



HOUSE OF LORDS

Select Committee on Economic Affairs

1st Report of Session 2016–17

Building more homes

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Select Committee on Economic Affairs

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CONTENTS

	<i>Page</i>
Executive Summary	3
Our main conclusions and recommendations	5
Introduction: Housing, a broken market?	7
Part 1: The problems	
Chapter 1: The state we are in	11
The role of demand	16
Supply of land	18
Private sector construction	19
Public sector housebuilding	24
Public policy changes and volatility in the market	25
Existing housing stock	25
Chapter 2: The Government's response	28
Housing supply: building one million homes	28
Tenure: doubling the number of first time buyers	31
Part 2: The solutions	
Chapter 3: Planning reform	37
The current planning system	37
Criticism of the planning system	37
Increasing resources	40
Accelerating build out rates	42
Reform to section 106 and the Community Infrastructure Levy	44
Other solutions and initiatives	46
Chapter 4: Building more homes on public land	48
Releasing public land for development	48
Type of homes that could be built on public land	51
Coordinating the release of central Government owned land	52
Chapter 5: Building by local authorities and housing associations	55
Capacity to increase housebuilding	55
Benefits of local authority and housing association building	56
Increasing building by housing associations	59
Increasing local authority housebuilding	60
Chapter 6: Making better use of the existing housing stock	66
Taxation relating to property	66
Lack of suitable accommodation for downsizing	71
Summary of conclusions and recommendations	72
Annex 1: Mortgage affordability for first time buyers	77
Annex 2: Trends in population growth	78
Annex 3: Government Initiatives to Help Home Ownership	80
Annex 4: Planning changes	87
Annex 5: Local Authority Financing Initiatives	89

Appendix 1: List of Members and Declaration of Interests	90
Appendix 2: List of witnesses	92
Appendix 3: Call for Evidence	100

Evidence is published online at <http://www.parliament.uk/economics-uk-housing-market> and available for inspection at the Parliamentary Archives (020 7219 3074).

Q in footnotes refers to a question in oral evidence.

EXECUTIVE SUMMARY

“We are ... very conscious that we have not built enough homes in this country year on year for many decades ... We have been very clear that we want to be very ambitious. We want to deliver homes across all tenures. We want to drive home ownership up as well. Working to deliver one million homes in this Parliament is a target we should be very ambitious about, and go beyond, if we can.” Brandon Lewis MP, Minister for Housing, 22 March 2016.¹

A growing population, rising immigration and rising incomes have increased demand for housing in England in recent decades.² But, as the Minister admitted, too few homes have been built over this period. House prices and rents in some parts of England have risen sharply. There has been a decline in home ownership over the past decade. This, coupled with the decline in the number of homes available in the social sector, means that an increasing proportion of people are now housed by private landlords.

We must build enough homes to make housing more affordable for everyone—to rent or to buy. Aspirant home owners who are unable to afford a deposit pay substantial proportions of their income on rent; families on waiting lists for social housing contend with insecure tenancies and rogue landlords while spending on housing benefit has almost doubled in real terms over the last two decades.

As the Minister explained to us, the Government is aiming to address problems in the housing market by building one million homes in England by the end of this Parliament while also helping people into home ownership through various schemes.

Since the referendum on the UK’s membership of the European Union in June 2016, the Minister has effectively abandoned this target. Prior to the vote he warned that the target would be difficult to achieve if the UK voted to leave the European Union.³

On 1 July 2016, the Chancellor of the Exchequer effectively abandoned his target of achieving a budget surplus in 2019/20. This could pave the way for releasing restrictions on local authorities and enable them to boost housebuilding activity substantially as this report recommends.⁴

The Government’s ambition is welcome but this must be matched by appropriate action on a much larger scale than currently envisaged and across all tenures. The Government is primarily focused on building for home ownership, neglecting housing for affordable and social rent.

It has been ten years since 200,000 homes (the implied annual rate from the Government’s target) were added to the housing stock in a single year. But the evidence we have heard suggests this will not be enough to meet future

1 [Q 237](#).

2 As housing is a devolved matter, this report concentrates on England only. The problems highlighted and the solutions offered however could equally apply to other areas of the UK.

3 Mr Lewis told a Housing Conference: “I don’t set targets, I never set a target”. Inside Housing, *Lewis: million homes ‘was never a target*, 29 June 2016: <http://www.insidehousing.co.uk/lewis-million-homes-was-never-a-target/7015848.article> [accessed July 2016]

4 In a speech to the Greater Manchester Chambers of Commerce on 1 July 2016, the Chancellor said: “The Government must provide fiscal credibility, so we will continue to be tough on the deficit, but we must be realistic about achieving a surplus by the end of this decade. This is precisely the flexibility that our rules provide for.”

demand and the backlog from previous years of undersupply. To meet that demand and have a moderating effect on house prices, at least 300,000 homes a year need to be built for the foreseeable future. Otherwise the average age of a first time buyer will continue to rise.

In a functioning market, the private sector, housing associations and local authorities would be building enough to meet anticipated demand. But they are not. The business model of the large developers looks to profit margins rather than volume, housing associations are facing loss of revenue due to Government policy on social rents and local authorities, despite some having the appetite, are not in a position to finance large housebuilding programmes.

If the Government is serious about its desire to build more houses across all sectors, it should relax the arbitrary limits on how much local authorities are able to borrow to build social housing. There is no set limit on the amount a local authority can borrow to build a swimming pool, the same should apply to housing. The Government should also provide financial support and flexibility for local authorities to enter into partnerships with housing associations and institutional investors. A sustained increase in local authority housebuilding can take advantage of historically low long-term funding rates, deliver a consistent supply of new homes across the economic cycle and bring much needed competition to oligopolistic large building firms which dominate the housebuilding market.

A major source of land for housebuilding is land that is publicly owned. We welcome the Government's recognition of this, but efforts to release surplus land have been ineffective so far. The Government should make far more public land available for housing and give a senior Cabinet minister responsibility for the delivery of the programme, with support from the National Infrastructure Commission.

To stimulate building in the private sector, the Government should address the large gap between the number of planning permissions granted and the number of homes actually built. To penalise hoarders of permissioned land, local authorities should be granted the power to levy council tax on developments that are not completed within a set time period. To ensure local planning departments are adequately resourced, local authorities should be able to set and vary planning fees that are charged. The whole planning process should be simpler, more transparent and more helpful to small builders.

The Minister told us that the Government is "very ambitious" about its housing policy. By implementing the recommendations in this report, the Government will show it has the political will to meet that ambition.

OUR MAIN CONCLUSIONS AND RECOMMENDATIONS

The Government's housing target

1. The Government's target of one million new homes by 2020 is not based on a robust analysis. **To address the housing crisis at least 300,000 new homes are needed annually for the foreseeable future.** One million homes by 2020 will not be enough.
2. To achieve its target **the Government must recognise the inability of the private sector, as currently incentivised, to build the number of homes needed.**
3. **The Government's focus on home ownership neglects other tenures;** those on the cusp of ownership are helped and those who need secure, low cost rental accommodation are not.
4. Local authorities and housing associations must be incentivised and enabled to make a much greater contribution to the overall supply of new housing. **Without this contribution it will not be possible to build the number of new homes required.** The likely reduction in the housing benefit bill over the long-term is a further reason to increase the supply of social housing.

Local authority building

5. The Government must ensure local authorities who wish to build social housing have access to the funds to do so. The current restrictions on the ability of local authorities to borrow to build social housing are arbitrary and anomalous. **Local authorities should be able to borrow to build social housing as they can for other purposes.**
6. We endorse the efforts of local authorities to innovate, cooperate and enter into partnership with others in the housing sector. **We encourage local authorities to share their experience and expertise to ensure the proliferation of successful schemes.**

Building on public land

7. **A senior Cabinet minister must be given overall responsibility for identifying and coordinating the release of public land for housing,** with a particular focus on providing low cost homes.
8. The number of new homes the Government expects to be built on public land by 2020 amounts to nearly one third of their housebuilding target. **The Government should ask the National Infrastructure Commission to oversee the number of homes that are actually built on public land.**
9. The release of public land provides a good opportunity to support the building of low cost homes and help smaller builders return to the market. **The requirement to achieve best market value when releasing public land should be relaxed.**

Planning reform

10. To incentivise local authorities and provide more resources for stretched planning departments, **the Government should allow local authorities to set and vary planning fees in accordance with the needs of their local area.**

11. There is a large gap between the number of planning permissions granted and the number of houses actually built. **We recommend that local authorities are given the power to levy council tax on developments that are not completed within a set time period.**
12. Overall, planning should be simpler, more transparent and more helpful to small builders.

Use of the existing housing stock

13. Council tax is regressive. **The bands should be amended so that owners of more expensive properties contribute proportionally more than owners of less expensive properties.** This should be done in a revenue neutral way.

Building more homes

INTRODUCTION: HOUSING, A BROKEN MARKET?

“There is no single housing problem just as there is no single housing market. There is a collection of housing markets, separated by region, by type of ownership and by quality of building. No single policy can solve all their difficulties. But all of them are inevitably affected by the sheer physical shortage of homes, with the consequent impact upon prices ... It is essential to have not only more houses, but more houses of the required type in the right place. There are technical difficulties which have to be overcome over land, financing and the organization of the building industry. But there is also the question of will. Housing has not yet achieved the place of priority in official policy that would be justified both by the social suffering involved and by the public concern that has been aroused.”⁵

The problems

1. The leader from *The Times* above rings as true today as it did in 1969. There are multiple problems with regards to housing in this country today; none of them are new.⁶ Whilst the quality of housing in particular in the social rented sector has improved, the failure of successive governments to resolve these problems, despite dozens of policy initiatives and hundreds of pages of legislation, has meant that house prices, already exceptionally high by international standards, are rising. These problems have been made more acute by the ever increasing demand for housing as a result of natural change, immigration and rising incomes.
2. We took evidence before the referendum on the UK’s membership of the European Union. Any short-term economic uncertainty created by the result will not affect the long-term problems described below. These will only be addressed by long-term solutions.

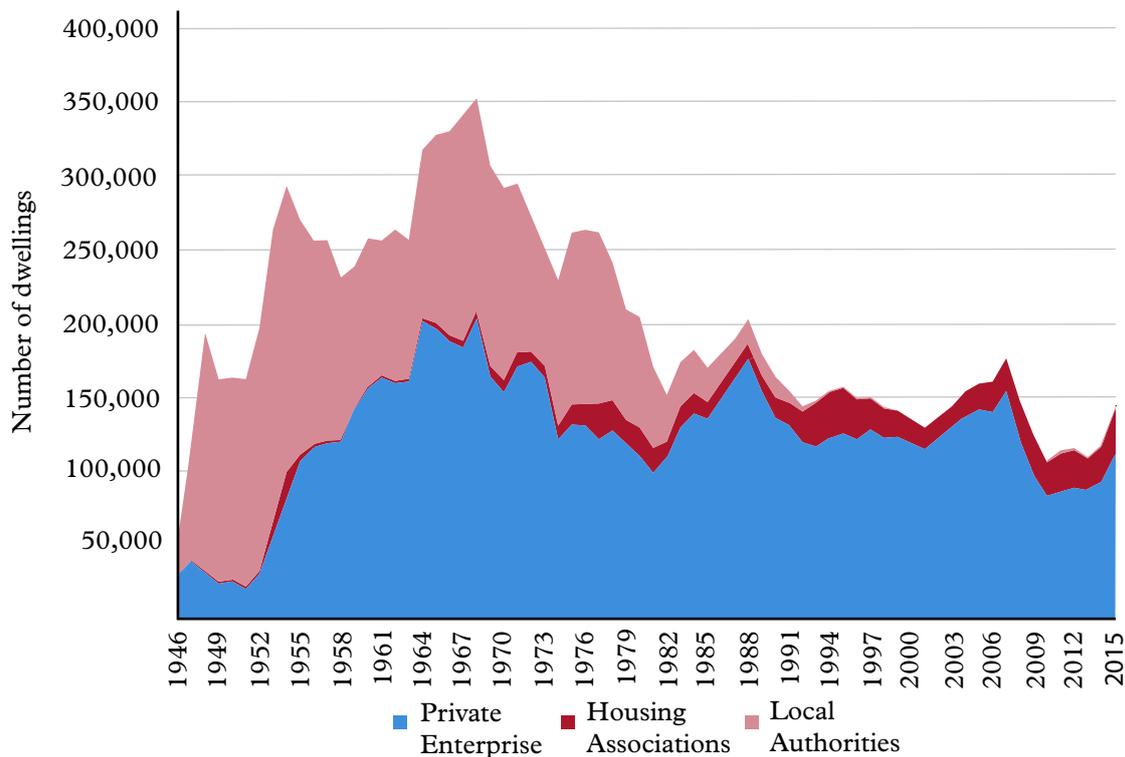
Construction of new homes

3. As Figure 1 demonstrates, the private sector has not replaced the supply that was once provided by local authorities.

5 ‘The Housing Anguish’, *The Times*, 22 December 1969

6 See Box 1

Figure 1: Permanent dwellings completed in England by tenure, 1946 to 2015



Source: DCLG, 'Live tables on house building, Table 244': <https://www.gov.uk/government/statistical-data-sets/live-tables-on-house-building> [accessed June 2016]

4. The large private builders operate a business model which makes commercial sense for them but does not deliver an increase in the supply of new homes on the scale required. The market has oligopolistic characteristics: the eight largest builders build more than 50 per cent of new homes and smaller builders find it difficult to operate.
5. There has been a lack of innovation in housebuilding: modern methods of construction and self and custom build barely feature. There are too few homes being built that older people may wish to downsize into.
6. Local authorities who are keen to return to housebuilding have for many years been prevented from doing so by specific controls and tight limits on public borrowing. Housing associations are also willing to build more units but have been undermined recently by the Government's decision to reduce social rents thereby depriving them of income.

The planning system

7. The system is slow, complex and costly to operate, particularly for smaller builders. This is exacerbated by planning departments that are under-resourced.
8. No new town has been successfully developed in the last 30 years and a third of homes that are granted planning permission do not go on to be built.

The existing housing stock

9. Increases in stamp duty appear to have been a factor behind reduced turnover in the housing market. This has made the market for existing homes less efficient; people who would wish to move home, perhaps in order to downsize, are being discouraged from doing so.
10. The favourable taxation of housing, such as capital gains tax relief on main residences, stimulates demand for owning houses but does little to stimulate supply. This has helped to encourage investment in housing as a substitute for pension provision. The council tax is regressive and there has been no residential revaluation for 25 years.

Government focus on home ownership

11. Government schemes, such as Help to Buy, that promote home ownership do not tend to help the people most in need. Despite home ownership being a flagship policy objective of all governments, it has decreased over the last ten years, particularly amongst younger people.
12. The rented sector is also under growing stress, rents are rising in the private sector and waiting lists remain high in the social sector. Efforts to bring large institutional investors into the sector have so far achieved little. The Government's recent increases to stamp duty in the buy-to-let sector, aimed at helping first time buyers, are likely to discourage smaller landlords. With a greater number of poorer tenants living in the private rented sector, the housing benefit bill has ballooned in recent years.

Wider Government policies

13. Constant tinkering by Government can cause volatility in the housing market, discouraging building by the private sector. Contradictions between actions of the Government and other policymakers have also contributed to uncertainty. To take a current example, the Government is seeking to encourage home ownership but forthcoming changes to capital requirements by the Basel Committee on Banking Supervision are likely to restrict the ability of smaller banks to provide mortgage finance.⁷
14. As the historic quotes in Box 1 demonstrate, these are longstanding problems. Fixing the housing market remains one of the biggest challenges facing this country.

⁷ Changes to the standardised model which smaller banks are required to use will require them to hold substantially more capital against mortgage lending than is required at present.

Box 1: Same old problems?

Construction of new homes

[1983] “There is likely to be a critical lack of supply unless large-scale building programmes are undertaken immediately ... too few homes are being built to satisfy the projected demand.”⁸

The planning system

[1978] “The fact is that an adequate supply of building land depends on both private landowners and local authorities playing their part. Neither has much incentive to do so at present. Until this is recognized by the government, the prospect of a “land famine” in some areas will continue.”⁹

The existing housing stock

[1975] “This country’s housing is in such a mess ... because of the under-use of existing stock—both a cause and effect of low mobility—and it is here that political action needs to be taken”.¹⁰

Government focus on home ownership

[1977] “The Conservatives have for some time favoured public assistance to those wishing to buy homes, but unable to stand on their own feet ... there has been too much official action in the housing sphere that set out to help one category of householder, but turned out to cause new distortions in the wider pattern of housing provision ... The general tendency of such policies has had the effect of assisting those who are already satisfactorily housed at the expense of those who are not.”¹¹

Wider government policies

[1977] “Housing has suffered more than most activities from successive lurches of Government policy in recent years.”¹²

8 Smith, B. (1983) ‘Crisis in housing ‘by 1986’’, *The Times*, 14 February.

9 Letter to *The Times* from Clifford Dann, Chairman of the Public Affairs Committee at The Royal Institution of Chartered Surveyors, 27 June 1978

10 Letter to *The Times* from Horace Cutler, Leader of the Opposition, Greater London Council, 11 August 1975

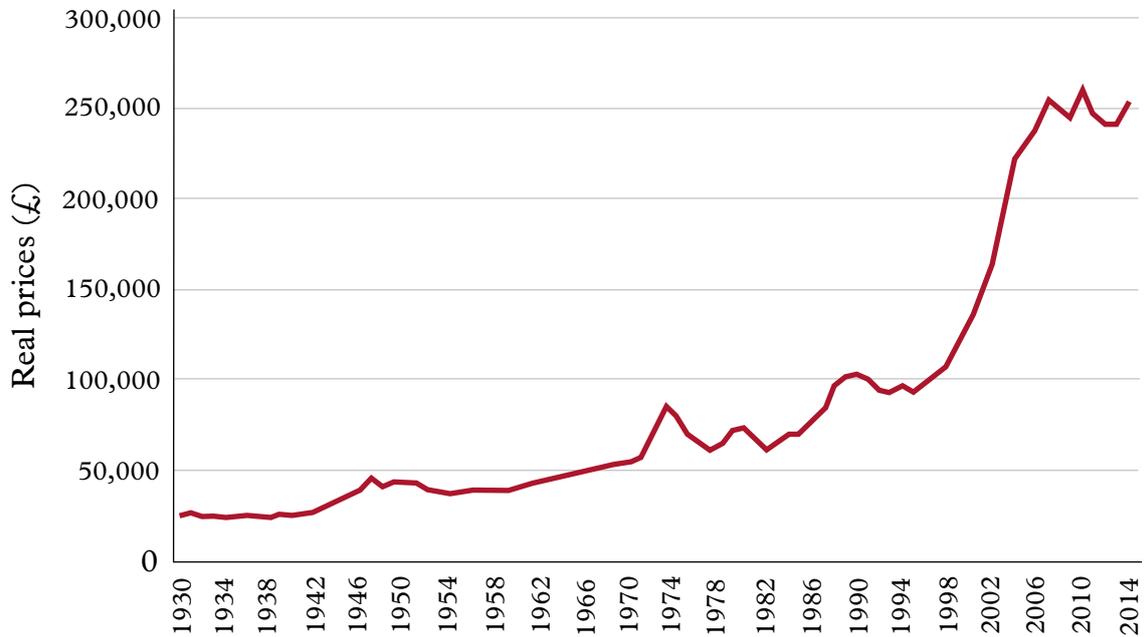
11 ‘Handouts for Home Buyers’, *The Times*, 4 November 1977

12 ‘Toward Agreed Housing Policies’, *The Times*, 24 October 1977

CHAPTER 1: THE STATE WE ARE IN

15. House prices in the UK rose dramatically in the first few years of this century up to the financial crisis, as demonstrated by Figure 2:

Figure 2: Growth in UK real house prices (2011 prices), 1930 to 2014¹³

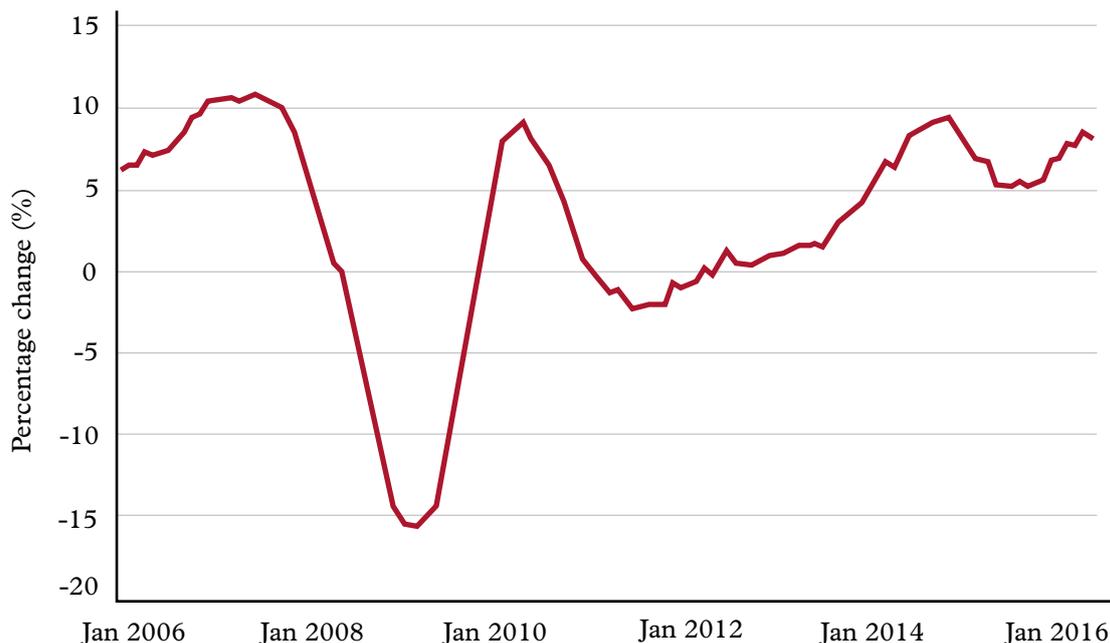


Source: Office for National Statistics, 'House Price Index', September 2015 (Table 22): <http://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/housepriceindex/september2015> [accessed June 2016] Bank of England, "The UK recession in context: what do three centuries of data tell us?": Data Annex: Version 2.2, July 2015 (Table 21): <http://www.bankofengland.co.uk/research/Pages/onebank/threecenturies.aspx> [accessed June 2016]

16. The growth in house prices has picked up again recently: UK average house prices increased by 8.2 per cent in the year to April 2016:

13 In June 2016 the Land Registry published a new UK House Price Index that replaced the previous house price indices that were published separately by the Land Registry and the Office for National Statistics (ONS). The new index included house purchases that were previously excluded (such as cash purchases) and calculated average house prices using a geometric mean rather than an arithmetic mean (a geometric mean is less distorted by high values and more in line with international best practice). Average house prices calculated using the new method are substantially lower than in the previous ONS index (the average house price for England and Wales in March 2016 was £216,000 using the new method and £301,000 using the old ONS method). The new UK House Price Index will be backdated to 1968 eventually but for the purposes of drawing historical comparisons today, this report will use average house price data from the previous ONS house price index.

Figure 3: Annual house prices rates of change in the UK from January 2006 to April 2016 (12 month percentage change)



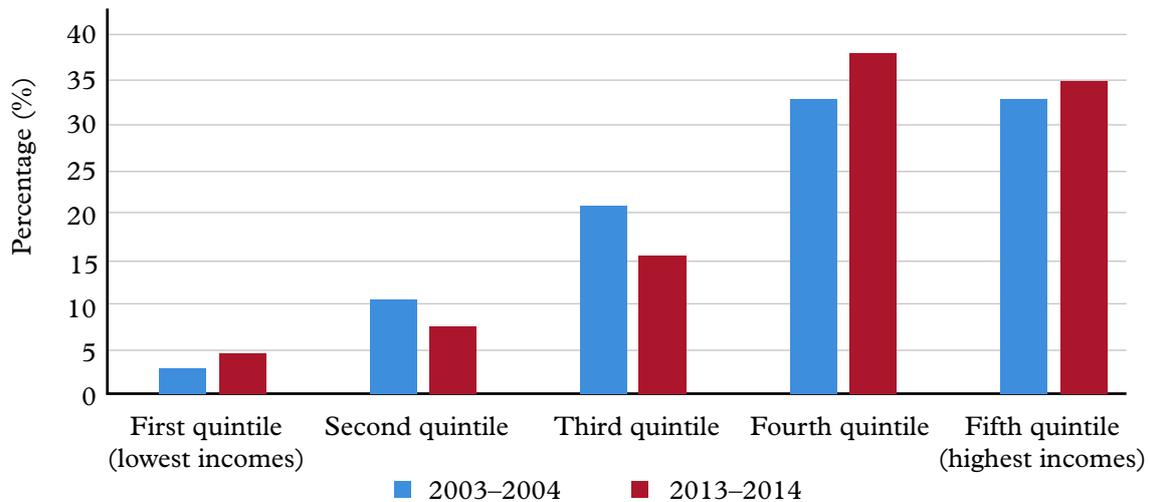
Source: Office for National Statistics, *Statistical Bulletin, House Price Index, April 2016*: <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/housepriceindex/april2016#house-price-index-by-english-region> [accessed June 2016]

17. At the same time as house prices have risen, the proportion of first time buyers in the middle and lower end of the income distribution has decreased, as shown by the comparison in Figure 4 between 2003/04 and 2013/14. In England, 72 per cent of first time buyers now have an income¹⁴ that places them in the top 40 per cent of incomes in the country, compared to 65 per cent a decade ago.¹⁵
18. For younger people this worsening affordability means that their chance of owning a home is increasingly dependent on whether they have family resources to draw on—the so called ‘bank of mum and dad’.

¹⁴ Gross weekly income.

¹⁵ Over the same period, data from the Council for Mortgage Lenders show that mortgage costs have decreased as a proportion of income for first time buyers over this period (see Table 8 in Annex 1). This is likely to be due to historically low levels of interest rates as well as the shift towards first time buyers coming from the higher end of the income distribution.

Figure 4: Proportion of first time buyers in England from each income quintile, 2003/04 and 2013/14¹⁶

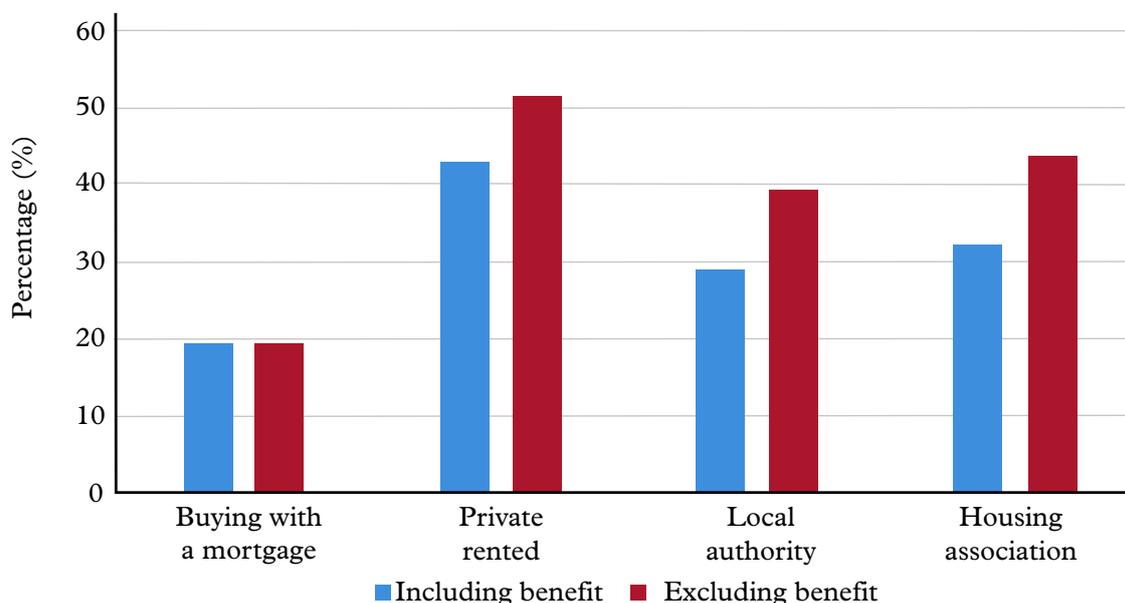


Source: English Housing Survey, Household Report 2013–2014, July 2015, Annex Table 3: <https://www.gov.uk/government/statistics/english-housing-survey-2013-to-2014-household-report> [accessed June 2016]

19. People who have been able to buy a home pay substantially less for their housing costs as a percentage of their income than renters do at present. As shown in Figure 5, in 2013/14 private renters and social renters spent an average of 43 per cent and nearly 31 per cent respectively of their gross income (including housing benefit) on rent; owner occupiers by contrast spent 19 per cent of gross income on mortgage repayments.

