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Tackling the under-supply of housing in England

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Summary

Estimates have put the number of new homes needed in England at up to 345,000 per year, accounting for new household formation and a backlog of existing need for suitable housing. In 2019/20, the total housing stock in England increased by around 244,000 homes. This around 1% higher than the year before – and the amount of new homes supplied annually has been growing for several years – but is still lower than estimated need.

Housing need manifests itself in a variety of ways, such as increased levels of overcrowding, acute affordability issues, more young people living with their parents for longer periods, impaired labour mobility resulting in businesses finding it difficult to recruit and retain staff, and increased levels of homelessness.

The 2015 Government set out an ambition to deliver 1 million net additions to the housing stock by the end of the Parliament, which was expected to be in 2020. Net additions include, for example, conversions and changes of use. Critics said that the figure did not take account of the backlog of housing need. The House of Lords Select Committee on Economic Affairs concluded in Building More Homes (2016), that the target “was not based on a robust analysis” and went on to recommend that the housing crisis required the development of at least 300,000 new homes annually “for the foreseeable future.” In addition to questioning whether a target of 1 million homes is ambitious enough, there was some doubt over whether the number was achievable.

The Conservative Government elected in 2017 had a manifesto pledge to meet the 2015 commitment to deliver 1 million homes by the end of 2020 and to “deliver half a million more by the end of 2022.” The Autumn Budget 2017 set out an ambition “to put England on track to deliver 300,000 new homes a year.” In January 2018, the Department for Communities and Local Government (DCLG) was renamed the Ministry of Housing, Communities and Local Government (MHCLG) to reflect a “renewed focus to deliver more homes.” The Homes and Communities Agency (HCA) was relaunched as Homes England on 11 January 2018:

By bringing together their existing planning expertise and new land buying powers, the new agency will play a major role in securing land in areas where people want to live, support smaller and more innovative house builders into the market and resource brownfield sites from across the country to deliver homes for families.

The Conservative Government elected in December 2019 included a manifesto pledge to “continue to increase the number of homes being built” and referred to a need to rebalance the housing market towards more home ownership:

...we will continue our progress towards our target of 300,000 homes a year by the mid-2020s. This will see us build at least a million more homes, of all tenures, over the next Parliament – in the areas that really need them.

There is consensus around the long-term under-supply housing and the need to address this, but there is less agreement within the industry about how best to achieve the necessary step-change in supply. Commentators agree there is no ‘silver bullet’ and call for a range of solutions across several policy areas. The 2017 UK Housing Review Briefing Paper (September 2017) argued that while supply is of critical importance, “so is the rather more neglected issue of affordability, in both the private and social housing sectors.” The Resolution Foundation said that a greater proportion of genuinely affordable homes to rent and own will be needed “to make housing less of a living standards burden for families.” In the foreword to the June 2017 IPPR report, What more
can be done to build the homes we need? Sir Michael Lyons said: “We would stress that it is not just the number built but also the balance of tenures and affordability which need to be thought through for an effective housing strategy.” This is echoed in research commissioned by the National Housing Federation (NHF) and Crisis from Heriot-Watt University, which identified a need for 340,000 homes each year to 2031 of which 145,000 “must be affordable homes”.

The 2015 Government acted to stimulate housing supply through a variety of schemes. These schemes were referred to in the then-Government’s response to Building More Homes which acknowledged that “we have much more to do as a country to build more homes and that the Government has a role to play in making sure our housing market works for everyone.”

February 2017 saw the publication of the Housing White paper Fixing our broken housing market, which set out “a comprehensive package of reform to increase housing supply and halt the decline in housing affordability.” The White Paper identified a threefold problem of “not enough local authorities planning for the homes they need; housebuilding that is simply too slow; and a construction industry that is too reliant on a small number of big players.” The White Paper focused on four main areas:

- Building the right homes in the right places.
- Building them faster.
- Widening the range of builders and construction methods.
- ‘Helping people now’ including investing in new affordable housing and preventing homelessness.

