The Report of the
Lloyds Banking Group
Commission on Housing
Commission Co-Chairmen:

Mark Prisk MP  
Member of Parliament for Hertford and Stortford

The Rt Hon Nick Raynsford MP  
Member of Parliament for Greenwich and Woolwich

Commissioners:

Sir John Banham DL  
Future Homes Commission

Ben Bolgar  
Senior Director,  
The Prince’s Foundation

Prof Tony Crook CBE FaCSS  
Emeritus Professor of Town & Regional Planning,  
The University of Sheffield

David Montague CBE  
Chief Executive,  
L&Q Group

Stephen Noakes  
Managing Director,  
Retail Customer Products,  
Lloyds Banking Group

Stephen Stone  
Chief Executive,  
Crest Nicholson

Paul Raynes  
Head of Programmes (Finance & Localism),  
Local Government Association

Research by: The Cambridge Centre for Housing and Planning Research, University of Cambridge  
Commissioned by: Lloyds Banking Group  
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Foreword

Of all the challenges that will face the new government, of whatever hue, that is formed after May’s General Election, one of the most testing will be that of meeting our country’s housing needs. There are a range of acute and interlocking problems of shortage, affordability and quality, across all tenures, which need to be addressed in a determined, effective and sustained way if we are to deliver the prospect of a decent home within the means of all our population.

This independent Housing Commission was set up by Lloyds Banking Group with the brief to identify the key policy responses necessary to generate a higher and sustainable level of housing production sufficient to overcome the chronic shortage of high quality affordable homes that bedevils today’s housing market. As two former Housing Ministers from different political backgrounds we willingly accepted the invitation from Lloyds Banking Group to co-chair this Commission, and to seek to establish a consensus on the nature and scale of the problems to be addressed and the measures necessary to overcome them. We have not sought to revisit issues raised in other reports, but to focus on a limited number of key areas which could make a significant difference.

We owe a considerable debt to our fellow Commissioners each of whom brought considerable personal expertise to our work, and who collectively generated the insight and understanding necessary to shape our conclusions. We are also very grateful for the research work of Cambridge University and the administrative support from Lloyds Banking Group without which this report could not have been produced.

As we make clear, there is no one single solution to what is a complex and multi-layered series of challenges. Nor is our country’s housing crisis susceptible to simplistic short-term ‘fixes’. What is required, as this report emphasises, is a sustained programme which will generate a much expanded supply of good quality homes available both to buy and to rent from a range of sources, at costs that reflect the varying means of all sections of society. We set out a series of policy responses which we believe can deliver this outcome and command the support of the country as a whole. We hope that this report will act as an encouragement and spur to the political parties and the next government to give this vitally important issue the priority it merits.

Mark Prisk and Nick Raynsford
We believe that only a long-term commitment, across the political parties, will deliver the additional homes needed over the next decade. A realistic target is to complete 2 million to 2.5 million homes by 2025. To achieve this there is no single solution, no silver bullet. Rather what is needed is a larger, more competitive and diverse market in the supply of homes.

The development capacity of the principal builders is insufficient to reach over 150,000 homes each year. The industry needs to expand. More small and medium sized building firms are needed. Housing Associations and Local Authorities need to contribute substantially more than at present to annual housing supply.

Over the coming decade a wide variety of developments will be needed for the short and longer term: enabling smaller lots to proceed quickly; substantive urban regeneration schemes to utilise brownfield first; new urban extensions and completely new settlements.

We believe considerably more land needs to come forward for homes, which are affordable to most people. There remain substantial areas of publicly owned land and buildings which could be turned into affordable homes. Bringing these assets forward is the best way in which national and local government can help expand the supply of homes.

A new professional rental sector needs to emerge. Consistent long-term policies are needed to attract sufficient investment and to provide purpose-built, quality homes, with the option of longer lease terms. This professional rental sector should by 2025 represent a realistic option for many people in our main cities.

Recent planning reforms need to bed in. Consistency in the planning regulatory framework is vital over the next ten years. So there should be no fundamental change to the National Planning Policy Framework (NPPF), but greater clarity and support is needed to speed up the creation of robust Local Plans. We believe this is best delivered through democratically-led long-term strategic planning. We also believe that bureaucracy around the implementation of planning gain and conditions needs to be addressed. There are many examples of good practice, where local planning authorities have developed coherent, clear policies and practices that promote speedy decisions and good customer service. We need to build on this good practice to engage communities in expanding housing supply and building more affordable homes.
Section 1:
A long-term commitment to building more houses

1.1 The housing problems we face
It is now widely accepted that in the UK we have not been building sufficient new homes to meet our needs. Production needs to increase substantially above the 138,000 dwellings built in 2013\(^1\) to satisfy needs and to meet the requirements of a growing population. The lack of new supply is compounded by a problem of affordability - and the social housing sector is unable to fully meet the needs of those who are unable to compete successfully in the market for private housing.

High housing costs relative to incomes limit the number of first time buyers meaning that home ownership is beyond the reach of too many households while too few households are able to afford rented housing of an acceptable standard. There are significant levels of overcrowding in the private and social housing stock. The quality of the existing stock needs to be improved. Poor housing impacts directly on health and educational attainment. Difficulties in finding affordable housing can limit geographical mobility and hinder households’ ability to move to find work. More housing is required and more of that housing should be affordable.