¹⁶ The chart splits first time buyers by income quintiles for the whole population—the first income quintile is the lowest 20 per cent of incomes, the second income quintile is the next 20 per cent of incomes and so on. A person earning the median gross income would be in the third quintile.

Figure 5: Percentage of gross weekly income of household reference person and partner (including and excluding housing benefit) spent on mortgage payments or rent by tenure in England, 2013/14¹⁷



Source: *English Housing Survey, Household Report 2013–14, July 2015*: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/461439/EHS_Households_2013-14.pdf#page=37 [accessed June 2016]

20. Affordability for private renters is a particular problem in London where 60 per cent of gross income on average is spent on rent. This compares to 39 per cent in other urban areas and 33 per cent in rural areas.¹⁸
21. Worsening affordability across all tenures has been exacerbated by a failure to build sufficient numbers of new homes. The 2004 *Review of Housing Supply* by Dame Kate Barker estimated the number of private and social sector homes required to be built annually by 2016 to either:
 - meet the then Government's target;
 - reduce annual house price growth to 1.8 per cent (from 2.7 per cent); or
 - reduce annual house price growth to 1.1 per cent (then the EU average).

These targets are shown in Figure 6 below against the net additions to the housing stock over the period.¹⁹ House prices in England increased by 9.1 per cent in the year to April 2016.²⁰

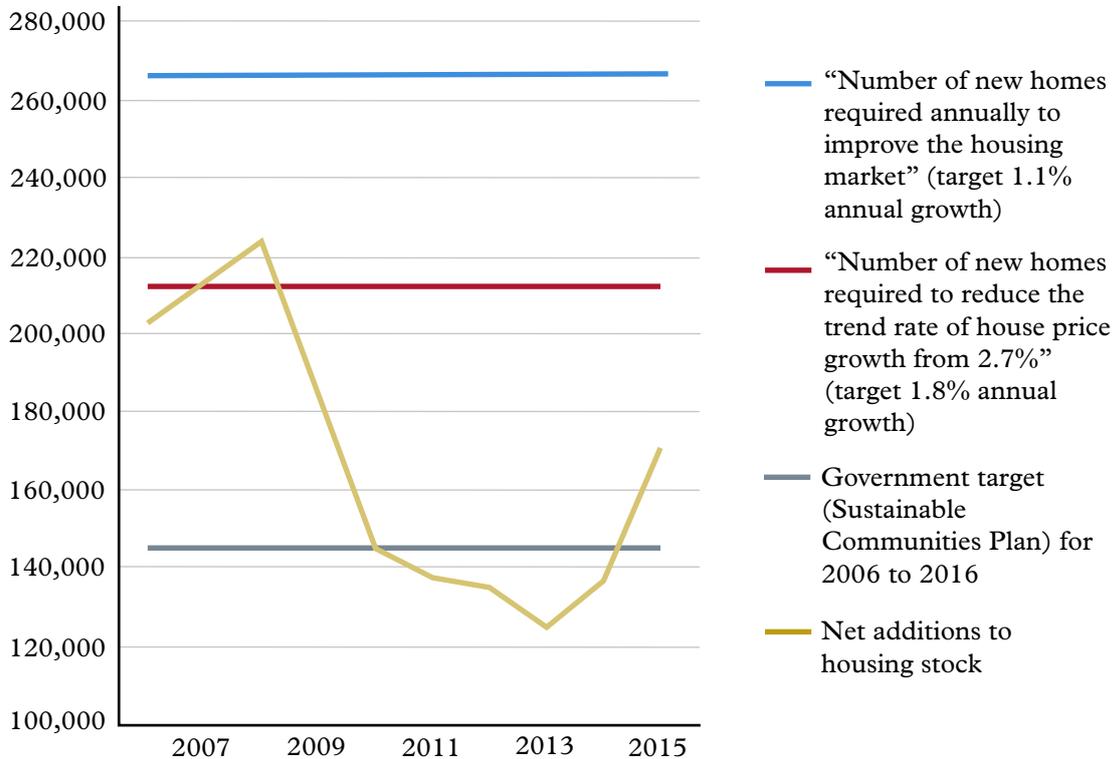
¹⁷ When housing benefit is included it is added to income. The 'household reference person' is the person in whose name the dwelling is owned or rented or who is otherwise responsible for the accommodation. In the case of joint owners or tenants, the person with the highest income is taken as the household reference person. Where incomes are equal, the older person is taken as the household reference person.

¹⁸ English Housing Survey, *Household Report 2013–14*, July 2015 Annex Table 4.3: <https://www.gov.uk/government/statistics/english-housing-survey-2013-to-2014-household-report> [accessed June 2016] The difference is less marked between London and the rest of the country for social renters: 36 per cent of social renters' gross income on average is spent on rent in London compared to 30 per cent and 28 per cent in other urban areas and rural areas respectively.

¹⁹ Witnesses variously estimated that between 200,000 and 300,000 new homes a year are required today (see Chapter 2).

²⁰ Office for National Statistics, *House Price Index*, April 2016: <http://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/housepriceindex/april2016> [accessed June 2016]

Figure 6: Estimated annual number of houses required for scenarios identified in the 2004 Barker Review and actual net additions to the housing stock, England, 2006 to 2015



Source: HM Treasury, *Barker Review of Land Use and Planning, Final report, December 2006*: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/228605/0118404857.pdf [accessed June 2016] and DCLG, 'Live tables on net supply of housing', Table 122: <https://www.gov.uk/government/statistical-data-sets/live-tables-on-net-supply-of-housing> [accessed June 2016]

22. This chapter identifies the reasons, as explained to us in evidence, why housing policy has failed over recent decades. These reasons can be summarised as follows:

- demand, fuelled by demographic change, immigration, rising incomes and greater availability of mortgages, has been rising;
- the planning system, in restricting the supply of land, contributes to higher prices;
- private builders have not built enough homes to meet requirements for a number of years and there is little incentive for private builders to increase their output significantly;
- local authority building has effectively stopped for the last thirty years and has not been fully replaced by housing associations, building on the scale required has only been achieved previously when the public sector has contributed;
- changes in public policy have increased volatility in the market;
- the existing housing stock is not being used as efficiently as it could be.

The role of demand

23. Witnesses told us that population growth, rising incomes and greater mortgage availability had all led to rising demand for housing.

Population growth

24. The number of households in England increased from around 18.5 million in 1988 to an estimated 22.7 million in 2014.²¹ Projections from the Department for Communities and Local Government (DCLG) suggest there will be 27.6 million households by 2037.²² This represents an average annual increase of 210,000 households.²³ These projections assume that 32 per cent of the projected household growth is attributable to net migration with 68 per cent accounted for by natural change (births less deaths).²⁴
25. Lord Green of Deddington, Chairman of Migration Watch, told us however that immigration had become the “key driver” of household growth. Migration Watch questioned the basis for the Department’s household projections: they said the Department’s figures were based on 2012 population data from the Office for National Statistics but that in the latest population data (2014), estimated long-term net migration had increased to 185,000 a year compared to 165,000 a year in 2012.²⁵
26. Some witnesses however pointed out that immigrants, especially recent arrivals, live at higher densities and therefore do not affect housing demand by as much as headline migration figures would suggest. Professor Tony Champion said that when immigrants arrive, “they tend to live at quite high density in quite large households, but the longer they live here the more they tend to spread out and get more space.”²⁶ Recent migrants are much more likely to live in the private rented sector, as illustrated by Figure 7.

21 See Annex 2. The figures are based on DCLG statistics which use the 2001 Census definition of a household: “A household is defined as one person living alone, or a group of people (not necessarily related) living at the same address with common housekeeping—that is, sharing either a living room or sitting room or at least one meal a day.” DCLG, *Household Projections in England 2012–2017*, Feb 2015: <https://www.gov.uk/government/statistics/2012-based-household-projections-in-england-2012-to-2037> [accessed June 2016]

22 *Ibid.*

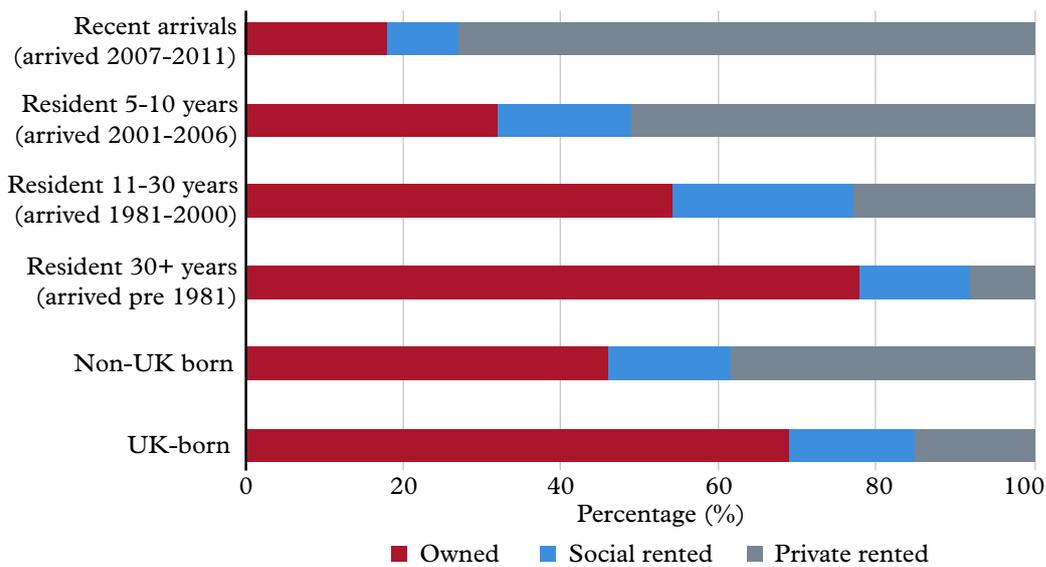
23 DCLG’s household projections are based on 2012 population projections from the ONS. The 210,000 average annual increase is between 2012 and 2037. The number of households that actually form is dependent on the availability of homes for new households to move into. *Ibid.*

24 Under a ‘high net migration scenario’, 237,000 additional households would be expected each year up to 2037 with 40.1 per cent of those due to net migration.

25 Written evidence from Migration Watch UK (EHM0149). The 2014 release was the latest available at the time the evidence was received.

26 Q 78 (Prof Tony Champion); see also Professor Cheshire (Q 46).

Figure 7: Housing tenure for non-UK born and UK born by length of residence, England and Wales, 2011 Census data



Source: Office for National Statistics, *Social and Economic Characteristics by Length of Residence of Migrant Populations in England and Wales*, 4 November 2014: <http://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/s/2011censusanalysisiscialandeconomiccharacteristicsbylengthofresidenceofmigrantpopulationsinenglandandwales/2014-11-04> [accessed July 2016]

27. Professor Danny Dorling from the University of Oxford argued the fact people were living longer was having the biggest effect on housing demand.²⁷ Professor Robert Rowthorn from the University of Cambridge said longevity may affect demand for housing more than immigration: “longevity may mean more people living on their own, for example, and more single-person households. Immigration might not mean that in the same way.”²⁸

Rising incomes

28. Income growth over recent decades has played a significant part in rising house prices. Professor Paul Cheshire of the London School of Economics explained that:

“there is a direct demand for one of the most important attributes of housing, which is space in them, and that is very sensitive to incomes ... as people get richer, they try to buy more space in houses.”²⁹

Professor Muellbauer of the University of Oxford thought that around two thirds of the rise in UK house prices since 1980 was attributable to rising income per house.³⁰

27 [Q 45](#)

28 [Q 78](#)

29 [Q 43](#) Professor Muellbauer thought that around two thirds of the rise in UK house prices since 1980 was attributable to rising income per house ([Q 83](#)).

30 [Q 83](#) Professor Cheshire stressed that building in line with household projections would not provide enough housing: “The problem with our planning system is that it allocates land on the basis of a forecast of household numbers, not on the basis of a forecast of housing demand or space demand. So we have been systematically undersupplying land since the early 1950s.” ([Q 45](#)). Dame Kate Barker made the same point ([Q 2](#)).

Greater availability of mortgages

29. The liberalisation of the mortgage market, not just rising incomes, was also cited by some witnesses as a reason for the rise in house prices seen over recent decades.³¹ Sir John Cunliffe, Deputy Governor for Financial Stability at the Bank of England, said that current low interest rates “clearly” increase prices but the issue is that “there must come a point at which people can no longer afford to buy”. He noted however that mortgage terms had been extended to aid affordability.³²
30. The New Economics Foundation said structural problems with the banking system that exacerbate house price inflation need addressing, including reform of banks’ capital requirements to “no longer amplify incentives towards mortgage lending” at the expense of other lending.³³
31. **Demand for housing fuelled by demographic change, immigration, rising incomes and greater access to finance over the last few decades have made a substantial contribution to rising house prices and worsening affordability.**
32. **If immigration remains at current levels, it will be a large factor in the future demand for housing, especially in the London private rental sector.**

Supply of land

33. Martin Wolf, chief economics correspondent at the *Financial Times*, said that “it must be the case” that the restrictions on the use of land are a “fundamental factor in determining the price of housing and above all the land on which the houses sit... the difference in the value of the land that is built upon next to the land that cannot be built upon is so vast”.³⁴ Mr Wolf had previously illustrated his point in a 2015 article in the *Financial Times* where he noted that in 2010, agricultural land around Cambridge was worth in the region of £18,500 a hectare while neighbouring residential land cost around £2.9 million a hectare.³⁵
34. Professor David Miles, a former member of the Bank of England’s Monetary Policy Committee, told us that restrictions on the supply of land were “an enormous factor” in the increase in UK house prices over recent decades.³⁶ But Lord Kerslake, former Permanent Secretary at the Department for Communities and Local Government, did not see it as the main problem; he said that:

“however slick, efficient and effective you make the planning system, you will not double supply through that route. That is just for the birds

31 See Professor Muellbauer (Source [Q 83](#))

32 [Q 193](#). Positive Money similarly said bank mortgage lending was one of the “key drivers of rising house prices.” Written evidence from Positive Money ([EHM0107](#))

33 Written Evidence from the New Economics Foundation ([EHM0101](#))

34 [Q 2](#)

35 Martin Wolf, The Solution to England’s Housing Crisis Lies in the Green Belt, The Financial Times (5 Feb 2015): available at <http://www.ft.com/cms/s/0/f5b26d8a-ac59-11e4-9d32-00144feab7de.html>. [accessed June 2016] The Cambridge example is taken from Kate Barker, *Housing: Where’s the Plan?* (London Publishing Partnership, 2010)

36 [Q 204](#) He said it was “more important, probably, than the decline in real interest rates over the last 20 or 30 years.” Professor John Muellbauer, University of Oxford, said that the release of land for building in Germany was one of two “dominant” factors (along with credit liberalisation) in explaining why house prices had not risen as much there as in the UK ([Q 83](#)).

... You need to carry on improving the planning system, but not to see it as the central issue".³⁷

35. **The planning system, in restricting the supply of land for development, has an obvious effect on land prices. This is demonstrated by the huge differences in price between agricultural land and residential land on the edge of some cities.**

Private sector construction

36. The Government's aim of building one million homes in England over the course of the present Parliament implies an average increase of 200,000 homes a year. As Table 1 shows, the last time there were that many net additions to the housing stock was in 2007/08.³⁸ But there has been increasing activity in recent years, with 170,000 net additions in 2014/15 (in France by contrast, around 350,000 dwellings were built in 2015).³⁹

37 [Q 150](#) Chapter 3 considers possible reforms to the planning system. These include incentives for local authorities to accept development and allowing local authorities to set their own planning fees, retaining the proceeds to spend on improving planning resources.

38 Net additions includes new build homes as well as conversions, changes of use (for example from commercial to residential) and demolitions.

39 [Q 229](#) Jean-Pierre Schaefer, a Special Adviser to the National Council of Cities in France, told us that new construction in France has been much higher in the UK since the 1970s. He did however say that before the 1970s, new construction in France was low compared with the UK, "that is why it is very difficult to compare countries: because our histories are sometimes quite different." ([Q 229](#)).

Table 1: Changes in net housing stock in England, 2007/08 to 2014/15

Year	New build completions	Net conversions	Net change of use	Net other gains	Demolitions	Net additional dwellings
2007/08	200,300	9,020	17,640	1,020	20,500	207,480
2008/09	157,630	8,640	16,640	270	16,590	166,590
2009/10	124,200	6,230	13,600	970	16,330	128,670
2010/11	117,700	5,050	11,540	1,810	14,890	121,210
2011/12	128,160	5,240	12,590	1,100	12,200	134,890
2012/13	118,540	4,100	12,780	1,370	12,060	124,730
2013/14	130,340	4,470	12,520	1,330	12,060	136,600
2014/15	155,080	4,950	20,650	630	10,610	170,000

Source: DCLG, 'Live tables on net supply of housing', Table 122: <https://www.gov.uk/government/statistical-data-sets/live-tables-on-net-supply-of-housing> [accessed June 2016]

37. Housebuilding in England today has been left predominantly to the private sector. Witnesses suggested there were a number of problems with the industry at present.

Decline in smaller firms

38. John Stewart, Director of Economic Affairs at the Home Builders Federation, said that the numbers of smaller housebuilders, which he defined as building 100 units or fewer a year, peaked in 1988 at around 12,200 firms but dropped to around 2,400 by 2014.⁴⁰ The decline is illustrated in Table 2 below.

Table 2: Number of firms registering low volumes of housebuilding, 1988 to 2014

Number of units registered	1988	2008	2014
1 to 10 units a year	10,112	4,411	2,000
11 to 30 units a year	1,500	745	244
31 to 100 units a year	603	311	159
Total	12,215	5,467	2,403

Source: Federation of Master Builders (EHM0140)

39. The Federation of Master Builders identified two main barriers to entry: the difficulties of smaller builders accessing finance since the financial crisis and the way in which smaller sites are treated in the planning system.⁴¹ Jennie Daly, UK Director of Planning at Taylor Wimpey plc, acknowledged that the barriers to smaller and medium sized firms were “significant”:

“We are a large scale business with a very substantial and professional staff, and we still find the process risky, difficult to predict and costly. For the smaller and medium sized housebuilder, that is tenfold in volume and risk.”⁴²

Lack of competition in the sector

40. The dominance of the large housebuilders was questioned by some witnesses. The Royal Town and Planning Institute said the fact that the three biggest housebuilders built a quarter of all new homes in 2014 was demonstrative of “oligopolistic characteristics” in the market.⁴³ Lord Kerslake similarly questioned the competitiveness of the industry: “One of the questions you might ask yourself is who the last new big housebuilder to come to the market is. The answer is that there is none ... I do not think that makes it a healthy competitive sector.”⁴⁴

40 [Q 104](#) The Federation of Master Builders said in written evidence that a firm building fewer than 500 units a year was a “rough approximation” for medium-sized firms and smaller. (Written evidence from The Federation of Master Builders (EHM0140))

41 The difficulties the planning system poses for smaller builders are discussed further in Chapter 3.

42 [Q 104](#)

43 Written evidence from the Royal Institute of Royal Planning Institute (EHM0121) Isobel Stephen told us that the eight largest housebuilders accounted for 50 per cent of new homes built ([Q 62](#)).

44 [Q 143](#)

Shortage of skills in the industry

41. John Stewart described the shortage of skills as “probably the biggest challenge the industry faces.”⁴⁵ In October 2015, the recruitment firm Randstad claimed that one million more construction workers would be required by 2020 (this was however UK wide and estimated on the basis of building 300,000 UK homes a year).⁴⁶
42. Smaller builders however did not see it as a pressing problem: a 2015 survey of small and medium-sized builders by the Federation of Master Builders found only 27 per cent of respondents cited ‘shortage of skilled workers’ as a main constraint on their ability to build more homes.⁴⁷

Pace of delivery from large housebuilders

43. A common criticism of large housebuilders is that they sit on large amounts of suitable building land and develop it slowly in order to keep prices high.⁴⁸ This is often referred to as ‘land banking’. Table 3 below displays the land currently held by the three largest housebuilders.

Table 3: Land holdings and completions by major housebuilders, UK, 2015

	Barratt	Persimmon	Taylor Wimpey
Homes completed in 2015	16,447	14,572	13,341
Plots in ‘short-term landbank’ ⁴⁹	70,523	54,300 ⁵⁰	76,000
Plots anticipated from ‘strategic land holdings’ ⁵¹	71,600	100,000	107,000

Source: Barratt Developments PLC, 2015 Annual Report, Oct 2015: <http://www.barrattdevelopments.co.uk/investors/results-reports-and-presentations/rp-2015> [accessed June 2016]; Persimmon PLC, Annual Report 2015, December 2015: available at <http://corporate.persimmonhomes.com/site-essentials/downloads/annual-report-2015> [accessed June 2016]; Taylor Wimpey, 2015 Annual Report: <https://www.taylorwimpey.co.uk/corporate/investor-relations/2015-in-review> [accessed June 2016]

45 [Q 102](#); see also [Q 113](#) (David Orr).

46 Randstad, ‘Age of house building will demand a million more construction workers’: <https://www.randstad.co.uk/cpe/age-of-housebuilding/> [accessed June 2016]. Some witnesses also mentioned the rising cost of building materials. Dr Peter Williams said this would “massively constrain” the supply response ([Q 30](#)) and Dame Kate Barker pointed out that manufacturers of materials and required trades had gone out of business in recent years. ([Q 1](#)).

47 Martin Wolf said “You cannot tell me that we cannot build a few houses within five years if we really want to. It is a question of making it credible to the industry that that is what is going to happen.” ([Q 15](#)).

48 For example, David Turver in written evidence said that “Under delivery is down to tactical decisions made by the housebuilders to maximise profits.” (Written evidence from David Turver, [EHM0015](#))

49 The phrase ‘short-term landbank’ is used to refer to plots of land that are ready or close to ready for building on.

50 Persimmon’s 2015 Annual Report said it had 93,649 plots in its land bank but of those 54,300 plots had ‘implementable planning consent’ and around 30,700 plots had outline planning consent. (Persimmon PLC, Annual Report 2015, December 2015: available at <http://corporate.persimmonhomes.com/site-essentials/downloads/annual-report-2015> [accessed June 2016])

51 As well as the ‘short-term landbank’, housebuilders also hold land in what is referred to as the ‘strategic landbank’ or ‘strategic pipeline’; this is land where generally the process of applying for permission to build has not started.

44. In their latest annual reports, the three largest housebuilders declared a target level of land with planning permission that they are aiming to hold (referred to as the ‘short-term landbank’ in the table above) in terms of their current building rate (the number of homes completed that year): Barratt aim to hold 4.5 years’ worth of current supply; Persimmon aim to hold 5 years’ worth of current supply; and Taylor Wimpey described their current level, 5.7 years’ worth, as “optimum”.⁵²
45. DCLG said there were “strong financial incentives” not to sit on land with permission as once acquired, the planning permission often has an expiry date after which the firm would need to reapply.⁵³ Jennie Daly said that firms “are incentivised to get building because only through building will we get a return. The housebuilding model does not sit well with land hoarding.”⁵⁴ Lord Kerslake said that if you accused housebuilders of being too cautious, “they will point to the fact that a good number of them are still rebuilding their balance sheets after the near death experience of the financial crash”.⁵⁵
46. Ms Daly did however clarify that Taylor Wimpey take into account the effect that the rate of delivery of new houses has on prices:
- “where there is not the depth of market, there would be concerns about overprovision into the market and the fact that that would have a distorting effect on the local market. That would be of concern both to the local market property owners and to us.”⁵⁶
47. The Local Government Association published figures in February 2015 that indicated there were 475,000 homes in England that had been given planning permission but had yet to be built.⁵⁷ Isobel Stephen, Director for Housing at DCLG, said the “drop-out rate” between planning permissions granted and homes actually built was “around a third”.⁵⁸ The Minister for Housing told us the “challenge” for his Department was reducing this gap.⁵⁹
48. These planning permissions however are not necessarily in the hands of developers. John Stewart from the Home Builders Federation said that research from a few years ago found that “virtually all” sites with a permission that had not started were owned by non-developers. He said more data was required:
- “we need to understand properly ... whether there are non-developers who get permission for reasons where they never intended selling for development.”⁶⁰

52 Annual reports, *op. cit.*

53 They said the default was three years. Written evidence from DCLG ([EHM0157](#)).

54 *Ibid.*

55 [Q 143](#) Professor Steve Wilcox said this reflected a “natural caution” within the industry: “you are doing a new product virtually every year, you want to ensure that you have a business that is sustainable over a run of years.” ([Q 31](#)).

56 [Q 95](#) This was echoed in Persimmon’s 2015 Annual Report: “We control the level of build on-site by closely managing our work in progress levels and matching supply to demand.” Persimmon PLC, *Annual Report 2015*, December 2015: available at <http://corporate.persimmonhomes.com/site-essentials/downloads/annual-report-2015> [accessed June 2016]

57 Local Government Association, ‘475,000 homes with planning permission still waiting to be built’, January 2016: http://www.local.gov.uk/media-releases/-/journal_content/56/10180/7632945/NEWS [accessed June 2016]. In their additional written evidence to the Committee, DCLG pointed out that this figure included sites where work had already started. Written evidence from DCLG ([EHM0157](#)).

58 [Q 62](#)

59 [Q 241](#)

60 [Q 95](#)

49. **The Government should assess why there is a large gap between the number of planning permissions granted and the number of homes actually built. In particular it should identify who is holding permissioned land that is not developed.**

Alternatives to traditional housebuilding

50. Many witnesses also questioned whether builders could make greater use of alternative methods to traditional housebuilding such as off-site construction. Lord Best, former President of the Local Government Association, said “we have to get into this. In other countries there is lots more standardisation and modern methods of construction.”⁶¹
51. Non-traditional methods have been tried before in the UK. Dr Clive Skidmore, Head of Housing Development at Birmingham City Council, said that many non-traditional construction homes were built in the 1920s, 1930s and 1950s: “I have spent 20 years knocking most of those down, because they did not last very long.”⁶² He acknowledged though that there was “potentially” a role for that form of construction.
52. **Since the 1980s we have been relying on the private sector to provide the homes that are needed. The sector, especially since the financial crisis, has all the characteristics of an oligopoly: there are high barriers to entry and the large housebuilders are responsible for a substantial proportion of output. It is rational for private enterprise to optimise profits rather than volume, limiting their uncertainty in a market characterised by constant Government intervention and cyclical risk. The sector is largely focused on building for sale and is not providing for the rental sector which is over a third of the market.**
53. **The Department for Communities and Local Government told us it is examining incentives to get the private sector building more homes. Encouraging smaller builders back into the market and promoting greater use of modern construction techniques may help. But the Government cannot rely on the private sector alone to build the homes the country needs. The gap between what can realistically be expected and what is needed is simply too large.**

Public sector housebuilding

54. Many witnesses pointed out that since the Second World War, the level of building required to meet the present Government’s target (200,000 homes a year) has only been achieved for a prolonged period when there has been a substantial contribution from local authority building programmes. This is illustrated in Figure 1 above.
55. As local authorities no longer receive central government funding for housebuilding, most of them must now borrow to fund the construction of new homes. Chapter 5 considers ways that funding for local authority housebuilding could be increased.
56. **Local authorities and housing associations need to make a much bigger contribution to housebuilding if it is to reach required levels.**

61 [Q 138](#) Dr Peter Williams said that other countries have shown using modern methods of construction can be done successfully, he said it does have “potential” ([Q 30](#)).

