



The Lyons
Housing Review

Mobilising across the
nation to build the homes
our children need

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Foreword

When Ed Miliband established the Housing Commission nine months ago and asked me to chair it, I knew it was going to be a big challenge and so it has proved. What is clear, however, is the need for concerted Government action to encourage a step change in the building of new homes. We currently build half the number of homes we need each year and the consequences in terms of overcrowding, thwarted ambition, rapidly rising rents and the impact of house price inflation on the management of the national economy are clear for all to see. We simply have to do better as a nation, not only because our children and grandchildren will need the homes that we should be building now, but also because greater house building will make a direct contribution to our national economic recovery. How can we tolerate a situation where this domestic industry has consistently shrunk further and further over three economic cycles?

Our work does, of course, build upon the earlier, very substantial work of Kate Barker, who demonstrated that the single biggest constraint on building more houses is the shortage of land made available for building. We have tried to get behind the, sometimes over-simplified, public discussion about the constraints imposed by land use planning to understand more fully why communities are so often resistant to new development and see it as imposing costs which greatly outweigh any benefits.

So we are clear, the problem is not about those who sit on planning committees, or even those who advise them, it is about addressing the public's concern that houses are often built in the wrong place, for the wrong people and without adequate attention to the pressures created for existing infrastructure.

We therefore emphasise the importance of creating attractive places and housing for all. That is founded on the recognition that every community must provide for its future and that everyone deserves access to housing which they can afford. This calls for a new balance between a national drive to ensure that the needs of the future are properly reflected in the plans of today but also, steps to give local communities, through their local authorities, the power to ensure that homes are appropriate to their needs; are built in the right places; and that the infrastructure and social housing essential to a balanced, sustainable community are put in place from the very beginning.

We have been struck, as we have travelled around the country, by the outstanding examples of good leadership, effective partnership working and community engagement which are delivering great places and quality homes. It gives us confidence that, as a nation, we can meet a challenge which has confronted us now for over 30 years.

The second major issue that we have addressed is 'Who will build and commission these new homes?'

It is clear that we cannot rely on the volume house builders, important as they are. They have responded to constrained land availability and fluctuating demand by developing a business model which builds mainly homes for sale and, by and large, only at the rate at which they are being purchased. Our conclusion is that we need to attract new entrants into house building, by supporting SME house builders and encouraging a greater contribution from the wider construction industry. We will also need to empower a wider range of organisations commissioning housing, including councils, Housing Associations; existing landowners and other developers to play a larger part, if we are to get the mix and number of homes that we need.

Public investment will clearly be important, especially if we are to meet the promise of investment in essential infrastructure before homes are built. The Commission has been acutely sensitive to the challenges that will face whichever Government wins the next general election. We have therefore based our recommendations on current levels of public expenditure and those planned for the coming years. It is for the new Government to decide whether further investment is possible, but we are clear that housing must be a key priority for capital expenditure in the next Parliament.

There is also clearly room for mobilising more private investment, both by existing landowners and our major investment institutions, and we have demonstrated the contribution that they can make.

I would like to take this opportunity to thank my colleagues on the Commission for their combined wisdom and the enthusiasm with which they have shared this work. We have received literally hundreds of contributions, most of them well considered, and we have held a wide range of meetings and workshops. Drawing all this together into a readable report, with clear recommendations for future policy has been a challenge and there are many areas which we would like to have researched more fully. Indeed, one thing our work highlighted is the absence of reliable, impartial evidence about exactly who is doing what in the housing market and the exact pattern of current public expenditure in terms of the cost of subsidy for different types of housing. Given the very diverse views amongst the commission members, it was never going to be possible to ensure that everyone agreed with every word of the final report. I believe we have listened carefully to each and every contribution.

Most of all, I need to thank Caroline Green, who was seconded to us by the Local Government Association, and has proved an outstanding research director, both for the work of the Commission and the drafting of this final report. I must also thank others who have contributed directly to our work and they include notably Gary Smith, Charlie Blagbrough, Rachel Hallam and Neal Hudson.

Our work is now done and we pass our conclusions and recommendations back to Mr Miliband and his shadow team. We do that with the advice that, across the industry, time after time, we found a desire for a radical improvement in house building and recognition of the importance of strong and consistent leadership by Government. Ideally, this should be a matter of consensus between the parties but there is certainly an opportunity here to change this country for the better by building the homes that our children need.



Sir Michael Lyons

The Lyons Review Commissioners

- Tom Bloxham, Chairman and Co-Founder, Urban Splash
- Mark Clare, Group Chief Executive, Barratt Developments Plc
- Julia Evans, formerly Chief Executive, National Federation of Builders, now Chief Executive, BSRIA
- Kate Henderson, Chief Executive, Town and Country Planning Association
- Bill Hughes, Managing Director, Legal and General Property
- Grainia Long, Chief Executive, Chartered Institute of Housing
- Simon Marsh, Head of Planning Policy, RSPB
- David Orr, Chief Executive, National Housing Federation
- Richard Parker, Partner and Head of Housing, PwC
- Malcolm Sharp, Immediate Past President, Planning Officers' Society
- Cllr Ed Turner, Deputy Leader, Oxford City Council and Lecturer, Aston University
- Prof. Cecilia Wong, Professor of Spatial Planning, University of Manchester

Executive Summary

We need to build more homes

We face the biggest housing crisis in a generation.

For decades we have failed to build enough homes to meet demand. We need to build at least 243,000 homes a year to keep up with the number of new households being formed, but last year we only built 109,000 homes. Indeed, we have only managed an average of 137,000 homes a year over the last ten years. Without a change of course, it is predicted that the country will be short of up to two million homes by 2020.

The consequences of this are widely felt. House prices and rents are going up faster than earnings because demand massively outstrips supply. The average home now costs 8 times the average wage. The 2011 Census shows that there were one million more children living in the private rented sector than ten years previously. Millions of working people are unable to afford the homes they want, and their children and grandchildren face the fear of never being able to afford the homes they need.

Our failure to build enough homes also causes volatility in the national economy and damages the prospects for growth by reducing labour mobility and undermining the ability of our towns and cities to attract new businesses.

Why we don't build enough homes

There are two major causes of this crisis.

First, there is not enough land being brought forward for new homes. This artificial scarcity of land for housing has created distortion in the land market, limiting the rate at which new homes are built and incentivising the acquisition and trading of land. This is compounded by the fact that communities do not have all the powers they need to ensure that homes are built in the places they want, and some are not taking responsibility for meeting local housing need. There are limits on the scope for local authorities to play an active "place-shaping" role and to actively promote the creation of new homes. Whilst some authorities have sought to overcome these constraints others have not, relying instead largely on the reactive use of their planning powers.

Secondly, the nation's capacity to build homes has shrunk drastically. Fifty years ago, the public and private sectors between them built over three hundred thousand homes a year. Now, we rely on just a small number of volume house builders and as a result we build far fewer homes. There has also been a change in the shape of the house building industry itself. During the 1980s there were on average 10,000

active SME builders (those building 500 units or less) delivering around 57 per cent of all output; last year there were only around 2,800 active small builders producing 27 per cent of all new homes.

Meanwhile the public sector's contribution has declined significantly despite Housing Associations' great efforts to fill the gap left by councils' retreat. For much of the period between 1948 and 1978, local authorities were responsible for building more than 90,000 homes a year. Last year it was just 1,000 homes. Housing Associations have played a crucial role, building on average 18,800 new homes per year between 1978 and 2013, but this is only a fraction of what the public sector built in the post war era.

A roadmap to tackle the housing crisis

This report sets out a roadmap to tackle these underlying issues and increase house building to at least 200,000 homes a year by 2020. To solve our housing crisis, we must of course go beyond this figure over time and ensure that both the public and private sectors develop the capacity they need. We must also change minds and build public support for housing. This means building high quality homes that people want to live in, in places that will thrive, where communities can prosper and where the environment is protected for future generations. And we must provide more choice and affordability too. With private rental market affordability stretched, a shortage of homes for affordable and social rent and an ageing population, we will need to build more of all tenures.

Our approach seeks to refocus public and private investment for the longer term, making better use of land and assets and encouraging a longer term equity stake in development to provide a return for investment; and highlight priorities for future investment when this becomes possible. Public expenditure is a matter for the next government but housing must be a key priority for capital expenditure in the next Parliament.

The type of homes and the action needed to get them built will be different in different areas of the country. The pressure for new homes is particularly acute in London and the South East, but there is no community in the country that does not face the challenge of providing homes for its children. Every one of these communities must accept this challenge, but they must also have a stronger say locally so they can make sure the new homes really do meet the needs of local people, are in the places they want to see them built, and deliver benefits to the wider community.

National leadership and a focus on delivery

The Government must provide long term political leadership by making housing a national priority. Decisions about how and where new homes should be built should be taken locally by local authorities and their communities with the tools, flexibilities and devolution of funding needed, but on the basis of clear commitments that housing need will be met.

We propose a new cross government task force to support Ministers; with an independent commission to provide independent scrutiny and evaluation of progress; and stronger objective information on trends in housing supply through the creation of a housing observatory. The Homes and Communities Agency should become the Government's development agency with sharper focus on delivery and a new role in attracting private investment. Current funding programmes for housing should be consolidated and devolved to local authorities in city and county regions.

Making more land available for housing in the right places and ensuring that it is developed

Constraints on the supply of land do more than limit the number of building plots available; they also encourage a business model for developers that limits the rate at which those plots are then built out.

The responsibility of councils to identify sufficient land for new homes in local plans should be strengthened, as should their ability to deliver these plans. Where there is a failure to cooperate across boundaries to meet needs in a housing market area, councils will be required to produce a joint strategic plan, with the Secretary of State having the ability to intervene and instruct the Planning Inspectorate to ensure that it happens. This will address the weaknesses in the current Duty to Cooperate and ensure that places that need it can exercise a “Right to Grow”. We also advocate stronger partnership working through the planning system, timely response to planning conditions and full cost recovery to ensure planning is properly funded.

Councils should also have “use it or lose it” powers to incentivise faster development, giving them the ability to levy council tax on plots allocated for housing in plans where homes are not built within reasonable timescales – as if the houses had been built, and to compulsorily purchase such land where necessary. We also recommend shortening the life of planning permissions and creating greater transparency in the land market to make it clear not only who owns what land, but also to make public which developers have taken out options on land with the potential for new homes. This openness will help communities to ensure that where they have made land available for the homes they need, these homes get built.

Giving communities the power they need to shape the places in which they live and deliver the homes they need

The public is frequently concerned that houses are often built in the wrong place, for the wrong people and without adequate attention to the pressures created for existing infrastructure. As new housing changes and shapes the places in which people live, communities should make the decisions about how they grow. It is the job of elected local authorities to do this with their communities and to ensure the homes they need are provided. We therefore recommend that local authorities play a much more energetic role in leading housing development for their communities. They should be provided with greater powers to bring forward developments working with partners, through Housing Growth Areas. This will give councils the ability to act as lead developers on behalf of their communities, with greater control over: where the homes should go; the speed of development; the design and quality of schemes; and the specification of a greater mix of tenures so that they can attract a wider range of house builders into the market. This is not intended to displace existing development activity where it is working well but to bring forward additional homes and to accelerate delivery where there are problems in bringing schemes forward.

We also propose the creation of a generation of New Homes Corporations to act as delivery agencies working across housing market areas with a particular focus on development in Housing Growth Areas. Led by local authorities, they will bring together private developers, Housing Associations, and investment partners to use powers and funding to deliver the new homes, with clear and accountable outcomes to local communities.

Housing Growth Areas and New Homes Corporations should be supported by a range of powers including a stronger role in land assembly and the ability to ensure that infrastructure can be provided

upfront. This will need reforms to powers to purchase land, designed to encourage landowners, both public and private to invest their land and ensure that the costs of infrastructure are funded from the value created by the development they support. Revolving Infrastructure Funds will pool central and local funds, and will be able to attract private investment in infrastructure to support new development.

A bigger and more diverse house building industry

The private house building industry will be vital in providing new homes, and it accounts for 79% of all homes built. It has, however, reduced in size and output over the last generation. Each successive economic downturn has seen a wave of contraction that has reduced capacity. Action is needed on three fronts. To encourage the volume house builders, we need policy stability and a supply of land supported by the planning reforms we have recommended, and more risk sharing and working with the public sector. To revive the SME sector, we propose a package of support, in particular reducing the cost and risk of making an application on a small site and providing access to government guarantees for bank finance. And we need a wide range of organisations commissioning housing – from social landlords to regeneration agents – to make the most of the potential role of the construction sector as contractors. We should also encourage unconventional developers, from supermarket chains to the churches, to enter into the house building market in their own right. There are also opportunities to support self and custom build and community led housing initiatives. Our proposals for Housing Growth Areas and New Homes Corporations will also increase competition, and support additional homes through the growth of SME builders and encouraging new entrants.

External capacity constraints must also be addressed, especially in the supply chain for skilled labour, and opportunities for greater use of off-site build technologies should be taken.

Housing for all

Building more homes is not just about home ownership. We need a choice of homes to reflect people's ability to pay and the different stages in their lives. We need to help people secure their own home through much more attractive shared ownership schemes, as well as more quality homes to rent. Housing for an ageing population must also be a priority, with more market choice for those wishing to downsize so as to free up larger family homes. We also need to do more to provide homes for social and affordable rent to ensure that those on the lowest incomes and the most vulnerable have a secure and decent home. While recognising the precarious position of the Exchequer, affordable housing must be a priority for taxpayer funding as the fiscal position improves over time.

Housing Associations have demonstrated an impressive commitment to social house building and have shown real ambition in meeting need. In a changing fiscal environment, they will need to adapt to a tougher climate for public subsidy and find alternative means of unlocking investment capacity. Government should work with Housing Associations to mobilise surpluses and headroom to unlock further investment, increase flexibilities for those who have the ambition and capacity and encourage others to develop the skills and capacity to play a bigger role. Government should also extend guarantees to Housing Associations to provide the confidence and certainty to deliver more homes.

Councils can and should return to a significant role in commissioning and building social housing. They will do this partly through New Homes Corporations; by sharing risks in partnerships with developers; and also through active asset management and new models like local housing companies. It will also be necessary to look at better use of the Housing Revenue Account for councils, where they can demonstrate a clear investment plan, with active management of the overall borrowing headroom by the Treasury.

Garden Cities and Garden Suburbs

It clearly makes sense to build on brownfield land where we can and the brownfield first policy should be strengthened, but building Garden Cities, Garden Suburbs and reshaping and expanding existing towns will be essential to meeting housing need over the medium to long-term. The next government should immediately initiate such a programme, to be delivered by new Garden City Development Corporations and New Homes Corporations based on reformed New Towns Legislation.

Government should set out criteria that Garden Cities would be expected to meet so that local authorities can come forward with proposals to be developed in partnership. Proposals from private promoters will be accepted, but only where they can demonstrate local support.

Incentives should include the ability for new Garden Cities to retain 100 per cent of business rates for 30 years to invest over the longer-term, as well as providing financial guarantees to support up-front delivery. This locally-led development model would be able to play a central role in building a new generation of Garden Cities. This should be combined with a rolling programme of Garden Suburbs. The aim should be for local leadership to promote and enable many more new settlements through a mix of freestanding new Garden Cities, new Garden Suburbs, and remodelled towns, in a range of places across the country. Together our recommendations could help accelerate the delivery of up to 500,000 homes.

Funding infrastructure

New homes and the people who will live in them need infrastructure, from water and utilities to transport, schools and hospitals. However, the current system doesn't produce enough funding to provide this infrastructure and this then leads to conflict between councils and developers which holds up both planning decisions and building where permission to develop has already been given. A fundamental problem is a failure to effectively capture the increase in the value of land which is created by the community's decision to release it for building.

We therefore propose separate negotiation of development gain on large sites and greater use of contracts to assist land assembly and development partnerships. There must also be a clear method for assessing viability and a new arbitration service for negotiations between councils and developers.

Reformed compulsory purchase order powers will incentivise landowners to invest in land partnerships, and allow for a greater share of the increased value created by development to be used to fund the infrastructure in Housing Growth Areas, Garden Cities and Garden Suburbs.

We also need to target public investment more effectively and attract greater private sector investment in homes and infrastructure. Revolving Infrastructure Funds and opportunities for Tax Increment Financing should form part of the tools available to local authorities and their New Homes Corporations.

Design and the environment

New housing requires public support and it should, of course, improve the quality of people's lives. Good design, informed by an understanding of what makes homes environmentally sustainable, is therefore indispensable. Terry Farrell's recent review has made powerful recommendations for entrenching better design through better planning and we encourage greater focus on the quality of place. We believe that a commitment to good design would be reinforced by adopting the zero-carbon standard, setting minimum space standards for new build, and streamlining housing standards.

Roadmap for Delivery

To put this roadmap into action, the next Government should implement an ambitious programme for change with the following actions:

Step 1: On Day 1

- Establish home building as a clear priority to be championed by the Prime Minister, the Chancellor, Secretary of State for Communities and Local Government and Housing Minister attending Cabinet.
- Set-out a clear ambition for the Government to get at least 200,000 homes built a year by 2020.

Step 2: The first 50 days

- Establish a cross departmental task force to support the mission and ensure that it is supported by the creation of a Housing Observatory as a single repository for key data, forecasts and analysis on housing to assist policy making and the tracking of progress towards the ambition. Draw together the proposed Housing Commission to provide independent advice to the task force and ministers.
- Re-task the Homes and Communities Agency with its revised responsibilities and in particular its new emphasis on supporting locally determined housing development with skills and institutional investment. Ensure that it has strong and committed leadership.

Step 3: In the first Queen's Speech

Announce a new Housing and Planning Bill that will:

- Introduce the necessary powers for Housing Growth Areas and New Homes Corporations.
- Update New Town legislation required for a new generation of Garden City Development Corporations.
- Update legislation for Compulsory Purchase Orders to streamline and simplify powers and enable CPO at closer to existing use value.
- Legislate to give local authorities the power to levy council tax from developers on unbuilt plots that have not progressed within expected time frame as if the houses had been built.
- Legislate to give Housing Market Strategic Plans statutory weight in the plan making process.

Step 4: The Chancellor's First Budget statement

- Confirm the consolidation of housing funding streams into the economic development fund to be devolved to city and county regions and clarify the amount available.
- Confirm support for a new programme of New Homes Corporations.
- Confirm central government contributions to the revolving infrastructure funds.
- Publish the detail of the incentives and financial support to unlock the next generation of Garden Cities.
- Confirm use and eligibility for government guarantee schemes, including the Help to Build scheme to support SME builders.

Step 5: Within the first 100 days

- Publish the conditions which must be met for the Secretary of State to approve the creation of a New Homes Corporations and invite submissions.
- Publish proposals for the revolving infrastructure funds and how they will be deployed.
- Publish clear guidance on expectations for timescales for the completion of local plans, their subsequent monitoring and the circumstances in which a formal Strategic Housing Market Plan will be required together with sanctions if requirements are not met.
- Publish cross government guidance on the release of surplus public land (with explicit targets) and the priority which will be given to its development on an equity basis.

Step 6: Within the first 6 months

- Publish a Housing and Planning White Paper and Draft Bill that will:
- Confirm a coherent strategy for housing policy and actions that will be followed over the Government.
- Set out the criteria that government would expect of locally-led Garden Cities and set out the powers to be devolved to the Garden City Development Corporations.
- Set out the criteria for the establishment of New Homes Corporations and the powers they will be able to discharge.
- Require that all options to purchase land must be registered with the land registry.
- Initiate a national spatial assessment to result in guidance as part of the NPPF to inform local plans and major developments and ensure national infrastructure decisions and are linked to opportunities to build more homes.

Step 7: Within the first year

- Confirm the first generation of New Homes Corporations.
- Formally invite public and private interest in proposals for location of new Garden Cities.

Step 8: Within the first 15 months and at 18 month intervals thereafter:

- Publish a progress report with clear commentary on progress against expected milestones and with advice from the Housing Commission and make clear any additional action which is required.

Step 9: Within 2 years

- Consult on the plans for the first new Garden Cities
- Assess whether the changes implemented are seeing more land being identified and brought forward by the planning system and feeding through to increased planning permissions and likely completions by 2020.

Step 10: By the end of the 2020 – 2025 Government

- By the end of the next Parliament, the Government will have achieved its aim of ensuring that at least 200,000 homes are built a year.
- Review the case for further change based on progress within the first parliament and outline action needed to reach the target for the number of new homes to be built by 2025.

Chapter 1

A housing crisis of our own making

Providing homes for our children and grandchildren is fundamental to the social and economic future of the nation. Good affordable homes underpin all our collective ambitions of stable communities, life chances and quality of life. Yet it is a basic human need that is becoming increasingly out of reach for a growing number of people in this country.

The impacts of the shortage of housing are profound and far reaching and hit the youngest and the poorest hardest. One in four adults between the ages of 20 and 34 are still living with their parents¹ and a growing number of families are living in overcrowded homes shared with other households. We are also failing to provide stable homes for the most vulnerable and those most in need.

The housing shortage is also a real threat to our prospects for growth, placing a stranglehold on the economic potential of our towns and cities, reducing labour mobility and compromising our ability to attract businesses to locate.

We have as a nation, come to treat housing not as a home, but as an investment with the inevitable result of increased speculation in houses and land. Housing wealth, created by asset price inflation is the principal driver of growing inequality in the UK². The OBR has recently warned that house price inflation is likely to outstrip income growth for some time yet. It has said that households will have to pay an increasing proportion of their income on housing costs unless there is a "historically unprecedented" increase in house building.³

This is not simply about home ownership. With a shortage of homes for social housing, rising property values drive up rents for both private and social sector tenants. And increasing rents, both in the social and private sector market, have in turn fed a ballooning housing benefit bill that is rightly a source of concern to all of us as taxpayers.

The cause of this problem is, in the broadest terms, extremely simple and one of our own making. For decades, we have failed to build the number of homes we need. House prices are going up faster than earnings because demand massively outstrips supply.

The work of this review builds on the earlier conclusions of Kate Barker's work on housing supply, published in March 2004 and her review of planning published in 2007. Undertaken with the full resources of the Treasury and the Department for Communities and Local Government, it remains an authoritative view on the underlying causes and implications of restricted housing supply in the

1 ONS, Young adults living with parents release, 2013

2 As highlighted in the recent debate driven by Thomas Piketty's Capital in the Twenty First Century

3 Office for Budget Responsibility – Working Paper No. 6 Forecasting House Prices, July 2014

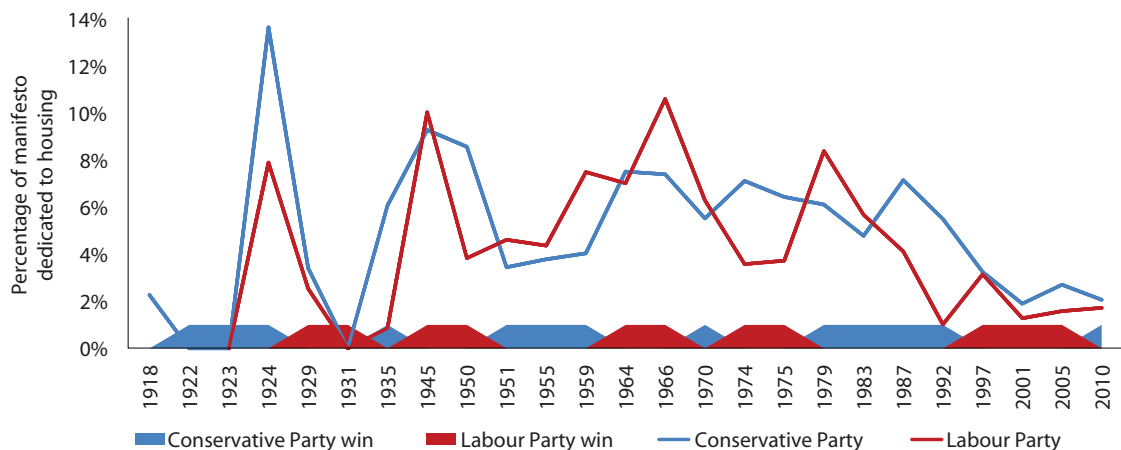
United Kingdom. Kate also contributed to this review's work, joining some of our earliest discussions and reflecting on the extent to which events of the 10 years since the publication of her report further reinforce its key conclusions.

A priority for action?

It is now a matter of political consensus that urgent action is needed if we are to build the homes needed to meet the needs of current and future generations. But this consensus has not in recent years translated into action. Successive Governments have faced what economists call an insider problem: how to increase housing supply and bear down on prices without damaging the economic interests of existing householders and landowners? Older owner occupiers are more likely to vote than those in socially or privately rented housing meaning they have often had a louder voice. When combined with public resistance to housing development resulting from concerns about impact on infrastructure, environment and communities, making the case for new homes has been problematic.

The effect of this on the government policy priorities has been demonstrated by the Social Market Foundation, which showed that whilst housing has bubbled beneath the public consciousness, issues such as health and the economy prevail at the forefront of people's minds.

Figure 1 – Percentage of Manifesto Dedicated to Housing



Source: Social Market Foundation – *The Politics of Housing*

Housing has not been seriously addressed in party manifestos since the 1960s and 70s. Though support for social housing has continued through Housing Associations with significant effort in the renewal of stock, the truth is that we have been largely preoccupied with owner occupation and assumed that supporting demand when needed would be enough to solve the problem.

It is becoming clear however that this is no longer a straightforward question of haves against have-nots and that the terms of the debate are shifting. Homeowners' attitudes have begun to change: there is increasing recognition of the damage being done to younger generations –the children and grandchildren of today's homeowners by the unsustainable current position. Nationwide, 80% of people agree that 'there is a housing crisis in Britain'⁴, whilst a recent Guardian/ICM poll suggests that 63% of people want house prices to stabilise.⁵

⁴ Ipsos Mori poll for the Standard, February 2013

⁵ ICM Research poll for Guardian Newspaper, February 2014

The symptoms of the shortage of homes

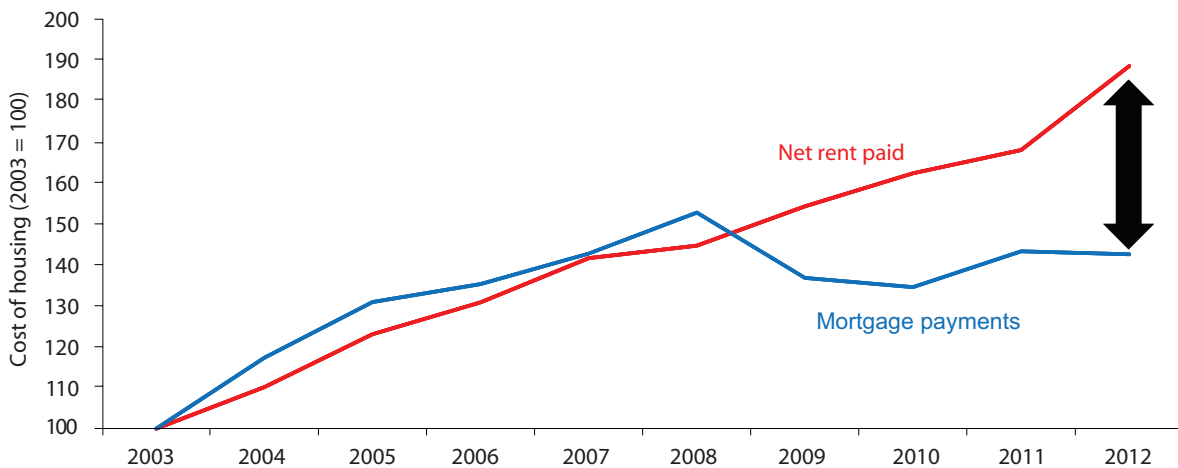
Unaffordable homes are unfair

The lack of new housing supply has contributed to the rampant increase in house prices over the last twenty years. House prices have risen from 4.1 times earnings in 1994 to 8 times income in 2014⁶. The relationship between earnings and house prices fluctuates over time but there is clearly an increasing trend.

Affordability pressures are greatest for those looking to make their first purchase. High house prices relative to incomes require large deposits, even with high loan-to-value mortgages available. The typical successful first time buyer needs a deposit equal to 65% of their income. It is of no surprise that studies have found 64% of first time buyers rely on the bank of mum & dad⁷. The lack of new housing supply has created a scenario where someone’s access to homeownership is dictated by the wealth of their parents (wealth often created by rising house prices) rather than their own efforts in life.

The cost of housing has continued to rise for those in the private rented sector which now houses 18% of all households (up from 10% in 1996) and over 20% of households with dependent children⁸. The 2011 Census shows that there were one million more children living in the private rented sector than ten years previously. Strong rental growth has been mostly associated with locations experiencing stronger economic recoveries, particularly in London and other cities such as Manchester, Oxford and Brighton.⁹ The affordability problem particularly affects young people seeking employment in these areas. For example, the average household in the private rented sector spends 40% of their income on rent compared to the average mortgaged owner occupier household only paying 20% of their income¹⁰.

Figure 2 – Cost of renting versus owning with a mortgage



Source: ONS Family Spending Survey

6 Nationwide & ONS

7 Council of Mortgage Lenders, Helping the Bank of Mum and Dad, June 2013

8 English Housing Survey, 2012/13

9 Savills, Spotlight Investing in Rental Britain, 2013

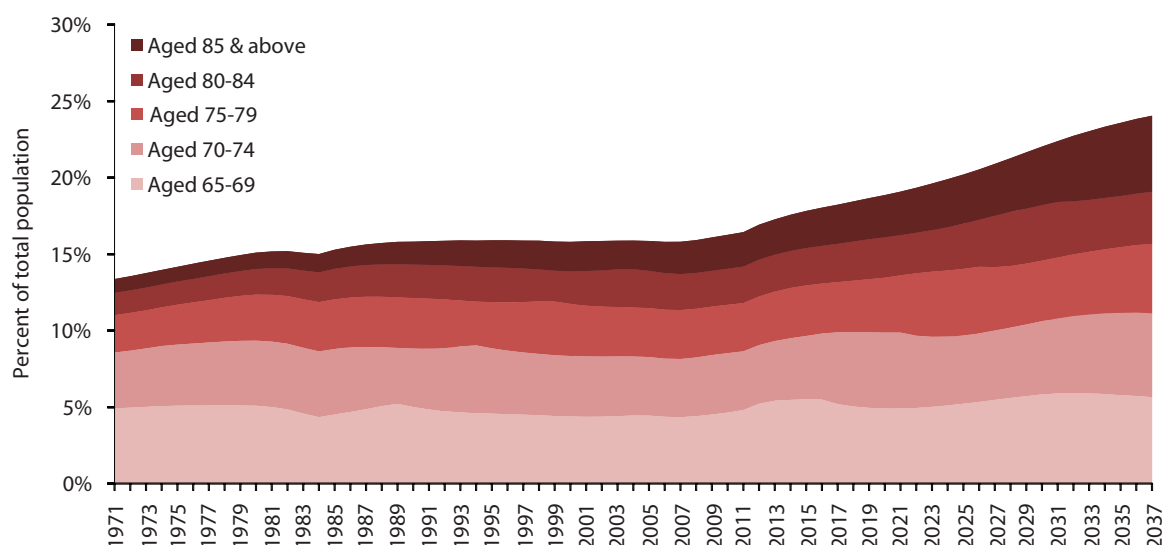
10 English Housing Survey, 2012/13

Our failure to build enough homes for social rent is manifest in a waiting list currently standing at around 1.7 million households¹¹. While the private rented sector has absorbed many of the households put under pressure by the housing crisis, there has been an increase in overcrowding, rough sleeping and concealed homelessness due to the inadequacy in provision of good quality and affordable housing¹².

We need to meet the needs of different generations

The proportion of our population that is aged 65 and above is set to grow to almost one in four by 2037¹³.

Figure 3 – Proportion of the population aged 65 and above



Source: ONS Population Estimates & Projections

There is a distinct and urgent need for better provision of homes for the older age band within this group who will have varying needs of care and support and may no longer be able to live and manage alone in their own homes.

But there are also a large number of people in their 50s and 60s living in under-occupied family homes once their children have left home. The 2012-13 English Housing Survey indicates that 50% of households aged 55 and above are under occupied. A wider range of attractive options tailored to the needs and aspirations of this age group would allow people to downsize their home whilst upgrading their quality of life. This would result in a double win; creating a new market and releasing larger family homes back into the market.

Housing supply is crucial to good economic management

A stable housing market is crucial to good management of the wider economy. As Kate Barker's review in 2004 made clear, volatility in the UK housing market, combined with a strong association between house prices and consumption, has contributed to macroeconomic volatility 'creating a more difficult environment for business and for economic policy makers'.¹⁴ Since the post war period, economic cycles have shown a clear positive correlation with instability in the housing market.

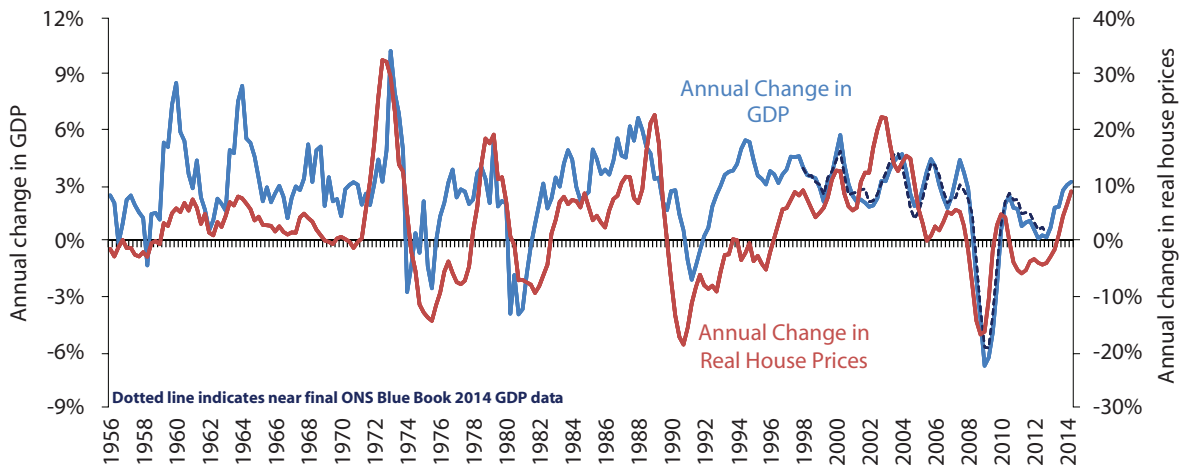
11 DCLG – Table 600

12 Crisis – Homelessness Monitor England 2013

13 ONS National Population Projections, 2012-based Statistical Bulletin

14 Barker Review of Housing Supply, 2004

Figure 4 – Real House Price Growth and GDP Growth



Source: ONS, Nationwide

Building homes has wider economic benefits

Building new homes delivers economic benefits in its own right through employment and stimulating wider supply chains.

- Every £1 of construction output generates £2.84 of demand in the wider economy¹⁵.
- Scaling up to 200,000 homes before the end of the next parliament could generate over 230,000 new jobs¹⁶ and add 1.2% to GDP.¹⁷

A plentiful supply of houses improves labour mobility and help make places more attractive to businesses. A lack of access to housing in areas of high demand or high house prices restricts people from moving to take up job opportunities. A recent survey found that four in five employers believe that a lack of affordable housing is stalling economic growth with a similar number worried that it limits their ability to attract and retain the skilled and talented people they need¹⁸. Furthermore, a survey amongst London based employers found that 59% of firms were experiencing greater pressure to increase wages as housing costs continued to impact their workforce¹⁹.

How many homes do we need?

England’s population is projected to grow by 7.2 million over the next twenty years thanks to high birth rates, increased life expectancies and continued net inwards-migration. Based on recent patterns of household formation – which are driven by lifestyle choices and the affordability of housing, as well as population change – it is estimated that we need to build 243,000 homes a year to accommodate this increase²⁰. Despite recent population growth of a similar scale we have only built an average of 137,000 homes per year over the last ten years, creating a backlog of over one million homes.

15 L.E.K. Consulting – Construction in the UK Economy: The benefits of investing, 2009

16 Calculation based on estimate from National Housing Federation analysis of Centre for Economic and Business Research (CEBR) Economic Impact Database, 2013

17 Calculation based on ONS construction output and GDP statistics

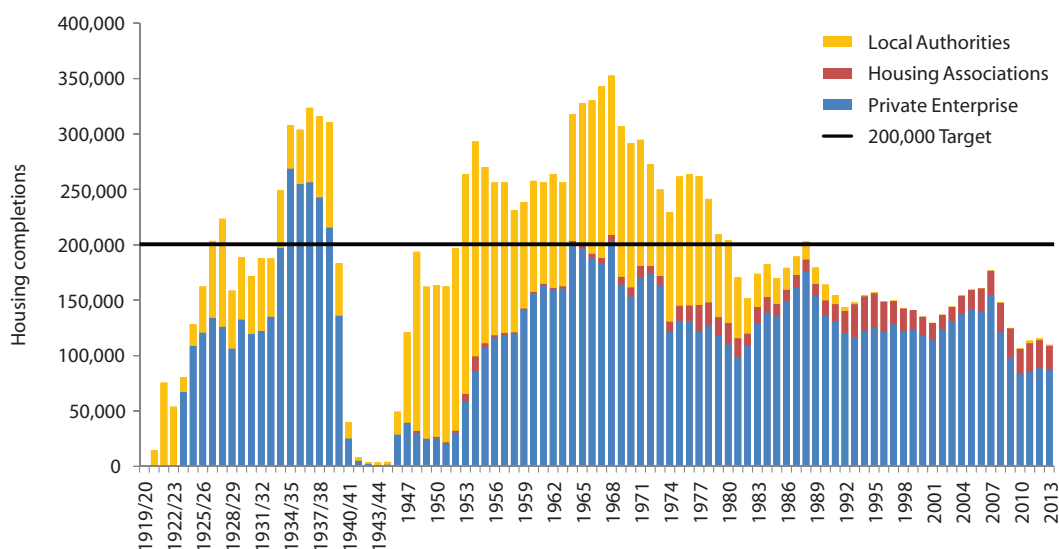
18 National Housing Federation (2013): “Home Truths 2013/14”

19 London Chamber of Commerce and Industry (2014): “Getting our house in order”

20 A Holmans (2013) – New Estimates of Housing Demand & Need in England, 2011 to 2031

Ed Miliband has responded to this by setting a target of building at least 200,000 homes per year by 2020. That would be a significant achievement since fewer than 110,000 homes were completed in 2013. Only once in the last 30 years have we, as a nation, achieved the Labour leader's aspiration – and that was in 1988 during the last gasp of a bursting economic bubble.

Figure 5 – Historic housing completions, England



Source: DCLG

The challenge of building 200,000 homes a year should not be underestimated, but it can only be the start of our ambition. We will need a bigger and sustained uplift if we are to provide enough homes for future generations. Analysis submitted to the review has suggested that we will need to build 260,000 homes per year to tackle the problems in the longer term.²¹

This is not just about numbers. The challenge is to provide more homes in a way which recognises that different areas of the country have different needs, that different families will make different choices and have different economic circumstances. It is not therefore simply about numbers but about affordability, quality and choice too. Most crucially it is about quality homes in attractive places in which people will want to live – investing their money and their hopes.

Quality homes and places

Poor quality homes and poorly designed places – too common as a consequence of past building booms – must be consigned to history. Building new homes is a response to a local need but for communities it understandably raises anxiety about potential congestion, pressure on school places and other local infrastructure and services, competition for jobs and impact on amenities and the environment. Planning for quality and proper infrastructure is therefore as important as planning for growth.

Place shaping

This review has drawn on earlier discussions of 'place-shaping' and the need for a new, stronger partnership between central and local government undertaken as part of the Lyons Inquiry into the functions and funding of local government²². That introduced the concept of place-shaping and

²¹ Analysis by Glen Bramley for the Review.

²² Final report of the Lyons inquiry into local government Place-shaping: a shared ambition for the future of local government; 2007

encouraged local authorities to look beyond their narrow service obligations and indeed physical boundaries, and instead, give priority to strengthening the future economic, social and environmental wellbeing of the locality and its communities.

The work emphasised the inevitable differences between different places and the economic advantages of promoting distinctiveness rather than uniformity. It argued that social justice and fairness do not require an ever-growing, and increasingly unaffordable, list of national entitlements but, instead, the freedom to match service and investment decisions to local needs. Effective place-shaping requires strong leadership, a proper emphasis on the needs of the future and building coalitions of interests with neighbours to tackle challenges over wider spatial areas. That means strong and effective government at all levels and clearer definition of respective responsibilities.

This report takes up many of those points and, particularly, the emphasis on a strong partnership between central and local government with central Government being clear about its responsibility to ensure that adequate housing is provided in all areas but leaving the freedom for local communities to decide the exact pattern of provision.

What are the drivers of this crisis?

We don't release enough land for development

It has been clear from the outset of the review's work that many of the barriers and key challenges we face in delivering more homes lead back to the same root cause – that is the availability of land. In order to increase the delivery of new housing we need to ensure that there is an adequate supply of land to build on and to make sure it is built out. This means not only an adequate supply in terms of overall quantity but also in terms of location and deliverability.

We do not lack land. According to the National Land Use Database (2005) there are 132 billion square meters of land in England of which 10% has been developed. We use 5.4% of land for homes and gardens and only 1.1% for the homes themselves.

Figure 6 – Land Use in England



Source: NLUD 2005

As Kate Barker identified, the supply of land is not fully responsive to demand because it is constrained by the planning system. Planning plays a crucial function in bringing forward land for the proper provision of housing where and when it is needed whilst protecting land from unwanted or damaging development.

A significant proportion of our total land area is highly protected. We have 9.2% of total land in National Parks, 14.6% in Areas of Outstanding Natural Beauty and 12.4% in green belt. There is some overlap of those areas and others forms of protection but there are still large parts of the country that are neither protected nor urbanised.

The constant challenge in delivering more homes is to bring forward land in the locations it is needed whilst protecting environmental and amenity quality. It is crucial that areas of environmental value are protected, open space and countryside preserved and that we create attractive places sensitive to their surroundings.

However the fact that the supply of land available for development is constrained means it is a scarce resource. The value of land increases significantly when it gets planning permission. A piece of agricultural land worth around £20,000 per hectare could be worth as much as £1.2 million per hectare with residential permission in Birmingham, or as much as £4 million in Oxford and outer London.²³

When combined with the lack of transparency in the land market and the significant costs and risks associated with developing land, the scarcity of land for development impacts on the behaviours of all players in the development industry. The amount house builders will pay for land depends on sales price of homes they can achieve less the build costs and developer profit. In constrained land market the successful bidder, who can offer the best price for land is under pressure to minimise the costs of development and to build the homes at a rate that will result in the best price for the sale of the homes.

This process can exaggerate the cycle of boom and bust, means that house builders hold land in reserve, and dictates the rate at which homes are built. It also means that in a rising market there may be developers and speculators who are prepared to pay for land today and hold it in the expectation of future house price growth. A fundamental conclusion of this review is therefore that the constraints on the supply of land do more than limit the number of building plots available: they create a set of market conditions that further limit the rate at which those plots are built out.

Barker's conclusion that we simply have to allocate more land for housing has been strongly endorsed by many of the discussions and enquiries that we have held and in particular by academics who have assisted our work²⁴. Evidence to the review highlighted that there is still only partial coverage of local plans across the country, that they are taking too long to come forward and that identifying land supply is often slow and contentious. This is compounded by the lack of a common methodology in the way in which housing need is assessed.

Unlike many European countries, where local authorities play a proactive role in assembling and promoting land and getting it ready for development, in England, local authorities identify land and set out policies in local plans and then to a large extent rely on developers and promoters of land to acquire the land, promote it through the planning system and get it ready for development. This, combined with the business model developed by the volume house builders means that homes are built at a rate at which they expect them to be sold rather than to reflect the full extent of local need and demand (this issue is discussed further in Chapter 4). The approach this review has taken is for a strong leadership role from local government to intervene where the market does not provide by itself and a more energetic and active role in assembling land and driving development through partnership to deliver the type, number and quality of homes their communities need.

²³ Valuation Office Agency – Property Market Report 2011

²⁴ Most notably Paul Cheshire, David Adams and Cecilia Wong

Allowing towns and cities to grow

A number of towns and cities face extreme challenges in accessing land to grow to accommodate homes for all the people who work in the area. This is the case for those areas with tightly drawn boundaries who must work with their neighbouring authorities to provide enough homes across a housing market area. There are good examples where co-operation across local boundaries is working well but elsewhere co-operation has stalled in the face of the scale of housing need. Evidence to the review has highlighted that the Duty to Cooperate – the current mechanism to address situations that demand cooperation – is inadequate to resolve issues. The review makes recommendations on how to implement Ed Miliband's proposals that these areas could be given the "Right to Grow".

The ability to grow is also restricted by green belt land. Submissions to the review and a number of studies highlight that the policy of containing urban areas in England has been highly effective in its objective of preventing urban sprawl and stopping adjacent cities from merging together²⁵. There is clearly value in the preservation of areas of amenity land close to our urban areas for people to enjoy.

However, evidence to the review has also demonstrated that not all green belt land is of high environmental or amenity value and that the tight boundaries around our urban areas can put pressure on precious green spaces and brownfield land which can be of high environmental value within urban areas themselves²⁶. Studies from the Centre for Cities and others have suggested the current policies of urban containment 'impose a serious economic cost on the UK by driving up prices and preventing our most successful cities from expanding'²⁷. The result is often to shift pressure for homes to the other side of the green belt²⁸ rather than allowing the city to expand²⁹. This increases pressure on greenfield sites in these areas and carries with it economic and environmental costs. Cambridge, Oxford, York and Bristol are all places that to a greater or lesser extent illustrate these issues³⁰.

Councils no longer build enough houses

As a nation we only consistently built 200,000 homes or more at times in the past when local authorities were building a good number of them. The decline of direct public housing provision, so central in achieving peak volumes in the past, has clearly had a considerable effect on output. Already in decline from 1968, by 1979 the number of council house completions was down to 75,000 and then successive governments reduced local governments' housing powers and funding. Although public funding to the industry has continued through grant funding for Housing Associations and more broadly through incentive schemes for the private sector, the gap has never been filled.

The industry does not build enough homes

In conjunction with the decline of councils' role in house building, the number of homes built by the house building industry has also declined significantly over the last three decades. The repeated cycles of boom and bust in the post war period have led to marked contraction of the industry and an overall decline in numbers of homes built³¹. This has been accompanied by a change in the shape of the house building industry itself.

25 Natural England and CPRE (2010) Green belts: a greener future

26 Paul Cheshire submission; Oxford city site visit.

27 Centre for Cities (2010) Arrested Development: are we building houses in the right places?

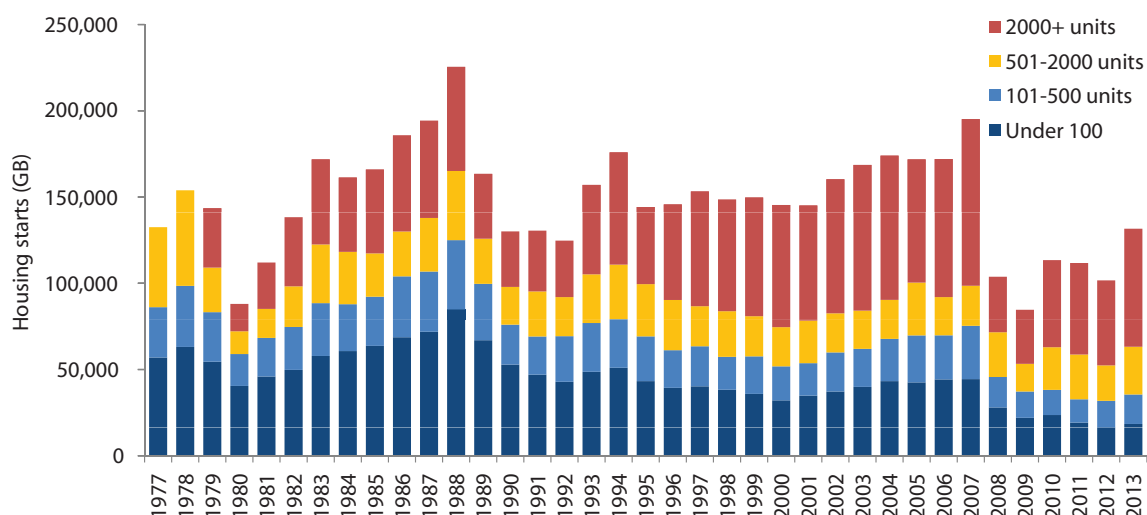
28 Tessa Coombes submission: 'Housing policy and supply'

29 CLA submission

30 Shelter submission

31 IPPR 'We must fix it: 2011

Figure 7 – Housing starts by size of developer, Great Britain



Source: DCLG, NHBC

During the 1980s there were on average 10,000 active SME builders (those building 500 units or less) delivering around 57% of all output, last year there were around 2,800 of these builders active in the market, producing 27% of all new homes³².

The recession in 2008 led to a dramatic reduction in house building. The number of homes built by private house builders fell from its peak of 154,000 in 2007 to 83,000 in 2010. The number of homes started began to increase in 2010, fell back in 2012 but showed a significant increase in 2013 when 98,700 homes were started³³. Indications are that this increase is set to continue in 2014 however they remain far below the levels needed if we are to achieve 200,000 homes per year.

Where should we build new homes?

The challenge is not just to provide a far greater number of homes, but to ensure they are in places where people want to live and can access jobs, transport, services and facilities. The demand for new homes is highest in our centres of economic growth. As the Centre for Cities have explained, for more than fifty years, the general direction of travel for growth has been southwards, and away from northern industrial and port towns.

As jobs have shifted southwards, so has the demand for housing to access them but the supply of new homes has not kept pace and house prices have increased. As a result, the affordability crisis is much more severe in the south as seen in Figure 8.

³² NHBC statistics provided by HBF

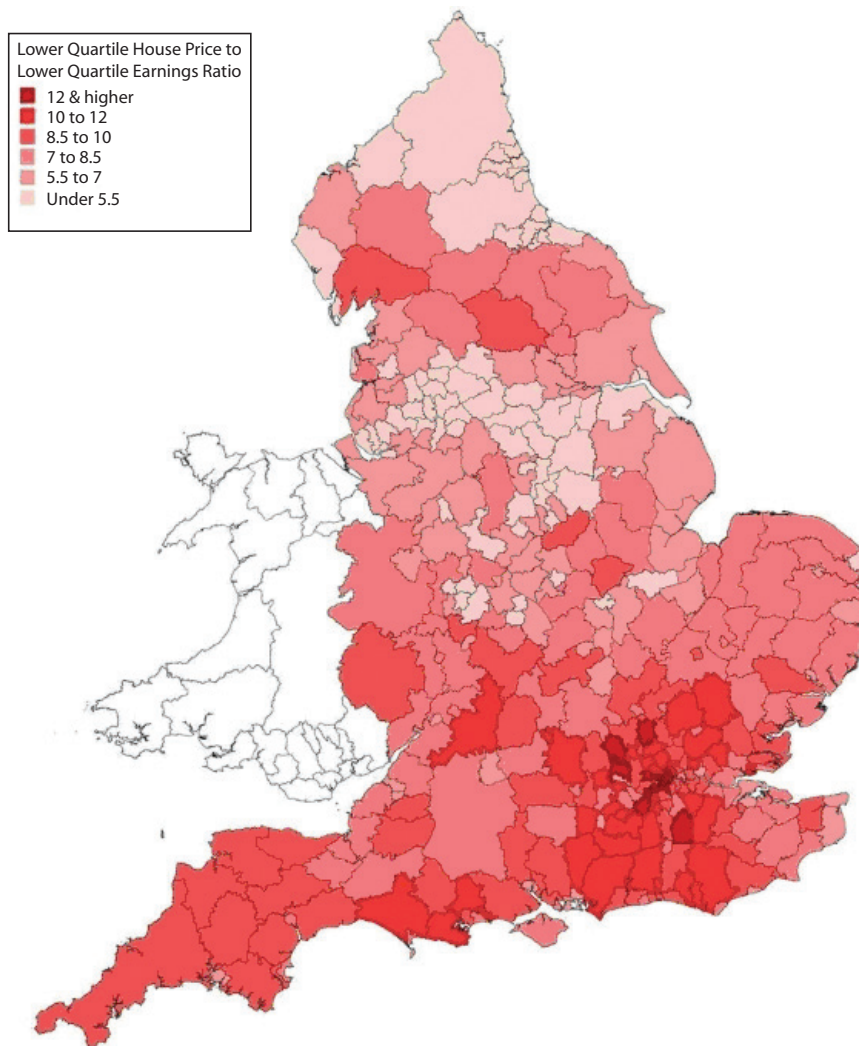
³³ DCLG Housing Statistics Table 222

Research by Glen Bramley and Steve Wilcox shows that the sixty-five local authorities with the biggest affordability problems are all in England's southern regions, while the sixty-four most affordable districts are all in the North and Midlands³⁴.

