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Briefing Note:

Tackling the under-supply of housing in England

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The House of Commons Library has published a briefing paper titled 'Tackling the under-supply of housing in England'.

Commons Library briefing papers can be valuable resources. They do not promote one particular view (e.g. government policy) but instead aim to set out the evidence around key issues and identify different views from key players such as political parties and industry bodies. In this briefing note we have condensed the 84 pages of the Commons Library paper down to six to give the key points around the issue of housing in England. Of particular interest is the debate about how to unlock further growth in house-building with planning, funding, taxation, infrastructure and the state of the market all being considered.

- According to current projections, an average of 210,000 new households will form in England between 2014 and 2039.
- The 2015 Government pledged to deliver one million net houses by the end of the expected Parliament in 2020, and to deliver "half a million more by the end of 2022".
- Current new housing supply is lower than needed to achieve those targets.

Supply of housing

- Between 1991 and 2011 there was a 16% increase in dwellings in England.
- During the same period the following growth occurred in different regions across England:

Region	Growth in no. of dwellings 1991-2011
North East	9%
North West	11%
Yorkshire & the Humber	14%
East Midlands	20%
West Midlands	13%
East of England	20%
London	14%
South East	19%
South West	22%
England	16%

Growth in the number of dwellings across different English regions between 1991 and 2011

Proportion of New Homes Built by Social Housing Providers

- Overall, there has been a major decline in local authority housebuilding across the UK.
- Only 1% of newly-built houses are developed by local authorities.
- Profile of new builds in England:
 - 44% of new dwellings are flats
 - 40% have only 2 bedrooms
 - There has been a shift in trend towards smaller-sized builds that are for the short-term

The Politics of Housing

2017 General Election Manifesto commitments:

- **Conservative Party:** A commitment to deliver 1.5 million more homes between 2015 and 2022.
- **Labour Party:** A commitment to invest to build over one million new homes over the Parliament – by the end of the Parliament councils and housing associations would be building at least 100,000 homes a year.
- **Liberal Democrats:** A commitment to build 300,000 homes per year by 2022.
- **Green Party:** A commitment to build affordable, zero carbon homes, including 100,000 social rented homes each year by 2022.
- **UKIP:** A focus on factory-built modular homes which "could build another one million homes by 2022".
- There is a political consensus that there is a shortfall of housing but disagreement over how to fill the shortage. Both affordability and supply constraints affect the shortfall.

Barriers and solutions to the housing shortfall

1. The contribution of local authority and housing association sectors.

- Public sector housing has historically been more reliable than private sector housing, and local authorities and housing associations must contribute to reversing the under-supply of housing in England.
- The House of Lords Select Committee on Economic Affairs stated: "To achieve its target the government must recognise the inability of the private sector, as currently incentivised, to build the number of homes needed."
- Since 1939, the delivery of 200,000 new homes per year in England has largely been due to major public sector building programmes.
- The local authority and housing association sectors are keen to do more and claim they can. The National Housing Federation (NHF) expressed a desire to work with the government to deliver 120,000 dwellings per year by 2033.
 - In October 2017, the government announced an additional £2 billion for the Affordable Homes Programme. That was deemed not enough by the Joseph Rowntree Foundation.

Unlocking private finance

- Associations use public funding to lever private finance in for housing development.
- The NHF argued there was a "strong case" for the continuation of the Affordable Homes Guarantee scheme (AHGS) – which provided them access to long-term competitively-priced finance to deliver affordable homes. Shelter and KPMG proposed the establishment of a national Housing and Infrastructure Bank funded from Housing ISAs – based on the Dutch Bank, BNG.
- Local Authorities (LAs) have been reluctant to borrow in order to build.
 - The government has attempted to encourage LAs to use their borrowing cap to meet the housing need.
 - LAs are not using their existing headroom. Up to £1 billion in additional borrowing will be possible by the end of 2021-22, though, with councils being able to bid for increases in their borrowing caps from 2019-20.
 - LAs should become "housing delivery enablers", through creation of housing companies, private finance initiatives and housing investment from local authority pension funds.

2. More land suitable for development is brought forward.

- Around 10% of land in England is classed as urban but only 1% has domestic buildings on it.
 - The gain in value that planning permission offers is said to encourage strategic land trading, rather than development. High prices can, in turn, lower the quality and size of new homes.
 - A Land Value Tax (LVT) could help to resolve this – it would require land owners to make payments based on the current market value of land, irrespective of how to land is used.
 - The rise of land banking – waiting for land to grow in value before building on the higher value land which creates higher value housing. 45% of existing planning permissions in London in 2012 were held by non-building firms.
 - Release of public sector land:
 - 2011-2015 and 2015-2020 Public Land for Housing Programmes.
 - The Lords Select Committee on Economic Affairs supported the relaxation of the requirement to achieve best market value when releasing public land. But this would only work with a central scheme that compensates public bodies for selling land below market value.
 - Direct commissioning – Homes England taking a key role in site delivery on which the development of new homes is directly commissioned by government.
 - New Towns and Garden Cities – developments to take place on brownfield sites and/or public land. The 2015 Conservative Manifesto supported this.
 - In December 2017, the then Housing Minister, Alok Sharma, announced the government's support for 24 locally-led garden cities, towns and villages. A further £3 million to support the delivery of 14 garden villages.
- ### 3. How to properly resource local authority planning departments.
- Shelter and KPMG were critical of the failure to recognise housing formally as a national infrastructure asset that could drive growth.
 - Much of the infrastructure for post-1949 New Town developments was publicly funded.
 - Problems hindering housing developments include: a lack of water, sewage, electricity, gas or road connectivity.
 - There is also the need for authorities to consider the provision of high-quality digital infrastructure (Lyon Housing Review Institute) such as full fibre broadband connections, 5G and inevitable upgrades.

