



DECODING THE HOUSING WHITE PAPER

A discussion note

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About Localis

Who we are

We are an independent, cross-party, leading not-for-profit think tank that was established in 2001. Our work promotes neo-localist ideas through research, events and commentary, covering a range of local and national domestic policy issues.

Neo-localism

Our research and policy programme is guided by the concept of neo-localism. Neo-localism is about giving places and people more control over the effects of globalisation. It is concerned by economic prosperity, but also enhancing other aspects of people's lives such as family and culture. It is not anti-globalisation, but wants to bend the mainstream of social and economic policy so that place is put at the centre of political thinking.

In particular our work is focused on four areas:

- **Reshaping our economy.** How places can take control of their economies and drive local growth.
- **Culture, tradition and beauty.** Crafting policy to help our heritage, physical environment and cultural life continue to enrich our lives.
- **Reforming public services.** Ideas to help save the public services and institutions upon which many in society depend.
- **Improving family life.** Fresh thinking to ensure the UK remains one of the most family friendly places in the world.

What we do

We publish research throughout the year, from extensive reports to shorter pamphlets, on a diverse range of policy areas. Recent publications have covered topics including building the homes we need, industrial strategy and the public service ethos.

We run a broad events programme, including roundtable discussions, panel events and an extensive party conference programme. Recent speakers at our events have included Rt Hon Greg Clark MP and Rt Hon Chris Grayling MP.

We also run a membership network of local authorities and corporate follows.

About Rentplus

Rentplus is the UK's leading provider of affordable Rent to Buy homes; supporting families into home ownership by helping them to save through below market rents and a gifted 10% gifted deposit. Working in partnership with local authorities and registered providers, Rentplus has been recognised as an innovative model to support access to homeownership by both the former and current Housing Minister. It was vocal in calling for the Government to scrap its 20% mandatory Starter Homes policy.

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Introduction

The Housing White Paper, *Fixing our broken housing market*, was welcome before it had even been published. As the first strategic policy document of its kind since a green paper in 2007, its existence is positive in itself. The Housing White Paper also codified shifts in rhetoric which were significant in political and practical terms, such as the quiet casting aside of the Starter Homes policy. This signified a less rigid approach to advancing home ownership at any cost which was welcome because that cost was significant: the duty (now 'expectation') placed on local authorities to promote Starter Homes as a type of affordable housing would have crowded out the delivery of other forms of sub-market housing, for instance housing for social rent.

However what the Housing White Paper delivers in rhetoric it lacks in specific policy prescriptions. It identifies the parts of the system that are broken but not how they can be fixed. To help provide greater detail on this issue we ran a series of three roundtables on *Decoding the Housing White Paper* with senior leaders from local government.¹ The aim of each discussion was to consider the Housing White Paper's hidden messages, how its measures will play out on the ground; and, where government's housing and planning strategy can be tweaked to most effect.

Throughout the roundtable series three themes were prominent: how to disrupt a failing market, affordability isn't the same everywhere; and, how the planning system can be smarter in enabling the delivery of more affordable homes. These were seen to be the Housing White Paper's hidden messages and in this short report we explore each, summarising discussion points and noting ideas for reform.

¹ Roundtables were held in Birmingham, Bristol and London in March and April 2017 attendees were a mix of senior members and officers from over thirty local authorities. They are named in the appendix of this report.