\(^1\)Live Table 211, DCLG https://www.gov.uk/government/statistical-data-sets/live-tables-on-house-building
1.2 A long-term approach is essential

The UK’s housing problems are long-term and require long-term solutions. Policies are needed to increase housing production, make housing more affordable, especially for households on low incomes, and to ensure that all households have access to housing that is of an acceptable standard. We need a less volatile housing market that can sustain higher levels of house building without damaging fluctuations in prices and output.

The persistent lack of supply and the low long-term level of investment in housing in the UK by international standards is a major contributor to the current housing policy problem. This interacts crucially with the problem of affordability. It is not simply house building levels that are low in the UK. Housing investment is also low. Measures of gross fixed capital formation in housing as a percentage of gross domestic product (GDP) capture the volume of a nation’s resources devoted to house building and major improvements in the housing stock. By this measure the UK has had lower levels of housing investment than most other advanced economies for several decades. From 1996 to 2011 the UK averaged 3.3% whilst the figures were 5% for France, 6% Germany, 5.8% Netherlands and 4.5% USA.

Private sector builders providing dwellings mainly for home ownership are unlikely to build sufficient houses. This means that much more housing for rental has to be built. This includes a need for increased output from housing associations providing social rental dwellings. It also means that more housing to be supplied at market rents should be built. A new professional market rental sector should develop. It should promote long-term tenancies and an acceptable rental return for investors. Investors should be discouraged from relying on short-term rentals and short-term capital gains.

1.3 Cross-party commitment

Across the major political parties it can be agreed that more houses need to be built and good quality housing needs to be affordable for all households including those on modest incomes.

We can go further and have cross party commitment to policies that will ensure that more dwellings are built and in particular more affordable dwellings are built. The key changes that are needed can be agreed without significant ideological divides. The measures required are rather pragmatic responses to a housing shortage that will seriously harm the economy and society if it is allowed to continue.

1.4 Consistency in policy

Along with cross-party agreement, a consistent approach to policy change is required that will last for several decades. Recent changes to planning, including the NPPF, need time to become settled and work harmoniously. Households, builders and landlords need to have confidence that policy swings will not impact adversely on them. All political parties need to be committed to more house building and to agree the principal means by which this will happen. However, this does not mean that we should not learn from experience and the unintended consequences that have resulted from the NPPF. Greater clarity is needed to assist the production of Local Plans and more support (including the introduction of Strategic Planning) should be provided.

1.5 Quantity and quality

Additional house building should not be achieved at the expense of compromises in the quality of the finished product. High standards of construction, energy efficiency and adaptability have to be promoted. As the RIBA Future Homes Commission report on ‘Building the Homes and Communities Britain Needs’, October 2012, notes: “There can be no excuse for building the ‘sink estates’ of the future in a rush for volume at the expense of quality”.

A push for more decent housing must be accompanied by high quality neighbourhoods that provide pleasant, safe and secure environments, served by good schools, transport and other services. More investment in housing means more investment in the existing stock to maintain and improve quality as well as more building to create new dwellings and new communities. Additional high quality housing needs to come from the stock as well as from new dwellings.

1.6 Meaningful public engagement

An expansion of the housing stock should be accompanied by public engagement which seeks to convince local communities of both the need for and the benefits of more high quality housing. Local communities need to be involved in planning decisions and support house building. To this end they need to be engaged in decision making and understand the merits of additional high quality dwellings. The case studies provide examples of where meaningful public engagement has resulted in positive change.

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2 UK Housing Review 2014, table 8 http://www.york.ac.uk/res/ukhr/ukhr14/compendium.htm

Case study: Sherford: A new market Town based on public consultation

Sherford is a new market town to be built in Devon. The master plan is the result of six years of public consultation and professional collaboration. It is planned to be energy-efficient, socially inclusive, economically sustainable and sensitive to the environment.

Sherford will occupy some 1200 acres of farmland between the A38 and A379 on the eastern outskirts of Plymouth. It is 8km north of the south coast, 1km north of the South Devon Area of Outstanding Natural Beauty, 5km south west of Dartmoor and 7km east of Plymouth city centre.

Its location allows Sherford to be connected to Plymouth – be part of Plymouth – but also belong to the South Hams landscape, which it will respect and enhance. This is an opportunity to create a market town with its own identity and facilities for a community of 12,000 people. Sherford will create a clearly defined limit for Plymouth’s eastward expansion.

The plan for Sherford began in 2004 as four hamlets strung along the valley floor. The turning point came when the Local Authorities invited the Prince’s Foundation for the Built Environment (The Foundation) to advise.

The Foundation immediately identified the plan’s lack of critical mass and centrality. From their Enquiry by Design (EbD) method of public consultation, which gives local people and other stakeholders a key role in shaping the proposal, a new Sherford emerged, with a High Street, a Town Hall and walkable neighbourhoods. The success of these sessions led to the establishment of the Sherford Community Steering Group, made up of local people. The Foundation subsequently took on the role as masterplanners for Sherford.

http://www.redtreellp.com
1.7 A ten year commitment

Looking back at who has built houses in the past will help see who might build the extra houses needed in the future. In Figure 1.1 the contributions to house building from private enterprise, building mainly for home ownership, and social housing provided by local authorities and housing associations are shown. Affordable housing from Section 106 planning agreements (where private enterprise house builders agree to provide a proportion of affordable housing on a site that is mainly for market housing) is also shown.