The official household projections at a local authority level offer a clue as to where housing demand is strong. However, they are based on recent trends in household formation and need to be treated with care. Areas with high housing delivery see their population increase as people move into their new homes. This population growth then feeds into future household projections, thereby reinforcing the apparent need for new homes.

Equally, a low level of household growth is not necessarily an indicator of low demand. Local house prices may already be well beyond the reach of most people and so new households are unable to form. With a continued lack of new housing delivery, there will be further pressure on both the local and surrounding housing markets, resulting in continued house price and rental growth in excess of other markets with higher supply. The potential for new homes is also influenced by the need to protect land of environmental value, green belt policies and other factors such as flood risk and water stress. All these factors shape the capacity of an area to accommodate new homes, and must be taken into account alongside demand.

Figure 8 – House Price to Earnings



Source: DCLG, ONS

³⁴ Based on estimates of the proportion of young families in each local authority that can afford a two-bed home. Aldred, T for Centre for Cities: Arrested Development: Are we building houses in the right places? 2010

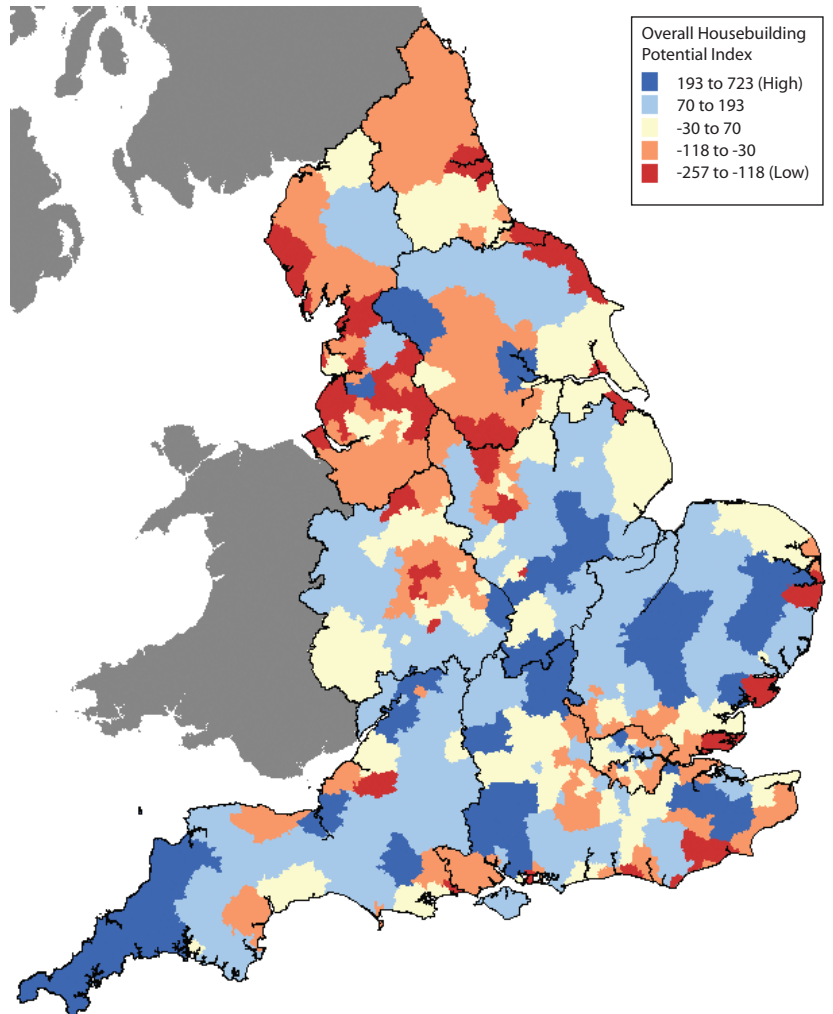
Based on a range of indicators, Bramley and Watkins³⁵ have compared areas of strong housing demand with the ability to respond given this range of physical constraints. The areas marked dark blue on the map have the greatest potential for development based on that comparison.

Their analysis identifies a clear mismatch between where there is most capacity to build homes and where they need to be built. Housing demand is greatest in London and across the South of England while house building capacity is generally strongest in the East, the far South West and the North of England.

Different solutions are required in different places

These different contexts and different housing markets across the country mean that different solutions will be needed in different areas. For some there is a need to stimulate economic growth and regenerate areas of low demand. We need to build on recent successes in revitalising our towns and cities to accommodate more homes as well as improving quality of life, vitality and sustainability in urban areas, making best use of previously developed land. There will need to be a continued emphasis on ensuring the best use of existing homes and bringing empty properties back into use³⁶. For other areas – and particularly for London and the South East where capacity is most constrained – the focus will need to be on making sure more land that is suitable for housing is identified and then built out. What is clear is that simple national recipes which sidestep the key issues of land supply and build-out rates are not the answer.

Figure 9 – House Building Potential



Source: Bramley & Watkins

35 Where should we build the extra housing we need in England? Bramley & Watkins, 2014

36 The review recognises the importance of continued focus on making the best use of our existing stock and bringing empty homes back into use, however such action will not obviate the need to increase supply and consequently, this has not been a focus for the review.

Regeneration and revitalising towns and cities

Making better use of existing housing stock and regeneration schemes to improve attractiveness of an area is nevertheless, a crucial part of the solution to the housing crisis. As Richard Rogers argued fifteen years ago in “Towards an Urban Renaissance”³⁷, development carefully designed around public transport hubs, supported by excellent public spaces and connected by streets designed for walking and cycling can transform our towns and cities, attracting people to live there, businesses to invest and providing many new homes. Over the last 30 years, many of our city centres including Sheffield, Manchester, Birmingham and Newcastle have undergone dramatic transformation and their populations are growing again after decades of decline. Evidence to the review has highlighted numerous examples of regeneration and renewal schemes that have revitalised blighted areas.

Newtown regeneration, Birmingham

A partnership between Birmingham City Council’s housing arm, the Birmingham Municipal Housing Trust, and Keepmoat is in the process of a £20m regeneration scheme in the Newtown area, which is located just a mile from the city centre. This risk-sharing model has been critical to bringing sites in the Newtown area, many of which are characterised by large pockets of post-war housing which has fallen into disrepair, forward for redevelopment. Overall the scheme will produce 260 mixed-tenure homes. The first releases of new homes onto the private sale market saw the majority bought within weeks with strong demand from people living locally.

Argent Development, Kings Cross

The Argent Development at Kings Cross is an excellent example of a successful and creative regeneration scheme. The former railway lands had been the subject of much-disputed redevelopment proposals since the 1980s. The patient planning and community negotiation of the development team led by Argent has created a new piece of central London, with ten new public spaces providing nearly 15 acres of public space in an area previously blighted by dereliction.

Key factors that underpinned the success of the project included:

- The importance of effective land assembly
- The importance of a master developer to establish a clear vision and create the core infrastructure
- Selling or leasing sub-plots on the basis of agreement about dates and delivery
- A physical masterplan
- A business plan providing details on the financing of the whole project
- A clear statement of the public offering.

We need to continue to make the most of these opportunities for adapting existing buildings and spaces, creative intensification through good design and infill development. Regeneration polices have been highly successful and will continue to play a crucial role in many areas. However, given the scale of the increase in the number of new homes needed, this will not cancel out the need to release more land.

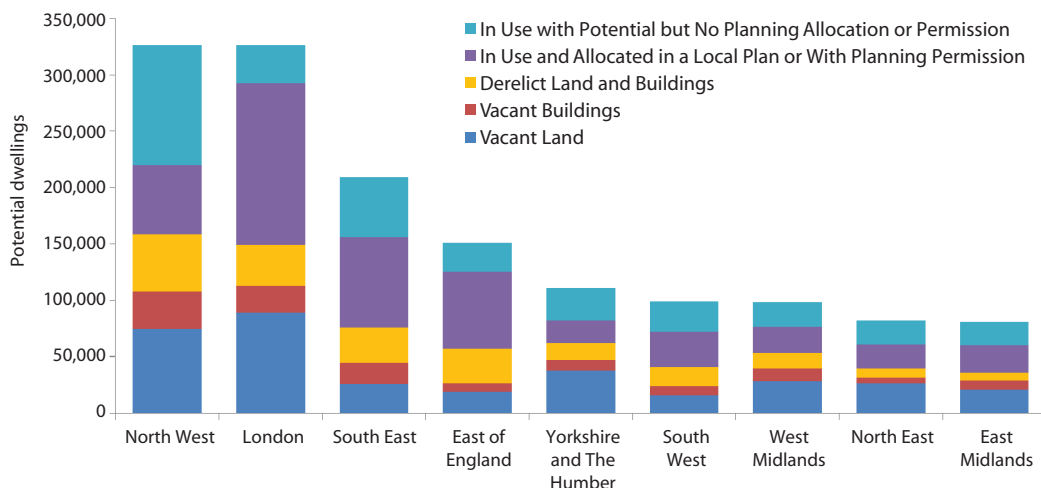
³⁷ Report of the Urban Task Force (1999)

Brownfield land

There is a strong case for ensuring that wherever possible, redundant and surplus brownfield land that is serving no useful purpose is developed. Brownfield sites are often better connected to existing infrastructure and there is a strong public preference to make the most of previously developed land for housing. The National Land Use Database (NLUD) suggests that there is capacity for almost 1.5 million homes on brownfield land, a third of it in London and the South East (though evidence to the review cautioned about the robustness of NLUD data). In 2012, Policy Exchange estimated that there was brownfield land available for about 1 million extra homes³⁸ – five years of supply if we were to build at a rate of 200,000 homes per year.

However land being available for development does not necessarily mean that it can be built on or that it is in the right place to meet housing need. If the costs involved in purchasing the land, remediation and preparation, the costs of infrastructure and the construction of the homes outweigh the receipts from selling them, brownfield land will not be economically viable. Therefore undue emphasis on what can be achieved with brownfield alone is always likely to be an over simplistic response to the land supply question.

Figure 10 – Brownfield Land with Potential for Housing Development



Source: NLUD

Greenwich Millennium Village

Greenwich Millennium Village stands on a 300ha site of previously deserted and severely polluted land formerly owned by British Gas. Remediation works were undertaken in the 1990s by English Partnerships. The development is being taken forward by Countryside and Taylor Wimpey who won a competition in 1997 to create a sustainable and well-designed mixed-tenure development. There are five phases, totalling 2,841 homes, 20% of which are affordable. The first two phases are complete, comprising 1,095 new homes, as well as parkland, a lake and ecology park, primary school and health centre.

The national target introduced in 1998 that at least 60% of all new built housing should be on brownfield land was achieved ahead of schedule, in part because it acted as a limit on total land

38 Morton, A (2012) *Why Aren't We Building Enough Attractive Homes? Myths, misunderstandings and solutions*, Policy Exchange

available for residential development, which fell and so contributed to an overall decrease in house building³⁹. In practice, the impacts were varied. High levels of brownfield reuse combined with National Neighbourhood Renewal Initiatives and the Housing Market Renewal Pathfinder programmes stabilised population growth levels and assisted in tackling economic deprivation on brownfield housing developments. However it also brought negative impacts on local housing affordability in some areas as house prices increased. Housing markets in regional city centres were reinvigorated, but in some areas, like Leeds, resulted in an oversupply of flats for which there was a lack of demand even at reduced prices⁴⁰.

The review is clear that the principle of brownfield first is right and should continue with a sequential test that ensures that such sites are considered first for new development, but the experiences of unintended consequences of national brownfield policies illustrate the importance of a more tailored approach which can respond to local circumstances and address the particular barriers to unlock development on stalled brownfield sites.

Density

Density of developments is also an important consideration in making a constrained land supply go further. In appropriate locations, high density can be a key ingredient of good design and can help to enhance the economic viability of an area, support public transport and social amenities and improve vitality and regeneration.

However these benefits are not a straightforward function of higher densities alone, they must be accompanied by good design if they are to avoid “town cramming” and poor living environments. Density policies will need to be developed in the context of neighbouring buildings and the local area in terms of scale, layout and accessibility. The National Planning Policy Framework states, rightly, that to boost the supply of housing, local planning authorities should (amongst other things) set out their own approach to housing density to reflect local circumstances. A national density target would put quality and liveability in jeopardy.

Design and density

The Southampton Residential Design Guide stresses the importance of designing for high quality. It states that the density of a development should be contextual and driven by its level of accessibility. Areas of high accessibility with good transport links can feasibly support a density of over 100 dwellings per hectare. One example in Southampton is the Ocean Village – a mixture of apartments and townhouses – developed in the 1990s on the banks of the River Itchen which has a density of 127 dwellings per hectare.

A number of rural areas have adopted detailed design guides showing how sites can be designed to enhance the character of villages whilst increasing densities. West Oxfordshire, South Oxfordshire DC and Kent are following detailed principles similar to those set out by CABI of what constitutes local good design.

39 Wong and Andreas Schulze Bäing (2010) – *Brownfield residential redevelopment in England*, JRF

40 Between 2001 and 2010, 29,500 new properties were built in Leeds, of which around a third were in the City Centre and almost 70% were flats. However, this high level of supply, combined with the recession, meant that prices of flatted accommodation in the City Centre dropped from a height of £148,000 to a low of £74,000 and vacancy rates in the City Centre were 14% compared with a Leeds average of 5%. Leeds City Council Strategic Housing Market Assessment / Jones Lang LaSalle Northern England Residential Development Market / October 2013

Urgent action required to tackle the problems

So long as the planning system constrains the supply of land, and the need to seek a profit margin in the region of 20% per annum limits the volume house builders' ability to build on permissioned but unviable land, significant change to today's inadequate levels of house building can only come about as the result of deliberate policy to compensate for the way the market operates. We see such action addressing a number of specific issues.

Housing needs to be a priority for government at both local and national level

History tells us that political will can get large numbers of homes built. We need clear, long term political leadership at national level to prioritise housing, drive action and create a clear policy direction to stabilise the market. Early and sustained progress towards 200,000 homes per year will build confidence and has the potential to change prevailing behaviours.

This will require the right balance between strong central imperative to ensure results and local flexibility to meet the needs of different communities. Local government will need to play a lead role and be provided with the tools to do so, but backed by a clear intent from central government to intervene where there is a failure of delivery or confused responsibilities at local level.

Communities need to be given the tools to shape the places in which they live and deliver the homes they need

New housing changes and shapes the places people live in. It is right that they should take responsibility for how their communities grow so that development is willed on the ground, not the unpopular result of purely bureaucratic decision-making. We need to empower communities with stronger tools to shape the places in which they live to deliver the homes they need now and to cater for future generations.

This will require local government to play a much more active and energetic role in shaping development in their areas. They will need to demonstrate leadership, acting as key developers for their communities, assembling land, exercising more control over the type of development for example by packaging sites to attract a range of providers of housing and a wider mix of tenures and working in partnership with the private sector and Housing Associations to bring the vision to life. We propose a new generation of New Homes Corporations as focused local delivery agencies to bring together partners, funding and the tools that communities need to deliver.

We need more land for house building

Future policy must ensure more land is identified for housing. Councils must take responsibility for local plans that identify sufficient land in the right places to support new homes where they are needed. There can be no option for local areas not to provide for future housing needs and central government must demonstrate willingness to intervene to ensure the requirement is met. Plans must reflect not only the interests of existing home owners but also the needs of citizens who would otherwise have no power or voice, and the needs of future generations.

If councils and their communities are to be required to release more land, they must also be given stronger tools to make sure homes are built on it. So policy must address problems of a practical and commercial kind that currently prevent housing from being built out. The review makes recommendation for how the Labour Party's proposal for a "use it or lose it" measures should be implemented.

Housing must come with infrastructure to support it

Too often, housing development has not seen the necessary infrastructure provided, leading to unacceptable strain on existing communities and their facilities, while taxpayers' money provided for infrastructure has benefited private landowners who have seen the value of their land increase as a result of that investment. The new homes we build must come with the transport, facilities and services that make for successful places. That means making best use of existing and planned infrastructure, but also that supporting infrastructure be funded as far as possible from the uplift in land value created by the granting of planning permission. That in itself will often not be enough and government will also need to target its investment more effectively.

We need a stronger and more diverse industry to build the homes we need

The house building industry is an important sector of the British economy and we need to set the conditions that will enable it to build more. However, there has in the past been too much reliance on the volume house builders to solve the shortage, even though their business models limit their ability to respond. There is a need to get small and medium sized businesses back into the business of building houses, attract new players into the market and exploit capacity in the wider construction industry. A new approach to developing the construction workforce is also needed.

We need housing for all – affordability and choice

We need to provide more affordable homes and a wider range of choice of tenures to better suit people's aspirations and what they can afford and to provide homes for vulnerable people. That includes many more homes for private and social rent, a better offer for people on lower or middle incomes who want to own their own home and more choice for people wanting to downsize. Housing should become a priority for national investment once again, but we must consider carefully the best way to target public subsidy, look to investment rather than grant and look more creatively at how we use public land to encourage house building.

We need to unlock the ambition and capacity of Housing Associations and Councils to invest in and build new affordable homes

Housing Associations are key agents of social housing delivery. They own 2.9 million homes and provide over 35,000 new affordable homes a year (22,000 directly and the remainder through developers and S106 agreements)⁴¹ as well as homes for market rent and outright sale. It is a sector that is hugely ambitious – there are many who have scope, willingness, scale and expertise to become major players and make a major contribution. We must find ways to encourage more use of under-utilised capacity, and find ways to harness their ambition to build more.

Councils have an important leadership role to play in increasing the supply of affordable housing, using their planning powers, land, assets and investment and in particular by working with developers and housing associations to identify opportunities for affordable homes. Councils are also returning to building on their own account and have already demonstrated a clear ambition and capacity to do more. Their efforts must be focused on increasing the total number of homes by building those that would not otherwise be provided by Housing Associations or private sector house builders.

⁴¹ DCLG Housing Statistics

We need an unprecedented commitment to design quality as well as housing numbers

If we repeat the errors of the past, we will only build the slums of the future. Houses are machines for living, in Le Corbusier's phrase. Our emphasis needs to be on the quality of living they make possible, as much as on the mechanics of getting them built. The quality and design of new homes and places is crucial to building public support for new homes and ensuring that they will stand the test of time and meet the needs of future generations.

The following chapters of this review set out the new approach to policy intervention that is needed to address these issues in order to get more land into production, and more homes actually built on it.

Chapter 2

National focus on delivery

No-one should underestimate the scale of the challenge involved in securing a step change in housing supply and ensuring it is sustained in the future. Successive governments over the years have introduced a variety of initiatives and policies concentrating, with varying effect, on stimulation of demand and efforts to improve the quality of existing stock. However, the scale of the challenge requires a more sustained, strategic and radical approach. This review has clearly identified the challenge of securing public support for new homes. Government has a role to play in driving a national debate about the importance of housing and in doing so to re-capture some of the consensus of the post war years, when the importance of providing homes for all and building attractive communities was much more clearly recognised.

In all of our discussions with the wide range of organisations whose efforts will be needed to increase the rate at which we build new homes, we have heard a consistent message that Government simply must give housing a higher priority amongst the many challenges facing the country and back that up with focused attention and sustained investment.

That is not a simple call for increased public spending but rather that Government firstly establishes a national vision for housing and corrals the weight of government and its agencies behind it. Secondly, the government should promote confidence through a certain and consistent policy environment. Finally, the government should put in place the tools and flexibilities for public and private developers to provide new housing with confidence.

That can only be effective on the basis of a greater focus on place. Housing is unavoidably a local issue. It is inherently connected to creating the places we aspire to live in and to other decisions that make places work. The issues and circumstances that need to be addressed are varied in different parts of the country. A crucial part of Government's role is to empower local communities to make their own decisions in responding to local circumstances and to increase local government's ability to play a more energetic role in creating and strengthening places that are attractive and are economically and environmentally sustainable. However this must be accompanied by an unequivocal requirement that each community must make an appropriate contribution to meeting the urgent national need for new homes.

The review advocates an approach which underlines responsibility for delivery and provides flexibilities and resources to local partners, but on the basis of contracts that provide clarity about the outcomes that will be delivered in return. Government should also make it clear that it will take action if commitments are not delivered. This contractual approach will apply not only to relationships between central and local government, but to all partners involved in house building. Government's focus should be on providing the support and environment that individual sectors need to deliver more but with regular follow up to ensure that commitments are being delivered.

Setting a clear national ambition

Decisions on housing should be at the heart of major strategic decision making across Government and recognised as an essential part of the infrastructure we need to support growth. That work extends beyond the life of a single Government. Sir John Armitt's review of infrastructure planning stressed the need for longer term planning for infrastructure investment in the UK based on evidenced assessments of needs and clear plans as to how they will be fulfilled. As Sir John highlighted, such a strategy will not be delivered without strong and enduring political will that transcends the confrontational nature of UK politics and the short-term pressures of our electoral cycle.

Cementing housing as a top priority for the next and successive Governments supported by a new, ambitious model of delivery is at the core of this review. Building confidence across the whole housing industry and supply chain will be crucial if companies are to invest in expanding capacity to meet housing needs. Nothing will help build confidence more effectively than demonstrating early, steady progress in raising the number of housing completions to build confidence that 200,000 per year can be achieved by 2020 and sustained. This will impact directly on the decisions made in board rooms, council chambers and by investors across the country. Early progress will also help to build consensus that we can as a nation tackle this continuing national weakness and pave the way for a more bi-partisan approach in the future.

The starting point must be a clear statement of the new priority that will be given to building new homes, together with a clear statement of national targets for house building moving beyond 200,000 by 2020 to cover the next twenty years. Government should publish a Housing and Planning White Paper during the first six months of the parliament's life to build on the recommendations of this report. The White Paper should give a clear, unequivocal message about the importance of accelerated housing development across all tenure groups to improve quality of life, reduce pressures on cost of living and to contribute to national economic stability and growth. Importantly this would set out the new government's approach to stabilising the risk that the housing market presents to national economic management.

Having set out a clear and ambitious vision, it is important that policy disruption and change is kept to a minimum. The Government's focus should be firmly set on delivery. This dictates a limit on the use of primary legislation, an end to one off, short lived initiatives and restricting the use of unsuitable performance regimes which distract from delivery and lead to unintended consequences. Lines of accountability must also be clear and maintained.

Many of the reforms outlined in this report could be implemented via a single, focused Housing and Planning Bill – introduced early in the Parliament. There will be a national allocation of monies and that will reflect government's priorities, but decisions regarding the targeting and delivery of funding should be left to the local or city or county region level. However, government must demonstrate a clear intent to make precise interventions when needed to tackle poor delivery, weak leadership or confused responsibilities.

Recommendation 1: Housing as a priority for Government

On taking office, Government should make a clear commitment to building new homes through:

- ➔ A clear statement of national targets for house building moving beyond 200,000 by 2020 to cover the next twenty years.
- ➔ Early publication of a Housing and Planning White Paper and Draft Bill to implement reforms, confirm a coherent strategy for housing policy and actions that will be followed over the Government.

Focus the machinery of government to support delivery

Delivering a significant and sustained uplift in house building also requires a change to existing structures and responsibility to ensure government machinery is focused on supporting delivery. To ensure priority in government, housing should be a core responsibility of a dedicated Housing Minister attending Cabinet and firmly established amongst the Prime Minister's own priorities.

A new cross government Housing Task Force should be established bringing together relevant Government Departments including DCLG, BIS, DEFRA, DWP and particularly the Treasury. The primary role will be to ensure a cross-government coordinated approach on housing supply that guards against cost shunting from one department to another and to advise Ministers on policy, including that which relates housing supply to the management of the national economy. The task force will need to enjoy a commanding position within government departments with strong leadership, a well-resourced secretariat and the necessary skills to support Ministers as they drive the agenda forward.

An independent advisory commission would provide a means to bring together skills, expertise and understanding from across the housing sector to inform the task force and the Housing Minister. Throughout this review we have been struck by the very limited information that is publicly available about the entirety of government public expenditure in support of housing and absence of clear information about the impact of housing policies. The commission would address this by providing independent scrutiny and evaluation of Government's progress to meeting its targets. Governments are increasingly recognising the value of external validation of their efforts, as is seen most clearly in the creation of the Office of Budget Responsibility.

Currently, government, both local and national and the industry rely on a number of private organisations who collect data on the housing market (Savills, Glenigan, NHBC, Hometrack). Whilst this intelligence is of great value, there is a need to draw it together at national level. Evidence to the review highlighted the lack of independent national information on housing markets after 2010, when the National Housing and Planning Advisory Unit (NHPAU) ceased to operate⁴². As KPMG notes, the situation has worsened even further since the Valuation Office Agency stopped releasing land price data in 2011⁴³. This is a view widely supported by many of the representations the review received suggesting that coordination and monitoring of standardised information on housing supply and provision, trends and projections, demographic and house price forecasts and projection methodology and resources is critical to better planning and control over delivery of policy as well as facilitating a more informed policy debate. The information deficit should be addressed through the creation of a national unit or observatory as a single repository for key data, forecasts and analysis. This would ensure that the Government and the

⁴² TCPA submission

⁴³ KPMG (2014) – Homes for the next generation

new advisory body have a full and accurate picture from which to evaluate the effect of its initiatives and improve policy making and delivery. It would also drive a more consistent approach to strategic housing market assessments in local development plans across England by the provision of independent and verified data on housing need.

Recommendation 2: Ensure Government is focused on delivering more homes

To ensure focus on the delivery of more homes, government should:

- ➔ Establish the post of a dedicated Housing Minister attending Cabinet. Establish a new-cross government task force including Treasury, DCLG, BIS, DWP and DEFRA with the resources and influence to drive a coordinated approach to housing supply.
- ➔ Create an independent advisory Housing Commission to bring skills and expertise from across the housing sector to inform policy, advise government and provide independent scrutiny and challenge to government in meeting its targets.
- ➔ Establish a national Housing Observatory as a single repository for key data, forecasts and analysis on housing to assist policy making, evaluation and a consistent approach to housing market assessments.

A clear pathway for demand side measures to support new homes

Stable demand for housing is an important component in determining how much new private house building occurs. Developers will only build private homes at the rate dictated by the viability of their site and realisable market demand, both of which are to a great extent dictated by wider economic conditions. Many of the current behaviours in the industry including, particularly, the cautious approach of the volume house builders to the development of their land banks reflects the history of cyclical boom and bust, with its inevitable risk to those who get the timing of their investments wrong.

A consistent message from house builders and materials manufacturers in their evidence to the review was the importance of ensuring effective counter-cyclical support mechanisms to ensure a steadier profile of demand over time. This will be crucial to provide confidence to the industry to invest in boosting capacity over the longer term. Measures to support demand have been a common feature of housing policy in recent decades, but a lack of clarity about if, when and in what form they will be applied means they do not provide long term certainty. We concluded that government should provide certainty through a clear pathway for counter cyclical measures that could be implemented when needed. This should be exclusively focused on new-build homes and first time buyers. The scheme would need tight oversight by the Treasury and the Bank of England to ensure that it reflects prevailing conditions for mortgage finance and is adjusted where there is evidence locally or nationally that it is prompting house price inflation either as a direct effect or by the impact it has on expectations.

Recommendation 3: Certainty of measures to support housing demand

Government in 2015 should provide confidence that in future, counter-cyclical demand side measures will be implemented when needed. Future mortgage support should be more effectively targeted at first-time buyers and consideration should be given to restricting future schemes to new-build and houses which are closer to prevailing average prices.

Re-task the Homes and Communities Agency

The evidence put to the review and our discussions with a wide range of organisations have recognised the importance of the current contribution of the HCA to national house building efforts. Examples included the HCA work with Defence Estates to appoint Grainger as developers of 4,500 homes on surplus military land at the Aldershot urban extension site; and Barking Riverside regeneration scheme, which has serviced plots for development of 10,800 homes which began as a joint venture between the HCA and Bellway Homes.

Of particular note is the continuing work of ATLAS, the advisory team for large applications. The free advice service offered to local authorities and the private sector by ATLAS to reinforce their skills in dealing with large scale development proposals received a consistently positive report from contributors to this review⁴⁴.

However, evidence to the review also pointed to the need for sharper focus and a return to some of the more energetic engagement in development that marked the closing years of English Partnerships and the early days of the Homes and Communities Agency.

Background of the HCA

English Partnerships was the successor to the Commission for New Towns. It also contained the Urban Regeneration Agency which was created in 1993. In 2008 English Partnerships merged with the Housing Corporation to form the Homes and Communities Agency which currently manages numerous housing programmes on behalf of Government and is responsible for the regulation of social housing providers in England.

Evidence to the review has put forward a number of factors that may explain the perceptions that the Agency has lost some of the expertise and focus on delivery that characterised English Partnerships and the early days of the HCA, including:

- a move towards the administration of housing funding programmes rather than the direct pursuit of large scale development opportunities;
- the addition of the regulation of social housing providers as a core function which brought with it a very different focus and skill set;
- the loss of skills and capabilities which previously enabled the agency to engage authoritatively in the negotiation of developments and partnerships;
- a lack of independence from the Department for Communities and Local Government (DCLG) who frequently second guessed decisions;
- recent changes in government policy have limited the HCA's ability to recycle receipts, returning them instead to the Exchequer. This has severely impaired the HCA's ability to lead and contribute to investment partnerships.

The review has heard from the National Housing Federation that juggling multiple responsibilities means: *'... these programmes are not coordinated effectively. They are governed by multiple rules, regulations and criteria, which do not correspond. This is limiting the impact of these programmes in terms of delivering new housing supply.'*

The review also heard from HBF representing house builders that with regards to HCA public land: *'disposals are often too prescriptive and very complex and costly for bidders.'*

⁴⁴ For example see London Councils submission

The HCA will have a pivotal role to play in ensuring early progress and supporting capacity at local level. To ensure it is effective in that it will need to be re-tasked and refocused as an energetic national delivery and investment agency. The review has also concluded that moving the responsibility for allocating funding away from the HCA will help to ensure a focus on delivery, and we therefore propose that the job of allocating funding should be done by DCLG. The HCA role should be in supporting the deals negotiated between central government and local places, bringing skills and expertise, private funding, land and guarantees. The review considered the case for moving the regulatory functions away from the HCA to increase the focus on delivery however we concluded that further organisational change and disruption would risk delay and uncertainty. It is important however that the delivery role is established as a clear corporate priority. We would also recommend that it had a clear degree of day to day independence from DCLG operating within an agreed framework. The re-tasked HCA would focus on the following key functions:

1. It would be responsible for new, re-energised efforts to dispose of surplus central Government owned land and buildings through effective development partnerships with local authorities, housing associations, developers and landowners. As discussed in Chapter 5, public land should be provided as a core investment in developments to secure longer term returns for the public purse.

This approach does not rest on the requirement for large scale transfers of land from one part of Government to another or to local bodies since such transfers would take a long time and would distract from the task of releasing the land. However, in its role as single disposal agency for government land, the HCA would be responsible for a rolling 5 year delivery plan for housing on government owned land.

2. HCA will be a major implementation and investment partner for local authorities and New Homes Corporations (discussed in Chapter 5).
3. HCA will continue to have a vital role in supporting local authorities dealing with large scale applications throughout the country through the continuation, and possible expansion, of the ATLAS service. The role should include coordination of efforts to expand the training and professional development of staff, within local and central Government, in close co-operation with the Planning Advisory Service and professional associations across the sector.
4. The HCA's investment arm (HCA-I) should be expanded to function as a housing investment vehicle aggregating investment (discussed further below).

Recommendation 4: Re-task the Homes and Communities Agency

The HCA should be re-tasked as a national delivery agency with the core functions of:

- ➔ Sole agency for disposal of government land for housing and assets with a focus on investing land as equity through local development partnerships and a 5 year revolving delivery plan for government land for housing.
- ➔ Acting as a major partner for local authorities and New Homes Corporations bringing skills and expertise, private funding, land and guarantees to support development.
- ➔ Supporting large scale development through the ATLAS service and coordination of expansion of training and professional development across local and central government.

A joined up approach to housing investment

A striking finding during our work was the difficulty of getting hold of information about the full range of different funding streams that currently exist to support housing. Evidence to the review suggested at least 38 different housing funding schemes⁴⁵. There is no publicly available summary of the different programmes, public expenditure or evaluation of their impact. This is one of the reasons the review concluded that both an independent advisory body and an adequately resourced housing observatory were both necessary. However, our analysis of the information available suggests that the total for DCLG land and housing programmes for 2011-15 is in the region of £21 billion with HCA managing an estimated £10.5 billion. The various programmes vary in size and scope from £4.7 billion Affordable Homes Programme which itself has numerous sub-streams; the £950 million Large Sites Infrastructure fund; the £474 million Local Infrastructure fund; to £150 million for Estate Regeneration; £150 million for service plots and £30 million loans for custom build.

Each of these streams seeks to address a specific housing issue or incentivise a particular course of action. Each has its own bid and application criteria, rules, requirements and restrictions. The National Housing Federation told us that *'the fall in direct investment... has been accompanied by the proliferation in the number of smaller funding streams'*.⁴⁶

Whilst we have heard positive things about individual schemes, this fragmented approach results in funding streams and economies of scale being diluted. Effort and attention is given to bidding for relatively small projects that meet narrowly defined bid criteria rather than addressing more strategic challenges that would help unlock development and increase supply.

Gentoo Housing Group commented that *'The emergence of "funding round" to "funding round" commitments does not give the surety of supply nor the focus on a long term strategy that the supply situation requires'*.⁴⁷

The LGA has set out the costs and complexities associated with the current series of bidding rounds. It shows that the number of funding streams for growth linked projects have doubled since Lord Heseltine's No Stone Unturned report. There were 124 funding schemes for local growth and regeneration across 20 departments and agencies, amounting to over £22 billion in 2013/14. About half of these required local authorities, businesses and charities to bid for money. The average cost of putting together funding bids for local authorities alone was around £30,000. It also cost local authorities an estimated 33 days per bid in officer time. The process was also found to be slow, only a small minority of applicants received formal grant offers within six months with most waiting up to a year⁴⁸.

In evidence to the review, the Core Cities Network highlighted the difficulty of meeting the complex challenges of different housing market areas through *"a series of competitive bidding rounds for resources, all designed against standard national criteria with complex sets of rules and regulations."* They go on to argue that *"there would be significant benefits associated with putting cities back in charge of the delivery of housing programmes. Firstly, it would enable local strategy to be meaningful, implementation of a strategy would no longer be dependent upon the outcome of bidding rounds. Secondly, intervention programmes can be designed to meet identified need. Thirdly, local innovation can be allowed to flourish"*.⁴⁹

45 Core Cities Network – Programme and Policies for Change

46 NHF submission to Lyons Review

47 Gentoo submission to Lyons Review

48 LGA media release 3 July 2014

49 Core Cities network; Ibid

Streamlining and consolidating funding for housing would enable funding to be targeted more effectively, more strategically and more flexibly. It would deliver better economies of scale and better value for money. It would allow investment to be better aligned to local priorities and housing need at the level of local housing markets. The Adonis Review recommended that a single funding pot for economic development, including funding for infrastructure and housing should be devolved to city and county region authorities working to functional economic areas.⁵⁰

Including housing funding streams as part of the consolidated economic development fund would coordinate funding for infrastructure and housing but it is crucial that the functional economic areas strongly reflect strategic housing market areas and allow for wider decisions on investment in infrastructure and economic development to reflect functional housing markets. Local Authorities are responsible through local plans and their strategic housing role for meeting local housing need and are key to building public support for new homes. It is clear then that they must be responsible for decisions about investment in housing based on local plans and Strategic Housing Market Plans where they are in place (Strategic Housing Market Plans are discussed further in Chapter 3).

More locally focused and more flexible funding needs to be accompanied by strong analysis of the case for intervention and clear evidence of capability and delivery. We therefore propose that allocations of funding should be agreed as part of clear contracts with government about what will be delivered. Equally it will be important that decisions about the funding are made with input from local partners, particularly Housing Associations and evidence of strong local partnerships should be part of the deal negotiated with Government. These deals would be negotiated between DCLG and the authorities, thereby moving the HCA away from managing funding programmes to focus its efforts on implementation and delivery as set out above.

Recommendation 5: Consolidate and devolve funding for housing

Housing funding streams should be consolidated as part of the economic development fund and devolved to city or county region authorities working across functional economic areas as proposed by the Adonis Review. These functional economic areas must strongly reflect strategic housing market areas and allow for wider decisions on investment in infrastructure and economic development to reflect functional housing markets. Local authorities must be responsible for decisions about investment in housing based on Local Plans and Strategic Housing Market Plans where they are in place; clear contracts with government about what will be delivered as recommended by this review; and the strength of local partnerships with Housing Associations and developers.

A new role for the HCA in investment in housing and infrastructure

With limited public finance available, it is crucial that what is available is invested in the most efficient way and that we are able to draw on greater levels of private finance, mobilising it to where it has best effect and lowering its cost wherever possible.

The fundamentals of investing in housing are strong. It is a perpetual asset class – the need for housing remains constant, even in recession, and returns are less volatile than equities. This is underpinned by acute imbalances between supply and demand, which helps mitigate investment risk. Investing in housing gives investors and funders an opportunity to diversify their existing portfolios, with returns from residential investment offering a different profile to commercial property and equities.

⁵⁰ Mending the fractured economy: Adonis Growth Review; July 2014

There is also evidence of considerable private finance that could be tapped for investment in housing. For instance, Housing Associations have used their strong credit ratings to access long-term funding from the capital markets.

Notting Hill Housing Trust – Bond finance

In February 2014 Notting Hill Housing Trust (NHHT) borrowed £250 million on the bond market at 98 basis points above gilts. The bond will be repaid over 40 years at an interest rate of just below 4.48%, when taking gilt prices of around 3.5% into account. NHHT will use £175 million to fund the development of around 1,400 homes each year until 2020 and £75 million to refinance existing debts.

We have heard how there continues to be strong institutional appetite for Housing Association bonds from the current investor base, with many bond issuances described as being over-subscribed.

Institutional Investment

Legal & General are active investors in the residential sector across a range of tenures and housing types via both equity and debt investment. The longer term investment horizons of L&G allows them to take a strategic view with an intention of building scale whilst shaping best industry practices for the twenty first century.

They have already committed over £5.5 billion to UK infrastructure projects to date with £455 million to affordable housing over the last 18 months. They have recently agreed deals to provide:

- A £50 million, 40 year debt facility to Housing Solutions, Maidenhead based Housing Association;
- A £102 million, 15 year debt facility to The Hyde Group;
- A £40 million, 25 year debt facility to Thames Valley Housing Association

We have also heard how more can be done to respond to increased opportunities for alternative bond structures.

The Local Government Association has recently approved a business plan for the creation of a Municipal Bonds Agency (MBA) to boost local authority investment in infrastructure, including housing. Smaller housing providers are beginning to access the capital markets by way of club bonds. These are simply a series of bi-lateral private placements with common terms. More effort needs to be made to align the housing market with the investment requirements of the Local Government Pension Scheme's (LGPS) and other private pension funds and institutional investors, all of whom should be part of the increase in private investment in housing. LGPSs have assets of £178 billion and a requirement to fund low-risk, long term, sustainable investments. Housing is an obvious destination for these funds.

Manchester City Council & Greater Manchester Pension Fund

The City Council will invest its land with cash from the Greater Manchester Pension Fund to procure a house builder and managing agent to deliver approximately 240 new homes. An initial tenure mix of 99 homes for sale and 139 for private rent will be developed across the 5 sites in Chorlton, West Gorton and Wythenshawe. The income derived from the investment is sufficient to provide a level of return to both investors, with the pension fund taking a priority return and the city council recovering its land values as a second priority.

In addition, the European Investment Bank (EIB) already provides competitively priced funding for affordable housing. In June 2013, it was announced that it would provide a £500m loan facility, in conjunction with the affordable homes guarantee programme. Then in February 2014, the EIB announced a new plan to lend £1bn directly to larger affordable housing providers.

A number of barriers were highlighted to the review in terms of attracting higher levels of private finance into housing. In the case of traditional funders such as the banks and capital markets, we heard that there was no shortage of finance available for housing but the main challenge is finding appropriate vehicles through which to direct it. In the case of institutional investors and pension funds, a number of recent reports have highlighted concerns including lower yields in residential than commercial; the lack of opportunities for investment at scale; concerns about possible reputational risk; and, the lack of efficient, high-quality management.

Learning from this experience, we propose one of the functions of the re-tasked HCA should be to act as a vehicle to aggregate opportunities for investment to provide the scale needed to attract private investment and spread risk for investors. This role would be an expanded function of the newly created HCA investment arm (HCA-I). HCA-I currently manages government investment programmes on a recoverable basis, managing debt, equity and guarantees on behalf of government. The aim of the expanded role would be to channel long-term, private investment supported by government guarantees, into house building, alongside traditional public investment. Its role would include focusing on securing better total returns from joining up development and infrastructure investment.

The new division of the HCA would offer housing providers a mix of debt, loan and equity finance at a lower cost than they would be able to access individually on the open market. This would increase the finance available to the sector, increase certainty and by lowering financing costs, improve scheme viability. To be effective and to minimise Government exposure the new division would need to undertake project due diligence, and monitor investment decisions. Investment priorities would be informed by a clear statement of national spatial priorities as part of national spatial guidance as discussed in Chapter 3.

Crucially, the HCA would combine this role as an aggregator of private finance with its revitalised role as an energised national delivery agency and major implementation partner of New Homes Corporations and in the development of a new generation of Garden Cities and Garden Suburbs.

Recommendation 6: Expand HCA role in securing private investment

The investment arm of the HCA should be expanded to act as a vehicle to aggregate opportunities for private investment at scale.

More effective use of government guarantees

Government guarantees in the context of housing are a mechanism to make investment in affordable housing and the private rented sector more attractive by reducing the risk for investors. The current government has offered £10 billion worth of government guarantees for housing with £3.5 billion each allocated for affordable housing and the private rented sector and £3 billion held in reserve. The Housing Finance Corporation (THFC) won the bid for the management and delivery of the affordable guarantee exclusively up until March 2015. It has been successful in securing an initial £500 million guaranteed EIB bank loan and a £208 million debut long term guaranteed bond carrying a 'AAA' rating from Standard and Poors. But the private rented guarantee has proved less successful with the government failing to find anyone to manage the scheme, attract equity investment and a lack of schemes.

The HCA investment arm should act as the body to extend the use of government guarantees where their use will increase supply and attract new additional investment in viable projects at the same time minimising Government's risk exposure and their PSBR impact. It should work to increase the effectiveness of government guarantees alongside its role set out above of driving forward major development schemes. This should include administering the guarantees proposed by the Labour Party to assist in the development of Garden Cities; to support lending to SME builders and extending the Affordable Housing Guarantee Programme, all of which are discussed elsewhere in this report.

Recommendation 7: Guarantees to support housing supply

The HCA investment arm should manage the use of government guarantees (within an overall envelope set by HM Treasury) to increase supply and attract new additional investment in viable projects at the same time minimising Government's risk exposure and their PSBR impact. This will include managing guarantees for SMEs and for investment in Garden Cities and the Affordable Housing Guarantee Programme.

Chapter 3

Land supply

To meet an ambitious target for new house building we need a planning system that allocates land for housing development and one that efficiently processes applications to develop that land. That is of course not the only function of planning. Planning is key to communities' ability to shape their places and through them their lives. Operated effectively, the planning system plays a crucial role in ensuring that development supports an overarching vision for an area and that decisions are accountable to the people affected by that development. That requires it to cater for both the needs of current and future generations, and to balance interests within communities.

There must be a clear imperative for local planning authorities to identify and allocate land for development to meet the real underlying demand for housing. At the same time they must reflect the right and aspiration of today's citizens to live in a successful, sustainable community. This is a quid pro quo: if councils and communities are to release more land for development, they must also have the right tools to shape development and to make sure that the new homes that they have planned for are actually built; are accessible to local people; and contribute to the creation of attractive, successful places.

This chapter explores the changes to the planning system needed to effectively plan for new homes and sharpen the requirement on councils to make sure more land is released for new housing. Chapter 4 sets out proposals to communities with the tools they need to accelerate building out of land that is suitable for housing; to ensure taxpayers can recover some of the infrastructure costs they have paid out from the value uplift in land value created by the granting of planning permission; and how both public and private sector land could be better mobilised to the benefit of local communities. Chapter 5 sets out measures to give councils the means, on behalf of their communities to play an active role in bringing forward development through Housing Growth Areas; and the creation of New Homes Corporations as focused local delivery agencies.

Increasing the supply of land through the planning system

Evidence from house-builders and developers cited availability of land with planning permission as a key constraint on increasing the supply of homes. Rightly, communities will expect that once land has been identified and allocated in the local plan, development will be delivered in accordance with that plan. In order for that to be the case, we must have confidence that local plans are based on a robust assessment of current and future need and that development is actually deliverable on the sites identified.

The evidence submitted to the review overwhelmingly cautioned against further fundamental and wholesale reform of the system which would lead to widespread uncertainty and undermine a rapid increase in housing supply. We have therefore concluded that fundamental upheaval in the planning system should be avoided. However there are a number of areas in which the system should be improved

to ensure that an adequate supply of land is identified and brought forward for development through local plans.

Local plans: better evidence and a focus on delivery

Local planning authorities are obliged to put plans in place to meet objectively assessed need. They are required to demonstrate a five-year supply of deliverable sites for housing with an additional 5% buffer to increase choice and competition. This buffer is extended to 20% where there is persistent under performance on the delivery of plans. Additionally, the NPPF requires plans to identify a supply of specific, developable sites or broad locations for growth for years 6-10, and “where possible”, for years 11–15.⁵¹

The need must be assessed across strategic housing market areas. That requires co-operation across local authority boundaries. It should be allocated in their respective plans drawn up taking account of a Duty to Co-operate. National guidance, whilst confirming the primacy of any Local Plans in decision making also stresses that where plans are out of date or silent then any proposals will be judged with a presumption that they will be accepted “unless any adverse impacts of doing so would significantly and demonstrably outweigh the benefits”⁵². Together, the requirement for a 5 year land supply to meet objectively assessed need and the presumption in favour of sustainable development are designed to incentivise Local Plans that effectively plan for meeting need.

There are good examples across the country where this is happening and councils and communities are working closely together to energetically plan for new homes, providing genuine leadership to overcome community concerns and taking difficult decisions about where homes should go.

Community engagement and Neighbourhood Planning

Evidence to the review highlighted the importance of engaging communities in the planning process to build support for development and ensuring it meets local needs. Councils have a long experience of community planning approaches including Area Action Plans, Local Planning Forums, consultation events on Local Plans and Enquiry by Design⁵³.

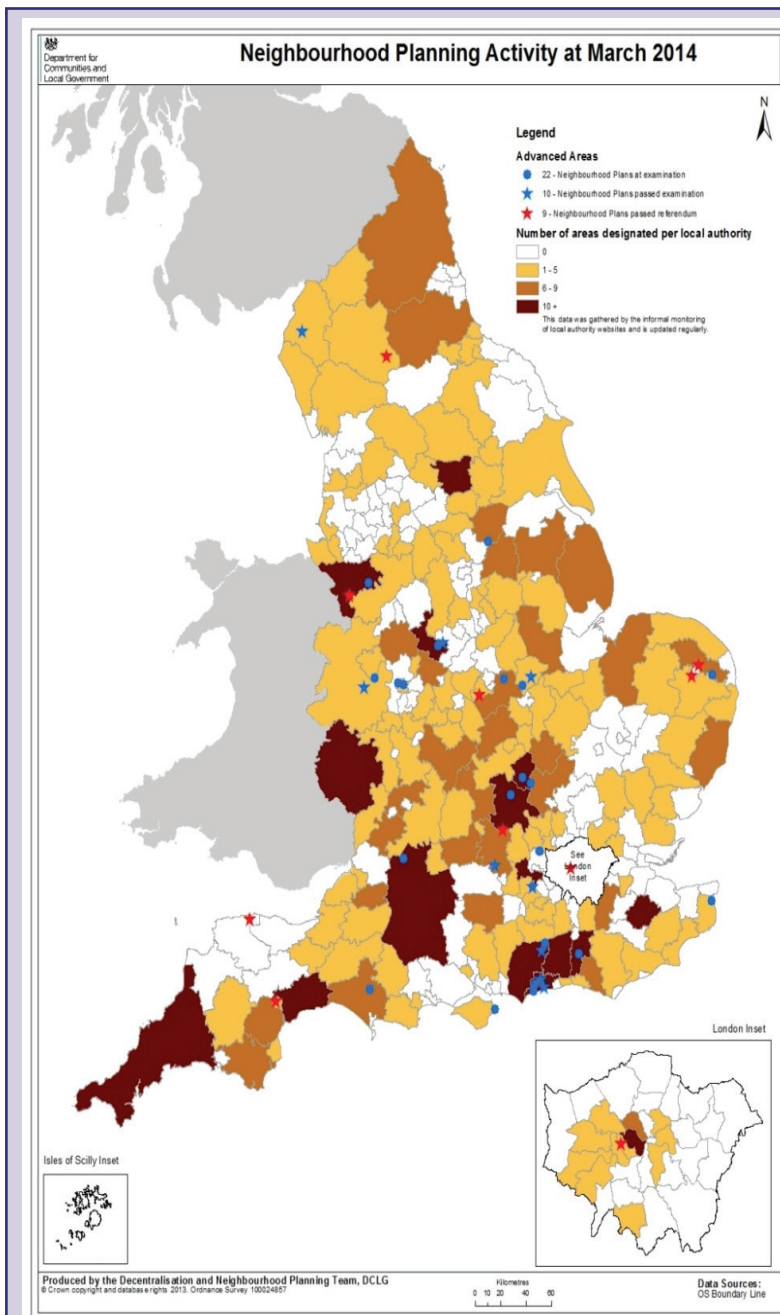
Introduced in 2012, **Neighbourhood Plans** allow communities to prepare a development plan for their area which takes into account the local council’s assessment of housing and other development needs in the area.

All of the Neighbourhood Plans taken through to referendum so far have resulted in overwhelming votes in favour even where they propose significant growth. As of June 2014, 860 areas had been designated as neighbourhood plan areas across 57% of local authority areas. Of the 17 plans that had been through referendum all had been approved with an average of 87% yes vote.

⁵¹ NPPF para 47

⁵² NPPF para 14 presumption in favour of sustainable development

⁵³ Further examples available at <http://www.communityplanning.net/casestudies/casestudyintro.php>



In Broughton Astley, in Harborough the Local Plan required at least 400 houses and the Neighbourhood Plan identified potential for 500 homes within the plan period.

In South Oxfordshire, the Thame Neighbourhood Plan earmarks sites for a total of 775 new homes in response to the Local Plan proposals for 600 new homes. The Woodcote Neighbourhood plan turned a 70+% hard opposition to new housing into a 96% yes vote for a plan for 76 houses with a 60% turnout.

In Herefordshire over 60 neighbourhood area designations have been accepted and the council have a specific Neighbourhood Planning Team to support parish councils develop neighbourhood plans.

Some evidence to the review highlighted concern that Neighbourhood Plans could be used to oppose or resist development. In practice this anxiety seems to be misplaced and must be balanced with the enthusiasm and engagement they seem to engender. However it must be absolutely clear that neighbourhood plans must be consistent with housing need identified in Local Plans.

There are advantages for planning at community level for housing supply beyond gaining acceptance for growth. At the neighbourhood

level a more fine grained approach to allocating small sites can be taken based on local knowledge and smaller sites identified allocated and brought forward. Not only does this give communities greater control over development, it can support resurgence of development by small building firms and support self-build and co-operative ventures.

There was also concern in evidence to the review that Neighbourhood Plans require significant time, resources and expertise to produce and that many communities cannot resource the process. The current government is consulting on how the process for neighbourhood planning could be streamlined and we agree that consideration should be given to how it could be made easier for communities to use Neighbourhood Plans to plan for the homes they need.

However, evidence to the review highlighted a number of concerns about progress with Local Plans, including the partial coverage of plans across the country, the length of time taken to get plans in place, slow progress with identifying 5 year land supplies and ongoing challenges to housing needs assessments. There is no authoritative estimate of land currently identified in plans. Using plans already available, Savills have estimated that plans in the south of England have a 20% shortfall relative to estimates of housing need⁵⁴. HBF have estimated that 170-180,000 units per year are available in Local Plans, but acknowledge this is an incomplete picture as not all areas have plans in place⁵⁵. These partial estimates reflect the difficulty of assembling an overall national picture.

Evidence to the review highlighted a lack of consistent methodology for Strategic Housing Market Assessments (SHMAs) which provide the core evidence underpinning Local Plans. This translates into a lack of consistency in the way local planning authorities express their understanding of housing demand and has resulted in frequent and high profile challenges to housing numbers. In places, disputes between authorities in a strategic housing market area have resulted in delays to plans; reinforced local opposition to new homes and meant insufficient land being identified for housing need.