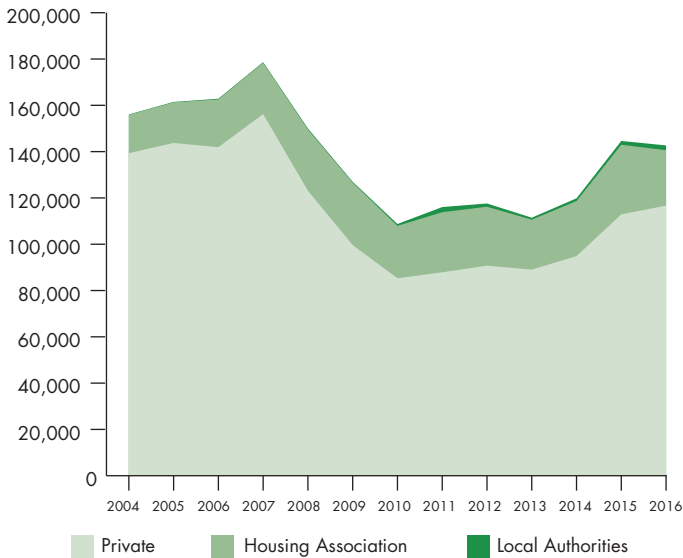
Disrupting a failing market

The title of the Housing White Paper, *Fixing our broken housing market*, suggests that it was once not broken. If we take a functioning market to be competitive, efficient and meeting the needs of consumers, the housing market has been broken for at least the past thirty years. In 2004 the government-commissioned Barker Review of Housing Supply recommended a step-change in housing supply to 240,000 new homes per year in England.² Since then an average of 136,000 homes have been completed each year (see figure 1 on the next page). The last year in which 240,000 homes were completed was 1978.

The nature of housing supply and consumer demand is complex but as a basic human need housing is no ordinary good. It is incumbent upon government to ensure the market functions well and delivers a socially-optimal rate of new homes. This could mean the breaking up of monopoly power, making information more transparent or protecting consumers. Each of these themes of a broken market is identified in the Housing White Paper but not enough provisions are made to disrupt the way the market operates. Across the roundtable series three potential disruptions were regularly highlighted.

² Barker (2004) Review of Housing Supply

Figure 1: Permanent dwellings completed by tenure, 2004-2016



Data source:
Table 244,
DCLG, 2017

Disrupting the land market

The traditional model through which developers manage and bring forward land for development has been much criticised in recent years.³ As noted in the Housing White Paper, the model is inherently speculative, incentivising landowners to withhold developable land in order to extract a higher price, and is a key driver of the growing gap between planning permissions delivered and new homes started.

Throughout the event series it was suggested that this model could be disrupted by providing local authorities with powers to take away planning permission and thereby forces a quicker pace of development. Although the Housing White Paper proposes shortening the timescales within which developers can implement a permission from three years to two years, it was suggested that, because many permissions have viability clauses, this may be ineffective.

The role of local authorities in the development process

As recognised in the Housing White Paper, the housing market needs to

³ For instance, in a speech to the National Home Builders Confederation Communities and Local Government Secretary of State, Sajid Javid, said "I cannot look the other way when I see land-banking holding up development... there's clearly something going on."

be more diverse with a larger number of providers. As part of this, more local authorities are expected to “get building”. And yet central government actively constrains local authorities from doing just that. The limit on the amount of money stock-holding local authorities can borrow against their Housing Revenue Account prevents them from accessing the funding required to build new homes at the rate which they could build. As one roundtable participant said, almost all their borrowing headroom is used to fund maintenance rather than new homes.

Disregarding the potential of local authorities to build new homes goes against government aims not just to increase housing supply, but for that supply to be affordable to the many too. The provision of affordable homes is highly dependent on planning obligations which is in turn dependent on the private sales market. Increasing the stock of affordable homes is too important to leave dependent on the market. Moreover not leveraging local authorities’ capital resources to build new homes is also a huge inefficiency, especially given the potential savings to the housing benefit bill that building more homes for social rent would allow.⁴ Local authorities can disrupt the market but are handicapped to do so.

For their part, local authorities should more extensively use the tools and levers available for them to intervene in the development process, for instance Compulsory Purchase Orders and Development Corporations. More and more places are being provided the powers and governance structures by government to work jointly on planning issues – and more should be still. It is now incumbent upon local authorities to use them.