62 [Q 138](#)

Public policy changes and volatility in the market

57. Dr Peter Williams of the Cambridge Centre for Housing and Planning Research said that volatility in the market left private builders hesitant to build:

“Even if we can have bold targets in terms of output, it does not necessarily mean, with a speculative demanded housebuilding industry, we will see that supply follow.”⁶³

58. Witnesses pointed to changes in Government policy as a source of that volatility. David Orr, chief executive of the National Housing Federation, said the reduction in social rents had created “flamboyant uncertainty” for housing associations:

“If the Government and the nation want housing associations to make the best contribution that they possibly can, avoiding introducing such areas of uncertainty without consultation would have a considerable impact.”⁶⁴

59. Dame Kate Barker said her “favourite point” to make about housing policy is that it is “totally un-joined up” between the Bank of England and the various Government departments who have an interest.⁶⁵ She said this was apparent in the contrast between “the drive for home ownership” from the Government and “the drive to keep leverage down” in financial institutions from regulators.⁶⁶

60. The New Economics Foundation also questioned the effects of macro prudential policy on the housing market. They said that the Government and Bank of England should “mandate a refocus of the banks and the wider economy on productive investment, including the building of homes.”⁶⁷

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

62. **The construction of houses is affected by macroeconomic policy. Nevertheless a robust programme of continuing, uninterrupted development by local authorities, housing associations and private investors in the rental sector would provide a more stable output of new homes across the economic cycle.**

Existing housing stock

63. The vast majority of homes that come onto the market for sale are existing homes. The number of transactions on existing homes halved following the financial crisis and has only partially recovered, as shown in Figure 8.⁶⁸

63 [Q 30](#)

64 [Q 120](#)

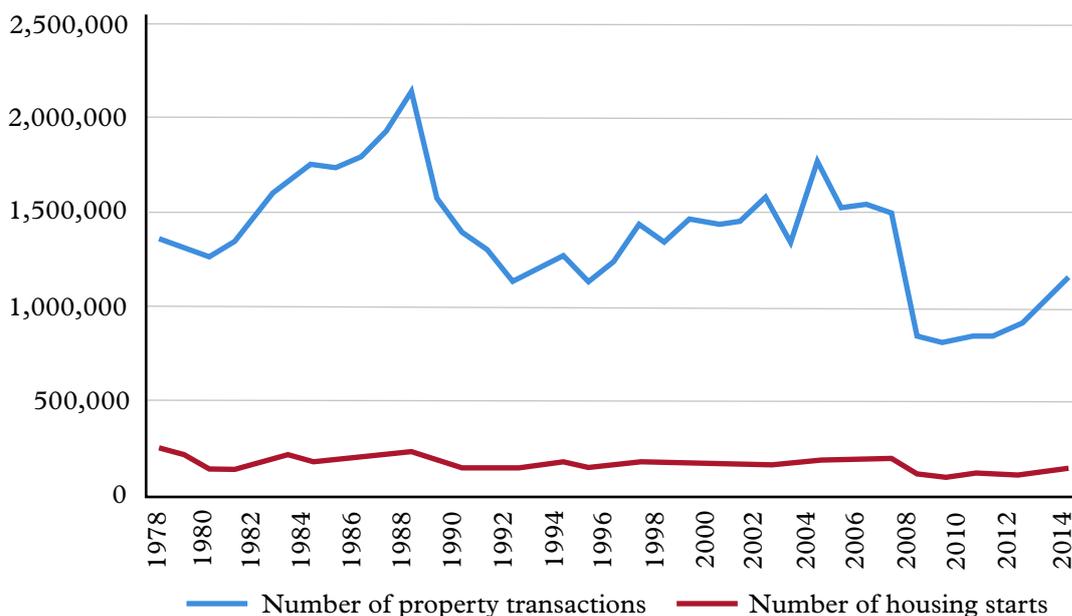
65 [Q 13](#) Dame Kate cited the Department for Communities and Local Government, HM Treasury and Department for Work and Pensions.

66 [Q 13](#)

67 Written evidence from the New Economics Foundation ([EHM0101](#))

68 The relative importance of transactions on existing homes compared to new builds was explored in an article for The Economist’s Free Exchange blog in February 2016: <http://www.economist.com/blogs/freexchange/2016/02/can-we-fix-it>

Figure 8: Second hand homes versus new build homes, England and Wales, 1978 to 2014⁶⁹



Source: Office for National Statistics, 'Economic Trends Annual Supplement', 2006: <http://webarchive.nationalarchives.gov.uk/20160105160709/http://www.ons.gov.uk/ons/rel/elmr/economic-trends--discontinued-/2006-edition/index.html> [accessed July 2016]; HM Revenue and Customs, 'Annual UK Property Transactions Statistics', June 2015: <https://www.gov.uk/government/statistics/annual-uk-property-transactions-statistics-2013> [accessed July 2016]; Department for Communities and Local Government, 'Live Tables on Housebuilding', May 2016: <https://www.gov.uk/government/statistical-data-sets/live-tables-on-house-building> (Tables 13 and 14) [accessed July 2016]

64. Paul Johnson, Director of the Institute for Fiscal Studies, said low turnover was a problem: “the lack of willingness to sell, despite the extraordinary prices around, is creating a lack of supply.”⁷⁰
65. The Council of Mortgage Lenders pointed out that even if 220,000 plus homes are built every year for the next decade in England, 90 per cent of the housing stock that will exist in 2025 has already been built. They called for better use of that existing stock:

“Government measures that nudge us towards even slightly more intense use of our current stock could contribute materially to improving the overall supply-demand picture.”⁷¹

66. Lord Kerslake however said he did not buy the argument: “the fundamental issue is about more homes. It has been since Kate Barker wrote her report and it is an even more acute issue now.” He conceded measures to encourage moving may “ease the challenge of supply” but thought it was “unrealistic to think that it will tackle the underlying need for housing in this country”.⁷²

69 Pre-2006 statistics on property transactions do not differentiate between residential and non-residential transactions. The graph therefore displays all property transactions, the vast majority of which are residential transactions (between 2006 and 2014 there was an annual average of 897,000 residential transactions which accounted for 95 per cent of the average annual number of transactions (947,000) over that period.

70 [Q 203](#)

71 Written evidence from the Council for Mortgage Lenders ([EHM0064](#))

72 [Q 152](#)

67. **The price of housing is determined by the balance in demand and supply for the entire housing stock rather than the supply of new homes alone. A higher rate of construction will need to be sustained over many years to have a substantial effect on prices.**

Barriers to downsizing

68. ‘Under-occupation’ of housing is currently defined by the Government as a household having two or more bedrooms above the required number of bedrooms for the people living there.⁷³ At present, 51 per cent of owner-occupier households in England (7.3 million) are under-occupied according to this definition.⁷⁴ This has increased from 39 per cent (5.3 million households) in 1995/96. A number of witnesses highlighted this point.⁷⁵
69. Vicky Chapman, who together with her husband is looking to move to a smaller house, bemoaned the lack of suitable property:
- “Houses being built by developers are badly designed (two flights of stairs!), overcrowded, overlooked with small windows, small rooms and small gardens and high prices ... What we do not want is to live in a rabbit hutch (we would like the same sized rooms but less of them) just because we are getting on a bit and neither do we wish to live in a commune of old people.”⁷⁶
70. Stamp duty was criticised by a number of witnesses for discouraging people to move home. Paul Johnson thought it was a “quite important” factor behind the low turnover, saying the tax payable “is a much bigger fraction of the cost of a house now than it was back in the 1980s”.⁷⁷
71. The National Institute for Economic and Social Research (NIESR) said that under-occupation suggested that housing is “increasingly seen as a store of wealth ... the market is becoming less efficient in allocating housing”. They labelled the tax system as “the biggest distortion” to the housing market and called for capital gains tax to be levied on profits made on main residences.⁷⁸
72. **The existing stock of housing in England is not used particularly efficiently. While new construction is important, the Government should not overlook the role the existing housing stock plays and consider ways of stimulating the market for existing homes.**

73 To measure occupation density, a standard number of bedrooms is calculated for each household. A separate bedroom is allowed for each married or cohabiting couple, any other person aged 21 or over, each pair of adolescents aged 10 to 20 of the same sex, and each pair of children under 10. Any unpaired person aged 10 to 20 is notionally paired, if possible, with a child under 10 of the same sex otherwise they are counted as requiring a separate bedroom, as would any unpaired child under 10. This notional standard number of bedrooms is then compared with the actual number of bedrooms available and the difference calculated. Bedrooms converted to other uses are not counted as available (unless denoted as a bedroom in the Census by the respondents).

74 DCLG, *English Housing Survey, Headline Report 2014–15*, 18 February 2016: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/501065/EHS_Headline_report_2014-15.pdf [accessed July 2016].

75 For example, National Institute for Economic and Social Research (EHM0061) and Green House Think Tank (EHM0129). Over the same period, the proportion of under-occupied homes has decreased in the private and social rented sectors.

76 Written evidence from Vicky Chapman (EHM0023). Chris Walker from Policy Exchange said that many older people wished to move into a smaller house “but they do not have a suitable alternative to which to downsize. It is almost like a bit of a gridlock in the housing market.” (Q2).

77 Q 203

78 Written evidence from the National Institute for Economic and Social Research (EHM0061)

CHAPTER 2: THE GOVERNMENT'S RESPONSE

73. The present Government has launched a number of initiatives in the housing market, many aimed at increasing home ownership. This chapter will consider the Government's plan to build one million homes by 2020 and its focus on owner occupation whilst doing little to expand the supply of rented or social housing.

Housing supply: building one million homes

What is the Government's target?

74. The number of homes the Government has committed to build has evolved. The Conservative Party's Manifesto did not contain a clear overall target for house building.⁷⁹ The Manifesto pledged to:

“build 200,000 quality Starter Homes over the course of the next Parliament, reserved for first-time buyers under 40 and sold at 20 per cent below the market price. [...] We will [deliver] 275,000 additional affordable homes by 2020. And we will offer 10,000 new homes to rent at below market rates.”

75. In an interview in September 2015, the Minister for Housing went further and stated that the Government aimed to build one million homes during the course of the Parliament.⁸⁰ This target includes all new homes built and not just 'affordable homes'. The Minister in evidence to the Committee explained that:

“Originally when I had the conversation about this, I was asked by a journalist, ‘What would you see as success?’, and I think it would be that.”⁸¹

76. In his Spending Review and Autumn Statement of 2015 the Chancellor set out a five point plan for home ownership and promised to build 400,000 'affordable homes' by 2020.⁸²

Is one million homes the right target?

77. Ministers explained that they had arrived at their “very ambitious” target after consideration of the household formation statistics.⁸³ The household formation data are the primary, but not the only, way to measure the need or demand for housing. The evidence we heard on these projections is set out in Chapter 1.

79 The Conservative Party, *Manifesto 2015*: <https://s3-eu-west-1.amazonaws.com/manifesto2015/ConservativeManifesto2015.pdf>. [accessed May 2016]

80 Interview for BBC *Inside Out* broadcast 21 September 2015: <http://www.bbc.co.uk/news/uk-england-34209027>. Mr Lewis stated: “By the end of this parliament, success I think would mean that we have seen a build in total of something like a million homes”. The target was repeated at the launch of the Housing and Planning Bill (DCLG, ‘Historic Housing and Planning Bill will transform generation rent into generation buy’, 13 October 2015: <https://www.gov.uk/government/news/historic-housing-and-planning-bill-will-transform-generation-rent-into-generation-buy> [accessed May 2016]

81 [Q 237](#) (Brandon Lewis MP)

82 HM Treasury, *Spending Review and Autumn Statement*, Cm 9162, November 2015: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479749/52229_Blue_Book_PU1865_Web_Accessible.pdf [accessed April 2016]

83 [Q 237](#) (Brandon Lewis MP). The evidence and our analysis of how the Government's target compares to the household formation statistics is considered in Chapter 1.

78. The Government's aim to build one million homes, or 200,000 a year, was criticised by some witnesses.
79. First, witnesses argued that the Government should consider not just current housing requirements, but also the backlog created by the failure to build enough homes over many years.⁸⁴ Between 2011 and 2015 only 54 per cent of the homes required to meet the household formation projections were built.⁸⁵ Chris Walker of Policy Exchange estimated there was a housing shortage "in the order of one million homes".⁸⁶ This shortage is reflected in the level of house prices and rents, in particular in London, even before the collapse of housebuilding after the financial crisis.⁸⁷
80. Second, the Government's target would not be sufficient to alter the rate of increase in house prices materially. HM Treasury told us that even if one million homes were built by 2020, house prices would rise by five or six per cent a year over the same period.⁸⁸ The Government accepted the number of houses "necessary to stabilise house prices would be very substantial indeed."⁸⁹ The Minister for Housing admitted that "an awful lot of existing home owners will be very pleased" that prices will continue to rise and thought that was "an entirely human approach to take". The Government's aim is not to stop house prices rising, rather their priority is to encourage home ownership without cost to existing owners.⁹⁰
81. In addition to rising prices, the rate of house price growth currently exceeds the rise in incomes. Building 200,000 homes a year to 2020 is also not in itself enough to modify the price to income ratio. The Exchequer Secretary to the Treasury told us that:

"The modelling suggests that in order to keep the house prices to earnings ratio constant, somewhere between 250,000 and 300,000 homes per year need to be built."⁹¹

Can one million homes be built by 2020?

82. We asked Ministers and officials for a more detailed analysis of how the target of one million homes by 2020 will be reached, based on the Government's estimate of how much each sector has the capacity to contribute. In response to this question the Minister for Housing and DCLG provided the table set out in Table 4 below:⁹²

84 [Q 1](#) (Dame Kate Barker)

85 Neil McDonald and Christine Whitehead, 'New estimates of housing requirements in England, 2012 to 2037', *Town and Country Planning*, Nov 2015: http://www.tcpa.org.uk/data/files/Housing_Req-Final.pdf [accessed April 2016]

86 [Q 1](#) (Chris Walker)

87 The Institute of Economic Affairs wrote, "housing costs in the UK—both house prices and rents—are among the highest in the world, both in absolute terms and relative to average incomes. Since 1970, average house prices in the UK have gone up four and a half fold after inflation. In this, the UK is an extreme international outlier." Written evidence from the Institute of Economic Affairs ([EHM0120](#)).

88 [Q 76](#) (Stephen Farrington). Mr Farrington's evidence was based on the OBR forecasts. The Minister for housing confirmed that "building 1 million homes will not necessarily reduce house prices" [Q 239](#) (Brandon Lewis MP).

89 [Q 63](#) (Stephen Aldridge)

90 [Q 239](#) (Brandon Lewis MP)

91 [Q 239](#) (Damian Hinds MP); see also [Q 1](#) (Chris Walker and Dame Kate Barker). Due to low interest rates building 250,000–300,000 homes above may now be insufficient to keep the price: earnings ratio constant.

92 Written evidence from Brandon Lewis MP ([EHM0167](#)); see also supplementary written evidence from DCLG ([EHM0157](#)).

Table 4: Government’s breakdown of new housing supply

Programme	Delivery (units)
Help to Buy: Shared Ownership	135,000 starts
Starter Homes	200,000 starts
Affordable rent	100,000 starts
Home Building Fund	25,500
Public Sector Land programme	Release land for 160,000
Large scale developments (Ebbsfleet, Bicester, Brent Cross, Northstowe, Barking Riverside)	55,000
Estate Regeneration	6,000
Help to Buy Equity Loan extension 2016–17 to 2020–21	Support 145,000 families into new-build homes
TOTAL	<u>521,00 units</u> <u>160,000 land capacity</u> <u>145,000 supported into new homes</u>

Source: Written evidence from Brandon Lewis MP ([EHM0167](#))

83. The Government’s figures do not fully address the question asked:
- It is a list of the projected outputs from various Government initiatives; not all this output is intended to be achieved by 2020.
 - The figures double count the homes to be supplied, for example Starter Homes will be built on public land.⁹³
 - The Government does not indicate how many homes each sector will build, or in particular how many the private sector will contribute without support from these initiatives.⁹⁴ In response to the Committee’s concern, the Minister told us that the Government “does not publish forecasts of housing supply” by the private sector.⁹⁵
 - The figures do not provide information on how many homes will be complete and ready for occupation by 2020.⁹⁶ For example, the Government has yet to build any Starter Homes despite these properties accounting for one fifth of the overall target.

93 Supplementary written evidence from DCLG ([EHM0157](#)). The Department noted that this double counting meant that “the total number of units that will be delivered by these programmes will be lower than the sum of the units provided by each.”

94 The industry has stated that they expect to increase supply but many of the additional units will be built with the support of the initiatives listed above—and equally some market homes will not be built because some demand will have been satisfied through the government supported initiatives.

95 Written evidence from Brandon Lewis MP ([EHM0167](#))

96 For example: it is claimed that Starter Homes will make the largest single contribution (200,000 building starts), but work on building Starter Homes is yet to commence. A consultation on the regulations underlying Starter Homes closed on 18 May 2016. DCLG, *Starter Homes Regulations: technical consultation*, March 2016: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/510478/Starter_homes_regulations_technical_consultation.pdf [accessed April 2016].

Housing supply target: conclusions

84. **The Government’s target of one million new homes by 2020 is not based on a robust analysis. To address the housing crisis at least 300,000 new homes are needed annually for the foreseeable future. One million homes by 2020 will not be enough.**
85. **To achieve its target, the Government must recognise the inability of the private sector, as currently incentivised, to build the number of houses needed. Government action is required to address this, including helping local authorities and housing associations to increase their housebuilding.**

Tenure: doubling the number of first time buyers*Policy on housing tenure*

86. One of the Government’s election promises was to help one million more people into home ownership by doubling the number of first time buyers.⁹⁷ The Minister for Housing acknowledged the Government’s “focus” on home ownership, but told us that that the Government also wished to increase the number of homes available to other tenures.⁹⁸
87. The Minister for Housing pointed out that home ownership remains the tenure of choice for the majority of the population. He cited figures from the 2011/12 British Social Attitudes Survey which reported that 86 per cent of households would prefer to own their home.⁹⁹ Currently only 62 per cent of people do own a home. This is the lowest level of home ownership since 1985 and down from a peak of 71 per cent in 2003.
88. The Exchequer Secretary to the Treasury pointed out that as well as the general decline, there is a widening generational gap in homeownership and that the decline was “particularly acute the further you go down the age scale”.¹⁰⁰ Figure 9 illustrates this trend.

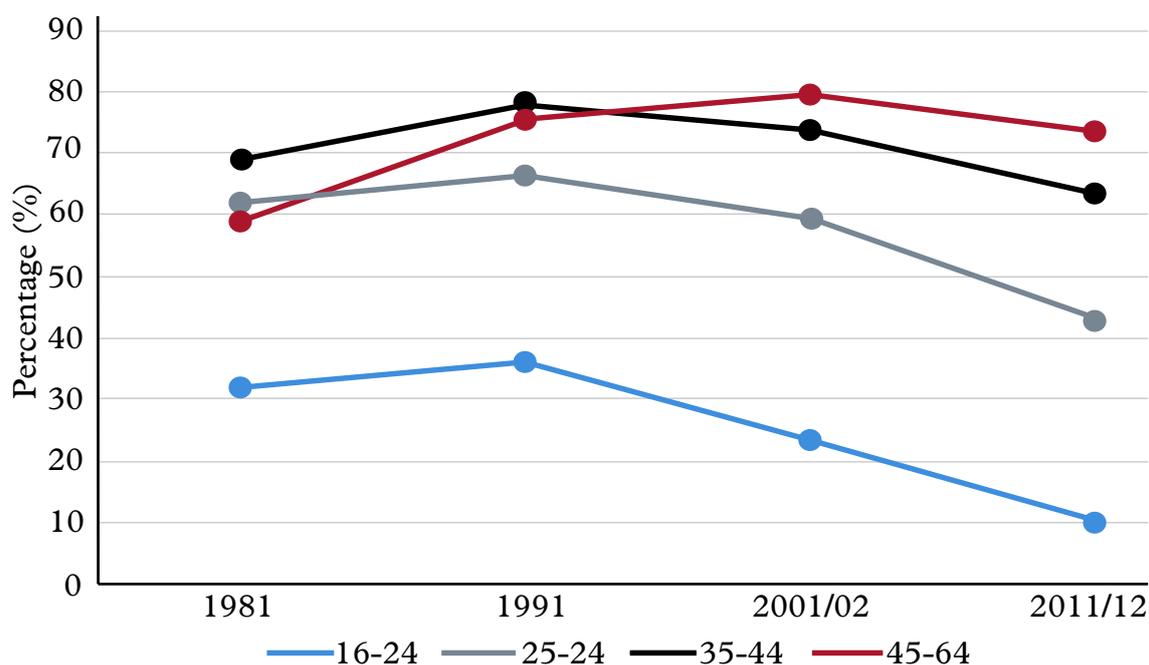
97 The Conservative Party, Manifesto 2015, *op. cit.*

98 [Q 249](#) (Brandon Lewis MP)

99 NatCen Social Research, *British Social Attitudes 2011–12*, 2012: <http://www.bsa.natcen.ac.uk/media/38966/bsa28-full-report.pdf> [accessed April 2016]

100 [Q 244](#) (Damian Hinds MP)

Figure 9: Trends in home ownership by age group. Percentage of each age group that are home owners, UK, 1981 to 2012



Source: ONS, *Housing and home ownership in the UK*, January 2015: <http://visual.ons.gov.uk/uk-perspectives-housing-and-home-ownership-in-the-uk/>. Data from: *English Housing Survey 2012 to 2013*, Table FC2101: <https://www.gov.uk/government/statistical-data-sets/owner-occupiers-recent-first-time-buyers-and-second-homes> *English Housing Survey 2001/02*, Table S106: <http://webarchive.nationalarchives.gov.uk/20121108165934/http://www.communities.gov.uk/documents/housing/xls/139277.xls> [accessed June 2016]

89. To achieve its aims, the Government has announced a series of policies designed to increase home ownership.¹⁰¹ Chris Walker of Policy Exchange saw these schemes as representing a shift of emphasis from subsidising rents to subsidising home ownership, pointing out: “for the first time more grant money will be spent on affordable home ownership products than on affordable rented or social rented products”.¹⁰²

Criticism of the Government’s approach

90. Some witnesses were concerned that the Government’s focus on home ownership was to the detriment of other tenures. They considered that the Government’s policies have targeted buy-to-let landlords, undermined investment in the private rental sector through taxation changes, and exacerbated the undersupply of social and affordable rented accommodation.

Trends in the private rental sector

91. As shown by Figure 10, the number of households in the private rented sector has risen. One factor in this trend is the long-term decline in those living in social housing. Jon Cunliffe, Deputy Governor of the Bank of England, said that this trend had both short and long-term causes:

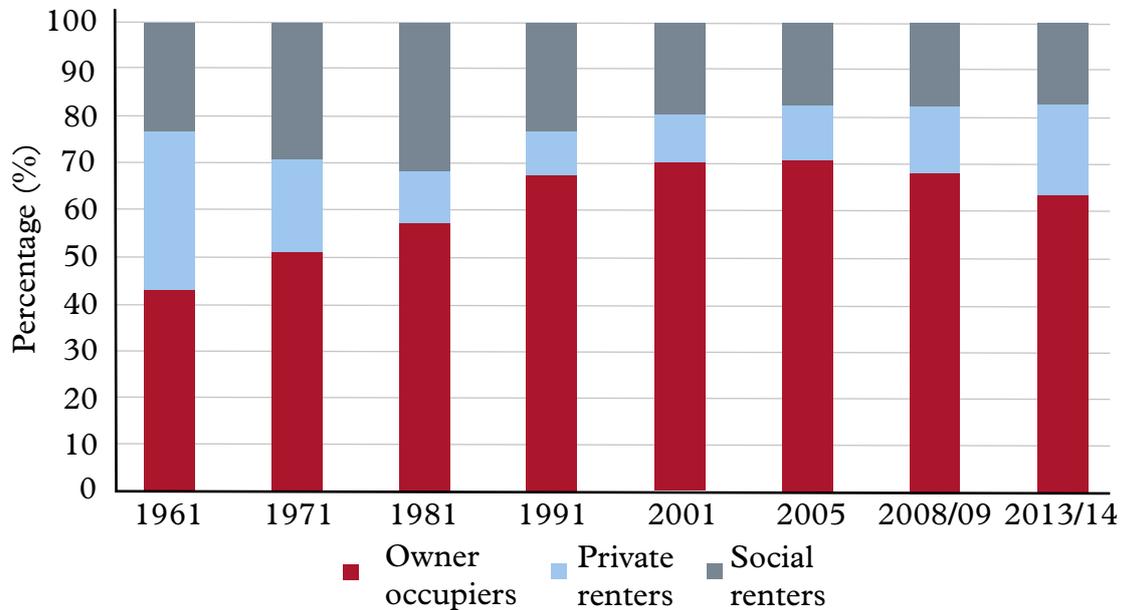
“Demographic and other factors have increased the demand for rented accommodation, so the balance between owner occupier and rented has

¹⁰¹ Annex 3 contains full details of each scheme.

¹⁰² [Q 9](#) (Chris Walker)

been changing over the last 15 or 20 years, but it looks as if much of that change happened in the period before the crisis, and a lot more of the switch between owner occupied and rented since the crisis has been due to affordability.”¹⁰³

Figure 10: Trends in tenure by household in England and Wales (percentage of households in each tenure 1961–2013/14)



Source: DCLG, *English Housing Survey, Household Report, July 2015, Chapter 1, annex table 1.1* <https://www.gov.uk/government/statistics/english-housing-survey-2013-to-2014-household-report> [accessed June 2016]

92. The evidence we received on conditions in the private rental sector was mixed. The English Housing Survey indicates that levels of satisfaction with their tenure among private sector tenants has risen from 46 per cent in 2003/04 to 53 per cent in 2013/14. These figures are still below tenure satisfaction levels in 2013/14 of owner occupiers (94 per cent) and social housing tenants (80 per cent).¹⁰⁴
93. Some witnesses, in particular groups campaigning for tenants, argued that the sector “as it is currently constituted is really not fit for purpose for huge numbers of people” due to increasing rents, poor conditions and insecurity of tenure.¹⁰⁵

Government policies on buy-to-let

94. The Government has announced a series of policies which they consider redress an imbalance between buy-to-let landlords and first time buyers. These include:

¹⁰³ Q 198 (Jon Cunliffe)

¹⁰⁴ The English Housing Survey asks people if they agree that their form of a tenure is a “good way of occupying a home”, English Housing Survey 2013–14, *Comparison of Tenure Groups*: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/461442/Chapter_2_Comparison_of_Tenure_Groups.pdf [accessed June 2016]

¹⁰⁵ Q 17 (Toby Lloyd); see also written evidence from Renters’ Rights UK (EHM0050); see also Professor Danny Dorling who claimed that an increasing number of families with children lived in the private rented sector with “minimal security” (Q 50).

- restricting the relief on finance costs that landlords of residential property can claim to the basic rate of income tax;¹⁰⁶
 - introducing a higher rate of stamp duty on purchases of additional residential properties;¹⁰⁷
 - exempting gains on residential property from a reduction in capital gains tax; and¹⁰⁸
 - reducing tax relief on allowances for wear and tear.¹⁰⁹
95. The Exchequer Secretary to the Treasury told the Committee these changes were about fairness:
- “We want to make sure that more property is available to first-time buyers and young people. It is fair that the treatment of buy-to-let property should come closer to what it would be if you were invested in equities.”¹¹⁰
96. Whilst the number of individual buy-to-let landlords has increased,¹¹¹ witnesses questioned whether they were “squeezing out” first time buyers.¹¹² Stephen Noakes of Lloyds Bank pointed out that between 2011 and 2015, first-time buyer numbers increased by 60 per cent: “The first-time buyer market has grown quite substantially over that period”.¹¹³
97. The Council for Mortgage Lenders predicted that the overall impact of the changes would be “to increase the cost and limit the availability of private rented sector homes”.¹¹⁴
98. We are also concerned that these recent changes, in particular the higher rate of stamp duty land tax, could hinder the development of a build to rent sector. Investors argued a flourishing build to rent sector could ameliorate some of the perceived problems in the private rental sector by supplying

106 HM Treasury, *Summer Budget 2015*, HC 264, July 2015: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/443232/50325_Summer_Budget_15_Web_Accessible.pdf [accessed April 2016]

107 HM Treasury, *Spending Review and Autumn Statement*, Cm 9162, November 2015: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479749/52229_Blue_Book_PU1865_Web_Accessible.pdf [accessed April 2016]. After consultation, the Government said it would not exempt corporate landlords as it had initially planned.

108 HM Treasury, *Budget 2016*, HC 901, March 2016: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/508193/HMT_Budget_2016_Web_Accessible.pdf [accessed April 2016]. The higher rate of capital gains tax was reduced from 28 to 20 per cent, and the basic rate from 18 to 10 per cent from 6 April 2016. There is an eight per cent surcharge on the new rates for gains on residential property.

109 *Ibid.*

110 [Q 244](#) (Damian Hinds MP); see also [Q 14](#) (Dame Kate Barker)

111 Professor Tony Crook told us that “The PRS has become increasingly dominated by individual landlords: In England the proportion of all PRS dwellings owned by individuals has risen from just over half in 1976 to over seven in ten by 2010” Written evidence from Professor Tony Crook ([EHM0090](#)).

112 Introducing the changes in the Autumn Statement 2015, the Chancellor stated: “Frankly, people buying a home to let should not be squeezing out families who can’t afford a home to buy. So I am introducing new rates of Stamp Duty that will be 3 per cent higher on the purchase of additional properties like buy-to-lets and second homes.” HM Treasury, *Spending Review and Autumn Statement*, *op. cit.*

113 [Q 87](#) (Stephen Noakes)

114 Written evidence from the council for Mortgage Lenders ([EHM0064](#)). The Committee also received a number of submissions from individual buy-to-let landlords outlining the impact of the changes on their businesses.

high quality homes and providing greater security of tenure.¹¹⁵ We were told that an estimated £30 to £50 billion could be available from institutional investors to invest in the private rental sector.¹¹⁶ However, the British Property Federation stated that if the stamp duty increase was to apply to institutional investors “we may as well forget it” as the “institutional money has lots of places to invest.”¹¹⁷

Supply of social and affordable rented housing

99. The Government insisted that they wished to increase housing supply generally, including the supply of ‘affordable housing’ to rent.¹¹⁸ Nonetheless, the Government’s policies to increase home ownership, in particular the extension of the Right to Buy and Starter Homes, directly conflict with this goal.

