



ADDRESSING THE NATIONAL HOUSING CHALLENGE

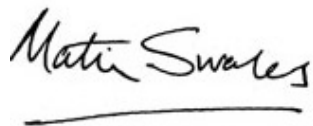
Foreword

Building enough homes, at the right time and for the right price, is one of the great challenges facing the country. Housing supply, choice and quality underpins economic prosperity and is fundamental to creating resilient, confident and sustainable communities. It is the role of Local Government to facilitate and drive the creation of places and there is a growing recognition of the value of developing locally appropriate and integrated solutions. Local Authorities are perfectly placed to meet this challenge.

It is for this reason that housing sits squarely at the core of Solace as one of its key policy priorities.

This paper sets out an invitation to Government to work with Solace to help transform the landscape of housing nationally. It sets out a clear suite of mutually supportive proposals that would help deliver local solutions and support Government's commitment to deliver 1 million new homes within this Parliament, whilst helping to establish a sustainable, affordable housing sector.

Local Authorities are committed to addressing the challenges ahead.

A handwritten signature in black ink that reads "Martin Swales". The signature is written in a cursive style and is positioned above a solid black horizontal line.

Martin Swales

Solace Spokesperson for Economic Prosperity & Housing
Chief Executive, South Tyneside Council

Executive Summary

Solace is the representative body for Chief Executives and Senior Managers working in the public sector. Solace members therefore bring a wealth of experience and expertise, which we have drawn upon in this paper to help inform national housing policy and direction.

Local Government has great strengths, one of which is its ability to not only shape places, but to create them. Local Authorities have a key role in creating the conditions to increase housing supply through the use of responsibilities and powers relating to purchasing of land; through remediation and the facilitation of development solutions; and through access to more affordable finance than many developers. Local Authorities are therefore uniquely placed to address housing supply, acting as both a direct provider and as an enabler of private and social housing developments.

With the vision and drive to create new places, Local Authorities deliver regeneration and economic growth for their communities. They grasp that which is distinctive about particular localities and build upon skills, strengths and heritage to create housing and employment opportunities for residents.

In recent months, the Government has proposed many new housing policy measures, including the Right to Buy for housing association tenants, a reduction in social housing rents, the redefinition of affordable housing to include low cost starter homes, the concept of 'Pay to Stay' for better off tenants in social housing, and the sale of high value council houses. More recently, Central Government has committed to double the housing budget to £2bn per year. As part of the investment, 400,000 new houses will be built by the end of the decade, a new 3% surcharge on stamp duty for buy-to-let properties will apply, restrictions on shared ownership are to be removed and the planning system reformed to deliver more homes.

These measures are aimed at extending home ownership, accelerating the delivery of new housing, with the aim of delivering 1 million new homes during the current Parliament, and reducing benefit dependency and the overall benefits bill.

This paper explores the housing challenges we face as a nation, the potential implications of the Government's proposed national policy changes, and how the views and experiences of Solace Members, working in partnership with Central Government, the Homes and Communities Agency (HCA), LGA and other organisations, can help shape solutions.

Background to the housing challenge

It is vital that all communities have a variety of homes of mixed tenure available to rent and buy. Good quality housing is essential for thriving economies and sustainable communities; it can be a springboard to better lives for individuals and families

Challenges around housing supply and growing demand, as well as rapidly rising house prices, have pushed this issue to the top of the Local Government agenda. Britain is now building less than half the number of homes needed to meet population growth and tackle the backlog in housing need, caused by decades of undersupply. As an illustration, 1.7 million families in England sit on social housing waiting lists; private rents have hit a record high and the average home now costs ten times the average salary.

In addition, we must be mindful of our responsibility to tackle and prevent homelessness. Legislation places obligations on Housing Authorities to ensure that suitable accommodation is available for people who have priority need.

The housing challenge needs to be addressed with urgency

In a recent survey of Solace members to identify priorities for the coming twelve months, the affordability of housing scored significantly higher than any other issue (61%). Whilst the third most important matter was devolution (51%), housing also featured in the top five areas for which members would like to see the devolution of power (48%). As such, Solace has identified housing as one of our key priorities, alongside devolution; the two are inextricably linked.