A whole-industry approach to innovation

In the months before the publication of the Housing White Paper much was made of the potential of modular housing. The build-method reduces delivery time and was said to be a “huge opportunity to increase housing supply” by Housing Minister Gavin Barwell.⁵ Because the delivery model of the UK housebuilding industry is highly fragmented and its main players rarely integrated companies – developers rarely own construction companies and construction companies often sub-contract work – the embrace of new forms of housing concepts and development, for instance using new forms of construction, is dependent on SMEs. Moreover emerging products and markets are, by their nature, immature. Traditional capital models are inefficient at supporting SME innovation because risk cannot be easily assessed.

Yet the Housing White Paper had little to say on either matter. This was felt to be a missed opportunity, though the forthcoming Industrial Strategy is an opportunity for government to bring forward an industry-wide approach

4 Capital Economics (2015) - Building New Social Rent Homes

5 Telegraph (2016) Britain set for new wave of prefabs to tackle housing crisis

to scaling up innovation and disrupting the traditional model of the housing market. A more active use of incentives, whether via the planning or tax systems, should be considered – participants suggested the Homes and Communities Agency’s role in supporting innovation would be important in this regard.

Affordability is not the same everywhere

The Housing White Paper begins by stating that at its heart is “the acknowledgement that the housing market is very different in different parts of the country”. Given how much the nature and extent of local housing need and land supply varies from place to place, this was welcomed across the board at each roundtable. Different market conditions require different policy responses. This was felt to be particularly important in the context of affordable housing provision.

The interplay between capturing the increase in land value conferred by the granting of planning permission for social purposes through planning obligations with what is genuinely viable to a developer necessitates a locally- sensitive strategy. Yet a number of provisions of government housing strategy were felt to actively work against this.

Definitions matter

When announcing his administration’s Starter Homes policy, which was to be a tenure of Affordable Housing, former Prime Minister David Cameron said “sometimes I think we get too hung up on these definitions”. It is true that the government’s definition of Affordable Housing receives a lot of attention, but this is for good reason: it determines the type of homes which developers are obliged to deliver through section 106 agreements.

The variability in affordability across the country underlines the need for a locally-flexible definition of Affordable Housing. Local planning authorities need enough discretion to ensure planning obligations deliver housing that is affordable and appropriate to the needs of their local population as outlined in their housing market assessments. This could mean a wider range of products covered by the definition of Affordable Housing and also a shift towards setting sub-market rent by local incomes (as opposed to the market rate), such as the Living Rent model proposed by Savills⁶ and Rent to Buy models, as proposed by Rentplus during the discussion, to assist households without a sufficient deposit to rent, save and access home-ownership at a planned future date.

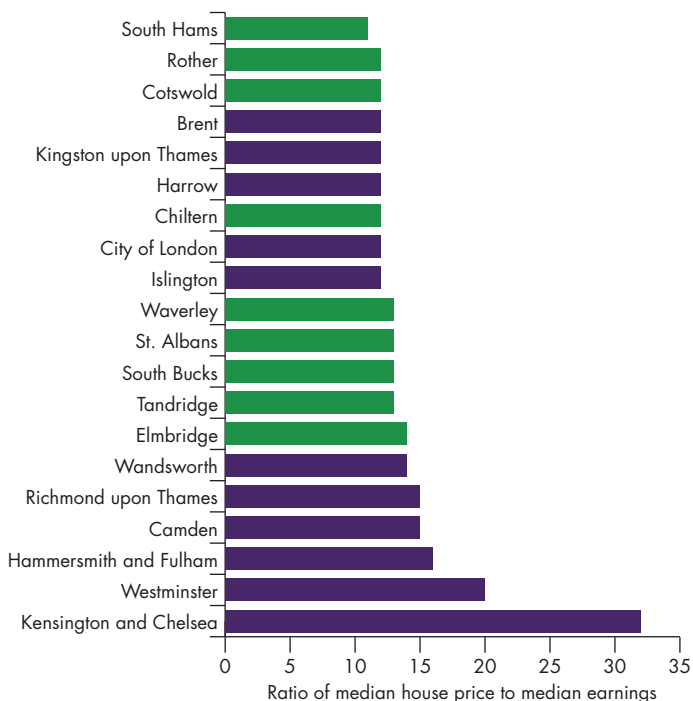
⁶ Savills (2015) - Living Rents

Affordability is not just a London problem

The government's policy programmes to increase home ownership, for instance Starter Homes and Help to Buy, have special provisions for prospective home owners in London. These respond to the extreme conditions of the capital's housing market(s). Yet similar provisions are not afforded to other places of high unaffordability such as towns in the South East (as illustrated by figure 2, the most unaffordable places are not always London boroughs). Although in each town there is a high level of need for sub-market housing, government's home ownership products are perceived to be simply unviable, even for those on above-average incomes.