Extension of the Right to Buy to housing associations

100. The long-standing policy of allowing council tenants to purchase their homes at a discount has resulted in a decrease in the overall stock of social housing as the homes sold have not been replaced.¹¹⁹ Concern remains that the homes which will be sold under the extension of the Right to Buy to housing association tenants will not be replaced on a like-for-like basis. The replacement homes which are built may not be in the same area, of the same size, or of the same tenure.¹²⁰
101. The extension of the Right to Buy will be funded by the sale of high value council properties.¹²¹ Liverpool City Council thought that this sale of high value stock would only “exacerbate” the shortage of social housing.¹²²

Starter Homes

102. Revisions to planning have extended the definition of ‘affordable housing’ to Starter Homes. As part of granting planning consent, builders agree to construct, or pay for the construction of, ‘affordable homes’. Previously, these were (very broadly) only homes for affordable rent and shared ownership. The agreements therefore ensured a supply of homes for rent to those on low incomes.¹²³ The inclusion of Starter Homes means that these agreements will now prioritise homes for private sale.

115 Nick Jopling of Grainger PLC and Chris Taylor of the British Property Federation stated that institutional investors were in a position to offer tenants longer leases ([Q 222](#) and [Q 216](#)); see also [Q 59](#) (Andrew Rose) and written evidence from the Greater Manchester Combined Authority ([EHM0135](#)).

116 Written evidence from the British Property Federation ([EHM0133](#))

117 [Q 225](#); at the time this evidence was given the increase only applied to landlords with fewer than 10 properties. This was changed in the March 2016 budget to apply to all residential landlords. HM Treasury, *Budget 2016*, *op. cit.*

118 [Q 237](#) (Brandon Lewis MP). For the Government’s definition of ‘affordable housing’ see Box 2 below.

119 [Q 22](#) (Toby Lloyd), written evidence from the London Tenants Association ([EHM0099](#)) and [Q 11](#) (Martin Wolf)

120 [Q 118](#) (David Orr), written evidence from Greater Manchester Combined Authority ([EHM0135](#)) and written evidence from the City of London Corporation ([EHM0119](#))

121 Housing and Planning Act 2016, [Chapter 1](#)

122 Written evidence from Liverpool City Council ([EHM0039](#)); see also [Q 129](#) (Cllr Sue Derbyshire) and written evidence from Bolton Parish Council ([EHM0040](#))

123 These agreements are made under section 106 of the Town and Country Planning Act 1990, see Chapter 3 for full details of this section.

Box 2: Types of ‘affordable housing’

Prior to the inclusion of Starter Homes, the three types of housing within the National Planning Policy Framework definition of ‘affordable housing’ were:

- **Social housing:** this is housing owned by local authorities and housing associations, for which guideline target rents are determined through a national rent regime.
- **Affordable Rented housing:** these are properties provided by local authorities or housing associations to households who are eligible for social rented housing.¹²⁴ The main difference between Affordable Rented homes and social housing is the method by which rents are set: Affordable Rent is required to be no more than 80 per cent of the local market rent. In practice this is generally higher than a comparable social rent.
- **Intermediate housing:** these were homes for sale (for example through shared ownership) and rent provided at a cost generally above social rent, but below market levels. For of rented accommodation rents are usually about 80 per cent of the market rent.

103. The concern of witnesses was that the overall result will be fewer homes for social and Affordable Rent being built and a consequent reduction in the number of homes available for tenants on a low income.¹²⁵ Starter Homes will not remain affordable in perpetuity.¹²⁶

Conclusions on Tenure

104. **The Government has chosen to promote the expansion of owner occupation. This reflects the aspiration of many people to own their home. However, it must be recognised that home ownership, whilst a wish for many, is not achievable for all.**
105. **The Government’s focus on home ownership neglects other tenures; those on the cusp of ownership are helped and those who need secure, low cost rental accommodation are not. Opportunities to increase investment and funding in the private rental sector are potentially undermined by policies designed to assist owner occupation.**

124 These are part of a programme provided under the Affordable Rents regime completed in 2015 or dwelling that the housing association chooses to transfer from social rented housing when the property becomes vacant. DCLG, *Guidance on Rents for Social Housing, March 2014*, p 11: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/313355/14-05-07_Guidance_on_Rents_for_Social_Housing_Final_.pdf [accessed April 2016].

125 [Q 117](#) (David Orr); see also written evidence from Greater Manchester Combined Authority ([EHM00135](#)) and written evidence from the London Borough of Islington ([EHM0141](#))

126 The Government initially proposed that Starter Homes could not be sold at full market value for a ‘restricted period’ of five years after purchase. In technical consultation in March 2016 the Government sought views on “on a tapered approach which enables the starter home to be sold at an increasing proportion of market value, stepping up to 100% over time”. The Government indicated that it did “not support extending the restricted period beyond the first 8 years of occupation”. DCLG, *Starter Homes Regulations: technical consultation*, March 2016: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/510478/Starter_homes_regulations_technical_consultation.pdf [accessed April 2016].

CHAPTER 3: PLANNING REFORM

106. Where development is located, its density, its supporting infrastructure, and the obligation to build ‘affordable housing’ are among the matters regulated by the planning system.¹²⁷ This chapter considers reforms to planning that would help increase the speed of delivery of new housing and make the process easier to negotiate, particularly for smaller builders. Planning policy is a devolved matter and the detail of the system and recommendations contained in this chapter apply only to England.

The current planning system

107. The planning system is governed by the National Planning Policy Framework published in March 2012.¹²⁸ This sets out the Government’s planning policies and how the Government expects the framework to be applied.¹²⁹ It was described by Dame Kate Barker as a “big step forward” and accompanied by “some very good guidance”.¹³⁰
108. A number of revisions have recently been proposed by the Government to the National Planning Policy Framework and guidance. Some of these changes are contained in the Housing and Planning Act 2016 and will be implemented shortly while others have only been announced in outline.¹³¹

Criticism of the planning system

109. Those engaged with the planning system, including witnesses who supported the principles of the present approach, conceded that it currently does not always operate effectively. Criticisms of the planning process were that it provided insufficient incentives for local authorities and developers and the system was slow, complex and costly.

Incentives for local authorities and developers

110. Witnesses considered that the operation of the planning system did not provide local authorities with sufficient incentives to allow developments. This absence of sufficient incentives was not limited to the local planning authority, but also affected local residents and developers. Three linked problems were identified in evidence to the Committee.
111. First, local opposition creates political pressure on local councils to resist development.¹³² Dame Kate Barker pointed out that this is a conflict which has “gone on for quite a long time”.¹³³ She thought that at the centre of this conflict are local politicians who,

127 See Box 2 in Chapter 2 for the type of properties that count as ‘affordable housing’.

128 DCLG, *National Planning Policy Framework*, March 2012: <https://www.gov.uk/government/publications/national-planning-policy-framework--2> [accessed April 2016]

129 DCLG, ‘Planning Practice Guidance’: <http://planningguidance.communities.gov.uk/> [accessed April 2016]

130 *Q 2* (Dame Kate Barker)

131 Details of these changes can be found in Annex 4

132 The Committee received written evidence from individuals concerned about specific plans for development in their local area or generally about local planning policy (written evidence from Robert Edwards (*EHM0049*) and written evidence from Malcolm Ramsay (*EHM0044*))

133 *Q 2* (Dame Kate Barker)

“struggle with the question of, ‘Gosh, we really have to find places for all these homes. Where are we going to put them so that we will not be thrown out at the next local election?’”¹³⁴

112. Second, there is currently no immediate financial benefit to the local authority from the planning process.¹³⁵ The ‘windfall’ created by the grant of planning permission is retained by the landowner.¹³⁶ Arrangements under section 106 of the Town and Country Planning Act and the Community Infrastructure Levy can partially address this disparity.¹³⁷ However, these schemes do not operate transparently and it is not always clear, in particular to local residents, what a development has funded. Councillor Sue Derbyshire, Housing and Planning Lead, Greater Manchester Combined Authority, acknowledged that: “Without some way of capturing that uplift in value or some part of that uplift in value, we are not getting an awful lot ... out of Section 106 agreements”.¹³⁸
113. Changes to business rates which allow the local authority to retain rates raised in their area could provide a reward to local authorities who increase development and could alter the incentives available to local authorities. Martin Wolf considered that this “seems to provide an encouragement at least for commercial development.”¹³⁹ The Government also proposes changes to the local government finance regime to ensure that local authorities are funded through “local financing—... Council Tax and business rates—rather than central government grant.”¹⁴⁰
114. Finally, the incentives for builders to develop permissioned land were repeatedly questioned. As detailed in Chapter 1, private builders are not incentivised to develop land quickly. Later in this chapter we consider how the planning system could be used to expedite private house building.

A slow, complex and costly system

Delays in the planning system

115. Individuals and companies who found the planning process cumbersome highlighted what they believed to be unjustified delays throughout the

134 [Q 2](#) (Dame Kate Barker); see also [Q 143](#) (Lord Kerslake)

135 The New Homes Bonus, however, does provide financial bonuses to local authorities who build new homes in their area. Under the scheme, local authorities receive a bonus for each new home built or empty home brought back into use. The amount of the bonus is equivalent to the council tax that the new home would provide to the local authority. The design of the scheme includes an enhancement for each affordable home built. The bonus—and any affordable home uplift—is paid for six years after the new home is built. The money paid under the bonus is not ring-fenced for housing. In December 2015, DCLG published a consultation on changes to the bonus. The changes proposed include reducing the number of years the bonus is paid from six to four and linking payments to the completion of local plans (DCLG, *New Homes Bonus: Sharpening the Incentives*, December 2015: <https://www.gov.uk/government/consultations/new-homes-bonus-sharpening-the-incentive-technical-consultation> [accessed April 2016])

136 Written evidence from the Centre for Progressive Capitalism ([EHM0094](#))

137 See Box 3

138 [Q 139](#) (Cllr Sue Derbyshire). Reforms to the planning system to capture this gain are considered at below.

139 [Q 5](#) (Martin Wolf)

140 Cities and Local Government and Devolution Act 2016 and HC Deb, 8 February 2016, [col 1333](#) (Statement by the Secretary of State for Communities and Local Government on the final local government finance settlement for 2016 to 2017)

planning process.¹⁴¹ Two key points of delay identified by witnesses who regularly engaged with the planning system were:

- (a) The imposition of planning conditions and delays certifying compliance with these conditions.¹⁴² David Orr from the National Housing Federation stated that in his experience it could be a year after planning consent was granted “before you can actually lay a brick”.¹⁴³
- (b) Negotiating agreements under section 106 of the Town and Country Planning Act.¹⁴⁴ Pocket Living, a developer of “affordable homes”, stated that it took 16 weeks to obtain a planning consent and a further 22 to 44 weeks to negotiate the section 106 agreement.¹⁴⁵

Complexity

116. Small builders and individuals felt that the “complexity and uncertainty” of the planning system hindered their ability to develop sites.¹⁴⁶ John Stewart of the Home Builders Federation noted that the same effort and resource was required whether the application was for a large or a small development. He considered that the “details you have to submit are quite a strain and a constraint.”¹⁴⁷
117. Small builders told us that as the complexity of planning increased, their in-house resources were no longer sufficient to navigate the process and they needed to employ outside agents and consultants.¹⁴⁸

Cost of planning

118. The complexity of the system and the opportunities for legal challenge were two factors that builders and developers considered led to an increase in their costs. Jennie Daly from Taylor Wimpey told us that “it can cost many hundreds of thousands of pounds to get a planning consent”.¹⁴⁹ Smaller builders concurred that the cost of planning was high. Chris Carr recounted that a recent application had cost his small building company £275,000 in consultancy and legal fees.¹⁵⁰

141 Other sources of delay suggested to us were litigation resulting from local challenges to planning decisions as a source of delay [Q 137](#) Cllr Sue Derbyshire; also written evidence NIESR ([EHM0061](#)) and written evidence from Kathy Miller ([EHM0025](#)). Other witnesses considered that local authority planning departments adopted a formulaic approach designed for large developments which hindered the plans of small companies and custom builders. Written evidence from Pocket Living ([EHM0109](#)) and written evidence from Helen Johnson ([EHM0062](#)).

142 [Q 94](#) (Jennie Daly) and [Q 3](#) (Dame Kate Barker)

143 [Q 115](#) (David Orr)

144 For the provision of affordable housing or other measures to mitigate the impact of a development.

145 Written evidence from Pocket Living ([EHM0109](#))

146 [Q 143](#) Lord Kerlake and [Q 164](#) Brian Berry

147 [Q 104](#) (John Stewart) and written evidence from the Federation of Master Builders ([EHM0140](#)). The Federation’s annual survey of members asks what they feel are the main constraints on building more homes. In 2015 planning in general was felt to be a main constraint by 57 per cent and s 106 and CIL were cited as a main constraint by 34 per cent and 22 per cent respectively. Other major constraints were the availability of land (68 per cent) and access to finance (62 per cent) (written evidence from the Federation of Master Builders ([EHM0140](#))).

148 Written evidence from the Federation of Master Builders ([EHM0140](#)) and written evidence from Derek Minns ([EHM0005](#))

149 [Q 99](#) (Jennie Daly)

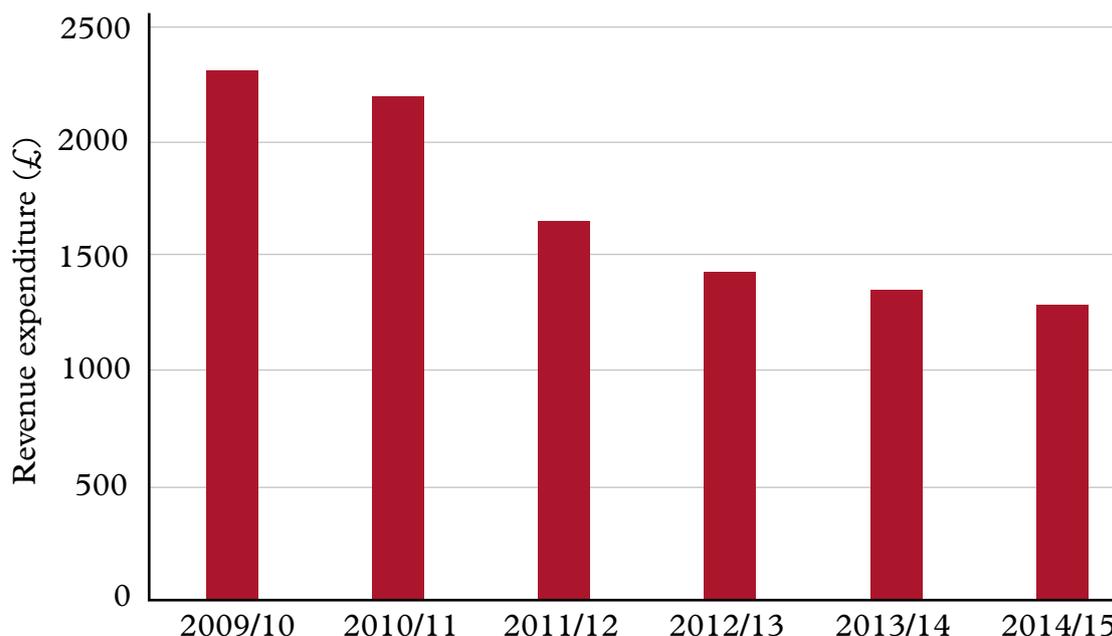
150 [Q 168](#) (Chris Carr)

Increasing resources

Reduction in local authority expenditure on planning

119. Local government has experienced a decrease in funding since 2009.¹⁵¹ These cuts have fallen particularly heavily on planning departments: as Figure 11 shows, since 2009/10 local authority revenue spending on planning and development has fallen by nearly 50 per cent.

Figure 11: Local Authority, net revenue expenditure on planning and development services (England only) (2009/10–2014/15)



Source: DCLG, *Revenue Expenditure and Financing*: <https://www.gov.uk/government/collections/local-authority-revenue-expenditure-and-financing> [accessed April 2016]

120. Local authority planning departments are, we were told, “under resourced” and “desperately short of ... staff”.¹⁵² This has limited their capacity to process applications, led to “bottlenecks in the system”¹⁵³ and decreased the expertise available.¹⁵⁴ One result is that when negotiating complex agreements with well-funded, private companies there is an inequality of arms between local authority planners and the developers.¹⁵⁵

Planning fees: current system

121. The last nationally approved increase in fees was in 2012.¹⁵⁶ The fees paid by the applicant seeking planning permission does not cover the cost to the local authority of processing the application.¹⁵⁷

151 The Institute for Fiscal Studies has estimated that central government funding to local authorities fell by more than 20 per cent between 2009/10 and 2014/15 (Institute for Fiscal Studies, *Central Cuts, Local Decision-Making, changes in local government spending and revenues in England, 2009–10 to 2014–15*, March 2015: <http://www.ifs.org.uk/uploads/publications/bns/BN166.pdf> [accessed April 2016])

152 [Q 115](#) (David Orr), [Q 143](#) (Lord Kerslake) and [Q 97](#) (John Stewart); see also [Q 97](#) (Jennie Daly)

153 [Q 3](#) (Chris Walker)

154 [Q 137](#) (Cllr Sue Derbyshire) and [Q 32](#) (Dr Steve Wilcox)

155 [Q 137](#) (Lord Best) and [Q 32](#) (Dr Steve Wilcox)

156 The Town and Country Planning (Fees for Applications, Deemed Applications, Requests and Site Visits) (England) Regulations 2012 ([SI 2012/2920](#))

157 [Q 149](#) (Lord Porter of Spalding)

122. In February 2016, the Government launched a technical consultation on limited changes to the regime of planning fees.¹⁵⁸ This proposed to increase fees by a “proportionate amount”. Any increase would not be available to all local authorities but “go hand-in-hand with the provision of an effective service” and be available “only to those authorities that are performing well.”¹⁵⁹
123. A further, related change contained in the Housing and Planning Act 2016 is intended to introduce competition to the planning process by allowing ‘approved providers’ in pilot areas to compete with local authority planning departments to process planning applications.¹⁶⁰ The final decision on whether or not to grant permission for development would remain with the local authority.

Changes to planning fees

124. Lord Kerslake argued that “we desperately need a more flexible planning fee system that allows local authorities to invest in their planning capacity.”¹⁶¹ Many witnesses supported the proposal that the fees for planning applications should be increased and that local authorities should be given discretion to decide the level of fees to charge.
125. Builders and developers told us they would be “happy to pay higher fees”.¹⁶² They wished that the money raised be used to fund planning improvements and not be absorbed into the general funds of the local authority.¹⁶³
126. The Government consultation limits any increase in fees to local authorities who are performing well.¹⁶⁴ The Minister for Housing considered that granting local authorities a general discretion to increase fees could be open to “abuse” and that there was “potential for a local authority to use that in a way to discourage development”.¹⁶⁵ The Government opposed an amendment to the Housing and Planning Act 2016 intended to provide greater freedom and flexibility to local authorities to set their fees.¹⁶⁶
127. **Adequately resourced planning departments are crucial to the effective delivery of development. It is possible to mitigate the effects of reductions in local authority spending on planning by increasing the fees that can be charged for planning applications. Builders and developers are willing to pay more.**
128. **We recommend that the Government:**
- (a) **allows local authorities to set and vary planning fees in accordance with the needs of their local area. To prevent abuse there should be an upper limit or cap on the level of fees. To allow sufficient discretion to local authorities, this cap should be**

158 DCLG, *Technical consultation on implementation of planning changes*, February 2016: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/507019/160310_planning_consultation.pdf [accessed April 2016]. The consultation closed on 15 April 2016.

159 *Ibid*

160 Housing and Planning Act 2016, [section 161](#)

161 [Q 143](#) (Lord Kerslake)

162 [Q 157](#) (Trudi Elliott); see also [Q 3](#) (Chris Walker)

163 [Q 157](#) (Trudi Elliott) and [Q 174](#) (Chris Carr)

164 DCLG, *Technical consultation on implementation of planning changes*, *op. cit.*

165 [Q 253](#) (Brandon Lewis MP)

166 HL Deb, 20 April 2016, [cols 716–724](#). Speaking for the Government Baroness Williams of Trafford stated that she was “deeply concerned that this amendment, [has] no protections or safeguards to prevent local authorities setting excessive and unreasonable fees”

**significantly higher than the current fees that can be charged;
and**

- (b) **provides that the money raised from these fees is ring-fenced for expenditure on planning and development.**

Accelerating build out rates

129. The planning system could also have a role in altering the behaviour of private builders. A criticism made of the large house builders that we examined in Chapter 1 is that they hold land suitable and with permission for building, yet build at a slow pace and thus maximise the profit from each development.¹⁶⁷ This part of our report considers how the planning system could be used to narrow that gap by using measures designed to speed up the rate at which sites are developed.
130. Witnesses proposed two types of incentive to address this issue. The first would put strict time limits on the use of planning consents; the second would use the tax system to impose financial penalties on builders who do not develop permissioned land.

Planning consents: ‘use it or lose it’

131. Planning permission is granted subject to a condition that specifies the time limit within which development must begin. The default time limit, which may be varied by the local authority, is three years.¹⁶⁸ Once development has begun, there is no time limit on its completion. To fulfil the condition, work on the site must simply ‘begin’. “Any material operation” related to the development is sufficient.¹⁶⁹ Once development has begun, there is no time limit on its completion.
132. Various ways of strengthening the existing regime have been proposed such as:
- Developers should lose planning permission after three years unless they “use their best endeavors [sic] to develop a site”.¹⁷⁰
 - The lifespan of a planning consent should be limited to two years and a stricter test applied to what would count towards work on a site beginning.¹⁷¹
 - Local authorities should have the power to compulsorily purchase permissioned but undeveloped land at 50 per cent of its market value.¹⁷²
133. Perhaps unsurprisingly, house builders did not favour any of the above schemes. Those who had experience of development considered that losing

167 See Chapter 1

168 Town and Country Planning Act 1990, [section 91](#). In the case of outline planning permission, reserved matters must be resolved within three years and development start within two years of resolution.

169 Town and Country Planning Act 1990, [section 56\(4\)](#). The test is an objective one: the intention of the developer—whether to start building or simply to do enough to stop the expiry of the planning consent—is immaterial *Riordan Communications Ltd v South Buckinghamshire District Council* (1999) 81 P & CR 85.

170 Written evidence from the Royal Institute of Chartered Surveyors ([EHM0151](#))

171 Sir Michael Lyons and others, *The Lyons Housing Review*, October 2014: http://www.yourbritain.org.uk/uploads/editor/files/The_Lyons_Housing_Review_2.pdf [accessed April 2016]

172 Written evidence from the Campaign to Protect Rural England (EHM0092) and Civitas, *The Housing Question: Overcoming the shortage of homes*, March 2016: <http://www.civitas.org.uk/publications/the-housing-question/> [accessed April 2016]

planning permission if building work was delayed was unfair. Dr Peter Williams of the Cambridge Centre for Housing and Planning Research said that “the reality is that big-site developments can often take a very long time.” He drew attention to the fact that the start of the build could be delayed by factors outside the control of the developer.¹⁷³

Changes to taxation

134. The case for changes to the taxation system was summarised by Dr Clive Skidmore, Head of Housing Development at Birmingham City Council:

“A piece of land can be bought on the open market. If someone secures planning approval for it, it can then be sold at a profit. [...] In the meantime, the land is sitting there and we are not getting the homes to be built on it. One suggestion that has been made about how we could deal with that is to tax those sites, because at the moment people are paying no tax on them whatever. [...] You have to pay tax on any other kind of building, but you do not have to pay tax on those development sites.”¹⁷⁴

135. A practical but effective proposal is to use the existing but imperfect system of council tax and business rates to incentivise developers. If a developer failed to complete a site within a set period of time, council tax and business rates would be levied as if the property had been built. This idea was supported by the President of the Local Government Association, Lord Porter of Spalding and Tony Lloyd of Shelter:

“Where a developer has planning permission to develop and after a certain period of time nothing happens ... council tax and business rates could be levied as if that property had been built, because that would provide a spur and an incentive for them to build the homes that they, after all, have been given permission to build.”¹⁷⁵

136. Lord Kerslake also favoured this model. He suggested that it should remain at the discretion of the local authority who could remit the charge if there were good causes for the delay in development. The importance of the tax, in his opinion, lay in its symbolism rather than its revenue raising potential.¹⁷⁶
137. The advantage of using council tax or business rates is twofold: first it sits within the existing taxation system and would not require wider reform of property tax. Second, it complements the Government’s agenda to devolve further powers to local authorities and make local authorities reliant on their own revenue streams (through measures including the retention of business rates) and not central government grants.¹⁷⁷
138. The Government suggested in evidence that they did not favour using council tax as a stick to incentivise developers. The Minister for Housing was concerned that a tax on permissioned land could have unintended consequences and cause delays in applying for planning permission.¹⁷⁸ This

173 [Q 32](#) (Dr Peter Williams); see also [Q 143](#) (Lord Best)

174 [Q 130](#) (Dr Clive Skidmore)

175 [Q 27](#) (Toby Lloyd)

176 [Q 144](#) (Lord Kerslake)

177 Cities and Local Government and Devolution Act 2016 and HC Deb, 8 February 2016, [col 1333](#) (Statement by the Secretary of State for Communities and Local Government on the final local government finance settlement for 2016 to 2017)

178 [Q 256](#) (Brandon Lewis MP); see also [Q 4](#) (Dame Kate Barker) and [Q 101](#) (Jennie Daly)

seems implausible given the added value which receipt of planning permission confers.

Conclusions on planning incentives

139. **We recommend that local authorities are granted the power to levy council tax on developments that are not completed within a set time period. This time period should be negotiated when planning consent is sought and be varied according to the size and complexity of a development. To ensure that the local authority also has an incentive to accelerate the process, the clock should start to run only when the local authority has signed off all conditions and obligations.**

Reform to section 106 and the Community Infrastructure Levy

140. Developers are expected to contribute to the wider costs of building through the Community Infrastructure Levy and agreements under section 106 of the Town and Country Planning Act 1990.

Box 3: Section 106 and the Community Infrastructure Levy

The purpose of section 106 is for the developer and the local authority to agree a contract relevant to a specific development that will mitigate its impact. These commonly include the provision of ‘affordable housing’ and payment for additional infrastructure.

The Community Infrastructure Levy is a more recent innovation. A local authority may set a levy on all new building in their area. The money raised is used to fund general infrastructure. Local authorities can choose whether or not to charge the levy, set the rate of the levy and vary it between different parts of their authority or types of land.

The two schemes do overlap and when the Community Infrastructure Levy was introduced, restrictions were placed on the use of section 106 conditions to prevent double charging.

*Source: Town and Country Planning Act, [section 106](#); Community Infrastructure Regulations 2010, (SI 2010/948); DCLG Planning Practice Guidance, *op. cit.**

141. Section 106 has become closely associated with the provision of ‘affordable housing’.¹⁷⁹ Professor Tony Crook of Sheffield University argued that these obligations had “produced very significant sums of money for ‘affordable housing’ and for local infrastructure”.¹⁸⁰ In England in 2014/15, 14,370 additional affordable homes were provided under section 106 schemes.¹⁸¹
142. The transparency of the Community Infrastructure Levy and the local discretion as to its use were commended by witnesses who considered a strength of the Levy was that it was not tied to one particular development

179 Housing associations considered that section 106 contracts were “an important part of ensuring ... affordable housebuilding” [Q 116](#) (David Montague); see also written evidence from the National Housing Federation ([EHM0144](#))

180 [Q 160](#) (Prof Tony Crook), who estimated that section 106 had produced £5 billion in 2007/08 and £4 billion in 2011/12, and [Q 161](#) (Trudi Elliott)

181 DCLG, ‘Live Table 1000: additional affordable homes provided by type of scheme’, <https://www.gov.uk/government/statistical-data-sets/live-tables-on-affordable-housing-supply> [accessed June 2016]. 3020 of these homes were for social rent, 5180 for affordable rent and 6170 for affordable home ownership.

and so could be used for “infrastructure that straddles more than one scheme.”¹⁸²

143. Section 106 obligations and the Community Infrastructure Levy were seen by other witnesses as ineffective and an obstacle to development. Small and niche builders in particular felt that the increasing obligations imposed by local authorities had “worked against SME housebuilders”.¹⁸³ McCarthy & Stone Ltd, a retirement housebuilder, considered that the obligations and charges meant they could not bid competitively for land against developers seeking to purchase for non-residential use.¹⁸⁴
144. A further difficulty identified was that the complicated nature of section 106 agreements makes it difficult to calculate the value of the contributions made. David Orr of the National Housing Federation estimated that about 25 per cent of the planning gain is captured by section 106, but he accepted that it is “very much a case of sticking your thumb in the air”.¹⁸⁵
145. Professor Paul Cheshire of the London School of Economics, as part of a proposal for wider reform of the planning system, suggested that both section 106 and the Community Infrastructure Levy should be abolished and replaced by a single, national development charge of 20 per cent of the sale value of the land.¹⁸⁶
146. The Government have acknowledged these concerns and a series of changes to section 106 have been proposed and a review of the Community Infrastructure Levy is due to be published later this year.¹⁸⁷
147. **We recommend that as part of its ongoing reviews of planning obligations and the Community Infrastructure Levy the Government aims to achieve a system that is:**
 - (a) **Simple, so time is not wasted negotiating consents and delaying building.**
 - (b) **Transparent, so the value of the contribution made by a developer can be easily quantified and local communities can understand what a new development has paid for and its value. This value should be sufficient to provide an incentive to the local authority to grant planning permission.**
 - (c) **Responsive to the concerns of small and niche builders, which may require exemptions for certain types or sizes of development.**

182 [Q 151](#) (Lord Kerslake) and [Q 253](#) (Brandon Lewis MP)

183 [Q 164](#) (Brian Berry) and [Q 171](#) (Chris Carr)

184 [Q 100](#) (Gary Day); see also [Q 109](#) (John Stewart)

185 [Q 117](#) (David Orr). The planning gain is the difference between the value of land without planning permission and the (higher) value of the land once permission is granted).