A number of submissions suggested that these problems would be resolved through strengthening the guidance for SHMAs, including the stipulation of a core set of indicators and methodology in relation to: household projections; other factors affecting capacity, market affordability; and housing needs⁵⁶. They also recommended that information covered in SHMAs should be broadened by including assessment of the housing delivery mechanisms (and having information on landownership, builder capacity, land prices, house prices, and the private sectors' ability to deliver the strategic targets and trajectories).⁵⁷ The Housing Observatory recommended in Chapter 2 will play a role by providing key data and forecasts and we recommend that the guidance on SHMA methodology should be strengthened to ensure a consistent and agreed approach across strategic housing market areas.

Local authorities and community groups raised concerns about ongoing challenges to housing needs assessments and land supplies. They also had concerns that developers argue for more sites to be included so that they can develop higher value homes with better margins. Communities are also concerned that "planning by appeal" during the period in which a plan is being developed and consulted on undermines their ability to shape development in their areas⁵⁸.

Despite these challenges most of the evidence we received suggested that the new system is now bedding in; that in general the NPPF had had positive outcomes and that progress with plans is improving. Submissions to the recent CLG Select Committee inquiry on implementation of the NPPF⁵⁹ present a common view that it is too early to judge the impact of the new regime and there is a plea from all sectors that further radical change should be avoided in favour of continued concentration on getting plans in place⁶⁰. As Table 1 illustrates, the majority of local planning authorities have a published plan, however only 57 per cent have an adopted plan in place. Given that the requirement for Local Plans has

54 Savills – Planning Countdown to the Election, 2014

55 HBF evidence to the Lyons Review

56 Glen Bramley's submission to the Lyons Review

57 Allan Cochrane, Bob Colenutt and Martin Field's submission to the Lyons Review, 2014

58 CPRE submission to the Review

59 <http://www.parliament.uk/business/committees/committees-a-z/commons-select/communities-and-local-government-committee/inquiries/parliament-2010/national-planning-policy-framework/>

60 Nathaniel Litchfield and Partners, Planning Positively, March 2014 – found that a number of plans are subject to immediate review because of a need to review housing numbers and a number plans have been withdrawn, the main reason being given as the inadequate provision of housing and a lack of a demonstrated five-year supply of deliverable housing land. The study also highlighted that the intense debate over housing at examinations and the fact that housing numbers are often the most stringently assessed and contested parts of the Local Plan, this has led to further revisions and modifications and ultimately the majority of Plans at least meeting the target in the previous regional Strategies.

been in place since 2004, it is clearly unacceptable that nearly one in five councils have not yet published a plan. Furthermore, a number of existing plans need updating to bring them into line with the NPPF which came into force in 2012.

Table 1 – Local plan status – July 2014

Local Plans	Number of local planning authorities	Percentage of (336) local planning authorities
Not Published	71	21%
Published	265	79%
Submitted	245	73%
Found Sound	198	59%
Adopted	190	57%

Source: DCLG

The review proposes that the pace should be forced for those stragglers by setting a deadline for submitting plans with an up to date 5 year land supply to the Planning Inspectorate, reinforced by sanctions for failure to do so.

The current arrangements for the presumption in favour of sustainable development will continue, but in addition, where the deadline for submitting a plan is not met, or where the plan submitted is clearly inadequate, the Secretary of State will have the power to direct the Planning Inspectorate to intervene to ensure an acceptable plan is produced to a tight timescale. In doing so, the Planning Inspectorate will work with local residents and partners including the local authority to produce the plan for submission and examination by another inspector.

It is also important that once in place plans are regularly updated and include a clear pipeline of land for the longer term to increase certainty about ongoing delivery. For this reason we also recommend that local authorities should be required to include a statement in their annual report about the plans' compliance with the NPPF and any issues that would trigger a review of their plans. Alongside this, flexibility about the requirement for a 15 year land supply should be removed to ensure that all areas have identified a long term pipeline.

Focus on delivery

There is also a need for greater assurance that plans provide a sufficient pipeline of land compared to actual performance, based on a sharper focus on the delivery of plans. This will be in the context of stronger powers available to councils to ensure the delivery of their plans (discussed further in Chapter 4). Local planning authorities are required to produce an annual report on delivery against plans, however currently this information is not collated or used to assess performance. We recommend that monitoring should be tightened and reinforced by sanctions where there is persistent under delivery. Delivery will be monitored annually by DCLG in terms of house build as well as land allocation. Where there is a persistent under delivery, the Secretary of State will have the power to intervene to ensure improved performance. Such measures could include an increase in the buffer provision of additional land to increase the number of sites with potential for delivery; designation of a planning authority under the regime currently used for performance on determining major planning applications (under which applicant could choose to submit their application directly to the Planning Inspectorate); or the creation of a New Homes Corporation (discussed in Chapter 5) to drive delivery.

Recommendation 8: Increasing land for housing through Local Plans

To increase identification and delivery of land through Local Plans:

- ➔ Guidance for Strategic Housing Market Assessments should be strengthened to stipulate core indicators and methodology to ensure consistency and robustness of all Local Plans.
- ➔ All local planning authorities should be required to submit a Local Plan to the planning inspectorate for examination within a set time frame (December 2016). If this requirement is not met, the Secretary of State will have the power to direct the Planning Inspectorate to intervene and ensure an acceptable plan is produced in cooperation with local residents and partners including the local authority. Similar sanctions will apply if a submitted plan is deemed to be wholly inadequate.
- ➔ Local authorities should be required to include a statement in their annual monitoring report about their Local Plans' compliance with the NPPF and any issues that would trigger a review of the plan.
- ➔ Recognising that establishing deliverability of land beyond five years will be difficult, there should be a clear requirement for a 15 year pipeline of land to ensure local authorities take a long term approach to land supply.
- ➔ New and additional emphasis on the delivery of housing in the plan in the context of the stronger powers available to councils to do so. Delivery will be monitored annually by DCLG in terms of house build as well as land allocation. Where there is a persistent under delivery, the Secretary of State will have the power to direct further efforts including an increase in the buffer of identified land to increase the number of sites with potential for delivery; designation of a planning authority; or the creation of a New Homes Corporation where not previously established.

Planning at housing market level and the Right to Grow

Evidence to the review made a strong argument for a strategic level of planning at the level at which local housing markets operate. This geography is driven by commuting, migration, and transport flows which seldom respect local authority administrative boundaries. Planning at this level requires collaboration between neighbouring local authorities⁶¹.

It is clear from evidence we have received that many authorities are working successfully together. This can be clearly seen in the emerging Combined Authority areas and long standing joint work between county and districts in Devon or the joint planning units in North Northamptonshire and in South Hampshire to name a few. However, a number of these areas expressed frustration that their joint plans were not statutory and therefore carry little weight in the planning system.

Evidence to the review and advice from the Planning Inspectorate on individual cases illustrated that there are areas where cooperation will not happen voluntarily and instances where authorities are failing to address the need for growth⁶². This is particularly a problem where towns and cities are tightly bounded by local authority boundaries or urban containment policies leave little room for expansion. In recognition of the importance of delivering the homes needed to allow our towns and cities to expand, the review was asked to explore how a "Right to Grow" should be implemented.

61 Wong C, Ravetz J and Turner J (2000) The United Kingdom Spatial Planning Framework, the Royal Town Planning Institute, London; Hetherington P (2006) Connecting England: a Framework for Regional Development, Town and Country Planning Association, London; and Wong C, Schulze Baing A and Rae A (2006) Uniting Britain – The Evidence Base: Spatial Structure and Key Drivers, the Royal Town Planning Institute, London.

62 <http://www.planningresource.co.uk/article/1227257/duty-cooperate-hits-local-plans>

We have found good examples where co-operation across local boundaries is working well in places such as Cambridgeshire, but elsewhere co-operation has disappeared once the evidence of housing need was published. This is resulting in a failure to identify sufficient land to meet housing need. The current system relies on the Duty to Co-operate to ensure collaborative working where housing need cannot be met within individual authority boundaries. Evidence to the review and discussions with local authorities have demonstrated that the Duty to Cooperate is too weak a mechanism to resolve issues on which authorities disagree and is not a substitute for meaningful and proactive planning at housing market level. There is an urgent need to address this weakness in situations where individual councils fail to plan for the homes needed.

The review has therefore sought to strengthen councils' ability to plan at the level of housing market areas building on existing partnerships whilst at the same time providing a "Right to Grow" to ensure that the housing needs of landlocked communities are adequately met.

We propose that groups of local planning authorities should be able to opt to work together to produce a Strategic Housing Market Plan (SHMP). The SHMP would ensure robust evidence based estimates of housing needs and land availability based on agreed methodology and provide the mechanism through which cross border tensions are resolved. The plan would agree the broad distribution of housing and employment including the requirements for each authority. It will extend to other strategic planning issues, such as transport and employment, however there will be a clear focus on meeting housing need. It would identify proposals for large scale development and cover the infrastructure required and would deal with local reviews of green belt policies under the current rules to enable cities to grow. The relevant authorities would submit the plan to the Planning Inspectorate for examination and once it was found sound, would be required to have regard to it in developing and updating Local Plans.

To deal with areas where co-operation is not forthcoming and meeting housing need is unresolved, we recommend that the Secretary of State should have the power to require the authorities of a particular housing market area to complete a Strategic Housing Market Plan (SHMP) as a statutory exercise and to a tight deadline. The request for the direction to undertake the SHMP could be prompted by one or more of the partner authorities where issues cannot be resolved; the planning inspectorate; the LEP on the basis of concerns about the impact of inadequate housing supply on the local economy; or the Secretary of State's own concerns about signs of continuing stress in the local housing market. The Secretary of State should have the power to instruct the Planning Inspectorate, working with local people and organisations as well as cooperative councils, to complete a SHMP to an accelerated timetable if local cooperation fails thus ensuring that those areas that need it have the space to grow.

Planning authorities seeking to meet local housing need should be reminded that current policy provides for both review of and change to green belt boundaries, including swaps of land, as long as that is in the context local plan preparation or review and is the subject of detailed local consultation. The current government have underlined the importance of tailoring local green belt to meet local needs and scope within the existing policy framework to do so, as set out in a written ministerial statement by the Secretary of State for Communities and Local Government, Eric Pickles in September 2012:

"As has always been the case, councils can review local designations to promote growth. We encourage councils to use the flexibilities set out in the national planning policy framework to tailor the extent of green belt land in their areas to reflect local circumstances."

“There is considerable previously developed land in many green belt areas which could be put to more productive use. We encourage councils to make best use of this land, whilst protecting the openness of the green belt in line with the requirements of the national planning policy framework.”⁶³

Recommendation 9: Strategic Housing Market Plans and the “Right to Grow”

- ➔ To ensure plans are based on housing market areas, not administrative boundaries, groups of authorities covering one or more strategic housing market area should be able to prepare Strategic Housing Market Plan (SHMP) with statutory weight which must be taken into account in developing and updating Local Plans.
- ➔ To implement the “Right to Grow”, the Secretary of State should have the power to require the authorities of a particular housing market area to complete a Strategic Housing Market Plan (SHMP) where co-operation is not forthcoming and housing need is not met. The request for a direction to undertake the SHMP could be prompted by one or more of the partner authorities; the LEP; the planning inspectorate; or the Secretary of State. The Secretary of State should have the power to instruct the Planning Inspectorate, working with local people and organisations as well as cooperative councils, to complete a SHMP to an accelerated timetable if local cooperation fails.

Quicker plan-making

A major constraint in delivering housing in the short to medium term is that the length and complexity of the current Local Plan making process creates a prolonged period of uncertainty. A plan cannot be put in place overnight given the evidence, consultation and examination processes required. Even with a fair wind a plan can take 3 years on average to produce and costs at least £500,000 from beginning to end plus staff time⁶⁴. Only at the point that the Local Plan is complete, examined and approved are the policies in it considered to have full weight.

Currently the Local Plans examination process applies to and delays the whole plan, no matter what the spatial or other impact of a particular proposal. Although the NPPF implies that an emerging plan can gain influence over decision making as it proceeds through this process, in reality significant influence is only achieved on adoption, thanks to the requirements of the Soundness Test. This means there is more uncertainty for developers and communities for longer than necessary.

The Planning Officers Society submitted proposals for integrating strategic plans with existing Local Plans to provide two distinct stages, strategy and details, within the context of a single plan. This would allow planning applications to be considered in the light of up to date local plan strategic policies much sooner than at present.

Building on this proposal, we recommend that the plan making process should be split into two stages. Local authorities would first work together on the strategic elements of their plans including housing numbers, and related issues such as strategic infrastructure, major urban extensions or new settlements. This strategic element could take the form of a Strategic Housing Market Plan where authorities have opted or been required to produce one.

⁶³ House of Commons Written Ministerial Statement 6 September 2012; Communities and Local Government, Housing and Growth

⁶⁴ On the basis of estimates provided by local authorities

If and when found sound by the Planning Inspectorate the strategic part of the plan could be accorded weight in decision making much earlier than at present. This would bring certainty to developers and communities much earlier in the process. It would also have the advantage of limiting more expensive and labour intensive requirements such as Strategic Environmental Assessment and strategic viability assessments to that stage and not the plan as a whole. The detailed work on the detailed policies of a Local Plan could be approved after a lighter touch second stage examination.

Recommendation 10: Simplifying plan making

To simplify and speed up plan making, the process, including examination, should be split into two stages. Local authorities would first work together on the strategic elements of their plans including housing numbers, strategic infrastructure, major urban extensions or new settlements. Once found sound by the Planning Inspectorate it could be accorded weight in decision making much earlier than at present. The detailed work on the detailed policies of a Local Plan could be approved after a lighter touch second stage.

Planning for London's housing need

Housing pressures are especially severe in London and it is arguable that a bespoke approach is needed to adequately plan for the city's housing need. GLA estimates are that London's population will reach nine million by 2020 and ten million by 2035⁶⁵. That is double the population growth rate of England as a whole and roughly the equivalent of adding the population of Birmingham every ten years⁶⁶. House building in the capital has drastically failed to keep pace with this increased demand. Against an annualised growth rate of 40,000 households, just 18,380 were built in 2012/13.

The first of the Mayor's objectives set out in the London Plan is that London's growth should be accommodated within its boundaries, yet the latest revisions to the plan sets out a planned provision of 42,000 dwellings per annum within London, falling short of the 49,000 to 62,000 dwellings per annum needs identified within the 2013 London Strategic Housing Market Assessment (SHMA). The Mayor's plan therefore leaves a gap of between 9,000 and 20,000 homes per annum⁶⁷.

Despite the London Plan providing the strategic planning framework and the powers and funding of the HCA being devolved to the GLA, the capital does not appear to have a clear strategy for dealing with this unmet housing need. London Boroughs report a lack of clarity as to the extent to the London Plan itself is an adequate framework for meeting the duty to cooperate within London and the policy gap between the London Plan and planning policy in the surrounding areas bears little relationship to the functional sub-regional economy. A recent report highlighted a lack of joined up planning for housing and capacity and investment in transport infrastructure, particularly rail stations in the capital and surrounding areas⁶⁸.

It is clear that further work is needed to develop a coherent strategy to identify where London's unmet housing needs will be met within London and the wider South East. In London's case, an approach is needed that goes beyond the housing markets covered by the London Plan. We conclude that resolving this situation will require government to give a clear view on the extent to which London's housing needs should be met within the capital or the surrounding local authority areas.

65 2013 round demographic projections GLA, 2014

66 Office for National Statistics, 2012-based Subnational Population Projections for England, May 2014

67 Draft Further Alterations to the London Plan (FALP); April 2014

68 NLP representations on the Draft Further Alterations to the London Plan (April 2014)

Ensuring local access to new homes

Ensuring people can access homes locally will help give young families the chance to put down roots and ensure the future stability of local communities by meeting people's aspirations to be able to be close to their families and existing neighbours. Typically the vast majority of people (72%) move home within a 10 mile radius⁶⁹. If we are to build local support and encourage communities to support the granting of permissions for new homes, it will be important that local people feel they will be able to access the new homes built in their areas. This is particularly a concern in some parts of London where there is a fear that local people will lose out to investor landlords and foreign investors. This needs to be balanced with the recognition that new homes need to support labour mobility and mixed communities. Local authorities already play an important role in ensuring that Local Plans reflect the right mix of tenures in their areas to meet local need so that local people benefit from new development. Increasing opportunities for shared ownership will in particular help younger generations afford new homes in their areas. There are also examples of developers ensuring that opportunities to purchase are released and marketed locally before being advertised further afield, such as Urban Splash at their Chimney pot park scheme in Salford.

Recommendation 11: Ensuring local access to new homes

To ensure that local people can access homes built in their areas:

- ➔ Local authorities should ensure that Local Plans reflect the right mix of tenures in their areas to meet local need so that local people benefit from new development, particularly increasing opportunities for shared ownership to help local people and first-time buyers afford new homes in their areas.
- ➔ Local authorities should be empowered, in areas with a public stake in new housing development such as Housing Growth Areas, to ensure that a proportion of new homes are released and marketed locally before further afield so that people living locally or with strong local connections including first-time buyers get the chance to buy the homes that their local community have given permission to be built.

Positive planning

More certainty for developers

It is clear from evidence from developers of a range of types and sizes that the planning process remains a source of frustration to developers and long standing concerns about the time, costs and complexity involved in securing planning permission remain⁷⁰. These frustrations were accompanied by the recognition that local authority planning departments suffer from strained and declining resources.

Successive governments have sought to address these issues and there have been numerous efforts over recent years to improve the planning process, for example, through the Penfold⁷¹ and Killian Pretty⁷² Reviews and by successive reforms including several Planning Acts in the last 10 years as well as changes to permitted development rights and the new performance regime introduced by the current government.

⁶⁹ 2007-08 Survey of English Housing

⁷⁰ Linden Homes submission; G15 submission; Bramley, G. (2007) 'The sudden rediscovery of housing supply as a key policy issue', *Housing Studies*, 22: 221–42; Cheshire, P. and Sheppard, S. (1989), 'British planning policy and access to housing', *Urban Studies*, 26: 469–85.

⁷¹ Penfold Review of non-planning consents, 2010

⁷² Killian Pretty Review – Planning applications: a faster and more responsive system, 2008

These previous attempts to address these issues have tended to focus on performance targets in relation to the granting of planning permissions. There are valid questions about whether this will get to the heart of the issue given that overall there are high levels of approvals (87%), high levels of rates of delegation to officers (91%) and that the vast majority of local planning authorities meet government targets for speed of decision making⁷³.

Recent research from Cambridge University looking at planning constraints⁷⁴ showed that the planning performance targets do not tell the whole story; they may mask both good and bad practice and can be misleading about practice and outcomes with little information about what actually occurs in each local planning authority. The targets are regarded as useful in certain circumstances, but it was widely felt that local planning authorities need to focus on providing good customer service, not just on meeting targets.

As Professors David Adams and Craig Watkins wrote in their recent report 'The Value of Planning':

*"Policy-makers should focus not simply on making regulatory planning 'more efficient', but rather on making a much broader planning agenda more effective in adding value to development activity, economically as well as socially and environmentally"*⁷⁵.

In a recent survey, both developers and local planning authorities identified strong relationships as a crucial factor to successful operation of the planning system⁷⁶. Our recommendations for a more active role in promoting development and the creation of New Homes Corporations (discussed in Chapter 5) will provide a means to strengthen relationships and draw in skills, resources and expertise from partners. More precisely in relation to developers, councils should be stable, yet challenging partners – clear about what they require, in terms of design, mix and contributions from planning, and providing leadership but at the same time ensuring timely and consistent responses to queries.

Evidence to the review has pointed to the importance of reducing risk and uncertainty within the system in order to encourage greater involvement from a wider range of players, from SMEs operating on small sites at one end of the spectrum to large scale developments involving a range of players including construction companies and institutional investors at the other. This has led us to focus on ways to reduce risk and encourage partnership working.

Partnership not confrontation

Early and positive engagement between developers and local authorities and communities is fundamental to improving delivery and must continue throughout the planning process. Collaborative approaches deliver better results more quickly for local communities and developers alike. A culture in planning departments that encourages open and positive dialogue with developers and clear pre-application process for developers is critical.

For larger schemes, Planning Performance Agreements (PPAs) are a valuable tool to help major proposals progress through the application process. A PPA is an agreement between a local authority and a developer (and potentially other key stakeholders) which sets out who will do what and when. They are a tool for managing the application as a project, addressing issues of resources, the quality of applications and timeliness of decisions. They are designed to give developers greater certainty and confidence in the planning process.

73 CLG PS1 & PS2 returns

74 Cambridge University for DCLG Select Committee *The nature of planning consents*; 2014

75 Adams, A and Watkins, C: *The Value of Planning*, 2014 RTPI

76 Heywood, A: *Housing and Planning: what makes the difference?*, 2014 Smith institute

Greater use of PPAs would offer a means of de-risking larger schemes and promote close working through the planning system. They would also provide an important tool for councils in exercising the more active role in land assembly and development recommended by this report as a means of agreeing the route through the planning process for partnership developments. The Planning Advisory Service, the LGA and the BPF have worked together to promote good practice in the use of PPAs and we would support the continuation of these efforts.⁷⁷

In evidence to the review, developers recognised the value of PPAs but emphasised the importance of the local authority having a positive attitude towards growth to their success. Concerns over resources, as well as the binding nature and the complexity of the current guidance have meant they are not used as widely or as effectively as they could be. To be more effective, PPAs need to be simpler, more flexible and proportionate so they can be applied to a wider range of projects. This should include focusing a PPA on a more limited number of issues or specific parts of the planning process – thereby reducing the cost and complexity and ensuring they can be used more widely.

A light touch Planning Performance Agreement

A collaborative partnership between the London Borough of Hounslow and Crest Nicholson has brought forward the redevelopment of a redundant previously developed site to provide 59 residential apartments in Isleworth. A Planning Performance Agreement (PPA) was drafted during pre-application discussions as the issues in relation to the proposed development became clear. The PPA reflected the fact that this was a relatively straightforward proposal, but a shared commitment on the part of the council and the developers ensured that the milestones were identified and obligations put in place to secure a swift resolution to the planning application. The PPA also ensured a good working relationship between the Council and the developer, which ensured the scheme emerged to match the Council's and the developer's aspirations.

Masterplanning

Although some of our most attractive neighbourhoods, villages and towns illustrate an eclectic mix of different homes and buildings created at different times and to different fashions there is widespread agreement that attractive places are rarely achieved quickly by simply dividing up available land and leaving market forces to do the rest. Great places can evolve but they are rarely created at pace without an overriding vision and the controls necessary to ensure that it is reflected in the final outcomes. Evidence presented to us underlined the importance of good master-planning especially for new towns, large scale urban extensions and the remodelling of large urban areas and provided examples of where that has been effective. Examples include the reshaped city centres of Birmingham, Manchester and Sheffield; current large scale developments in Salford and Kings Cross, London and the redevelopment of the Woolwich arsenal.

Good quality masterplanning goes well beyond development control and is instead an attempt to create of vision of the place to be created focusing on the right mix of land uses and tenures; transport and other connections; the need to plan for and protect informal spaces; parks and a sustainable environment and perhaps most of all the health, safety and pleasure of both residents and visitors. Good masterplanning seeks to take account of all infrastructure needs, including social and affordable housing

⁷⁷ Planning positively in partnership, 2014, PAS, LGA, BPF

to foster a balanced community and crucially to identify the underlying economics of the whole project, establishing where financial returns can be best maximised and where cross subsidy is vital.

This is not a uniquely public sector role although the best examples of large scale, private masterplanning usually reflect sensitivity to the concerns of the relevant planning authority and neighbouring communities. Peter Freeman speaking about his development at Kings Cross emphasised that effective master planning requires flexibility to respond to changing economic conditions over the life of schemes which can sometimes take 20 years or more to complete and the value of having both a business plan and a clear summary of the eventual public benefits to set beside the vision.

He and others underlined that a strong master plan need not lead to a single design style or even limit the number of designers and builders involved in delivery; quite the reverse, a strong masterplan provides clear guidance of the parameters within which individual sites can be developed and that can be reinforced by the preparation of a design guide that focuses on key elements but leaves room for creative solutions in terms of density, layout and architectural style.

Redline applications: de-risking planning for small sites

The risks of uncertainty and delay in the development management process are problematic for all developers, but are exponentially greater for smaller developers because of the nature of their business models and less easy access to working capital.

There was strong support in evidence from SMEs for a more proportionate approach to planning applications on small sites⁷⁸. Development of small sites would make an important contribution to increasing the number of homes built and attract SME house builders into the market on sites that are too small to be of interest to the volume house builders. According to Glenigan data 59 per cent of residential planning permissions granted in 2014 were on sites of less than 10 houses, amounting to six percent of new homes and that is at a time when SME house builder activity has been exceptionally low. Development of small sites have the additional benefits that they create jobs locally and can provide homes to meet very local need in towns and villages.

We therefore propose a return to the use of “redline” applications to de-risk and speed up small site applications. For developments of less than 10 homes which are not in conservation or similarly protected areas the principle of development would be established by the submission of an application accompanied by a plan with the site outlined in red and a short statement justifying the number of units, intended design and dealing with the likely impacts. The details would be approved by condition or submission of reserved matters once the permission had been established in principle. This would dramatically reduce the upfront costs to small developers of collating all the information required until after the permission had been granted in principle.

Neighbours would still have a say at the detail stage when for example layout and massing and density are applied for. There could be a further safeguard in that planning authorities could have discretion to ask for further information at the first stage if they felt there were exceptionally sensitive circumstances. Reducing the costs and burdens of bringing forward proposals for development in this way would de-risk and speed up development of small sites.

⁷⁸ For example, Federation of Master Builders; Berkeley Group submissions to the review, roundtable discussion with SMEs.

Planning conditions

Evidence to the review raised concerns about the number of planning conditions applied to planning permissions, and that time taken to discharge the conditions can hold up the start of development. Conditions are a necessary part of the process and are often of advantage to the applicant. They allow expensive work on details to be postponed until permission has been granted, or enable developers to address a matter which was raised late in the process without delay in granting the permission.

However developers have raised concerns that some authorities take too long to issue confirmation that the applicant has discharged conditions which can delay start on site. It is clearly unacceptable for conditions not to be signed off promptly. In addition, local planning authorities tend to use a standard set of conditions in order to aid efficiency, but the evidence we have received suggests that in some cases these means some conditions are applied unnecessarily.

The NPPG already sets out cogent advice on the use of conditions and the government are consulting on proposals to ensure conditions are applied only where they are needed and processed more quickly. This includes the proposal that if conditions are not signed off within a certain time frame it will be assumed they have been discharged. This will go some way to focus attention on processing conditions quickly and we propose that these measures should be implemented. We also believe that there needs to be more attention as to how conditions are used in the first place. The review has learned that this issue is being addressed by the LGA's Planning Advisory Service working with councils, the development industry, statutory consultees and community planners to create an advice note on good practice regarding the efficient use of conditions which is an approach we strongly endorse.

Recommendation 12: De-risking planning

Reduce the risk and speed up the process for planning permissions through:

- ➔ Greater use of masterplanning and Planning Performance Agreements for large scale development and early engagement in planning to reduce risk, improve certainty and speed of development.
- ➔ Introduction of "redline" applications for sites of less than ten units (a plan of the site with a short statement justifying the design and dealing with the likely impacts). This would allow the principle of development to be agreed before the developer is required to produce a lot of work on detailed matters (which would subsequently be subject to approval through conditions or reserved matters).
- ➔ Implementing the current proposal to apply set timescales on planning authorities for signing off conditions and that where timescales are not met, they will be deemed to have been discharged. The LGA, Planning Officers Society; Home Builders Federation, British Property Federation and statutory consultees should promote the best practice guidance on the effective use and discharge of conditions to ensure it is widely adopted.

Up-skilling planners

Many submissions to the review recognised that under-resourcing of planning and lack of skills and capacity and particularly senior leadership within planning departments is a critical issue to address in improving planning services⁷⁹. Both developers and local communities rely on properly resourced and fully skilled planners and well informed councillors to deliver positive outcomes. We would support the

⁷⁹ For example HBF submission to the review; Crest Nicholson submission

recommendation in Terry Farrell's recent review that councillors should receive regular training to support their role as champions of place.

There is increasing evidence that pressure on local government finances as a result of public spending cuts has taken its toll on planning departments⁸⁰. The numbers of planners employed by local planning authorities fell 12.6% between 2010 and 2012. Planning Magazine's 2012 survey shows that local planning departments are often ill equipped to deal with an upturn in development activity.

With constraints on local authority budgets likely to continue for the foreseeable future, local authorities will need to work creatively and collaboratively with other local authorities to share expertise and drive efficiencies. A number of areas have already formed joint planning units to share resources and expertise. The recommendations in this review for a move towards collaborative planning at strategic housing market level will create opportunities to recruit skills and expertise that would not be feasible for some individual authorities. This joint working could help to develop the skills sets required for strategic planning and for a more active role in development and help build the capacity needed to bring forward large scale development. We recommend that local authorities pool their capacity and expertise, particularly when dealing with large sites, drawing on the greater capacity within the ATLAS service as discussed in Chapter 2.

Paying for planning but guaranteeing high standards of service: fees

Evidence to the review has also highlighted that under the current system planning fees are set centrally and leave planning departments operating at a loss. This means the service is subsidised by the tax payer and has an impact on resources available for planning. Developers have recognised this issue and many would be willing to see planning fees set at a local level if there were adequate safeguards (for example that fees were to be set no higher than the cost of the service) and a consistent level of good service could be guaranteed⁸¹.

We therefore propose that councils should be able to set planning fees locally on a full cost recovery basis on condition that they can present a clear business case, demonstrate efficient and effective services and consult with developers in developing their charging schedule. High standards of service and satisfaction would be required and regularly assessed, for example meeting agreed timescales for processing permission and conditions would be a condition of locally set fees.

Recommendation 13: Resourcing planning

To ensure councils have the skills and resources needed for a more proactive and positive planning role:

- ➔ Local planning authorities should be able to set planning fees locally on a full cost recovery basis but in return for guaranteed high levels of service. This could be piloted or rolled out with local authorities required to present a clear business case and charging schedule in consultation with developers.
- ➔ Local authorities working together at strategic housing market level should pool capacity and expertise – including drawing on good practice from joint planning units and the greater capacity within ALTAS to support major development.

⁸⁰ Institute of Fiscal Studies 2012 concluded "spending on planning and development services is set to face the largest cuts of any service area, equivalent to 43% 2010 – 2012"

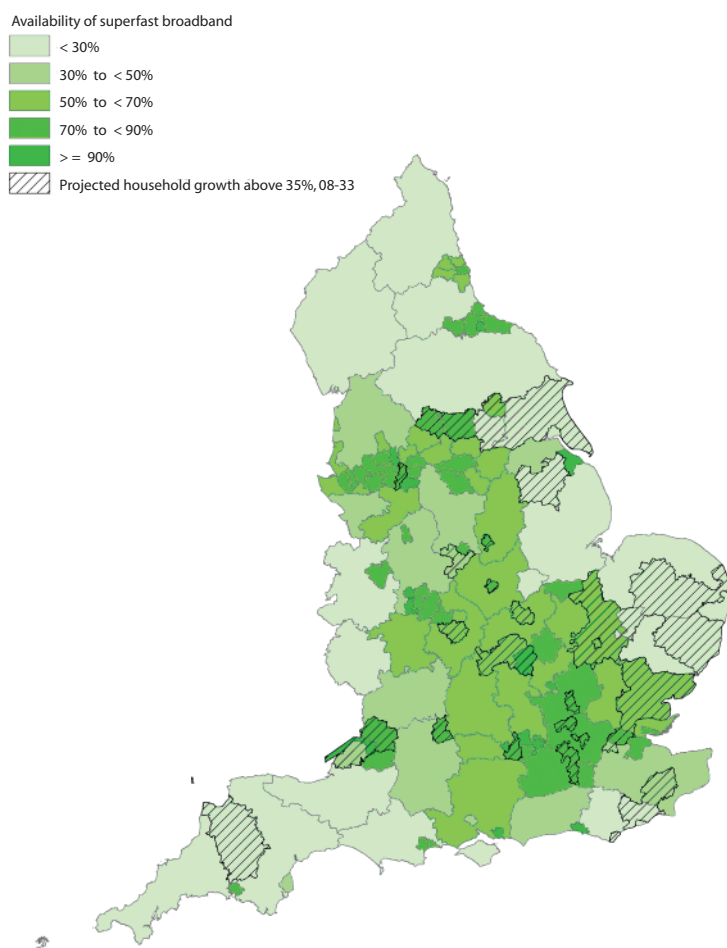
⁸¹ BPF and LGA Unlocking growth through partnership (2012)

A National Spatial Dimension

Submissions to the review made the case for housing to be considered as an essential part of the national infrastructure required to support growth and many suggested a national spatial plan⁸².

Research commissioned by the RTPI⁸³ illustrates the lack of a clear long term national overview of the inter-relationship between housing delivery, environmental constraints and other infrastructure delivery across different parts of the country. For example, when household projection figures are overlapped with proposals for high speed broadband and transport it becomes clear there is no major plan for the high growth areas in the eastern part of England (see figure 11).

Figure 11 – Superfast Broadband and High Household Growth Projections



Source: A Map for England

Local authorities also made the case for a more spatially sensitive approach to national policy⁸⁴. The uniform, aspatial, guidance provided by the NPPF is found not sufficiently robust to address different demographic and market conditions between different areas of the country and there is a sense that it is largely driven by a focus on London and the south east. There is also a lack of join up to planned

82 TCPA, RTPI, RSPB submissions to Lyons

83 Wong C, Baker M, Hincks S, Schulze Baing A and Webb B (2012) A Map for England: spatial expression of government policies and programmes, the Royal Town Planning Institute, London.

84 For example, submissions from Liverpool, Birmingham, Manchester, Derby and Nottingham city councils and the Core Cities.

investment in infrastructure. An example highlighted to the review was the planned development of the new High Speed Rail route. Although HS2 will have a limited number of stops its construction will release land along the corridor that could be available for development. Opportunities to build housing around those points should be fully exploited.

There is, as we explore elsewhere, broad political interest and support in creating new settlements such as urban extensions, Garden Cities and other large scale development. It is important that these are linked to strategic infrastructure decisions and form part of a national strategy for growth.

Sir John Armitth's review of long term infrastructure planning proposed new 10 year assessments to cover key economic infrastructure sectors (energy, transport, water, waste and telecommunications). This provides an opportunity to ensure that decisions about future investment and delivery of major infrastructure development can inform large scale housing development to make best use of capacity already in the pipeline.

We propose a national spatial dimension to the NPPF to identify opportunities for substantial housing growth created by national infrastructure investment. The guidance would inform Local Plans and major developments and ensure national infrastructure decisions are linked to opportunities to build more homes. It would:

- identify national plans and priorities for tackling infrastructure constraints which might be expected to unlock major housing development;
- outline the likely spatial implications of other Government policies including for instance measures to address the economic imbalance between the regions;
- draw together key strategic elements from Local Plans to inform national decision making;
- make clear government's interest in promoting new Garden Cities and the criteria against which it would entertain proposals from councils, communities or development partnerships;
- provide guidance on relationship between cities and their hinterlands which are not adequately encompassed by cooperation at the level of the housing market area. In these instances the guidance should provide a view on the extent to which housing need should be accommodated within a city and the surrounding areas. This would particularly be the case for the relationship between Greater London and the surrounding authorities in the South East.
- In addition, and as discussed in Chapter 1, the review is clear that there is a strong case to ensure that where ever possible, redundant and surplus brownfield land is developed. We therefore propose that the NPPF is updated to include a clear "brownfield first" policy with a sequential test.

Recommendation 14: National spatial dimension

A national spatial assessment should be produced to draw together the spatial implications of government infrastructure and growth and economic development policies. This should include investment priorities as set out in the Sector Infrastructure Plans recommended by the Armitth Review. Based on this assessment, guidance should be issued to local authorities to inform Local Plans and major developments and ensure national infrastructure decisions are linked to opportunities to build more homes. It should also set out guidance on how housing need should be met by cities and their hinterlands; and how policies should address economic imbalance between the regions. In addition, the National Planning Policy Framework should be updated to establish a brownfield first policy with a sequential test to be applied to development.

Chapter 4

Ensuring land is built out: incentives and infrastructure

The reforms proposed in the last chapter will strengthen the responsibilities on each council to increase the amount of land identified for housing development and sharpen their responsibility to ensure that the plans are delivered. This by itself will not guarantee that land will be developed. Ensuring local authorities have the right levers to make sure that the new homes are actually built will be a crucial part of their ability to play a more active role in development and deliver their greater responsibilities for place shaping.

There are good reasons for house builders to ensure they have a pipeline of land and there are good reasons such as requirements for infrastructure and lack of viability why some sites aren't built out. However, the review heard concerns from a number of communities that once allocated, land is sometimes left undeveloped or built out slowly and pressures for further land release continue, with housing need continuing to grow. In addition, house builders themselves expressed frustration at cases of developable land held by other developers or promoters which is not being developed. To tackle these issues we propose measures to increase transparency in the land market and encourage both private and public landowners and developers to develop sites that have been allocated for homes promptly.

It is essential that the costs of providing the infrastructure needed to support new homes are funded as far as possible from the value generated by the granting of planning permission, rather than falling to the taxpayer. Too often, housing development has not seen the necessary infrastructure provided, leading to unacceptable strain on existing communities and their facilities. Opinion polls show that this is a major factor in public attitudes to development⁸⁵. In addition, there is an acute shortage of affordable housing, and to ensure its delivery as part of sustainable, mixed communities, "planning gain" has a major part to play.

This chapter explores factors which determine the rate of build out of sites: introducing reforms to make the land market operate more efficiently; and ensure a fair proportion of the costs of infrastructure are captured from the uplift in value created by development.

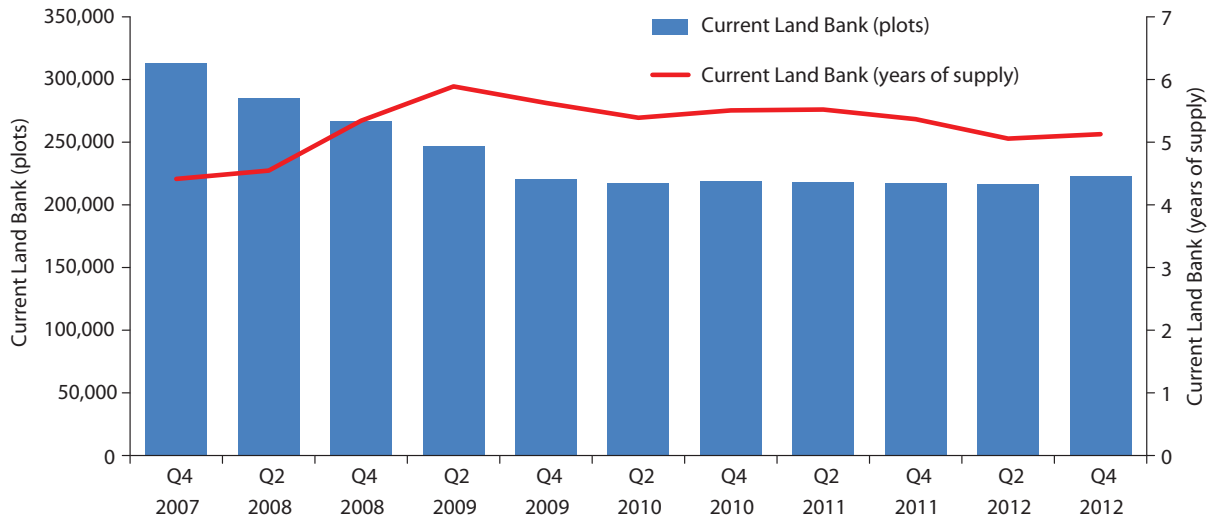
The operation of the land market

In response to constrained land supply, builders hold land in reserve to ensure an adequate pipeline of land. In evidence to this review house builders have been clear that their business model relies on building and selling homes rather than speculating on land. Ready access to land is a critical factor in investor confidence and house builders' standing in the market.

⁸⁵ British Social Attitudes Survey (2013)

Following the market slowdown, the major house builders built out units and the land bank appears to have fallen in line with completion levels. They are currently sitting at around 4 to 5 years of supply at recent completion rates.

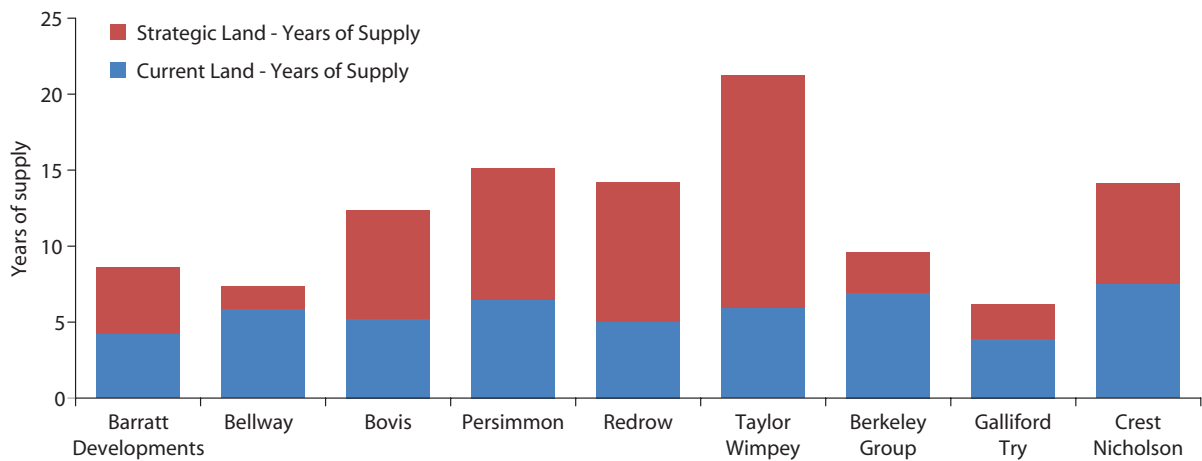
Figure 12 – Current Land Banks of the ‘Big Six’ House builders



Source: Brickonomics

In reaction to the shortage of land and given the time taken to promote land through the planning system, house builders also hold strategic land banks (5 – 10 years on average but this does vary across the sector as the following graph shows).

Figure 13 – House Builder Current & Strategic Land Banks



Typically, these are not owned outright but acquired through option agreements and conditional contracts.

Land Options

Options effectively allow a developer to 'reserve' a piece of land. They involve a legal agreement for the developer to buy the land at a future point in time from the land owner. They will typically be set for a fixed period and most require the developer to promote the land through the planning system. The developer will typically be under no obligation to buy the land but the landowner must sell provided the conditions of the agreement are met.

Option agreements reflect the competition for land and create an expectation of its value. The house builder or agent is motivated to offer the best deal to the land owner in order to secure the option and to demonstrate by reputation to other land owners that they are the right company to contract with.

Given that the process of bringing through strategic land can be costly, risky and can take a number of years, the use of options and existence of strategic land banks is a necessary part of the process of promoting land through the planning process. However it does mean that large amounts of land suitable for development are tied up in option agreements and therefore not available to other developers. This can impact on the rate at which it is released. In addition, the review heard that not all options are recorded in strategic land banks and a lack of transparency on options hampers our understanding of the full extent of land availability.

As house builders faced up to the debt and lending issues caused by the recession, their appetite for risk and strategic land promotion has in many cases, reduced. Care is needed to avoid basing our understanding on the exceptional circumstances following the recession; however it has resulted in increased activity from land agents, rather than developers, acting as site promoters. For example, just six land agent firms hold strategic land banks totalling 23,000 acres⁸⁶. That equates to around 300,000 to 400,000 homes at current densities. It is important to note that both house builders and land agents play an important role in the operation of the market by promoting strategic land through the planning system. However, it is equally important to understand concerns about potential for land speculation and trading. Of particular concern is the activity of non-developers holding land under option or with planning permission but with no intention of building on it and who may be motivated by speculating on future land values.

House builders themselves have expressed frustration at times with sites being held by their competitors that are not being developed, as the Berkeley Group submission to the review identified:

Whilst there is a large stock of outstanding planning permissions, many of these are on long term developments which are in production. Any measures that seek to restrict land holdings must therefore not penalise companies who are developing. However, there are some permissions on land which have been achieved to establish the site's value or with the intention of trading the site. Getting these sites to the market is important to increase housing supply⁸⁷.

A report by Molior for the London Mayor in 2012 found that there was existing planning permission for 210,000 new homes in London. The report found that 45% of the permitted homes and 55% of the development pipeline are in the control of firms that are not builders – firms such as investment funds, historic land owners, government and 'developers' who do not build.⁸⁸

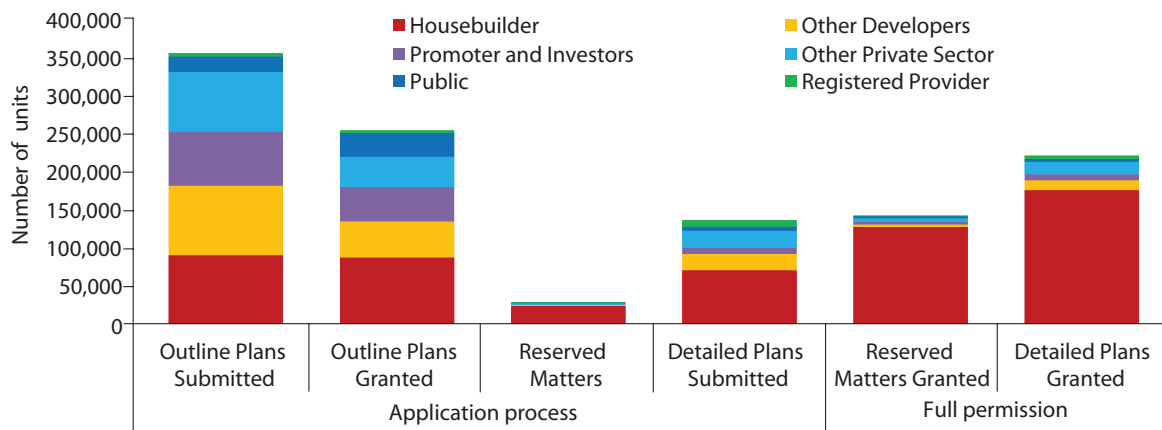
⁸⁶ Company Accounts/Websites

⁸⁷ Berkeley Homes submission to Lyons Review

⁸⁸ Molior/London Mayor – Barriers to Housing Delivery, 2012

The data for London may be an outlier compared to the rest of the country given the relatively strong market performance and investment activity in London since 2010 which may increase expectations of future value. Unfortunately there is no similar information for the rest of the country. However Savills' analysis of Glenigan data showing ownership of sites by planning status highlights the prevalence of other market players early in the planning process, while house builders own the majority of sites with detailed planning permission granted.

Figure 14 – Site Ownership by Planning Status



Source: Savills using Glenigan Data

Greater transparency about the land market

As illustrated in the discussion above, the lack of publicly available information about land transactions, ownership and options held on land makes it difficult to understand the extent to which land is controlled by those who intend to bring it forward for development. The Land Registry records the ownership of land and property and has registered 82% of the land in England and Wales with more than 23.5 million titles⁸⁹. However, as evidence to the review highlighted, there is limited public access to this information and no requirement to register land options⁹⁰.

Greater transparency about ownership, options and transactions would deliver a number of important benefits that would result in better operation of the land market. It would assist in effective plan making by enabling local authorities to properly assess land availability and the record of landowners, agents and developers in bringing forward sites⁹¹. It would greatly assist local authorities and other developers in land assembly, and provide information on achievable prices to landowners. It would also improve understanding of the viability of schemes to assist in negotiations of planning obligations. This would also increase the chance of planning gain being financed by a landowner rather than a developer⁹².

We recommend that to improve the operation of the land market, the Land Registry should open up land ownership information to the public in a similar manner as the property price paid data set and make it a legal requirement to register land option agreements, prices and transactions. This would provide

89 Land Registry Annual Report and Accounts 2012/13

90 RTPI submission; Peter Studdert submission.

91 The RPTI highlighted in evidence that by opening up data to ownership and options, the Land Registry could use their existing tools to make data available at a neighbourhood, local plan or any other level which would help government, councils and local communities to make more informed choices and encourage the release and allocation of land in plans.

92 Peter Studdert submission

clarity about the extent to which land trading and speculation is taking place. Government would then be able to undertake a comprehensive review to establish whether there is evidence of anti-competitive behaviour or destructive speculation and if necessary, take action to address it.

Increased transparency of land ownership, options and transactions should apply to all landowners, not just private sector ones. The public sector is not exempt from criticism of land banking or for holding out for the maximum value it can get for its land (as we discuss in Chapter 5). This is compounded by the lack of a single, comprehensive or transparent register of surplus public land. We discuss elsewhere the importance of an identified development pipeline to public land. The public also has an interest in the land held by banks in which the UK government has a substantial stake. These should also fall under the transparency rules and HM Treasury should ensure that they play their part in releasing land for development⁹³.

Recommendation 15: Transparency in the land market

To ensure greater transparency in the land market, the Land Registry should open up land ownership information to the public in a similar manner as the property price paid data set and make it a legal requirement to register land option agreements, transactions and prices.

Overseas investor activity in the UK housing market

An additional issue which was raised with the review particularly in relation to the London housing market, was the concern that investment in housing from overseas buyers is limiting the homes available to meet local housing demand and having an inflationary impact on prices. The level of foreign investment is particularly high in the prime London market: in 2012, three quarters of new build homes priced at over £700 per square foot were sold to international buyers⁹⁴.

Survey evidence shows that 85% of all new build, off plan London properties purchased by international buyers are investments and rented out⁹⁵. Provided they are investing in homes to occupy or rent out to residents, overseas investors are contributing to an overall increase in the housing stock. However the review has heard anecdotal evidence that new build properties are being bought off plan and sold on before the project is completed for a quick profit. This process may be contributing to rising sales prices for new build. Hard data on both of these factors is limited and so it is difficult to gauge the true scale of either of them or their impact on house prices. We therefore suggest that there should be further analysis of these practices and consideration of measures to curb such activity.

A report by Molior for GLA in 2012 found overseas investors have been important to developers progressing major residential schemes in London⁹⁶. The extent to which this is a feature of the recessionary period or an ongoing trend is not yet clear. Proposals to address issues relating to foreign investment should take care to consider any potential impacts on construction activity overall.

⁹³ Wates group submission.

⁹⁴ D.Green; D.Bentley *Finding Shelter: Overseas investment in the UK housing market*, Civitas 2014

⁹⁵ Ibid

⁹⁶ *Barriers to Housing Delivery*, Molior, 2012

Building out sites

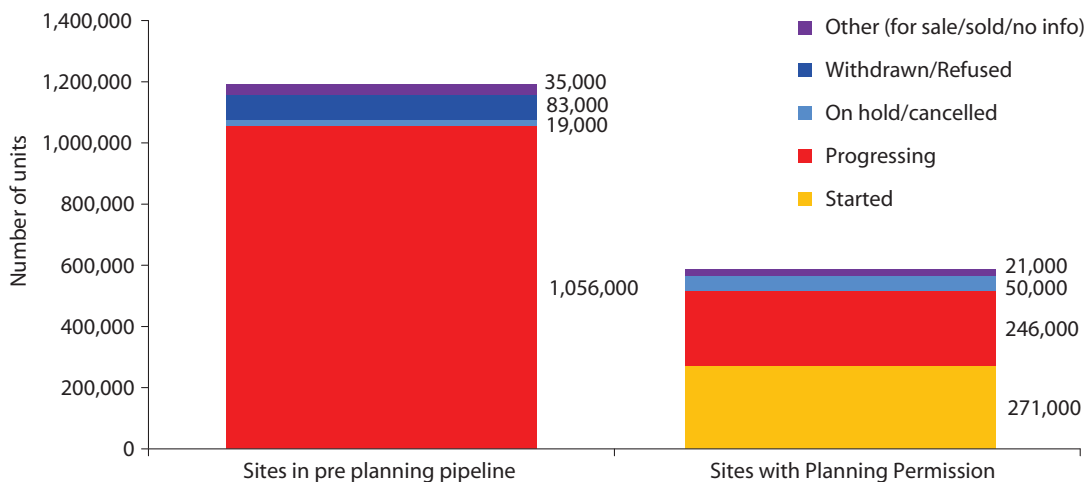
Evidence to the review highlighted instances of stalled sites or developments still being built out very slowly. This is an issue of concern to local residents reflected in the postbags of MPs and councillors. One example was of housing schemes in the Northamptonshire area where in spite of housing pressures, no obvious issues of viability or infrastructure problems, housing schemes were being delivered very slowly⁹⁷. As highlighted above, house builders themselves expressed frustration with permissions held by those who did not intend to build them out.

