect of Brexit, and the government's decision to end freedom of movement, this growing challenge has become an impending crisis. Failing to address it will cause a crisis for the industry, harming our economy and exacerbating the housing crisis.

In the short term, there may well need to be a transitional system to ensure that the construction industry – as well as others that face similar challenges – are still able to access the skilled workers it needs. But in the medium term, there needs to be a fundamental re-think of the structure and business model of the sector, and radical reform to the way we fund, train and support skilled workers in housebuilding. Coming anywhere close to meeting housing need depends on it.

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12.

TACKLING UNDERSUPPLY IN THE CAPITAL AND BEYOND

BILL DAVIES AND CHARLOTTE SNELLING

INTRODUCTION

London's housing crisis is at the epicentre of England's housing malaise. While England's housing challenges are not universal in either their nature or scale (Snelling and Davies 2016), failure to fix the capital's problems will mean a failure to fix the nation's; London's housing need represents between a fifth and a quarter of the national total.

Last year – 2015/16 – was a relatively good year in securing a net 30,000 new homes in the capital – but the scale of the problem is vast. Current assessments suggest a *further* 20–30,000 more will need to be built this and every year to keep pace with the number of new households, and a backlog caused by a decade of under-delivering (LHC 2016). The new approach to measuring housing need announced in the white paper could see this number rise even higher – further magnifying the gulf between our demand for homes and ability to build them.

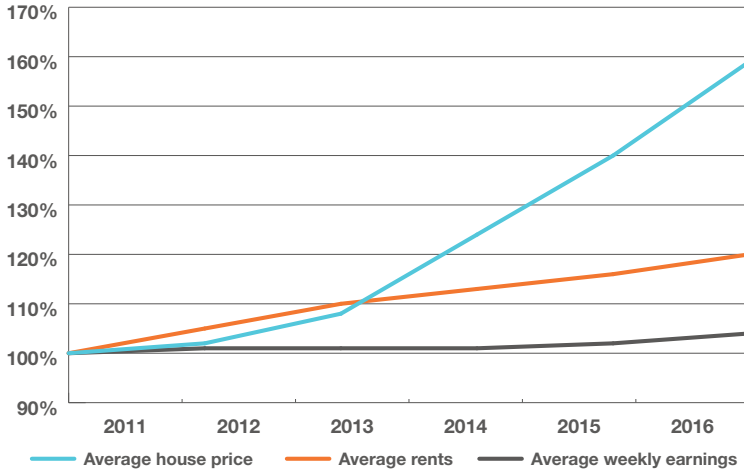
Against this backdrop, costs are growing sharply, while unaffordability, the struggle to get onto the housing ladder, and the insecurity of a competitive rental market weigh heavily in Londoners' concerns. Housing was the number one priority issue in the 2016 mayoral campaign (ComRes 2016).

While London has never been cheap, rents more than double a notional 'English average' show that the gulf between London and elsewhere has seldom been wider (VOA 2016).¹ For the cost of one average London home (£487,649), you could buy two of England's average homes, (£234,250) (Land Registry 2016), and in many parts of the country, you could buy four.

1 11 October 2015 – 30 September 2016.

FIGURE 12.1

The rise in average house prices has far outstripped the growth in rents and weekly earnings over the past five years
House price, rent, and wage inflation 2011-2015 (percentage)



Source: Land Registry 2016; ONS 2016; ASHE 2016

Building 60,000 homes a year cannot change affordability overnight – only a sustained effort over many years would bring more stable prices, rather than rampant inflation driven by household demand, low borrowing costs, and poor alternative investment options. However, building more affordable homes within this 60,000 will make a material difference to people’s lives as they struggle on waiting lists, in expensive private rents, or in temporary accommodation.

In short, growing housing supply, and *affordable* housing supply in particular, will help ease cost burdens on families, cut overcrowding, and act as a pressure valve on the intense competition for a scarce volume of available homes.