186 Written evidence from Prof Paul Cheshire ([EHM0156](#), [EHM0159](#) and [EHM0168](#))

187 DCLG, *Review of the Community Infrastructure Levy, Terms of Reference*, November 2015: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/476681/151027_CIL_TOR_FINAL.pdf [accessed April 2016]. This review is expected to assess the relationship between section 106 and the Community Infrastructure Levy, analyse the operation of the Levy and make recommendations for improvement. See Annex 4 for details of the proposed changes. It has been reported that the review will recommend an overhaul of the system to reduce complexity. The Estates Gazette, ‘CIL red tape set for cut’, June 2016: http://www.egi.co.uk/news/cil-red-tape-set-for-cut?cm_pid=EMP|EGEG|EGNFB-2016-00603# [accessed June 2016]

Other solutions and initiatives

148. There was a debate between witnesses as to the importance of planning reform. The spectrum of views included witnesses who considered that this was “critical” to ensure a functioning market to those who argued that “planning was not a problem”.¹⁸⁸ Witnesses who considered that planning was fundamental argued that only by radical change to this area would real improvements be made to the housing market. A number of ideas, which may be worthy of further consideration, were put to us. Two of these suggestions were building on the greenbelt and making land supply more responsive to demand.

Changes to the Greenbelt

149. Some witnesses considered that the Government should reconsider policy on the greenbelt.¹⁸⁹ Martin Wolf pointed out, “Most of the country is fields and ... most of them are not particularly beautiful. I think it is clear that part of the solution is to allow some building in the green belt. It is a necessary part. It is probably not the whole solution.”¹⁹⁰
150. Trudi Elliott from the Royal Town Planning Institute however thought that green belts had served “a very important purpose” and that building on the greenbelt “is a complex issue that is not really helped by some of the simplistic debate we have about it”.¹⁹¹

Land supply and market signals

151. Given the difference in price between residential and agricultural land described in Chapter 1, Professor Paul Cheshire, London School of Economics, considered that the current planning system took insufficient notice of the market price of land. He said this had led to a “long run systematic undersupply of land” and that “it is imperative that land supply decisions ... systematically respond to price information.”¹⁹² He proposed that if the difference in the price of land between its current use and proposed use for development exceeded a certain threshold, there should be a presumption in favour of development unless it could be demonstrated that the environmental or amenity benefits of the existing use were sufficiently valuable to society.¹⁹³
152. This proposal would represent a major reform to the planning process and is possibly controversial. While there may be a case for radical reform, substantial changes would also cause disruption and transitional problems over a number of years. **We do not take a view on this proposal, but**

188 [Q 143](#) (Lord Porter of Spalding); written evidence from the Royal Town Planning Institute ([EHM0151](#))

189 In evidence the Minister was clear that the Government “are not planning any changes on green belt” policy. He noted that “If a local area wants to look at its green belt, it does so through its local planning process” ([Q 241](#)). The Campaign for the Protection of Rural England analysed proposals for the release of greenbelt land contained in local plans. The CPRE calculated that 275,000 houses planned for future development were on greenbelt land. The CPRE, *The Greenbelt Under Siege*, 25 April 2016, <http://www.cpre.org.uk/resources/housing-and-planning/green-belts/item/4276-green-belt-under-siege-2016>, [accessed June 2016]

190 [Q 15](#)

191 [Q 155](#)

192 Written evidence from Professor Paul Cheshire ([EHM0156](#))

193 Written evidence from Professor Paul Cheshire ([EHM0156](#)). Together with reforms to incentivise local authorities to allow development, Professor Cheshire thought this would reduce real house prices by around 40 per cent within 10 to 15 years; see also written evidence from The Institute for Economic Affairs ([EHM0120](#))

recommend that the Government investigates it and other proposals to improve land supply further.

CHAPTER 4: BUILDING MORE HOMES ON PUBLIC LAND

153. The Government has recently committed to releasing public land for housebuilding over the course of this Parliament. This chapter will examine the Government's plans, explore how many homes could be built on public land and investigate mechanisms for doing so.

Releasing public land for development

How many homes could be built on public land?

154. At least 900,000 hectares in England and Wales, six per cent of all land, are thought to be in public ownership.¹⁹⁴ The proportion of publicly owned land has been estimated to be higher in major urban areas at around 15 per cent of freehold property (this rises to over 20 per cent in London).¹⁹⁵ Quoting the Office of Fair Trading 2008 investigation into the housebuilding industry, the Home Builders Federation said that between a quarter and a third of all potential residential land was controlled by the public sector, "so it has an enormous role to play".¹⁹⁶
155. The London Land Commission has published a register of public land which identifies 40,000 sites across the capital; they estimate that 130,000 new homes could be built on surplus public land in London.¹⁹⁷
156. Savills have estimated that two million homes could be built on public land in England.¹⁹⁸ They acknowledged however that a lack of transparency as to the extent of public land holdings is a "major drawback ... limited public data currently makes it impossible to conduct a comprehensive analysis of all public land." The Minister for Housing told the Committee that he did not recognise the Savills estimate.¹⁹⁹

2011 to 2015 Government programme of public land release

157. In June 2011 the Minister for Housing announced that the Government planned to release enough public land to build as many as 100,000 new homes by 2015.²⁰⁰ By the end of March 2015, the Government had disposed of land with capacity for an estimated 109,950 homes across 942 sites.²⁰¹ The biggest contributors were the Ministry of Defence (38,778 homes), the Homes and Communities Agency (20,930 homes) and the Department of Health (15,185 homes).²⁰² The Minister for Housing indicated to the Committee that this programme had provided 100,000 homes.²⁰³

194 Telereal Trillium, *New Homes on Public Sector Land, Accelerating Delivery*, April 2016: http://www.telerealtrillium.com/cms/cms_files/high_res_final.pdf [accessed June 2016]

195 *Ibid.*

196 Written evidence from the Home Builders Federation (EHM0131)

197 London Land Commission, Register: <https://maps.london.gov.uk/webmaps/LLC/> [accessed April 2016]

198 Savills, *Public Land, unearthing potential*, Autumn 2014: <http://pdf.euro.savills.co.uk/residential---other/spotlight-public-land.pdf> [accessed June 2016]. Savills said the estimate was based on analysis of public records of the central Government estate, the land holdings of the Greater London Authority and "market knowledge of the potential for development on NHS and local authority land."

199 Q 243

200 DCLG, 'Announcement: Government plans release of public land to build 100,000 homes', June 2011: <https://www.gov.uk/government/news/government-plans-release-of-public-land-to-build-100-000-homes> [accessed June 2016]

201 National Audit Office, *Disposal of public land for new homes*, (24 June 2015, Session 2015–16, HC 87)

202 *Ibid.*

203 Q 243. The Minister for Housing told the Committee the Government "had built 100,000 homes in the last Parliament."

158. The programme was however criticised by the National Audit Office in a June 2015 report.²⁰⁴

- The National Audit Office were unable to establish how many homes had been built on the released land as Government departments were not monitoring what happened to a site after it was sold.
- The quality of data on the number of homes that could be built was questionable: analysis of a sample of 127 of the sites found disparities in 35 per cent of the figures.
- There was no evidence of how the Government had chosen the 100,000 target or how it had divided that figure up among departments.
- The final figure of 109,950 homes included 15,740 homes from land sold before the programme started (as far back as 1997 in some cases) and 10,000 from land that had just moved outside the public sector (with the privatisation of Royal Mail and the conversion of British Waterways to a charitable trust).²⁰⁵
- Case studies of larger sites showed it might be up to 20 years before all the homes were built.

159. In response to the criticism on monitoring, the DCLG provided the Public Accounts Committee with some analysis of progress to date in January 2016.²⁰⁶ A sample of 100 sites that were expected to have capacity for around 9,000 homes showed that only 200 homes had so far been completed (and work had started on a further 2,400). These are disappointing numbers.

2015 to 2020 Government programme of public land release

160. The 2015 Autumn Statement announced that departments had committed to selling further land for more than 160,000 homes, as described in Table 5.

Table 5: Sales of land for housing as part of spending review settlements

Government department	Number of homes
Ministry of Defence	55,000
Department for Transport	38,000
Department for Communities and Local Government	36,000
Department of Health	26,000
Ministry of Justice	5,000
Department for Business, Innovation and Skills	1,000
Total	161,000

Source: HM Treasury, *Spending Review and Autumn Statement, Cm 9162, November 2015*: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479749/52229_Blue_Book_PU1865_Web_Accessible.pdf [accessed April 2016]

204 National Audit Office, *Disposal of public land for new homes*, *op. cit.*

205 In evidence to the Public Accounts Committee, the Department defended the inclusion of these figures on the basis that one of the objectives of the programme was to release sites that had stalled since the earlier sale. Oral evidence taken before the Public Accounts Committee, 16 July 2015 (Session 2015–16), [QQ 44–45](#) (Peter Schofield).

206 Written evidence from DCLG to the Public Accounts Committee ([DPL0001](#))

161. Giving evidence to the Public Accounts Committee in January 2016, Jon Thompson, Permanent Secretary at the Ministry of Defence, explained his Department’s methodology in selecting sites:

“The Ministry of Defence owns 1,338 sites in the United Kingdom, but 85% of the built estate is on only 318 sites. We have been through all 318 of those sites and conducted a value-for-money assessment of each one in order to be able to present to our own Ministers an assessment of the various factors that would play out in all those 318 sites. This is done with a view to recommending to them which sites we think we should keep and which we should dispose of over a fairly long period.”²⁰⁷

162. The 2016 Budget also announced that local authorities would release public land with the capacity for a further 160,000 homes.²⁰⁸ The Minister for Housing confirmed to the Committee that the Government was aiming for 320,000 homes on public land in this Parliament.²⁰⁹ This amounts to almost one third of the Government’s target for new homes.

163. For the 2015–2020 programme, the National Audit Office recommended that the DCLG and Homes and Communities Agency should decide:

“which organisations must take responsibility for monitoring what happens to land after disposal within the period that the target applies. This monitoring should include a record of the sales proceeds, the homes actually built, and any additional revenue generated up to 2020 at least. This information should be collated at the programme level to give a better indication of programme impact on homebuilding and enable an assessment of value for money.”²¹⁰

164. The Department committed to take account of the report’s recommendations.²¹¹ Following up on those recommendations in a September 2015 report, the House of Commons Public Accounts Committee said they were “concerned by [the Department’s] caution when challenged on whether it would be collecting information on the number of homes actually built.” They emphasised that without that information, the Department will be unable to measure the success of the new programme.²¹²

165. The Department told the Public Accounts Committee in January 2016 that it was still considering “how best to monitor build” for the new programme. It said it would publish programme documentation in spring 2016 that would include details of the governance, monitoring and assurance processes.²¹³ This does not appear to have been published yet.

207 Oral evidence taken before the Public Accounts Committee, 25 January 2016 (Session 2015–16), [Q 57](#) (Jon Thompson)

208 HM Treasury, *Budget 2016*, *op. cit.*

209 [Q 243](#). These homes are not in addition to the one million homes anticipated by the Government over the course of this Parliament.

210 National Audit Office, [Disposal of public land for new homes](#), *op. cit.*

211 HM Treasury, *Government responses on the First to the Third reports from the Committee of Public Accounts: Session 2015–16*, Cm 9170, December 2015 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/486482/52958_CM_9170_Treasury_Minutes_Accessible.pdf [accessed June 2016]

212 Public Accounts Committee, [Disposal of public land for new homes](#), (2nd Report, Session 2015–16, HC 289)

213 Oral evidence taken before the Public Accounts Committee, 25 January 2016 (Session 2015–16), [Q 38](#) (Melanie Dawes)

166. **We welcome the Government’s wish to bring public land forward for housebuilding. It can make a useful long-term contribution towards the supply of housing but we note that these efforts have yielded very little to date.**
167. **We endorse the conclusions and recommendations of the National Audit Office and Public Accounts Committee. Since the number of new homes the Government expects to be built on public land by 2020 amounts to nearly one third of their housebuilding target, it is essential that the Government should oversee the number of homes that are actually built. Such a role should be included within the National Infrastructure Commission’s remit.**

Type of homes that could be built on public land

168. Lord Best said there was no question about the availability of public land, but the issue was “what kind of intervention we need with that land that will capture it for the good of wider society.”²¹⁴ Public land provides an opportunity to build homes that the market is not necessarily willing to provide and to support the return of smaller builders.

Direct commissioning

169. One option is to directly commission the building of homes on public land. In January 2016, the Prime Minister announced that the Government would directly commission the building of ‘affordable homes’ on five sites.²¹⁵ The Government’s announcement of the schemes said that as well as providing low cost housing, the direct commissioning approach would also “support smaller builders and new entrants who are ready to build but lack the resources and access to land.”²¹⁶
170. Brian Berry from the Federation of Master Builders told us the principle was right but it is “very limited in scope at the moment” and would need to be on a much bigger scale to have any effect on his sector.
171. The direct commissioning of low cost homes with an explicit focus on using smaller builders is a welcome experiment. If successful, this is an approach that could be replicated on other publicly owned sites.
172. **We welcome the trial of direct commissioning but it should be a much bigger part of the housebuilding programme. The implementation of our recommendations on the financing of local authority building would help with this. Direct commissioning would also provide opportunities for smaller builders.**

Requirement to get full market value when selling public land

173. A number of witnesses questioned the requirement to get the best market value from the sale of public land. Stephen Noakes from Lloyds Banking Group said that to address affordability,

214 [Q 130](#)

215 See Box 2 for the Government’s definition of an ‘affordable home’.

216 Prime Minister’s Office and DCLG, ‘PM: the government will directly build affordable homes’, 4 January 2016: <https://www.gov.uk/government/news/pm-the-government-will-directly-build-affordable-homes> [accessed June 2016]

“you need to find a way to put subsidy in the system. Clearly, in the current economic period that is challenging, but public sector land, which is more of a balance sheet item, would be a good solution if there was a view to change that policy.”²¹⁷

174. Some witnesses highlighted how relaxing the requirement to get best value would help the provision of affordable homes and smaller builders. Oxford Brookes University said that “affordable housing” provision should be included in the criteria for disposing of public land.²¹⁸ Pocket Living said that local authorities could release land to smaller developers and if this was done quickly, it would “attract the smaller developers back into the market and get supply flowing again.”²¹⁹

Partnering with developers to provide homes for rent

175. Developers who build to rent were keen to partner with local authorities. The British Property Federation explained that institutions interested in investing in building homes for rent struggled to compete with house builders in bidding for private land, “therefore having access to public land is important.”²²⁰ They explained how some London boroughs were leasing their land to build to rent developers, retaining ownership and deriving an income from it. Grainger plc explained how they had developed a number of sites for the Royal Borough of Kensington and Chelsea.²²¹

176. The Orbit Group, a national housing association, called for central government to identify and release government owned land for building homes for rent:

“a development lease could be granted for developers, with the land cost deferred over (say) 30 years making the rent levels affordable compared to full market rate which is the case when buying private land.”²²²

177. **The release of public land provides a good opportunity to support the building of low cost homes and help smaller builders return to the market. The requirement to achieve best market value when releasing public land should be relaxed. This is only going to work however if there is a central scheme that approves and compensates public bodies who sell land below market value.**

Coordinating the release of central Government owned land

178. The Government Property Unit, Homes and Communities Agency and the National Infrastructure Commission have recently been assigned roles in the release of public land for housing. The responsibilities of each body, set out below, are not especially clear.

Government Property Unit

179. The Government Property Unit was established in 2010 as part of the Cabinet Office. It has central oversight over all government land and property. Its

217 [Q 180](#). The London Federation of Housing Cooperatives supported taking the “benefit to the community...rather than simply seeking the highest capital receipt.” Written evidence from the London Federation of Housing Co-Operatives ([EHM0134](#)).

218 Written evidence from Oxford Brookes University ([EHM0111](#))

219 Written evidence from Pocket Living ([EHM0109](#))

220 Written evidence from the British Property Federation ([EHM0133](#))

221 Written evidence from Grainger PLC ([EHM0083](#))

222 Written evidence from Orbit Group Ltd ([EHM0091](#))

objectives include to “dispose of surplus property in a way that maximises financial return” and to “boost growth and create new homes”.²²³

180. The 2015 Autumn Statement said that all relevant central Government land and property would be transferred to the Government Property Unit by the end of the Parliament. Departments would be charged market-level rents for freehold assets they currently own.²²⁴
181. The Housing and Planning Act 2016 requires public authorities to declare if and why they are holding surplus land.²²⁵ When public bodies are developing proposals to sell land, the Act requires them to engage with the local authority and other appropriate public authorities to ensure local policy considerations are taken into account. The Minister for Housing told the Committee that this was where the Government Property Unit came in: “in identifying this land and parts of the public estate where we can bring things together”.²²⁶

Homes and Communities Agency

182. The 2016 Budget said that the Homes and Communities Agency would work in partnership with Network Rail and local authorities to provide land around stations for housing, commercial development and regeneration.²²⁷
183. When asked whether the Cabinet Office is responsible for surplus government land disposal, the Minister for Housing told us “No. Surplus land disposal will come generally through the Homes and Communities Agency.”²²⁸ The DCLG have described the Homes and Communities Agency as “the government’s preferred organisation for the disposal of surplus central government land.”²²⁹

National Infrastructure Commission

184. The 2016 Budget announced that the National Infrastructure Commission would investigate proposals for “unlocking growth, housing and jobs in the Cambridge—Milton Keynes—Oxford corridor”. The Commission was asking to prioritise infrastructure that would help “develop new sites (including public sector land) to meet existing and expected housing need”.²³⁰
185. Given the possibly overlapping interests of the organisations above, we asked the Minister for Housing whether central Government was sufficiently joined up in its approach to releasing public land. He replied:

“I think we are more joined-up than I can imagine we have seen for a very long time in the sense that there is an absolute join-up between the Prime Minister and the Chancellor and generally, right across No. 10, No. 11, the Treasury and DCLG, on housebuilding and releasing public

223 Government Property Unit (GPU): <https://www.gov.uk/government/groups/government-property-unit-gpu> [accessed June 2016]

224 HM Treasury, *Spending Review and Autumn Statement*, Cm 9162, November 2015: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479749/52229_Blue_Book_PU1865_Web_Accessible.pdf [accessed April 2016]

225 Housing and Planning Act 2016, [section 208](#)

226 [Q 243](#)

227 HM Treasury, *Budget 2016*, *op. cit.*

228 [Q 245](#)

229 DCLG, *Local Authority Assets, disposal guidance*, March 2016: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/508307/160316_Land_disposal_guidance.pdf [accessed June 2016]

230 HM Treasury, *Budget 2016*, *op. cit.*

land. To be fair, all landholding departments are playing their part in that. That is reported back on regularly. We have a cross-government task force ... and at every meeting one of the standing items on the agenda, having worked up and identified that public sector land, is now reporting back on the progress on it ... I would argue that we have an immensely joined-up approach to this and a very cross-government approach and determination to deliver it.”²³¹

186. Lord Kerslake was concerned that the release of public land was not the priority for any individual government department:

“you have to persuade, cajole and threaten them to release this land and get on with it ... you could drive transparency of surplus land and centralise the process of taking that land and moving it out for development.”²³²

187. **A senior Cabinet minister must be given overall responsibility for identifying and coordinating the release of public land for housing, with a particular focus on providing low cost homes.**

231 [Q 245](#)

232 [Q 148](#)

CHAPTER 5: BUILDING BY LOCAL AUTHORITIES AND HOUSING ASSOCIATIONS

188. Local authorities and housing associations have an important role to play in increasing the supply of new homes. This chapter examines their importance and looks at how barriers to building can be removed.
189. Local authority housebuilding has significantly declined and, as Table 6 demonstrates, the increase in building by housing associations has not fully compensated for the long-term decrease in local authority supply.²³³

Table 6: Local Authority and housing association completions 1950–2015 (England only)

Decade	Local authority completions	Housing association completions
1950–1959	1,471,960	36,980
1960–1969	1,065,340	34,420
1970–1979	1,030,370	131,980
1980–1989	310,830	129,850
1990–1999	30,050	227,110
2000–2009	2,240	187,750
2010–2015	8,090	149,470

Source: DCLG, ‘Live Tables on House Building’, Table 244: <https://www.gov.uk/government/statistical-data-sets/live-tables-on-house-building> [accessed May 2016]

Capacity to increase housebuilding

190. Witnesses from some local authorities were enthusiastic about housebuilding. Dr Clive Skidmore, Head of Housing Development at Birmingham City Council, told us “there is no limit to our [housebuilding] ambition.”²³⁴ In written evidence, the City of London Corporation said that they were about to embark on their biggest housebuilding programme since the completion of the Barbican in 1976.²³⁵
191. A note of caution was sounded by other witnesses. Lord Best thought that the enthusiasm for building is not universal. He said that “lots of [local authorities] are out of this game altogether” and do not wish to become “deeply immersed” in housebuilding.²³⁶ Other witnesses noted that local authorities’ long absence from substantial housebuilding meant that they now lack the skills to oversee major development.²³⁷
192. Despite their ambitions, the number of units started and completed by local authorities is trivial compared to the number required. In contrast,

233 See introduction, Figure 1

234 [Q 127](#) (Dr Clive Skidmore); Dr Skidmore explained that in Birmingham, “Since 2009 ... we have built nearly 2,000 new homes through the council. ... We are developing over a quarter of all the new homes in the city and we have a programme to build another 2,000 homes over the next four years.”

235 Written evidence from the City of London Corporation ([EHM0119](#)); see also written evidence from the London Borough of Islington ([EHM0141](#))

236 [Q 126](#) (Lord Best)

237 Written evidence from the National Federation of Builders ([EHM0136](#)) and written evidence from Pocket Living ([EHM0109](#))

housing associations have built a substantial number of homes over the past decade.²³⁸ In written evidence the National Housing Federation pointed to the record of housing associations, claiming that the sector “built one in three of all new homes in England” in 2015 and wanted “to do even more”.²³⁹ Some of the large housing associations emphasised their commitment to putting resources into housebuilding.²⁴⁰ Asked to quantify how many houses could be built by housing associations, David Orr of the National Housing Federation estimated 75,000 homes each year.²⁴¹ Chris Walker from Policy Exchange considered that the sector had the capacity to produce 100,000 homes annually.²⁴²

Benefits of local authority and housing association building

193. Local authorities and housing associations can, if properly supported, make a significant contribution to the number of homes built across all tenures. This contribution is crucial as private building companies alone will not be able to build the number of houses required.
194. Local authorities and housing associations are able to build homes for social and affordable rent that would normally be unprofitable for the private sector.²⁴³ Lord Porter of Spalding explained how local authorities can benefit from cross-subsidy between tenures as they can “build private homes for sale and use some of the profit from those units to be able to build some more affordable homes”.²⁴⁴ Housing associations can also channel revenues from more lucrative private building into the construction of affordable and social rented property.
195. In addition, in local authority or housing association properties, vulnerable individuals and families with complex needs can be identified and supported by their housing providers. Councillor Sue Derbyshire, Housing and Planning Lead for the Greater Manchester Combined Authority, pointed out that there are “significant further pay-offs to the public purse of people who need to be in social housing being in there.”²⁴⁵
196. As well as increasing the overall supply, local authorities and housing associations can possibly build homes more quickly than the private sector. The pace of building by private building companies is constrained by their business model which is to maximise the profit made from a site and not the speed of delivery.²⁴⁶ Because private house builders frequently start building before they have got a buyer, they are exposed to a significant risk of carrying unsold homes on their balance sheet. Local authorities and housing associations are in effect the client who can sell or let the property and so do not carry this risk to the same extent.

238 See Table 6

239 Written evidence from the National Housing Federation ([EHM0144](#))

240 Written evidence from Orbit Group Ltd ([EHM0091](#)) and [Q 118](#) (David Montague). Those involved in the sector acknowledged that smaller housing associations had less appetite for, and fewer resources to support, housebuilding programmes. [Q 120](#) (Ian McDermott)

241 [Q 113](#) (David Orr)

242 [Q 5](#) (Chris Walker)

243 [Q 246](#) (Brandon Lewis MP)

244 [Q 143](#) (Lord Porter of Spalding); see also written evidence from the City of London Corporation ([EHM0119](#))

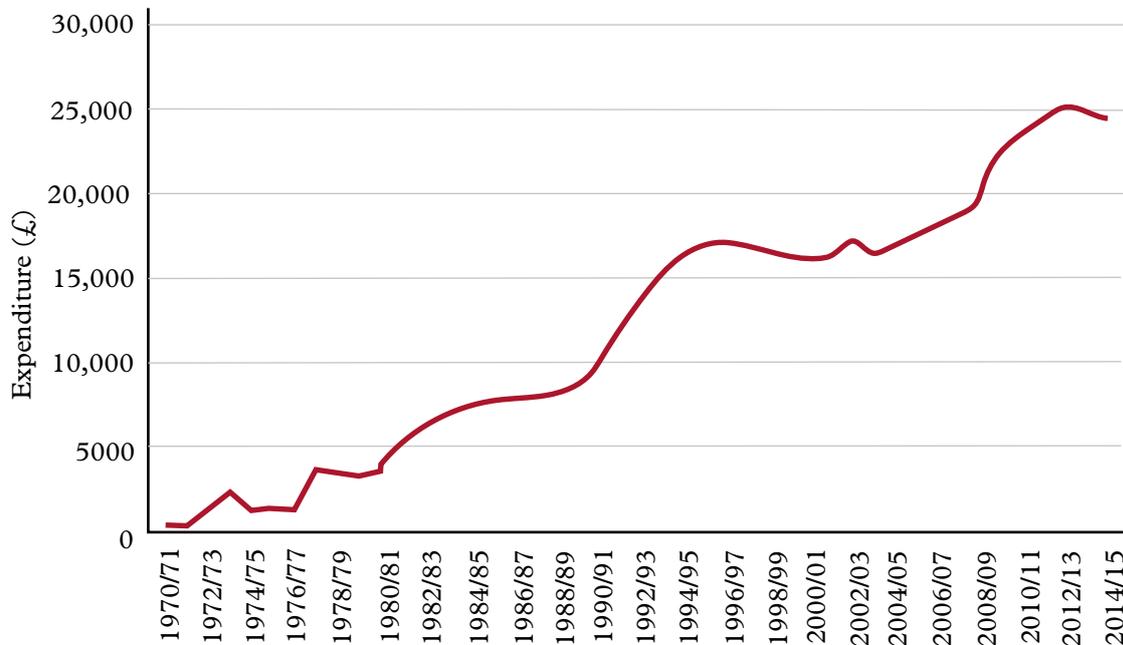
245 [Q 128](#) (Cllr Sue Derbyshire)

246 See Chapter 1

Reducing the housing benefit bill

197. In 2015 the Government spent nearly £27 billion on housing benefit payments, representing 10 per cent of total welfare spending.²⁴⁷ As Figure 12 demonstrates, government spending on housing benefit has increased.²⁴⁸

Figure 12: Expenditure on housing benefit (UK) 1970/71–2012/13, £ million, real terms (2014/15 prices)



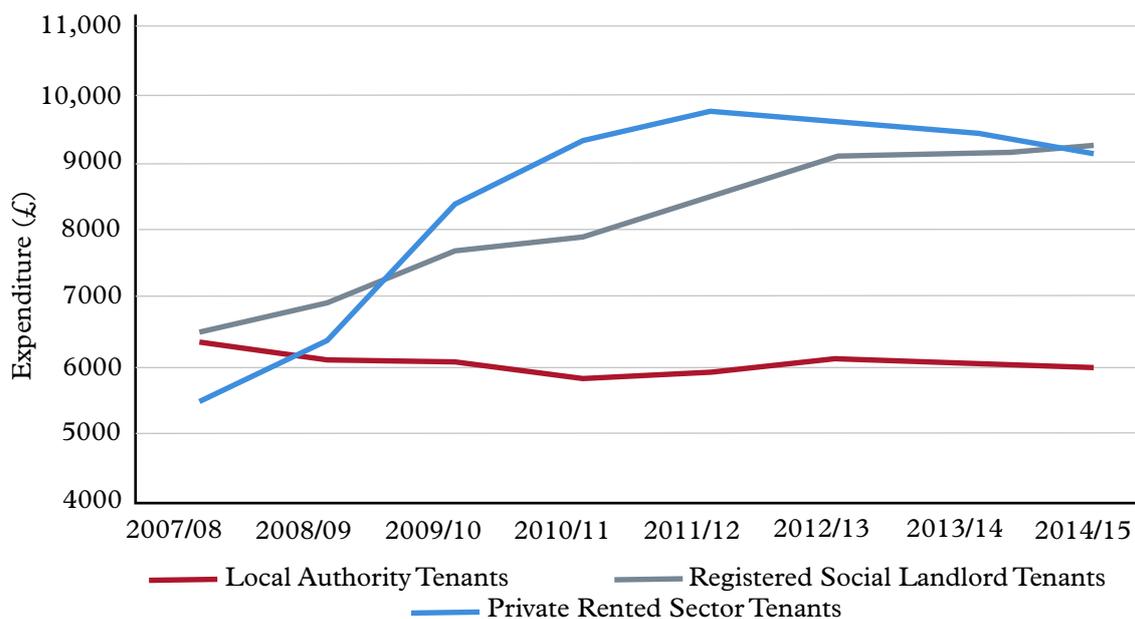
Source: Department for Work and Pensions, 'Outturn and Forecast, March Budget 2016', May 2016 <https://www.gov.uk/government/statistics/benefit-expenditure-and-caseload-tables-2016> [accessed June 2016]

198. Two long-term factors play a part in this increase: the reduction in the number of tenants paying social rents and the increase in tenants in the private rented sector.