Sites with planning permission

Our analysis of residential development data collected by Glenigan examines both units in the pre planning pipeline (those yet to obtain detailed planning permission) and those units which have obtained planning permission and are processing towards development.

This analysis indicates that there are 6,700 sites (containing more than ten homes) with planning permissions that have not yet been completed. These sites have the capacity for 588,000 homes. We found that around 50,000 of these homes are on sites that are classified as on hold or cancelled, 246,000 are progressing towards construction and 271,000 are on sites that have already started construction. A further 21,000 are on sites that are for sale, have been recently sold or have no information available.

Figure 15 – Glenigan Pipeline of Sites in Planning & Approved



Source: Lyons Housing Review using Glenigan data

In addition to the 50,000 homes that are on identified stalled sites, however, 80,000 unbuilt homes have had planning permission in 2010 or earlier. Of these there are 26,000 homes on sites that have yet to start and 54,000 homes on sites that have started but have not yet completed. In total this means there are 130,000 homes with planning permission, equating to 22% of the total that are either on hold or have been in the system for more than 4 years. Some of these will be part of large development projects which will take time to build out, but it also suggests that there are a number that are slow to start or are being developed slowly. In addition, our analysis identified 270,000 homes on sites that have been in the planning system since 2010 or before which have not yet progressed to planning permission.

While this clearly shows that housing need will not be met through sites with planning permission and we do need more land to come through the planning system, it also suggests that there are problems with building out some sites which need to be addressed.

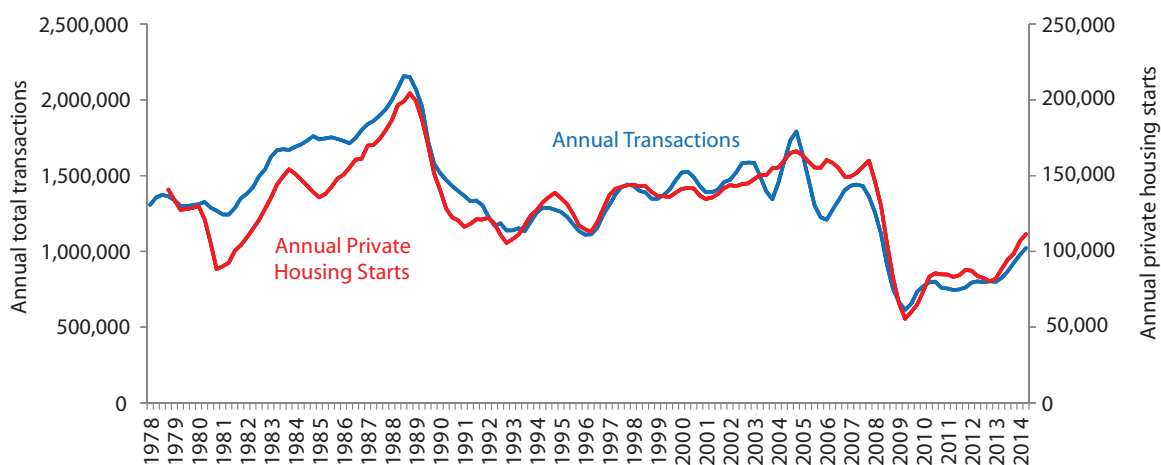
97 University of Northampton/Open University. Professor Allan Cochrane; Dr Bob Colenutt; Dr Martin Field

Rates of build out of sites

As highlighted above, many of the sites with unimplemented planning permission are under construction and will be part of long term developments. The speed at which sites are built out is dictated by market demand for the finished houses. Because of the risks of land scarcity, house price volatility and the high upfront capital costs of development, house builder business models are predicated on a high profit margin and double-digit returns on capital (frequently cited at 20% per annum). Most volume house builders work to targets for both sales volumes and return on capital. This means that private new build starts follow the same pattern as overall rate of house sales.

“Homebuilders deliver new homes as fast as they can sell them, not as fast as they can build them”. OFT⁹⁸

Figure 16 – Private Housing Starts versus Total Market Transactions



Source: DCLG, HMRC

There is significant risk to delivery here, as has been evident in the number of stalled sites during and since the 2008 recession. Developers may have paid or agreed options to pay for land based on prior expectations of house prices. Although house prices in some markets are above their 2007 peak levels, many are not and so developers will be unable to meet their required gross development value to make the site viable. Assuming there are no (or limited) ongoing costs to the land, the developer will wait for more favourable market conditions before developing.

As the market recovers the number of starts on sites is growing and many of the schemes which were stalled are now progressing more quickly (as figure 16 shows). However the experience during the recession also demonstrates the problem of relying solely on the traditional house builders’ business model to deliver the homes we need. In Chapter 7, we suggest a way to address this problem by bringing in partners, such as the wider construction industry that work to different business models and often require lower returns. Our proposals (discussed further in Chapter 5) for a more energetic role for local government in assembling land and acting as lead developers will also provide a means by which local government and through them their communities can bring forward new sites and have stronger influence over timescales for the delivery of schemes.

98 OFT – Homebuilding in the UK, 2008

Use it or lose it

In response to the concerns about the slow build out of sites discussed above, the review was asked to look at how a “use it or lose it” power would operate to ensure sites are built out in a reasonable timeframe. It will become even more important in future to ensure that land allocated for homes is progressed swiftly given our recommendations to increase the amount of land identified in Local Plans. The proposals in Chapter 3 will also increase local government’s responsibility for ensure that plans are delivered, it is therefore reasonable that they have the tools to ensure sites are built out at a reasonable pace.

The review proposes to introduce disincentives to holding a planning permission and not building it out. We also propose measures to incentivise swift delivery of land that has been allocated in a plan. We make four, interlinked proposals in this regard.

First, the lifetime of a planning permission should be shortened to two years, and there should be higher fees for renewal (as proposed by the Berkeley Group submission). Large complex developments will have a number of phases and the two year timescales should apply to the phases individually but in the context of an approved masterplan. This will ensure timely implementation of each phase and will also allow for further negotiation to take account of increase in value during the development of the scheme by avoiding too much of the detail having to be locked up in the original planning permission.

Secondly, greater substantive progress should be required to demonstrate that works have started on site than is currently the case, where it is sometimes suggested that only minimal works are undertaken in order to preserve the life of a planning permission⁹⁹. This could involve tightening the legal definition to material operation to require a certain percentage of for example foundations to be dug. Or material operation could be a matter for agreement with the local authority as part of the planning application.

Thirdly, where a site is allocated in a plan, or has planning permission but development has not begun within the expected timeframe (we propose 5 years unless otherwise agreed for example on large complex sites), the local authority should have the option of charging the owner of the land council tax, on an annual basis, for the number of dwellings proposed on the site. This is not likely to deter landowners from putting their site forward for a plan since they stand to benefit from significant uplift in value if it included¹⁰⁰. It would however incentivise them to deal with an agent or developer who is likely to ensure the scheme is progressed promptly.

Clearly, it is important that landowners are not unfairly penalised. There are some developments, particularly large, complex sites which will take more than 5 years to implement. These charges should only be applied if they are reasonable in the context of the individual site and only where the site has been volunteered by the landowner. There might be good reasons why an application could not be started for example, problems with viability or the absence of important supporting infrastructure. If the site is not viable and cannot be taken forward by the landowner, local authority or New Homes

⁹⁹ In the Town and Country Planning Act 1990, activities classified as material operations include “the digging of a trench which is to contain the foundations, or part of the foundations, of a building; the laying of any underground main or pipe to the foundations (or trench for the foundations) of a building; any work of demolition of a building. Case law is clear that it does not matter whether the developer carries out those works simply to keep the permission alive, rather than with a genuine intention to complete the development. (*Malvern Hills District Council v Secretary of State for the Environment [1982]*) (*Riordan Communications Ltd v South Buckinghamshire District Council [2000]*). Once implementation has occurred, planning law does not oblige a developer to continue with the development to completion.

¹⁰⁰ In discussions with planning professionals, it has been suggested that the vast majority of housing sites are in Local Plans with the support of the landowner(s).

Corporation it would not be deemed deliverable and the charge could not be applied. Landowners and developers would also have the right to appeal.

Fourthly, we propose that councils should have streamlined powers to Compulsorily Purchase the land in the most extreme cases, either directly, in partnership with another party which wishes to build the land out, or by a New Homes Corporation. This is in line with the approach advocated by the London Chamber of Commerce¹⁰¹ to brownfield sites in the capital and is discussed further below.

The main purpose of these powers is to encourage development, and give local authorities the ability to ensure that when they allocate land for development (and its inclusion in a plan is supported by an inspector), it is actually built out. They are intended to strengthen the hand of local authorities in negotiations rather than to routinely result in compulsory acquisition.

Recommendation 16: Use it or lose it

To ensure planning permissions are implemented and reduce incentives for speculating on land:

- ➡ The life of a planning permission should be reduced to two years with higher fees applying for renewal of expired permissions.
- ➡ Greater substantive work should be required to count as the commencement of development.
- ➡ Councils should have powers to levy a charge equivalent to council tax if land allocated in a plan with or without planning permission is not brought forward within 5 years. This should be applied only where land is voluntarily put into a plan and can be demonstrated to be deliverable and should be accompanied by a mechanism for appeal.
- ➡ Compulsory Purchase Order powers should be strengthened and streamlined to make it easier for public bodies to acquire land where it is not brought forward and where it is a priority for development.

Reforming Compulsory Purchase (CPO) powers

Compulsory Purchase Orders are an important part of the toolkit available to councils to unlock land for new homes and to play a more proactive role in land assembly. In practice, these powers should rarely need to be used, but they can operate as an effective incentive to landowners to engage early and negotiate and to enter into development partnerships more readily.

In general terms, CPOs are used in two different circumstances:

- to address individual 'problem' sites within the existing development pipeline. The landowners here will usually be reluctant to either develop themselves or sell the site for a reasonable market price in order to facilitate development. This covers most existing CPO use on brownfield sites.
- for larger land assembly purposes, such as urban extensions or new settlements and urban regeneration. The landowners here may be either keen or reluctant to sell, but the primary obstacle is their expectation of obtaining a sales price at levels commensurate to land with existing residential planning permission.

¹⁰¹ London Chamber of Commerce and Industry (2014) – Getting our house in order

There is a history of Compulsory Purchase in England, notably in powers granted to New Town Corporations and Urban Development Corporations. A number of regeneration focused local authorities already successfully use CPO to unlock large development projects and land market blockages.

Compulsory Purchase

Wellingborough council made judicious use of CPO powers to overcome one recalcitrant land owner who was preventing the delivery of Stanton Cross station. The project stalled in 2008 due to the land owner's objections, but was delivered in 2013 after the land had been unlocked by a CPO¹⁰².

The Prince Regent Lane site between Plaistow, Beckton and Canning Town was identified by Newham Council as a strategically important site where development would lead to a wider public good than if it was left undeveloped. The Council used its compulsory purchase powers to acquire the site and develop new highly-sustainable homes.

However, CPO powers are not used as widely now as they once were in this country or as they are in continental Europe. As evidence to the review highlighted, there are a number of reasons for this¹⁰³:

- the process is controversial, long, potentially risky, and drawn out;
- the Council may lack the skills or the budget to pursue a CPO and there may be cultural barriers to its use;
- the local authority or other public body needs to identify very clearly and in some detail what it wants to do with the site. Thus, a local authority cannot expect to secure a CPO if a site is allocated in a plan but not being brought forward unless they have first developed detailed plans.

Strengthening local authorities' development role and responsibilities as proposed by this review should make successfully obtaining a CPO easier as it will be clearer that they have a vision for the development of sites and will also increase their capacity and capability to develop.

However, numerous submissions to the review highlighted the need to review CPO legislation.¹⁰⁴ This supports the widely acknowledged view that legislation is no longer fit for purpose, confirmed by the Compulsory Purchase Policy Review Advisory Group in 2000 who concluded that the problem was partly in the fact that the legislation was derived from the Lands Clauses Consolidation Act 1845 or earlier and that:

"Even where the provisions of the 1845 Act have been subject to later amendment or re-enactment, the Victorian concepts and antiquated phraseology have often been carried forward leading to difficulties in interpretation, or even comprehension";

and by the Law Commission who in 2003 stated that:

"There can be few areas of the law which are in more obvious need of radical treatment, under each of the heads mentioned in the statute, than the law of compulsory purchase."¹⁰⁵

¹⁰² RTPI submission

¹⁰³ RTPI, Shelter submissions and others

¹⁰⁴ For example, RTPI, TCPA, Berkeley Group and discussion of forthcoming work from Shelter and IPPR

¹⁰⁵ The Compulsory Purchase Policy Review Advisory Group was established by the Department of the Environment, Transport and the Regions to review the compulsory purchase and compensation arrangements in England and Wales; The Law Commission's report "Towards a Compulsory Purchase Code: Compensation" was published in December 2003,

The review proposes that the CPO legislation should be updated to enable greater use of CPOs as a tool to drive effective regeneration strategies and work in partnership with developers to take forward development of sites through:

- streamlining and clarifying existing legal guidance and legislation on CPO as far as possible, to reduce uncertainty and confusion;
- amending legislation with a clear aim of streamlining the process and reducing opportunities for landowners to stall progress;
- land valuation should be considered by the tribunal up front, in cases where a CPO is contested, not at the end of the process, creating greater certainty for both the local authority and the landowner and making it easier for it to find a development partner. Currently this happens at the end of the process – often several years after the CPO starts – and creates unnecessary uncertainty and risk for local authorities and their development partners. This uncertainty may also reduce incentives for some parties to reach agreement outside the CPO process.

Compensation for compulsory purchase

Under the current system, compensation for compulsory purchase is based on the land's existing use value, including any planning permissions granted on the land with some small adjustments for costs and disruption. It must also reflect "hope value" when land, although not yet the subject of planning approval might reasonably expect to obtain planning permission.

In the first variant of CPO use set out above for individual sites within a development project whose owners are reluctant to sell, the use value question is unlikely to be the major issue since it will be based on the market value of the land and factored into the viability assessment of the proposed development.

However, in the second variant of CPO, for large scale land assembly, issues of land value are critical to the delivery of Garden Cities, Garden Suburbs and the large scale remodeling of existing cities and towns. Their successful delivery depends on the ability to capture the full costs of infrastructure and reasonable public gain to be realised from the value created by granting planning permission. This requires land to be provided at either lower total or upfront cost.

The question of the value landowners are entitled to receive is addressed in the Land Compensation Act 1961 which requires that the increase in value (hope value) attributable to the prospect of development as a New Town or an Urban Development Area should be disregarded, allowing for the land to be acquired at close to current use value, in many cases agricultural value¹⁰⁶. However, other evidence to the review highlighted that case law has given landowners a legal argument that future hope value from the development of a Garden City should be compensated. Most notably the Myers / Milton Keynes appeal case in 1970 which found that planning permission had to be taken into account in the valuation; and a House of Lords ruling on a case involving Transport for London in 2009¹⁰⁷.

The review proposes reforming the compensation rules for CPOs for large scale land assembly with a view to ensuring that the landowner is offered a generous benefit from the sale of land, but will ensure that as far as possible, the costs of infrastructure required to support the development are captured from the uplift in value created by granting planning permission. It envisages that these CPO powers would seldom be used in practice since all parties would wish to avoid the process where possible and

¹⁰⁶ As discussed in Wei Yang, Peter Freeman submission to the Wolfson Prize (opinion from Savills in appendix 6)

¹⁰⁷ Myers –v- Milton Keynes Development Corporation [1970]; Spirerose Limited (in administration) –v- Transport for London [2009].

landowners facing the possibility of a CPO would be incentivised to engage in a partnership with the developer.

Entries to the Wolfson prize illustrate how this might work:

Wolfson Economic Prize 2014

In their entry to the prize, Wei Yang / Freeman propose tapered premiums designed to ensure that landowners might receive 3-400% of current use value. Even with these significant premiums, the modelling demonstrated significant value would be captured for infrastructure.

Shelter's proposal for a new garden city outlines two potential mechanisms for capturing land value:

- (i) The landowner could invest their land as equity in partnership with the developer and share in the value uplift in land values once planning permission is granted and the development is built out, or
- (ii) The landowner could take an upfront payment with an agreement for a further share of the profits resulting from development in future

Land can therefore be secured for the development at closer to existing use value initially, while reducing the upfront cash requirement. However if landowners do not cooperate then Shelter proposes that, in some cases, existing powers under the NPPF could be used to designate the land as 'Local Green Space' so that the uplift cannot be realised otherwise. This option should act as a further incentive on landowners to invest their land in the development partnership. As a last resort the land could be acquired using CPO powers

We therefore propose that the Land and Compensation Act is amended to allow that where land is designated for a Garden City or a Housing Growth Area (discussed in Chapters 5 and 6), compensation for CPO powers should be based upon current use value plus a generous premium rather than the future use value once development is complete. Further work will be required to establish the correct level for the premium. This would ensure that the value of the land created by the Garden City or development in a Housing Growth Area could be captured to fund the infrastructure required for the Garden City. The powers themselves will rarely need to be used but will act as an incentive to landowners to enter into development partnerships and invest their land in exchange for a larger return in the longer term.

Recommendation 17: Compulsory Purchase Orders

Update legislation for Compulsory Purchase powers to make them more effective as a tool to drive regeneration and unlock planned development by:

- ➔ Streamlining and clarifying existing legal guidance and legislation on CPO as far as possible, to reduce uncertainty and confusion.
- ➔ Streamlining the process and reducing opportunities for landowners to stall progress.
- ➔ Where a CPO is contested, land valuation should be considered by the tribunal up front, to reduce timescales, uncertainty and risk for local authorities and their development partners.

Amend the Land and Compensation Act to provide that where land is designated for a Garden City, or a Housing Growth Area, compensation for CPO powers should be based upon current use value plus a premium ensuring a generous return to the land owner, but ensuring the infrastructure costs can be captured from the value created by the new development. The powers themselves will rarely need to be used but will act as an incentive to landowners to enter into development partnerships.

Infrastructure and development gain

Delivering new homes and successful places requires infrastructure, from water and utilities to transport, schools and hospitals. Providing this infrastructure and wider benefits to the community is critical to winning public support for new homes. The costs of this infrastructure can be significant. For example, analysis by Deloitte's for the growth of Cambridge established that the infrastructure cost worked out at £55,000 per new home, of which only a third could be expected to come from the private sector. In this case 57% of the cost was for transport, 14% health, 12% for utilities, and 10% for education¹⁰⁸.

The core principle behind policies aimed at capturing development gain should be that the costs of necessary infrastructure are part of the costs of the development and should therefore, as far as possible, be funded by the uplift in value generated by the development. The value created by the provision of infrastructure necessary for development is reflected in the selling price of a home and accrues to the developer and landowner unless it is recovered by policy intervention. This is not to tax development, or to give the taxpayer a profit share in commercial projects: at the moment, development gain policies do not recover enough money to fund necessary infrastructure, and even if they are reformed in the way suggested in this report, additional upfront public investment in infrastructure may still be required.

The current system of capturing developer contributions to fund infrastructure and affordable housing is through two key mechanisms: Section 106 agreements which address matters required to make a development acceptable in planning terms and are used to support the provision of services and infrastructure, such as highways, recreational facilities, education, health and affordable housing; and the Community Infrastructure Levy (CIL) which applies a defined charge to development, set locally at a rate that reflects overall viability designed to raise funds to support general infrastructure needed as a result of an increase in development in an area.

¹⁰⁸ Cambridge sub-region long Term Delivery Plan. Deloitte for Cambridgeshire Horizons, 2007

Community Infrastructure Levy

The Community Infrastructure Levy sought to replace negotiated contributions to infrastructure with a levy on each new home at a fixed cash rate. It came into force in 2010 and is currently being rolled out across the country. Local authorities have until April 2015 to put a CIL in place, after which they will only be able to use the S106 system for site specific infrastructure and will be unable to pool contributions from more than five sites. This will significantly restrict their ability to pool contributions for strategic and mitigating infrastructure without a CIL scheme in place.

Evidence to the review highlighted significant concerns about the operation of CIL and its interaction with S106 agreements¹⁰⁹. Developers were concerned about the impact of developer contributions on the viability of some sites and the lack of flexibility to vary CIL charges. Discussions with RICS highlighted concerns about the robustness of evidence on viability being used to underpin charging schedules, though it was acknowledged that revisions to regulations earlier this year strengthened requirements for a robust evidence base.

Developers were also concerned that there is a lack of clarity about how CIL monies are spent and no guarantee that the infrastructure needed to support their investment will actually be delivered. CIL is not intended for site specific infrastructure. Local authorities are required to provide evidence of the infrastructure funding gap in setting their CIL rates and report annually on the use of their CIL. Local authorities highlighted that as CIL only provides a small proportion of the funding needed for infrastructure it must be matched by other sources of funding which can take time to assemble which means CIL cannot always be spent immediately.

A further issue raised by many developers was that the levy is payable largely upfront so is a cost that must be absorbed long before any return is released from the scheme. Changes to regulations in February 2014 allow the phasing of development. Several local authorities (such as Ashford and the London Borough of Wandsworth) provide for CIL to be phased, rather than paid at the commencement of development. Such an approach may be particularly desirable for smaller sites, completed by SME builders, where cash flow at the start of the development could be a significant obstacle.

However larger schemes require a more sophisticated approach. In evidence to the review, the British Property Federation and others proposed that it should be possible for development contributions for large schemes to be secured through a negotiated agreement rather than a fixed CIL amount. This would allow for flexibility in payment and in delivery of the infrastructure itself and often result in a larger sum than would come from CIL.

Changes to the CIL Guidance introduced in December 2012 do now enable councils to set zero rates for strategic sites based on the viability evidence. However, the issue remains that they would be unable to pool more than 5 section 106 contributions on these sites. This creates a problem for delivery of strategic sites that will be subdivided and taken forward by a number of different developers.

Increasing the flexibility for councils to be able to pool section 106 contributions for both strategic and mitigating infrastructure on large and strategic sites will be crucial to underpinning a stronger role for councils in land assembly and securing delivery contracts. It would make it easier for authorities and developers to enter into alternative arrangements such as Strategic Land and Infrastructure Contracts (SLICs), an approach used in Milton Keynes and described in the next chapter. SLICs give greater certainty

¹⁰⁹ David Lock Associates; Berkeley Group, BPF, Milton Keynes submissions

about infrastructure delivery to developers (and also allow them to secure it at a predictable cost) while giving local authorities agreed timescales for development and payment¹¹⁰.

As highlighted above, CIL in itself does not result in sufficient funding for all infrastructure and local improvements necessary to support development¹¹¹. In many areas the infrastructure gap is much larger than the amount of money collected through CIL or S106. For example, Oxford City Council estimate a likely funding gap for the infrastructure required to support growth in Oxford of over £174 million by 2021¹¹². Evidence to the review highlighted that this issue is compounded by recent changes to CIL which have introduced a range of exemptions from the charge including charity buildings and self-build properties. Affordable Housing is also exempt from CIL. The problem is that these developments require just the same level of infrastructure as others but the more exemptions that are granted, the greater the infrastructure gap becomes, increasing the burden on the public purse. The review heard however, particularly from Housing Associations, that without the exemption the costs of providing affordable housing would increase, impacting on viability and reducing the number built.

The government has also legislated to ensure that a proportion of CIL receipts are retained by town and parish councils, or held by the district or unitary council to be spent in the neighbourhood with the aim of increasing support for new development. Communities in receipt of CIL are not required to have a plan for how they will spend the money that in some areas will amount to very significant sums. The disadvantage is clear: the foregone CIL revenue is not compensated by central government, and so it diminishes still further the amount of money available for essential infrastructure necessitated by the housing development.

CIL has been subject to numerous changes, including five sets of new regulations, since its introduction in April 2010. Evidence to the review suggested that after this turbulent period of inception, the new system is beginning to bed in¹¹³. We also note that reverting to S106 as an alternative to CIL for all sites would most definitely not be seen as panacea by industry or councils. There have been extensive concerns raised that negotiations on Section 106 can be time-consuming and costly for those involved, and there is inherently greater uncertainty involved.

The evidence is that confusion and policy change have made it very hard to assess the success of CIL. We have concluded that neither the evidence nor the timing is right to abolish the current arrangements, however CIL should be subject to a comprehensive review and there are a number of changes which should be considered to ensure it can better support delivery of the infrastructure and the viability of schemes.

¹¹⁰ John Walker submission; TCPA pamphlet, discussed further in chapter 5

¹¹¹ Birmingham submission, roundtable with local authorities

¹¹² This is the gap for infrastructure needed to support future growth in the city based on growth levels set out in the Core Strategy (2011) and Strategic Housing Land Availability Assessment (SHLAA), 2012

¹¹³ Informal view from the Planning Inspectorate.

Recommendation 18: Community Infrastructure Levy

Remove the restriction on pooling Section 106 contributions for both strategic and mitigating infrastructure on strategic and large sites (over 500 units). This will enable the authority, having set a zero rate for CIL on such sites through its charging schedule, to pool contributions from multiple development partners through Strategic Land and Infrastructure Contracts or similar frameworks to support the delivery of strategic infrastructure across the site.

A comprehensive review of CIL should be undertaken to consider reforms needed to ensure it more effectively captures funding for infrastructure, options should include:

- ➔ Analysis of the impact of cumulative changes to regulations and the process of testing through examination in producing robust evidence base for CIL.
- ➔ Assessment of the impact of the CIL exemptions for charities, self-build and affordable housing introduced by the coalition government.
- ➔ Consideration of whether the proportion of CIL devoted to parish councils and “neighbourhoods” is appropriate and require parish councils to produce an investment plan for its use with an annual report on delivery.

Viability

There are substantial concerns about the way in which the viability of local plans, CIL charging schedules and sites are tested¹¹⁴. Evidence to the review suggested that this is compounded by the fact that there is no agreed methodology for viability assessment, which allows different parties to pick the methodology most to their advantage. Guidance produced by the Local Housing Delivery Group, endorsed by the Home Builders Federation and the Local Government Association, encouraged plan-level viability testing to be based upon evaluating the existing use value or alternative use of sites plus a premium at a level that will make it worth the land owner’s while to sell. RICS guidance – intended for application to individual sites’ viability but sometimes applied to the plan level – is based on a different methodology where the starting point is the expected market value of the new development.

Viability testing is essential and sufficient sites should be tested to inform assessments of the viability of the plan. But evidence to the review suggested that the current arrangements create a great deal of uncertainty and complexity, which works in favour of the partner with the most skilled consultants acting for it. This is compounded by the diversity of guidance.

A single methodology and guidance will reduce the scope for differing interpretations of how much is available to support required infrastructure and social gain. We therefore recommend that there should be definitive and agreed guidance applied by all parties. This should be based on the principles that the landowner should receive a reasonable return and have clarity about what they can expect to receive for their land; and that viability should clearly identify the uplift in value arising from the grant of planning permission to enable this to be properly considered as part of the planning process alongside the costs of necessary supporting infrastructure and affordable housing. A number of recent reports suggest that calculation of the appropriate benchmark land value for viability assessment based on the existing use value plus a premium is most conducive to achieving this aim and ensuring that development is

¹¹⁴ Savills report on CIL; forthcoming work from JRF; Studdert Submission; discussion with RICS

sustainable in terms of the National Planning Policy Framework and Local Plan requirements¹¹⁵. Further work with representatives across the sector will be required to ensure that the methodology is evidence based, and takes into account the different market conditions in terms of current costs and values that would be input into the viability appraisal. It would be essential that site specific negotiations are based on an open book approach to inform the relevant appraisal inputs.

Recommendation 19: Viability

Definitive guidance should be produced to ensure a single and robust methodology for viability assessment to reduce the scope for different interpretations of viability and reduce uncertainty. This should allow the landowner to receive a reasonable return and offer clarity about what they can expect to receive for their land, and should clearly identify the uplift in value arising from the grant of planning permission to enable this to be properly considered as part of the planning process alongside the costs of necessary supporting infrastructure and affordable housing. In addition an “open-book” approach to negotiating site specific viability is required, to increase transparency and speed of negotiations.

Affordable Housing

A substantial proportion of affordable housing is funded from planning gain and some submissions to the review questioned whether this should be the case¹¹⁶. The review takes the view that affordable housing is an essential part of the social infrastructure needed to support strong and sustainable communities and it is therefore appropriate that development should contribute to its provision. A further argument for affordable housing to be provided as part of the development is that it is often delivered in kind, helping to ensure mixed communities that are economically and socially sustainable. Funding social housing through grant alone would be more likely to lead to homogenous, market-led developments in the most lucrative locations, and a large requirement for subsidy especially in cheaper locations. Fundamentally though, in the current constrained fiscal climate, it is hard to see how affordable housing can be funded directly by the Exchequer at anything like the level needed. The review took the view that it is right that some of the public gain from development should continue to support affordable homes.

Although Section 106 continues to fund affordable housing, the quantity of affordable housing it funds is diminishing, in spite of a growing shortage. This is perhaps not surprising in the context of the recession following 2007 when there was a significant decrease in development and concerns about stimulating house building. However it is the case even now when development is once again clearly profitable at least in some parts of the country. This is partly a result of the change to the definition of affordable housing in national planning policy¹¹⁷. Whereas government Planning Policy Statement 3 (PPS3) stated that affordable housing should “meet the needs of eligible households at a cost low enough for them to afford, determined with regard to local incomes and house prices”, the NPPF instead defines it as “*Social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market*”. We believe there is a case to revert to the PPS3 definition to ensure affordable housing reflects affordability needs, provided local plans are tested for viability. Authorities should also allow for reductions in the proportion of affordable housing if the non-viability of a scheme can be demonstrated

¹¹⁵ As set out in the Local Housing Delivery Group guidance, Mayor of London’s Housing Supplementary Planning Guidance and London Borough of Islington discussion paper on Development Viability (2014).

¹¹⁶ Paul Cheshire Submission

¹¹⁷ JRF submission

when a developer adopts an open-book approach. This could be accompanied by “overage” agreements which provide for possible further value gains for affordable housing on completion of the development.

Developers and local authorities have both expressed concerns that negotiations over section 106 agreements can be long and drawn out. Our proposals for a consistent approach to viability will help to resolve these issues more quickly, but we also propose an arbitration service for S106 on large scale developments to be funded by the parties involved in the negotiation¹¹⁸.

Government has also consulted on a proposal to restrict requirements for affordable housing contributions to schemes of more than ten units. Not only would this diminish funding for and provision of affordable housing, but it could also create perverse incentives, with schemes being sub-divided, or constructed at a low density, to avoid affordable housing contributions. A better approach would be for local authorities to develop well-evidenced planning policies on affordable housing based upon local need and circumstances.

Recommendation 20: Affordable housing

- ➔ To strengthen the ability of local planning authorities to meet affordable housing need in their areas, the definition of affordability in the National Planning Policy Framework should be revised to reinstate the previous definition that affordable housing should “meet the needs of eligible households at a cost low enough for them to afford, determined with regard to local incomes and house prices”.
- ➔ A new arbitration service for S106 negotiation of large scale projects should be introduced to assist with the speed and effectiveness of negotiations.
- ➔ The proposed changes for a minimum threshold for affordable housing S106 should be reversed to ensure that all development makes a reasonable contribution to affordable housing provision.

New Homes Bonus

Designed as an incentive to local authorities to support the development of new homes, the New Homes Bonus (NHB) pays councils the equivalent of six years of extra council tax for every newly built house or empty one reused, with a supplement for new affordable housing. Total allocations will be £2.2bn over 2011-15, of which £1bn is funding from central government with the remainder top-sliced from grant that previously went to local authorities.

The principle that local authorities should be rewarded for meeting demand in their areas was recommended by the Barker review and evidence submitted to us is that some councils are using that income to invest in new homes.

Nonetheless, evidence has also raised concerns the design of the NHB, in particular its re-distributive effect, suggesting that more affluent areas with high house prices and thriving housing markets are big winners (even where they are not positively disposed towards development) whereas councils in generally more deprived areas with weaker housing markets, even when championing housing growth, receive small shares of NHB¹¹⁹. The review heard how in a number of councils, such as Newcastle, and

¹¹⁸ As proposed by David Lock Associates

¹¹⁹ Core Cities / Newcastle City Council and the Financial Times (July 2014)

other core cities, the redistributive effect it has constrained their ability to retain capacity for promoting development. The National Audit Office criticised the NHB as unreliable and its impact as difficult to identify¹²⁰.

Recommendation 21: New Homes Bonus

The New Homes Bonus should be reviewed to consider:

- ➔ whether the New Homes Bonus should be retained in its current form;
- ➔ assessment of whether it has an element of deadweight, rewarding housing growth that it has not incentivised; and
- ➔ the redistributive impact of the policy.

Revolving Infrastructure Funds

Whilst the proposals put forward in this chapter are designed to ensure that a reasonable proportion of the value gained by development is captured for infrastructure, it is clear that “planning gain” – by whatever mechanism it is collected – is highly unlikely to deliver all investment needed for infrastructure and affordable housing. Additional investment, both public and private will also be needed. The expanded investment role we propose for the HCA (discussed in Chapter 2) will help attract private investment by aggregating opportunities and reducing the costs of finance. It will equally be important to ensure that public sector capital investment is targeted in the most effective way.

Revolving Infrastructure Funds would provide a means of pooling central and local funding to target priorities for infrastructure investment and allow for the initial outlay to be recouped over time and earn a return. They would allow for a long term programme for investment which would help to create certainty for investors and developers and allow for the delivery of a pipeline of infrastructure to support major growth schemes, including new homes.

There are a number of examples of Government and local authorities using revolving infrastructure funds as a means to unlock developable land by paying the upfront costs of infrastructure, which is then repaid either by selling the land to a third party for development or by sharing in the proceeds of the development itself¹²¹. The Local Growth Fund has made tentative steps towards pooling funding at local level. The Growing Places Fund is a £739 million revolving fund managed by LEPs. Several of the City Deals have established different forms of revolving investment funds including:

- Greater Manchester councils will invest £1.2 billion up front in infrastructure improvements. In return, the government has committed to allowing a maximum of £30m a year to be ‘earned back’ from the Treasury over a 30 year period which will be reinvested in further infrastructure improvement.
- Greater Norwich’s local infrastructure fund, which will be initially funded through borrowing £20 million from the Public Works Loan Board at a preferential rate. This fund will provide loans to developers for site specific help to enable housing sites to be delivered quickly, managed on a revolving basis. The fund will be repaid over a 20 year period. Over 2200 homes and 1000 jobs stand to be created from funding three of the priority schemes in the City Deal agreement.

¹²⁰ NAO (2013) *The New Homes Bonus*. London: NAO.

¹²¹ RICS (April 2014), *Mechanisms to increase housing land supply in England and Wales*, p 15

- The Preston, South Ribble and Lancashire City Deal includes a £334 million Infrastructure Delivery Programme funded through pooled local and national resources. This includes Department for Transport Local Major Transport Scheme funding and the investment of receipts from land sales from the HCA. Local partners have committed investment via the New Homes Bonus, Business Rates, land receipts and mainstream capital programmes. The programme will act as a catalyst for commercial and housing development and is expected to leverage £2.3 billion of commercial investment through the construction of up to 17,420 net new homes.

In essence, all of these revolving funds reflect four fundamental principles:

- their initial funding is underpinned by councils using the strength of their balance sheets, whether through prudential borrowing or use of reserves;
- the assurance that the returns on investment can be recycled to the local area makes the assumption of greater risk a more viable proposition for local partners;
- by pooling local and central funding, the opportunities to generate more revenue are maximised, for example by earning interest and leveraging other sources of investment;
- funding a long-term economic strategy with agreed outcomes enables local partners to be more agile in responding to new opportunities and changing market conditions – in short, to operate like any good business.

We recommend that Revolving Infrastructure Funds based on these key principles should be a central part of the offer to local authorities and New Homes Corporations, which we go on to discuss in the next chapter.

Recommendation 22: Revolving Infrastructure Funds

Create a programme of Revolving Infrastructure Funds pooling central and local funding for infrastructure and ensuring receipts are retained and recycled to forward fund infrastructure and support large scale housing development schemes. These will be a key part of the offer to local authorities and New Homes Corporations to support major housing growth.

Chapter 5

Communities driving their own development

People recognise the need for new homes, but are understandably concerned about the social, environmental and amenity costs that new development has on their communities, particularly loss of visual amenity, access to open space, increased demand on services and transport infrastructure. Under our current system these tensions are too often played out reactively through the planning system. The recommendations of this review are designed to give communities greater ability to ensure the homes they need are delivered and to shape the places in which they live.

Our proposals are for a stronger role for local authorities in land assembly and a collaborative approach to the way development is planned and delivered to provide a better means of linking developments to the aspirations of communities and to tackle the problems that bedevil many development schemes in the UK. This will give councils the means, on behalf of their communities, to act as lead developers to shape places and deliver the homes they need. It will empower communities with greater control over the speed of development and the design and quality of schemes. It will give them the ability to specify a greater mix of tenures and attract a wider range of house builders into the market.

To work effectively this approach must be based on development of long term effective partnerships with a range of players across the industry including landowners, house builders, the construction industry, Housing Associations and investors. As highlighted in a number of recent reports¹²² and many submissions to the review, there are many outstanding examples of what can be achieved through partnerships investing land as equity, pooling land, and sharing risks. The recommendations of this review have sought to build on the best examples of partnership working to tackle the problems caused by our dysfunctional land market, ensure a smooth journey through the planning process and importantly capture land value to invest in the upfront provision of infrastructure to unblock stalled projects and accelerate large scale development.

This chapter proposes that local authorities should build on these partnership approaches to drive a proactive approach to land assembly and development through Housing Growth Areas and the creation of locally-led New Homes Corporations to act as effective and focused delivery agencies for their communities.

Housing Growth Areas – proactive land assembly and development partnerships

Many submissions point to the experience of our European neighbours like Germany and the Netherlands both of which have far stronger planning systems but build more homes, more spacious

¹²² Shelter / KPMG 2014; N Falk Smith Institute, 2014, Housing Forum 2014, P Hall, TCPA

homes and generally with a higher quality of infrastructure.¹²³ As Sir Peter Hall and Nick Falk's¹²⁴ work has demonstrated, these examples rely on proactive development models in which land is acquired at lower cost and the increase in value generated by planning permission is captured and used to finance the infrastructure required for development. Local government then plays a lead role in land assembly, upfront provision of infrastructure, and greater control over the delivery and quality of the project through masterplanning and packaging sites. In the Netherlands the municipality puts infrastructure in place on the land, bought closer to existing use value, and then sells off plots to private developers. In Germany land values are frozen in areas designated for growth.

The UK also has examples of local authorities leading risk sharing partnerships and taking a proactive role in land assembly and strategic development. For example, the Central Lincolnshire Joint Strategic Planning Committee brought together three landowners to assemble a site for development and allocate it as a Sustainable Urban Extension in the Core Strategy. Perhaps the clearest example of strong local leadership provided by a local authority working with landowners and other partners can be seen in Milton Keynes.

Milton Keynes was designated as a new town in 1967 and specifically chosen for its location, equidistant between Birmingham, Cambridge, Oxford and London. Milton Keynes continues to demonstrate an exceptionally high level of population growth and considerable success in providing the necessary housing for that growth. It has the highest percentage growth rate of all local authorities in England over the last 12 years and has delivered twice as many new homes as the next authority. What is more, the evidence shared with us, demonstrates that Milton Keynes is popular amongst its residents and will continue to attract further population growth.

What lessons can we draw from this example? There is no doubt that location – just 45 miles from London – has been an important ingredient in its success and, particularly, the ability to attract and generate employment. However the town's foundations as a new town built on Garden City principles, with strong emphasis on the early provision of high quality infrastructure and the creation of lakes and parkland were also crucial to its appeal. From the beginning, its architects emphasised the importance of distinctive neighbourhoods and a diversity of housing styles and tenures. Most of Milton Keynes' growth has taken place since 2001, with 196,000 members of its population being added over that 14-year period. The foundations established in the 60s and 70s were clearly important and have provided sound footing for growth in recent years.

Milton Keynes demonstrates the importance of strong local leadership provided by a local authority working with landowners and other partners. Milton Keynes Council bought, from the Homes and Communities Agency, all the residual land assets inherited from the Development Corporation, comprising 40 key sites (270 acres), having borrowed the £32.5m necessary for the transaction from the Public Works Board and established the Milton Keynes Development Partnership as an arms-length organisation to develop out these sites.

The Development Partnership has been given considerable flexibility across the portfolio to balance best economic value against best social value and is able to take lower land receipts, where that is appropriate. The Council has also pioneered an ambitious partnership arrangement with private landowners, for a series of extensions, outside the original Development Corporation boundaries, on land capable of providing 15,000 homes. The aggregate development involved required infrastructure works costing

¹²³ Sarah Monk and Christine Whitehead, *Making Housing More Affordable: the role of intermediate tenures*, 2013

¹²⁴ Sir Peter Hall / Nick Falk, *Good Cities, Better Lives: How Europe Discovered the Lost Art of Urbanism*; 2013

some £400m. An agreement was reached that £310m worth of these works would be funded (together with an additional standard requirement of 30% affordable homes) by the landowners, through a special tariff of £18,500 per new home which, with indexation, now stands at £22,000 per home. A key element of the tariff is that 75% of it is paid when development is complete so the developer does not have to find all of the infrastructure contribution upfront. An informal agreement with Government provided for the balance of the costs to be provided through housing programmes of the day. The Treasury also agreed, as part of the deal, a revolving capital provision to forward-fund the infrastructure costs, so that they could be planned and undertaken in advance of development.

Strategic Land and Infrastructure Contracts

Milton Keynes used a Strategic Land and Infrastructure Contract (SLIC) to link the delivery of strategic, as well as local, infrastructure to the contribution of funds from landowners/developers. These contributions supplement central and local government funding, which should itself become subject to greater certainty in return for the commitment by landowners. The sum of these parts forms the basis of a business plan which demonstrates reduced risk and makes it possible to secure interim funding on better terms, enabling timely and predictable provision of essential infrastructure. This, in turn, enhances general investor and public confidence in the quality and deliverability of growth.

The process builds virtuous cycles by asking each partner to strengthen their commitment at an early stage in exchange for similar action by each of the others. While it will be impossible to achieve firm binding legal commitments to all the necessary funding up-front, the public sector partners should commit to using best endeavours to find sources of funds over a period of time in exchange for binding 'tariff'-type commitments from landowners. The process builds trust, confidence and commitment between the various public and private partners who want to see the scheme delivered.

The contractual relationship could take various forms, including that of a voluntary S106. It should represent the total financial commitment required from landowners and not be subject to later additional supplements through site specific S106 or CIL.

Although not unique compared to international peers, the Milton Keynes Development Partnership stands out among British examples. The review's conclusion is that this is a pattern other places should follow, not simply to produce more exemplars, but as an approach that can be adopted across a range of different types and scale of development from large scale development to regeneration schemes. We therefore propose that local authorities apply their powers, funding and incentives to take a proactive approach to land assembly and locally led development models in Housing Growth Areas.

These powers could be exercised by individual authorities; authorities working collectively at city and county region level or by New Homes Corporations (discussed later in this chapter) and can be adopted across a range of different types of development with an emphasis on large scale new development and regeneration schemes. The intention is not to displace private developer expertise and activity in promoting and developing schemes which will continue to play an important role, but to tackle barriers to delivery where they exist, bring forward additional schemes and increase competition and diversity by creating opportunities for a wider range of providers and a wider choice of homes.

Local authorities would have the ability to designate Housing Growth Areas. Once designated, they will issue a call to landowners to pool and sell their land or to transfer land as an equity stake in a joint venture. The price for outright sale offered to landowners would be current use value plus an uplift

to provide compensation and return to the landowner. The option to invest would result in a lower upfront return but a greater share when the value of the development is realised over the longer term. The reformed CPO powers discussed in Chapter 4 will be an important tool in this process acting as an incentive to landowners to enter into partnership at an early stage in contract with the authority. The proposals for greater investment of public land and wider use of risk sharing partnerships will also support this model.

Having assembled the land, the authority would seek a lead partner or partners through a competitive process to lead on development of the site. Bids would be determined by the priorities of the local community including quality of housing, the amount of green space and the level of affordable housing. The partnership would be responsible for master planning, parcelling up of the land and outlining the type and timescales for the development.

The partnership would produce a masterplan and apply for outlined planning permission. The local authority would offer expedited planning process through Local Development Orders or using a Planning Performance Agreement. The required infrastructure to support new housing would be provided upfront and eventually funded as far as possible from the uplift in land value from the granting of planning permission. Our proposals for exempting large scale development from CIL and allowing separate negotiation of developer contributions will enable schemes to use SLIC type arrangements to secure contributions from landowners, developers and investors, including public sector investors. The ability to access revolving infrastructure funds and an allocation from the single housing pot will support the provision of infrastructure and affordable housing.

The development partnership would offer serviced plots for which a range of builders, Housing Associations, developers and construction industry partners would submit bids. Bids would be assessed on the price, quality and deliverability of the scheme. The successful bidder would pay market prices for the site (price with residential planning permission) creating a land value uplift to repay and fund investment. They would then submit their final proposals for full planning permission and build out over an agreed timeframe.

Recommendation 23: Housing Growth Areas

Local authorities should be given new powers and incentives to take a proactive approach to land assembly and development models in Housing Growth Areas. These powers could be exercised by individual local authorities, local authorities working collectively, city or county region or through New Homes Corporations.

New Homes Corporations

Our proposals for a more proactive role in driving development through Housing Growth Areas will apply to local authorities across the country. In recognition that the role will be complex, requiring significant expertise and funding to get development off the ground, we propose a new generation of New Homes Corporations to reinforce and drive strong local leadership of development, effective partnerships and sharper tools to scale up the delivery of new homes.

What are New Homes Corporations?

New Homes Corporations will operate as delivery agents to respond to the specific needs of an area and provide the direction, focus, expertise and resources to deliver an ambitious programme of development which meets the needs of both residents and businesses in their areas. Importantly, and learning from the lessons of previous Development Corporations, they will not be agents of the Secretary of State but of their local communities, locally led and with strong accountability through local authorities.

New Homes Corporations will be key drivers of active development models. As public-private bodies they will seek to exploit opportunities to progress development at pace, attracting new entrants and new partners into house building, diversifying the range of organisations in house building, attracting investment and supporting development of the right mix of tenures.

Reflecting the fact that meeting housing needs will require local authorities to work together across local authority boundaries, we envisage that New Homes Corporations will normally be created at the request of a number of local authorities working together across a Strategic Housing Market area. They would work to implement local and strategic plans and have access to the funding contract agreed with government for the area's allocation from the single economic development fund. Typically working across the housing market area, they will bring together investment and development partners to focus planning and CPO powers, pooled public land stocks, and pooled funding on the delivery of new homes. They would manage revolving infrastructure funds discussed earlier in this report. Recognising that many areas already have partnerships and joint working arrangements, for example Combined Authorities, the New Homes Corporations should complement these existing arrangements by acting as the delivery arms of the local partnership.

Once proposed by the local authorities, the New Homes Corporation would be designated by the Secretary of State to operate across the area on a range of sites identified by the Corporation.

They would in turn bring focus; the ability to recruit and retain specialist skills; strengthened ability to negotiate effectively with land-owners and builders and would have a special relationship with the HCA in terms of access to surplus public land holdings and institutional funding through the HCA's new role in investment.

They will have powers, based on the earlier experience of New Town Corporations and revision of the 1961 Land Compensation Act discussed in Chapter 4, to acquire land at a price at which all infrastructure costs and a proper allocation for affordable housing can be achieved.

The key features of New Homes Corporations are:

- that they would be created under statute in response to an explicit request from Local Authorities working with other partners including Housing Associations and the local LEP(s) in a recognised Housing Market area or City or County region;
- they would agree 10 year contracts with the Secretary of State on the basis that they demonstrate robust governance, firm investment and delivery plans, the skills to deliver and a clear emphasis on providing additional homes over and above those that would otherwise be built . Progress will be evaluated annually;

- they would be directly accountable to local communities through the local authorities but with a role for the Secretary of State to resolve disputes where poor local partnerships or the failure to cooperate by one or more councils inhibit their progress against plans;
- they would have a particular focus on stalled sites; sites which have been allocated in Local Plans but not developed; site assembly; the development of land on a shared risk and return basis; the provision of sites for SME builders, self- or custom-builders, and housing tenures not being provided by other developers; and investing public sector land;
- they would benefit from priority in access to any enhanced incentives and support for the advanced provision of infrastructure set out below;
- they would be expected to work constructively with, or incorporate, existing housing companies established by the relevant local authorities and to actively encourage a bigger contribution from other public bodies and statutory undertakers;
- it is our view that they should be delegated development control powers for sites of a particular size (above 500 homes) or complexity through a planning committee operating within guidelines set by the relevant planning authorities.

New Homes Corporations, operating in partnership and over a functioning housing market area will provide a significant opportunity to consider scope for large scale development. New Homes Corporations will be expected to promote large scale urban extensions and Garden Cities (discussed further in Chapter 6). By assessing the opportunity for such development across the housing market area the true economic benefits can be assessed.

New Homes Corporations will benefit from access to the single economic development pot and especially the housing monies contained therein and the revolving infrastructure funds (discussed above). They could be supported through access to Tax Increment Financing models and greater flexibility on borrowing under the Housing Revenue Account as part of an agreed investment plan.

Recommendation 24: New Homes Corporations

Allow local authorities to request the creation of locally led New Homes Corporations as delivery agents to respond to the specific needs across a housing market area and provide the powers, focus, expertise and resources to deliver an ambitious programme of development. They will bring together Housing Associations, development and investment partners to focus on the delivery of new homes.

Public sector land

Many of those who submitted evidence to the review highlighted that accelerated use of surplus public land could deliver a quick win for increasing house building. Furthermore use of public land in proactive development models will help demonstrate confidence in local authorities' ability to play a more active role in development and attract private sector partners. During the course of the review, we have seen a great many examples of public land being used creatively in partnerships to deliver new homes and a broader set of benefits to communities. Whilst it is clear that releasing public land is not a silver bullet, there is an opportunity to apply creative approaches to the use of public land more widely to drive an early and significant uplift in the number of homes built and increase the quality and choice of housing that is delivered.

Crucially, however, these wider aims will not be achieved if our approach to public land is simply to sell it as quickly as possible or at lower than market value in pursuit of higher housing numbers. Not only would that deliver poor value to the tax payer for a valuable public asset, but it would also further disincentivise public sector landowners from releasing land. It would also run the risk of simply transferring land from a public sector land bank to a private sector one. Our proposals for the costs of infrastructure and affordable housing to be covered by the uplift in land value apply equally to public and private sector landowners and we would expect public sector land owners to lead the way in demonstrating willingness to pool land and enter into development partnerships.

Building on success

Evidence to the review has demonstrated many successful examples of partnerships delivering a range of benefits over a range of scales from small local schemes that unlock opportunities for smaller house builders and Housing Associations to larger, more strategic approaches as the following examples demonstrate.

Creative use of public sector land

- In Birmingham, small council-owned sites have been identified for new social rented housing and small local builders have been prioritised to build on these sites.
- A number of partners have come together to share the risk and return on the regeneration of the Scotswood area of Newcastle. Newcastle City Council and private partners Barratt/David Wilson and Keepmoat have formed the New Tyne West Development Company to deliver the homes. Outline planning permission is in place for 1,800 homes over 15 years and work has begun on the first phase of 377 homes which includes 58 affordable homes provided through Thirteen Group.
- Oxford City Council decided on a joint venture vehicle with a private partner to develop a council-owned a 36 hectare (90 acre) site at Barton. The site needed significant investment in infrastructure making traditional development routes difficult, and in the joint venture the infrastructure provider is securing investment against the value of the land. Oxford City Council and Grosvenor entered into a 50:50 limited liability joint venture partnership (LLP).
- Surrey County Council has worked with Spelthorne Borough Council, and the Ministry of Justice as part of the One Public Estate Programme. The current provision occupies a large site and is made up of a number of dated properties which are not fit for purpose and have a large backlog of maintenance liabilities. The site is currently being reviewed alongside the town centre strategy with the intention of moving the public sector services to the retail core and freeing up the current site for residential redevelopment. This is anticipated to include over 300 new homes, health and leisure facilities and bring about a 50% reduction in operational costs and significant capital receipts.
- The Park Prewett development in Basingstoke is being undertaken by David Wilson Homes, who were chosen through the Delivery Partner Panel process to purchase the land from the HCA under a build now, pay later agreement. 40% of the first 300-home phase will be affordable.

Promote use of surplus public land as equity to release investment

There are significant benefits to public bodies using their land and assets as long term “patient” investment in development schemes. The review heard many examples of councils and government using phased or deferred payments in “build now pay later” schemes, and investing land as equity in risk and reward sharing partnerships.