LONDON IS A MESS, BUT IT IS NOT ALONE

Since the original Lyons’ Review, the challenge of increasing England’s housing supply has only grown. In order to address London’s deeply-rooted challenges, efforts should not be limited to within the brim of the M25. Similar issues are increasingly evident in other cities, where they face acute land shortages, sharp house price and rent inflation, and rapidly growing rental markets as owner occupancy declines.

- Oxford City Council has an objectively assessed need of between 24,000 and 32,000 homes for 2011 to 2031, and yet estimates a maximum site capacity of 10,212 homes – meaning a shortfall of at least 13,788 homes, and potentially more (Oxford City Council 2014).
- Outside London, Cambridge has experienced the highest house price increases in the country since 2008/09, at almost 49 per cent (Cambridge City Council 2015).
- The number of people in Greater Manchester living in the private rented sector rose by 62 per cent between 2001 and 2011, while the number of rental properties available for long-term lets fell by 4,050 homes between 2009 and 2014 (New Economy 2015).
- While rents in London remain higher than elsewhere in the country, in 2015 it was Brighton, Bristol, and Newcastle that experienced the highest rent rises on the previous year (HomeLet 2016).²

Moreover, the pressures are not just felt by historic cities that satellite the capital. Around 130 local authorities have built fewer homes in the last decade than their household growth might warrant (Snelling and Davies 2016). With households priced out of the capital and major cities in southern England, the capital's housing crisis is spreading outwards as people seek more affordable areas, putting new pressures on these markets (Aldridge et al 2015).

The problems are severe and reflect decades of policy failure, but policymakers must not accept this as a *fait accompli*. Confronting these issues warrants a clear focus on the barriers to increasing the volume of homes, and assessing whether the right conditions can be created to deliver a step changing in delivery.

LONDON'S CHALLENGES

In reviewing the challenges in London, the London Housing Commission identified the following four key constraints that are preventing housebuilding in the capital reaching the required ambitions.

1. There is **not enough land identified in the London Plan** for the homes we need (GLA 2014), and the London plan needs to identify a further 20 per cent more land, if not more, to hit housing delivering targets. If proposed methodological changes for assessing housing need in the government's housing white paper are implemented, the land requirements could grow even further (DCLG 2017). Moreover, roughly

² 18, 18, and 16 per cent respectively.

two-thirds of London's land for homes in the London Plan is skewed towards large sites, which evidence shows are slow to come to market, requiring significant upfront investment and infrastructure planning, and may take decades to turn into new homes (Wilson and Brown 2016).

2. The **length and complexity of planning processes** result in too few homes being approved. The system in London is stymied by sharp reductions in funding – down 46 per cent between 2010-11 and 2014-15 according to analysis by the National Audit Office (NAO 2014) – and a consequent reduction in planning officers (RTPI 2015 in submission to LHC 2016). There is significant evidence of planning consents being owned by those with little intention of turning them into homes (Molior 2014), instead allowing land to accumulate in value while waiting for more confidence in the buying market. The white paper makes some positive moves, looking to shorten implementation periods from two to three years, and increasing planning fees (by 20 per cent nationally) to support planning departments' resources. However, the wider housebuilding sector will require further investment and capacity to turn these permissions into homes.
3. The capital **needs around £16 billion investment per year** to deliver 50,000 new homes (GLA 2014). Last year, investment was only around £8 billion (BIS 2015). This may fall in response to uncertainty caused by Brexit, although it will be some months until the impact of the vote to leave the EU can be fairly assessed. Public investment per home has nevertheless fallen sharply – by as much as 60 per cent in recent years (LHC 2015) – and the private sector has struggled to close the investment gap.
4. **London is reliant on a concentrated market of volume housebuilders** (Molior 2013) focussing on homes for sale. Not only does this make housebuilding pro-cyclical, it constrains the number of homes the sector will build to the number it can sell on the market – a challenge raised but not addressed in the housing white paper. Despite government overtures on build-to-rent, this model of housing delivery still struggles to compete with homes for sale, even in the face of sharply growing demand.