Local Authorities have a unique role to play in addressing the housing challenge

Housing markets are by their nature 'local'. They are the product of local prevailing economic conditions, land availability, and housing demand and supply. House prices, affordability, and availability vary considerably across every region and Local Authority area. London's housing market has little in common with the market in the North East, which in turn has little in common with the market in the South West. The role of national housing policy is to create the framework within which the housing challenge is addressed.

However, the Government's target for 1 million new homes will only be delivered through a multitude of small-scale interventions at local level, taken by Local Authorities with a deep understanding of their local housing markets and the knowledge to protect employment land in order to ensure balance within communities.

We therefore believe that many of the solutions to deal with the housing challenge need to be locally tailored to deliver the homes we need as a nation. Local Government is central to addressing the challenge and delivering the number of homes required to meet our ambitions.

In developing tailored solutions there are a range of factors to consider:

HOUSING DEMAND

- House prices in many parts of the country are rising faster than average earnings and without new homes being built, they will continue to rise unsustainably¹
- Across the UK, the average home now costs ten times the average salary, with substantial variations across individual Local Authority areas.² By contrast, in the 1960s, the average cost of a new home was four and a half times the average salary.
- Over the last two Parliaments, the number of people under 45 who can afford their own home has fallen by 20%.
- More than three million adults aged 20-34 are now living with their parents.
- 1.7 million households in England are on waiting lists for affordable homes.³
- Tenants in private rented homes lack security as they face the prospect of higher rent increases as rents are driven ever upwards by increasing demand.⁴

1. Local Government Association 'English Devolution: Local Solutions for a Successful Nation', May 2015 p23
[Available at <http://www.local.gov.uk/documents/10180/6917361/L15-178+DevoNext+devolution+publication/7e036308-6ebc-4f20-8d26-d6e2cd7f6eb2>]

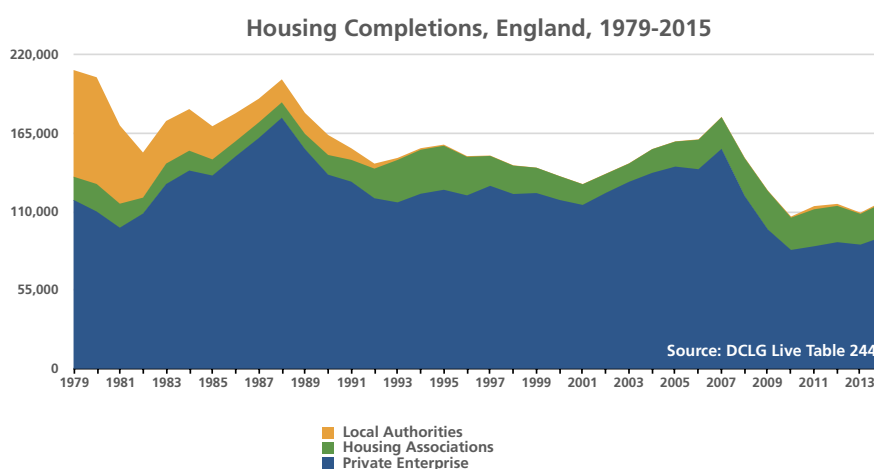
2. Office of National Statistics 'The House Price Index', April 2015 http://www.ons.gov.uk/ons/dcp171778_406254.pdf

3. Local Government Association 'English Devolution: Local Solutions for a Successful Nation', May 2015 p23

4. Office of National Statistics 'The House Price Index', April 2015 http://www.ons.gov.uk/ons/dcp171778_406254.pdf

HOUSING SUPPLY

- The private sector alone will not build the numbers of homes required to meet demand. Private enterprise last delivered above 200,000 homes in 1968, and has averaged 130,000 completions per year over the last 40 years.⁵ The private sector has not expanded sufficiently to fill the gap left when local authorities withdrew from building new council houses.