However evidence to the review also heard that this practice is neither embedded across local or central government nor routinely operated on sites of a significant and strategic size¹²⁵. Indeed, it is not obvious that this policy is yet formally endorsed by government: the Treasury’s own guidance refers to the practice as ‘novel and contentious’. Establishing a consistent approach to deferred payments across government would support the public sector to further develop this approach and unlock the potential for significant large scale development.

Similarly, the review heard evidence of a lack of consistent approach to interpretation of the Social Value Act implications for “Best Value”. Many public land owners continue to focus on attaining the maximum possible capital receipt as opposed to a wider and more strategic assessment of the value attained from the disposal of assets for housing (including at less than best consideration). This means that there is no incentive for government and local authorities to consider the wider social value or housing implications of land release, instead focusing attention on the bottom line receipt. An example highlighted to the review was that of Northstowe in Cambridgeshire which acquired the former airfield at RAF Oakington in Cambridgeshire, for which the Ministry of Defence insisted on full market value and upfront purchase of the land which significantly increased the costs of the scheme and took two years to negotiate, with implications for the rate that it could be developed.

More needs to be done to move away from traditional approaches to land disposal, towards public sector owners making long term investments and retaining a continuing interest in the resulting developments. This means that capital receipts will be deferred reducing the initial burden on the development and the investment recouped from the finished development with the prospect of an increased return on the investment.

This model, applicable to public and private sectors alike, will play a key role in unlocking opportunities to attract a wider range of players commissioning and building new homes and supporting a wider range of tenures to deliver the homes that local communities need. Evidence to the review has suggested a much larger opportunity to use public land to encourage a wider range of providers and more choice of tenures. This could include attracting institutional investment in private rented homes; supporting Housing Associations to scale up a new offer on shared ownership; supporting SMEs to build additional homes; and creating more opportunities for self and custom build and cooperative and community led housing projects.

Scale up the release of public sector land

To scale up the momentum for the release of public land, central government should set a new target for the release of sites for 200,000 homes over the next parliament. Government should also set out a clear expectation that the 100,000 homes (over and above the existing target) will be targeted at encouraging partnership approaches that maximise opportunities to support a greater number of organisations commissioning and building new homes and a wider mix of tenures.

¹²⁵ LGA submission

Despite the work of the Register of Surplus Public Sector Land, knowledge about the availability and capacity of public sector land remains fragmented and unclear. There is a need for more consistent and comprehensive data, however, it will be important to avoid too much focus on identifying every square inch of land in public ownership as this would be a huge task at a time when the focus should be on delivery. The review therefore recommends that the HCA and councils focus on developing a revolving 5 year delivery plan for public sector land. In addition, initiatives like the Essex Property Asset Map (EPAM) and the pooling of public land knowledge in Greater Manchester, via AGMA, should be supported and rolled out elsewhere.

Essex Property Asset Map

With support from the East of England LGA and the Government Property Unit, 15 authorities across Essex are using an on line mapping system of public property assets as a tool to challenge the way public sector assets are being used. The main use of the map is for authorities to help reduce their running costs by selling and sharing properties, or by collaborating on undeveloped sites to enable developments that would not have been possible by an individual authority.

Evidence to the review suggested a lack of consistency of approach between different government departments and local government and greater opportunities to pool public land¹²⁶. Despite successive governments' attempts to accelerate the disposal of surplus public land and to ensure a more corporate approach across government, it would appear that each major government department and indeed their agencies all have separate land disposal strategies and often different agencies working for them. The review heard arguments for the transfer of surplus land to the HCA or to single local public sector land banks. However, such transfers would take a long time and detract from the task of releasing land. We therefore recommend that government produce clear guidance across all government departments to ensure a consistent approach to disposal of land and that the new Task Force proposed by this review plays an active role in ensuring that surplus land is identified and brought forward. It would then be for the HCA to ensure early development or sale of the land in question.

Simplify procurement for the development of public sector land

In establishing formal partnerships, local authorities go through a competitive procurement process to ensure it complies with competition law. Both developers and local authorities have raised frustrations that procurement processes based on EU requirements can be complex, protracted and uncertain. The resulting cost, bureaucracy and timescales can be off-putting and can undermine the benefits of partnership working. As Sir Howard Bernstein, Chief Executive of Manchester City Council, told a Select Committee last year:

*"One key issue that is consistently raised by private sector partners is that lengthy, complex and sometimes uncertain procurement processes can often hinder the delivery of effectively integrated regeneration projects and programmes....The current procurement regulations are extremely prescriptive and contain little flexibility... and can stifle such innovation."*¹²⁷

¹²⁶ LGA submission and others

¹²⁷ Communities and Local Government Committee, Regeneration, Sixth Report of Session 2010-12 Volume II

In addition, a number of submissions to the review highlighted that interpretation of OJEU requirements presents a real challenge to partnership working as they are seen to require local authorities to tender development contracts even where proposals have been developed in collaboration with a partner. This can present a disincentive to developers to commit to the upfront costs and time involved in developing a scheme if they then have to go through a competitive tender process in which, due to the upfront costs involved in development, they might be at a disadvantage compared to other bidders. Examples have shown that there are ways to avoid this problem but some local authorities remain wary believing that they have no choice in the matter. There is a need to identify and promote proportionate approaches to procurement and when they can be applied so that local authorities understand the freedoms they have to enter into long term partnerships. We recommend that Government should produce clear guidance to local authorities on their freedoms to establish long term partnerships and how this should be reflected in interpretation of OJEU requirements and procurement rules. There are a number examples and good practice guides¹²⁸ that could be drawn on to highlight the excellent way in which a number of local authorities have handled such procurement exercises that are likely to be of particular help to many authorities who may handle major development proposals only occasionally.

Recommendation 25: Better use of public land

Promote the better use of surplus public land to support new homes through:

- ➔ Clear guidance to central and local government to promote investment of land as equity and secure long term returns from investment. This should include clarity and a consistent approach to best value considerations and phased payment approaches to embed them across all department and authorities.
- ➔ Government should set a new ambition for the release of sites for 200,000 homes over next parliament half of which should be delivered through equity sharing partnerships.
- ➔ HCA and local authorities should produce revolving 5 year land delivery plans clearly identify opportunities for release of public land.
- ➔ Task HCA as delivery agency with a clear imperative to initiate development of public land for housing to meet a target of delivering 200,000 homes on public land by 2020.
- ➔ Clear guidance to local authorities on their freedoms to establish long term partnerships and how this should be reflected in interpretation of OJEU requirements and procurement rules.

¹²⁸ For example, Local Partnerships, BPF, LGA guidance on OJEU and competition (2013)

Chapter 6

A new generation of Garden Cities and Garden Suburbs

There is a growing consensus, clearly reflected in the evidence to this review that a new programme of Garden Cities and New Towns would make an important contribution to delivering the homes we need. In exploring the impact such a programme could have, how it could be funded and over what timescales, we have sought to build on lessons from the previous experiences of Garden Cities and New Towns. We conclude that a programme of Garden Cities should be a part of the portfolio of measures to meet the nation's housing needs and one that will have a significant impact over the longer term. In the medium term, applying Garden City principles to other large scale development projects, especially urban extensions as Garden Suburbs and the re-modelling of existing towns has the potential to deliver more housing growth, faster, from a number of existing and new sites. All are needed to meet demand and to plan sustainably over the longer term.

This chapter explores what action is needed to unlock investment in infrastructure and services up-front and over the longer-term, both in encouraging local authorities and communities to come forward in support of development and in building prosperous and sustainable new places. In doing so, this chapter builds on issues discussed in full elsewhere in the report. Of particular relevance are: the proposal to enable land value capture to fund up front infrastructure discussed in detail in Chapter 4; the powers and structure of development corporations, which is discussed in Chapter 5; and the importance of community support and engagement in both the identification and long term stewardship of development. We conclude that securing real local consent is the only strategy which has any chance of commanding support for long enough to make ambitious proposals for Garden Cities and other large scale development deliverable.

A new generation of Garden Cities

The key arguments in favour of large scale new communities are the volume of new homes they can provide; that the infrastructure, services and good design can be comprehensively planned in from the start; and that development can be financially self-sustaining if the value of the land can be captured to fund the infrastructure required. They also provide a powerful opportunity to introduce governance structures that put people at the heart of new communities and give them ownership of community assets. Garden Cities are not synonymous with New Towns: in particular, the principles that underlie them require land value capture and community ownership of land; a local job offer in the Garden City itself; generous green space and allotments and integrated transport. Not all new towns of the past have achieved those ambitions and they represent a challenging aspiration.

Both the political and policy landscape for Garden Cities has moved rapidly during the course of the review's work. The Government's *Locally-Led Garden Cities* prospectus invited local authorities to come

forward with proposals for Garden Cities. However its ambition for only three new settlements of around 15,000 new homes and minimal support for capacity, funding and brokerage is modest in comparison to past new towns.

Ebbsfleet

Large-scale development in Ebbsfleet has been a matter of discussion and numerous plans since the 1990s but plans have never been brought to fruition, largely as a result of the cost of infrastructure. In 2012 plans were set out by Land Securities, Ward Homes and Redrow Homes to build around 22,600 homes over 20 years with the agreement of three Kent councils.

In the 2014 Budget Ebbsfleet Garden City was announced by the coalition as one of three garden cities to be brought forward. The ambition for the site has been revised downwards; up to 15,000 homes will be built on existing brownfield land and driven forward by an urban development corporation with CPO powers. The Government will invest £200m into supporting infrastructure.

The Wolfson Economic Prize for a new garden city was announced in September 2014 which has stimulated a lively debate about the opportunities and challenges of delivering Garden Cities. We have drawn on the work of a number of the submissions and contributions to that prize which included helpful detail on financial modelling and suggested delivery models. Importantly the Wolfson prize also demonstrated that Garden City principles do not need to be applied only to stand alone new settlements. For example, the winning entry from Urbed demonstrated that Garden City principles could be equally and successfully applied to large scale development around existing settlements.

Shared Vision Partnership – Peter Freeman submission to Wolfson Economics Prize

The Wolfson Prize entries explored a range of models for the governance and delivery of Garden Cities. The model in Peter Freeman's entry requires the public and private sector to work together to acquire land at fair value, build investor confidence and ensure the community gains from the growth in value. It proposes four principal bodies to work together:

- a Garden City Development Corporation, to define the boundaries of the site, with the majority of the Board members appointed by the local authority, to undertake land acquisition, and to prepare the master plan;
- a Master Developer, bringing private sector expertise and long term institutional finance;
- a Joint Venture Delivery Vehicle formed by the Development Corporation and the Master Developer to undertake the development; and
- the Garden City Community Land Trust to represent the interests of local residents and to take ownership of the High Street, the Neighbourhood Centres, manage local amenities, and to re-invest surpluses back into the community.

The case for Garden City Development Corporations

Our assessment of the submissions to Wolfson and past initiatives to build new towns reinforces a key conclusion of our discussions that development corporations are vital to the delivery and de-risking of large scale development, and that as result of the de-risking there is an opportunity to secure significant private capital to support development.

We therefore conclude that location specific Garden City Development Corporations will be needed in order to secure effective delivery. This is distinct from our proposals for New Homes Corporations which we envisage will more generally operate over wider housing market areas.

There are many positive lessons to take from the experience of New Town Development Corporations (NTDCs), which were purpose-designed to deliver large-scale joined-up development. Central to success of NTDCs was a broad suite of planning and financial powers which enabled them to *'do all that was necessary to bring the town into being'*¹²⁹. We propose that the new generation of Garden City Development Corporations should have similar powers similar to those afforded to NTDCs.

However, there are also lessons to take account of for the future. The lack of outcome-focused objectives meant that the quality of design of buildings and places was not always high in some New Towns. Equally, the lack of statutory objectives on the long term stewardship of assets meant that government was able to remove core activities, like land value capture for the community.

In delivering a new generation of locally led Garden Cities the legislative objectives of the New Towns Corporation will require updating and extending; an issue which is receiving parliamentary attention currently through the Infrastructure Bill. Any legislative framework must be accompanied by an investment and consistency in skills, culture and commitment by the politicians, communities and professionals associated with each enterprise.

Financing infrastructure for Garden Cities

The infrastructure bill for a Garden City is large and not easy to finance in conventional ways. Especially when located outside established transport and utility networks, Garden Cities will require significant upfront funding of infrastructure long before the development is making money. For the post 1949 New Towns, much of the infrastructure was publicly funded¹³⁰.

Financing New Towns

New Towns were financed by 60 year fixed rate loans from central government accompanied by limited borrowing powers for Development Corporations. The interest rate paid by new towns varied significantly, rising from a starting low of 3% up to 16% in the 1970s with a significant impact on the financial performance of the second and third generation of New Towns.

Judging the financial success of New Towns is challenging, as estimates of the final balance sheet do not recognise important factors such as the punitive nature of 60 year loans, enforced early repayment and consequent penalty payments, the wider socio economic benefits of the new settlements and an assessment of the remaining assets.

However, even with these constraints the programme as a whole still repaid 57% of the costs to HMT and the 'Mark One' new towns repaid their 60 year loans 30 years early and became net lenders to other bodies. When the wider economic benefits of places like Milton Keynes are factored in the overall economic success of the new towns programme is clear.

¹²⁹ Cited in A New Towns Act 2015? TCPA

¹³⁰ DCLG Transferable lessons from the New Towns. (p 13)

Today, there will continue to be a need to target limited public investment to priority development¹³¹. There is therefore a need to consider how Garden Cities could be financed through a mixture of private and public funds.

A key challenge will be balancing the large up-front infrastructure costs against the longer term receipts and uplift. The lessons from the New Towns and the financial modelling conducted by some entrants to the Wolfson Prize shows that new settlements could be largely self-financing over the long term if they have an effective means of land value capture. This will need to be underpinned by reforms to powers for compulsory purchase which we propose in Chapter 4. However, up front financing will be required to support early, up-front costs incurred by the new development.

The Labour Party has already indicated that Garden Cities would be entitled to retain 100% of Business Rates locally which will provide a future income stream to support borrowing for upfront investment in TIF type schemes. The provision of government guarantees on debt raised by Garden Cities should also be taken forward and will also be important in minimising the debt repayment costs and ensuring the maximum amount of uplift is fed back into the local area.

There will also be a need to attract private investors and signs that Garden Cities could be an attractive proposition. Nigel Wilson, CEO of Legal and General, indicated his desire to see L&G building new towns;

“If we can bring communities with us and agree planning, we’d like to help build several new towns across the country”

The new investment role for the HCA set out in Chapter 2 could play an important role in brokering and attracting such investment. Generating returns from investment into the whole place and sharing risk is essential to realising a self-financing model over the long term and could secure large scale institutional investment, which could be formalised by Strategic Land Infrastructure Contracts (discussed in Chapter 5).

Establishing community support for development

Though there is growing political support at national level for a new era of large scale development, evidence to the review reinforced the view that winning public trust and support for such development will be crucial to its success. There are also signs of strong public support for Garden Cities in principle: recent polling for the Wolfson prize found that *“three-quarters of Britons think that it is a good idea to build new garden cities to meet Britain’s housing need”*.

Past opposition to New Towns was often based on concerns about biodiversity impacts and loss of countryside and a perception of soulless, low density dormitory towns that lack identity. There are of course, examples of significant successes. New Towns such as Milton Keynes and Warrington boast major employment opportunities and a strong cultural offer. Letchworth and Welwyn Garden City (which most closely reflect the Garden City principles) remain highly desirable places. Quality and design matter when it comes to planning new communities. To be successful, a new generation of Garden Cities will need to deliver a social contract with their community which delivers on their expectations. The TCPA’s principles for a Garden City¹³², with which the review is in broad agreement, provides a framework to ensure this.

¹³¹ DCLG Locally led Garden Cities prospectus 2014

¹³² TCPA (2013) Creating garden cities and suburbs today – a guide for councils and TCPA 2014 ‘the art of building a garden city

The lessons from the Eco-towns programme demonstrates that Garden Cities will not be delivered if they are not supported and advocated by local authorities on behalf of the communities they represent. Indeed, several of the last generation of New Towns succeeded precisely because they did have that support: Basildon, for example, was the joint initiative of Billericay District Council and Essex County Council. That is why this review has proposed that new large scale development should be driven from the bottom up with local authorities, accountable to their communities, supporting and leading the development.

Capturing the land value for the benefit of the community is an important component of the long term success and sustainability of the place. Submissions to the review highlighted both the importance of long term ownership and management of assets for the community. There are a range of mechanisms to successfully fund and manage community assets over the long term ranging from generating income through trading goods and services to securing income from charitable grants or financial incentives as well as opportunities for cooperative housing schemes and community land trusts. Evidence to the review¹³³ and the models proposed by the entrants to the Wolfson Prize supported the approach that in the long term the assets should be placed in a local trust so that they continue to deliver benefits to the community as was the case in Milton Keynes and Letchworth.

Community Land Trusts

The development of Letchworth Garden City was privately-funded, based on a co-operative and community land trust model, which now has an asset value of £128m and annual income of £10 million which is reinvested into community services. The Letchworth Heritage Foundation captures the land values by only selling land on a leasehold basis, though long leases of up to 990 years do exist. The Heritage Foundation retains a portfolio of rented property which provides a guaranteed income stream for the community.

What contribution could Garden Cities make and over what timescale?

History tells us that a programme of Garden Cities could bring about a step change in housing supply. The New Towns programme that began in 1946 was by 1952 delivering around 10,000 homes per year and reached 20,000 units per year in 1976. This was, however, across a dozen towns spread across England. These settlements were overwhelmingly focused on supplying social housing for rent which made up between 69% and 97% of the new homes provided. This review concludes that we will need to set an ambition of broadly equalling the 1946 programme's achievements. And we should aim for a programme that will produce peak volumes of some 20,000 units per year over a 20 year timescale.

Delivering a significant impact on housing supply for the longer term will require a much more ambitious approach than that of the current government's programme of three modest Garden Cities¹³⁴. This programme will include but not be restricted to stand alone Garden Cities of a significant scale of at least 15 – 20,000 homes over an initial period with expectations that they will continue to grow as has been the case with Milton Keynes. We argue that applying Garden City principles to a wider range of large scale developments of between 5,000 and 15,000 homes, including extending urban areas through Garden Suburbs and reshaping existing cities and towns, will result in a far larger number of successful and attractive new developments.

¹³³ Including TCPA, David Lock Associates, Confederation of Cooperative Housing submissions

¹³⁴ Finalists to the Wolfson prize, Barton Wilmore, Urbed and Wei Yang estimated a need for between 30 and 40 new Garden Cities.

Delivering Garden Cities will take time and the pace of delivery will depend on how fast an incoming government deals with the legislative, policy and financial issues. It will also depend on a consistent long-term approach and commitment since delivery will stretch over several electoral cycles, and will benefit future generations not necessarily represented in the current political process. Garden Cities that have already been in the process of developing plans, like Ebbsfleet, could start to deliver some new housing before 2020. However the Garden Cities programme is likely only to deliver at scale in the longer term. The portfolio approach recommended by this review would see large scale development in the form of Garden Suburbs and large scale re-modelling of existing towns and cities in the short term coupled with clear and decisive action to build a lasting legacy of new settlements, making a significant contribution to meeting housing needs for future generations.

Identifying locations and designating sites for new Garden Cities

The review received evidence about the need to learn the lessons of the Eco-towns program, including from the 'bidding' process which can prove problematic. For example, those with the most resources (not necessarily the most sustainable locations) were able to submit bids and a number of recycled, previously failed proposals were re-submitted. Neither was it clear how new Eco-towns fitted in the local, regional or national planning process which antagonized some communities who felt the process bypassed local plans.

The Garden City vision cannot be realised without access to the right land in the right place at the right price. Government can play a key role in this by working with local authorities to assess the broad locations for growth and relationship to existing and planned national infrastructure. This will include the very pressurized housing markets in the South alongside certain locations in the Midlands and the North where there may also be major benefits.

The process of establishing the sites for new Garden Cities is both politically and technically complex. There is real tension in the evidence we have received between those who advocated central designation and those who took a localist approach. The evidence is clear that Garden Cities will not happen without local support and therefore we propose that the process will be locally-led with designation proposed by local authorities; proposals from other parties including LEPs or private developers could be valid where the support of local communities and alignment with local plans is clearly evidenced. Advice to the review has suggested that progressing through the Local Plan process is likely to take at least three years. This reinforces the importance of a mixed model which takes advantage of opportunities for large scale development already identified which could include Garden Suburbs, Urban Extensions and smaller scale new settlements.

A locally led approach to designation does not mean that Government should not play an active role in the process. We propose three main phases for designation:

1. Identifying broad areas of search:

Government will need to publish a national policy statement on Garden Cities articulating the needs, standards and priorities of a generation of new towns and setting them in the context of a national spatial framework. Government should, in partnership with relevant local authorities, commission studies of strategic housing market areas. These studies should be integrated with the strategic planning process we propose in Chapter 3 to map the key social, economic and environmental conditions to be considered.

2. Setting the criteria that Garden Cities would be required to meet

Government should publish a set of criteria for Garden City proposals which would require them to demonstrate:

- a genuine commitment to sustainable development and delivering the Garden City principles in line with economic, social and environmental objectives so as to improve the quality of life, wellbeing and health of people and the community;
- potential to exploit existing or planned investment in national infrastructure networks, including transport, energy and communications and support wider objectives for rebalancing the economy;
- sufficient demand for housing in areas where people will want to live and can access jobs and employment;
- support and long-term commitment of local authorities;
- provision of an appropriate mix of tenures to meet local affordability needs and increase rate of build out;
- clear proposals for the delivery, financing and long term funding and stewardship of the new settlement;
- high standards of environmental sustainability including protection and enhancement of the local environment, zero carbon buildings, public transport and water efficiency, green spaces and biodiversity.

3. Designation of specific sites

Having clearly set out the powers, backing and incentives for communities, Government should invite proposals for specific sites from individual local authorities or city and county regions with priority given to the identified areas of search. Where a site has been identified locally through the local planning process, the HCA would play an active and positive role in supporting public participation with supporting capacity and assisting with brokering agreements on infrastructure and land. With local authority agreement secured the government would then designate the site through updated New Town legislation to create the necessary Development Corporation. The Board members of the Corporation would be appointed by the local authority. The Secretary of State currently has the reserve power to designate a Garden City. This should be used only as a power of last resort. It is our expectation that sites will be identified by local authorities, in collaboration with residents and businesses.

Garden Suburbs, Garden Villages and greening our cities

A new generation of Garden Cities would make an important contribution to increasing total housing supply in the medium to longer term, but it is clear that this will not be felt early on, even if change began at once. As we have already mentioned, there is however significant potential to use the Garden Cities approach to make gains in the shorter term by accelerating and unblocking development in large sites. Our analysis shows that there are 134 sites between 2,000 and 10,000 units across England already in the planning system that have a total capacity of 493,447 homes. A number of these sites are already progressing as long term development projects, but a number are not yet under construction. Our measures would support and speed up delivery of those sites giving them a helping hand to complete swiftly. The measures for Housing Growth Areas and New Homes Corporations would help bring forward more proposals for such sites and help to unlock sites with planning permission for development which

are currently stalled or progressing slowly. We estimate that this combination would increase and accelerate the delivery of up to 500,000 homes.

Figure 17 – Large Sites by Region and Planning Status

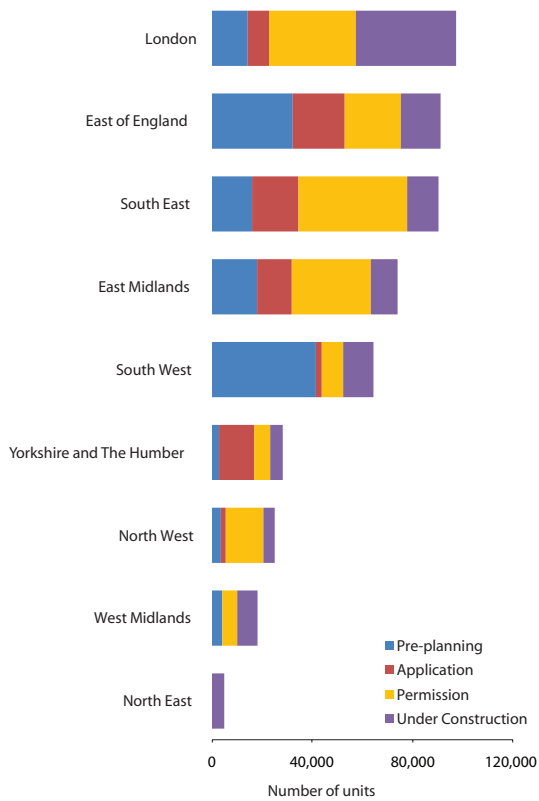
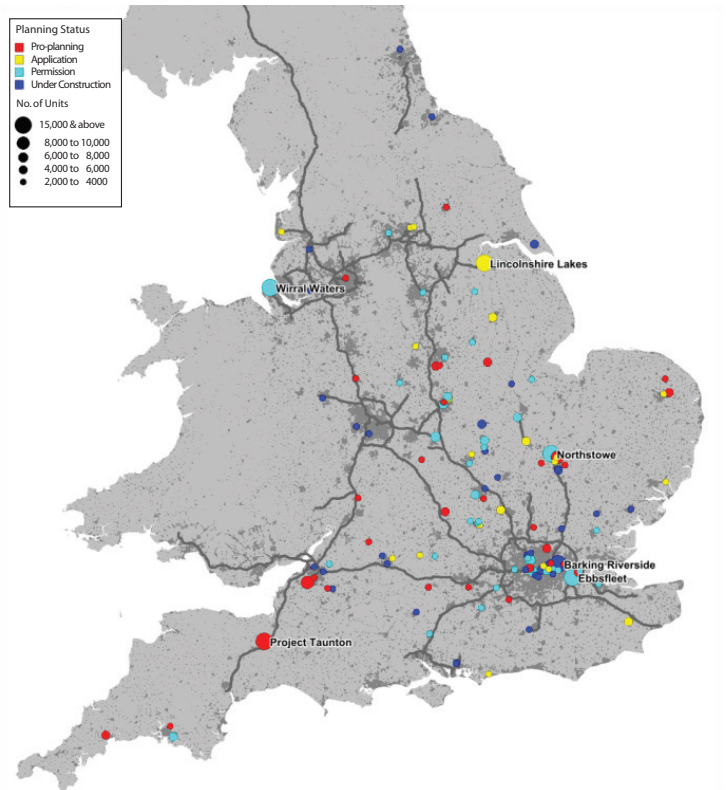


Figure 18 – Large Sites (greater than 2,000 units)



Source: Glenigans, Savills Development Database

These large-scale developments, many of them urban extensions, provide the opportunity to link into existing infrastructure networks, such as transport, jobs and social infrastructure which will bring with it lower short-term costs. Furthermore, depending on the site, sustainable urban extensions are sometimes perceived to have fewer environmental impacts.

Northstowe

In 2007 South Cambridgeshire Council adopted an Area Action Plan and an outline planning application was submitted for the development of the 10,000-home Northstowe new town. Although development largely ceased during the recession, in 2011 a new planning strategy for the area was adopted. After engagement with the local community through the Northstowe Parish Forum and public consultation on a masterplan the first planning application was approved by committee in 2013. Joint promoters for the first phase of the development, the HCA and Gallagher Estates, aim to create a place that showcases excellent sustainability standards, good design and a place that is well-connected through public transport to Cambridge and its surrounding villages.

The promoters and local authorities have collaborated on the development, supported by a Planning Performance Agreement. However they have faced challenges with funding the upfront infrastructure requirements and providing a good mix of housing. In this sense support from government through the Large Sites Infrastructure Fund was important. In April 2014 the development was granted planning permission for the first phase of 1,500 homes, a primary school, a sports hub and a household recycling centre. In August 2014 this was followed by an outline plan for a further 3,500 homes, including the town centre, two primary schools, a secondary school and a number of new roads.

Alconbury Weald

Alconbury Weald will see Urban&Civic developing up to 5,000 homes over 20 to 25 years on a 1,420 acre, largely brownfield site. The plan involves creating almost 300,000m² of employment space, as well as schools, community and leisure facilities, 700 acres of green space and transport infrastructure. The development will also incorporate the use of natural resources, green energy, water management and other principles of sustainability.

Many of the lessons around Garden Cities and New Towns are transferable to urban extensions, smaller scale new communities (which could be termed Garden Villages) and reshaping of existing areas (such as Argent's development at Kings Cross outlined in Chapter 1), particularly in relation to infrastructure provision and gaining public consent. Garden City principles can be applied at a range of scales as part of a 'Garden Communities' palette of options.

Remodelling towns and cities

Barnet's biggest post-war housing estate, Grahame Park, will be largely demolished and replaced by around 3,400 new homes. The Council's regeneration partner, Genesis Housing Group has worked with the Council to develop a radical plan to transform the estate into a high quality mixed neighbourhood by 2026. The scheme seeks a fundamental change in the environment of the estate and perceptions of it, so that it becomes a place where homeowners as well as those in rented accommodation wish to locate. The redevelopment of Grahame Park is underway and is being built in phases taking a number of years to complete. It is a rolling phase by phase regeneration.

The New Homes Corporations discussed in Chapter 5 are particularly suited for the delivery of this type of development because

- they are likely to span council boundaries and require cooperative working between local authorities;
- they are likely to be controversial and require a solid foundation of democratic legitimacy for the exercise of strong powers to push development;
- the sites in question are complex, and likely to require use of CPO powers for land assembly;
- they are likely to involve a variety of public land;
- land value capture is central to the Garden City model which we are seeking to extend;
- New Homes Corporations would be ideally placed to link strategic planning, infrastructure funding and planning, and individual development control decisions;
- revolving infrastructure funds are particularly applicable to recycling captured land value over a long and planned sequence of development.

We recommend that as the proposed National Spatial Assessment (proposed in Chapter 3) is developed, Ministers discuss with councils the scope for bringing forward large sites and accelerating the delivery of those already in the system.

Recommendation 26: A new generation of Garden Cities and Garden Suburbs

Government should immediately promote a programme of Garden Cities, Garden Suburbs and remodeled towns and cities.

- ➔ Garden Cities will be delivered by new Garden City Development Corporations based on updated New Towns legislation.
- ➔ Government should publish criteria for locally-led Garden Cities articulating the criteria Government will expect them to meet and setting them in the context of national spatial priorities.
- ➔ Government should set out Treasury Guarantees and financial incentives to unlock sustainable Garden City development and deliver infrastructure.
- ➔ Local Authorities will be invited to come forward with proposals developed in partnership. Proposals from private promoters will be accepted but only where they can demonstrate local support.

The New Homes Corporations should be used to extend the Garden City principles and powers to bring forward garden suburbs and the re-modelling of cities and towns. An early priority for Ministers should be to discuss with councils appropriate sites and support New Homes Corporations to accelerate the delivery of large sites already in the system and bring forward new sites.

Through a combination of accelerating delivery of existing sites where possible and bringing forward new sites, these recommendations could help accelerate the delivery of up to 500,000 homes.

Chapter 7

The House Building Industry

The previous chapters of this report have addressed the ways in which bringing new land supply into use could increase the number of homes built. This chapter explores the house building industry and what is needed to ensure that the industry can increase output at a scale required to achieve the overall target of at least 200,000 homes a year.

Some evidence to the review¹³⁵ suggested that there are in principle no capacity constraints on the industry, and that its decline in performance is a response to constrained land and developments in the planning system. Changes needed to increase the supply of land and to improve the operation of the planning system are explored in Chapter 3 of this report. However, changes to the planning system do not fully explain the decline in the industry's output. The balance of evidence submitted to us, including from the industry itself, has embodied a prevailing view that the industry's supply response is held back by capacity constraints. In addition to the constraints on land availability, those constraints are shaped by a range of factors, including: the evolution of the economy and the industry over the last 30 years; the business choices the volume house builders have made in an uncertain and volatile market for both homes and capital; and labour market issues, including skills shortages.

These capacity constraints are an important consideration in expectations for the contribution that the house building industry can make to building at least 200,000 homes a year. Average output from the private sector industry over the last three decades has been in the region of 140,000 units per annum, across both economic peaks and troughs. House builders' shareholders' interests are in whether their firms meet announced targets for sales and return on capital rather than on the number of homes built. There is a finite supply of labour, and wages and materials prices go up when demand rises, making extra projects less affordable. These factors influence house builders' plans for delivery. For example, in 2011 Taylor Wimpey notified investors of a "soft cap" to delivery of 14,000 units per annum¹³⁶. Nonetheless we have also heard from individual builders, construction companies and suppliers of materials who have ambitions to challenge the current inadequate levels of house building.

As discussed in Chapter 4, the prevailing model of the volume house builders is a response to the environment in which they operate. However, discussions with the wider industry reflect different business models – and therefore different potential – in three different sub-sectors of the industry: the volume house builders; small and medium-sized house building firms; and the wider construction industry – alongside the potential for attracting new types of developer into house building.

¹³⁵ John Stewart, HBF

¹³⁶ Taylor Wimpey – Analyst & Investor Day Presentation, September 2011

The volume house builders make an important contribution and build the majority of homes and we will need to find ways to enable them to deliver more. We expect measures to increase land supply; promote partnerships; and create greater stability in demand to generate greater house building and aid the development of a more flexible business model among the large specialist firms.

However, there has been in the past an over reliance on the volume house builders, and achieving 200,000 homes per year will require tapping the potential for growth that may be found in the other two sub-sectors. The review's recommendations for a more active role for councils in bringing forward land for development and the proposals for Housing Growth Areas and New Homes Corporations will provide a means of supporting greater partnership working with house builders and increased activity from a wider range of firms. This chapter discusses measures to support SMEs, and to foster a greater role for the wider construction industry working in partnership with a range of developers, including councils, housing associations and new types of developer. It also proposes measures to tackle the constraints on the supply of skilled labour and of materials.

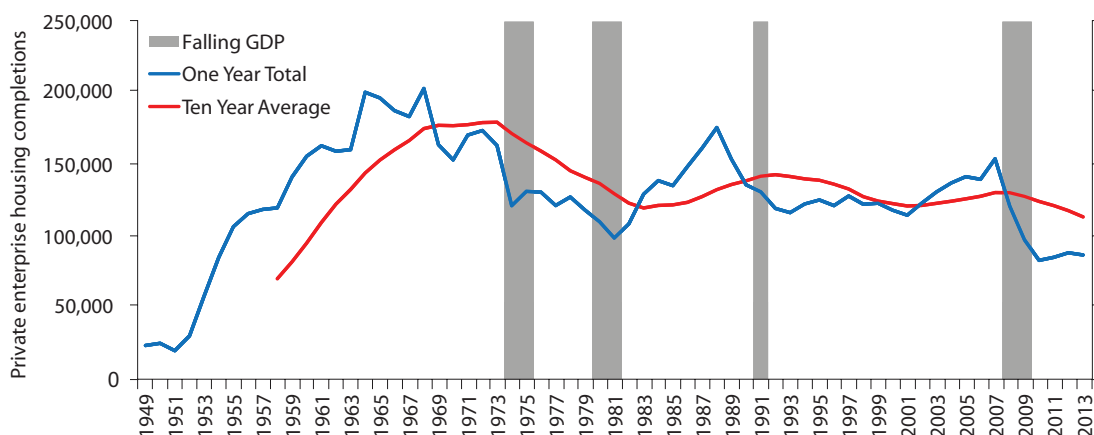
House building now

Private sector house builders completed 87,000 new homes in 2013. While that is an increase on the trough of 2010 when only 83,000 units were built, it remains far off the numbers achieved in past decades. There are however, signs of recovery. The number of homes started began to increase in 2010, fell back in 2012 but showed a significant increase in 2013 when 98,700 homes were started¹³⁷. Indications are that this increase is set to continue in 2014 however they remain far below the levels needed to achieve 200,000 homes per year.

What has happened to capacity in the house building industry?

The number of homes built by the house building industry has declined significantly over the last 40 years. That contraction is a pattern that has been maintained over three economic cycles with the peak output of each cycle lower than the one before and the situation has been further exacerbated over recent years.

Figure 19 – Each cycle reduces trend output in the private sector



Source: NHBC

137 DCLG Housing Statistics Table 222

This contraction is underpinned by three factors: the house building industry is susceptible to recessionary forces and cyclical fluctuations in the housing market¹³⁸; the number of small and medium sized firms building new homes has decreased; and mergers designed to increase access to land have led to a reduction in the number of homes being built than would otherwise have been the case without the merger.

Impact of the 2008 crisis

The impact of the 2008 financial crisis on the house building industry was severe. Housing completions by private enterprises fell by 46% between 2007 and 2010 and it is estimated that their completions for market sale fell by 59%¹³⁹. Most of the major house builders faced the prospect of collapse as they juggled land holdings and production capacity to survive in the face of a dramatic drop in demand and tight restrictions on bank lending. Substantial losses were recorded across the sector. Aggregate figures for the biggest six house builders show that between 2006 and 2009 turnover halved and operating profit fell from £2.1 billion in 2006 to a loss of £2.2 billion in 2008¹⁴⁰. This led to genuine concerns about the solvency of the biggest firms, reflected in profit warnings issued in 2008¹⁴¹.

In response to the recession the major house builders sought to build confidence amongst investors. This has been reflected in determined efforts to strengthen balance sheets by raising new equity, writing down land and refinancing debt, following an alarming increase in gearing at the time of the crash¹⁴². Recent analysis by Tom Archer and Ian Cole found that during this period, the big house builders adopted strategies of prioritising margin over volume. They also highlight that these strategies were effective, with profit before tax increasing from 2010 onwards and dividend payments to shareholders increasing from 2009, albeit from a low base¹⁴³.

With operating margins improving and a general upturn in the market, there are now encouraging signs of recovery as starts and completion levels have begun to increase. However experience of previous recessions suggests that house building will fall some way short of the levels needed to address the shortage in supply.

The changing shape of the industry

Contraction over the past 20 years has been accompanied by increased concentration in the industry, both in terms of overall numbers of firms and of the market share of the largest players. According to NHBC data, in 1993 the 42 largest firms built 51% of new homes, in 2013 the 41 largest firms were responsible for 73% of new housing supply. During the 1980s there were on average 10,000 SME builders, and they delivered about 57% of all output from the sector. In 2013, this figure had shrunk by almost three-quarters to just 2,800 active SME builders producing 27 % of new homes¹⁴⁴.

These twin effects on the changing shape of the sector can be seen in the growing market share of the larger house builders across the period 1980 to 2013 as Figures 20 and 21 illustrate.

138 Ball (2003), *Markets and the Structure of the Housebuilding Industry: An International Perspective*. Urban Studies

139 Analysis of DCLG statistics

140 Aggregate data from company annual reports listed in Housing Market Intelligence Reports 2006-2009.

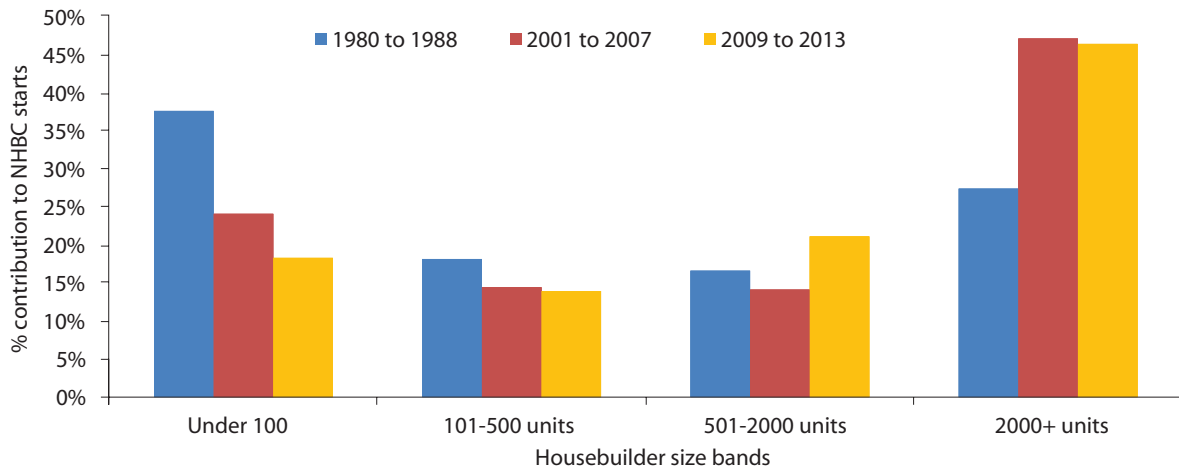
141 Building.co.uk (2008) *Housebuilders' shares plummet*

142 IPPR (2011) *We Must Fix It*

143 Archer, T & Cole, I (2014) *Still not plannable? Housing supply and the changing structure of the housebuilding industry in the UK in 'austere' times*
People, Place and Policy

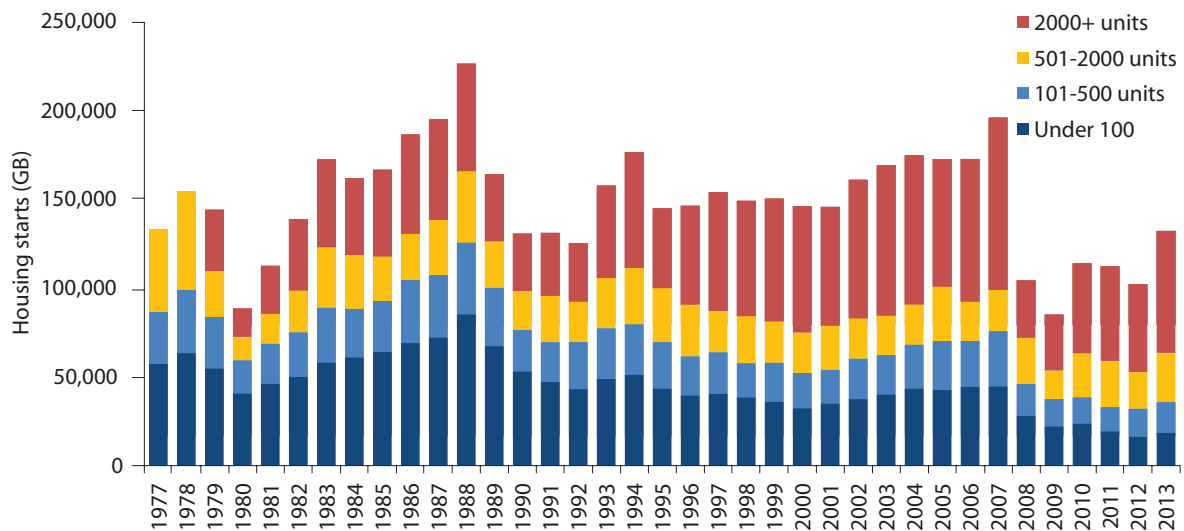
144 Tinker, C. quoting NHBC Statistics (2013) *SME housebuilders key to beat housing crisis*

Figure 20 – Contribution to House Building Upturns



Source: NHBC

Figure 21 – Housing Starts by Size of Developer, Great Britain



Source: NHBC, DCLG

Impact on capacity

The OFT in its 2008 report highlighted two specific reasons why the industry’s concentration constrains its capacity to build.

First, mergers in the last decade or so have, according to the OFT’s analysis, been aimed at increasing access to land¹⁴⁵. As Kate Barker and others have argued, house builders tend to compete with each other on geographical location as much as on the quality of the product. Indeed, the OFT report states the following: “Acquisition of a greater number of sites becomes a critical part of these fast growing homebuilders’ expansion strategies. It is far easier to sell 100 homes a year from four different sites (because of the absorption rates on each site) than it is to sell 100 homes from a single site. Consequently, for a homebuilder looking to grow rapidly the key is to acquire more sites rather than expand production on the sites that it already has. This imperative drives many of the mergers and takeovers.”

145 OFT (2008) *Homebuilding market study*

Other things being equal, this increase in the merged firms' landholdings will tend to reduce the need for them to increase building to achieve their overall sales targets, compared to what would have happened without the mergers. These mergers have therefore had the effect of reducing the number of homes built post-merger. The IPPR's evidence on post-merger delivery supports the OFT's argument, as the following table shows.

Table 2 – Sales Pre and Post Merger

Acquirer	Target	Date	Units Sold (pre deal)	Units Sold (post deal)	Volume Change
Persimmon	Beazer	Jan 2001	13,671	12,352	-10%
Wilson Connolly	Wainhomes	Apr 2001	5,953	4,002	-33%
George Wimpey	McAlpine	Oct 2001	14,466	12,124	-16%
George Wimpey	Laing	Nov 2002	13,410	11,813	-12%
Taylor Woodrow	Wilson Connolly	Sep 2003	9,941	9,053	-9%
Persimmon	Westbury	Jan 2006	16,701	15,905	-5%
Barratt	Wilson Bowden	Jan 2007	20,087	17,168	-15%
Taylor Woodrow	George Wimpey	Jul 2007	21,910	13,394	-39%

Source: IPPR, Annual Reports

It is worth noting that the collapse of the market in 2008 was a factor in the decline in number of units sold following mergers in 2007. Nevertheless, there remains a trend that numbers of homes built decline following mergers.

Secondly, concentration, to the extent it has reduced the tail of small firms, is also likely to have had a direct effect on the sector's capacity to respond to economic recovery since many smaller sites are only likely to be developed by SMEs. Larger, quoted firms with big balance sheets and a diverse set of assets have better access to a range of sources of finance, and on better terms. This has become more important since the 2008 downturn, following which bank lending has been much harder to access. With bank lending already harder to secure since the financial crisis, this puts SMEs even further down the pecking order in accessing bank finance, and so is likely to put additional constraints on the sector's ability to respond to economic upturns or increases in land availability. According to Brian Berry at the Federation of Master Builders 'Nearly 58% of survey respondents told us they had been unable to implement growth or investment plans because they had been unable to raise the necessary funds from the bank, and nearly 49% of respondents told us they had been unable to implement expansion plans that would have created new jobs'¹⁴⁶.

Volume House Builders: stability and confidence

The standard UK business model is that of the volume house builders. They typically manage all the stages of housing development themselves; from land purchase through to selling the completed homes and taking development and demand risk. Many acquire unpermissioned land for building through seeking options, often buying it outright only after planning permission has been granted.

¹⁴⁶ Federation of Master Builders – Understanding the Supply Constraints in the Housing Market, 2012

Evidence from the sector to this review has stressed that these firms do not, in general, speculate in land that has received planning permission. Rather, their focus is on building and selling homes which drives their returns. The OFT's report into the industry endorsed this view of their business practice. This is not to say that land values are unimportant to these businesses: land is the security for the companies' debt, and the health of their balance sheets relies on maintaining the value of that security.

Improving access to land, an effective and efficient planning system and investment in infrastructure will all be crucial to enabling the house building industry to increase the number of homes built. The reviews' recommendations to address these issues are discussed in Chapters 3 and 4.

Our recommendations for a greater role for local authorities in land assembly and promoting development and for Housing Growth Areas and New Homes Corporations are not designed to displace activity by the volume house builders and their development partners in bringing forward development and their role will continue to be important in delivering the homes we need. Our proposals in these areas are designed to bring forward additional sites and a wider range of commissioners and providers of new homes across all tenures. They will also provide greater opportunities for risk sharing partnerships and making intelligent use of public sector land and assets and could offer a way of reducing house builders' exposure to the pressures from lenders that have the potential to put the brakes on building in response to unrelated events in financial markets.

As discussed above, large and medium sized firms are vulnerable to economic cycles and respond to reduced demand during downturns by building less to preserve their balance sheets. As such, an important policy objective must be to try and give these firms greater certainty and confidence to face the ups and downs of the economic cycle.

There is a clear role here for government at the highest level in making stability an overriding objective of economic policy. But it is also sensible to make policy on the basis that, where there may be volatility, the government will try to build in stabilisers, to create greater certainty and sustainability of supply. For that reason, this review recommends that government should provide confidence that in future counter-cyclical demand side measures will be implemented when needed and focused on new build properties (discussed further in Chapter 2).

Small and Medium Enterprises: a crucial part of the sector's capacity

A range of small and medium size builders operate a broadly similar business model to the volume house builders, as well as acting as sub-contractors. However, small firms lack many of the advantages of scale of the larger house builders, particularly in terms of access to finance and land. *"Small firms are dependent on a few land sites and face lumpy, volatile cash flows as land is purchased, sites developed and sales made"*¹⁴⁷. The costs of promoting a small site also make up a higher proportion of the gross costs of development; the industry's evidence to the review has stressed that this can increase the risks SMEs feel they face in engaging with the planning process.

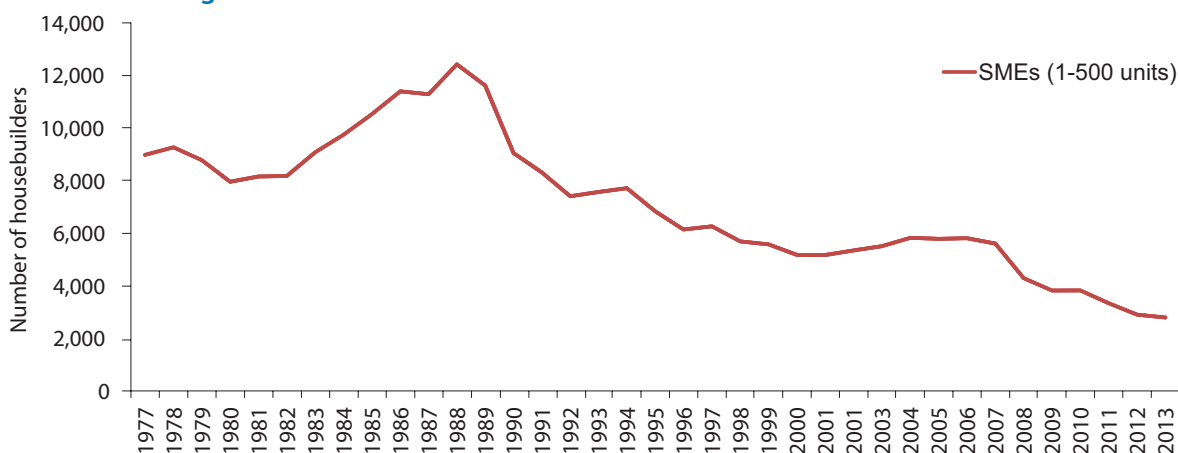
On the other hand, SMEs are a crucial part of the sector's capacity because they will develop small sites that larger firms will not. SMEs can be extremely agile players in the market, capable of using local knowledge and expertise as well as exploiting their scale to make the most of small sites and realise tactical opportunities that may not be of interest to volume builders. Rebuilding the SME contribution

¹⁴⁷ Europe Economics: "How to increase competition, Diversity and Resilience in the House building Market" February 2014

to the sector presents a huge opportunity to create jobs, economic growth, and homes that would not otherwise happen.

To some extent, we might expect a recovery in the number of SMEs to follow naturally from a wider recovery in the sector. The evidence summarised in figure 22 suggests, however, that the fortunes of the smaller firms are affected by more than the economic cycle. The decline in the number of SMEs from its 1988 peak has been sustained, with only occasional and modest bounces back.

Figure 22 – Declining Numbers of SME Builders



Source: NHBC

As the HBF’s submission to this review argues, this period has also seen an increase in the number of barriers faced by smaller firms: in the HBF’s view *“the costs and complexity of running a SME house builder business have been increasing steadily over the last 25 years and have had the effect of driving many smaller firms out of the market”*.

Evidence to the review has indicated that there are around 7,600 dormant SME builders¹⁴⁸. This is important since it suggests potential for existing capacity that could drawn back into production.

The review heard that the cost and complexity comes, broadly speaking, from three sources. Firstly, from the planning system, although often not through the direct costs of an application but rather through the disproportionate cost of fees to consultants and specialists on a small application. Secondly, through the cost and other difficulties of accessing finance. And thirdly, through the costs of regulation and technical standards, where both the Zero Carbon Homes standard and Part L of the building regulations have been singled out in evidence to the review.

De-risking planning for small sites

The review has considered ways in which it would be possible to target measures involving planning to support SMEs which would not distort the market overall or introduce wider uncertainty into local plans. As discussed in Chapter 3, a return to “redline” applications for small sites would significantly reduce the costs and risks of obtaining planning permission which SMEs have highlighted as a key barrier.

148 NHBC provided by HBF

Working in partnership with local authorities

Measures to de-risk planning for SMEs would be reinforced by a tailored approach from local authorities to the investment of public sector land to help small developments get started. Such opportunities might be flagged in Local Plans, and advertised in a clear and planned way. Both on publicly-owned and other small sites, local authorities, perhaps through New Homes Corporations and working in partnership with developers, have an important role to play in reducing the risks SME builders face by packaging and servicing sites, for example with basic infrastructure, in advance of development. They might also, working with other public landowners, make greater and more systematic use of “build now, pay later” approaches where these sites are concerned.

Access to finance: financial security and sustainability

Access to finance is clearly crucial for any firm, but has become especially important since the financial crisis for SMEs competing against other potential borrowers for limited bank lending. Since 2011, the government has provided guarantees for lending to some businesses, which has reduced the lenders’ risk and the borrowers’ costs.