Simultaneously, as detailed elsewhere in this collection, the construction sector is under-resourced. The London Chamber of Commerce and Industry (submission to LHC 2016) finds only 14,500 construction workers are currently being trained up when the need for new construction workers – in a pre-EU referendum calculation – is closer to 29,000. The government has made clear that skills are a priority, but this must extend beyond construction and into planning, commissioning, and architecture professions,

while attention must also be paid to ensuring that housebuilders are not tempted to withdraw from the capital.

While all of these are serious problems for London, conversations with housing and planning teams beyond the capital reveal that they are not unique. The challenge for policymakers in all of these areas then is what to do about it.

WHAT CAN BE DONE?

The housing white paper is certainly a start, and goes some way to highlighting the challenges of delivering new supply; not least the broken nature of the housing market, the importance of land, and the need for a more diverse set of developers and products.

It also takes some welcome steps towards addressing these problems, including:

- the new impetus assigned to increasing land supply, through stressing the need for more ambitious local plans that fully account for the growth in households in their area, or else have their hand forced by the ‘housing delivery test’
- a welcome emphasis on increasing density of housing developments around key transport links
- the increase in planning fees by some 20 per cent, which will ease pressures on hard-up planning departments, and thus should speed up appropriate planning approvals.

However, while the new narratives and many new measures in the white paper are welcome, in places such as London, Cambridge and Brighton, one of the main consequences of the housing white paper may be to bring into further relief the gulf between the estimates number of homes we need locally, and our inability to see them built.

CURRENT CAPACITY TO TACKLE THE SUPPLY PROBLEM

While the mayor, boroughs, and local and combined authorities outside the capital cannot fix all of the issues above, they are quite capable of doing more.

For instance, the London Plan only identifies land for 425,000 of the 490,000 homes London needs – meaning a shortfall of 65,000 homes over the period to 2025. Greater Manchester’s spatial plan is wrestling with a similar challenge, of having too little land in scope to meet the housing need of the future (Snelling and Davies 2016). It is true that they are not making land anymore, but the London Land Commission (2016) identifies public land which could provide sites for as many as 130,000 new homes. Bringing more land into local plans and upping densities is quite feasible now

– an area which is currently under review at City Hall, and also a welcome component of the white paper. Also feasible is reviewing public land ownership, and identifying more small sites to help lower the barriers to entry for smaller housebuilders.

However, even with this commitment to higher density developments, brownfield land may still not plug the gap (NLP 2014). While it may be politically difficult, there needs to be a serious conversation within the capital about how housing need will ultimately be managed, including as the role of the greenbelt.

As the Lyon’s Review highlighted, getting local plans in place is absolutely key. The Greater London Authority (GLA) must therefore support and pressure London authorities to get their plans in order. This could be supported through setting up a London-specific planning inspectorate within the Homes for Londoners team to monitor and advise planning departments. Boroughs themselves should annually review and publish progress on housing delivering and planning performance against national and local targets – a matter which in any case will be forced eventually by the housing delivery test in the government’s white paper.³

However, as much as these measures will improve land supply and planning processes to boost housing delivery, it is clear that there are missing pieces of the puzzle; namely, the planning powers required to draw in fully the land that London needs to plan for the future, and the resources necessary to deliver.

FUTURE POWERS REQUIRED

Increasing land supply is central to upping housing supply. But alone, this will not be enough if there is neither the money to plan, build, and pay for them.

Furthermore, the new ‘housing delivery test’ risks punishing London authorities who have between them approved planning consents fit to deliver at least five years of supply, but are reliant on private housebuilders and housing associations who have struggled to convert those consents into the homes that London needs.