4. Consideration of how essential infrastructure to support housing development can be funded. (The planning system).

- England's planning system is frequently cited as a "blocker" to delivering the volume of properties needed to meet housing need.
- According to the paper, there is "no groundswell of support for another round of major planning reform" due to the uncertainty further reforms might create in the housing industry.
- Planning conditions – the number of planning permissions granted has increased but that does not mean work on new sites will start quickly.
 - There are dozens of pre-commencement conditions attached to planning permissions by local authorities and until each one is discharged, work cannot begin.
 - The Neighbourhood Planning Act 2017 has sought to limit the number of conditions LAs can impose.
 - Section 106 has been credited with ensuring a substantial supply of affordable housing; in 2016/17 more than 18,000 affordable homes in England were provided through planning gain.
 - It has been recommended that authorities can set rates which better reflect the uplift in land values between a proposed and existing use.
- Resourcing authorities' planning capacity – wide scale consensus on the need for proper resourcing of local authority planning departments.
 - Cuts in LAs have fallen "particularly heavily" on planning departments (Lords Economic Affairs Committee) – this has instigated the under-resourcing and under-staffing of planning departments, causing a shift in negotiating power towards developers. A potential solution would be to introduce a more flexible planning fee system, allowing authorities to invest in their planning departments.
 - Lyons specifically commented on the need to persuade communities of the benefits of housing development – citing how the public is often concerned that houses are built in the wrong place, for the wrong people and do not account for the increased pressures on existing infrastructure.
- January 2018 saw new data published by the LGA showing an increase in unimplemented planning permissions in England and Wales by 16% from 2015/16 to 2016/17. Indeed, councils approve 90% of planning applications so are not the problem. The LGA asked for greater powers to ensure building where planning permission granted.
- The Green Belt – 13% of England is classified as Green Belt. Paul Cheshire has proposed building on the least attractive and lowest amenity parts of the green belt as a way to solve housing supply issues.

5. How to encourage and support more small and medium-sized building firms into a large-company dominated market.

- 70% of new homes in England were built by a small number of large firms by 2012.
- The Housing White Paper stated the Accelerated Construction Programme would support diversification in the market "through partnering with small and medium-sized firms and others as development partners and contractors."

6. How to ensure that the construction industry is in a fit state to deliver the housebuilding capacity required by England.

- Labour market and skills – Arcadis argues that if the government's target for building new houses is to be met, then the industry will need to recruit 224,000 new people by 2019.
- The under-supply of labour skills – bricklayers, plasterers, architects.
- Innovation in construction – increased use of data and data management, innovation in the way the workforce and businesses are involved. The following symptoms of poor performance by the construction industry were identified:
 - Low productivity
 - Low predictability
 - Structural fragmentation

Housing White Paper: additional proposals and responses

1. Calculating housing need – the White Paper said the current approach to assessing housing necessities lacks transparency. The government proposed a more standardised approach to assessing housing need – one that will also account for specific needs e.g. older people. Councils will be incentivised to use the new approach.

2. A housing delivery test – a new test designed to show whether the number of houses built is below the target and to trigger the necessary policy response moving forward.

- From November 2017, if delivery of housing falls below 95% of the local authority's annual housing requirement, the local authority must propose an action plan.
- If below 85% of the housing requirement, authorities would be expected to plan for a 20% buffer for their five-year land supply. If below 25%, 45% and 65%, the presumption in favour of sustainable development in the National Planning Policy Framework would apply automatically – placing additional emphasis on need for planning permission to be granted. The government issued concern that the plan does not incorporate fluctuations in its framework.

3. Build to rent - The need for purpose-built rental properties has been cited.

Communities and Local Government Committee: Capacity in the homebuilding industry – key recommendations:

- A need for the government to consider how it can influence the financial model of the sector and encourage developers to take a longer-term perspective. The committee endorsed greater public intervention to prioritise long-term community benefits over short-term commercial profits.
- Local authorities' responsibility to hold developers to account in terms of build-out rates.
- The Committee waited to see local authorities making smaller sites available to assist SME builders and to aid diversification in the sector.
- The Committee called for certainty on rent setting post-2020 as a matter of urgency.
- Concern expressed by the Committee over the lack of control planning authorities have over homes created using permitted development rights.

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