Guarantees have not in general been available for house building. There is however a compelling economic and financial case for attempting to reverse the decline of the SME house building sector. This review therefore endorses the Labour Party’s proposal for a Help to Build scheme which would allow SME house builders to access lower cost bank lending supported by an Exchequer guarantee. In our view this should be available for the purposes of both site acquisition and working capital. We recognise that this will need to be carefully managed and be subject to appropriate oversight from financial regulators to ensure it is applied to defined schemes. Guarantees should be seen as part of the package for SMEs alongside the measures discussed in this chapter designed to reduce the risks associated with schemes built out by SME’s.

A further way of improving the financial security and sustainability of the SME business model in house building is to make it easier for firms to access contracts for building procured or enabled by the public sector. The Delivery Partner Panel model, as used by the HCA and the Greater London Authority, is one way of doing this. Under this approach, the public sector body establishes a framework panel of prequalified housing developers, which will then be used to speed the construction and development of homes on land owned by public sector bodies. The DPP can be used to procure a developer to take responsibility for all stages of the development process from obtaining planning permission, through design and construction, to marketing and sales. The DPP also enables early engagement with the private sector in the process of developing a site, helping to develop a better sense of what can be delivered and how to do it most effectively. Evidence submitted to the review suggests that there is significant scope to simplify some of the processes associated with the DPP model to make it accessible to a wider range of partners. That simplification would be particularly appropriate at local level, where it could offer councils an effective way of improving SME access to public land and the opportunities it brings.

Evidence to the review suggested that the regulatory cost of technical and performance standards has a particular impact on SMEs. SMEs often struggle to source materials easily and cheaply, with larger customers getting served first and on better terms where supplies of materials are scarce. The variation and complexity of different standards reduces the possibility for economies of scale and the need to match the right kind of material for their project can result in delays. Streamlining standards would assist by providing clarity and consistency on requirements. The review discussed these issues and makes recommendations for simplification of standards in Chapter 8 of this report. Discussions at the roundtable

we held with SMEs also suggested that aggregating orders through buying clubs could help boost smaller firms' purchasing power.

Recommendation 27: A package of support for SMEs

Government should provide support to SME firms to build more homes through:

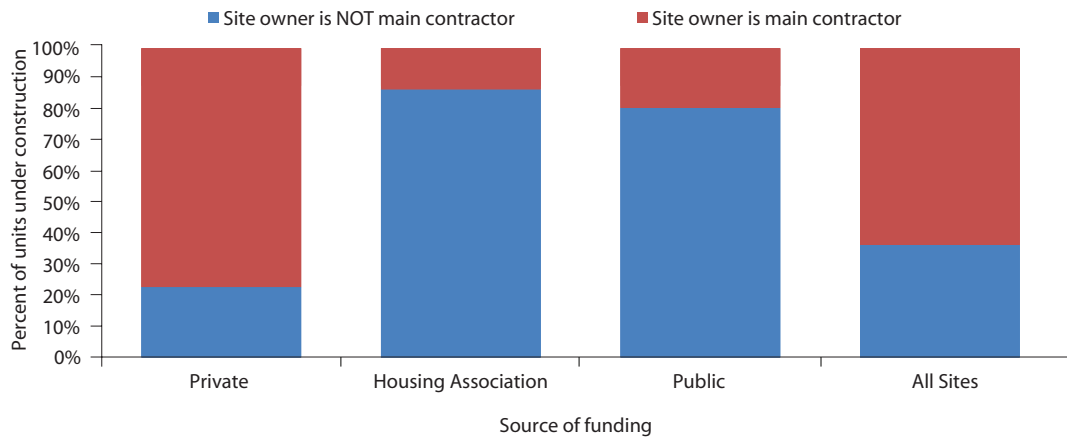
- ➔ Legislative change to permit "redline" outline planning applications on smaller sites of fewer than 10 homes.
- ➔ Local authorities should identify small sites in public ownership in local plans, and work with other public landowners to make them available for purchase and development by SMEs.
- ➔ Local authorities and their New Homes Corporations, working with lead developers should offer more packaged and opportunities for serviced sites to help SMEs access the market, including in Housing Growth Areas.
- ➔ A Help to Build scheme will allow SME house builders to access lower cost bank lending supported by Exchequer guarantees.

The wider construction industry: a growing role to play

In addition to the traditional house building industry a wider group of developers with a very different business model has a growing role to play. There is a wide and deep reserve of capacity in the wider construction industry which could be put to work to build homes on a wider scale than at present. Tapping this capacity involves a different development model from that of the specialist house building firms and therefore opportunities to add to the overall number of homes built. Where the review has seen good examples of this working in practice, the developer is working either to bring forward social housing at scale, or building homes as part of a wider project with a mix of economic objectives. A common theme emerging from the roundtables we held and the evidence we received was that there is scope for more to be done through this route.

The construction industry already makes a significant contribution to housing supply. Data from Glenigan suggests that around 30% of housing is currently built by the wider construction industry rather than specialist house builders. The scale of their involvement varies depending on the sector and type of housing being delivered: the data suggests that the sector is responsible for around 80-90% of affordable housing delivery but only 20% of private housing. Much of their present involvement in private housing delivery is focussed on higher density urban sites where the skills and knowledge needed are more readily transferrable from other types of construction sectors (most notably offices).

Figure 23 – Construction Industry Involvement by Market Sector



Source: Glenigan

There are some construction firms that operate as both construction and house building firms such as Galliford Try, Kier Group and Keepmoat. There are also a large number of firms that just focus on the construction side taking no development risk and operating on lower margins. These include Ardmore, Bouygues, Durkan, Higgins, Hill Partnerships, John Sisk & Son, Mansell, Morgan Sindall Group, Willmott Dixon, Wates and many others. Their capacity to scale up their involvement with Housing Associations, local authorities, New Homes Corporations, Market Rented Sector investors and others will be essential to delivering the 200,000 homes target by 2020.

The work of a wide group of innovative developers and partnerships, illustrates how schemes, anchored on a different business model from that of the volume house builders, can bring construction capacity into house building that would not otherwise be mobilised for homes. These include partnerships such as the English City Fund (featured below) and developers such as Urban Splash, which specialises in creative regeneration and has delivered as many as 800 homes a year. Others include First Base; Essential Land and Cathedral PLC who are working in partnership with local authorities, investors and construction partners on mixed use and regeneration schemes.

These developers tend to work with the wider construction industry rather than specialist house builders. Importantly, they also demonstrate that a less volatile and cyclical, long-term business model is available. A greater emphasis on schemes of this kind as a route to getting more homes built would therefore contribute to making an upturn in housing delivery more sustainable. As the construction group Bouygues persuasively argued, in discussion with the review, these partnership models are relatively insulated from cyclical fluctuations in land values, not least because of their ability to share risk and consider the return on investments over the medium to long term.

English Cities Fund

One example of what can be achieved by a public/private partnership through a specially created investment vehicle is provided by the English Cities Fund.

Established by English Partnerships in 2002, as a response to the recommendation of the Urban Task Force report to introduce more institutional investment in urban regeneration, it drew together the investment skills of Legal & General and the development skills of Muse Developments Ltd into a stand-alone company with £50m invested by the partners and the ability to borrow a further £50m in bank finance.

English Cities Fund, which was limited to working only in assisted areas, has completed a mixed use development in the centre of Liverpool and currently has large schemes underway in Wakefield, Newham (London), Salford and Plymouth, with a strong emphasis on effective local partnerships, with local authorities and others, and a commitment to high quality development. It will, by the end of its planned life in 2021, have invested over £800m in delivering 850 sq. ft. of offices, 135 sq. ft. of retail leisure space, 2800 car parking spaces and 143 hotel rooms and, notably, 2,200 residential units.

Councils and housing associations also have potential to mobilise the wider construction industry's capacity. Linden Homes, an arm of Galliford Try which gave evidence to the review, has developed three sites in partnership with Broadacres, a Yorkshire housing association. Mansell, the UK construction services business of Balfour Beatty, has been awarded a £65 million contract by Kensington Housing Trust which will result in 324 new homes as part of the redevelopment of its Wornington Green Estate. Wates also drew attention, in its evidence, to the scope for more to be done through this route. The review was told that general construction firms building under contract, and not having to shoulder development or demand risk, work to substantially lower margins than house builders expect.

Existing land owners, public and private, can also play such a role in commissioning housing. For example, Sainsbury's has decided to reduce its land holdings and release enough land for the development of almost 750 homes of both market and social tenures in Nine Elms, Battersea. It would be in tune with their broad social mission for landowners such as universities and churches to adopt such an approach too. In conversations with the review, the Mission and Advocacy Cluster has highlighted work to encourage churches to explore ways to support affordable housing through making land available, converting redundant buildings and working in partnership with Housing Associations¹⁴⁹.

The existence of specialist house building businesses such as Mansell and Linden within larger construction groups illustrates the way in which the wider industry has the flexibility to respond to new demand. One large construction firm told us that it was interested in growing this business, looking at sites of over 150 units.

Evidence to the review suggests that the role of the wider construction industry is often inadequately reflected in discussions about how more homes can be built. Our discussions have suggested that there is untapped potential within the wider construction and development sector and that this could be mobilised quickly and expanded if the right conditions prevail. The Decent Homes programme provides an example of what can be achieved. The programme offered consistent demand and large scale

¹⁴⁹ Joint Public Issues Team (July 2014) *How churches can support and create affordable housing at a time of crisis*

investment in the modernisation and improvement of existing housing stock which led to a concerted response from the large construction companies and resulted in higher quality at lower cost.

In order to tap into that capacity, developers, landowners, councils, the wider public sector, and Housing Associations need to learn from and adopt successful models of partnership with construction firms. This process will be helped by recommendations elsewhere in this report, particularly through New Homes Corporations; greater focus on land assembly and delivery partnerships, all of which will improve the scope for increasing the supply of affordable housing and Market Rented Sector housing.

Self-build and custom-build

Another way to translate housing demand into new building without relying on conventional volume house builders is represented by the increasingly local movement for self-built and custom-built homes. More than 12,000 homes per annum of this type were constructed over the period 2001-2007, though this fell to 7,500 homes in 2013. Both models of development have been highlighted in evidence to the review, particularly from the National Custom and Self Build Association (NaCSBA) and the custom build developers Igloo and HAB. Under the self-build model, individuals acquire their own site and arrange for the design and building of a house themselves. Custom-build relies on an intermediary acquiring land and managing construction, but offers individuals the chance to tailor the house to their own requirements from a menu, possibly including taking full responsibility for the final fit-out.

These models are common in several European jurisdictions including France, Germany and the Netherlands, according to the evidence the review was given, with 5,000 new homes built through member-run “building groups” in the city of Berlin alone over the last five years. Almere in the Netherlands has seen some 4,000 homes commissioned or built by residents in the last ten years with the original masterplan evolving as the result of continuing dialogue with residents.

The UK self- and custom-build sectors remain nascent, despite efforts to encourage their growth by government. Those schemes in existence – including Igloo’s recently-announced scheme at Tevenson Park in Cornwall are a step in the right direction, but they are small in comparison with continental parallels. Although surveys quoted in evidence to the review suggest six or seven million people are interested in building a home in this way, only ten thousand self- or custom-built homes are constructed each year¹⁵⁰. The National Planning Policy Framework requires councils to consider and plan for demand for self- and custom-build, but it is clear that a number of other barriers exist.

Barriers to Self and Custom Building

The review was told that the most significant barrier to self- and custom-build in the UK, by some margin, is the cost of acquiring land. According to the NaSCBA, 48% of would-be self and custom builders have a budget of £200,000 or less, which is simply not enough to cover both construction costs and site acquisition in areas of highest housing demand such as London and the South East. The government’s efforts to date have focussed on reducing planning barriers and reducing costs at the margin (for example through a £30m lending fund). What these sectors most need to boost them, though, is significant access to affordable land.

There are good examples of councils working to make this possible. Cherwell council aims to encourage custom build at scale in its proposed Graven Hill development, on public land, which will provide 1,900

¹⁵⁰ NaSCBA submission to the review

ready-serviced building plots of a range of sizes aimed at fitting buyers' budgets. These examples show how creative thinking by councils, as well as the creative use of public land in pursuit of policy outcomes, could help to get this sector to scale.

We believe that there is some scope for self- and custom-building to increase over time its prevalence in the UK to the sort of levels seen in European countries. It has been argued in evidence to the review that the potential is there for it to make a contribution of a further 10,000 or 20,000 units each year and these estimates do not seem implausible. For this to happen, however, there are three preconditions. First, land must be brought forward in plans for self- and custom-building in a way that allows for the kind of broad outline permissions usual in the Dutch and German models to be granted. This should be a consideration for local authorities in acting as master developer on assembled sites. Secondly, land needs to be made affordable upfront; this argues strongly for self- and custom-build to be made a priority use for publicly owned land where land can be invested in shared ownership and the recognition of social value can be more easily adopted. A more active role for local authorities in land assembly and facilitating partnerships and the Housing Growth Areas and New Homes Corporations proposed by the review will have an important role to play in enabling non-traditional developers and custom builders to join the market by increasing the provision of sites not being provided by other developers.

Cooperative and community led housing

Submissions to the review also highlighted the potential for community led and cooperative housing to make a modest but useful contribution to the number of homes built and provide a means for communities to commission and build homes to meet local needs¹⁵¹. These submissions highlighted successful examples of communities and local landowners working with local authorities and Housing Associations on small scale housing schemes often utilising land that would not otherwise have been used for residential development. They highlighted the potential for these models to command strong local support for new homes in which people feel they have a stake, where they have control of the type and quality of homes built and where assets are retained for the community. Examples highlighted successful schemes in both rural and urban areas. For example village based development in Cornwall which has doubled since the advent of the Cornwall Community Land Trust in the mid-2000s; a large group self-build in Bristol and the East London CLT project at Mile End, London. The Confederation of Cooperative Housing (CCH) highlighted a number of schemes in Wales where the Welsh Government has encouraged local authorities and Housing Associations to support co-operative and community led projects ranging from a shared equity co-op in Merthyr Tydfil which will deliver 24 homes, to the potential for a community land trust as part of a large redevelopment in Newport that could result in around 250 new homes. Submissions also highlighted the potential for co-operative housing models to play a role in the delivery of Garden Cities and large scale development, both in terms of stewardship of the development and in developing co-operative housing schemes of different tenures within the development.

To encourage expansion of such approaches, submissions to the review highlighted the need for active encouragement and support from central and local government and housing associations to promote opportunities for co-operative and community led housing. The CCH also estimated that £2 billion in assets exists within the existing housing cooperative sector and that there is appetite to use these assets in the development of new homes. We support their proposal to work with the HCA as regulator of housing co-ops to identify and encourage those with assets to consider development options.

¹⁵¹ Submissions from the Confederation of Co-operative Housing; the National Community Land Trust Network, UK Cohousing Network; Lambeth United Housing Co-operative; David Lock Associates

Submissions also identified the potential to match opportunities for community led development of small sites with a bigger role for SME builders. The review’s proposed package of support for SMEs would assist with this. In addition, new opportunities for working with co-ops and community land trusts could be provided through the role we envisage for councils in acting as lead developers for their communities.

Skills

To meet the challenge of increasing house building to levels not seen in a generation there needs to be sufficient workers with the right skills for the relevant jobs. As the number of different organisations involved in the house building industry rises, increasing demand for workers will place more pressure on the sector’s skills pool.

Construction as a whole accounts for 1.2 million jobs, with about a tenth of them in residential house building¹⁵². However, evidence to the review has suggested that construction and house building face workforce constraints that are familiar across British industry, but that affect this sector in particularly acute ways. The industry reports growing difficulties recruiting suitably trained and skilled workers. A recent Chartered Institute of Building survey of the wider construction industry showed over 82% of respondents identifying an industry-wide skills shortage¹⁵³.

The Skills Gap

These gaps are significant even in basic traditional skills such as brick laying and there are reported shortages across the sector for project managers and a range of other functions. The CITB survey suggests that the greatest perceived skills need is driven by the requirement to keep up with developing regulations and legislation. Some evidence to the review also argued that formal training, through the further education sector in particular, continues to concentrate on conventional craft skills and is not preparing workers to deal with new technologies and techniques. To address this will require industry to work in partnership with the education sector to encourage more people to make construction and house building their career of choice. Qualifications and training should be industry led and need to support mobility and progression for young people as well as meeting the specific skills needs of the sector. Stronger partnerships between industry, educators and government will be needed to build on the examples of successful practice already underway to drive a step change across the sector.

Young people’s perceptions of construction as a career are crucial. Evidence to the review from builders suggested the industry struggles to attract young people and lacks diversity in terms of age, gender, sexuality and ethnicity. Some claimed that a career in house building was not attractive; seen as something that people ‘fell into’ rather than did by choice. The ‘Construction 2025 Industrial Strategy’ recently published by the government echoes these concerns around the image of the construction workforce. It finds that industry and government need to ‘reinvigorate the image of the industry’ and ‘work together to inspire young people’¹⁵⁴.

However the key problem facing the industry is the lack of high quality apprenticeships required to meet skills gaps and attract the next generation of skilled workers to the sector. The recent Parliamentary Commission report “No More Lost Generations”, led by Lord Best and Nick Raynsford MP, highlighted the decline in construction apprenticeships to below 8,000. Several initiatives are looking at how to solve

¹⁵² ONS construction industry statistics 2014, Table 3.3.

¹⁵³ The Chartered Institute of Building – A report exploring skills in the UK construction industry 2013

¹⁵⁴ HM Government- Construction 2025: Industrial Strategy: government and industry in partnership, 2013

this problem. Robert Halfon and Lord Glasman are co-chairing a further Commission seeking to identify solutions. Considerable work has been carried out by the Cross Construction Apprenticeship Task Force to support the issue through the downturn, and the Construction Leadership Council has addressed these questions.

Local government has also shown a commitment to using its procurement policies and other levers to favour firms that will train new workers with the skills they need but more needs to be done to boost investment in training across the sector. The industry has also identified some problems with the way this has been implemented in practice, in particular inappropriate targeting of where the apprentices might live.

Some builders are working directly with colleges and training providers to offer apprenticeships. Following the recommendations of the Richards Report¹⁵⁵ into apprenticeships, the government is passing funding for training and apprenticeships directly to firms. This could help them to invest in their own in-house capacity to train, but there are concerns that the way it is being implemented could lead to a proliferation of apprenticeship standards and weaken opportunities for progression and mobility across different employers. It will be important to ensure that it leads to real growth in apprenticeships of the kind demonstrated by the best firms: Linden Homes, in its evidence to the review, highlighted its £500,000 investment in apprenticeships over the coming year which it expects to lead to 500 new apprenticeships over three years. The recent raising of the age until young people must participate in education or training from 16 – 18 years should provide further opportunities to interest people in training and skill acquisition.

A number of alternative suppliers of training and education are emerging, in particular the University Technical Colleges. The UTCs combine a technical and academic approach which could help bridge the gap between technical and professional roles and attract a greater variety of students to the industry. The challenge to the industry is to build on good practice and do more to accelerate and expand this approach, without which the sector's rate of hiring apprentices will train just 16% of the number of young people it is projected to hire between now and 2018¹⁵⁶.

Our view is that much more can be done locally to harness the house building industry's demand for skilled workers and put it to work to improve the way the industry connects with schools, careers advisers, and skills providers. The Labour Party has set out proposals for greater employer ownership of skills funding and standards, to offer opportunities for employers in construction to work collectively at sector level to develop and implement strategies to increase apprenticeships across their sectors and supply chains. We support these proposals which should assist firms in overcoming problems of poaching that prevent some firms from training.

Through the CITB, whose Board is appointed by Ministers, the sector has a strong institutional expression of collective action on skills¹⁵⁷. Strategic sectoral investment can help to mitigate the effects of market volatility on employment in the sector which in the long run are against the collective interest of the sector. In a downturn, companies may have no choice but to shed its workforce, but the best strategy for the industry as a whole, both as a way of increasing its flexibility and managing employers' costs over the

¹⁵⁵ In 2012, the "Richards Report" made recommendations for improving the quality of apprenticeships and making them more relevant to employers' needs which included recognised industry standards and purchasing power for investing in apprenticeships to lie with the employer.

¹⁵⁶ "No More Lost Generations", A Cross-Party Parliamentarians' Inquiry, February 2014

¹⁵⁷ In addition to the CITB, Summit Skills and the Building Futures Group provide collective industry fora on skills.

long run, is to develop and manage its wider pool of labour even if the workers will not remain in one job for the long term. There is a strong case for saying that what the industry needs is a way to help individual employees manage and develop their careers. Traditionally, this has partly happened through individual mobility between employment and self-employment, and support to SMEs will help to conserve the industry's overall skills base. A further approach to this would be for the industry, perhaps under the auspices of the CITB, to develop an industry-wide approach to developing individuals and conserving their skills and experience in the interests of the sector as a whole.

Strategic sectoral investment also needs to be complemented by coordinated action at local level to ensure that training provision reflects local needs and support employers to set up more high quality apprenticeships. Local Plans, discussed in Chapter 3, will give longer-term certainty about the number and kind of houses likely to be built in an area. Deeper and better engagement between developers and councils allows firms to be more confident about their plans too. This creates a climate in which a business-led conversation about the future demand for skilled workers in an area can take place, and can drive the way training providers plan their business too. This approach is not without precedents in related sectors: recent proposals for the construction of a new nuclear power station at Hinckley Point, for example, have led to very close liaison with FE colleges in the area to plan for training the skilled workers needed for those large construction projects. LEPs have an important part to play in enabling those local conversations about skills and are doing so in many places now.

In order to make this possible, councils and developers need to come together with schools and FE colleges in a structured conversation about planning skills for the future, based on the specific needs of the local area. That conversation should reflect priorities and standards set by the sector and balance these with the social and economic needs of the area, with decisions about the budget for commissioning adult skills training set locally.

Schools and careers advice have a particularly important role, and need to work better with the industry. The gender and ethnic balance of the construction workforce is shaped by perceptions that are developed very early on. Builders need to get involved in schools and manage their image with young people, offering work experience opportunities, and in sponsoring academies. There are already excellent examples of building firms doing this such as Laing O'Rourke and Bovis Lend Lease in East Manchester, but such practice needs to be adopted more widely.

Recommendation 28: Skills in the house building industry

A skilled house building workforce should be further developed through:

- ➔ The sector, led by the CITB, setting skills standards and coordinate strategic investment to boost apprenticeships. They should also be asked to develop a proactive policy on increasing diversity in the industry and a Code of Practice on developing employees that will balance employment flexibility with employers' equal interest in conserving and building the industry's pool of skilled labour for the long term.
- ➔ Local skills boards for house building, perhaps under the auspices of LEPs, should bring together builders, other parts of the construction industry, councils, and training providers including schools, to take a ten-year view on local skills needs in the sector, business-led and anchored in the Local Plan.
- ➔ Firms should work with schools and colleges to improve young people's perception of a career in building, by taking a stronger and more proactive role in schools and colleges, especially by providing governors, sponsoring schools, providing work placements and apprenticeships.

Supply chain and materials

Difficulties in accessing materials are a constraint on house building capacity that has attracted attention and debate, including in evidence to this review. Capacity seems to be growing as demand increases, although construction firms have suggested that the supply of material is lagging, causing issues in the supply chain and delaying development. These concerns are, however, anecdotal while the industry itself suggests it is confident of being able to scale up as demand from builders increases.

The Modern Masonry Alliance (MMA) suggested that these shortages reflect very short-term issues, influenced by a demand spike in late 2013 and early 2014 masking what is actually a successful scaling up of the supply industry. Whereas housing starts were up 31% in the first quarter of 2014 on a year previously, brick production has increased by 39% over the same period¹⁵⁸. In addition to prompting domestic production, the increased demand for supplies has also seen an increase in imports. For example, the value of imported bricks in 2013 was 48% higher than a year earlier¹⁵⁹.

Whilst the import market has allowed a capacity gap to be filled in the short term, it is clearly in the interests of the domestic industry to try and ensure domestic suppliers can be prioritised in the long term. Supply chain benefits are one of the main reasons why construction output has such a significant multiplier effect on GDP.

The MMA points out, however, that the majority of major companies, which have some 40% of the overall UK market, are globally owned and future capacity therefore depends on investment decisions taken by those firms' overseas managements. Policy therefore needs to focus on giving them assurance for the future that UK house building output will be sustained and stable and that the regulatory framework as it affects the use of materials should be transparent.

In our discussions, the industry therefore called for greater clarity on emerging regulatory requirements and flexibility in building requirements. Making regulatory changes more predictable and providing early

¹⁵⁸ Construction Products Association submission to the Review

¹⁵⁹ BIS via Brickonomics

guidance to the materials industry would allow the supply chain to adapt to the future needs of new development. In many ways the 10 year carbon standard, which was accompanied with a clear 10 year roadmap for its implementation is an example to be followed. This is consistent with the review's wider view that policy stability supports stronger growth in house building.

A bigger role for manufacturing in the creation of new homes

A number of submissions set out the case for making greater use of off-site construction and modern manufacturing methods to build homes more quickly and overcome many of the constraints which currently limit supply. This approach depends crucially on consistency of demand to justify the investment in factory facilities. It is already widely used for the creation of schools and hospitals where a proportion of the building is manufactured in the factory and the components assembled rapidly on-site. It was suggested that this approach, more widely used elsewhere in northern Europe especially Scandinavia, and Japan could make a significant contribution to increasing the volume of houses built and the speed at which they are built. Persimmon PLC currently rely on this approach to build about 1/3rd of their output (mainly affordable housing commissioned by Housing Associations) and we heard from smaller contributors (Igloo which uses off site manufacture for distinctive customised homes and Climate Energy Homes which is currently completing a scheme in LB Havering.)

Nicky Gavron AM submitted evidence to the review arguing that the significant cost savings and shorter development times of modular energy-efficient systems now made them a competitive offer for new building. There was conflicting evidence on the scale of cost savings, with HTA taking the view that the main business case for offsite construction lay in certainty about costs and the savings from faster and more certain construction times. Again consistent demand is almost certainly the key to being able to achieve the potential benefits of manufacture at scale with factory production potentially possible over 24 hours a day compared with traditional site works normally limited to no more than 9 hours.

Modular build has in the past faced quality issues but these seem capable of being overcome with sufficient attention to design and careful site construction and our attention was drawn to the scope for consistent high quality, especially in terms of insulation standards and ease of customisation. The creation of the Building Off-Site Property Assurance (BPOS) scheme to provide long term guarantees for buildings created in this way is likely to give further confidence to potential developers and we heard that other volume house builders are revisiting the contribution that off- site build can make for them in the face of constraints on labour and materials. Developments such as Murray Grove and Olympic Way show that off-site manufacture can offer environmental sustainability, hard economics, and architectural merit.

The emerging consensus in evidence to the review was that the domestic UK modular industry, mainly focussed on timber frame solutions for housing and panellised solutions used in higher rise building, remains relatively small but does appear to be growing. Modern manufacturing methods could be applied more systematically to build homes and could potentially contribute up to 60,000 homes pa. The roundtable discussion we held, together with our visit to Laing O'Rourke's production centre, established that investors are willing to support the expansion of this sector and the main constraints on its growth is consistency of demand to justify the necessary large scale investment in production capacity and the need for more rapid technological progress through support for R&D. Both points are well illustrated by the case study below.

Potential for offsite construction – Laing O’Rourke

The review’s visit to the Laing O’Rourke production facility at Worksop in Nottinghamshire underlined the potential for scaling up the contribution of offsite construction. Laing O’Rourke has already invested substantially in establishing a production line for building homes using components – with 70% of the materials manufactured off-site and transported to the development for assembly. This delivery method can achieve very quick build-out rates. For example, working in partnership with Barking and Dagenham Council, Laing O’Rourke oversaw the building of 477 homes in nine months, with 50% of the development delivered using this off-site approach. Although initial lead times can take slightly longer with an off-site method, given the need to collaborate extensively in the design phase, Laing O’Rourke estimates that overall a minimum 30% reduction in programme time is achieved in comparison with traditional build methods.

The Group has a track record of delivering over 1,800 housing units per year using a mix of off-site and traditional methods, primarily in high density areas, with key private and public sector customers. They are also trialling a modular housing system which could see over 90% of the building materials produced off-site. Other benefits include high energy efficiency with the ability to achieve Code levels 4 and 5, reducing running costs for landlords and homeowners.

Factories have been established in areas of former heavy industry, where there is good access to a skilled local labour force and the supply of raw materials. The factories provide easy distribution to supply sites around the country. Laing O’Rourke have recently submitted an application to build a further manufacturing plant in Nottinghamshire which would have the ability to provide a further range of offsite products including the potential to manufacture up to 10,000 homes a year providing a new supply model to complement the country’s existing traditional housing delivery techniques.

Offsite manufacture appears capable of making a significant contribution to the rapid increase in house-building we seek by exploiting underused manufacturing skills and helping to reduce cost inflation.

Recommendation 29: a bigger role for manufacturing in the creation of new homes

Government should take active measures to further promote the growth of the offsite manufacturing sector with a strong emphasis on achieving consistent high quality and should ask the Technology Strategy Board to both explore how the growth of this sector can be accelerated and provide further focused support for R&D by existing manufacturers.

Chapter 8

Quality, Design and Sustainability

Building enough homes for our children must also mean building homes that our children will want to live in; places where they will thrive, where communities will prosper, and the environment is protected for them and for future generations. Public support is vital to achieving the significant and sustained uplift in house building we need, meaning that poor quality homes and poorly designed communities must be consigned to history.

The recommendations of this review designed to diversify the housing industry, bringing in new entrants, smaller firms and opportunities for custom build and an active role for local authorities in development will boost housing supply but also lead to increased competition on the quality of new homes being built. This should in turn drive improvement in the quality and choice of housing available. This chapter explores further measures to ensure high quality homes and well-designed places.

People rightly want quality homes

The fact that high standards of quality and sustainability helps to build popular support for development is borne out by a number of attitudinal surveys:

- 73% of people would support the building of new homes if well-designed and in keeping with their local area¹⁶⁰;
- More Londoners (40%) think that building fewer homes with higher design standards would be better than building more homes with lower design standards (27%)¹⁶¹;
- Local people's willingness to support new development is influenced by space standards, aesthetic quality and the environmental performance of homes¹⁶².

Communities across the country show greater support for new development if they are confident it will bring good quality, attractive places to live. Good quality must therefore extend beyond exemplar developments and become a reality in all of our communities. In evidence to the review the Design Council stressed the need to shift the focus of the debate around new development to focus on the benefit that good quality housing brings to a place. The challenge is how to improve quality and sustainability across the board and deliver a significantly greater volume of new homes, recognising that despite considerable social and environmental benefits, there are also costs involved.

¹⁶⁰ NHPAU, Public Attitudes to Housing, 2010

¹⁶¹ Ipsos MORI Submission to the Lyons Review

¹⁶² KMPG and Shelter Building the homes we need. A programme for the 2015 government, 2014

In our discussions of design, quality and place there was a consensus that poor quality housing – whether design, size, lack of nearby amenities or a poor relationship with the wider community – is a symptom of market failure. This is the same market failure which limits supply. In part it is to do with the high cost of land which puts pressure on quality according to the residual model. This underlines how the operation of the land market flows into almost every other facet of housing policy.

Standards for quality of homes and places

The standards and quality of our homes can also help to tackle wider social and environmental challenges. Designing homes that reduce household energy bills can play a crucial part in bringing down the cost of living. The Prince's Foundation report *Valuing Sustainable Urbanism* found that good urban design can help to tackle issues of crime, carbon emissions, ill health and social exclusion¹⁶³. The recent experience of households affected by flooding is testament to the importance of ensuring that our homes are resilient to climate change.

However, evidence to the review also highlighted concerns about how the array of competing local and national standards adds cost and complexity and is particularly an issue for SME builders¹⁶⁴. The Housing Standards Review seeks to rationalise and streamline all of these different housing standards and consolidate essential requirements into a framework dealing with technical issues through the Building Regulations. There is certainly merit in the pursuit of a streamlined set of standards however a flaw in the remit of the Housing Standards review was that it started from the perspective of reducing costs to developers rather than ensuring quality. We would argue that the fundamental principle of a streamlined set of housing standards should be to support high quality development and encourage good development across the board.

As a core principle of the National Planning Policy Framework (NPPF), local planning authorities should *'always seek to secure high quality design and a good standard of amenity for all existing and future occupants of land and buildings'*. Good design is a fundamental part of achieving sustainable development in the NPPF. The National Planning Practice Guidance also deals with good design in detail, including stressing the importance of good design and setting out how good design can help to achieve other core planning objectives.

Yet good quality, design and standards will not be achieved by regulation alone. Our culture must also value quality places. Political leadership and all the stakeholders in a development must be encouraged to collaborate on creating places. The NPPF identifies access to Design Review as a way of achieving good design through the planning system. Planning officials and committees both have a role to play. There is merit in the suggestion made to the review that every member of a planning committee should be trained in design as a requirement¹⁶⁵.

The Farrell Review¹⁶⁶ recommended that Design Reviews could become PLACE reviews – planning, landscape, architecture, conservation and engineering – with experts from each of these professions being consulted by local planning authorities. This emphasises the need for a collaborative model of place-shaping that is part of our everyday culture. Securing good design can connect people to their

¹⁶³ The Prince's Foundation for the Built Environment and Savills – Valuing sustainable urbanism, 2007

¹⁶⁴ Lyons Review SME roundtable

¹⁶⁵ Berkeley Homes submission to Lyons Review

¹⁶⁶ Farrell Review of Architecture & the built environment: Our Future in Place, 2014

place and own well-being. Farrell suggests that this logic should be applied to assessing the quality of existing places as well as new development, a proposal that the review supports.

Tools for good design

Good design goes beyond the individual building and encompasses the way a whole new development works within a place. This includes everything from how the development integrates into its surroundings, its connectivity to amenities and how much external storage space is provided.

The Building for Life 12 tool has been developed to address these broader, place-shaping issues. Developed by the HBF, Cabe, the Design Council and Design for Homes, it focuses on 12 key questions to address for a place to achieve good design.

The intention for the tool is to stimulate discussions about the design process between communities, project teams, the local authority and other stakeholders. Exceptional design can be awarded the 'Built for Life Commendation', which aims to 'give the public confidence in the development of well-designed places to live across the UK'.

Church Fields, Boston Spa

The Church Fields development achieved the highest possible standards under the Building for Life 12 questions, and received the Built for Life Commendation. The 153 home Taylor Wimpey development is particularly commendable for being in keeping with the local character of its surroundings in terms of materials and the structure of the town¹⁶⁷.

Other tools are also available, including house builders' own. Berkeley Group's *Creating Successful Places* toolkit, for example, emphasises the idea of social sustainability and the way that placemaking can improve people's quality of life. It has three dimensions which look at the social and cultural life of new development, residents' voice and the quality of amenities and infrastructure.

There is also an industry-driven move to emphasise the importance of place and to drive best practice in sustainability into the core of the house building industry. NextGeneration is an annual sustainability benchmark of the 25 largest homebuilders in the UK. Their performance is assessed against over 250 benchmarking criteria under three main topics: strategy, governance and risk management; impact on the environment; and impact on society and the economy¹⁶⁸. The review strongly supports the importance of place making and developers who demonstrate commitment to it.

Kidbrooke Village

The idea of social sustainability is embedded in the regeneration of Kidbrooke Village. In partnership with the Royal Borough of Greenwich, Berkeley is building at least 4,800 private and affordable homes over a period of 20 years. So far this has created 2,452 jobs in construction. The development will contain 88 acres of parkland and open space alongside shops, schools, and community facilities. 91% of residents say they feel like they belong to the neighbourhood, compared to an average of 67% across the UK¹⁶⁹.

¹⁶⁷ www.builtforlife.org

¹⁶⁸ NextGeneration report: The Green Ceiling, 2013

¹⁶⁹ Social Life / CommRes Kidbrooke Village Resident Survey 2013

Recommendation 30: Ensuring quality and design standards

To ensure new homes and places are built to high quality and design standards:

- ➔ Streamline good housing standards – for energy, water and security – into a single set which is implemented through building regulations, and that there continues to be access to design review (or PLACE review) to ensure good quality design.
- ➔ The Building for Life 12 standard should be referenced and encouraged by all Local Plans as a collaborative tool which helps create good places.
- ➔ The LGA working with the HBF, RIBA and TCPA and others should establish a new kite mark for quality places reflecting the views of both original and new residents

Space standards

As an issue, space and the size of our homes featured in a number of submissions to the review, including RIBA, the Design Council and Shelter. Based on Government statistics on Energy Performance Certificates the average size of a new dwelling in England and Wales was 93.6m² in 2013¹⁷⁰. This is a significant improvement from 2004 when the average size was recorded at 76m², but still smaller than the 115.5m² and the 137m² recorded then in the Netherlands and Denmark respectively¹⁷¹.

Public opinion surveys show that size is an important issue to be addressed in ensuring the homes we build meet people's needs and build support for new homes. An Ipsos MORI survey for RIBA found lack of space reported as the key problem for people in homes built between 3 and 10 years ago¹⁷². A YouGov survey for Shelter showed that 44% of the public were more likely to support additional land being used for housing development if the homes were larger, meeting minimum space standards. This compares with 23% who were more likely to support a development with smaller homes on a smaller site¹⁷³.

The review heard concerns from developers about local flexibility on space standards leading to a complex set of different requirements throughout the country. The coalition Government's current approach is moving towards national space standards which can then be applied locally if that is the preference of local authorities.

A number of submissions to the review made a compelling case, in terms of the benefits for human wellbeing, for the application of space standards¹⁷⁴. The key issue to address is the impact of mandatory space standards on costs and the volume of new homes built.

There could be a number of unintended consequences as a result of space standards. First, the market in flats – which are generally smaller – is likely to be affected more than the market for houses. Secondly, investment in new designs would be required, and whilst this would not have a lasting effect, the costs of complying with new regulation could create a barrier for smaller house builders. Finally, the imposition of space standards would have the greatest effect on the affordable end of the market. Consumers at this

170 DCLG – Energy Performance of Buildings Certificates 2014

171 RIBA – The Case for Space, 2013

172 Ipsos Mori – RIBA Housing Survey 2013

173 Shelter – Little boxes, fewer homes 2013

174 Baroness Whitaker submission to Lyons Review, Lords speech on Future Homes Commission

end of the market may have their choice limited by space standards, creating greater competition for smaller units in the second-hand market.

Research by Cabe suggests that there are ways to address the space challenge through design that can lead to a better quality of development with equal or more units on the site thereby enhancing the scheme's viability¹⁷⁵.

The review recognises the strength of the arguments put forward for space standards and have concluded that they will play an important part in ensuring an increase in house building does not result in pressure to decrease the size of homes built. There are also legacy issues to be considered for buildings which might appear acceptable now but at some point in the future will not be, given that they are expected to have a long life. We therefore recommend that space standards should be applied, but recognise that further work is needed to avoid unintended consequences of an impact on supply in some places.

Recommendation 31: Space Standards

Space standards should be introduced applicable across all tenures. Further work is required to establish the most appropriate standards and whether there is a case for flexibility for local areas to offer exemptions in certain markets. The standards should be incorporated in a new National Housing Design Guide, which could bring together all relevant requirements in one place (RIBA, Design Council). This would have the benefits of standardisation, certainty, equity and the maximum benefit to people's wellbeing.

Zero carbon homes

Derwenthorpe

Derwenthorpe is a garden village in York, built by Joseph Rowntree Housing Trust to the highest standards of energy efficiency. It is an exemplar scheme, with the Trust actively involved in testing three themes of environmental and social sustainability:

- how to deliver new sustainable homes that reduce carbon emissions, building on the zero carbon debate;
- how to support households and communities to live more sustainable lifestyles through reducing energy use and encouraging environmentally friendly transport;
- how to address the barriers to digital inclusion.

In 2006, the Labour Government committed to implementing zero carbon new homes by 2016. The Code for Sustainable Homes was developed as a tool to drive innovation in the house building industry, setting out a trajectory for the achievement of zero carbon. This has been followed by the progressive tightening of the energy performance requirements of the Building Regulations, most recently in April 2014.

¹⁷⁵ CABE (2010) Applying housing standards: London case studies

Rowan Park

Rowan Park in Merton is a development of 217 timber frame homes built by Crest Nicholson to exemplary green-building standards, as specified in the brief from Merton Council and the HCA. Each home is built to Code Level 4 and has solar panels installed on the roof, powering the development with renewable energy and lowering energy bills. Estimates suggest that the panels could generate over £500 per year in feed-in tariffs for residents. The development also includes a landscaped park which manages water drainage, as well as new open green space, 2.6 hectares in total, which is interspersed with wildlife habitats adding vital biodiversity to the environment. The development was the 2012 project winner at the Housing Design Awards. It comes within a wider drive towards sustainable building at Crest Nicholson, which came second in the 2013 NextGeneration benchmark initiative.

Homes which are highly energy efficient benefit from lower energy costs. For example, a zero carbon average family home could save over £300 a year on energy costs compared to a typical home built today, and over £1,200 compared to a similar Victorian home, a saving of 73%¹⁷⁶.

The coalition Government's recent announcements have weakened the commitment by modifying the definition of zero carbon to exclude appliances within the home, and proposed to exempt small housing developments from the 'allowable solutions' scheme, which deals with any emissions that cannot cost-effectively be dealt with at the building level. Submissions to the review highlighted concerns about the lack of certainty caused by frequent policy change and unclear timescales for implementation of the policy under the current government.

Some submissions to the Review raised issues around a trade-off between costs and the burden of building to zero carbon standards. Linden Homes contended that:

'For less than half the cost of building a zero carbon home, the industry could finance a £500 million (per annum) fund to insulate and retro-fit homes that are already built...that would leave house builders free to get on with building homes, and more of them.'

However others, such as the Riverside Group and the Home Builders Federation stressed that the crucial issue is longer-term certainty over the zero carbon policies to allow for efficiencies to be achieved throughout the entire supply chain.

There is evidence to show that costs have fallen since the Code was introduced in 2007¹⁷⁷. Most recently, the Zero Carbon Hub published research showing that:

- At today's prices, the typical additional cost of building a semi-detached house to the zero carbon standard could be less than £5,000.
- By 2020, the additional cost of building a new zero carbon semi-detached home could be less than £3,500.¹⁷⁸

It appears that the falling cost of building to zero carbon standards is driven at least in part by changes to the regulatory environment. This encourages innovation in the house building sector and economies of

¹⁷⁶ Based on a zero carbon 3-bed semi-detached house compared with a similar property built to 2013 regulations, and a Victorian property with some modern improvements. Zero Carbon Hub Zero Carbon Housing – Annual Energy Running Costs, 2014

¹⁷⁷ Element energy, Davis Langdon – Costs of building to the Code for Sustainable Homes Final report 2013

¹⁷⁸ Zero Carbon Hub – Cost analysis: Meeting the Zero carbon Standard, 2014

scale in the supply chain. Yet there is still further work to do in delivering genuinely zero carbon homes and in addressing the gap in performance between what is planned and what is actually built.

Recommendation 32: Zero Carbon Homes

The Government in 2015 should reaffirm its commitment to a genuine zero carbon standard for new homes and set out a clear trajectory for all homes (reversing the exemption for small housing developments) to achieve this if further action is required beyond 2016. It should address issues around the performance gap, and should work with the industry to address problems highlighted by the Zero Carbon Hub: skills and knowledge, communication, and responsibility.

Quality in the wider environment

As noted, shaping quality places is more than just a matter of well-designed new homes and streets. The natural environment within which homes sit makes a vital contribution to places people want to live in.

The issue of flooding is becoming more pressing with climate change increasing the risk of river, coastal and groundwater flooding, as well as flash flooding¹⁷⁹. New homes should not be irresponsibly built in areas of flood risk, and sustainable urban drainage systems should be the norm, as was evidenced in our site visit to Milton Keynes.

Green infrastructure provision is an essential part of major new housing development, which provides an opportunity to enhance biodiversity on land of low environmental value, as well as helping to minimise flood risk. Quality can be added from the scale of the individual home (through low-cost measures such as nest bricks and wildlife-friendly garden planting) right up to large-scale habitat creation in country parks.

A number of submissions to the review highlighted the importance of ensuring local authorities retain the skills and expertise necessary to maximise these opportunities. At the same time, developers expressed frustrations about increased costs and delays from requirements to assess the environmental impact of development. The review has also seen and heard of successful work between councils, conservation groups and developers that have helped resolve these tensions and improved outcomes for both the design of the development and its environmental impact. This is a crucial part of placeshaping and must be embedded in the local authority role in leading development.

Barratt and RSPB – nature friendly housing

Barratt is working with the RSPB on a major housing development in southern England with the aim of setting a new benchmark for nature friendly sustainable housing. The initiative will incorporate innovative best practice into how a development of more than 2,000 homes is designed, built, landscaped and planted so as to promote wildlife, with customers and the wider community also being engaged in the process. Over 40% of the area will be designed as wildlife-rich green space, including a major new urban fringe nature reserve, but just as importantly, nature-friendly elements will be incorporated into the built environment too.

¹⁷⁹ Adaptation Sub-Committee Progress Report, 2012: Climate change – is the UK preparing for flooding and water scarcity?

Chapter 9

Housing for all

The reason England's housing crisis matters is not only that there is an absolute shortage of homes but also that too many people cannot afford to pay for what homes there are. New supply will have a downward impact on affordability. But it would be wrong to imagine that this can rapidly reverse today's serious affordability problems that have built up over two generations. So it is important that we secure a double dividend from new building by making sure that more of the homes that are built are affordable. This will not be achieved if we rely on the market alone.

It is clear to the review that there has been an over reliance in the past on a narrow model of providing homes for private sale to meet housing needs. With homeownership out of reach for many, there needs to be a greater focus in delivering homes at affordable rents and in offering alternative, low-cost homeownership options. There is also a pressing need for more homes to meet the needs of those on lowest incomes and the most vulnerable. The call for more investment by social landlords was strongly endorsed in submissions by private sector evidence to the review.

This chapter looks at what can be done to support greater supply across a wider range of tenures, including homes for private rent, and homes for social and affordable rent. Not only will this result in more affordable homes, it will boost the total number of homes and the speed at which they are built. This is because it provides opportunities to open up new markets, attract a wider range of players into house building and means build rates are not dictated only by the rate at which homes are sold on the open market.

Housing Associations and councils have a crucial role to play in the delivery of new homes. Both already play a role and have demonstrated a clear ambition to do more, both directly and in partnership with the private sector. This chapter sets out what is needed to harness that ambition.

A wider mix of tenures to meet needs and build more homes

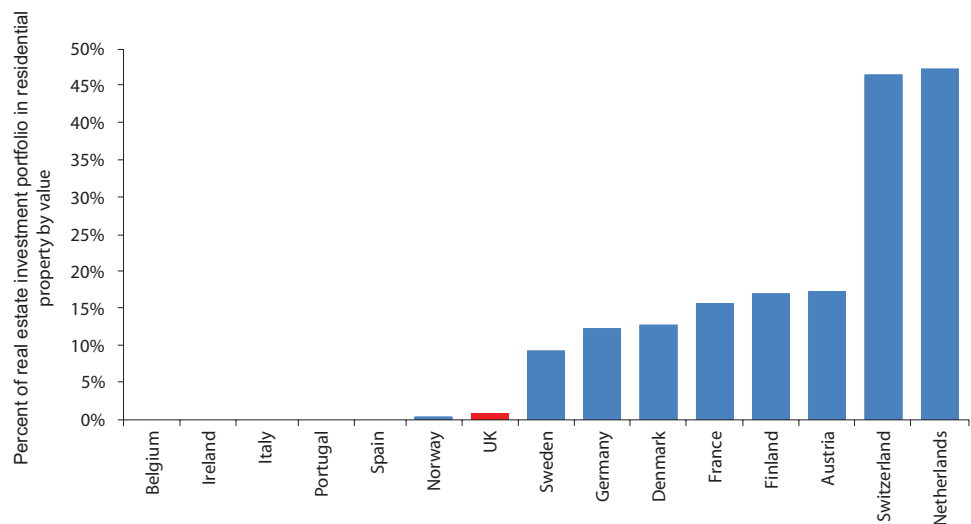
Improvements to housing supply cannot be limited to owner occupied housing. We need a choice of homes to reflect people's ability to pay and the different chapters in their lives. There is a role here for many more and better quality homes to rent, untapped opportunities to help people own their own home through a much more attractive offer on shared ownership. Housing for people in later life will need to be a priority in order to cater for an ageing population, but also to develop more market choice for those looking to downsize, freeing up larger family homes. We will also need to do more to provide homes for social and affordable rent to ensure those on lowest incomes and the most vulnerable have a decent and secure home.

The need for a bigger market rented sector

As highlighted in Chapter 1 and reinforced by evidence to the review there is considerable potential for the market rented sector to have a positive impact on the housing market by providing additional homes, creating jobs, improving choice, and driving up quality and standards. However, if renting is to be a tenure of choice not a last resort, affordability in higher demand areas will have to be better, and standards of property and management will have to improve. A bigger market rented sector will help improve quality and drive down the cost of supply by counteracting the shortage of rented accommodation, particularly in London and other vigorous labour market areas, which has forced up rents very quickly.

The potential for growth in the number of homes for private rent is significant if institutional investment can be corralled. As figure 24 shows, it is a model of investment that is much more prevalent in other countries.

Figure 24 – Institutional Investment Allocation to Residential



Source: IPD/KTI, 2011

Numerous reports in recent years have recognised the potential for greater institutional investment in developing market rented homes at scale¹⁸⁰, yet to date a significant flow of investment has not yet been achieved. There is evidence of growing interest by potential investors and developers¹⁸¹ as highlighted by evidence to the review and illustrated by the following examples.

¹⁸⁰ Most notably, Adrian Montague: Review of the barriers to institutional investment in private rented homes, August 2012

¹⁸¹ Savills, spotlight investing in rental Britain, 2013; Savills Residential Investment Intentions Survey; British Property Federation Submission to the Lyons Housing Review, 2014. Research from Molior estimates that in London build to rent accounted for 8% of housing delivery with significant development in the pipeline

Market Rented Investment Activity

Willmott Dixon: has created a new company called be:here to provide a new alternative to young professionals looking for accommodation in the market rent sector. Underlining the growing recognition among institutional funds of the investment potential, last year be:here reached agreement with M&G Investments' Secured Property Income Fund to invest in its first scheme, consisting of 233 apartments, a mix of market rent and affordable units adjacent to East India Dock DLR station in East London. The apartments will be owned by M&G and the market rent element managed by Housing Association Poplar HARCA under the be:here brand. be:here has the ambition to create 5,000 homes through this method and is in the process of acquiring further sites across London and at central locations in Manchester, Birmingham, Bristol and Leeds that are each capable of accommodating single developments of 100–400 apartments.

Thames Valley Housing Association and Fizzy Living: Thames Valley Housing has put £30 million into Fizzy Living, its joint-venture subsidiary, which aims to have 1000 market rent units by 2015. Profits from TVHA's share of Fizzy Living are paid back to TVHA, cross-subsidising its social and affordable housing. Finance will also come from banks and institutional investment including Macquarie Capital (investment bankers) Silver Arrow, an investment entity owned by the Abu Dhabi Investment Authority

Student Accommodation

Evidence to the review also pointed to the experience of student housing as a precedent for boosting the role of market rented housing, particularly in "build-to-rent". Student housing provision has grown significantly in recent years into an established property investment class that behaves more like commercial property¹⁸². Over the last 18 months, there have been two student accommodation REITs listed on the London Stock Exchange.

Over 150,000 purpose-built student bedrooms have been developed by the private sector as a commercial response to an investment opportunity¹⁸³. For instance the UNITE group is the UK's largest developer and manager of purpose-built student accommodation. UNITE's business model encompasses the entire development process through land and planning, financing, construction, and long-term management. Now that the model has been proven funding is drawn from an investment fund in which institutional investors now invest.

Investment in student accommodation was boosted in its early stages by tax relief under the Business Expansion Scheme. Research showed that 39% of BES companies letting residential property on assured tenancies intended to house students. Universities also used the scheme to obtain capital at a discount to commercial rates in order to fund new student accommodation or to refinance existing properties¹⁸⁴.

The Building and Social Housing Foundation identified three core reasons for success: development of properties that are designed to be managed; capacity to generate a strong and reliable income return; and a clearly defined customer who positively wants to rent.

¹⁸² Savills Spotlight of Student Housing 2013

¹⁸³ GVA Who owns student housing 2013

¹⁸⁴ John Hughes, (1995), "The impact of the Business Expansion Scheme on the supply of privately rented housing"

Barriers to greater institutional investment in the market rented sector

Evidence to the review identified barriers to greater institutional investment in the UK residential sector, reinforcing issues that have been well documented most notably in the Montague Review, but also in reports from the Resolution Foundation and the Building and Social Housing foundation¹⁸⁵. These include:

- the perception that the returns from the investment in the residential property sector are too low and insecure to be attractive to investors;
- the cost of land driven by the high price of homes for sale and planning risk;
- a lack of a track record and proof of concept;
- reputational risk or the existing private rented sector, often seen as insecure, of low quality and subject to poor management;
- high management costs and concern about the lack of management capacity (though Housing Associations with a pool of management experience, have assuaged some of these concerns).