Case Study: Innovative public engagement has supported expansion in Ashford, Kent

For the last decade Ashford Borough Council has been leading active engagement with residents and businesses through site based design workshops for major schemes. The approach was developed in partnership with the Campaign to Protect Rural England (CPRE) and has led to effective involvement in forty projects – from plans to deal with major expansion of the town to sensitive prominent town centre sites; from major housing schemes to distribution parks.

The workshops are used to inform and develop towards masterplans, development briefs, in some cases design codes and have led to better quality schemes coming forward. Key aspects of the approach are:

- Bringing interests from all perspectives together, not being worried by differences of opinion but embracing, discussing and challenging them in a supportive, friendly environment.
- Seeking to work towards consensus around key principles of making better places and communities – not accepting the lowest common denominator.

The evidence from the forty events suggests that this approach is a success. Some developers have experienced radical changes in design approach which can lead to significant improvement in architecture and quality of place. Service providers have worked together to plan future provision in a more ‘joined up’ way that will meet people’s needs better. Furthermore, because places are more balanced and of higher design quality they are better able to support local services and public transport. The process itself is seen as having a genuine influence over the results which leads to strong community and political support. Crucially, confidence is engendered early in the design process for the private sector and progressively enhanced at each stage of discussion. Ashford and their partners believe that these workshops reduce the risk of costly surprises, changes of tack or major delays.

5 http://www.local.gov.uk/documents/10180/5854661/Planning+positively+through+partnership+FINAL.pdf/33a125b-455d-4b46-a2b1-80732b2a1499
The key points from the data are:

- Between the lifting of post war rationing of building materials in 1956 and 2014, the average output of private sector house building was 135,000 homes per annum.
- Private sector output only exceeded 200,000 completions in 1964 and 1968.
- Since 1972, there has only been one year, 1988, in which private sector output exceeded 170,000 homes.
- In the period from 1956 to 1980, when total house building never fell below 200,000 completions, private sector house builders completed an average of 152,000 homes per annum, with local authorities (using general building contractors) adding an average of 111,000 homes per annum.
- Over the last three cycles, from 1981 to 2010, the average output of private sector housebuilding was 128,735 homes per annum.
- In the cycle beginning in 1981, it took seven years to reach the peak output of 176,000 homes in 1988, while in the cycle beginning in 2001, it took six years to reach the peak output of 154,000 homes in 2007.

S106 data collection methods changed after 2010 and Figure 1.1 does not show the significance of S106 contributions after this date. The Commission considers that in a stable economic environment it is likely that private sector house builders will be able to continue to expand overall output to around 150,000 homes per annum. Additional support targeted at SME builders may add a further 20,000 additional completions with some additional output coming from self builders and custom builders.

In addition to these totals, housing associations are currently building around 22,000 homes each year, mainly employing general contractors.

If the capacity limit of the private house building sector is reached at around 150,000 homes, then it seems likely that if output is to reach or exceed 200,000 homes per annum, this will require new resources to be brought into play. This additional output will need a different business model, new sources of finance, and additional construction capacity. Some of the additional output will come from innovative commercial investment in building for private renting.

The most likely vehicle for a significant expansion of output is, however, the utilisation of existing expertise within the larger housing associations. These already have the technical capability to produce a total of around 25,000 homes per annum, and an ability to raise finance, not only through the banking system but increasingly via the capital markets. Some of the larger housing associations have already set up subsidiaries to develop market homes for sale or rent in order to cross-subsidise their social and affordable output.

The balance between bricks and mortar support and housing benefits should be reviewed and the implications for house building levels and public expenditure of changing the balance should be considered.
1.8 Benefits versus bricks and mortar

The balance of subsidies between support for building more dwellings (supply side support or bricks and mortar support) and helping households with their housing costs (through housing benefits) has changed markedly over time.

Figure 1.2 shows the annual net subsidy from central government for each council dwelling in Great Britain, and the annual average rent rebate for each claimant council tenant in Great Britain⁶.

Figure 1.2: Council housing: subsidies for dwellings and for tenants

Points to note:

▲ The amounts in the chart are nominal: the £345 net subsidy per dwelling in 1980 would be worth £1,525 at 2014 prices. Similarly, the £606 average rent rebate per claimant in 1985/86 would be worth £1,700 at 2014 prices. The average rent rebate (Housing Benefit) for each council tenant claimant has therefore roughly doubled in real terms over the last thirty years.

▲ Central government housing subsidy was an annual deficit payment, calculated for each local authority’s Housing Revenue Account (HRA), making up any shortfall between income (primarily from rents) and the costs of management, maintenance and debt charges.

▲ Increasing rents, and decreasing council house building, after 1980 therefore reduced the gap between income and expenditure, reducing deficits and hence requiring less subsidy.

▲ The Right to Buy (RTB), which affected a higher proportion of stock in the shire districts, enabled many of these councils to reduce or pay off their debt, thereby enabling their Housing Revenue Accounts to go into surplus. Subsidy became increasingly concentrated in the Metropolitan Districts and London Boroughs, with fewer RTB sales and with higher proportions of more expensive to manage and maintain flats.

▲ At the national level, this process led to the local authorities in surplus eventually balancing the authorities in deficit, leading to the redistribution of debt between local authorities in HRA reform, and the effective ending of central government subsidy.

▲ Using a more broadly based approach, in Figure 1.3 supply side support is compared with benefits payments in the rented sector. Comparing the most recent data with data for 1990/91, it can be seen that whilst bricks and mortar subsidies (supply side support) are around one fifth of what they were, benefits payments are approaching three times 1990/91 levels for the rental sector as a whole.