247 Office for National Statistics, 'How is the Welfare Budget Spent?', 16 March 2016: <http://visual.ons.gov.uk/welfare-spending/> [accessed April 2016]; see also Q 127 (Dr Clive Skidmore)

248 Q 127 (Dr Clive Skidmore), written evidence from Shout Housing Campaign (EHM0045) and written evidence from the National Federation of Arms' Length Management Organisations (EHM0057)

Figure 13: Housing benefit claimants by tenure 2007/08–2014/15, £million (real terms (2015/16 prices))



Source: Department for Work and Pensions: <https://stat-xplore.dwp.gov.uk/> [accessed April 2016]

199. The Shout Housing Campaign believed that “the cost to the welfare system of supporting a household renting privately is almost always greater” than supporting the same household in socially rented accommodation.²⁴⁹ In 2015 a tenant in local authority accommodation received, on average, £82 a week in housing benefit; the average private sector tenant received £109 weekly.²⁵⁰
200. The National Federation of Arms’ Length Management Organisations and the Shout Housing Campaign highlighted research that attempted to quantify how the housing benefit bill would be affected if more tenants were housed in the social rather than private rented sector. This analysis claimed that building 100,000 new homes for social rent would, after an initial outlay, create a surplus for the Exchequer by 2035.²⁵¹
201. **We consider that local authorities and housing associations must be incentivised and enabled to make a much greater contribution to the overall supply of new housing. Without this contribution it will not be possible to build the number of new homes required. The likely reduction in the housing benefit bill over the long-term is a further reason to increase the supply of social and affordable rented housing through building by local authorities and housing associations.**

249 Written evidence from the Shout Housing Campaign (EHM0045). Comparisons between the two sectors are difficult due to differences in the type of tenants and length of time households receive benefits.

250 Department for Work and Pensions, *Housing Benefit Caseload statistics*, August 2015, updated February 2016: <https://www.gov.uk/government/statistics/housing-benefit-caseload-statistics> [accessed May 2016]; written evidence from the Cambridge Centre for Housing and Planning Research (EHM0047) and Capital Economics report (commissioned by the Shout Housing Campaign and the National Federation of Arms’ Length Management Organisations), *Building New Social Rent Homes, an economic appraisal*, August 2015: www.almos.org.uk/include/getDoc.php?did=7103&fid=8219 [accessed June 2016]. A tenant in housing association property received £93 on average each week.

251 Written evidence from the National Federation of Arms’ Length Management Organisations (EHM0057), written evidence from the Shout Housing Campaign (EHM0045). Capital Economics, *Building New Social Rent Homes, op.cit.*

Increasing building by housing associations

202. Housing associations have been able to build homes in greater numbers than local authorities.
203. Chris Walker of Policy Exchange considered that housing associations were in a strong position to fund the building of houses from their existing resources.²⁵² HSBC agreed, noting that housing associations had “accumulated significant resources”.²⁵³ In terms of their ability to borrow to fund development, Barclays, a major supplier of funds to the sector, wrote that housing associations “generally borrow on more favourable terms than mainstream builders, reflecting the historic stability of their core business model”.²⁵⁴ We heard evidence that their ability to fund this building is threatened by Government policies on housing.

Social rent reductions

204. Housing associations argued that their financial stability and long-term planning was undermined by changes in Government policy, in particular the reductions in social rents (see Box 4).

Box 4: Social rent reductions

In July 2013 the Government announced a 10-year settlement for social housing rents. Social housing rents would increase from 2015/16 at a rate of the consumer price index plus one per cent for a decade.²⁵⁵ Final guidance on the new settlement was published by the Government in May 2014.²⁵⁶

This policy was reversed in the Budget of July 2015 when the Chancellor announced that rents in social housing would be reduced by one per cent a year for four years, resulting in a 12 per cent reduction in average rents by 2020/21.²⁵⁷

These changes were contained in the Welfare Reform Act 2016 which received Royal Assent on 16 March 2016.²⁵⁸

205. The Government believed that housing associations could mitigate the impact of the reduction by making “savings in their operating costs and other parts of their business”.²⁵⁹ Housing associations were less sanguine in their analysis. The Orbit Group housing association predicted a “substantial impact” on its revenue.²⁶⁰ The Sanctuary Group housing association estimated that:

“In real terms the rent cut equates to a cumulative 16 per cent reduction in our projected income between now and 2020. This reduction equates

252 [Q 10](#) (Chris Walker). Mr Walker told the Committee that the sector had an overall surplus of £2.5 billion held in reserves.

253 Written evidence from HSBC ([EHM0162](#))

254 Written evidence from Barclay Bank PLC ([EHM0161](#))

255 HM Treasury, *Investing in Britain's Future*, Cm 8669, June 2013: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/209279/PU1524_IUK_new_template.pdf [accessed April 2016]

256 DCLG, *Guidance on Rents for Social Housing*, May 2014: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/313355/14-05-07_Guidance_on_Rents_for_Social_Housing_Final_.pdf [accessed April 2016]

257 HM Treasury, *Summer Budget 2015*, HC 264, July 2015: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/443232/50325_Summer_Budget_15_Web_Accessible.pdf [accessed April 2016]

258 Welfare Reform and Work Act 2016, [section 23](#)

259 [Q 68](#) (Fiona McGregor)

260 Written evidence from Orbit Group Ltd ([EHM0091](#))

to £13 million in the first year, growing to £53.8 million by 2020. This is an annual loss; the cumulative loss across the four years totals £133 million.”²⁶¹

206. Housing associations were also certain that efficiency savings alone would not cover the revenue shortfall and their building programmes would need to be altered. David Montague, Chair of the G15 Group of London housing associations and chief executive of the L&Q housing association, told us that as a “direct consequence” of the reduction to social rents, his association would change the tenure mix of its proposed developments. This would mean building more houses for private sale and fewer for social and affordable rent.²⁶² The Office for Budget Responsibility has estimated that 14,000 fewer affordable homes will be built by 2021.²⁶³
207. **We conclude that the cuts to social rent are short-sighted. Whilst they may reduce the immediate housing benefit bill, in the longer term they are likely to deter investment and reduce the available stock of social and ‘affordable housing’, thus requiring a greater number of tenants to live in, more costly, privately rented accommodation.**

Re-classification

208. Housing associations were also concerned about the reclassification of housing associations as part of the public sector. In October 2015, following a review, the Office for National Statistics announced that ‘private registered providers’—the definition of which includes almost all housing associations—would be considered as part of the public sector.²⁶⁴
209. As a result of this decision, the borrowing of housing associations is now included in the calculation of the public debt. Housing associations were concerned that this could place restrictions on their ability to borrow.²⁶⁵
210. The Government responded to the reclassification by bringing forward measures in the Housing and Planning Act intended to reverse the decision. Housing associations supported this move.²⁶⁶
211. **We support the Government’s efforts to reclassify housing associations as part of the private sector. The ability of housing associations to borrow to fund new development could otherwise be at risk.**

Increasing local authority housebuilding

212. We now turn to consider how local authorities could restart significant housebuilding. The current focus on fiscal restraint and deficit reduction means that large grants to local authorities to fund housebuilding are

261 Written evidence from the Sanctuary Group ([EHM0059](#)); see also written evidence from the Northern Housing Consortium ([EHM0118](#))

262 [Q 112](#) (David Montague)

263 Office for Budget Responsibility, *Economic and Fiscal Outlook*, Cm 9088, July 2015: http://budgetresponsibility.org.uk/docs/dlm_uploads/July-2015-EFO-234224.pdf [accessed April 2016]

264 Office for National Statistics, ‘Classification Announcement, Private registered providers of social housing in England’, 31 October 2015: <http://webarchive.nationalarchives.gov.uk/20160105160709/http://www.ons.gov.uk/ons/guide-method/classifications/na-classifications/classification-announcements-and-statements/index.html> [accessed April 2016].

265 [Q 121](#) (David Orr)

266 [Q 121](#) (David Orr), written evidence from Homes for the North ([EHM0100](#))

unfeasible.²⁶⁷ Therefore most local authorities must fund the building of new homes through borrowing.

Borrowing to build social housing

213. The ability of local authorities to borrow to build new social housing is constrained by the system known as the Housing Revenue Account. This imposes limits on the amount each local authority may borrow to build new social housing.²⁶⁸
214. This is different from local authorities' powers to borrow to build housing for private ownership or rent which are governed by the same prudential rules as other local authority borrowing. Under this prudential borrowing regime there is no upper limit on borrowing and the local authority may borrow for any purpose relevant to its functions.²⁶⁹ In practice local authorities are able to secure loans at low rates from the Public Works Loan Board.

Box 5: Housing Revenue Accounts

Housing Revenue Accounts were created, in their current form, in 2012 and are for the management of council-owned social housing stock. The accounts are primarily designed for the management of the income received from social housing. Housing Revenue Accounts have three important features:

- Local authorities are able to keep all of the rents received from their tenants. After paying off any interest on the debt allocated by central government, local authorities are free to make decisions on how to manage, maintain or improve their housing stock.
- Housing Revenue Accounts are ring-fenced from the rest of local authority expenditure and this ring-fence is “unbreakable”.²⁷⁰
- There is a limit to the amount of debt a local authority can incur on its Housing Revenue Account. This is known as the debt cap or borrowing cap and its level varies between local authorities.²⁷¹

Should local authorities be allowed to borrow freely to build social housing?

215. Local authorities and other public sector bodies thought the restrictions on borrowing to build social housing were unhelpful.
216. The Chartered Institute of Housing said that some local authorities have the ability to borrow more than they need whereas others have caps set far below

267 [Q 208](#) (Paul Johnson); written evidence from Liverpool City Council ([EHM0039](#)). The Government has provided some funding to local authorities to build houses through the New Homes Bonus. See Annex 5 for details of this scheme.

268 These limits are part of the operation of what are known as Housing Revenue Accounts, see Box 5.

269 Local Government Act 2003, [section 1](#); and Chartered Institute of Public Finance Accountants, *Prudential Code for Capital Finance in Local Authorities*, 2011: <http://www.cipfa.org/policy-and-guidance/publications/t/the-prudential-code-for-capital-finance-in-local-authorities-2011-edition-book> [accessed April 2016] and Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 ([SI 2003/3146](#)).

270 Written evidence from Brandon Lewis MP ([EHM0167](#))

271 The Chartered Institute of Housing explained when the accounts were created: “each council was set a “borrowing cap” equal to or in excess of its debt, which placed a limit on its future borrowing for investment in social housing. Where the cap exceeded the council’s borrowing, this created “headroom” which it could use for new borrowing to invest in the stock.” Written evidence from the Chartered Institute of Housing ([EHM0170](#)).

what they could borrow prudentially.²⁷² They believed that if the current borrowing limits were exploited to the full, only 3,000 houses a year could be built in total. The Institute calculated that in theory there would be capacity to build 170,000–230,000 additional homes over five years if the limits were lifted. However, a survey of councils indicated that they would aim to build 12,000 new homes for social or affordable rent a year if they were released from borrowing constraints.²⁷³

217. Opponents of the current limits on borrowing also argued that local authorities should be able to borrow to build social housing within the existing prudential regime.²⁷⁴ They considered it to be an anomaly that social housing was excluded from the general regime whereas other building, such as the construction of leisure facilities, was not.²⁷⁵
218. The Minister for Housing pointed out that the Government would be cautious about allowing unrestricted borrowing as any spending that local authorities fund from their Housing Revenue Accounts “has an impact on the PSBR [public sector borrowing requirement]”.²⁷⁶
219. The Local Government Association and the Chartered Institute of Housing have pointed out that it would be possible to overcome this issue by calculating the public debt using international rules which exclude council-owned housing.²⁷⁷ Paul Johnson from the Institute for Fiscal Studies had “sympathy with the idea that the way we currently consider the government balance sheet is not wholly rational”. He sounded a note of caution about proposals to change the rules saying that “fancy financing plans to get things off balance sheet” could “end in tears”.²⁷⁸
220. **The Government states it is supportive of local authority building across all tenures. One aspect of this support must be to ensure local authorities who wish to build social housing have access to the funds to do so. The current restrictions the ability of local authorities to borrow to build social housing are arbitrary and anomalous. Local authorities should be able to borrow to build social housing as they can for other purposes. We recommend that the Government allows local authorities to borrow under the prudential regime to build all types of housing.**

272 Written evidence from the Chartered Institute of Housing ([EHM0170](#)); see also written evidence from the Local Government Association ([EHM0174](#))

273 Written evidence from the Chartered Institute of Housing ([EHM0170](#)). The Institute cautioned that these figures may now be lower due to the impact of other Government policies on social housing—including the reduction in social rents and the Right to Buy—and concern about further reductions in local authority budgets.

274 [Q 145](#) (Lord Kerslake); see also written evidence from the Local Government Association ([EHM0174](#)) and written evidence from the National Federation of Arms’ Length Management Organisations ([EHM0057](#))

275 [Q 145](#) (Lord Kerslake)

276 [Q 246](#) (Brandon Lewis MP); see also [Q 123](#) Lord Best who considered that the cap borrowing for social housing was imposed as “the Government do not really want too much borrowing by local authorities... since everything that a local authority borrows goes on to the public accounts.”

277 Written evidence from the Local Government Association ([EHM0174](#)), National Federation of Arms’ Length Management Organisation, *Treating council housing fairly –how changed borrowing rules can help build more homes and boost the economy*, November 2013: available at http://www.almos.org.uk/news_docs.php?subtypeid=24 [accessed April 2016]. This suggestion has been endorsed by the House of Commons Communities and Local Government Committee: Communities and Local Government Committee, *Financing New Housing Supply*, (Eleventh Report, Session 2010–12, HC 1652)

278 [Q 208](#) (Paul Johnson)

Borrowing to build private housing

221. The Chartered Institute of Housing observed that local authorities have “much more freedom to borrow to build” housing for private ownership or rent.²⁷⁹ Whilst there is no specific data on this activity, the Local Government Association have estimated that 14 councils plan to build more than 6,000 homes over the next three years using general borrowing.²⁸⁰
222. Local authorities are also continuing to design alternative ways of funding and delivering housebuilding in their areas. Lord Porter of Spalding commented that local authorities have demonstrated considerable “ingenuity” in developing methods of funding housebuilding.²⁸¹
223. London boroughs have been particularly keen to innovate: research by the London Assembly revealed that 14 of the capital’s local authorities were looking to develop new social housing by leveraging their own resources and those of third parties.²⁸² Lloyds Banking Group pointed out that the advantage of many of these structures is that, currently, they do not appear on the local authorities’ balance sheets. Lloyds were concerned that changes to accounting rules were likely to remove this advantage.²⁸³
224. **We endorse the efforts of local authorities to innovate, co-operate and enter into partnership with others in the housing sector to increase the number of houses built. We note that these schemes are disparate and sometimes on a small scale. We encourage local authorities to share their experience and expertise to ensure the proliferation of successful schemes. As any uncertainty could deter innovation and investment, we urge the Government to provide local authorities with clear guidance about the future accounting treatment of public-private partnerships.**

Local authority reserves

225. In the year to April 2016 local authorities held “potentially useable” reserves of £17 billion.²⁸⁴ In evidence Ministers indicated that they were “keen” that local authorities should be encouraged to use their reserves to fund housebuilding. Ministers considered that it was reasonable to suggest the use of reserves due to the increase in the level of those reserves over the last five years as shown by Figure 14 below.²⁸⁵

279 Written evidence from the Chartered Institute of Housing ([EHM0170](#))

280 *Ibid.*

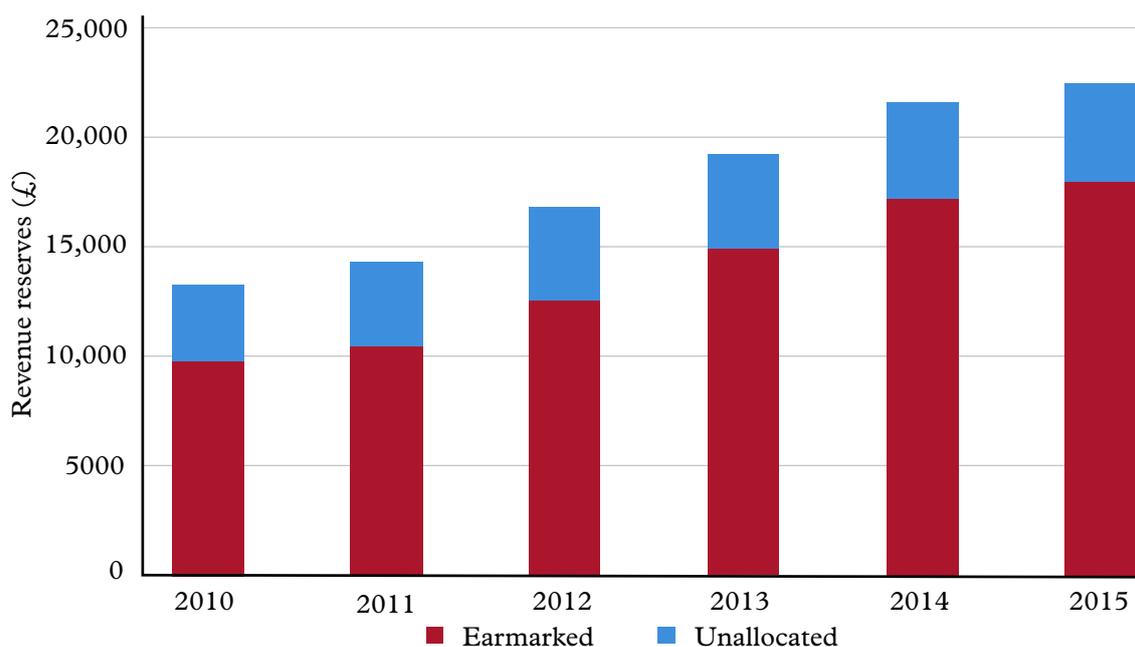
281 [Q 145](#) (Lord Porter of Spalding); see Annex 5 for details of schemes.

282 The London Assembly, Housing Committee, *Right to Build: what’s stopping councils from building more housing?*, October 2013

283 Written evidence from Lloyds Banking Group ([EHM0173](#))

284 DCLG, *Local Authority Revenue Expenditure and Financing, 2014–15, Final Outturn, England, Table 6* (19 November 2015, revised 2 February 2016): https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/497079/Revised_RO_Final_Outturn_2014-15_Statistical_Release.pdf [accessed April 2016]

285 [Q 246](#) (Brandon Lewis MP) and [Q 246](#) (Damian Hinds MP)

Figure 14: English Local Authority Reserves, 2010–2015 (£ million)

Source: DCLG, ‘Local Authority Revenue Expenditure and Financing, 2014–15, Final Outturn, England’, 19 November 2015, revised 2 February 2016 (Table 6): <https://www.gov.uk/government/statistics/local-authority-revenue-expenditure-and-financing-in-england-2014-to-2015-final-outturn> [accessed April 2016].

226. The idea that local authorities can use these reserves to build houses attracted the Government. The Minister for Housing thought it was,

“quite right that local communities ask how they can use that in a way that helps in the areas where it is needed to solve some of the housing challenges.”²⁸⁶

We note that, under local authority accounting rules, drawing down on reserves is equivalent to increasing borrowing and so would have an equivalent impact on the overall public finances.

227. Local authorities and local government finance specialists expressed caution about this idea. They pointed out that:

- (a) Reserves are held by local authorities to manage uncertainty about future revenues and central government grants and may be needed to fund front line services.²⁸⁷
- (b) The ‘earmarked’ reserves are already allocated for other purposes and to spend them on housebuilding would be to restrict the funding available to other projects.²⁸⁸
- (c) Restrictions on the operation of the Housing Revenue Account could prevent the reserves being spent to build social housing.²⁸⁹

286 Q 246 (Brandon Lewis MP)

287 Written evidence from the Chartered Institute of Public Finance Accountants (EHM0169)

288 Written evidence from the Local Government Association (EHM0174) and written evidence from the Chartered Institute of Public Finance Accountants (EHM0169)

289 Written evidence from the Local Government Association (EHM0174)

228. **Local authorities have increased the size of their reserves in recent years. Their cautious attitude is understandable given the uncertainty faced by local authorities which need to adapt to financial restrictions and new sources of revenue. However, given the current levels of reserves, we agree with the Minister for Housing that local authorities should consider how some of their reserves could be used for housebuilding.**

CHAPTER 6: MAKING BETTER USE OF THE EXISTING HOUSING STOCK

229. In Chapter 1 we discussed the increase in ‘under-occupation’ of housing; over half of owner-occupiers are now categorised as ‘under-occupying’ their home according to the Government’s definition. This chapter will consider measures that could encourage better use of the existing stock of housing, including reforms to taxation.

Taxation relating to property

230. Witnesses highlighted capital gains tax, council tax, inheritance tax and stamp duty land tax as hindrances to making the best use of the existing housing stock. We now consider the problems and the solutions put to us.

Stamp duty land tax

231. A purchaser of residential property pays stamp duty land tax on increasing portions of the property price above £125,000, as shown in Table 7:

Table 7: Applicable rates of stamp duty land tax on residential property (England, Wales and Northern Ireland)²⁹⁰

Purchase price bands	Percentage rate (%)
Up to £125,000	0
Above £125,000 and up to £250,000	2
Above £250,000 and up to £925,000	5
Above £925,000 and up to £1,500,000	10
Above £1,500,000	12

Source: HM Government, ‘Stamp Duty Land Tax’, 3 June 2016: <https://www.gov.uk/stamp-duty-land-tax/residential-property-rates>

232. The average house price in 2015 for England was £292,000; a purchase at this price would incur stamp duty of £4,600.²⁹¹ The average house price in 2015 for London was £515,000; a purchase at this price would incur stamp duty of £15,750.²⁹²

233. The current system has been in place since December 2014.²⁹³ Increasing house prices under the old system had led to more transactions being brought

290 As at May 2016. Stamp Duty Land Tax no longer applies in Scotland.

291 Office for National Statistics, *House Price Index*, May 2016: <http://www.ons.gov.uk/economy/inflationandpriceindices/datasets/housepriceindexmonthlyquarterlytables1to19>. [accessed June 2016] Calculation based on purchasing a freehold residential property that would not be an additional residential property. The average house price for England in 1992 was £66,000. In order to draw historical comparisons, the old ONS house price index has been used in this report (the ONS house price index was superseded in June 2016 by a new UK house price index but this has not yet been sufficiently backdated to provide for historical comparisons, see footnote 14 in Chapter 1 for further detail).

292 *Ibid.* The average house price for London in 1992 was £81,000.

293 Under the previous system, stamp duty was charged at a single rate on the whole purchase price with different rates for different bands. This created distortions; a disproportionate number of transactions took place just below the thresholds.

into the scope of the tax and into the higher bands.²⁹⁴ Mike Williams from HM Treasury told us that the Government’s 2014 reform had represented a “significant reduction” in stamp duty on house purchases and addressed any concern about the tax: “If you look at the people actually paying stamp duty, 98 per cent paid less.”²⁹⁵

234. Despite the 2014 reform, some witnesses still saw stamp duty as discouraging people from moving home. Countrywide said that while they estimated that 72 per cent of buyers paid no or less stamp duty than they would have done under the previous system, the reforms had only offered “brief respite for some [and] the stamp duty burden will continue to grow in future years”. They compared stamp duty rates today (see above) with 2005 where the average charge was £340 in England and Wales and £2,130 in London.²⁹⁶
235. Paul Johnson from the Institute for Fiscal Studies said he would put stamp duty “high on the list of suspects” as regards the reasons for lack of turnover in the secondary housing market.²⁹⁷ The Council for Mortgage Lenders said that stamp duty contributed to high transaction costs and so it had “a detrimental impact on activity levels, market liquidity and labour mobility”. They thought this was particularly so amongst people looking to downsize which was “restricting the choice of larger homes for younger families.”²⁹⁸
236. McCarthy & Stone, a provider of specialist housing for older people, called for an exemption for older people downsizing into specialist accommodation:

“[it] would cost little but would greatly encourage the take-up of specialist housing and increase the number of people downsizing, as well as free up under-occupied housing ... The number of housing chains this would create ... would more than offset any loss of income for the Treasury.”²⁹⁹

Paul Smee from the Council for Mortgage Lenders said however that if you start to give holidays for particular groups, “to my mind it brings out more and more the fact that the whole tax needs to be overhauled, and the question of when it is levied and on whom needs to be asked.”³⁰⁰

237. Urban Vision thought that any changes to stamp duty, “a relatively small proportion of the cost of buying a house”, would not improve affordability as raising a deposit to buy a home was a much more important consideration.³⁰¹

Capital gains tax

238. ‘Private Residence Relief’ allows a homeowner to dispose of a main residence without having to pay capital gains tax on the disposal.³⁰² A number of witnesses said this distorted the housing market. New Economics Foundation

294 HM Treasury, *Autumn Statement 2014*, Cm 8961’ December 2014: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/382327/44695_Accessible.pdf [accessed June 2016]

295 [Q 70](#)

296 Written evidence from Countrywide ([EHM0108](#))

297 [Q 203](#)

298 Written evidence from the Council for Mortgage Lenders ([EHM0064](#))

299 Written evidence from McCarthy & Stone ([EHM0072](#))

300 [Q 189](#)

301 Written evidence from Urban Vision ([EHM0116](#))

302 HM Revenue and Customs, *Helpsheet 283, Private Residence Relief*: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/323679/hs283.pdf [accessed June 2016]

said “the unearned profits made on the ownership of property need to be more effectively taxed to make land a less attractive speculative investment.”³⁰³

239. NIESR said removal of the relief would “reduce the gains in an upturn and losses in a downturn so dampening cyclicalities. Capital gains tax would also reduce the resistance to planning, reduce ‘under occupancy’ and even increase the flow of savings in productive investment.”³⁰⁴ Indexing the gains, exempting investment in the property, and making the gains payable on final sale or death would avoid hitting “cash poor” home owners; they thought the revenue gained could fully offset scrapping stamp duty land tax.³⁰⁵ Professor Steve Wilcox described how Sweden provides for a similar rollover system:

“while households are moving, if they are reinvesting, it does not become liable at that point. It is only at the point that they exit the market, either to move into renting or when we all exit the market, that the capital gains tax then comes into play.”³⁰⁶

240. Professor Wilcox conceded it would be difficult to introduce. Paul Johnson said there was a case for taxing the excess returns of owner-occupiers but said it would be very difficult to do retrospectively and prospectively,

“it could only possibly work if all parties were committed to it. If you thought that any party that might get in within the next 20 years was going to stop doing it, you would not sell your house before then, for sure, so it might reduce transactions in the market even further.”³⁰⁷

Inheritance tax

241. Inheritance tax is paid if a person’s estate is worth more than £325,000 when they die. The rate is 40 per cent on anything above the threshold. If someone’s estate is worth less than the threshold, the remaining threshold can be transferred to their husband, wife or civil partner’s estate when they die. The surviving partner’s estate can therefore be worth up to £650,000 before any inheritance tax is due.
242. The Summer Budget 2015 introduced a new transferable nil-rate band from April 2017 that applies to main residences. This allowance will be up to £100,000 in 2017/18, gradually rising to £175,000 by 2020/21.³⁰⁸ This is in addition to the existing inheritance tax nil-rate band, creating an effective £500,000 threshold for estates in 2020/21 which when transferred to a surviving partner means the effective inheritance tax threshold will rise to £1 million in 2020/21.
243. The new main residence nil rate band will also be available when a person downsizes or ceases to own a home and assets of an equivalent value are passed on death to direct descendants. The Exchequer Secretary to the Treasury told us that the 2015 Summer Budget change was “deliberately designed” not

303 Written Evidence from the New Economics Foundation ([EHM0101](#)). Toby Lloyd from Shelter said owning a home is “the only form of investment where you effectively pay no tax on unearned gains and then we wonder why people choose to overinvest in that particular asset class. It is inevitable.” ([Q 27](#)).