For instance a person using the Help to Buy equity loan scheme in London is able to access a 40% loan from government whereas in St Albans, they would be able to access a 20% loan. This is despite housing affordability – as commonly judged by the ratio of median house price to median earnings – being worse in St Albans than twenty-seven of the thirty-three London boroughs.

Figure 2: The twenty places with the highest ratio of median house price to median earnings in England



Data source: Table 577, DCLG, 2013 (the last year for which this dataset is publicly available). Non-London boroughs are highlighted green.

A smarter planning system

As identified in the Housing White Paper, the planning system has been a reasonably efficient mechanism by which new homes have been planned for. Over 250,000 housing units granted planning permission in 2015-16. However it was felt that the planning system could be strengthened to ensure their delivery. In some cases this may be about enforcing the rules set out in the national planning framework. In others a strengthening of the strategic planning process is needed.

Viability assessments

Since the introduction of the NPPF in 2012, landowners applying for planning permission have been able to contest the conditions with which planning permission has been granted. Financial viability assessments allow developers to negotiate down their planning obligations such as affordable housing requirements. Often this is for good reason, for instance the costs associated with remediating a piece of contaminated land which otherwise would not have come forward for development. However it is clear from the experience of roundtable participants that the methodology is sometimes abused and affordable housing obligations unfairly reduced.

It is our belief that viability assessments should not be a methodology by which the state bails out landowners who have overpaid for a plot of land. Most local plans include thresholds for affordable housing requirements. It is essential that government does not undermine its own plan making process by allowing developers to side-step these thresholds. More can be done to encourage transparency in the process, for instance a duty could be placed on local authorities to make developer's viability assessments public. For their part, local authorities should remove ambiguity by specifying in local plans the limited exceptions in which planning obligations can be negotiated away.

Collaborative working between local authorities

Any large local uplift in new homes needs to be met with necessary infrastructure such as schools, roads and hospitals. Because housing market areas often stretch beyond individual local authority areas, sometimes this requires joint decision making at a higher spatial level than local authority

boundaries. For instance a number of local authorities have delivered joint local plans (e.g. the Plymouth and South Devon local plan spans three local authority areas), and some collaborate on statutory spatial frameworks (e.g. the constituent local authorities of Greater Manchester Combined Authority).

In areas where there is no local strategic planning arrangement the 'Duty to Cooperate' takes precedent. Yet this was perceived by many roundtable participants to be ineffective and instead a "duty to disagree". The Housing White Paper was felt to provide little in terms of 'bigger than local' planning, though it was noted the Industrial Strategy could be a mechanism through which these measures are delivered.

Shifting methodologies

Throughout the event series the processes by which housing demand and supply are assessed locally were criticised, perceived by many to be 'box ticking' exercises and burdensome. However they remain the core elements of government's planning policy. They allow central government to hold local authorities to account. Moreover, although some would for instance prefer not to meet five year land supply requirements, any reform of the planning system has historically been followed by lower levels of delivery as providers respond to changes.⁷ There are however a number of shifts that government should consider to the methodologies of local plans, strategic housing market assessments and five year land supplies.

- **Local plans.** It was suggested that revolving local plans could be introduced (as opposed to the expectation that they are updated every five years). This would allow local authorities to respond to changing market conditions more regularly.
- **Strategic housing market assessments.** It was suggested that, rather than past trends, the methodology by which housing market need is assessed could shift to be based on future projections.
- **Five year land supplies.** When a local authority provides lots of planning permissions, but not many are implemented, this can make it more difficult for them to adopt an NPPF compliant five year land supply. It was suggested that the way five year land supplies are calculated could therefore shift to being based upon planning permissions delivered.