Therefore, in exchange for taking responsibility for increasing land supply, the government needs to provide meaningful levers to local government to get homes built. There is some commitment made to devolving further powers where local authorities are able to demonstrate ambitious housebuilding plans – building on recommendations from IPPR (Snelling and Davies 2016) – but the

3 Combined authorities making spatial plans should do the same.

current menu on the table is fairly sparse, and does little to tackle the ‘broken housing market’.

Starting with planning, local departments need more resource and more tools. Planning fees are set to increase nationally, bringing welcome additional capacity back into planning departments to speed up processing of planning applications. Echoing the original Lyons’ Review, these should be set locally, on a cost-recovery basis, to reflect both London’s distinct planning complexities, and the variation across England in how planning fees might impact on developments. London also needs a reserve power to ensure the consents it grants turn into homes. This should be a discretionary charge on owners of planning consents who miss agreed build out targets.

However, tweaks to planning won’t be enough either. London has never delivered the homes it needs by relying only on private developers building homes for sale. It needs greater power to unlock more quality rented homes for those who can’t yet afford to buy, and the power to build additional affordable homes for those who can’t afford market rent.

The devolution of £3.15 billion of affordable housing spend to the mayor to build 90,000 homes is a good start, but it will not support the minimum of 25,000 affordable homes needed in London each year (GLA 2014). Repeatedly returning cap-in-hand to the Treasury, rather than funding new housing supply from London revenues, allows the government to blame London and London to blame government when targets get missed.

Nevertheless, fiscal devolution was notably absent in the white paper. The devolution of stamp duty, using revenues from rising prices to help stabilise them – especially retention of that related to new homes – would be a good place to start. It would allow London to retain a substantial proportion of income from property taxes, and provide a powerful incentive to see more homes built in the local area. Boroughs would also be able to adjust rates to better reflect local pressures, including a reduction in duty on larger build-to-rent projects, in order to improve viability, increase transactions, improve affordability and contribute to more varied tenure mix developments. Similarly, council tax flexibility should be considered. While recognising the relatively modest financial gains, as the Lyons Review concluded, this would be a useful tool for creating local incentives to bring forward sites where they remain undeveloped or homes sit empty.

Finally, restrictive rules on borrowing, including the cap on housing revenue account debt, should also be lifted, to allow more upfront investment in new developments. Clear exemptions

from Right to Buy and high value sales for local authority development companies would provide the tools for safe municipal investments in housing that could compliment private and housing association efforts.

Ultimately, if London and other areas are to compliment private housing supply with other, more affordable products, they need the means to do it. The white paper has moved the debate forward with a welcome shift in narrative around how broken our housing market is, but has yet to create a policy framework that might fix it.

THE CAPITAL AND BEYOND

There are no shortcuts to tackling London's housing crisis. To increase supply, all potential avenues need to be actively pursued: increase land supply, improve planning, up investment, and multiply the number of actors and products in the development market.

Fundamentally, it must be a partnership between local and national government. Through deal-making, the appropriate powers and responsibilities can be distributed, and the circle of blame left behind. In exchange for allocating more land locally, more tools and flexibilities must also be devolved. There has been some marked progress on this front in recent months – but there is an urgent need for devolution to go further and faster, in London and elsewhere, to deliver the homes that England desperately needs.

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13. LEARNING LESSONS FROM ABROAD AND CLOSER TO HOME: EXPERIENCE OUTSIDE ENGLAND AND THE LYONS REVIEW

ED TURNER

INTRODUCTION

As the housing white paper acknowledges, England faces huge housing pressures. However, these are by no means unique; a look around the capitals of Europe, for instance, shows that Amsterdam, Berlin, Paris, Helsinki, Brussels and Luxembourg, to name but a few, increasingly struggle to supply sufficient accommodation, especially of an affordable nature. The nationwide problem in England, however, is especially severe, and so it makes sense to look beyond England's borders at possible solutions. This can be towards continental Europe (and beyond), but also closer to home, to the other nations of the UK after nearly two decades of devolution, through which housing and planning have taken different paths.