- It is estimated that we need to build around 245,000 homes nationally, each year, to keep pace with demand.⁶ Britain has not built this many homes since the late 1970's, when local government used to build 100,000 houses per year. Around 80,000 of the 245,000 homes required annually need to be for rent and shared ownership.⁷
- Solace recognises that many people aspire to home ownership, but there will always be people whose housing choices and options are limited, whether for financial, employment, health, or other reasons. For this reason, there will always be a need for social and affordable housing whether provided fully by Local Authorities or by Registered Providers in the Housing Association sector. Challenges to the buy to let market or the establishment of a strong alternative regulated rented market need to also be considered, where home ownership is not an option.
- Investment in homes in the UK is low by international standards. Between 1996 and 2011, just 3% of national GDP was invested in housing in the UK; in Germany it was 6%, in France it was 5%, and in the USA it was 4.5%. Solace recognises the need to reverse the last decades of under-investment and the important role Local Authorities, with the detailed knowledge of their communities and local markets, have to play alongside Government in making this happen.⁸

5. Local Government Association 'Review of the Local Authority role in housing supply' November 2014

<http://www.local.gov.uk/documents/10180/49942Review+of+the+Local+Authority+role+in+housing+evidence+final.pdf/eaf7f555-9774435b-90f0-c860b7274329>

6. House of Commons, 'Housing demand and need (England)', June 2014

<http://www.parliament.uk/briefing-papers/SN06921.pdf>

7. National Housing Federation, 'Briefing on the National Housing Federation's General Election policy calls' March 2015 http://s3-eu-west-1.amazonaws.com/doc.housing.org.uk/Editorial/National_Housing_Federation_general_election_longer_version_2_March_2015.pdf

8. <https://www.housing.org.uk/press/press-releases/worst-deal-in-europe-uk-rents-double-the-continental-average>

Analysis, Proposals and Action

Solace wants to work in partnership with Central Government, along with our partners in the Local Government Association, Housing Associations, the National Housing Federation, and the Town and Country Planning Association, to address the national housing challenge. It has identified ten areas where it believes Local Government has a key role to play in informing national housing policy and enabling the delivery of new homes. These are:

- 1** New housing investment, tailored to the requirements of the locality, should feature in every devolution deal.
- 2** Long-term and committed funding streams should be available to Local Authorities to enable them to adopt a strategic, long-term, approach to housing investment.
- 3** Whilst we acknowledge that some public sector land may be in remote or otherwise unsustainable locations not suitable for large-scale residential developments, public sector land (including Local Authority land holdings) should be one of the principal sources of new housing and appropriately supported by investment from Government.
- 4** Local Authorities should be granted the freedoms to re-invest locally-generated income in the provision of new housing.
- 5** Housing Revenue Account borrowing caps should be removed to allow Local Authorities to borrow prudentially and deliver housing.
- 6** Mechanisms are needed to disseminate knowledge between Local Authorities about new public/private investment vehicles.
- 7** New covenants should be introduced to ensure that both owner-occupation from the exercise of 'Right to Buy', and the development of more Low Cost Starter homes, support the aim of increasing home ownership.
- 8** The powers of Local Authority housing services should be enhanced to ensure the highest standards for all tenants, whether in the private or public sector.
- 9** Local Authorities should consult with Government to support further reform of the planning system.
- 10** Skills investment needs to be co-ordinated between local and Central Government to ensure that the construction jobs lost at the peak of the recession are re-established.

Each of these 10 points is considered in more detail below.

1. New housing investment should feature in every devolution deal

Housing is an enabler of economic growth. The right housing, provided in the right place, at the right price, and properly supported with appropriate infrastructure, promotes economic growth. The converse is also true: poor housing provision can lead to lack of inward investment, concentrations of poverty and social segregation, with a concomitant cost to the public sector and a drain on economic growth.

In recent years, housing investment has too often taken place in isolation from the wider economic context. We argue that devolution, and in particular, the current wave of devolution deals provides an opportunity for Local Authorities and Government to address the role housing can play in supporting and contributing to local economic growth. At the heart of this belief, is the fact that local housing conditions differ markedly across the country, and therefore different policy interventions are required to reflect those conditions. For example:

- In London, boroughs are acutely aware that the shortage of new homes and the cost of housing is becoming a restraint on economic growth.
- In the North West, Local Authorities have identified that a shortage of the right sort of aspirational housing is an issue for businesses considering relocating and expanding across the North West.
- In the West Midlands, Local Authorities have identified the need to link transport and housing investment to support new jobs being created in the four West Midlands cities.
- In the North East, the establishment of a Land Board has been proposed, to review all land and property held by the public sector, and all suitable brownfield land, to identify land to support an ambitious target for the increase in new homes.