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¹ Data from: UK Housing Review 2011/12, Wilcox S & Pawson H (eds), University of York 2012
Figure 1.3: Help with housing costs in the rental sector in Great Britain

Notes:
Adjusted by GDP deflator (base year = 1990/91)
Social rental supply side support = council subsidy + housing association grant
Social rental benefits = benefits for council and housing association tenants
Total rental sector supply side support = council subsidy + housing association grant + renovation grants in the private rented sector
Total rental sector benefits = benefits for council and housing association tenants + benefits for private rental tenants
Data from UK Housing Review 2014, University of York
http://www.york.ac.uk/res/ukhr/index.htm

£ million in real terms

social rental: supply side support
social rental: benefits
total rental sector: supply side support
total rental sector: benefits
Section 2:
How can we build what we need?

2.1 A pathway to building 2m to 2.25m homes by 2025

The Commission does not believe that there is a single ‘silver bullet’ which will ‘solve the housing problem’. The level of new house building required is most likely to be achieved by all the available actors increasing their output at a practicable, and credible, pace over the next ten years to 2025.

If this is done, then a possible pathway to increasing housing output over the next decade might take the shape illustrated in Figure 2.1.

Fig. 2.1: a potential pathway to 2025
The pathway illustrated on the previous page is emphatically not a ‘top down’ plan dictated from the centre. Instead, it illustrates what could be achieved by the various sectors working from the bottom up to increase their output at a realistic pace.

The pathway does not set ‘targets’ to be met by each sector, but is based on a realistic estimate of what each sector could reasonably achieve: if one sector is more successful than suggested, then the pressure is eased elsewhere. Within the overall pathway, there are many minor routes towards the goal.

The Commission takes the view that sudden, rapid increases in output are unlikely to be achieved and that the constraints of land release, planning and labour supply will necessarily require a gradual increase in the numbers of annual completions. The pathway illustrated would result in around 2.25m homes being completed in the period from 2015 to 2025, the midpoint of most estimates of the required supply over that period.

The gradual build up in capacity would inevitably result in output remaining below 200,000 new homes per annum until 2020, resulting in an increased ‘backlog’ of unmet demand requiring to be met in the years after 2025.

By 2025, however, the capacity of the whole house building industry might have reached 250,000 homes per annum, on a trajectory capable of being sustained in future years.
2.2 The key assumptions of the pathway
Perhaps the most important assumption underlying the pathway illustrated is that the next ten years will see a reasonable degree of stability in the economy, allowing a steady, uninterrupted growth in house building. This is a longer period of stability than was ever achieved in the last fifty years. Nevertheless, the pathway illustrates what could be achieved with long-term political consensus.

The pathway does not specify any particular tenure mix. The mix between owner occupiers, shared owners, market renters and social renters will be the result of investment decisions by thousands of investors and owners. The major players in the supply of new homes are already producing a wide mix of tenures. For example, a major housebuilder, Barratt Homes, reports that in 2013, 30% of completions were bought for rent, either by investors or housing associations, while a major housing association, Notting Hill Housing, reports that in 2013/14, 20% of completions were for private sale, and 19% were for market rent.

2.3 The current house building industry
The capacity of the current speculative house building industry is assumed to be around 150,000 homes per annum, reached by 2025. Some of the largest house building companies have already announced that they do not intend to expand their capacity further, although a number of medium sized firms still see opportunities for expansion. As these firms grow, it is likely that they will in turn reach an optimum size in financial and managerial capacity, placing a limit on the total size of the ‘traditional’ house building sector.

2.4 The potential contribution of local authorities
The local authority sector is assumed to expand output gradually to around 10,000 completions by 2021, and to continue at that level. House building by local authorities does not necessarily need to be council housing: local authorities are able to build for market sale or rent, outside the HRA, if this is part of their housing strategy.

However, many local authorities have lost their former development expertise (only half of all local authorities still own any council housing), and may prefer to sell land to other developers, rather than attempt to develop themselves.

Local authority borrowing (whether inside or outside the HRA) is also likely to remain constrained over the next ten years, given the competing demands for infrastructure, health and education investment.

Local authority landholdings are unlikely to be conveniently located in the higher demand areas, and while local authorities own many low density estates capable of redevelopment, the presence of former Right to Buy owner occupiers is likely to make the political and financial cost of redevelopment unattractive.

Case study: Examples of local authorities building homes

Example 1
Daventry District Council has built 45 high quality homes for rent, completed in May 2014. The council has retained 32 homes for private rent, while the remaining 13, or 29% of the total, are affordable homes managed by East Midlands Housing Association.

The scheme was built on Council owned land, providing a full range of house types including bungalows, built to Lifetime Homes and Code for Sustainable Homes Level 4 standards, and is designed to be integrated with the adjoining private sector estate.

In view of its lack of recent experience of building homes, the Council appointed a team of experts, led by Savills, to work with the Council to procure a design and build contract with Galliford Try Construction.

The scheme has been financially successful, with the income from rents exceeding the predicted scheme budget.