In addition, the short-termism of mainstream tenancy models has created a culture of churn and instability for renters, which undermines steady income streams for landlords and investors¹⁸⁶. There are also residual concerns about the history of rent control in the UK. However, all the main political parties have ruled out 1970s style rent controls. The Labour Party have set out proposals for longer-term tenancies and predictable rents. A number of reviews have highlighted that overseas such models have helped attract institutional investment¹⁸⁷.

Current initiatives to support the market rented sector

The build-to-rent fund is providing up to £1bn of Government loan or equity funding to organisations to develop purpose built private rented accommodation. However, the scheme has been met with varying success. £700 million was due to be spent in the first phase on 45 building projects but the revised proposals for the first phase were for £300 million to be spent on 17 developments. This may have been partly because the recovering housing market means house builders and developers are reverting to focus on their traditional business models based on homes for private sale¹⁸⁸. Government also provided £3.5bn in housing guarantees to support the building of new homes for market rent. The scheme was announced in 2012 but by mid-2014 no private company had formally expressed an interest in managing the scheme¹⁸⁹. We conclude therefore that capital investment is not the primary constraint.

Supporting market rented housing through Local Plans

The review has found good examples of local planning policies to support market rented sector housing. For example, London Borough of Wandsworth recently used Section 106 obligations to require the delivery of 114 private rented units on Bellway Homes' 510 home scheme at the former Christie's Fine

185 Resolution Foundation – making a rented house a home, 2011; BSHF – Building New homes for Rent, 2012; Adrian Montague: Review of the barriers to institutional investment in private rented homes, 2012

186 Jones Lang LaSalle, Can landlords' business plans sustain stable, predictable tenancies?, 2012

187 The Resolution Foundation found that institutional investment in Europe has been supported by "the availability of long-term leases with transparent rent rises that reduce tenant turnover, lower the costs of empty properties and increase the predictability for investors." Moreover, research carried out for Shelter by Jones Lang LaSalle suggests that longer tenancies combined with index linking of rents may actually enhance landlords' returns. (Jones Lang LaSalle, Can landlords' business plans sustain stable, predictable tenancies?, 2012)

188 Construction News press release 27 March 2014

189 Financial Times, "Build to let plans fall flat after investors show scant interest," 10 June 2013

Art Warehouse in Nine Elms. Whilst this approach is effective on an application by application basis, to encourage long-term sustainable investment in the sector, local plans need to provide greater clarity on the role of the market rented sector in meeting housing demand and need.

To do this, the NPPF should provide a stronger framework against which emerging Local Plans can be based. The NPPF currently requires local planning authorities to ensure that the Local Plan meets the *“full, objectively assessed needs for market and affordable housing”*. We propose this is extended explicitly to include market rented housing. This will not preclude local policy reflecting the subtleties within individual local planning authorities, but will provide a recognition and policy platform upon which institutional investment and the build to rent sector can flourish. Market rented housing would then be secured by planning conditions.

Strategic Housing Market Assessments provide the evidence upon which emerging Local Plans can reflect the role of market rented housing in housing policy and delivery. Within these plans market rented housing should be recognised as part of the range of housing tenures to meet local housing needs and encourage ‘additionality’ within housing delivery.

Standards in the market rented sector

Standards of private rented homes remain an issue for investors and tenants alike. The poorest conditions in housing stock now exist in the private rented sector with a third of homes not meeting the decent homes standard and are some of the poorest homes in terms of energy efficiency. Councils can introduce local licensing schemes, however the current arrangements are too bureaucratic and restrictive meaning many authorities have not taken up the option. Government should support policies that help drive up standards across the private rented sector for example by encouraging local authorities to use their full range of enforcement powers and by reducing barriers to the introduction of local licensing schemes.

Government should continue to set out national standards (primarily the Housing Health and Safety Rating System) on the condition of properties. There should be guidance on expectations for Houses in Multiple Occupation but with appropriate local flexibility. This will ensure landlords provide well managed, safe, homes for good tenants and provide greater clarity for investors.

Recommendation 33: More quality homes for market rent

To support a vibrant market rented sector:

- ➔ Local authorities should use their role in leading development in Housing Growth Areas and joint-ventures with Housing Associations and private developers to encourage high quality market-rent where there is demand.
- ➔ The NPPF should specifically require that local plans consider the objectively assessed needs for market rented housing alongside that of affordable and market housing as it does at present. This will require all plans to take the tenure into consideration leading to evidenced Local Plan policies on market rented housing that provide certainty to investors. Market rented housing would then be secured by planning conditions.
- ➔ Government should continue to set out national standards (primarily the Housing Health and Safety Rating System) on the condition of properties. There should be guidance on expectations for Houses in Multiple Occupation but with appropriate local flexibility. This will ensure landlords provide well managed, safe, homes for good tenants and provide greater clarity for investors.

A better offer for shared ownership

There is a need to provide a better deal for the 2.5 million low to middle income families who are priced out of the market for home ownership, face increasing rents as a proportion of income and are unlikely to access social housing¹⁹⁰. Evidence to the review highlighted significant potential for shared ownership to provide a flexible and lower cost route for these families to meet their aspirations to own their home, and to create a bigger market that will deliver more homes. By providing a bridge between renting and owning outright, shared ownership crosses markets, demographics and transcends a typically 'siloesd' approach to tenure. It would also support the development of mixed communities, offering people more choice and a cost-effective alternative to renting privately.

Shared ownership is a flexible concept: the occupier buys a share of a home with a mortgage at a level they can afford and pays rent on the remaining share, which is typically held by a Housing Association. There is then the option to increase the share in the home upwards as it can be afforded (known as staircasing). For many the aim will be to staircase up to full ownership, though for others shared ownership can be a desirable long term option in its own right. A new generation of quality homes in which people can take an initial stake in ownership with the scope to increase that stake when they can afford it will help the next generation of families into home ownership.

Shared ownership schemes were introduced in the 1980s and have been an element of subsidised housing provision ever since. However, though there are 175,000 households in shared ownership homes in England, the sector remains relatively small at 0.8% of households when compared for example to Northern Ireland where in a much smaller housing market, 24,000 (or 3 %) households have used shared ownership (see text box). Scaling up provision of shared ownership could stimulate a significant increase in the number of homes built, provide an affordable and flexible route into home ownership and address wider affordability problems. Our proposal is for a new and coherent offer on affordable home ownership as a part of the country's long term housing strategy.

Value for money

Shared ownership also appears to offer good value for money, both for households and the tax payer. Recent reports from Shelter and the Resolution Foundation analysis estimates that household income of shared ownership purchasers is around £27,000; compared to £42,000 for the average household under the Help to Buy scheme. They also indicate that buying a 25% share of a shared ownership home is affordable to almost 90% of low-to-middle income households compared to 20 % for those with Help to Buy mortgage guarantee and 60% for those renting privately¹⁹¹.

Statistics from DCLG suggest that shared ownership represents good value for money for Government too. The cost to Government of a Help to Buy equity loan home is £38,703. For shared ownership, this figure is closer to £15,000 per home (and as low as £8,000 outside of London). The same sources show that the average house price for Help to Buy equity loan properties is around £195,000, but for shared ownership this is £175,000¹⁹².

¹⁹⁰ Shelter (2013) *Homes for forgotten families*

¹⁹¹ Shelter (2013) Op cit; Resolution Foundation (2013) *One foot on the ladder*

¹⁹² Department of Communities and Local Government and Homes and Communities Agency statistics

The potential market for shared ownership

Evidence to the review highlighted the popularity of shared ownership¹⁹³. Recent polling for Shelter has demonstrated clear public support for schemes that offer an alternative to throwing what some see as “dead money” at rent and help people into home ownership¹⁹⁴. The polling revealed reservations about the term “shared ownership”, but strong support for the products, especially schemes where every rent payment is put towards owning a home (like the Gentoo Genie scheme) and “part buy; part rent” schemes that allowed people to buy a stake in a home with a mortgage and pay affordable rent on the remaining share with the option to scale up their ownership share if their salary increases. These schemes were seen as an important stepping stone for young people and a good route into home ownership to those on middle to lower income salaries. Furthermore, there is evidence of unmet demand for affordable ownership. According to the NHF, Housing Associations approve around 85,000 applications for shared ownership per annum, however government only funds the development of around 11,000 homes.

Providers of shared ownership homes

Housing Associations will have a key role in providing this category of affordable homes for ownership. There are a number of schemes already on the market and many Housing Associations have sought to develop schemes to expand reach and flexibility.

Housing Association Flexibility

- **Thames Valley Housing’s** “shared ownership plus” makes it easier for people to build up the share they own by allowing them to opt into automatically buying an extra 1% share in their home each year through a monthly equity payment.
- **Affinity Sutton’s** pilot scheme in Croydon, alongside the GLA, allowed people to pick a property they want, it was then bought either as shared ownership or shared equity based on what they could afford.
- **Moat** and **Thames Valley Housing** with **Sevenoaks** and **Bracknell** councils, jointly funded a ‘Do-It-Yourself Shared Ownership’ without central government funding. This has allowed people to find a property on the open market, rather than new-build, and buy on shared ownership terms.
- The **Gentoo Genie** payment plan allows people to buy a share in their home with each monthly payment without the need for a deposit or a mortgage. At the end of the agreement period they will own 100 per cent of their home. Households with an average income of £18,000 before tax are eligible for the scheme, making it a much more accessible route to home ownership for many families on average incomes.

Barriers to shared ownership models

In exploring the potential for a bigger role for shared ownership models, the review has identified a number of issues to be addressed.

A simple and comprehensive consumer offer on shared ownership is needed to establish a coherent policy regime across the whole housing sector and that can be promoted by central government, local government and Housing Associations” and should also say “build at the necessary scale.

¹⁹³ David Montague, L&Q Group; Orbit Group Submission; Tony Pidgely, Gallaghers

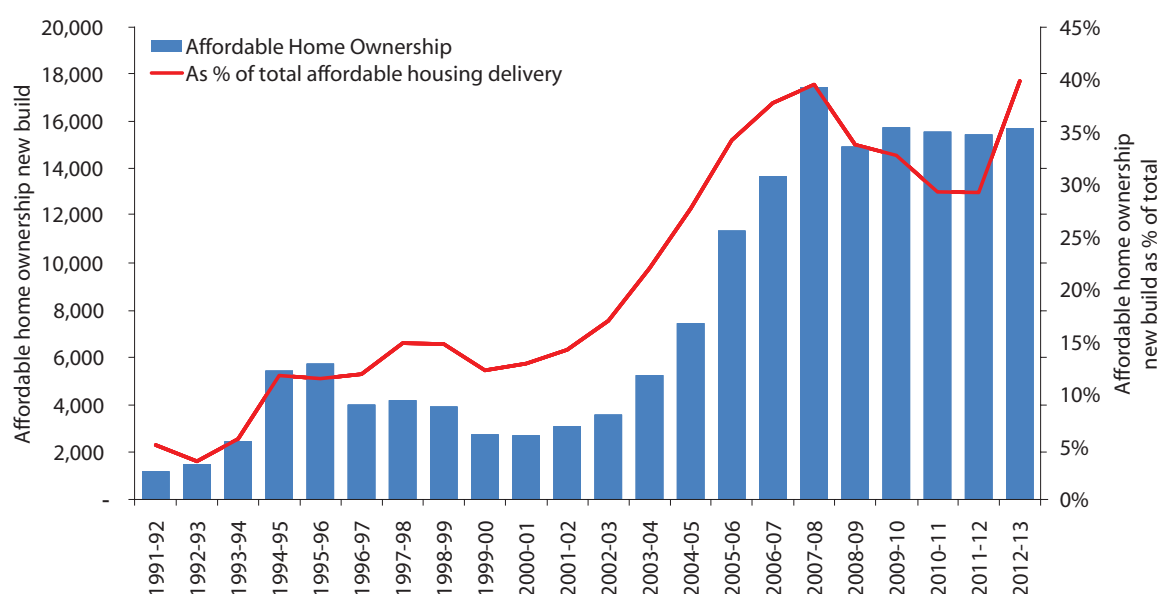
¹⁹⁴ Populus policy testing for Shelter July 2014

A coherent offer and brand for shared ownership must also offer choice and appeal to a wide range of households to open up a broad base of demand. For volumes to increase eligibility should be defined far more widely than at present (that is, beyond first time buyers and key workers) and lower ownership shares would make it affordable for a wider range of households. Better options for staircasing will increase its appeal as a 'stepping stone' to outright ownership.

There is a lack of liquidity in the market for the sale of shared ownership homes because the onward sale is for a partial equity stake. This makes it harder for households to move on and for new households to get into the market. Greater scale and standardisation in the offer will help, but greater mobility could be assisted by online marketing and agents to help people move and allowing equity to be transferred to another home will also improve liquidity and appeal.

Government data shows that shared ownership has increased from an average of 3,500 units per year during the 1990s to an average of 15,500 over the last five years. However the support for shared ownership and treatment varies in different authorities and is cited as a reason why the sector remains disparate and fragmented. Promulgation of good practice guidance and evidence of the impact of supporting shared ownership has a role to play in improving consistency and support.

Figure 25 – Shared Ownership Delivery



Source: DCLG

Access to mortgage lending for shared ownership has improved in the last decade, though reluctance from some lenders continues because of perceived complexity and lower average borrowing¹⁹⁵. A simpler and standardised product and a better understanding by the financial services regulator of the risks to lenders and consumers associated with shared ownership mortgages would help increase the products available.

¹⁹⁵ Moneyfacts.co.uk indicates that there are currently 21 mortgage providers offering 222 shared ownership products to the market

Shared Ownership in Northern Ireland

There is much to be learned from Northern Ireland's approach to shared ownership. Compared with the rest of the UK, shared ownership has been relatively successful (with 21,000 homes in shared ownership representing 3% of households compared to 0.8% in England) due to a long standing stable regime that has improved awareness and provided certainty. The particular themes that appear to be associated with success from which we should learn include:

- a single scheme for the whole of Northern Ireland created familiarity, reduced uncertainty and allows transactions to be carried out more quickly;
- the scheme provides a pathway of choice involving staircasing to full ownership for those who would otherwise find home-ownership unaffordable;
- independence for providers, alongside an investment opportunity, and the potential to recycle receipts on sale and use them again, to assist in providing access to home ownership to other households;
- sufficient flexibility to enable households to move easily from one form of tenure to another;
- high levels of satisfaction with the administration and organisation of the scheme.

Funding a larger scale shared ownership offer

There are examples of Housing Associations offering shared ownership models without government subsidy (see Sevenoaks and Thames Valley Housing Association cited above). The review heard how in some areas models can work without subsidy and would encourage this approach wherever possible, but it must be recognised that this ultimately depends on land and property values. In areas of high property values, subsidy may still be required. The long term investment of public land may provide another means to support such schemes.

There is potential to attract institutional investment into shared ownership, but this will depend on sufficient demand and the ability to develop the offer at sufficient scale. In doing this, there will need to be a balance struck between creating attractive returns and maintaining/improving affordability. This could involve packaging up existing portfolios of shared ownership properties to a level pension funds would find attractive. Attracting institutional investment, especially into the value of the unsold equity, would free up and recycle Housing Association capital and capacity to re-invest in new affordable housing.

However, whilst there is potential for institutional investment to come on stream, lessons from attempts to attract institutional investment into the market rented sector highlight that it is only likely to happen at scale once it is a well-established tenure. That will require government to clearly commit to shared ownership and find means to kick start market interest in the product.

The review therefore proposes that central and local government should promote a new offer on shared ownership. Non grant models could come in the form of land committed by the landowner (developer or local authority) on the basis of insuring that these are able to get away and therefore it represents a long term investment. In many cases, local authorities use Section 106 agreements to secure shared ownership provision, and then the local authority retains the unsold equity on balance sheet.

Submissions to the review have suggested using repayable equity funding from Government, similar to the way Help to Buy is funded, repaid at the point of initial sale or when a purchaser staircases up would facilitate greater capital investment in the sector and help establish it as a viable investment in its own right. The review would also support the extension of the existing private rented sector guarantee scheme to allow for the accumulation of shared ownership portfolios by institutional investors.

Recommendation 34: Shared ownership

Government should promote a new and coherent offer for shared ownership including:

- ➔ Promotion of a single brand and comprehensive offer for the whole country with broad eligibility criteria and standardised lending products.
- ➔ A clear set of options and pathway of choice including staircasing to full ownership, options to choose the home it applies to.
- ➔ Sufficient flexibility to enable households to move easily from one part-buy property to another or to another tenure.
- ➔ Extending eligibility of the undersubscribed Private Rented Sector guarantee scheme making them eligible for future equity loan schemes such as a refocused help to buy.

Housing for older people

Catering for the needs of our ageing population means a greater focus on providing the right type of housing and greater choice for people in later life. Well over half the projected household growth between now and 2021 will come from households headed by people aged 65+, and a further fifth from those aged 55-64¹⁹⁶.

Future policy should not only focus on traditional forms of housing for older people such as 'sheltered housing', 'extra care' or 'retirement homes' (though they remain important) but extend to a broader range of bespoke housing that recognises the different chapters of life. Housing LIN/Elderly Accommodation Council (EAC) forecast a deficit of 240,000 of such bespoke homes by 2030.

There is a distinct and growing need for a better supply of homes for people at the higher end of this age band, where varying degrees of support are required, to meet the objective of ensuring more home-based care, free up hospital beds and reduce the need for institutional care.

The review has seen a number of excellent schemes already underway that show how a better offer could be achieved, including during our visit to Birmingham.

¹⁹⁶ DCLG (2013) Household interim projections 2011-2021, England.

Pannel Croft Retirement Village, Birmingham

Birmingham City Council has supported the development of housing for older people by providing HRA land at no cost for a number of ExtraCare schemes. The council recognises the importance of providing for the housing needs of older people, and also recognises that the high costs of developing schemes of this type often requires some public land subsidy.

The review visited the Pannel Croft Retirement Village which was developed through a partnership between the Council, the HCA, the Department of Health and the ExtraCare Charitable Trust to provide 180 homes. Pannel Croft is the second of five such retirement villages planned for Birmingham and contains facilities to cater for a wide-range of older people with different support needs, including IT suites, a library, craft rooms, hairdressing and beauty salons, a village hall and village shops.

A third of residents at Pannel Croft receive care and there is a dedicated team of staff can support residents with significant assessed care needs, including dementia. There is also a well-being service dedicated to supporting residents to be proactive about their health. The Birmingham Housing Growth Plan states that, going forward, the council will continue to consider opportunities to provide discounted HRA land for schemes of this type.

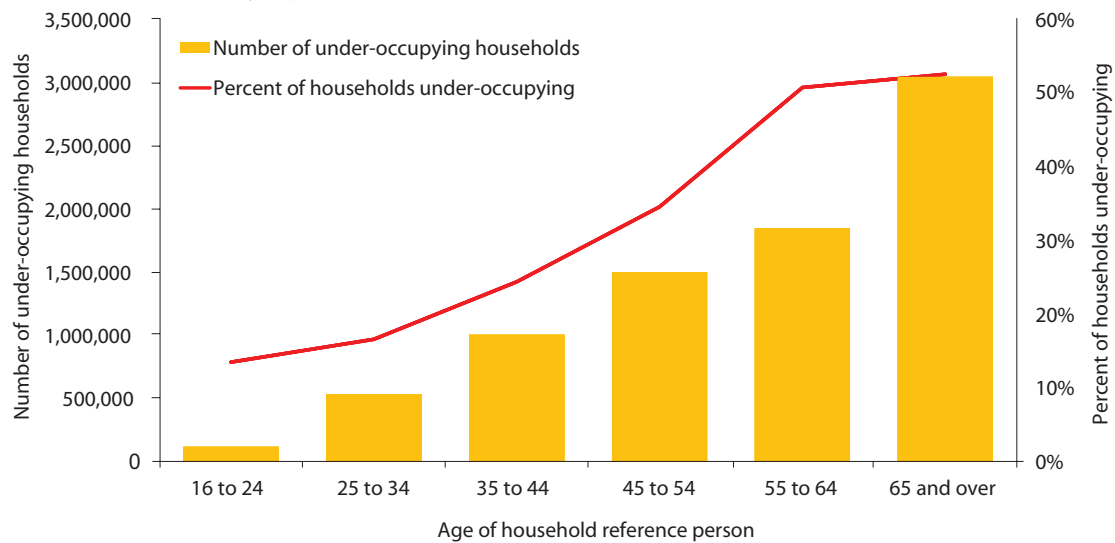
We recommend that government explore measures to incentivise investment in increasing the provision of homes accompanied by good quality extra care facilities. One suggestion made to the review is the extension of the Enterprise Investment Scheme (which provides business investors with income and capital gains tax relief where they buy new shares in high-risk trading companies) to companies providing extra care facilities. The scheme has already had a revolutionary effect on student accommodation in the UK by sharply increasing investment sector over a short period. It must be recognised however, that this would have further financial implications for Government.

Incentives for down-sizing

Evidence to the review highlighted the need for a strong focus on providing more attractive options for older people to downsize from family homes once their children have left home. As Hanover Housing Association told the review, the provision of high quality aspirational housing for this growing group could unlock housing for families, whilst at the same time creating a new market that would stimulate the supply chain¹⁹⁷. The English Housing Survey estimates that around 3 million households headed by someone aged over 65 are under-occupying their present home, that's over 50% of all households in that age group.

¹⁹⁷ Hanover submission to Lyons Review

Figure 26 – Under-occupying Households



Source: English Housing Survey 2012/13

Hanover is developing a new model of bespoke housing in which the quality of the accommodation offered is the key. It will be designed to the standards developed by the HAPPI standards created to improve provision of homes for older people¹⁹⁸. It will provide additional security but without the levels of support and communal facilities that would require extra revenue funding and additional land (which increase capital costs).

'HAPPI' 10 key design principles to raise the quality of bespoke housing ¹⁹⁹:

- generous internal space standards
- design to allow in natural light
- dual aspect to maximise natural ventilation and light with balconies and outside space
- 'care ready' and adaptable for new technologies
- shared spaces to encourage interaction and remove institutional feel
- multi- purpose space and facilities and guest rooms
- design that engages positively with the street and local community
- energy efficient and well insulated
- adequate storage space
- shared external areas giving priority to pedestrians

Helena Living

Helena Living in Lancashire won a HAPPI award for its Heald Farm Court development, aimed at over-55s. It has 86 two-bed, high quality apartments available for rent, shared ownership or sale with some communal facilities and optional care packages.

¹⁹⁸ See CIH (2014) *New Approaches to Housing for Older People*; and APPG on Housing and Care for Older People (2012) *Housing our ageing population: Plan for implementation*.

¹⁹⁹ Housing our Ageing Population Panel for Innovation (HAPPI) panel of experts identified reforms needed to ensure that future bespoke housing for older people met needs and aspirations, and to drive forward improvements for higher quality, sustainable homes.

Creative solutions are needed to provide greater choice and incentives for this group. An expanded role for self-build or self-commissioned housing encouraged by this review could have strong appeal to those looking to downsize by creating the opportunity to design a home to suit their lifestyle and aspirations.

Consideration should be given to other means of incentivising down-sizing. Evidence to the review suggested that offering a Stamp Duty exemption to downsizing older households who qualify for Pensioner Credit would help older home owners, who are relatively asset rich, but savings and income poor²⁰⁰. However, the public expenditure implications of potential measures to incentivise the development of more homes to meet the needs of older people would need to be explored further.

Recommendation 35: Housing for older people

More homes to meet the needs of people in later life should be supported through:

- ➔ Government exploring options for incentivising private sector investment in increased provision of homes with extra care and for encouraging older people to down size from family homes.
- ➔ Local government and Housing Associations seeking opportunities to promote more attractive options for active older people looking to down-size, including in promoting schemes for self-commissioned housing and in packaging sites as part of an active role in development and partnership schemes.
- ➔ In both cases, homes should be highly energy-efficient and designed to the HAPPI standards.

Housing for vulnerable groups

There will be a continued need for specific forms of housing for who people cannot meet their needs without support in the housing market. One example is single people who become homeless. They are at risk of rough sleeping (which reduces life expectancy to 47 for men, and 43 for women), and it is essential that those who are vulnerable in this way receive support for accommodation and other needs (which may include lack of skills, mental health problems, or issues with alcohol or substance abuse).

We were impressed by the work of Crisis Skylight in Oxford, which helps single people who are homeless or vulnerably housed gain qualifications and skills, and Oxford Homeless Pathways, which provides accommodation, support, and a pathway out of vulnerable housing for single people in acute need. It is important that local authorities make provision for single homeless people and that reductions in local authority funding do not make the provision of such services unviable.

Increasing social landlords' capacity, ambition and effectiveness

Delivering the homes we need will require greater contribution from both Housing Associations and local authorities. Evidence to the review has clearly demonstrated that both have ambition and potential to do more. The LGA has recently committed to see councils contribute an extra 500,000 homes in the life of the next Parliament through a combination of partnership and direct delivery. Evidence from the National Housing Federation demonstrates Housing Associations' ambition: the NHF's publication *Ambition to Deliver* proposes that over the next 20 years where Housing Associations could deliver 120,000 homes per year matching the output of the private sector by delivering one market home for sale or rent for every two social homes.

²⁰⁰ Chartered Institute of Housing, 2014 Op. cit

Local authorities have an important role in place-shaping, driving development for their communities and working in partnership and the recommendations of this review seek to strengthen that role. In addition, councils and Housing Associations have a key focus on meeting needs that would not be met by the market. Consequently their efforts in directly supporting housing delivery should be concentrated on providing homes for social and affordable rent, shared ownership and housing the vulnerable. However, evidence to the review has also illustrated that the resources needed for Housing Associations and councils to increase housing supply – land, infrastructure, the proceeds from planning gain and particularly, grant subsidy – are all in short supply.

There is an opportunity, demonstrated by creative models already underway, to cross subsidise affordable homes by building homes for private sale or rent²⁰¹. This also helps to ensure new developments include a mix of private and affordable homes, important to balanced communities. We argue that a bigger role for one provider should lead to additional homes and not simply displace those that would have been provided by another.

Improved partnership working across the house building sector could maximise the assets and capacity of different partners and increase the speed of delivery. As illustrated throughout this report, many partnerships are already working well and can serve as models for different sizes of area, different regions and urban/rural settings as the following further examples demonstrate²⁰².

Partnership working to deliver affordable homes

In Gateshead council-owned land has been used to spearhead a Joint Venture Company with Home Group and Galliford Try, a private developer, in which the JVC will borrow privately against the asset base of the land to build 2,400 homes over 15 years.

In Ashford, the council has reached its HRA borrowing limit. It has created a trading company using capital borrowed prudentially outside the HRA, which working with Amicus Horizon will build for market sale and rent.

Plymouth City Council, which has transferred its housing stock, is establishing a £50 million fund to build 1,000 new houses a year via low-interest loans to Housing Associations and cooperatives.

Evidence to the review identified a need to promulgate good practice and develop exemplar models that can be adapted and applied more quickly without requiring each area to expend considerable time and resources in inventing new models. Evidence has also highlighted the issue of public sector procurement being affected by excessively cautious interpretation of EU requirements (generally known as ‘OJEU’) which delay contracts and make them more costly. As highlighted in Chapter 5, there is a case for clear guidance on how these requirements apply and how they might be streamlined and there is an urgent need to promulgate good practice and build capacity, including model contracts that could be used.

Recommendation 36: Promoting effective partnership models

The LGA, NHF and CIH and others should work together to distil the lessons from successful partnerships and offer model forms of partnerships and a proportionate approach to procurement.

201 Large Housing Associations have used surpluses to cross subsidise affordable housing delivery, for example, L&Q posted a £174 million surpluses, Affinity Sutton a surplus of £75 million, Notting Hill a surplus of £65 million (cited in submission from NHF)

202 Many more examples are set out in the report by the LGA (2014) *Supporting Housing Investment*.

Councils: returning to a historic responsibility to build affordable housing

Councils have an important leadership role to play in bringing forward new supply of affordable housing. As explored elsewhere in this report, through a more active role in land assembly, use of the planning system, contributing their own assets, or by putting their strong balance sheets to work through creative financing arrangements, councils can enable developers and Housing Associations to proceed with schemes that otherwise would struggle to be viable. Evidence to the review highlighted increasing appetite for this role²⁰³.

Councils' ability to invest in new homes

Councils are also returning to building on their own account. Output of homes built by councils has been steadily increasing: starts rose to 1,920 in 2013/14, whereas in the 15 years to 2011 only an average 300 houses had been built per year. Submissions from the LGA and ARCH suggest that even under current conditions output could rise to about 5,600 units per year over the next five years²⁰⁴. Whilst a significant increase on current levels, this is small compared to 200,000 in 1968. This review agrees that increasing flexibility for councils to borrow to invest in new homes under the Housing Revenue Account would further increase the delivery of new homes in some areas, however it must also be recognised that this will not be a silver bullet in providing the number of affordable homes needed.

Housing Revenue Account

The advent of self-financing for council housing in April 2012, implementing the plans laid by the last Labour Government, changed the landscape for the 169 local authorities who still have housing stock. Councils now keep their rental income and have more freedom to manage the business and invest in new homes. There has also been increased access to government grant for new supply.

However the new self-financing arrangements also imposed caps on the amount councils can borrow for housing. The borrowing caps are not linked to the value of the assets and so do not reflect the full potential for prudential borrowing²⁰⁵. Average debt at £17,100 per property compares to an estimated average value of £30,000²⁰⁶.

The impact is highly variable: some councils that need it have no or limited 'headroom' to borrow to invest, others have significant headroom and may not need it. The total borrowing headroom agreed in the settlement for all authorities was £2.8 billion. However about half of local authorities were given borrowing headroom of £10 million or less, sufficient to build only 80-90 houses over the next 30 years. Twenty eight councils began the new system with no borrowing headroom.

There has been a consensus among respondents to the review, across all sectors including the private sector that relaxing or removing the borrowing caps would facilitate more investment in affordable homes²⁰⁷. The case for increased flexibility has been well documented in the publication from local

203 Over 80% of respondents to a recent LGA survey indicated they planned such partnerships in the next five years, indicating a potential output of 77,000 new homes through this route over this period LGA (2014) *Housing self-financing survey: a survey of councils and ALMOs*

204 LGA (2014) *ibid*; ARCH (2013) *Innovation and Ambition: The impact of self-financing on council housing*.

205 In most local authorities, because of historic financing decisions, the actual housing debt is less than the notional debt derived from the stock valuation, which is used to calculate the borrowing limit.

206 Calculation by LGA. Based on existing use value for social housing with a secure tenancy. Represents a 'gearing' ratio of 57%. The ratio is considerably lower if based on the discounted value for RTB (average £50,000 per unit) or open market value (£100,000).

207 In addition to representation from local government and groups such as Social Housing under Threat, this was supported by submissions from house builders, Housing Associations, academics, and the British Property Federation among other.

authority and housing sector national bodies in a series of reports²⁰⁸. Submissions to the review argued that releasing greater capacity for council investment could ensure additional new homes because it would unlock borrowing capacity in a situation where other providers are more highly leveraged and would encourage the release of council land for housing not likely to be attractive to other housing providers. In evidence to the review, a number of councils illustrated that it would enable them to scale up house building activity.

HRA borrowing

Birmingham City Council currently plans to build over 2,000 new homes in ten years, investing £254 million from its HRA resources within a borrowing cap of £1.136bn. If the cap were lifted it argues that it could build a further 18,000 new homes by 2031, meeting a quarter of the city's overall housing requirement.

London Councils calculate that if London boroughs' level of permitted borrowing was at a similar debt-to-liability ratio as the rest of the country, it would give an extra £2.5 billion capacity enabling them to build 13,900 additional homes by 2021.

In evidence to the review, councils argued that they have a long record of sound economic management and of borrowing prudently and that greater flexibility for them to borrow would offer a low-risk option for investment in affordable social homes: extra borrowing by some councils would be partially balanced by others with fewer needs not utilising their full headroom; and the Treasury would retain powers to intervene if overall government borrowing is not within target levels.

City opinion on the changes has been looked at recently by Capital Economics in a report for Shelter²⁰⁹. It summarises the position as:

'...possible objections to extra borrowing were either not as great as claimed or that they could be resolved in time without prejudicing the market's trust in government accounts. Furthermore none of the City interviewees for the report thought that £7 billion of extra borrowing was sufficient for markets to get worried about, irrespective of the accounting methods used.'

The reason for the introduction of the borrowing cap is concern for the impact that even prudential borrowing at local level would have on the national deficit as the following quote from DCLG clearly sets out.

"Self-financing will give council landlords direct control over a very large rental income stream. The prudential borrowing rules help ensure that any borrowing is affordable locally. However, our reforms must not jeopardise the Government's first priority, which is to reduce the national deficit. Borrowing by local authorities for housing purposes is included as part of the Public Sector Borrowing Requirement and so the borrowing arising from self-financing must be affordable nationally as well as locally. The prudential rules do not address this and so we will therefore limit the borrowing for council housing in each local authority"²¹⁰.

208 NFA with ARCH, CIH, CWAG and LGA (2012) Let's Get Building; and NFA (2013) Treating Council Housing Fairly

209 Capital Economics Increasing Investment in Affordable Housing, 2014 (*£7 billion is an estimate of the amount additional amount of borrowing councils would undertake over five years from NFA et al. Let's get building, op cit*)

210 Implementing self-financing for council housing DCLG 1 February 2011

Evidence to the review has highlighted that the way local government borrowing for housing is treated against public debt is peculiar to the UK. The UK uses a wide measure of public sector debt; most governments measure 'general government' debt which would exclude council housing because it is self-financing and that elsewhere in Europe, borrowing by local authorities is treated in the same way as Housing Associations²¹¹. However, this is clearly a complex area and may have wider implications for the UK's fiscal rules.

In considering the case for increasing flexibility for borrowing under the HRA, it must be recognised that it is not a silver bullet to increase the supply of affordable homes. Many authorities have significant headroom for borrowing within the cap and for others it will take time to scale up investment plans. In addition, councils who no longer retain their own stock are also finding ways to invest and support the development of new homes as many have demonstrated to the review. It has also been recognised – including by the current government that it is constraining the delivery of new homes in some areas where there is a strong case for investment. In the Budget 2014, government announced that councils would be able bid for higher caps up to a total of £300 million over two years. Bids from fifteen authorities were successful in accessing additional headroom and we understand that many more applied. However, the tight timescales for submission of bids, the requirement that the new homes must be Affordable Rent and a strong steer that successful bids should include disposal of high value stock meant many authorities did not bid.

It must be recognised that concerns for public expenditure control are likely to make early removal of the cap difficult for any government. However, there is an opportunity to provide additional capacity where it can have the biggest impact without exceeding total borrowing accounted for if accompanied by active management from the Treasury of the overall borrowing headroom.

We consider that councils should be able to apply for more borrowing headroom by demonstrating:

- a viable business plan and asset management strategy in the context of new contracts for housing delivery and the single pot of funding for housing investment;
- costed plans for investment in new housing that relate to its housing strategy and make full use of partnership opportunities;
- that new homes will be additional to those which would be delivered by others;
- compliance with prudential rules and with expectations about rent levels and reinvestment in its existing stock.

The Treasury would be able to make a decision on a case by case basis against an understanding of the overall level of borrowing planned to ensure that total borrowing did not exceed current provision.

Government should review the case for further flexibilities of lifting of the cap drawing on the take up and impact of the increased flexibility provided on a case by case basis set out above.

Alternative models for council investment in homes

Borrowing under the HRA is not the only route to increasing council's involvement in house building. A growing number of councils are exploring opportunities to find alternatives to borrowing under the HRA to support new homes. The LGA is developing a support offer to councils to pursue and secure new kinds

²¹¹ NFA – *Treating Council Housing Fairly*, 2013

of funding for house building outside the HRA to help them access favourable rates from institutional investors and other corporate funders by raising bond finance through the new Municipal Bonds Agency and a bespoke offer for housing investment.

There is also a role for authorities which do not have their own stock including in increasing supply. This includes county councils, which have an important role to play, not only in bringing forward land and participating in joint ventures but also as authorities with responsibility for much of the infrastructure (roads, schools) and services (adult social care, children's services) that are needed to support new homes. In two tier areas, county councils will have an important interest in planning for housing market areas as discussed in Chapter 3.

Council led partnerships

A number of councils have entered into development partnerships with private partners to develop new homes in their local areas:

- Barking & Dagenham developed 477 homes for affordable rent on council land using a private partner;
- Oxford have entered into a joint venture with a private partner to provide 886 homes on council-owned land.
- The Sheffield Housing Company is a 50:50 partnership between the council and a consortium of Keepmoat Ltd and Great Places Housing Group planning 2,300 homes over 15 years.
- South Norfolk uses New Homes Bonus payments to fund housing associations to provide affordable housing in villages which has delivered 150 new homes since 2008.
- Kent County Council is partnering with the construction group Keir, a local Housing Association and an international pension fund to build 152 homes for a mix of market sale, new, rental and affordable housing on three sites across the County.
- West Sussex County Council is working with the HCA to develop a model for re-use of the County Council's land for privately rented homes as part of a larger joint venture partnership.

Encouraging active management of council housing assets

Local authorities should adopt active asset management of council housing to make the most of its stock. Manchester's new homes strategy is predicated on its asset management strategy – looking to replace homes where assets are not performing well, where estate layout is poor, where demand is predicted to fall or where they cannot achieve a target level of energy efficiency. However, this practice needs to become much more widespread: it is not just about identifying high value properties to sell off but really understanding the stock's value and how to maximise it. Councils would benefit from a model process for tracking asset and neighbourhood performance to understand the value of their stock and where they need to invest in or dispose of homes.

Local authority led Housing Companies

Councils' ambition to return to a more active role in building new homes is clearly demonstrated by the creation of a series of local authority-led housing companies, often established in conjunction with one or more private partners. Examples include, the Sheffield City Council company established with the builder,

Keepmoat and Newham Borough Council's Red Door Ventures which is wholly owned by the council.²¹² Some have been established specifically to respond to distinct local pressures. For example, South Cambridgeshire Council's company provides homes for rent, primarily offering three-year tenancies to match the University research contracts that draw new residents to the area and, without which, the University would not be so easily able to recruit the skills they need.

The creation of a separate company structure provides the flexibility to build different tenures, including homes for sale and to rent at affordable rents; choice as to whether the 'Right to Buy' provisions apply; and some relief from the HRA cap, relying instead on the council's general prudential borrowing freedoms. Some, like Westminster Homes have been established to effect the transfer and future management of existing housing stock. Almost without exception, they seek to increase not only flexibility but also investment capability, both in terms of skills and finance. We have received submissions suggesting some authorities are still cautious; anxious that this approach has not been explicitly endorsed by Government. A clear statement of support and promulgation of creative examples would assist in encouraging more authorities to explore the potential. Our proposal for the creation of New Homes Corporations, builds on this evidence of local interest and willingness to share the risks of new house building but we are clear that, where corporations are created, they need to work creatively with housing companies already in existence.

Strengthening councils' leadership role in housing

Evidence to the review highlighted that, despite widespread examples of good strategic and partnership working, in many areas, there is a deficit of skills needed to achieve this. Given the expanded role that is needed in both developing local authority new build programmes and creating effective partnerships, it will be important that councils have the skills and capacity required. Most local authority work to support housing supply is financed from councils' General Funds, and these are under severe pressure. Strategic housing, planning and property management staff have been cut back in order to maintain other frontline services, affecting capacity and skills²¹³.

We have therefore looked at ways to ensure councils build capability and leadership and access the skills and capacity to support a greater role in housing delivery:

- *Joint working between local authorities* – skills can be pooled and shared resources enable experienced teams to be built up and sustained. Addressing skill gaps (strategic planners, market and data analysts, project leaders) should be a key criterion in establishing them.
- *Peer-to-peer learning* – experience demonstrates the positive impact of initiatives to bring practitioners together to embed understanding of new policies and share of the skills needed to deliver it, leading to formal and informal local support mechanisms. Government should consider support for a sector-led programme of peer learning which could be led by the LGA and CIH.
- *Skills* – Councils should partner with Housing Associations and other development partners to draw in skills they may not have in-house.

²¹² Authorities we are aware have established housing companies include South Holland Ealing, Broxbourne, Greenwich, Ashford, Wokingham, Newham, Sheffield, South Cambridgeshire, Westminster, and Eastleigh.

²¹³ The LGA Future Funding Outlook 2014 demonstrates that after protected services has been accounted for, local authority spending on other services will have fallen by 43% in cash terms by the end of the decade, compared with 2010/11. General Fund spending on housing in England has already fallen by more than a quarter since 2010/11.

Recommendation 37: Councils investing in new homes

We recognise that any decision about the overall HRA borrowing cap is a matter for the next Government but to increase councils' ability to invest in new homes:

- ➔ There should be provision to raise individual HRA borrowing caps where councils present a business case and an investment plan that sets out the extra borrowing needed and the additional homes that will be delivered in return.
- ➔ The Treasury would be able to ensure that the additional flexibility does not see an increase in total borrowing over and above that currently planned for. And it should do so in a way that does not involve increased bureaucracy for councils in managing their Housing Revenue Accounts.
- ➔ Government should initiate a review into whether there is a need for increase of headroom in the longer term and options that would allow councils to borrow for housing investment in line with the requirements of the prudential borrowing code;
- ➔ Local authorities should build on existing examples of innovation and partnerships to maximise opportunities for alternatives to borrowing under the HRA to support the development of new homes.

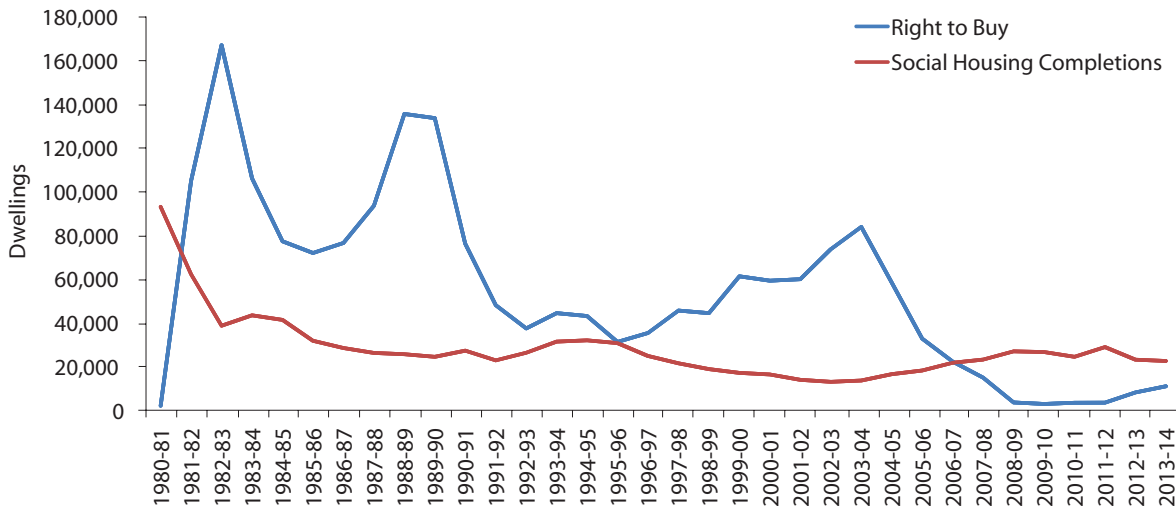
Reforming the Right to Buy

Since 1980, Right to Buy has been a huge stimulus to homeownership and has given 2.5 million households a stake in their homes, although after the credit crunch in 2007 sales fell to negligible levels²¹⁴. However, while right to buy (RTB) benefits the purchaser, evidence to the review raised concerns about unintended consequences of the scheme. About one-third of properties sold are now privately rented, at much higher rents than that often paid through housing benefit²¹⁵. The review also heard concerns about the increasing incidence of RTB homes becoming low quality private rented accommodation was in danger of undermining the original objective of strengthening communities by ensuring a higher level of owner occupation.

214 Right to buy applies to council tenants. If houses are transferred to a housing association they carry a 'preserved right to buy', and there is a separate "right to acquire" for qualifying housing association tenants.

215 Sprigings, N. and Smith, D.H. (2012) 'Unintended Consequences: Local Housing Allowance meets Right to Buy' in *Policy and Practice Online*, Volume 6, Issue 2.

Figure 27 – Right to Buy Sales and Social Housing Completions



Source: DCLG

RTB has failed to provide sufficient receipts to allow landlords to replace stock (see Figure 27). Since 1980 it has raised over £50 billion but new building by social landlords has barely replaced half the homes sold²¹⁶. Since April 2012, with increased discounts, sales have now recovered to over 11,000 while output of new homes by councils is still less than one-fifth of this. Councils’ submissions to the review demonstrated that RTB is reducing their stock much faster than can be replaced, with the added danger any new homes they build could be sold at heavy discounts after only 15 years. Only one in five councils are able to replace RTB sales and councils regard this as one of their most urgent priorities for reform²¹⁷.

It is important to highlight that it was not only councils and Housing Associations who highlighted the impact of RTB as a problem. We heard how RTB deters developers and investors from local authority schemes for fear that stock would be sold before investment recouped. The ‘cost floor rule’ aims to protect a council’s recent investment in housing when RTB takes place. But although it lasts for 15 years, it does not properly protect new units and landlords risk not only losing relatively new stock but also getting a receipt which will not cover the outstanding debt.

Recommendation 38: Right to Buy

Reform the Right to Buy to enable councils and Housing Associations to re-invest in genuine one-for-one replacement. An incoming government should assess the distribution of receipts from Right to Buy sales as part of this.

A new government should undertake an early review of the Right to Buy to establish whether it is meeting its policy objectives, the distribution of receipts from sales and on the total level of affordable housing stock.

216 Wilcox, S. and Perry, J. (2014) UK Housing Review 2014. See table 60.

217 LGA Housing self-financing survey: a survey of councils and ALMO, 2014.

Housing Associations: harnessing their ambition

Housing Associations, who as independent social businesses, many of which are charitable, already make a vital contribution to new housing supply and are uniquely able to put commercial profit to the service of the public good. They own 2.9m homes and provide over 35,000 new affordable homes a year (22,000 directly and the remainder through developers and S106 agreements). As already discussed, it is a highly ambitious sector with significant potential. The NHF considers in excess of 100 Housing Associations have the scope, scale and expertise to become major players with the potential to match the private house builders in the delivery of new homes. The sector's overall finances are robust: turnover and surpluses both increased significantly last year. Housing Associations have total private finance facilities of £68 billion, of this almost £12 billion is not yet drawn down²¹⁸.

Housing Association approaches to investment

The Derwent Living group owns and manages more than 25,000 properties in the Midlands, Yorkshire and the South East. By the end of the 2012/14 period they plan to have developed 855 new homes. In 2011 Derwent Living was the first Housing Association to secure institutional investment through a £45 million sale-and-leaseback deal with Aviva, which financed the procurement of over 1,000 affordable homes. In all, 40% of Derwent Living's activity is commercial, including a facilities management business, the 5th largest student accommodation provider in the UK, and a joint venture with Bouygues Development called Uliving.

Formed in 2007 as the result of a merger between Spinnaker Housing Group and Signpost Housing Group, Spectrum now owns 18,000 homes and manages a further 35,000 across the South of England. Spectrum has a development pipeline of 2,500 homes up until 2018 and increasingly operates a cross-subsidy model through house sales and market rent, a commercial repairs and maintenance business and student housing. Through stock consolidation with Sovereign, Knightstone and Hyde Housing Association, Spectrum now focuses on its core areas of Dorset, Hampshire, Devon, South Wiltshire and the Isle of Wight, operating across 28 local authority areas.

It is clear that Housing Associations are key agents of social housing and are also playing an increasing role in developing homes for market rent and outright sale which enables them to cross subsidise social and affordable housing²¹⁹. Harnessing this ambition and releasing capacity for Housing Associations to significantly increase the number of homes they build will be absolutely critical to building the homes we need. Housing Associations already play a key role in effective housing partnerships, and will be a critical partner for New Homes Corporations; Housing Growth Areas and engaging at strategic level with local authorities in developing plans for investment from the economic development fund. We expect the more energetic public role in land assembly and development to create greater opportunities for Housing Associations to develop new delivery models and partnerships.

Housing Associations are not agents of central or local government, but their growth and development over the last generation has only been possible through significant levels of grant subsidy, the transfer of local authority housing stock, and by the way in which the housing benefit system was designed, for example by paying tenants' rent directly to landlords (though, of course, this is changing under Universal Credit). Whilst there is a clear case for continued public investment in affordable housing, it is equally

²¹⁸ HCA Quarterly Survey of Private Registered Providers 2013/14 Quarter 3 Dec 2013

²¹⁹ For example, in April 2012 L&Q committed £250 million in order to develop a significant portfolio of up to 1,000 homes for market rent, L&Q submission to the Review, p.6.

clear that there will not be a return to the old models of sole reliance on grant. It is therefore crucial that we find ways to support investment from different sources and increased use of cross-subsidy to unlock a greater role for Housing Associations in future. As a sector Housing Associations have considerable expertise and ambition, however it is not clear that extends across the whole sector and it will be important that all are encouraged to adopt new approaches and maximise capacity for new homes.

Capacity for investment

The reduction in capital investment and the introduction of Affordable Rents has increased levels of borrowing to a point which Housing Associations have argued is not sustainable in the longer term. They have also argued that the ability of some Associations to take on extra borrowing is limited by restrictive loan covenants, operational constraints, and appetite to risk. Discussions with the HCA, as the social housing regulator made it clear that more could be done, but that the sector is now more heavily geared and interest rates may become more of a constraint on borrowing in future.

As a whole the sector has £25 billion unused security, however, this may not be in the right place which is more likely to be an issue for the most active developers who have taken on more debt in recent years to support development²²⁰. To unlock the ambition and potential of the sector, Government will need to work actively with Housing Associations to help mobilise the surpluses and borrowing headroom that sits on the balance sheets of some of the largest Housing Associations, in London and the South East in particular, and leverage them in parts of the country where housing need is not matched by the capacity and willingness to invest.

Cross subsidy and innovative finance models

In response to reductions in capital investment, many Housing Associations have developed innovative commercial models to increase the level of internal cross subsidy – from shared ownership to market rent, and market sale to leisure centre management. According to the NHF, in 2012/13 of the 130 largest Housing Associations, sales revenue generated 39% of total surpluses. A number of the larger Housing Associations are planning to use new commercial models to develop without any government subsidy at all rather than follow the Affordable Rent model²²¹.

²²⁰ HCA op cit

²²¹ For example, L&Q, Metropolitan, Moat, Places for People.

London and Quadrant

The review was highly impressed by the work of L&Q in combining a strong social mission with an equally strong commercial drive. In 2007 L&Q embarked on a new five year plan in response to the recession which assumed there would be little or no capital grant in coming years. It therefore placed greater emphasis on private finance, attracting new investors in the capital markets and a stronger operating surplus from its core social housing business and generation of profit from development for sale to cross subsidise new affordable rented homes. Quadrant Construction was created to improve build quality and reduce cost and a new neighbourhood structure was created to provide responsive local services.

As a result, L&Q's annual turnover has increased from £188 million in 2007 to £579 million in 2013 with its annual surplus increasing from £44 million to £174 million over the same time period. Management costs have reduced from £550 to £496 per home whilst the Decent Homes Standard has been met and resident satisfaction has increased by 10%. L&Q has set aside £100 million in a newly created L&Q Foundation to support their residents into training and employment. They have grown from 50,000 homes to 71,000 homes and their development pipeline has grown from 5,000 homes to 15,000 homes.

L&Q is planning £12 billion new investment and fifty thousand new homes – fifty per cent for market rent and sale providing cross subsidy for fifty per cent affordable rent and shared ownership. They are developing a strategic relationship with key public sector partners, combining land as an equity contribution with L&Q's balance sheet strength and delivering a step change in production. They are also investing £2 billion into existing homes and bringing further activities 'in house' to improve quality and reduce cost.

Many of these more commercially-driven strategies the sector is now following are representative of creative attempts to reposition the Housing Associations' business model away from over-reliance on subsidy. We found clear evidence of many Housing Associations finding innovative solutions and an appetite for developing new models. However, it is also clear that not all have the capacity, skills or appetite for an increased role or a changed business model. Of course, as evidence from Housing Associations highlighted, cross subsidy and commercial activity does not work in all housing markets, and is particularly difficult in areas of low housing demand where there might be little difference between social, affordable and market rents. It also brings with it new risks and market exposure.