⁷ Shelter and KPMG (2015) - Building the homes we need

Appendix one: Roundtable attendees

- **Cllr Nigel Ashton**
Council Leader,
North Somerset Council
- **Cllr John Beesley**
Council Leader,
Bournemouth Borough Council
- **Cllr Amanda Broom**
South Somerset District Council
- **Cllr Jeff Cant**
Council Leader,
Weymouth and Portland
Borough Council
- **Cllr John Donaldson**
Portfolio Holder for Housing,
Cherwell District Council
- **Brian Glasson**
Head of Strategic
Planning & Housing,
South Gloucestershire Council
- **David Hagg**
Chief Executive,
Stroud District Council
- **Cllr Colin Organ**
Portfolio Holder for Housing,
Gloucester City Council
- **Jon Roberts**
Partner,
Grant Thornton
- **Cllr Paul Smith**
Portfolio Holder for Housing,
Bristol City Council
- **Philip Stephenson**
Senior Planning Officer,
Cheltenham Borough Council
- **Cllr Keith Turner**
Portfolio Holder for Housing,
West Somerset District Council
- **Cllr David Walsh**
Deputy Leader,
North Dorset District Council
- **Cllr Ralph Bagge**
Council Leader,
South Bucks District Council
- **Cllr Barry Answer**
Portfolio Holder for Housing,
Mansfield District Council
- **Jan Britton**
Chief Executive,
Sandwell Borough Council
- **Cllr Neil Clarke,**
Council Leader,
Rushcliffe Borough Council
- **Douglas Cochrane**
Head of Housing Development,
Lloyds Banking Group
- **Cllr Sean Coughlan**
Council Leader,
Walsall Borough Council
- **Cllr Ian Courts**
Deputy Leader & Cabinet
member for Managed Growth,
Solihull Metropolitan
Borough Council

- **Allen Graham**
Chief Executive,
Rushcliffe Borough Council
- **Cllr Peter Griffiths**
Portfolio Holder for Housing,
Birmingham City Council
- **Cllr Peter Marland**
Council Leader,
Milton Keynes Council
- **Simon Neilson**
Executive Director of Economy
and Environment,
Walsall Borough Council
- **Cllr Jeremy Pert**
Portfolio Holder for Housing,
Stafford Borough Council
- **Tony Smith**
Policy Executive,
Birmingham City Council
- **Neil Taylor**
Chief Executive &
Director of Resources,
Bassetlaw District Council
- **Nick Wood**
Housing Strategy Service Lead,
Shropshire Council
- **Phillip Wright**
Director of
Operational Services,
Erewash Borough Council
- **Andrew Biltcliffe**
Planning Head of Department,
Havant Borough Council
- **Cllr Philip Circus**
Cabinet Member for Housing
and Public Protection,
Horsham District Council
- **Cllr Simon Dudley**
Council Leader,
Royal Borough of Windsor
and Maidenhead
- **Cllr Angela Glass**
Portfolio Holder for Planning
and Affordable Housing,
East Hampshire District Council
- **Cllr Nicolas Heslop**
Council Leader,
Tonbridge and Malling
Borough Council
- **Cllr Peter Lamb**
Council Leader,
Crawley Borough Council
- **Nigel Lynn**
Chief Executive,
Arun District Council
- **Cllr Claire Pearsall**
Deputy Portfolio Holder for
Housing and Health,
Sevenoaks District Council
- **Cllr Tony Rooth**
Lead Councillor for Housing
and Social Welfare,
Guildford Borough Council
- **Sakthi Suriyaprasakam**
Head of Strategy,
Performance and Insight,
Bexley Council
- **Richard Connolly**
CEO,
Rentplus
- **Sue Coulson**
Director of Partnerships,
Rentplus
- **Liam Booth-Smith**
CEX,
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