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7 Barratt Developments plc Annual Report and Accounts 2014
8 Notting Hill Housing Trust, Financial Statements for the year to 31 March 2014, p9
9 http://districtcouncils.info/casestudies/new-homes-for-rent/
2.5 SME builders

SME housebuilders (defined here as firms building between 1 and 500 homes per annum) contribute about one third of current output. In previous years, SME builders used to make a more significant contribution to house building output, but the number of active firms has declined sharply over the years, from a peak of around 12,000 in 1988 to around 2,500 today.11

Today, there are less than 500 house builders who have built between 10 homes and 100 homes on average each year over the last five years, contributing nearly 15,000 per annum in total. A further 70 house building firms have built between 100 and 500 homes per annum over the last five years, contributing a further 15,000 homes each year to total output.12

There are a number of reasons for this decline:

- The barriers to entry into house building have risen; with increased technical requirements, particularly for energy conservation, with associated construction skills, such as achieving air tightness, which may be unfamiliar to the average small builder.
- SME housebuilders are at a cost disadvantage to larger firms able to bulk purchase materials more cheaply.
- SME housebuilders tend to be undercapitalised, requiring funding in the early, most risky, stages of construction.
- SME housebuilders also tend to have limited assets to offer as security against loans, resulting in low Loan to Value ratios, if funding is available at all.
- The Great Recession resulted in the failure of many SME housebuilders, leaving lenders relatively cautious about the level of risk in the sector.
- Lloyds Bank has been exploring ways in which the SME sector can be supported, and its recently announced Housing Growth Fund is designed to stimulate the quantum of housing completions by SME housebuilders by investing equity in residential development projects. The intention is for the Fund to invest alongside the SME housebuilder, typically investing £0.5m - £2.5m of equity into each project. The Fund will focus on SME housebuilders who have a proven track record in land buying, design, construction, marketing and sale of new homes and have built between 10 and 100 homes per annum over the past three years.
- In the present regulatory climate however, lending to new entrants seeking to establish themselves as housebuilders is likely to be regarded as high risk, and support for new entrants may require some form of additional support, such as a government backed guarantee scheme.

10 http://www.local.gov.uk/documents/10180/5854661/L14-74_09.pdf/7ead0af5-3c45-43ef-af58-7b41930963d6
11 Figures from NHBC, quoted in The Lyons Housing Review, p.106
12 Figures from NHBC

Example 2

Oxford City Council owns a 36 hectare site at Barton, allocated as a strategic site for the provision of housing in the city. The site is the only major development site in Council ownership, and little other land is available in the city.

The site required major upfront investment in infrastructure, estimated at £25-30 million relating to issues such as contamination and access onto a major trunk road. In addition, there were significant viability issues relating to the provision of a new primary school and additional S106 contributions. The site needed substantial upfront funding before returns could be made from the sale of land and property.

After carrying out an options appraisal the council agreed on a joint venture vehicle with a private sector partner to provide investment. The infrastructure provider will secure investment against the value of the land.

Following a procurement process, Grosvenor Developments Ltd was selected as the preferred private sector co-investment partner. The council entered into a 50:50 limited liability joint venture partnership (LLP) with Grosvenor in October 2011.

The scheme is expected to deliver 885 residential units of which at least 40 per cent will be for social rent.

The joint venture has enabled development on a difficult site, and will enable the building of new affordable homes without additional public funding. It also allows the council to retain a degree of control over how the site is delivered.

Running a joint venture takes time and effort from the council and initial investment to cover the cost of external expertise and the procurement process. Oxford has learnt that operating the joint venture takes more time than they originally expected.
2.6 Self and custom builders
The current output from self and custom builders is included within the overall house building industry output. The exact size of the self and custom builder sector is not known, but a recent estimate, from research commissioned by Lloyds Bank, is that its total output is around 12,000 per annum and is part of the roughly 50,000 homes completed each year by the SME sector.

The pathway assumes that the self and custom build sector could expand output gradually to around an additional 10,000 completions per annum by 2021, and maintain that increased level thereafter.

The next government needs to improve the availability of public land for self and custom building, particularly for community groups. This means simplifying the planning and procurement regulations – including custom build projects on surplus public land – and working with the banking sector to improve access to both mortgage and development finance.

2.7 ‘Other’ completions
‘Other’ completions are assumed to rise from around 3,500 per annum to around 5,000 by 2025. These come from a variety of sources, including conversions of larger properties into flats, the return of empty homes to use, and the better utilisation of flats over shops.

2.8 Social housing and housing associations
Social and affordable housing built by housing associations is assumed to grow to a peak of 30,000 completions by 2018 and then to continue at that level until 2025, given the constraints of competing priorities for public investment.

2.9 New entrants to the market
The balance of output is assumed to come from market housing built by a combination of new large developers entering the market, backed by institutional investors, building primarily for long-term private sector market rent, and housing associations expanding their capacity to deliver open market housing for sale and rent.

Both groups will bring new construction capacity to expand housing output by employing general contractors for the actual building work, mirroring the expansion of output that was achieved between 1956 and 1980.
Case study: Transforming a disused site into a new neighbourhood

In partnership with Redrow Homes, Orbit delivered a mix of 143 homes for rent and Shared Ownership as part of a 357-home development on the site of the former Senacre Technical College in Maidstone. With excellent transport links and local amenities, this development helped to balance the housing mix in an area with several large former council estates.

As a Section 106 scheme, it delivered a 40% quota of affordable housing on the overall site and included c£12m of investment by Orbit. The scheme comprised:

- 85 social rented flats and homes
- 46 shared ownership flats and homes
- 12 intermediate rented flats
2.10 The private rented sector

The private rented sector (PRS) is making an increasing contribution to housing the population, including housing families. Over the last decade, the sector has grown by over 60% and now houses 18% of UK households. It is a diverse sector. Couples with dependent children now make up over 20% of households in the sector and a further 12% are lone parents with dependent children. The growth of the volume of households in the private rented sector is a consequence almost entirely of households moving from other tenures. It is not a result of more house building for private renting.