The devolution deals are designed to provide investment, supported by policy interventions, tailored to local economic conditions. For this reason, we propose that measures to address housing delivery and investment should be considered as part of every devolution deal negotiation. Economic growth and housing are inextricably linked, and housing investment should therefore be a key element of each and every devolution deal.

2. Long-term and committed funding streams need to be made available to Local Authorities

In order to deliver long-term planned housing growth, supported by appropriate infrastructure provision, Local Authorities need access to long-term committed funding streams from Government. The current wave of devolution deals is beginning to address this, but for the majority of Local Authorities, who will not benefit from a devolution deal, the lack of commitment to those funding streams is a significant issue. Increasingly, the delivery of major new housing development sites is going to require a combination of public sector land, collaboration with the private sector, and innovative investment models to deliver. These sites are only going to be developed with the sort of long-term and committed funding not commonly available to Local Authorities.

We are keen to understand how new and revised funding streams available from Central Government, such as building grants, could facilitate Local Authorities in terms of access to long-term committed funding streams.

3. Public sector land should be one of the principal sources of new houses

We support the principle of delivering more homes on brownfield land, and protecting the Green Belt as far as possible, but it can also be essential in the housing mix. The research of Campaign to Protect Rural England (CPRE) has suggested that there is enough suitable brownfield land for at least a million new homes. However, we also recognise that the development of brownfield sites can be both problematic, often involving multiple owners, and expensive, with costs related to remediation and infrastructure requirements. Local Government, with Central Government support, has a considerable track record in the unlocking of such sites, and this should continue.

Land owned by the public sector has an important role to play in the delivery of new homes at scale, and we support the commitment given by Government departments to bring forward sufficient new land for 150,000 new homes. Some Local Authorities are actively establishing bodies to identify, and plan for the development of, this public sector land. This is a trend that should continue, and to which Government should lend its support. However, as land is identified, the issue of how public sector bodies dispose of that land at 'best value' will need clarifying and simplifying if it is not to become a major bar in the delivery of new schemes.

Local Authorities are also considering the role their own land holdings can play in the delivery of new homes. We would wish to see more intervention from Government on this issue, with appropriate investment provided by Government to support those Local Authorities, which bring forward ambitious plans for development on their own land. As we have already identified, major sites require extensive infrastructure investment.

We would like to see the terms of reference of the Infrastructure Commission, led by Lord Adonis, extended to encompass the major infrastructure often required by these sites.

4. Freedoms to reinvest locally-generated funds in the provision of new housing

Greater flexibilities for capital and income generated at a local level would enable Local Authorities to deliver the Government's priorities of building more homes (including more affordable homes). The most important source of capital receipts in this context is Right to Buy sales. We would like to see Local Authorities empowered to invest these proceeds in replacement council housing either directly delivered by the Local Authority or by a wholly-owned housing venture. Local flexibility to merge housing funds and apply them to local need will achieve greater replacement supply. Other financial flexibilities which would also provide Local Authorities with greater discretion in providing new homes include:

- Setting rent levels for Local Authority owned housing stock; and
- Retaining additional revenues from the introduction of the 'Pay to Stay' policy.

In addition, we would like to see Housing Associations invest their resources in the provision of new housing in the areas they serve, and ask that Government considers how best to work in partnership with them to achieve this.

5. Housing Revenue Account borrowing caps should be removed to allow Local Authorities to borrow prudentially to deliver more housing.

Removing the HRA borrowing cap would also allow Local Authorities to both increase the scale and pace of house building locally to deliver much needed affordable stock that would be lost through 'Right to Buy' and meet the Government's ambition of 'one for one' replacement of affordable homes.