This short contribution does not offer a comprehensive review of housing policy outside England. Instead, it looks at four areas highlighted by the Lyons Review (2014) that are important to consider in raising housing supply of the appropriate quality, where there are excellent lessons to be drawn from beyond England's borders, and where the housing white paper, while often offering hints in the right direction, could be further developed.¹

It is, of course, important to recognise the limits of drawing lessons from abroad. A cursory comparison of Germany and England, for example, would note different structures to the building sector, substantial differences in the financial sector, wildly different cultural expectations of actors in the housing process (both

1 The financial support of the German Academic Exchange Service (DAAD) for my work on German housing policy is gratefully acknowledged.

would-be landlords and residents), differences in the availability of land, and of course different legal frameworks (Davies et al 2016). However, the potential for drawing tentative lessons (or even posing questions – ‘does it have to be this way?’) is most certainly present. Across Europe, as more and more nations face challenges in providing sufficient and affordable housing (Housing Europe 2015), the topic has become far more important as a political issue, especially in pressured ‘hotspots’.

ENSURING DEVELOPMENT ACTUALLY HAPPENS: AN ACTIVE STATE ROLE IN LAND ASSEMBLY AND DEVELOPMENT

In England, in contrast to much of continental Europe (but also the post-war new town developments), the market is largely relied upon to deliver housing, with the state’s role being confined to that of planner and regulator. The Lyons Review argued for an active state role in land assembly and development, as did a study by Shelter and KPMG, which contended that the current English land use planning system is ‘largely reactive, rather than proactive’, and proposed the introduction of ‘new homes zones’, in which a new partnership would assemble land, capture a share of the uplift in value for infrastructure, appoint a ‘promoter’ to lead the development, and ‘parcel’ serviced plots for development within a defined timeframe (Shelter and KPMG 2014). The housing white paper takes small steps in this direction, with an openness to reforming compulsory purchase rules and support for local development corporations, though overall it would be fair to say it is far stronger on soft instruments to encourage development (such as better data about housing completions) and, in particular, sanctions on local authorities that fail to see housebuilding progress in their areas. Very positive examples of what can be achieved by a more ambitious conception of the state’s possible role can be found elsewhere.

Germany is a good place to look for an illustration of what can be achieved by a state that is active in land assembly and development – and indeed, a specific example is given in the white paper (DCLG 2017). This starts with the planning process, where it is quite common for local authorities to be involved in land ‘readjustment’, resolving issues of complex ownership and then sharing out the proceeds, to mutual benefit, at the end of the development (under paragraph 45-84 of the Federal Building Law, Baugesetzbuch 2017). Through the planning process, not only can development contributions or certain infrastructure be required under paragraph 11 of the Federal Building Law, but under paragraph 12, a requirement to provide a timescale for construction can be triggered – and, if breached, permission for a development will lapse.

A stronger role can be played throughout a development by the state in certain circumstances. Under paragraphs 165-171 of the Federal Building Law, the local authority can introduce ‘urban development measures’. Here, the local authority acquires the site at existing use value, assembles the land, and then sells it after development (or the creation of building plots). Proceeds from any sale are shared amongst the original owners, with the local authority retaining development and infrastructure costs. These measures are only permissible if proposals for the site cannot be realised in another way. This is by no means an idle threat, however – there is extensive experience of using these measures in major cities, and indeed they can be helpful in dealing with recalcitrant public, as well as private sector owners (see Turner 2017).

Paragraph 176 of the law allows for a ‘requirement to build’ to be issued where a zonal plan is in place, or in a city centre which already has dense buildings. This can only be triggered if building is financially viable for the owner, but it provides a tool to dampen speculation with plots of land, and can be used to accelerate construction.