More secure and long-term tenancies are essential to meeting the needs of the range of households in the sector. A growing PRS needs to be able to provide good quality accommodation for a mixture of households. While the rapid growth of the sector has largely been the result of individual private investors, often owning only one or two properties, there is now a need for a new professional sector that is able to respond to the needs of a range of households and to offer tenancy agreements which meet the needs of tenants, landlords and investors.

A new professional landlord sector, backed by institutional investors, would be able to acquire property in blocks or estates, appropriately sized for management and maintenance, from either the ‘traditional’ house building sector, or from the increased output envisaged from new developers and housing associations building for the market.

2.11 The social rented sector

S106 contributions, from both speculative house builders and new market output by housing associations and other new entrants, are assumed to rise from around 15% of output (13,800 in 2014) to 20% over the period (30,000 in 2025). Total social and affordable housing would therefore remain at just over 30% of total output over the period, doubling from a total of around 37,000 in 2014 to 77,000 in 2025, and producing around 700,000 new completions between 2015 and 2025.

It seems reasonable to assume that a combination of low cost land, S106 contributions, and the recycling of surpluses into cross-subsidy by housing associations may be sufficient to produce social housing capable of being economically let at affordable rents (up to 80% of open market rents). However this will require increased Housing Benefit expenditure to support low income households (including those in work) who would not otherwise be able to afford such lettings.

Further direct subsidy, through capital grants, would still be required if government policy sought to reduce rents in social and affordable housing to lower levels.

The rapid increase in public expenditure on Housing Benefit in recent years, driven both by increasing rents in the social sector and by the rapid increase in private renting at higher market rents, has re-opened the debate on whether it is more efficient to provide means tested revenue subsidies (Housing Benefit) to tenants, or to provide capital subsidies to reduce rents to affordable levels.

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Case study: Rents, bricks and benefits

Together with PWC, L&Q have examined four alternative approaches to funding:

1. Continuing with Affordable Rents set at an average of 70% of market rents across the country
2. Returning to higher one off capital subsidies, sufficient to reduce rents to current social rent levels
3. A no-grant 100% market rent scenario, with revenue subsidies rising to compensate for higher rents
4. Progressively introducing Affordable Rents for those social housing tenants in work and not dependent upon Housing Benefit, combined with greater asset flexibility for housing associations

Their analysis suggests that while 100% revenue subsidy is more effective over the medium term, higher capital subsidies are more efficient over the longer term, because higher ‘up-front’ capital subsidies reduce the long-term Housing Benefit bill. Although there is little difference in the short to medium term costs of either Affordable Rents or market rents, the long-term costs of market rents in ongoing increases in Housing Benefit become significantly higher.

The current lack of clarity about future subsidy patterns is unsustainable. If higher rent levels through the Affordable Rent model are to prevail, then higher Housing Benefit expenditure will inevitably result. If the growth of Housing Benefit is to be restrained, increased capital subsidy to deliver lower social rent levels will be required.

2.12 Increasing shared ownership housing

Shared ownership schemes provided through housing associations (where households part own and part rent their dwelling) should continue to be an important source of affordable housing. But like all forms of affordable housing some form of subsidy is required to make the proposition viable from the perspectives of households and providers. A strength of shared ownership is its flexibility. The share owned can vary to suit the financial circumstances of the owner. The supply of such homes is however limited and this restricts choice. For shared ownership to make a significantly increased contribution to new building, such schemes need to be better understood by households and they need to be adequately supported by subsidy.
Section 3:
Expanding supply at the local level

3.1 The case for long-term strategic planning

Local Plans are essential to effective local planning. However, only 80% of districts have a published Local Plan and only 60% have a Local Plan that has passed an examination. All districts should have a Local Plan in place that is compliant with the NPPF. This will add clarity for developers and local residents.

However, clarity needs to be provided to districts to help them devise acceptable Local Plans. For example, they need clarity on the extent to which brownfield land should be developed first. This will ensure that Local Plans can make best use of redundant, brownfield land, without risking challenge by landowners/developers. Likewise, clarity on the right of local authorities to use Compulsory Purchase Orders to assemble large brownfield sites, made up of smaller parcels in multiple ownership, would assist in the inclusion of brownfield land in Local Plans, where that is in line with the democratic will of the local authority.

We believe that Local Plans need to be complemented by Strategic Plans that take a view on larger scale housing needs and capacity. Local Plans often look at too small an area, while the previous ‘Regional Spatial Strategies’ were seen as too remote. Therefore, we believe Strategic Plans at ‘first-tier’ or city region level should be devised, which will guide Local Plans on the quantum of housing, infrastructure provision etc. Strategic plans should also take a wide view of land availability from all sources including that held by the public sector, as well as that held by private owners, and more easily enable the use of Compulsory Purchase Orders where they are necessary to delivering strategic (re-)development.

By retaining the Strategic Plan at first-tier level in local government, the democratic accountability already provided by Local Plans is retained at both levels.

This builds on case studies that show some local authorities working together at a local housing market or sub-regional level already. The positive initiatives illustrated by the following case study provide examples for others to follow.