304 Written evidence from NIESR ([EHM0061](#))

305 Written evidence from NIESR ([EHM0061](#))

306 [Q 35](#). Professor Cheshire described it as “politically extraordinarily difficult.” ([Q 42](#)).

307 [Q 210](#)

308 HM Treasury, *Summer Budget 2015*, HC264, July 2015: <https://www.gov.uk/government/publications/summer-budget-2015> [accessed July 2016]

to discourage downsizing.³⁰⁹ Mike Williams from HM Treasury explained this provision was “an attempt to avoid causing the market to clog up” by deterring those who wanted or needed to downsize from doing so.³¹⁰

244. Some witnesses were nevertheless critical of the recent changes. The IEA said they were:

“a step in the wrong direction ... By treating housing wealth preferentially relative to non-housing wealth, these changes will introduce further distortions, and further inflate demand without adding anything to supply.”³¹¹

The Royal Institute of Chartered Surveyors called for an independent review into the role of inheritance in property markets, “so that we can properly understand what will encourage older people to downsize and get larger, second hand property back into the market”.³¹²

245. Urban Vision however thought the recent changes to inheritance tax would “not make any difference to whether someone chooses to downsize or not; the choice to downsize or not is a complex one that involves many other issues and considerations”.³¹³

Council tax

246. Council tax has been levied on residential properties since 1993.³¹⁴ All homes are given a council tax valuation band by the Valuation Office Agency. The band is based on the value of the property on 1 April 1991:

Table 8: Valuation bands in England, based on property values on 1 April 1991³¹⁵

Valuation band	Range of values
A	Up to £40,000
B	Over £40,000 and up to £52,000
C	Over £52,000 and up to £68,000
D	Over £68,000 and up to £88,000
E	Over £88,000 and up to £120,000
F	Over £120,000 and up to £160,000
G	Over £160,000 and up to £320,000
H	Over £320,000

Source: Citizens Advice, ‘Council Tax’: <https://www.citizensadvice.org.uk/tax/council-tax/council-tax/> [accessed June 2016]

309 [Q 252](#)

310 [Q 73](#)

311 Written evidence from The Institute for Economic Affairs ([EHM0120](#)). Professor Muellbauer described the changes as “dysfunctional” as they would increase the demand for land as an investment ([Q 82](#)).

312 Written evidence from the Royal Institute of Chartered Surveyors ([EHM0151](#))

313 Written evidence from Urban Vision ([EHM0116](#))

314 Local Government Finance Act 1992, [Part 1](#).

315 New build properties are allocated a nominal 1991 valuation.

247. As noted above, the average house price in England and Wales was around £292,000 in 2015 (it was £65,200 in 1991) and in London was around £515,000 in 2015 (it was £85,750 in 1991).³¹⁶

248. Professor Muellbauer described council tax as “the craziest system imaginable”:

“Not only do we have zero marginal tax rates but we have a highly regressive structure lower down all the way to the bottom, so the poorest in the poorest housing pay the highest tax rates as a fraction of value ... we do not link the tax rates to market values.”³¹⁷

He said if he was living in Princeton, New Jersey rather than Oxford, he’d be paying a property tax four times more expensive. Professor Malpezzi described the system as regressive and said it was “bizarre” that properties were so rarely revalued.

249. Paul Johnson said big houses were undertaxed. He thought there was a case for a revenue neutral substitution of council tax for stamp duty which would incentivise more moving and penalise people less for doing so. Professor Dorling called for the addition of more bands at higher values: “Adding bands would be seen to be fair by the vast majority of people because the vast majority of people would not be paying a band L, M and N. This is, in effect, what New York does.”³¹⁸

250. Mike Williams from HM Treasury explained however that the Government were not keen on changing council tax:

“the Government have been clear both in their present configuration and in the coalition that they are keen not to significantly increase council tax, which obviously is a burden that some households feel quite acutely ... Even if you thought there was a case for a revaluation, candidly, now would not be the time you would embark on it, because we are in the midst of business rates revaluation. That is occupying a considerable part of the Valuation Office Agency’s time.”³¹⁹

251. David Miles, a former member of the Monetary Policy Committee, told the Committee that there was a strong argument for having property taxation, perhaps as a flat common percentage per year of whatever the value of the land, or the land plus the structure is. He thought if such a tax were levied at between 0.5 and 1 per cent, “you could probably raise as much revenue as is raised from stamp duty and council tax added together”.³²⁰ Other witnesses including Martin Wolf also called for a land value tax.³²¹

252. The weight of evidence suggests that stamp duty land tax can deter people from moving into a smaller home, acting as a barrier to making the best use of the houses that we already have.

316 1991 figures taken from the same source as 2015 figures. Office for National Statistics, *House Price Index*, May 2016, Table 12: <http://www.ons.gov.uk/economy/inflationandpriceindices/datasets/housepriceindexmonthlyquarterlytables1to19> [accessed Mat 2916]

317 [Q 82](#)

318 [Q 48](#)

319 [Q 74](#)

320 [Q 211](#)

321 [Q 4](#)

253. **It is wrong to create specific tax rules, as is the case with recent changes to capital gains tax and inheritance tax, around housing.**
254. **Council tax is regressive. The bands should be amended so that owners of more expensive properties contribute proportionally more than owners of less expensive properties. This should be done in a revenue neutral way.**

Lack of suitable accommodation for downsizing

255. Paul Johnson warned against overstating the role the tax system plays when it comes to downsizing:

“We have known for a long period, and from other countries’ experience, that quite often older people are reluctant to downsize, for all sorts of other reasons. There is no golden bullet that will suddenly result in a massive change in behaviour.”³²²

256. Witnesses told us there was a lot of unmet demand to downsize but it was difficult for older people to find suitable homes to move into. Gary Day from McCarthy & Stone said there were nearly 5 million older people who intended to downsize or were thinking about doing so.³²³ The Building Societies Association mentioned a survey of over 55s by Legal and General that found 32 per cent had considered moving to a smaller property in the last five years but only 7 per cent had actually done so.³²⁴

257. Chichester District Council said that typical retirement properties did not necessarily suit the needs of people looking to downsize:

“The only way to get older people to downsize is to ensure that there are products which are desirable and meet their needs. People living in rural suburban areas will not give up large detached properties with gardens and parking for high density properties with limited parking and little in the way of amenity land. The typical ... 1 or 2 bedroom sheltered flat do not meet this need”.³²⁵

258. They also pointed to a lack of smaller properties to meet the needs of young people, older people downsizing and households splitting due to divorce.³²⁶

259. **Changes to the taxation system may encourage some people to move home but any such changes are unlikely to make a large difference, particularly in terms of downsizing, as there is a shortage of suitable smaller accommodation for people to move into.**

322 [Q 207](#)

323 [Q 106](#)

324 Written evidence from the Building Societies’ Association ([EHM0113](#))

325 Written evidence Chichester District Council ([EHM0079](#))

326 Written evidence Chichester District Council ([EHM0079](#))

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

The Problems

Chapter 1: The State We Are In

1. Demand for housing fuelled by demographic change, immigration, rising incomes and greater access to finance over the last few decades have made a substantial contribution to rising house prices and worsening affordability. (Paragraph 31)
2. If immigration remains at current levels, it will be a large factor in the future demand for housing, especially in the London private rental sector. (Paragraph 32)
3. The planning system, in restricting the supply of land for development, has an obvious effect on land prices. This is demonstrated by the huge differences in price between agricultural land and residential land on the edge of some cities. (Paragraph 35)
4. The Government should assess why there is a large gap between the number of planning permissions granted and the number of homes actually built. In particular it should identify who is holding permissioned land that is not developed. (Paragraph 49)
5. Since the 1980s we have been relying on the private sector to provide the homes that are needed. The sector, especially since the financial crisis, has all the characteristics of an oligopoly: there are high barriers to entry and the large housebuilders are responsible for a substantial proportion of output. It is rational for private enterprise to optimise profits rather than volume, limiting their uncertainty in a market characterised by constant Government intervention and cyclical risk. The sector is largely focused on building for sale and is not providing for the rental sector which is over a third of the market. (Paragraph 52)
6. The Department for Communities and Local Government told us it is examining incentives to get the private sector building more homes. Encouraging smaller builders back into the market and promoting greater use of modern construction techniques may help. But the Government cannot rely on the private sector alone to build the homes the country needs. The gap between what can realistically be expected and what is needed is simply too large. (Paragraph 53)
7. Local authorities and housing associations need to make a much bigger contribution to housebuilding if it is to reach required levels. (Paragraph 56)
8. Government must recognise the effect that constant changes in public policy have on the housing market; housebuilders, housing associations and local authorities are unlikely to commit to large building programmes amid such uncertainty. (Paragraph 61)
9. The construction of houses is affected by macroeconomic policy. Nevertheless a robust programme of continuing, uninterrupted development by local authorities, housing associations and private investors in the rental sector would provide a more stable output of new homes across the economic cycle. (Paragraph 62)

10. The price of housing is determined by the balance in demand and supply for the entire housing stock rather than the supply of new homes alone. A higher rate of construction will need to be sustained over many years to have a substantial effect on prices. (Paragraph 67)
11. The existing stock of housing in England is not used particularly efficiently. While new construction is important, the Government should not overlook the role the existing housing stock plays and consider ways of stimulating the market for existing homes. (Paragraph 72)

Chapter 2: The Government's Response

12. The Government's target of one million new homes by 2020 is not based on a robust analysis. To address the housing crisis at least 300,000 new homes are needed annually for the foreseeable future. One million homes by 2020 will not be enough. (Paragraph 84)
13. To achieve its target, the Government must recognise the inability of the private sector, as currently incentivised, to build the number of houses needed. Government action is required to address this, including helping local authorities and housing associations to increase their housebuilding. (Paragraph 85)
14. The Government has chosen to promote the expansion of owner occupation. This reflects the aspiration of many people to own their home. However, it must be recognised that home ownership, whilst a wish for many, is not achievable for all. (Paragraph 104)
15. The Government's focus on home ownership neglects other tenures; those on the cusp of ownership are helped and those who need secure, low cost rental accommodation are not. Opportunities to increase investment and funding in the private rental sector are potentially undermined by policies designed to assist owner occupation. (Paragraph 105)

The Solutions

Chapter 3: Planning Reform

16. Adequately resourced planning departments are crucial to the effective delivery of development. It is possible to mitigate the effects of reductions in local authority spending on planning by increasing the fees that can be charged for planning applications. Builders and developers are willing to pay more. (Paragraph 127)
17. We recommend that the Government:
 - allows local authorities to set and vary planning fees in accordance with the needs of their local area. To prevent abuse there should be an upper limit or cap on the level of fees. To allow sufficient discretion to local authorities, this cap should be significantly higher than the current fees that can be charged; and
 - provides that the money raised from these fees is ring-fenced for expenditure on planning and development. (Paragraph 128)
18. We recommend that local authorities are granted the power to levy council tax on developments that are not completed within a set time period. This time period should be negotiated when planning consent is sought and be

varied according to the size and complexity of a development. To ensure that the local authority also has an incentive to accelerate the process, the clock should start to run only when the local authority has signed off all conditions and obligations. (Paragraph 139)

19. We recommend that as part of its ongoing reviews of planning obligations and the Community Infrastructure Levy the Government aims to achieve a system that is:
 - Simple, so time is not wasted negotiating consents and delaying building.
 - Transparent, so the value of the contribution made by a developer can be easily quantified and local communities can understand what a new development has paid for and its value. This value should be sufficient to provide an incentive to the local authority to grant planning permission.
 - Responsive to the concerns of small and niche builders, which may require exemptions for certain types or sizes of development. (Paragraph 147)
20. We do not take a view on proposals to change the planning system to make it more responsive to market signals, but recommend that the Government investigates this and other proposals to improve land supply further. (Paragraph 152)

Chapter 4: Building on Public Land

21. We welcome the Government's wish to bring public land forward for housebuilding. It can make a useful long-term contribution towards the supply of housing but we note that these efforts have yielded very little to date. (Paragraph 166)
22. We endorse the conclusions and recommendations of the National Audit Office and Public Accounts Committee. Since the number of new homes the Government expects to be built on public land by 2020 amounts to nearly one third of their housebuilding target, it is essential that the Government should oversee the number of homes that are actually built. Such a role should be included within the National Infrastructure Commission's remit. (Paragraph 167)
23. We welcome the trial of direct commissioning but it should be a much bigger part of the housebuilding programme. The implementation of our recommendations on the financing of local authority building would help with this. Direct commissioning would also provide opportunities for smaller builders. (Paragraph 172)
24. The release of public land provides a good opportunity to support the building of low cost homes and help smaller builders return to the market. The requirement to achieve best market value when releasing public land should be relaxed. This is only going to work however if there is a central scheme that approves and compensates public bodies who sell land below market value. (Paragraph 177)
25. A senior Cabinet minister must be given overall responsibility for identifying and coordinating the release of public land for housing, with a particular focus on providing low cost homes. (Paragraph 187)

Chapter 5: Building by Local Authorities and Housing Associations

26. We consider that local authorities and housing associations must be incentivised and enabled to make a much greater contribution to the overall supply of new housing. Without this contribution it will not be possible to build the number of new homes required. The likely reduction in the housing benefit bill over the long-term is a further reason to increase the supply of social and affordable rented housing through building by local authorities and housing associations. (Paragraph 201)
27. We conclude that the cuts to social rent are short-sighted. Whilst they may reduce the immediate housing benefit bill, in the longer term they are likely to deter investment and reduce the available stock of social and ‘affordable housing’, thus requiring a greater number of tenants to live in, more costly, privately rented accommodation. (Paragraph 207)
28. We support the Government’s efforts to reclassify housing associations as part of the private sector. The ability of housing associations to borrow to fund new development could otherwise be at risk. (Paragraph 211)
29. The Government states it is supportive of local authority building across all tenures. One aspect of this support must be to ensure local authorities who wish to build social housing have access to the funds to do so. The current restrictions the ability of local authorities to borrow to build social housing are arbitrary and anomalous. Local authorities should be able to borrow to build social housing as they can for other purposes. We recommend that the Government allows local authorities to borrow under the prudential regime to build all types of housing. (Paragraph 220)
30. We endorse the efforts of local authorities to innovate, co-operate and enter into partnership with others in the housing sector to increase the number of houses built. We note that these schemes are disparate and sometimes on a small scale. We encourage local authorities to share their experience and expertise to ensure the proliferation of successful schemes. As any uncertainty could deter innovation and investment, we urge the Government to provide local authorities with clear guidance about the future accounting treatment of public-private partnerships. (Paragraph 224)

Chapter 6: Use of Existing Stock

31. Local authorities have increased the size of their reserves in recent years. Their cautious attitude is understandable given the uncertainty faced by local authorities which need to adapt to financial restrictions and new sources of revenue. However, given the current levels of reserves, we agree with the Minister for Housing that local authorities should consider how some of their reserves could be used for housebuilding. (Paragraph 228)
32. The weight of evidence suggests that stamp duty land tax can deter people from moving into a smaller home, acting as a barrier to making the best use of the houses that we already have. (Paragraph 252)
33. It is wrong to create specific tax rules, as is the case with recent changes to capital gains tax and inheritance tax, around housing. (Paragraph 253)
34. Council tax is regressive. The bands should be amended so that owners of more expensive properties contribute proportionally more than owners of

less expensive properties. This should be done in a revenue neutral way. (Paragraph 254)

35. Changes to the taxation system may encourage some people to move home but any such changes are unlikely to make a large difference, particularly in terms of downsizing, as there is a shortage of suitable smaller accommodation for people to move into. (Paragraph 259)

ANNEX 1: MORTGAGE AFFORDABILITY FOR FIRST TIME BUYERS

1. Capital and interest payments as a percentage of income have decreased for first time buyers since 2008:

Table 9: New mortgage affordability, UK first time buyers

Year	Interest payments as a percentage of income, median	Capital and interest payments as a percentage of income, median
2005	16.5	21.6
2006	16.8	21.9
2007	19.4	23.8
2008	19.6	24.0
2009	14.9	20.9
2010	13.3	20.0
2011	12.8	19.6
2012	13.2	19.8
2013	11.8	19.3
2014	11.6	19.4
2015	10.1	18.5

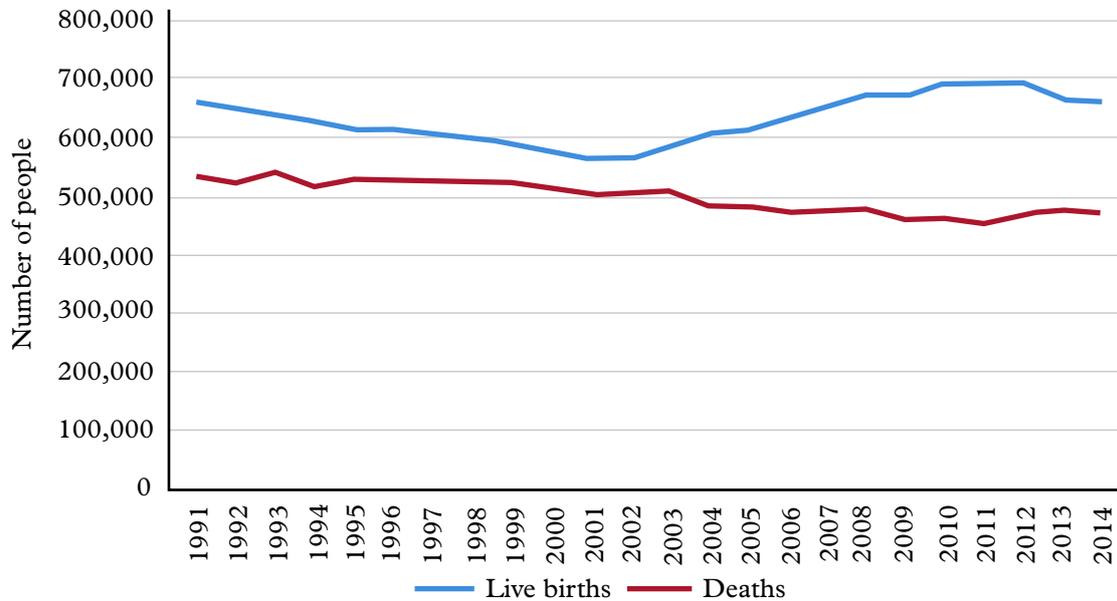
Source: Data provided by the Council for Mortgage Lenders

ANNEX 2: TRENDS IN POPULATION GROWTH

Natural change

1. Natural change (births and deaths) accounted for an increase in the population of around 190,000 people per year on average since 2004:

Figure 15: Live births and deaths, England, 1991 to 2014

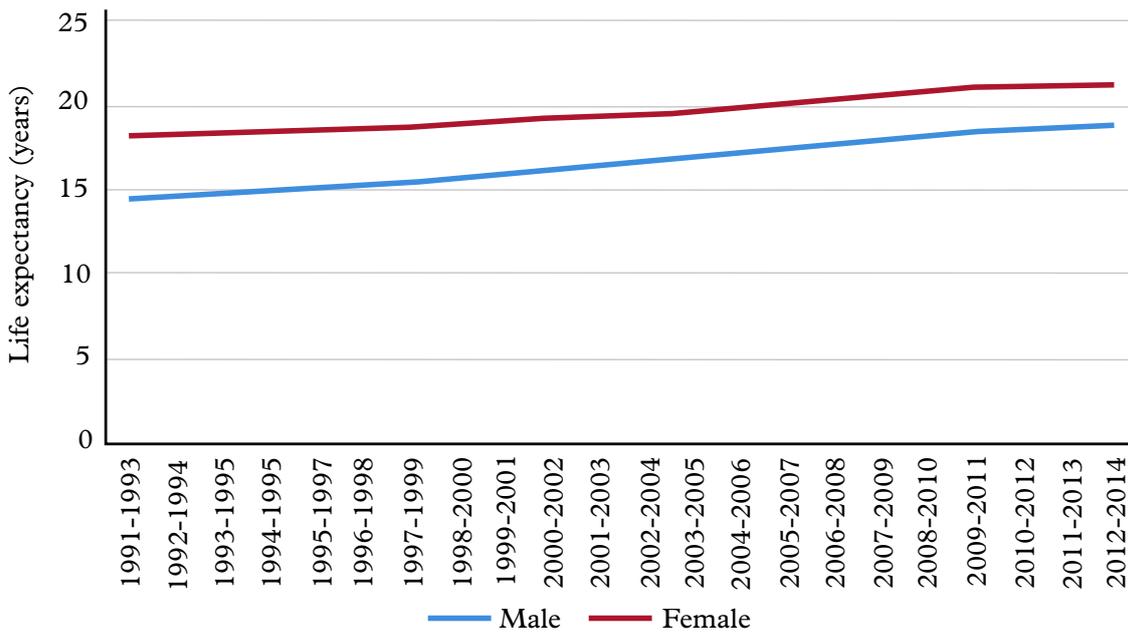


Source: Office for National Statistics, 'Population and Health Reference Tables', September 2015: <http://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/datasets/vitalstatisticspopulationandhealthreferencetables> [accessed June 2016]

Longevity

2. The number of deaths fell faster in the 2000s than in the previous two decades, falling below 600,000 for the first time since the 1950s in 2004. As people are living longer, the number of deaths has remained below 600,000 a year (see Figure 15 above). In England, life expectancy for men at age 65 has increased from just over 14 years in 1991–93 to 18.8 years in 2012–14; for women, it has increased from 18 years to 21.2 years over the same period:

Figure 16: Life expectancy at age 65 in England, 1991–93 to 2012–14

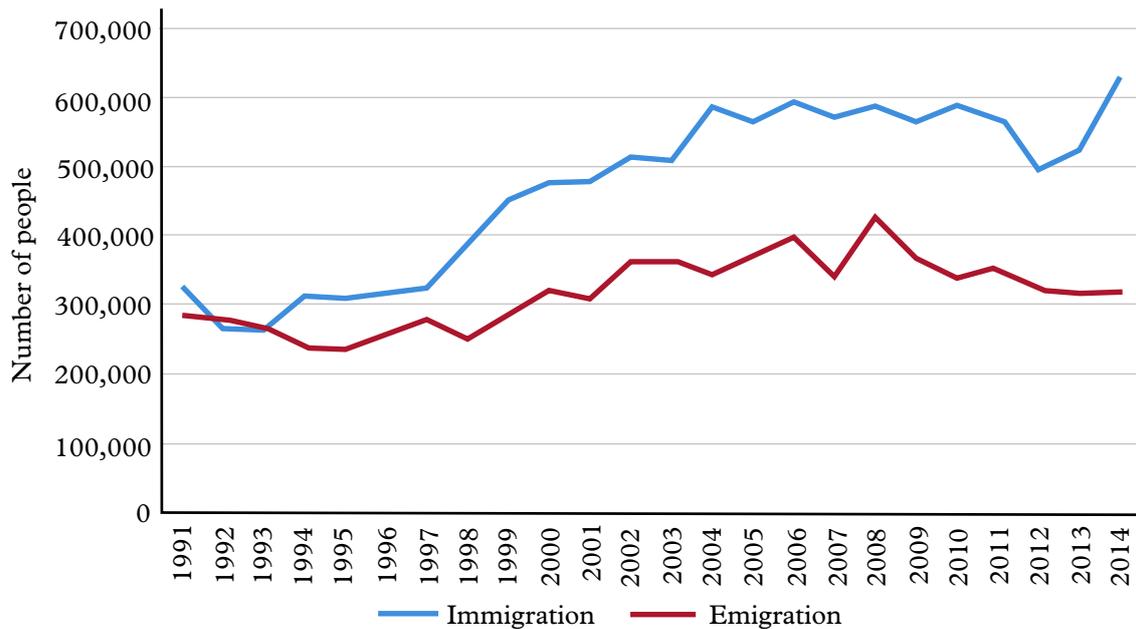


Source: Office for National Statistics, ‘Life Expectancy at Birth and at Age 65 by Local Areas in England and Wales’, November 2015: <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/datasets/lifeexpectancyatbirthandage65bylocalareasinenglandandwalesreferencetable1> [accessed July 2016]

Net migration

3. Net migration has increased the UK population by more than 240,000 people per year on average from 2004 to 2014:

Figure 17: UK immigration and emigration, 1991 to 2014



Source: Office for National Statistics, ‘Migration Statistics Quarterly Report: May 2016’, May 2016: <http://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/bulletins/migrationstatisticsquarterlyreport/may2016#net-migration-to-the-uk> [accessed July 2016]

ANNEX 3: GOVERNMENT INITIATIVES TO HELP HOME OWNERSHIP

Help to Buy Schemes

Initiative	Start and end date (if any)	Eligibility		Details of discount or subsidy
		Type of buyer	Type of home	
Help to Buy Equity Loan ³²⁷	Start: April 2013 End: 2021 ³²⁸	Anyone who does not currently own a property.	New build property up to a value of £600,000.	Government loan of up to 20% of the cost of a new-build home. The buyer therefore needs a 5% cash deposit and a 75% mortgage to make up the rest. There are no loan fees on the 20% loan for the first five years From February 2016 the upper limit for the equity loan for homes within Greater London rose from 20% to 40%. ³²⁹
Help to Buy Mortgage Guarantee ³³⁰	Start: March 2012/ Oct 2013 End: Dec 2016	Anyone who does not currently own a property.	Any properties up to a value of £600,000.	The Government offers lenders the option to purchase a guarantee on mortgage loans. Lenders offer home buyers higher loan-to-value mortgages (80–95%). The buyer remains fully responsible for mortgage repayments.

327 HM Government, 'Help to Buy, Equity Loan': <https://www.helptobuy.gov.uk/equity-loan/> [accessed April 2016]

328 HM Treasury, Spending Review and Autumn Statement 2015, Cm 9162, November 2015: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479749/52229_Blue_Book_PU1865_Web_Accessible.pdf [accessed April 2016]

329 HM Government, 'Help to Buy, London Help to Buy': <https://www.helptobuy.gov.uk/equity-loan/london-help-to-buy/> [accessed April 2016]

330 HM Government, 'Help to Buy, Mortgage Guarantee': <http://www.helptobuy.gov.uk/mortgage-guarantee/eligibility> [accessed April 2016]

Initiative	Start and end date (if any)	Eligibility		Details of discount or subsidy
		Type of buyer	Type of home	
Help to Buy ISA ³³¹	Start: March 2015	First Time Buyers.	Can be used to purchase any property worth less than £250,000 (outside London) or £450,000 (London).	First time buyers who save through a Help to Buy ISA receive a bonus of 25% of the amount saved (to a maximum of £3,000). The bonus is paid when the first home is purchased.

331 HM Treasury, Budget 2015, HC 1093, March 2015: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/416330/47881_Budget_2015_Web_Accessible.pdf [accessed April 2016]; HM Government, 'Help to Buy, ISA': <https://www.helptobuy.gov.uk/help-to-buy-isa/how-does-it-work/> [accessed April 2016]

Other initiatives

Initiative	Start and end date (if any)	Eligibility		Details of discount or subsidy
		Type of buyer	Type of home	
Shared Ownership ³³²	Start: 1980 (the most recent version of the scheme was announced in 2015).	First time buyers on an income of less than £80,000 p.a. outside London and £90,000 p.a. in London.	Shared ownership homes only.	Applicants buy a minimum 25% share in a leasehold property the remainder is owned by a housing association. Applicants may 'staircase' and buy additional shares (usually in 10% tranches up to 100%).
Starter Homes	Start: Announced 15 December 2014. ³³³ Buyers can register for homes. ³³⁴	First time buyers under 40.	Homes built as starter homes.	200,000 new homes to be built sold at up to a 20% discount to first time buyers. The discounted price will be no more than £250,000 outside London and £450,000 in London.