Finally, a significant role is played in housing development by publicly-owned local development companies in Germany: a phenomenon now increasingly common in England (Local Government Lawyer 2016). Such companies are in municipal ownership – although there has been extensive and much-criticised privatisation in the last two decades – and can make a particularly strong case to local authorities to have public land sold to them, as the local authority, in effect, retains (arm’s length) ownership of a site, while also receiving nomination rights for low-cost accommodation (see Turner 2017).

Of course, there are other facets to the context of Germany’s housing policy, such as the greater availability of land and public finance, and differences in the range of tenures. But the fact that, since the 1950s, Germany has built roughly twice as many homes as the UK (Davies et al 2016) suggests that this more active state role has proven a considerable success.

OFFERING A RANGE OF TENURES

The housing white paper acknowledges the need for a range of tenures, moving beyond the near-exclusive focus on home ownership under the previous government, and with support for affordable rent, rent-to-buy, and institutional investment in rented housing. England is not unique in its focus on home ownership – for instance, home ownership rates exceed 90 per cent in Romania and Croatia (Eurostat 2017) – but there are good examples of

European countries building a range of tenures, which is a key recommendation of the Lyons Review.

A glowing example is the city of Vienna. It might be expected, with its pivotal position in Europe's economy and attractiveness as a place to live, that housing costs would very high, and that it would face the same pressures as other major European capitals. However, this is not the case: average rents across the city are around €7.50 per square metre (Standard 2016), and, if only the private rented sector is counted, range between €8.90 and €11.90 per square metre (Presse 2015). For London, a rough calculation would suggest a level double this.² Overall, some 43 per cent of households in Vienna live in social housing, with a further 34 per cent in the private rented sector (compared to 23 per cent social rented and 25 per cent private rented in London).

A key component in Vienna's success is the strong role for the state and not-for-profit sectors, which provide social rent, sub-market rent and affordable home ownership products alongside market housing. Synergies between these products appear to mean that affordability pressures are far lower than in much of England, let alone in London. In 2015, Vienna reported significant public building – around 7,000 new social homes were let out, with a further 14,000 under construction (Wiener Wohnbau 2015). By contrast, in London – a city more than four times the size – there were 24,390 completions in 2015, of which 7,890 were by housing associations or councils. In Vienna, housing delivery was over 40,000 units per annum throughout the 2000s, highlighting a greater resilience to the financial crisis than in countries more reliant on construction for sale (FGW 2014). Of course, this comes at a price, with over €600 million of public investment in subsidised housing annually (Stuttgarter Zeitung 2015) – but the outcomes in Vienna are demonstrably better than in other European metropolises, not least because of its commit to diversity of tenure.

The government's housing white paper also acknowledges that the private rented sector needs to change and become more family-friendly, with a modest proposition for longer tenancies in some new build-to-rent properties. Here, Scotland provides an interesting (in development) example of possible further action. The Scottish government legislated in the Private Housing (Tenancies) (Scotland)

2 Average private rents in London are currently around £1,295, or €1,486 per month, using the January 2017 Countrywide index. According to the 2014/15 English Housing Survey (DCLG 2016), the average size of a privately rented home is 77 square metres. If this national average is applied to London, that gives a figure of €19.30 per square metre. In practice, properties in London are likely to be smaller than the national average, so the figure could well be higher, but regional data on housing size is not available.

Act 2016 to require the replacement of assured shorthold tenancies (typically six to twelve months) with ‘private residential tenancies’. These remove the possibility of a landlord ending a tenancy without the tenant being ‘at fault’ (for instance, accruing rent arrears), unless the landlord requires the property to live in or to sell (Brodies 2016). Once the legislation is implemented, most probably in 2017, it will provide compelling evidence of whether tenancy reform leads to an implosion of the private rented sector, as some would claim, or is a straightforward way of making the tenure more appropriate for long-term occupation.