6. Mechanisms are needed to disseminate knowledge between Local Authorities about new public/private investment vehicles

In recent years, Local Authorities have worked to set-up innovative structures, which share the risk and reward of new housing delivery between the public and private sector. In order to deliver the volume of new homes required during this parliament, and at scale, we consider that these types of structures are going to become increasingly important. There needs to be a mechanism to capture and share the learning behind the setting up of these structures. We therefore welcome the recommendation of the Elphicke-House Review setting-up of the Housing and Finance Institute (HFI) to share best practice, and will encourage our members to support its activities.

7. New covenants should be introduced to support the aim of increasing home ownership.

A clear risk of the extension of 'Right to Buy' discounts to Housing Association tenants is that more social homes will move into the private rented sector. This will diminish the availability of social rented homes and will counteract the Government's stated aim of increasing home ownership. We believe that the Government can reduce this risk by establishing new covenants in sale agreements to ensure continuing owner-occupation in homes sold under 'Right to Buy'.

We are concerned this will also become a major issue for the new Low Cost Starter home initiative, on the expiry of the initial five year retention period, and for that reason, we would like to see these covenants extended to these new homes where they are built with public subsidy.

8. The powers of Local Authority housing services should be enhanced to ensure the highest standards for all tenants.

Recent housing policy changes will inevitably mean that the role of the private rented sector is going to grow. Solace is concerned at some of the practices prevailing in the private rental market, which are impacting adversely on tenants. We therefore propose that the housing regulatory powers available to Local Authorities should be reviewed to:

- (a) remove unnecessarily complex requirements; and
- (b) ensure that Local Authorities have sufficient powers to make improvements to the quality of private rented housing and to effectively challenge poor quality landlords.

9. Amendments to the planning system

We recognise the frustrations of developers and individuals with regard to the planning system and the importance of Local Authorities determining applications within the required timescales. We are also aware that there is a pipeline of many houses with planning consent, and the build-out rates are not meeting those permissions. The planning system is vital to ensure that needs of local people are appropriately considered, not just in terms of housing but also jobs, schools, green spaces, transport infrastructure and community facilities.

The National Planning Policy Framework provides a firm basis for us to build on, but we see the need for local planning frameworks specific to the needs of each Local Authority or Combined Authority administration. This would better support local development and address the specific needs of our communities, including incentivising building where the 'gap' in building does not meet permissions. It would also reduce the need to make major or frequent changes to national policy as the viability of sites would have already been considered through the local planning processes. The importance of having a strong development plan system, which provides certainty for private sector investment, should not be underestimated.

The Government announced in its Productivity Plan that brownfield land suitable for housing development would be zoned in the hope this will facilitate the granting of planning permissions, would provide greater certainty to developers, and would shorten the timeframe for granting planning permission. Local Authorities deal with these sites and these issues on a daily basis, and are best placed to advise on and identify the required changes to the planning system necessary to improve the delivery of new homes at volume. They need to be closely involved in the process to consider these and further changes to the planning system, and to ensure they do not conflict with local needs as set out within local frameworks or those developed at a Combined Authority level.

10. The requirement for long term investment in building and construction skills and modern methods of construction

The housebuilding and construction industry considers it has lost more than 300,000 net jobs since the recession. As a result, the ability of the sector to deliver the housing figures to which the Government aspires needs addressing. The industry recognises the issue: in the most recent Royal Institute of Chartered Surveyors (RICS) Construction Market Survey, 67% of respondents reported that skills shortages were the most significant constraint on activity than at any time in the previous three years.

Local Authorities have a role to play in helping to address these skills shortages. First, by working with local colleges, school and employers, to help co-ordinate the training and apprenticeship programmes on offer, and to ensure such programmes are appropriately funded. Secondly, in order to make the most of those skills already in situ, Local Authorities should consider the broader use of modern methods of construction.

Conclusion

We believe that, taken together, these proposals will allow Local Authorities to plan, programme and deliver the homes that our communities need, supporting Government's commitment to increase housing supply and ownership. If you have any thoughts or ideas regarding the issues discussed in this paper, or would like to get more involved in Solace's work on housing, please get in touch by email with:

Martina Čičáková
Policy Officer, Solace Group
martina.cicakova@solace.org.uk