332 HM Treasury, Spending Review and Autumn Statement 2015, op. cit.

333 DCLG, *Stepping on the ladder: High quality Starter Homes for first time buyers*, December 2014: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/408455/150302_-_Gov_response_Starter_Homes.pdf [accessed April 2016] the Scheme was extended in the Autumn statement 2015, HM Treasury, Spending Review and Autumn Statement 2015, Cm 9162, November 2015, *Op cit.*

334 DCLG, Young first-time buyers can register online for 100,000 cut-price homes, 28 February 2015: <https://www.gov.uk/government/news/young-first-time-buyers-can-register-online-for-100000-cut-price-homes> [accessed April 2016]

Initiative	Start and end date (if any)	Eligibility		Details of discount or subsidy
		Type of buyer	Type of home	
Life Time ISA ³³⁵	Start: April 2017	Any person between the age of 18 and 40.	Any home.	Savers can contribute up to £4,000 each year from the age of 18 to 50. The Government will pay a 25% bonus. The ISA can be used for 'significant life events' which are yet to be defined but include retirement and house purchase.

335 HM Treasury, Budget 2016, op. cit.

Schemes to assist tenants to buy their home/a home

Initiative	Start and end date (if any)	Eligibility	Details of discount or subsidy
Right to Buy ³³⁶	Start: Oct 1980	Local authority tenants who have lived in their homes for 3 years, most former local authority tenants living in homes transferred to housing associations, and most housing association tenants who have lived in their home since 15.1.1989.	Qualifying tenants have the right to buy their home at a discount. The current discount levels are: maximum discount £77,900 (outside London) and £103,900 (London).
Right to Acquire ³³⁷	1996, most recent revision in 2002	Housing association tenants who have had a public sector landlord for three years.	Qualifying tenants have the right to buy a home at a discount of £9,000–£16,000. The amount of discount offered depends on the local authority. The housing association may sell the tenant an alternative property (at a discount) rather than the tenant's current home.

336 HM Government, 'Your Right to Buy': <https://righttobuy.gov.uk/> [accessed April 2016]

337 The Housing (Right to Acquire) Discount Order 2002, [SI 2002/1901](#); Homes and Communities Agency, Capital Funding Guide, part 12: <https://www.gov.uk/guidance/capital-funding-guide/12-right-to-acquire> [accessed May 2016]

Initiative	Start and end date (if any)	Eligibility	Details of discount or subsidy
Voluntary Right to Buy ³³⁸	Start: May 2016 (pilot schemes)	All housing association tenants in living in social or affordable rented homes.	Housing association tenants will have the right to buy a home at ‘Right to Buy’ level discounts which are £77, 900 (outside London) £103,900 (London). There is a presumption that this will be the home where the tenant lives, but housing associations have the discretion to sell the tenant a different property.
Cash Incentive schemes ³³⁹	Start: April 2003	Local authority social housing tenants	Local authorities the discretion to make grants to social housing tenants to buy a home on the open market. The size of the grant is at the discretion of the local authority taking into account local market conditions.
Social Mobility Fund ³⁴⁰	Start: Feb 2015	Social housing tenants.	£42m in 2015–2016 to offer social housing tenants up to £20,000 (outside London) and £30,000 (London) to buy a home on the open market.

338 As agreed between the National Housing Federation and the Government. DCLG, ‘Historic agreement will extend the right to buy to 1.3 million more tenants’, 7 October 2015: <https://www.gov.uk/government/news/historic-agreement-will-extend-right-to-buy-to-13-million-more-tenants> [accessed April 2016]

339 The Regulatory Reform (Schemes under Section 129 of the Housing Act 1988) (England) Order 2003, [SI 2003/986](#); The London Borough of Tower Hamlets, Cash Incentive Scheme: <http://www.towerhamletshomes.org.uk/pdf/cis-leaflet-with-right.pdf> [accessed April 2016]

340 DCLG, Right to Buy, Social Mobility Fund: Prospectus, February 2015: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/405851/Right_to_Buy_Fund_-_Bidding_Guidance.pdf [accessed April 2016]

Initiative	Start and end date (if any)	Eligibility	Details of discount or subsidy
Rent to Buy ³⁴¹	Start: 26.9.2014 (now closed to new bidders)	First time buyers, or previous home owners who can no longer afford to buy, who have household earnings of £60,000 a year or less (£64,300 in London).	Allows tenants to rent affordably (at up to 80% of the market rent) and save for a deposit to buy their rented home or a different home at a later stage. New homes built under the scheme are available at less than market rent for seven years after which the tenant has first refusal to buy the property or move to another rented or purchased home.
Social Home Buy ³⁴²	April 2006	Housing association and local authority tenants who do not qualify for other right to buy schemes.	Discretionary shared ownership scheme. The tenant buys a minimum 25% share of the property at a discount (between £9,000 and £16,000 depending on local authority) and can purchase further shares, also at a discount.

341 DCLG, Rent to Buy, Prospectus, September 2014: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/359084/Rent_to_Buy_Prospectus_full.pdf [accessed April 2016]

342 DCLG, Social Home Buy, guidance for local authorities, January 2010 <http://webarchive.nationalarchives.gov.uk/20120919132719/http://www.communities.gov.uk/documents/housing/pdf/1440401.pdf> ; ‘Shared Ownership for tenants’ November 2014: <https://www.gov.uk/shared-ownership-tenants> [accessed April 2016]

ANNEX 4: PLANNING CHANGES

Housing and Planning Act

1. The Housing and Planning Act 2016 is a wide-ranging piece of legislation. The provisions relevant to planning include:
 - Imposing a duty on local authorities to keep a register of brownfield sites suitable for development.
 - A limited form of permission in principle on sites within the brownfield register.
 - A pilot scheme allowing private providers to process (but not decide) planning applications.
 - Provisions to encourage and speed up the production of local plans and neighbourhood plans.
 - Expanding the definition of ‘affordable housing’ to include Starter Homes.

Other announced changes

Budget 2016

2. In his March 2016 Budget, the Chancellor announced further general reform to the planning system. These included a move to ‘zonal’ planning, further changes to local plans, the streamlining of planning conditions and support for increasing the density of development in London.³⁴³ The Minister for Housing told us that the detail of these proposals would follow in “the next few months”.³⁴⁴

Section 106 Forthcoming changes

3. Changes announced to section 106 include:
 - Amendments to the Housing and Planning Act 2016 to introduce a power to restrict the enforcement of ‘affordable housing’ conditions in certain situations and create a mechanism to resolve disputes.³⁴⁵
 - A proposal that the conditions do not apply to sites with fewer than 10 houses. This change, which the Government attempted to bring in through revised planning guidance, was delayed by a legal challenge.³⁴⁶
 - Amendments to Planning Guidance to promote pre-application discussions and standard clauses.³⁴⁷

343 HM Treasury, *Budget 2016*, HC 901, March 2016: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/508193/HMT_Budget_2016_Web_Accessible.pdf [accessed April 2016]

344 [Q 254](#) (Brandon Lewis MP)

345 Housing and Planning Act 2016, [sections 158 and 159](#)

346 *R (on the application of West Berkshire County Council and another) v Department for Communities and Local Government* (2015) EWHC 2222 (admin); (2015) LGR 884. The High Court upheld West Berkshire’s challenge to the new guidance. The Government successfully appealed.

347 HM Government, *Section 106 Planning obligations, speeding up negotiations: Government Response to consultation*, March 2015: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/417258/150325_Final_FINAL_Govt_response_speeding_up_section_106.pdf [accessed April 2016]

- Consultation on proposals to speed up section 106 negotiations and a commitment to extend the ability of developers to appeal and require a standardised approach to viability assessments.³⁴⁸

348 HM Treasury, *Fixing the foundations: Creating a more prosperous nation*, Cm 9098, July 2015: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/443898/Productivity_Plan_web.pdf [accessed April 2016]

ANNEX 5: LOCAL AUTHORITY FINANCING INITIATIVES

1. Schemes raised in evidence to the Committee included the following:
 - Use of a local authority owned company, often managed by an arms' length management organisation, to build and manage housing stock. The Chartered Institute of Housing advised that this was a "normal" way for local authorities to circumvent legislative restrictions.³⁴⁹
 - Partnerships between local authorities and housing associations to coordinate the delivery of public land and management of social or 'affordable housing'.³⁵⁰ Dr Sue Brownhill, from the School of the Built Environment at Oxford Brookes University, told us that local authorities were developing:

"Special purpose vehicles, often but not exclusively, formed around the availability of publicly owned land. These take the form of Housing Association subsidiaries, municipal housing companies and public/private partnerships. A more widespread use of these business models within the industry could deliver more ['affordable housing'] particularly through the development of a model specifically for housing at social rent levels."³⁵¹
 - Joint ventures between local authorities and private developers. For example in Gateshead the council has entered into a joint venture with a housing association and private developer to build 2,400 new homes. The council contributes land and the developer and housing association provide finance and expertise. The profits will be split equally between the council and the consortium formed by the housing association and private developer.³⁵²
 - Issuing bonds to fund building. Warrington Borough Council issued £150 million of bonds the bulk of which was expected to fund development and housing in the city centre.³⁵³
 - Building homes in the private rented sector and using the income to fund social and affordable rented housing and some houses for private sale. The Minister for Housing described this as a "really interesting model".³⁵⁴
 - Investment of local authority pension funds in housebuilding for private sale. In Manchester, land owned by Manchester City Council is being developed using a £25 million investment from the City's pension fund. Councillor Sue Derbyshire noted that this scheme did not include building social housing as the fund would "need a return on their investment, because they are investing prudentially and with a fiduciary duty to their pensioners".³⁵⁵

349 Chartered Institute of Housing (EHM0170)

350 Written evidence from Barclays (EHM0161)

351 Written evidence from Oxford Brookes University (EHM0111)

352 Oral evidence taken before the Communities and Local Government Select Committee, 19 December 2011 (Session 2010–12). Q 271 (Mark Henderson); Elphicke-House Report, *From Statutory Providers to Housing Delivery Enabler: review into the local authority role in housing supply*, January 2015: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/398829/150126_LA_Housing_Review_Report_FINAL.pdf [accessed June 2016]

353 Warrington Borough Council, 'Warrington Borough Council Enter Bond Market' 25 August 2015: https://www.warrington.gov.uk/news/article/1784/warrington_borough_council_enters_bond_market [accessed April 2016]

354 Q 246 (Brandon Lewis)

355 Q 126 (Cllr Sue Derbyshire)

APPENDIX 1: LIST OF MEMBERS AND DECLARATIONS OF INTEREST

Members

Baroness Blackstone†
 Baroness Bowles of Berkhemstead*
 Lord Burns*
 Lord Darling of Roulanish*
 Lord Forsyth of Drumlean
 Lord Griffiths of Fforestfach†
 Lord Hollick (Chairman)
 Lord Kerr of Kinlochard
 Lord Lamont of Lerwick
 Lord Layard
 Lord Livermore*
 Lord May of Oxford†
 Lord Monks** †
 Lord Sharkey
 Lord Teverson†
 Lord Tugendhat*
 Lord Turnbull
 Baroness Wheatcroft

† Member until 25 May 2016

* Joined Committee on 25 May 2016

** Lord Monks was unable to attend most meetings.

The Committee took evidence between December 2015 and April 2016.

Declarations of Interest

Baroness Blackstone
Chair, Orbit Group (Housing Association)
 Baroness Bowles of Berkhamsted
Partner, Bowles Horton Partnership (property management—receives rental income from residential and commercial units)
 Lord Burns
Shareholding in British Land plc
 Lord Darling of Roulanish
No relevant interests
 Lord Forsyth of Drumlean
Non-executive Director, Secure Trust Bank plc
Owner of self-catering holiday accommodation, from which rental income is received
 Lord Griffiths of Fforestfach
No relevant interests
 Lord Hollick (Chairman)
No relevant interests
 Lord Kerr of Kinlochard
No relevant interests
 Lord Lamont of Lerwick
Adviser to Land Holdings Capital Ltd (paid by Balli Holdings Limited) and certain secretarial services provided by Land Holdings Capital Ltd

Adviser to Mutual Finance

Director of Stanhope Gate Architecture and Urban Design Ltd

Lord Layard

No relevant interests

Lord Livermore

No relevant interests

Lord May of Oxford

No relevant interests

Lord Monks

No relevant interests

Lord Sharkey

Liberal Democrat spokesperson for personal finance

Lord Teverson

Director, Wessex Investors Ltd

Director, Anchorwood Developments Ltd

Lord Tugendhat

No relevant interests

Lord Turnbull

Non-executive Director, British Land Company plc

Shareholding, British Land Company plc

Baroness Wheatcroft

Owner of a buy-to-let property

A full list of Members' interests can be found in the Register of Lords Interests:

<http://www.publications.parliament.uk/pa/ld/ldreg.htm>

Specialist advisers

Professor Geoff Meen

Reading University contract with DCLG until the end of August 2015

RMIT University (Melbourne) funded by the Australian Housing and Urban Research Institute

Glasgow University Urban Big Data Centre, funded by ESRC

Professor Christine Whitehead

Member, London Housing Commission (chaired by Lord Kerlake)

Adviser to The Housing Finance Corporation Board of Trustees

Relevant research projects:

Evaluation of Help to Buy for DCLG (complete)

Evaluation of Direct Commissioning (complete)

As Deputy Head LSE London, member of teams researching into:

Accelerating Housing Development in London funded by the Higher Education Innovation Fund

Impact Assessment of potential Mayoral initiatives with respect to private renting in London for National Landlords Association

Evaluation of impact of government policy changes on social housing in Camden for London Borough of Camden

A comparative study of private rented housing in four countries for Knowledge Centre in Housing Economics, Realdania, Denmark

A number of other internationally based academic projects on housing

Worked on a project called Taking Stock analysing the nature of the private rented sector and the role of Buy-to-Let within the sector.

APPENDIX 2: LIST OF WITNESSES

Evidence is published online at <http://www.parliament.uk/economics-of-the-uk-housing-market> and available for inspection at the Parliamentary Archives (020 7219 3074).

Evidence received by the Committee is listed below in chronological order of oral evidence session and in alphabetical order. Those witnesses marked with * gave both oral evidence and written evidence. Those marked with ** gave oral evidence and did not submit any written evidence. All other witnesses submitted written evidence only.

Oral evidence in chronological order

**	Dame Kate Barker	QQ 1–16
**	Martin Wolf, Chief Economic Correspondent, Financial Times	
**	Christopher Walker, Head of Housing Planning and Urban Policy, Policy Exchange	
*	Betsy Dillner, Director, Generation Rent	QQ 17–40
*	Toby Lloyd, Director of Campaigns, Shelter	
**	Duncan Stott, Director, PricedOut	
*	Dr Peter Williams, Cambridge Centre for Housing and Planning Research	
**	Professor Steve Wilcox, Centre for Housing Policy, University of York	
**	Professor Danny Dorling, St Peter’s College, University of Oxford	QQ 41–58
*	Professor Paul Cheshire, London School of Economics	
**	Andrew Rose, Chief Executive, Homes and Communities Agency	QQ 59–77
**	Fiona McGregor, Head of Regulation, Homes and Communities Agency	
*	Stephen Aldridge, Director of Analysis and Data and Chief Economist, Department for Communities and Local Government	
*	Isobel Stephen, Head of Housing, Department for Communities and Local Government	
**	Gwyneth Nurse, Director of Financial Services, HM Treasury	
**	Mike Williams, Director of Business and Tax, HM Treasury	
**	Stephen Farrington, Deputy Director of the Economics Group, HM Treasury	

- * Lord Green of Deddington, Chairman, Migration Watch UK [QQ 78–93](#)
- ** Professor Robert Rowthorn, Cambridge University
- ** Professor John Muellbauer, Oxford University
- ** Professor Tony Champion, Newcastle University
- * John Stewart, Director of Economic Affairs, Home Builders Federation [QQ 94–110](#)
- ** Jennie Daly, UK Land Director, Taylor Wimpey
- * Gary Day, Land and Planning Director, McCarthy & Stone
- * David Orr, Chief Executive, National Housing Federation [QQ 111–122](#)
- ** David Montague, Chair, G15 Group, and Chief Executive of L&Q Housing Association
- * Ian McDermott, Chief Operating Officer, Sanctuary Group
- Dr Clive Skidmore, Head of Housing Development, Birmingham City Council [QQ 123–140](#)
- Lord Best, Chair, The Property Ombudsman
- Councillor Sue Derbyshire, Housing and Planning Lead, Greater Manchester Combined Authority
- Lord Kerslake [QQ 141–163](#)
- The Lord Porter of Spalding, Chairman, Local Government Association
- Trudi Elliott, Chief Executive, Royal Town Planning Institute
- Professor Tony Crook, Sheffield University
- Brian Berry, Chief Executive, Federation of Master Builders [QQ 164–190](#)
- Chris Carr, Chair of the FMB Home Builders Group, Carr and Carr (Builders)
- Paul Smee, Director General, Council of Mortgage Lenders
- Stephen Noakes, Director of Mortgages, Lloyds Banking Group
- Sir Jon Cunliffe, Deputy Governor, Financial Stability, Bank of England [QQ 191–199](#)
- Dr David Miles, Imperial College London [QQ 200–228](#)
- Paul Johnson, Director of the Institute for Fiscal Studies
- David Smith, Policy Director, Residential Landlords Association

Nick Jopling, Executive Director of Property,
Grainger Plc

Chris Taylor, President, British Property Federation

Professor Hugo Priemus, Delft University of
Technology

[QQ 229–236](#)

Bernard Vorms, Chair, National Council of
Transaction and Property Management

Jean-Pierre Schaefer, Special Adviser, National
Council of Cities

Brandon Lewis MP, Minister of State for Housing and
Planning, Department for Communities and Local
Government

[QQ 237–257](#)

Damian Hinds MP, Exchequer Secretary, HM
Treasury

Alphabetical list of all witnesses

	Aldiss & Associates Ltd	EHM0098
	Architecture Verte Ltd	EHM0069
	Barclays Bank PLC	EHM0161
**	Dame Kate Barker (QQ 1–16)	
	Bolton At Home	EHM0105
	Bolton Parish Council	EHM040
	British Hospitality Association	EHM0152
	British Property Federation	EHM0133
	Dr Tim Brown	EHM0065
	Build A Dream Self Build Association (BADSB)	EHM0035
	Building Social Housing Foundation	EHM0128
	Building Societies Association	EHM0113
*	Cambridge Centre for Housing Planning Research	EHM0047
	Campaign to Protect Rural England (CPRE)	EHM0092
	Bob Cambell-Barr	EHM0010
	Centre for Context and Change	EHM0110
	Centre for Progressive Capitalism	EHM0094
**	Professor Tony Champion (QQ 78–93)	
	Vicky Chapman	EHM0023
	Chartered Institute of Housing	EHM0170
	Chartered Institute of Public Finance Accountants	EHM0169
	Chartered Institute of Taxation	EHM0063
	Cheshire East Council	EHM0142

*	Professor Paul Cheshire (QQ 41–58)	EHM0028 EHM0156 EHM0159 EHM0168
	Chichester District Council	EHM0079
	Chiltern District Council	EHM0171
	City of London Corporation	EHM0119
	Community Support	EHM0122
	Community Voice on Planning	EHM0058
	Construction Products Association	EHM0095
	Dr Robert Copcutt	EHM0071
	Alan Cotterell	EHM0080
	Council of Mortgage Lenders	EHM0064
	Country Land and Business Association	EHM0147
	Countrywide	EHM0108
	Credit Suisse	EHM0163
	Crisis	EHM0127
	Professor Tony Crook	EHM0090 EHM0096
	Cumbria Housing Group	EHM0097
*	Department for Communities and Local Government (QQ 59–77) (QQ 237–257)	EHM0145 EHM0157
	Eric Dickens	EHM0155
**	Professor Danny Dorling (QQ 41–58)	
	East Devon Alliance	EHM0052
	Eden District Council	EHM0112
	Edward Henry House Co-operative Ltd	EHM0087
	Robert Edwards	EHM0049
	Fairhazel Housing Co-operative Limited	EHM0093
	Federation of Master Builders	EHM0140
	Financial Conduct Authority	EHM0150 EHM0164
	Finsbury Park Housing Co-operative	EHM0055
	Simon Forrester	EHM0022
	Councillor James Fraser	EHM0037
*	Generation Rent (QQ 17–40)	EHM0032
	Grainger plc	EHM0083
	Dean Gray	EHM0003

	Greater Manchester Combined Authority	EHM0135
	Green House Think Tank	EHM0129
	Martin Grubb	EHM0066 EHM0132
	Professor Alan Hallsworth	EHM0054
	Hatchrow Housing Co-operative	EHM0103
	Charlotte Hawke	EHM0020
	Rt Hon John Healey MP	EHM0158
	Lesley Hines	EHM0027
*	HM Treasury (QQ 59–77) (QQ 237–257)	
	Michelle Hocknull	EHM0038
*	Home Builders Federation (QQ 94–110)	EHM0131 EHM0153
**	Homes and Communities Agency (QQ 59–77)	
	Homes for the North	EHM0100
	HSBC Bank plc	EHM0162
	HTA Design LLP	EHM0001
	Igloo Regeneration	EHM0046
	Institute of Economic Affairs	EHM0120
	Intergenerational Foundation	EHM0048
	Iroko Housing Co-operative	EHM0088
	Colin Jex	EHM0013
	Helen Johnson	EHM0062
	Ben Jones	EHM0124
	Joseph Rowntree Foundation	EHM0115
	Key One Property Ltd	EHM0024
**	L&Q Housing Association (QQ 111–122)	
	Labour Land Campaign	EHM0070
	Dr Guy Lambourn	EHM0002
	Land Value Taxation Campaign	EHM0053
	Leeds City Region Enterprise Partnership West Yorkshire Combined Authority	EHM0126
*	Brandon Lewis MP (QQ 237–257)	EHM0167
	Bob Line	EHM0031
	Liverpool City Council	EHM0039
	Lloyds Banking Group plc	EHM0173
*	Local Government Association	EHM0174

Alan Lodwick	EHM0130
London Borough of Islington	EHM0141
London Federation of Housing Co-operatives	EHM0134
London Forum of Amenity and Civic Societies	EHM0148
London Tenants Federation	EHM0099
Professor Jaime Luque	EHM0042
Professor Stephen Malpezzi	EHM0143
Tony Mano	EHM0008
Marsh Parsons	EHM0043
Edward Maszka	EHM0085
* McCarthy & Stone (QQ 94–110)	EHM0072
* Migration Watch UK (QQ 78–93)	EHM0149
Kathy Miller	EHM0025
Denis Minnis	EHM0005
Professor John Muellbauer (QQ 78–93)	
Diana Nason	EHM0084
National Association of Estate Agents & Association of Residential Letting Agents	EHM0114
National Community Land Trust Network	EHM0123
National Federation of Arms-Length Management Organisations	EHM0057
National Federation of Builders	EHM0136
* National Housing Federation (QQ 111–122)	EHM0144 EHM0160
National Institute of Economic and Social Research	EHM0061
National Landlords Association	EHM0139
New Economics Foundation	EHM0101
Reverend Paul Nicolson	EHM0077 EHM0078
Northern Housing Consortium	EHM0118
Orbit Group Ltd	EHM0091
David Orton	EHM0011
Otter Valley Association	EHM0075
Our Cornwall	EHM0125
Oxford Brookes University	EHM0111
Oxfordshire Community Land Trust	EHM0041
Paragon Group of Companies	EHM0073
Parkhill Housing Co-operative	EHM0068

	John Phillips	EHM0021
	Thomas Pinder	EHM0024
	Pocket Living Ltd	EHM0109
	Positive Money	EHM0107
	Ian Preddy	EHM0081
**	PricedOut (QQ 17-40)	
	Property 118 Landlords Group	EHM0036
	Property Franchise Group	EHM0082
	Property Partner	EHM0143
	Malcolm Ramsay	EHM0044 EHM0137
	Renters' Rights UK	EHM0050
	Rentplus	EHM0034
	Residential Landlords Association	EHM0016
**	Professor Robert Rowthorn (QQ 78-93)	
	Royal Bank of Scotland	EHM0165
	Royal Institution of Chartered Surveyors	EHM0151
	Royal Town Planning Institute	EHM0121
	Gary Salter	EHM0117
*	Sanctuary Group (QQ 111-122)	EHM0059
	Santander UK	EHM0166
*	Jean-Pierre Schaefer	EHM0172
	Daniel Scharf	EHM0017
	Professor Martin Shaw	EHM0013
	Stephen Shaw	EHM0106
*	Shelter (QQ 17-40)	EHM0033
	Shout Housing Campaign	EHM0045
	Ian Simpson	EHM0006 EHM0009
	Southwark Group of Tenants Organisation	EHM0138
	Barry Sutcliffe	EHM0067
**	Taylor Wimpey (QQ 94-110)	
	Gareth Thomas	EHM0026
	David Turver	EHM0015
	David Ulldemolins	EHM0086
	Jenny Unsworth	EHM0074
	Urban Vision Enterprise CIC	EHM0116

	Vine Housing Co-operative	<u>EHM0104</u>
*	Bernard Vorms	<u>EHM0172</u>
**	Christopher Walker (<u>QQ 1-16</u>)	
	Judith Ward	<u>EHM0056</u>
**	Professor Steve Wilcox (<u>QQ 17-40</u>)	
	Brian Wells	<u>EHM0154</u>
	Suzanne Williams	<u>EHM0018</u>
**	Martin Wolf (<u>QQ 1-16</u>)	
	Wythenshawe Community Housing Group	<u>EHM0060</u>
	YMCA England	<u>EHM0076</u>

APPENDIX 3: CALL FOR EVIDENCE

The Economic Affairs Committee of the House of Lords, chaired by Lord Hollick, is conducting an inquiry into *The Economics of the United Kingdom Housing Market*. This inquiry will consider:

- the supply and affordability of housing for private buyers, for the private rental sector and for the social housing market across the UK;
- the effectiveness of Government policies on the demand for and supply of reasonably priced housing across the UK.

The Committee invites interested individuals and organisations to submit evidence to this inquiry.

Written evidence is sought by 17 December 2015. The written submissions will guide the Committee's deliberations in oral evidence sessions and also inform the Committee's final conclusions and recommendations.

Public hearings will be held between November 2015 and February 2016. The Committee aims to report to the House, with recommendations, in Spring 2016. The report will receive a response from the Government, and may be debated in the House.

The remit of the Economic Affairs Committee is to consider economic affairs. Information including membership and recent inquiries can be found on this link: <http://www.parliament.uk/business/committees/committees-a-z/lords-select/economic-affairs-committee/>

The Committee would welcome written evidence on any or all of the issues set out below, or on any other relevant aspects of the UK housing market. Written evidence does not need to address every question. Whilst the questions are split by type of housing tenure, evidence that addresses the links between each category is welcomed. **The questions are not listed in any particular order of importance.**

The specific questions the inquiry will seek to address are:

1. **Private Ownership:** What measures can be taken to increase the supply of reasonably priced housing in the UK?
 - (a) Government schemes: How effective have Government schemes (such as Help to Buy, shared ownership and the right to acquire) been in improving the affordability of housing? Have these schemes exacerbated any lack of low cost housing? What will be the impact of the cessation of these schemes?
 - (b) Taxation: Are there tax measures that would improve housing supply and affordability?
 - (i) Will the proposed changes to inheritance tax due to come into effect in April 2017 have any impact on 'downsizing' or housing supply in general?
 - (ii) Has the 2014 reform of Stamp Duty Land Tax improved the affordability of houses for first time buyers? Should there be further reform to Stamp Duty?

- (c) **Mortgages:** Has the introduction of the Mortgage Market Review changes in April 2014 restricted lending in particular to first time buyers? Should further changes be made to the rules?
 - (d) **Planning:** Are any further changes to the planning system necessary to increase the availability of low cost housing?
2. **Privately Rented Accommodation:** What measures can be taken to increase the supply of low cost private rental properties in the UK?
- (a) Will the reduction of tax relief available to private landlords announced by the Chancellor of the Exchequer in the 2015 Budget increase the cost of privately rented accommodation?
 - (b) Will the current trend of a decline in home ownership and an increase in private renting continue? How can the Government encourage a stable long-term rental culture?
 - (c) What are the advantages and disadvantages of restricting rent increases in the private sector?
3. **Social housing:** Are any measures needed to increase the supply of social housing?
- (a) What will be the impact of the Right to Buy for housing association tenants?
 - (b) What will be the impact of the proposed changes to social housing rents announced by the Chancellor of the Exchequer in the 2015 budget? Are any additional or alternate changes to social housing rents needed?

3 November 2015