16 Local Government Association 15th January 2015
17 e.g. Combined Authorities/County Councils. In London, the Mayor of London is responsible for spatial planning and we believe this should remain the case.
Case Study:
Joint planning and Strategic Plans that cover several local authorities is happening under current arrangements

Cooperation between authorities has resulted in many forms of joint planning, ranging from sharing the evidence base on housing requirements to formal joint strategies.18

The examples include:

The councils in Leicester and Leicestershire jointly commissioned a range of household and population projections under different scenarios. The study is being used as one of a number of factors to inform housing requirements in the development of Local Plans across the county. In the Nottingham Housing Market Areas (HMA), councils have chosen align core strategies, with a joint advisory committee of members, and officer working covering Nottingham City, Erewash, Gedling, Ashfield, Broxtowe and Rushcliffe with the support of Nottinghamshire & Derbyshire County Councils.

In the Black Country, the first joint core strategy adopted in the country covered the four Metropolitan Boroughs of Dudley, Sandwell, Walsall and Wolverhampton. A clear and agreed objective, strong governance structure, shared evidence and sound project management principles (including risk management) were foundations of success.

The Cambridgeshire and Peterborough Strategic Planning Unit was set up in 2012 to support the local authorities in updating the existing strategy for the area which originates from the Structure Plan and was reflected in the East of England Plan, and to meet the new ‘duty to cooperate’. The partnership builds on a strong legacy of joint working in the area and an agreed need for planned growth.

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18 http://www.local.gov.uk/search/-/journal_content/56/332612/3603748#black
3.2 Public land and under-used land into affordable homes

An increase in the provision of land that is ready and available for house building is essential to a strategy to promote a major increase in housing supply. Recent estimates by Savills suggest that 2m homes could be built on publicly owned land:19:

- 600k on government owned land
- 300k on NHS land
- 100k on GLA land
- 1m on LA land (assuming redevelopment at higher densities)

Savills estimates are based on analysis of public records of the Central Government Estate and the land holdings of the Greater London Authority (GLA) as well as market knowledge of the potential for development on NHS and Local Authority land. However, the total volume of these assets is unclear and limited public data made it impossible to conduct a comprehensive analysis of all public land. A register of assets held by Local Authorities as well as Government Departments and Non-Departmental Public Bodies would improve the information base. There is therefore a need for more clarity in the volume of public land that might be made available for housing development. The Commission believes that there should be a duty placed on all public sector bodies to review their land holdings and assess the case for disposals of surplus land for house building.

We believe that considerably more land needs to come forward for homes that are affordable to most people. There remain substantial areas of publicly-owned land and buildings which could be turned into affordable homes. Bringing these assets forward is the best way in which national and local government can help expand the supply of homes. The use of under-used land, new proactive approaches to land assembly are required that make land with adequate infrastructure provision more readily available to all forms of housing provider.

Treasury rules concerning ‘best value’ need to change to encourage Departments, NDPBs, NHS Hospital Trusts, Local Authorities and other public bodies to become long-term development partners. Local authority bond guarantees should be matched to this land release for the next ten year period.

There are other long-term owners of land such as universities, large private landowners and pension funds. We need to provide a new legal and tax framework in which they can develop more homes which are affordable.

The government has recently consulted on a starter homes initiative that will offer first time buyers of new homes a 20% discount on market prices. It is intended to encourage house builders to develop under-used or unviable brownfield land, by freeing them from planning costs and levies. This is an interesting proposal, which merits further consideration, but is not without the risks of unintended consequences20. The Commission welcomes targeted measures that will increase the viability of developing appropriate brownfield sites for housing.

3.3 Maximising housing supply from planning gain

Capturing planning gain through Section 106 agreements and the Community Infrastructure Levy should continue to play an important part in the delivery of affordable housing and infrastructure improvements. Section 106 has proven effective in delivering affordable housing in the past. It is a well understood method of capturing planning gain without new forms of taxation. However its effectiveness has been questioned as a result of disputes over viability and delays in reaching agreement about appropriate contributions.

One of the sources of delay in new house building can be the large costs and time taken by post determination processes. This relates mainly to the speed at which S106 agreements are put in place and the speed in discharging conditions. House builders sometimes argue that some LPAs lack the capacity to process S106 agreements quickly and do not respond fast enough to acknowledge the discharge of conditions. The relationship between S106 and CIL should be clear in terms of the costs to the developer and the administration of the systems.

The costs of these interventions need to be clear and transparent to developers. The costs of negotiation and of delays in agreeing amounts due should be reduced through further streamlining and clarity on the part of local authorities. The following case studies show that clarity and operation can reduce delays and deliver more houses.

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19 http://www.savills.co.uk/_news/article/0/184238-0/11/2014/public-land-could-deliver-as-many-as-2-million-new-homes?intSitePageId=0&int
NewsMonth=0&intNewsYear=0

20 https://www.gov.uk/government/news/20-discount-on-your-first-home-announces-pm
Rather than additional major reforms there should be more bedding in and improvement of the existing system. Evidence shows that where there are detailed policies and good practice, affordable housing and other infrastructure can be delivered through planning obligations. There should be a focus on developing best practice. The above case studies show that effective cooperation between local authorities and developers can bring big rewards without a new NPPF and that better dialogue and communication between developers can deliver change effectively and quickly.

House builders are rightly concerned by delays in achieving consents and frustrated that the whole process had become substantially elongated over the last two decades. Delays occur in pre application discussions and after determination, during discussions on S106 matters (which can take nine months) and pre commencement conditions. The time taken up in pre applications and post consent discussions far outweighs the time taken up from the formal registration of an application and its determination. However, house builders claim that where planning authorities operate well, it can shave 18 months off the process from starting pre applications to opening the first show house. An improved resource base for planning authorities will reduce delays.