PLANNING FOR SUSTAINABLE HOUSING IN THE RIGHT PLACES

Much of the housing white paper is devoted to discussion of the planning system. At its heart is the proposal for a ‘delivery test’ on local authorities, with under-performance eventually resulting in a far lower hurdle to obtain planning permission (DCLG 2017). It also expands the possibilities for strategic – or ‘larger than local’ – planning, enabling ‘spatial development strategies’ beyond the local area to allocate sites.

Examples of relatively deregulated planning frameworks in the provision of housing can be found in Ireland and Spain. These should caution us against swift liberalisation at the local or national level. In both cases, there were construction booms in the mid-2000s, followed by significant slumps thereafter. It would be wrong to attribute the origins of these crises to the planning system – in particular, the free availability of credit and rampant speculation were largely responsible. However, in both countries, the planning system responded quickly to increases in demand associated with the greater availability of credit (Oxley et al 2009). In Spain, there was a decision taken to liberalise planning systems to accelerate housebuilding, and the 1998 Land Act in Spain (apparently nicknamed the ‘build anywhere act’) served to greatly increase the number of development sites (Norris and Byrne 2015). In Ireland, the planning process was somewhat tightened up in 2000 (for instance, with a requirement for councils to have a local plan), but it was – and to some degree remains – extremely liberal (ibid).

Oxley et al are critical of the impact of these policies:

‘In Spain and Ireland, the allocation of sites for new housing through the planning system has led to considerable oversupply of sites (overzoning) and development proceeding ahead of infrastructure provision, environmental damage, less influence over the location of new development and a large proportion of empty properties.’

Oxley et al 2009

In the Irish case, Nessa Winston (2010), in a detailed study of development in and around Dublin, found different dimensions of sustainability were let down by the liberal system. There was inadequate emphasis on regeneration of brownfield sites, the construction of poor quality housing, and inadequate enforcement of building regulations, which were only tightened up following the introduction of new European regulations in 2006 (ibid).

These are, of course, not the only instances of deregulated planning systems – similar points may be made in countries as diverse as America, where ‘urban sprawl’ is a common consequence, and Montenegro, where large amounts of speculative development for holiday homes on the coast have blighted the local environment, while creating economic benefits only in the short-term. The claim here is not that a planning system should be unresponsive to housing demand – though it is better to measure that demand through a mechanism other than availability of credit – but rather that careful planning is still needed to guarantee the quality of communities and individual homes. Allowing the ‘presumption in favour’ to apply very widely would jeopardise those aims, as these examples show.

As it stands, the housing white paper supports strategic planning, but stops short of the Lyons Review recommendation for a national spatial dimension to the National Planning Policy Framework (Lyons 2014). This would inform (and be informed by) infrastructure requirements, and consider such questions as the balance between supporting housing development in areas with immediately acute need, and any regional policies aiming to support economic growth outside the South East. Precisely such a plan is to be found in Wales, which adopted the Wales Spatial Plan in 2004, renewed it in 2008, and indeed increased the importance of the document in 2015 by introducing a legislative requirement for a National Development Framework to be produced by 2018 (Colomb and Tomaney 2016). Although the Wales Spatial Plan has its critics – specifically, that it is insufficiently general and thus lacks ‘teeth’ – it has helped to facilitate policy integration between the tiers of government in Wales, as well as negotiating a consensus over policy challenges faced in different areas (Stafford 2016).

CONCLUSION

The aim of this contribution was to highlight the potential for cross-national policy comparison, and stake the claim that, on key issues addressed by the Lyons Review, there is untapped potential to learn from abroad and the other nations of the UK – about promising paths to take, but also ones that are best avoided. This discussion suggests that, in its support for a more active local role in land assembly and development, strategic planning, and

endorsement of a range of tenures, the white paper edges in the right direction, but could go much further.

England, and particularly London, is very often held up in continental Europe as an example of what can happen when housing delivery and affordability challenges are not addressed. In practice, as noted at the start of this discussion, these problems are becoming more familiar across the continent and, even after Brexit, international dialogue would therefore seem more important than ever before.

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IDEAS to
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