There may be an opportunities through partnership working or further mergers in the sector to increase borrowing capacity in the places where it is needed, and to create economics of scale that will create headroom for new investment and to allow greater potential to cross subsidise over wider geographical areas. However, we did receive a note of caution about the dangers of an undue focus on mergers distracting from delivery, which we want to prioritise.

Rent-setting and allocation

In evidence to the review, Housing Associations argued that greater flexibilities over rents and allocations would allow them to drive greater efficiencies, respond better to housing market conditions, better meet housing need, make better use of public subsidy and ultimately increase affordable housing supply. Others were concerned that this proposal would weaken the link between tax payers' money (which funded the majority of Housing Association homes and many of which are stock that has transferred from

Local Authorities) and meeting statutory housing need. Some have argued the proposal is a suggestion that historic public investment in social rent committed for one purpose – meeting statutory need and helping the very poorest – should in future be put to use for another – increasing supply and helping more, but less needy, people. This has raised the question of how local authorities meet their statutory housing duty if the effect of greater flexibility for Housing Associations were that they ceased to meet as much statutory need as they do now. Councils have indicated to the review that they would require extra funding for that purpose if Housing Associations were to move away from their approach to the neediest tenants, especially if that limited the local authority's ability to discharge their statutory homelessness duties through low cost housing or temporary accommodation.

Housing Associations have, in turn, argued that this is not the case and that rent flexibility would help to use public subsidy and former public sector assets more effectively²²². For example, with private and institutional investment beginning to unlock capacity in the sector, Housing Associations would benefit from greater control of their future income streams to match the index-linked repayments characteristic of sale-and-leaseback deals²²³. One option, advanced by the NHF, would be to set an overall envelope for an Association's rents, within which it would have flexibility if it could demonstrate it would be used for new supply. However, this raises a number of questions about the degree of regulatory oversight that would be needed to enforce the link between a multitude of varying rental policies and their actual impact on new supply.

We have concluded that this proposal should receive further consideration as part of government's discussion with the sector including the potential for allowing increased flexibilities on a case by case basis but on the basis of a clear contract with central and local government about what would be delivered and dependant on appropriate safeguards being in place.

Changes to how Housing Associations' value their properties

Evidence to the review from Housing Associations has argued that lifting restrictions on the way they value properties transferred from local authorities would release considerable borrowing capacity to develop new homes. Under current arrangements Large Scale Voluntary Transfers properties are valued for loan purposes at "existing use value – social housing" which is about 30 – 45% of market value. Other Housing Association properties are valued at "Market Value Subject to Tenancy" which is about 60% of market value. The limitation of transferred stock to the lower value is based on the assumption that the stock should remain as affordable housing and is intended as a safeguard against the home being sold outside the affordable housing sector. This has an impact on the amount a Housing Association can borrow because funders require the ability, in the event of a loan default, to dispose of the property to recover loan funding.

The NHF provided case study examples demonstrating that the change would lead to significant increases in debt capacity for a number of Housing Associations²²⁴.

Other evidence to the review has sounded a note of caution, and concern that the change in valuation might affect the rights of tenants in the properties concerned. In response, Housing Associations argued that the risks are minimal since they have a "no-default record" and that protection of tenant and social housing stock should reside in tenancy conditions and the regulatory framework not in the valuation

²²² Moat Housing Association Submission to the Review

²²³ Placeshapers submission to the Review.

²²⁴ NHF evidence to the review

for loan purposes. In considering this evidence, the review considers that it is clearly important that the affordable housing stock is protected but that this should be considered on a case by case basis to assess the circumstances of individual Housing Associations and provide reassurance to tenants and the regulator.

Extend the use of government guarantees

The Affordable Homes Guarantees Programme has given a much-needed boost for Housing Associations looking to access finance to deliver more homes. Affordable Housing Finance plc has successfully used guarantees in what is believed to be the sector's cheapest ever bond issue²²⁵. However in evidence to the review Housing Associations have highlighted that the effectiveness of guarantee schemes are limited by short timescales which currently apply only to schemes which start in 2015 and are completed by 2017. This means Housing Associations do not have the certainty needed to commit to long term projects.

Guarantees are currently restricted to Housing Associations accessing new finance for specific developments. In evidence to the review, Housing Associations argued that using guarantees to refinance existing debt and restructure balance sheets would enable them to deliver new homes. Associations do not currently face constraints in accessing bank and bond finance but 'gearing, interest cover and available security set limits' on how much they can borrow²²⁶. An affordable mechanism to refinance would therefore add to development capacity, although loan breakage costs may mean some Associations are unable to take full advantage. To control their use, guarantees would be in exchange for a contractual commitment from Housing Associations to develop additional new homes²²⁷.

Recommendation 39: Unlocking capacity and ambition of Housing Associations

Greater investment and innovation from Housing Associations should be facilitated through:

- ➔ Extending the Affordable Homes Guarantees Programme to 2020 to give Housing Associations the confidence and certainty to commit to more long-term projects. And consider extending the guarantee to allow Housing Associations to re-finance debt to release more capacity.
- ➔ Government should hold discussions with the sector about how to mobilise the surpluses and headroom to unlock further investment from Housing Associations which could include consideration of partnerships and mergers and the option for a gatewayed approach and setting an overall envelope for an Association's rents, within which it would have flexibility with appropriate safeguards if it could demonstrate how this would support new supply.
- ➔ Consider the case for lifting restrictions on the way Housing Associations value their properties to increase borrowing capacity, on a case by case basis, dependent on their ability to demonstrate it would result in additional affordable homes.

The dilemma of investment that depends on higher rents

The 2010 Spending Review saw capital investment in housing cut by 63% cut in real terms – the biggest cut to any government capital budget and a fundamental cut in government support. Nevertheless, the next round of government investment aims to produce almost the same output (55,000 affordable

²²⁵ Affordable Housing Finance recently issued a AAA-rated bond in excess of £200m, alongside accessing £500m of European Investment Bank funding

²²⁶ Moat Housing Association and Circle Housing Group submissions to the Review.

²²⁷ National Housing Federation submission to the Review, and supplementary note

homes) as the one that ended in 2010/11 (58,000)²²⁸. The gap was expected to be filled, in part, by the use of higher rents – so called “Affordable Rents” – to generate extra income. Affordable Rents (AR) can be up to 80% of market rents, although in practice reported rents are lower (averaging 69%) in London while close to the maximum (77-80%) elsewhere²²⁹.

The Affordable Homes Programme requires the higher rents to be charged for most new homes and for a proportion of current lettings to be converted to them. Homes sold through right to buy also have to be replaced with AR units. During 2012/13, just over 40,000 homes were let at AR rents which would previously have been at social rents²³⁰.

While AR has meant that more homes could be built than would otherwise have been possible with the spending cuts, it has important downsides: it increases rents and therefore both pressure on household incomes and dependency on housing benefit, while at the same time increasing Housing Associations’ market exposure and their reliance on private debt finance. One has implications for the benefits bill, the other for the sector’s future output through the cost of funds, higher debt levels and re-financing over the longer term. Modelling work carried out by John Healey MP (and shared with the review) found that Affordable Rent units built in just this parliament will add around £5.4 billion to the housing benefit bill over thirty years. In effect the Affordable Rents model leverages private sector lending into new build, to replace public capital subsidy, but pays for that by using Housing Associations’ financial capacity at an accelerated rate and with a long-term commitment to a rising housing benefit bill.

Discussions during the review highlighted the lack of a consistent and strategic overview of rent policy and tensions within government policy pulling in different directions. Rents in the social sector have become less affordable for those on low wages. One third of working households in the social rented sector need housing benefit, up from 20 per cent in 2009/10. Social sector rents have risen by about 46 per cent in the last decade while average earnings have increased by only 28 per cent. At the same time, government policy on Affordable Rents puts pressure on Housing Associations and local authorities to increase rents. There is a live debate about whether rents could be linked to incomes without reducing incentives to work and whether the funding framework could be realigned to produce rents that are affordable to groups within different housing markets without over reliance on housing benefit. A full analysis of rent policy is beyond the scope of this review however, we recognise the importance of this debate and suggest it is an area for further exploration.

Benefits to Bricks: getting the balance right between benefits spending and investment

Social landlords report that, in addition to its impact on rent income, welfare policy is increasingly driving decisions on allocations, rent setting and future development. These issues highlight the growing need for joined-up policy-making between benefits and housing, to ensure that one does not undermine the other. A dramatic increase in affordable housing supply would make an enormous contribution towards the aim of reducing the cost of welfare benefits and to achieving the goals of welfare reform.

In both the social and private rented sectors, if rents rise, affordability worsens and tenants are more likely to need help to pay them. At almost £25 billion, the housing benefit bill has grown to over 3% of public expenditure (figure 28). Despite welfare reform reducing entitlements, expenditure is still growing. About

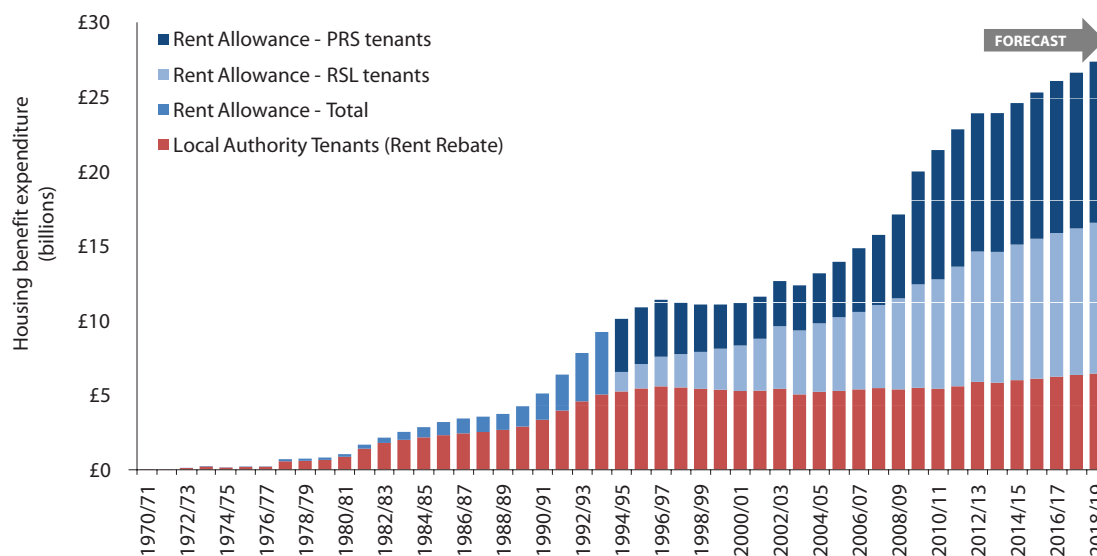
228 Wilcox, S. and Perry, J. (2014) UK Housing Review 2014, table 2.4.2. Comparison between the National Affordable Housing Programme 2008/09-2010/11 and the Affordable Homes Programme 2015/16-2017/18.

229 Wilcox and Perry op.cit., table 2.4.4. Figures are from HCA and GLA data.

230 Calculation based on local authority housing statistics (LAHS) and HCA SDR returns for 2012/13; includes conversions as well as newly built homes.

half a million more people depend on housing benefit now than in 2010, including many in low-paid work. Increasing housing benefit spend has been driven by a number of factors including rent increases across a large number of social and affordable homes, controlled by government regulation, increasing scale and rents in the private sector, higher rates of unemployment and a significant increase of claims for working households.

Figure 28 – Housing benefit – long-term spending and projections



Source: DWP

Roughly 60% of housing benefit supports social sector rents. There is now a huge contrast between the cost of doing this – over £40 billion over three years – and the much lower £3 billion investment in affordable homes over the same period. At the same time, 40% of housing benefit spending will go to the tenants of private landlords – over £9 billion per year – and this is not linked either to quality of service or investment in the stock. In the 1970s only one fifth of public spending on housing was on rent subsidies with the rest channelled directly into house building²³¹. If the same ratio were to apply today, an additional £19 billion a year would potentially be available, funding 175,000 new homes.

A number of factors such as demographic change, low incomes and rent inflation have not only increased the benefits bill but also made the system more vulnerable to downturns in the economic cycle. Successive governments have been too slow to move with the changing landscape; indeed many policy decisions have been counterproductive. By reducing the amount of genuinely affordable homes and leaving the private rented sector as the only option for many in need, governments have effectively broadened the base of dependant households, who are more vulnerable to changing economic conditions and to rent rises.

The case for moving from ‘benefits to bricks’ is well-established; it has been made a principle by Ed Miliband and was recently discussed in some detail by IPPR²³². The argument is that we should begin to shift the balance back towards investment and away from benefits. While recognising that the move will take time to achieve²³³, this call is strongly supported by the review. Without such reform, supply- and

231 Stephens, M., Whitehead, C. and Munro, M. (2005) *Lessons from the past, challenges for the future of housing policy: An evaluation of English housing policy 1975-2000*.

232 IPPR (2014) *Benefits to bricks: Mobilising local leadership to build homes and control the benefits bill*.

233 John Healey’s model is over a 30 year time period

demand-side measures can only ever treat the symptoms of the housing crisis – providing a small shot in the arm without curing an increasingly sickly beast. Such a transition is essential in creating a healthy and more sustainable housing market for future generations.

The case for capital investment in social housing

Many Housing Associations and councils are working creatively to find ways to cross subsidise affordable homes and use their assets, borrowing powers and S106 contributions to support the delivery of more affordable homes, and the recommendations made in this report are designed to expand their capacity to do more. Our aim is to move away from models of affordable housing that are solely grant dependant and shift our approach to public funding based on investment rather than consumption. However, it has also been made clear to the review that the need for affordable homes will not be met without subsidy. As discussed above, it is more cost effective for that subsidy to be in the form of capital investment (grant, long term loans or land) rather than an ever increasing housing benefit bill which shifts the burden of funding to future generations.

Public investment in social housing played an important role in meeting housing needs in the past and is still needed today. There is particularly a case for public investment in homes for social rent and appropriate housing for vulnerable groups. As the JRF have highlighted:

“Without step-change, the affordable rent sector not social rent is from where new supply will predominantly come. This is likely to segment nonmarket housing into a new and growing affordable sector targeted at moderate-income in-work households, one in competition with the private rented sector. Alongside it will be a weakly growing or static social sector housing stock, one priced out of new subsidised development, increasingly housing the lowest income households and facing a growing queue of unmet need.”²³⁴

John Healey MP’s work found that though homes for social rent require higher initial grant investment than Affordable Rents, they pay back the additional capital outlay through housing benefit savings after only 12 years. They pay back the full grant investment within 27 years in contrast to investment in Affordable Rents which require higher benefit payments and therefore do not pay back the initial grant over the thirty year period the work covered²³⁵.

As highlighted in Chapter 1 of this report, there is also an economic case for providing capital investment in housing. This is supported by the current Government’s own Impact Assessment of Affordable Rent and the National Audit Office’s (NAO) subsequent analysis of the 2011-15 Affordable Homes Programme. The NAO highlighted that a capital-based approach to investing in affordable housing offered the highest ratio of benefits to costs, so represented greater value for money. This was largely the result of expected housing benefit savings made where people move from the private rented sector, which more than offsets the initial capital cost.

A known up-front quantum of capital investment, instead of an unknown and difficult to control stream of future benefit payments, gives greater planning certainty for public finances. It is also a more effective policy lever for government to shape the scale and nature of affordable housing delivery and target investment in areas and markets of most need, according to its priorities.

²³⁴ JRF, 2012 Innovative financing of affordable housing

²³⁵ Supplied by John Healey MP, these figures depend on Local Housing Allowance being re-linked to local private rents. LHA was de-coupled from private rents and indexed to CPI under the coalition government which means that LHA no longer tracks housing costs.

In addition, traditional forms of investment in affordable housing have played an important counter-cyclical role helping to stabilise and support private sector house building. This can be seen in the post 2007 financial crisis when affordable housing provided a certain and continuing cash flow, keeping many private sector developers in business when it was not possible to raise enough receipts from market sales.

The review recognises that constraints on public spending and debt mean that the scope for increased capital spend is likely to be severely limited in the immediate term. However it is clear that without further capital support there will be a limit to the amount councils and Housing Associations are able to do to meet the need for affordable homes. This is therefore an issue that government will need to return to in future and should ensure that investment in housing is better reflected as a priority for government in future decisions on public spending.

The public expenditure implications of our report

From the beginning of our work in late 2013, we were acutely aware that our conclusions would be read against the backdrop of continuing severe constraints on all public expenditure. There has been limited progress in tackling the budget deficit which is forecast to still be at around £75 billion at the start of the next Parliament.

It is clear that the incoming Government in 2015 would face a very tight fiscal position and would need the space to balance competing demands and priorities. In recognition of this the policy changes recommended by our report can be advanced without additional public expenditure. Although many would be greatly facilitated by a decision to make housing a priority within the existing capital settlement for the next parliament, our recommendations are consistent with the Labour Party's commitment not to increase public expenditure.

Our Recommendations

Better use of existing resources

Our ambition is to motivate, incentivise and facilitate an increase in housing supply by creating a new environment that is much more conducive to house building by a wider range of contributors and to do that without placing an additional burden on spending and borrowing. As a general principle, we feel that Government should, wherever possible, provide its support in the form of investment with a prospect of return, rather than grant which is used once and gone forever.

We have placed a strong emphasis on the importance of new development partnerships which bring together land ownerships and share the development gains once the full infrastructure costs have been met. We recognise that this requires the use of capital resources upfront. But by applying these resources imaginatively and in the right projects in the right way, and in particular through the establishment of Revolving Infrastructure Funds the initial outlay can be recouped over time and earn a return. Such an approach will call for strong investment skills to ensure that where public land is involved it attracts the same return as that attributable to other investors.

The principle underlying and running through our entire report is one of effective devolution for communities to meet their own housing need but within a strong framework of central imperative and oversight. Incoming Ministers will, for instance, want to ensure that local plans for investment are robust and cost effective and take a longer-term approach to funding. We anticipate that Ministers will want to ensure an ongoing dialogue with different sectors, including volume house builders, the wider construction industry, Housing Associations and local authorities, ensuring the closest possible match

between the resources available and the proposals which seem most likely to contribute to the end objective of a sustainable increase in housing supply.

In terms of making best use of monies currently available, our suggestion of devolving housing money – as part of a single pot for economic development and infrastructure for each city or county region and agreed as an explicit contract with Government to address the delivery of new housing – can by itself, secure better value from current levels of expenditure. We are confident that with greater flexibility and freedom in the use of this funding to match local circumstances, combined creatively with local resources and leveraged input from private investors, significant progress can be made and a step change achieved without additional Government spending beyond that currently budgeted.

We anticipate that the creation of the Housing Observatory, New Homes Corporations, new planning arrangements, the revised role of the HCA and the expanded role of the Planning Inspectorate should be met from within the existing budgets of Government departments and local authorities. This will depend on the cessation of wasteful competitions and short lived funding initiatives, a move to more consistent, longer term funding agreements and joint working between authorities to enable more efficient use of those budgets.

Private investment and better use of guarantees

We will need to foster greater private investment, both by the existing volume house builders and Housing Associations but also by institutions and others who are interested, for instance, in supporting infrastructure investment and a new generation of high quality homes for market rent. We propose a new role for the HCA in facilitating investment at scale.

We have sought to make the best and most effective use of unused or unapplied Government guarantee mechanisms to support the growth of the SME sector, targeted support for new Garden Cities and to respond to the ambition demonstrated by Housing Associations and local authorities. We have established a clear principle of a gateway approach to ensure that support is focused on those with the most credible plans and the strongest partnership arrangements which will, of course, include evidence of private sector investment.

Our approach to demand side support in periods when would-be house buyers find it difficult to secure mortgages focuses more firmly on new homes, first time -buyers and homes at below average prices. We are confident this should ensure more effective use of existing guarantees.

We identify the expanded investment division of the HCA as an appropriate agency to manage the programme of Government guarantees and to make the detailed decisions about how they are best applied. The HCA would have clear responsibility for managing the risks and costs involved in vigorously pursuing the objective of increased house building. It would exercise those responsibilities without day to day oversight but on the basis of a framework agreed with HMT and the proposed housing task force and overseen by Ministers.

Unlocking existing capacity for public investment

We have identified the potential for underused assets on the balance sheets of some Housing Associations to be released to enable new social and affordable homes to be built and recommend that government work actively with Housing Associations to mobilise this headroom.

Our approach to the issue of the HRA cap which currently inhibits some local authorities from a bigger role in building would involve more active HMT management of the aggregate headroom currently available to better target it to where it is needed on the basis of clear investment plans. We also propose a review to consider the scope for further headroom in future when circumstances allow on the basis that it will be in line with prudential borrowing rules and require no extra subsidy.

We have also identified greater potential for local authorities to leverage their assets and resources, particularly land sitting outside the HRA, to support and facilitate the development of new homes. Our proposals include a more active role for local authorities in the planning and delivery of new homes. This will be challenging in the context of sharply reduced budgets. However many are already using their assets and General Fund borrowing powers to create companies and partnerships that are addressing market failure and delivering more homes. This gives us confidence that with an increased devolution of resources and a greater scope to act, councils will rise to the challenge, taking on additional responsibilities, working together and leading the local response to housing needs and aspirations. We also propose that planning services should become fully self-financing but in return for guaranteed standards of service.

We have not sought to estimate or rely upon additional tax revenues. Our own proposals, including the levying of council tax on land where development is unduly delayed, will raise only modest levels of additional income for our intention is to create an incentive to develop, rather than a revenue stream.

Housing as a priority for investment

If our proposals are successful in bringing about a significant sustainable increase in housing supply, to at least 200,000 homes per year by 2020, then that will, by itself, generate substantial additional revenues from stamp duty and council tax. In addition, increased house building will deliver returns on public investment through increased income tax and revenues from the economic activity it generates. Investment in housing therefore offers good value when compared to other types of public expenditure.

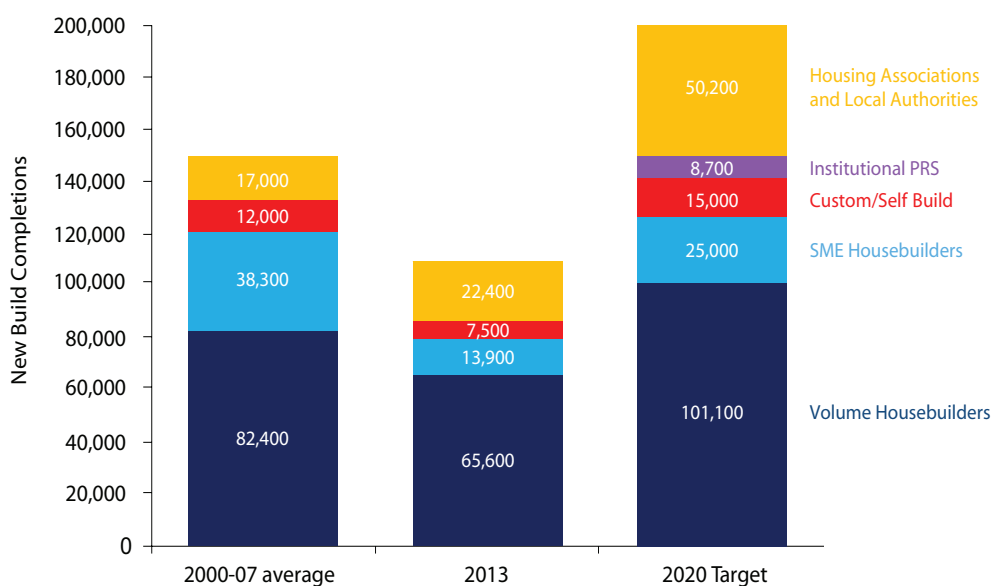
We are clear that housing must be a key priority for capital expenditure in the next Parliament. In terms of priorities for additional public expenditure should it be possible, we have clearly identified the importance of increased social housing to meet pressing housing need but also to begin, what will inevitably be a long-term task, of switching 'benefits to bricks' and securing a more rational use of public monies in building more homes and spending substantially less on rent transfers to landlords. In addition we have identified the case for targeted support to meet the housing aspirations of the older age groups encouraging the earlier release of family houses and support for a new generation of extra care homes building on the good practice which we have seen.

Contribution to 200,000 homes by 2020

The following charts illustrate the indicative contribution of the different parts of the housing sector that could be achieved as a result of our recommendations to demonstrate how we will reach 200,000 homes by 2020.

As outlined in the previous section on the public expenditure implications of our report, this increased output, including that from Housing Associations and local authorities, will not involve an increase in government borrowing but will require housing to be a priority for capital expenditure in the next parliament as proposed by the Labour Party. It will also require better use of existing resources such as the move to single-pot funding; and the fuller use of existing provision for Government guarantees; the unlocking existing capacity for public investment including better leveraging of local authority and Housing Association assets and more innovative use of public land together with the wider reforms on planning and the land market that underpin this report. We anticipate that increased private sector investment secured through greater partnership working and the New Homes Corporations will be important and active management of headroom within the existing aggregate provision for the Housing Revenue Accounts will also make a contribution.

Figure 29 – Housing Delivery Grid



The construction industry will play an important role in meeting the 200,000 target. However they will generally be involved as contractors & so their contribution will overlap with the figures above. We estimate that they will construct 75,600 of the homes delivered in 2020.

Source: Lyons Housing Review

Table 3 – Housing Delivery Grid

	2000-07 Average	2013	2020 Target
Volume Housebuilders	82,400	65,600	101,100
SME Housebuilders	38,300	13,900	25,000
Custom/Self Build	12,000	7,500	15,000
Institutional PRS	–	–	8,700
Housing Associations and Local Authorities	17,000	22,400	50,200
Total	149,700	109,400	200,000
The construction industry will play an important role in meeting the 200,000 target. However they will generally be involved as contractors & so their contribution will overlap with the figures above.			
Construction Industry (as main contractor)	Not Available	33,900	75,600

Source: Lyons Housing Review

List of Recommendations

Recommendation 1: Housing as a priority for Government

On taking office, Government should make a clear commitment to building new homes through:

- ➔ A clear statement of national targets for house building moving beyond 200,000 by 2020 to cover the next twenty years.
- ➔ Early publication of a Housing and Planning White Paper and Draft Bill to implement reforms, confirm a coherent strategy for housing policy and actions that will be followed over the Government.

Recommendation 2: Ensure Government is focused on delivering more homes

To ensure focus on the delivery of more homes, government should:

- ➔ Establish the post of a dedicated Housing Minister attending Cabinet. Establish a new-cross government task force including Treasury, DCLG, BIS, DWP and DEFRA with the resources and influence to drive a coordinated approach to housing supply.
- ➔ Create an independent advisory Housing Commission to bring skills and expertise from across the housing sector to inform policy, advise government and provide independent scrutiny and challenge to government in meeting its targets.
- ➔ Establish a national Housing Observatory as a single repository for key data, forecasts and analysis on housing to assist policy making, evaluation and a consistent approach to housing market assessments.

Recommendation 3: Certainty of measures to support housing demand

Government in 2015 should provide confidence that in future, counter-cyclical demand side measures will be implemented when needed. Future mortgage support should be more effectively targeted at first-time buyers and consideration should be given to restricting future schemes to new-build and houses which are closer to prevailing average prices.

Recommendation 4: Re-task the Homes and Communities Agency

The HCA should be re-tasked as a national delivery agency with the core functions of:

- ➔ Sole agency for disposal of government land for housing and assets with a focus on investing land as equity through local development partnerships and a 5 year revolving delivery plan for government land for housing.
- ➔ Acting as a major partner for local authorities and New Homes Corporations bringing skills and expertise, private funding, land and guarantees to support development.

- ➔ Supporting large scale development through the ATLAS service and coordination of expansion of training and professional development across local and central government.

Recommendation 5: Consolidate and devolve funding for housing

Housing funding streams should be consolidated as part of the economic development fund and devolved to city or county region authorities working across functional economic areas as proposed by the Adonis Review. These functional economic areas must strongly reflect strategic housing market areas and allow for wider decisions on investment in infrastructure and economic development to reflect functional housing markets. Local authorities must be responsible for decisions about investment in housing based on Local Plans and Strategic Housing Market Plans where they are in place; clear contracts with government about what will be delivered as recommended by this review; and the strength of local partnerships with Housing Associations and developers.

Recommendation 6: Expand HCA role in securing private investment

The investment arm of the HCA should be expanded to act as a vehicle to aggregate opportunities for private investment at scale.

Recommendation 7: Guarantees to support housing supply

The HCA investment arm should manage the use of government guarantees (within an overall envelope set by HM Treasury) to increase supply and attract new additional investment in viable projects at the same time minimising Government's risk exposure and their PSBR impact. This will include managing guarantees for SMEs and for investment in Garden Cities and the Affordable Housing Guarantee Programme.

Recommendation 8: Increasing land for housing through Local Plans

To increase identification and delivery of land through Local Plans:

- ➔ Guidance for Strategic Housing Market Assessments should be strengthened to stipulate core indicators and methodology to ensure consistency and robustness of all Local Plans.
- ➔ All local planning authorities should be required to submit a Local Plan to the planning inspectorate for examination within a set time frame (December 2016). If this requirement is not met, the Secretary of State will have the power to direct the Planning Inspectorate to intervene and ensure an acceptable plan is produced in cooperation with local residents and partners including the local authority. Similar sanctions will apply if a submitted plan is deemed to be wholly inadequate.
- ➔ Local authorities should be required to include a statement in their annual monitoring report about their Local Plan's compliance with the NPPF and any issues that would trigger a review of the plan.
- ➔ Recognising that establishing deliverability of land beyond five years will be difficult, there should be a clear requirement for a 15 year pipeline of land to ensure local authorities take a long term approach to land supply.
- ➔ New and additional emphasis on the delivery of housing in the plan in the context of the stronger powers available to councils to do so. Delivery will be monitored annually by DCLG in terms of house build as well as land allocation. Where there is a persistent under delivery, the Secretary of State will have the power to direct further efforts including an increase in the buffer of identified land to increase the number of sites with potential for delivery; designation of a planning authority; or the creation of a New Homes Corporation where not previously established.

Recommendation 9: Strategic Housing Market Plans and the “Right to Grow”

- ➔ To ensure plans are based on housing market areas, not administrative boundaries, groups of authorities covering one or more strategic housing market area should be able to prepare Strategic Housing Market Plan (SHMP) with statutory weight which must be taken into account in developing and updating Local Plans.
- ➔ To implement the “Right to Grow”, the Secretary of State should have the power to require the authorities of a particular housing market area to complete a Strategic Housing Market Plan (SHMP) where co-operation is not forthcoming and housing need is not met. The request for a direction to undertake the SHMP could be prompted by one or more of the partner authorities; the LEP; the planning inspectorate; or the Secretary of State. The Secretary of State should have the power to instruct the Planning Inspectorate, working with local people and organisations as well as cooperative councils, to complete a SHMP to an accelerated timetable if local cooperation fails.

Recommendation 10: Simplifying plan making

To simplify and speed up plan making, the process, including examination, should be split into two stages. Local authorities would first work together on the strategic elements of their plans including housing numbers, strategic infrastructure, major urban extensions or new settlements. Once found sound by the Planning Inspectorate it could be accorded weight in decision making much earlier than at present. The detailed work on the detailed policies of a Local Plan could be approved after a lighter touch second stage.

Recommendation 11: Ensuring local access to new homes

To ensure that local people can access homes built in their areas:

- ➔ Local authorities should ensure that Local Plans reflect the right mix of tenures in their areas to meet local need so that local people benefit from new development, particularly increasing opportunities for shared ownership to help local people and first-time buyers afford new homes in their areas.
- ➔ Local authorities should be empowered, in areas with a public stake in new housing development such as Housing Growth Areas, to ensure that a proportion of new homes are released and marketed locally before further afield so that people living locally or with strong local connections including first-time buyers get the chance to buy the homes that their local community have given permission to be built.

Recommendation 12: De-risking planning

Reduce the risk and speed up the process for planning permissions through:

- ➔ Greater use of masterplanning and Planning Performance Agreements for large scale development and early engagement in planning to reduce risk, improve certainty and speed of development.
- ➔ Introduction of “redline” applications for sites of less than ten units (a plan of the site with a short statement justifying the design and dealing with the likely impacts). This would allow the principle of development to be agreed before the developer is required to produce a lot of work on detailed matters (which would subsequently be subject to approval through conditions or reserved matters).
- ➔ Implementing the current proposal to apply set timescales on planning authorities for signing off conditions and that where timescales are not met, they will be deemed to have been discharged. The LGA, Planning Officers Society; Home Builders Federation, British Property Federation and statutory consultees should promote the best practice guidance on the effective use and discharge of conditions to ensure it is widely adopted.

Recommendation 13: Resourcing planning

To ensure councils have the skills and resources needed for a more proactive and positive planning role:

- ➔ Local planning authorities should be able to set planning fees locally on a full cost recovery basis but in return for guaranteed high levels of service. This could be piloted or rolled out with local authorities required to present a clear business case and charging schedule in consultation with developers.
- ➔ Local authorities working together at strategic housing market level should pool capacity and expertise – including drawing on good practice from joint planning units and the greater capacity within ALTAS to support major development.

Recommendation 14: National spatial dimension

A national spatial assessment should be produced to draw together the spatial implications of government infrastructure and growth and economic development policies. This should include investment priorities as set out in the Sector Infrastructure Plans recommended by the Armitt Review. Based on this assessment, guidance should be issued to local authorities to inform Local Plans and major developments and ensure national infrastructure decisions are linked to opportunities to build more homes. It should also set out guidance on how housing need should be met by cities and their hinterlands; and how policies should address economic imbalance between the regions. In addition, the National Planning Policy Framework should be updated to establish a brownfield first policy with a sequential test to be applied to development.

Recommendation 15: Transparency in the land market

To ensure greater transparency in the land market, the Land Registry should open up land ownership information to the public in a similar manner as the property price paid data set and make it a legal requirement to register land option agreements, transactions and prices.

Recommendation 16: Use it or lose it

To ensure planning permissions are implemented and reduce incentives for speculating on land:

- ➔ The life of a planning permission should be reduced to two years with higher fees applying for renewal of expired permissions.
- ➔ Greater substantive work should be required to count as the commencement of development.
- ➔ Councils should have powers to levy a charge equivalent to council tax if land allocated in a plan with or without planning permission is not brought forward within 5 years. This should be applied only where land is voluntarily put into a plan and can be demonstrated to be deliverable and should be accompanied by a mechanism for appeal.
- ➔ Compulsory Purchase Order powers should be strengthened and streamlined to make it easier for public bodies to acquire land where it is not brought forward and where it is a priority for development.

Recommendation 17: Compulsory Purchase Orders

Update legislation for Compulsory Purchase powers to make them more effective as a tool to drive regeneration and unlock planned development by:

- ➔ Streamlining and clarifying existing legal guidance and legislation on CPO as far as possible, to reduce uncertainty and confusion.
- ➔ Streamlining the process and reducing opportunities for landowners to stall progress.
- ➔ Where a CPO is contested, land valuation should be considered by the tribunal up front, to reduce timescales, uncertainty and risk for local authorities and their development partners.

Amend the Land and Compensation Act to provide that where land is designated for a Garden City, or a Housing Growth Area, compensation for CPO powers should be based upon current use value plus a premium ensuring a generous return to the land owner, but ensuring the infrastructure costs can be captured from the value created by the new development. The powers themselves will rarely need to be used but will act as an incentive to landowners to enter into development partnerships.

Recommendation 18: Community Infrastructure Levy

Remove the restriction on pooling Section 106 contributions for both strategic and mitigating infrastructure on strategic and large sites (over 500 units). This will enable the authority, having set a zero rate for CIL on such sites through its charging schedule, to pool contributions from multiple development partners through Strategic Land and Infrastructure Contracts or similar frameworks to support the delivery of strategic infrastructure across the site.

A comprehensive review of CIL should be undertaken to consider reforms needed to ensure it more effectively captures funding for infrastructure, options should include:

- ➔ Analysis of the impact of cumulative changes to regulations and the process of testing through examination in producing robust evidence base for CIL.
- ➔ Assessment of the impact of the CIL exemptions for charities, self-build and affordable housing introduced by the coalition government.
- ➔ Consideration of whether the proportion of CIL devoted to parish councils and “neighbourhoods” is appropriate and require parish councils to produce an investment plan for its use with an annual report on delivery.

Recommendation 19: Viability

Definitive guidance should be produced to ensure a single and robust methodology for viability assessment to reduce the scope for different interpretations of viability and reduce uncertainty. This should allow the landowner to receive a reasonable return and offer clarity about what they can expect to receive for their land, and should clearly identify the uplift in value arising from the grant of planning permission to enable this to be properly considered as part of the planning process alongside the costs of necessary supporting infrastructure and affordable housing. In addition an “open-book” approach to negotiating site specific viability is required, to increase transparency and speed of negotiations.

Recommendation 20: Affordable housing

- ➔ To strengthen the ability of local planning authorities to meet affordable housing need in their areas, the definition of affordability in the National Planning Policy Framework should be revised to reinstate the previous definition that affordable housing should “meet the needs of eligible households at a cost low enough for them to afford, determined with regard to local incomes and house prices”.
- ➔ A new arbitration service for S106 negotiation of large scale projects should be introduced to assist with the speed and effectiveness of negotiations.
- ➔ The proposed changes for a minimum threshold for affordable housing S106 should be reversed to ensure that all development makes a reasonable contribution to affordable housing provision.

Recommendation 21: New Homes Bonus

The New Homes Bonus should be reviewed to consider:

- ➔ whether the New Homes Bonus should be retained in its current form;
- ➔ assessment of whether it has an element of deadweight, rewarding housing growth that it has not incentivised; and
- ➔ the redistributive impact of the policy.

Recommendation 22: Revolving Infrastructure Funds

Create a programme of Revolving Infrastructure Funds pooling central and local funding for infrastructure and ensuring receipts are retained and recycled to forward fund infrastructure and support large scale housing development schemes. These will be a key part of the offer to local authorities and New Homes Corporations to support major housing growth.

Recommendation 23: Housing Growth Areas

Local authorities should be given new powers and incentives to take a proactive approach to land assembly and development models in Housing Growth Areas. These powers could be exercised by individual local authorities, local authorities working collectively, city or county region or through New Homes Corporations.

Recommendation 24: New Homes Corporations

Allow local authorities to request the creation of locally led New Homes Corporations as delivery agents to respond to the specific needs across a housing market area and provide the powers, focus, expertise and resources to deliver an ambitious programme of development. They will bring together Housing Associations, development and investment partners to focus on the delivery of new homes.

Recommendation 25: Better use of public land

Promote the better use of surplus public land to support new homes through:

- ➔ Clear guidance to central and local government to promote investment of land as equity and secure long term returns from investment. This should include clarity and a consistent approach to best value considerations and phased payment approaches to embed them across all department and authorities.

- ➔ Government should set a new ambition for the release of sites for 200,000 homes over next parliament half of which should be delivered through equity sharing partnerships.
- ➔ HCA and local authorities should produce revolving 5 year land delivery plans clearly identify opportunities for release of public land.
- ➔ Task HCA as delivery agency with a clear imperative to initiate development of public land for housing to meet a target of delivering 200,000 homes on public land by 2020.
- ➔ Clear guidance to local authorities on their freedoms to establish long term partnerships and how this should be reflected in interpretation of OJEU requirements and procurement rules.

Recommendation 26: A new generation of Garden Cities and Garden Suburbs

Government should immediately promote a programme of Garden Cities, Garden Suburbs and remodeled towns and cities.

- ➔ Garden Cities will be delivered by new Garden City Development Corporations based on updated New Towns legislation.
- ➔ Government should publish criteria for locally-led Garden Cities articulating the criteria Government will expect them to meet and setting them in the context of national spatial priorities.
- ➔ Government should set out Treasury Guarantees and financial incentives to unlock sustainable Garden City development and deliver infrastructure.
- ➔ Local Authorities will be invited to come forward with proposals developed in partnership. Proposals from private promoters will be accepted but only where they can demonstrate local support.

The New Homes Corporations should be used to extend the Garden City principles and powers to bring forward garden suburbs and the re-modelling of cities and towns. An early priority for Ministers should be to discuss with councils appropriate sites and support New Homes Corporations to accelerate the delivery of large sites already in the system and bring forward new sites.

Through a combination of accelerating delivery of existing sites where possible and bringing forward new sites, these recommendations could help accelerate the delivery of up to 500,000 homes.

Recommendation 27: A package of support for SMEs

Government should provide support to SME firms to build more homes through:

- ➔ Legislative change to permit “redline” outline planning applications on smaller sites of fewer than 10 homes.
- ➔ Local authorities should identify small sites in public ownership in local plans, and work with other public landowners to make them available for purchase and development by SMEs.
- ➔ Local authorities and their New Homes Corporations, working with lead developers should offer more packaged and opportunities for serviced sites to help SMEs access the market, including in Housing Growth Areas.
- ➔ A Help to Build scheme will allow SME house builders to access lower cost bank lending supported by Exchequer guarantees.

Recommendation 28: Skills in the house building industry

A skilled house building workforce should be further developed through:

- ➔ The sector, led by the CITB, setting skills standards and coordinate strategic investment to boost apprenticeships. They should also be asked to develop a proactive policy on increasing diversity in the industry and a Code of Practice on developing employees that will balance employment flexibility with employers' equal interest in conserving and building the industry's pool of skilled labour for the long term.
- ➔ Local skills boards for house building, perhaps under the auspices of LEPs, should bring together builders, other parts of the construction industry, councils, and training providers including schools, to take a ten-year view on local skills needs in the sector, business-led and anchored in the Local Plan.
- ➔ Firms should work with schools and colleges to improve young people's perception of a career in building, by taking a stronger and more proactive role in schools and colleges, especially by providing governors, sponsoring schools, providing work placements and apprenticeships.

Recommendation 29: A bigger role for manufacturing in the creation of new homes

Government should take active measures to further promote the growth of the offsite manufacturing sector with a strong emphasis on achieving consistent high quality and should ask the Technology Strategy Board to both explore how the growth of this sector can be accelerated and provide further focused support for R&D by existing manufacturers.

Recommendation 30: Ensuring quality and design standards

To ensure new homes and places are built to high quality and design standards:

- ➔ Streamline good housing standards – for energy, water and security – into a single set which is implemented through building regulations, and that there continues to be access to design review (or PLACE review) to ensure good quality design.
- ➔ The Building for Life 12 standard should be referenced and encouraged by all Local Plans as a collaborative tool which helps create good places.
- ➔ The LGA working with the HBF, RIBA and TCPA and others should establish a new kite mark for quality places reflecting the views of both original and new residents

Recommendation 31: Space Standards

Space standards should be introduced applicable across all tenures. Further work is required to establish the most appropriate standards and whether there is a case for flexibility for local areas to offer exemptions in certain markets. The standards should be incorporated in a new National Housing Design Guide, which could bring together all relevant requirements in one place (RIBA, Design Council). This would have the benefits of standardisation, certainty, equity and the maximum benefit to people's wellbeing.

Recommendation 32: Zero Carbon Homes

The Government in 2015 should reaffirm its commitment to a genuine zero carbon standard for new homes and set out a clear trajectory for all homes (reversing the exemption for small housing developments) to achieve this if further action is required beyond 2016. It should address issues around the performance gap, and should work with the industry to address problems highlighted by the Zero Carbon Hub: skills and knowledge, communication, and responsibility.

Recommendation 33: More quality homes for market rent

To support a vibrant market rented sector:

- ➔ Local authorities should use their role in leading development in Housing Growth Areas and joint-ventures with Housing Associations and private developers to encourage high quality market-rent where there is demand.
- ➔ The NPPF should specifically require that local plans consider the objectively assessed needs for market rented housing alongside that of affordable and market housing as it does at present. This will require all plans to take the tenure into consideration leading to evidenced Local Plan policies on market rented housing that provide certainty to investors. Market rented housing would then be secured by planning conditions.
- ➔ Government should continue to set out national standards (primarily the Housing Health and Safety Rating System) on the condition of properties. There should be guidance on expectations for Houses in Multiple Occupation but with appropriate local flexibility. This will ensure landlords provide well managed, safe, homes for good tenants and provide greater clarity for investors.

Recommendation 34: Shared ownership

Government should promote a new and coherent offer for shared ownership including:

- ➔ Promotion of a single brand and comprehensive offer for the whole country with broad eligibility criteria and standardised lending products.
- ➔ A clear set of options and pathway of choice including staircasing to full ownership, options to choose the home it applies to.
- ➔ Sufficient flexibility to enable households to move easily from one part-buy property to another or to another tenure.
- ➔ Extending eligibility of the undersubscribed Private Rented Sector guarantee scheme making them eligible for future equity loan schemes such as a refocused help to buy.

Recommendation 35: Housing for older people

More homes to meet the needs of people in later life should be supported through:

- ➔ Government exploring options for incentivising private sector investment in increased provision of homes with extra care and for encouraging older people to down size from family homes.
- ➔ Local government and Housing Associations seeking opportunities to promote more attractive options for active older people looking to down-size, including in promoting schemes for self-commissioned housing and in packaging sites as part of an active role in development and partnership schemes.
- ➔ In both cases, homes should be highly energy-efficient and designed to the HAPPI standards.

Recommendation 36: Promoting effective partnership models

The LGA, NHF and CIH and others should work together to distil the lessons from successful partnerships and offer model forms of partnerships and a proportionate approach to procurement.

Recommendation 37: Councils investing in new homes

We recognise that any decision about the overall HRA borrowing cap is a matter for the next Government but to increase councils' ability to invest in new homes:

- ➔ There should be provision to raise individual HRA borrowing caps where councils present a business case and an investment plan that sets out the extra borrowing needed and the additional homes that will be delivered in return.
- ➔ The Treasury would be able to ensure that the additional flexibility does not see an increase in total borrowing over and above that currently planned for. And it should do so in a way that does not involve increased bureaucracy for councils in managing their Housing Revenue Accounts.
- ➔ Government should initiate a review into whether there is a need for increase of headroom in the longer term and options that would allow councils to borrow for housing investment in line with the requirements of the prudential borrowing code.
- ➔ Local authorities should build on existing examples of innovation and partnerships to maximise opportunities for alternatives to borrowing under the HRA to support the development of new homes.

Recommendation 38: Right to Buy

Reform the Right to Buy to enable councils and Housing Associations to re-invest in genuine one-for-one replacement. An incoming government should assess the distribution of receipts from Right to Buy sales as part of this.

A new government should undertake an early review of the Right to Buy to establish whether it is meeting its policy objectives, the distribution of receipts from sales and on the total level of affordable housing stock.

Recommendation 39: Unlocking capacity and ambition of Housing Associations

Greater investment and innovation from Housing Associations should be facilitated through:

- ➔ Extending the Affordable Homes Guarantees Programme to 2020 to give Housing Associations the confidence and certainty to commit to more long-term projects. And consider extending the guarantee to allow Housing Associations to re-finance debt to release more capacity.
- ➔ Government should hold discussions with the sector about how to mobilise the surpluses and headroom to unlock further investment from Housing Associations which could include consideration of partnerships and mergers and the option for a gatewayed approach and setting an overall envelope for an Association's rents, within which it would have flexibility with appropriate safeguards if it could demonstrate how this would support new supply.
- ➔ Consider the case for lifting restrictions on the way Housing Associations value their properties to increase borrowing capacity, on a case by case basis, dependent on their ability to demonstrate it would result in additional affordable homes.

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Submissions to the Review

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Meetings with the Review

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Round Tables

David O'Leary, HBF; Andrew Dixon, Federation of Master Builders; James Hulme, National Federation of Builders; Steve Midgley, Fairgrove Homes; Robert Westerman, Pearce Homes; Paul Knox, Pentland Homes; Chris Carr, Carr & Carr; Edward Gilder, Badger Building; Hugh Ellis, TCPA; Laura Jackson, Bioregional; Helen Pearce, LDA Design; John Rowley, CPRE; Adam Royle, National Trust; Neil Smith, NHBC; Lynne Sullivan, Sustainable By Design LLP; Chris Tinker, Crest Nicholson; Jo Wheeler, UK Green Building Council; Paul Wilkinson, The Wildlife Trusts; Stephen Hodder MBE, RIBA; Andy Von Bradsky, Chari PRP Architects; Ken Jones, London Borough of Barking and Dagenham; Alison Brooks, Alison Brooks Architects; Jonathan Falkingham MBE, Urban Splash; Ralph Ward, UK Regeneration; Paul Monaghan, Alford Hall Monaghan Morris Architects; Kathleen Kelly, Joseph Rowntree Foundation; Jeremy Stibbe, Peabody Group; Martin Sellens, Leeds City Council; James Pargeter, Deloitte Real Estate; Steven Proctor, Proctor and Matthews Architects; Geeta Nanda, Thames Valley HA; Mike De'Ath, HTA Architects; Waheed Nazir, Birmingham City Council; David Montague, L&Q Group; Ian Doolittle, Trowers and Hamlins; Kurt Mueller, Grainger plc; Clive Dutton OBE; Simon Dow, the Guinness Partnership; Martin Hawthorne, Thirteen Group; Ged Walsh, Yorkshire Housing Group; David Lunts, GLA; Dave Sheridan, Keepmoat; Melbourne Barrett, London Borough of Hammersmith and Fulham; Darren Henaghan, London Borough of Barking and Dagenham; Lynne Standing, Mid Sussex District Council; Beverley Nomafo, London Borough of Croydon; Vicki Popplewell, Centre for Local Government West Midlands; Steve Close, Together Housing Group; Mark Davie, M&G Investments; Phil Jenkins, Centrus Advisors; Jonathan Dwyer, JC Rathbone; David Enticott, Derby Homes; Chloe Fletcher, National Federation of ALMOs; Peter Stoate, Stroud District Council; Simon Rees, London Borough of Newham; Graham Watts, Construction Industry Council; Eddie Tuttle, Chartered Institute of Builders; Pauline Traetto, BRE Group; Ray Dowd, British Association of Construction heads; Tom Macdonald, West Midlands Construction; Tom Wilson, Unionlearn; Tom Nicholls, L&Q Group; Chris Blundell, Golding Homes; Turlogh O'Brien, L&Q Group; Lisa Barker, De Montfort University; Debbie Larner, Chartered Institute of Housing; Patrick Clarke, URS; Matt Griffiths, IPPR; John Lewis, Letchworth Garden City Heritage Foundation; Jim McAllister, Rutland Group; Lee Shostak, Shared Intelligence; Peter Studdert; John Walker, TCPA Strategic Board; Kevin Willcox, Crest Nicholson; Cllr Barry Wood, Cherwell District Council; Simon Leask, ATLAS; Peter Halpenny, Ballymore Group; Matt Bell, Berkeley Group; Mark Rogers, Circle Group; David Rumsey, Mace; Brian Johnson, Metropolitan; Matthew Spry, Nathaniel Litchfield Partners; Stephen Howlett, Peabody Group; Roger Wilshaw, Places for People; Graham Browne, Denne Construction; Nicholas Guerin, Bouygues Development; David Easton, Noble and Taylor; Paul Knox, Pearce

Homes; Liz Peace and Ghislaine Trehearne, British Property Federation; Stephen Ashworth, Dentons; Maggie Baddeley, Nathaniel Lichfield & Partners; Howard Sheppard, Canary Wharf; Alan Collett, Arim; Jeremy Stibbe, Peabody Group; Paul Winstanley, Allsop LLP; Yinka Bolaji, Genesis Housing Association; Mike Wisgard, Mill Group; Paul Philips, Notting Hill Housing Group; Rob Weaver, Royal Bank of Scotland; John Acres, Turley Associates; Phillip Barnes, Barratts, David Edwards, Oxford City Council; Matt Griffith, IPPR; Gus Zogolovich, Solid Space; Catherine Harrington, National CLT Network; Richard Blyth, Royal Town Planning Institute; Ted Stevens, National Self-Build Association; Jan Crosby, KPMG; Thomas Aubrey, Policy Network; Heather Topel, North West Cambridge Development; Tony Dolphin, IPPR; Michael Halliday, CBRE; Karen Campbell, Homes for Scotland; John Cassie, Persimmon Homes; Pauline Mills, Taylor Wimpey; Robin Blacklock, Grosvenor; Colin Rae, Places for People; John Hamilton, SIGMA Capital; Professor Ed Trevillion, SWIP; Christa Reekie, Scottish Futures Trust; David Melliush, Scottish Property Federation; Steven McGarva, Ashfield Land; David Henry, Savills, Hugh Bullock, Gerald Eve LLP, Jeremy Edge, Edge Planning and Development LLP; Faraz Baber, London First; Alan Cufley, Portsmouth City Council; Ben Hudson, Greenhill & Brownfield, Tom Dobson, Quod; Charles Solomon, former Valuation Office Agency; Tracey Hartley, Grainger PLC, Peter Wyatt, Reading University, Andrew Bulmer, RICS; Emma Fitzgibbon, RICS.

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