More house building should be encouraged through improving the system already in place by promoting reforms to make the existing planning system more efficient to speed up allocation and approval processes e.g. ensuring adopted Local Plans and five year land supplies are in place and promoting best practice and culture change in local authorities. Changes could include lessening the detail needed at pre applications and determination, introducing customer relationship management processes in LPAs, having performance targets for big applications, reducing non statutory consultations and meeting members early in the process i.e. before determination. These improvements need to be compatible with improved public engagement.

Case study:

Improvements in the cost, speed and deliverability of applications can be achieved without requiring legislative change21.

Taylor Wimpey worked closely with the Oxford Citizens Housing Association (OCHA) and Oxford City Council (OCC) to regenerate the Rose Hill area replacing 117 run down properties with 254 new homes of different tenures. The Council de-risked the site by working with the housing association to bring forward outline planning permission. Taylor Wimpey was then selected as the residential developer of the whole scheme to help design and build the 141 affordable homes. Taylor Wimpey built and sold 113 private homes working collaboratively with the council on development of a full planning application.

A contribution was made through a Section 106 agreement to community facilities and regeneration, which is leading to a new community centre. Oxford Citizens Housing Association focused much of its involvement on community regeneration, leading to a successful bid to the Big Lottery for health, youth and other projects.

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 meant that the Council agreed to identify issues (whether from external or internal consultees) promptly as they arose and the developer agreed to respond to comments and representations within set timeframes. Milestones identified the target committee date providing additional certainty for the developer. The PPA also ensured a good working relationship between the Council and the developer, which secured the scheme emerged to match the Council’s and the developer’s aspirations.

21 http://www.local.gov.uk/documents/10180/5854661/Planning+positively+through+partnership+FINAL.pdf/33af125b-455d-4b46-a2b1-8073282d1499
3.4 Improving the skills and capabilities of planning authorities

Effective planning requires skilled local planners and authorities with enough capacity to produce clear and democratically informed Local Plans and to respond effectively and efficiently to development proposals. The loss of experienced planning officers and constraints on resources in recent years means that officers have struggled to cope with workloads or are only available part time. This has been highlighted as a source of delay. For major developments, some planning officers are unfamiliar with handling very large applications and this also can lead to delays. Planning departments have been hit particularly hard by public expenditure reductions.

The need to improve the skill set and capabilities of planning authorities means that planning will need to be become a more attractive profession with rewards to match the skills, demands and importance of planners’ roles in promoting development whilst ensuring that the public and private interests are balanced.

3.5 Improving skills and capacity in the house building sector

There is a need for increased capacity in the house building industry through greater investment in skills and training. Site based training is increasingly rare and the numbers of apprentices and trainees have been falling. There is a shortage of the right skills in the house building industry and a pressing need for more effective skills training. In a June 2014 survey, the Construction Industry Training Board showed that 18% of employers had not had enough skilled workers for at least some of the last twelve months – and more than a third (36%) of employers that have tried to recruit skilled staff have experienced difficulties in filling the positions.

The Construction Industry Training Board should improve the operation of its levy and the speed and relevance of the training it provides. The Commission believes that the house building sector needs to make a step change in its long-term commitment to skills and training, in both good and bad times.

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Key Recommendations

There should be cross-party agreement that 2 million to 2.5 million homes need to be built in the UK by 2025. Increasing the level of house building should be a political priority - delivering the right homes, in the right places, at the right time, with the right infrastructure.

There should also be cross party agreement that homes need to be more affordable, but this does not just mean more ‘social/affordable housing’.

The focus on the delivery of more homes must be accompanied by meaningful, honest, public engagement that seeks to inform local communities of both the need for - and the benefits of - more high quality homes.

The balance between public expenditure that directly encourages more homes to be built - whether in the private, public or third sector - and housing benefits that help to pay rents should be reviewed.

A pathway to additional building should be set out that involves gradual increases in output by all forms of house builders over the next ten years – SME housebuilders and self-/custom-builders should be particularly encouraged.

A significant expansion of output can also be delivered by utilising existing expertise within the larger housing associations. These already have the technical capability and funding to build large numbers of new homes.

A new professional landlord sector, backed by institutional investors, should be promoted. This would respond to the needs of a wider range of households – and offer more secure, longer-term tenancy agreements that meet the needs of tenants, landlords and investors.

There should be no fundamental change to the National Planning Policy Framework (NPPF), but greater clarity and support is needed to help Local Planning Authorities (LPAs) speed up the creation of robust Local Plans.

Strategic Plans should be introduced, providing clarity to LPAs by guiding on the number of homes needed and infrastructure that will be provided to facilitate them, taking wider capacity into account. These should be democratically devised at ‘first-tier’ council or ‘city region’ level.

A duty should be placed on all public sector bodies to review their land holdings and assess the case for disposal of surplus land for new homes.

Section 106 agreements and the Community Infrastructure Levy should continue to deliver ‘affordable housing’ and local infrastructure improvements. The costs of negotiating Section 106 agreements should be reduced through streamlining and clarity on the part of LPAs.

Skilled local planners are important to ensuring that LPAs can produce clear and democratically devised Local Plans - and to respond effectively and efficiently to development proposals.

Training must be improved to ensure that the house building sector has the necessary skills and capacity to deliver more houses. CITB needs to be reformed to improve the quality and relevance of the training provided.