The intervening years have seen numerous consultation exercises and policy developments across a range of areas. The current Government has diagnosed the planning system as central to the failure to build enough homes, particularly where housing need is at its most severe. The Planning White Paper published in August 2020 will, the Prime Minister writes, signal “Radical reform unlike anything we have seen since the Second World War.” Responses to the White Paper are currently being analysed. Some of the proposals are highly controversial.

This briefing paper considers key trends in housing supply in the UK and goes on to focus on some of the key barriers and potential solutions to increasing supply in England.

The barriers and solutions cover issues including:

- The potential contribution of the local authority and housing association sectors. The delivery of more than 200,000 homes per year in England has, since 1939, only happened largely as a result of major public sector (local authority) housebuilding programmes.
- How to ensure that more land suitable for development is brought forward at a reasonable price, including how more public land can be brought forward more quickly.
- How to properly resource local authority planning departments and tackle a planning system that is widely seen as slow, costly and complex.
- Consideration of how essential infrastructure to support housing development can be funded.
- How to encourage and support more small and medium sized building firms into a market that is currently dominated by a small number of large companies.
How to ensure that the construction industry is in a fit state to deliver the housebuilding capacity that England requires. The Government commissioned Farmer Review of the UK Construction Labour Model (2016) concluded that “many features of the industry are synonymous with a sick, or even a dying patient.”

Government action to stimulate housing supply can be found in Library briefing paper: Stimulating housing supply - Government initiatives (England).

Other relevant Library papers include:

- What is affordable housing?
- A new era of social rented housing in England?
- What next for planning in England? The National Planning Policy Framework
- Planning Obligations (Section 106 agreements) in England.

Statistics on housing supply

Historical house building statistics for all UK countries are available for download from the landing page for this briefing.

The Library has also produced an interactive dashboard, Local authority data: housing supply, which provides statistics on housing stock, new supply, and supply of affordable housing for local authorities in England.
In charts: Housing supply in England

The government's target is for housing supply to reach 300,000 homes a year by the mid-2020s. Others have called for as many as 340,000 a year.

New supply has been increasing, reaching 244,000 in 2019-20.

Housebuilding is now lower than its peak in the late 1960s.

It reached its low point in 2010, after the financial crisis, and started to increase after that.

Housebuilding starts fell in April-June 2020 following the Covid-19 lockdown, reaching levels similar to 2008. They rebounded in July-September 2020.

The net supply of new housing was higher in 2019-20 than the estimated average from the 1970s.

While there were fewer new build completions, there was also less demolition and more change-of-use of existing buildings.

See sections 1 and 2 of this briefing for sources.
1. How much new housing does England need?

Summary

- Household growth is one factor affecting overall housing need. The number of new households in England is projected to grow by 150,000 per year, based on current trends.
- The backlog of existing need for suitable, affordable accommodation is often cited as another pressure on housing need, as is demand for more space by households that can afford it.
- There has been a range of research into the amount of new housing needed, with estimates as high as 340,000 new homes per year.
- The government’s target is to supply 300,000 new homes per year by the mid-2020s.
- There is geographic variation in household growth and housing need, with more need in London and the south of England.

1.1 Defining housing need

There is no strict definition of housing need, but it can be understood as the amount of housing required for all households to live in accommodation that meets a certain normative standard.

Projected growth in the number of households is often used as a proxy for housing need, but this measure doesn’t give the whole picture. Projections don’t attempt to accurately forecast future changes, and there is also an existing backlog of need – for example, households living in unsuitable or overcrowded accommodation.

Housing need is different from housing demand, the amount of housing space that households will choose to buy, given their preferences and ability to pay. Many households take up more housing space than they ‘need’, if they can afford to – for example, by living in a house with a spare bedroom or buying a second home. Dame Kate Barker’s evidence to the Treasury Select Committee’s inquiry into housing policy emphasised the role of income growth in driving housing demand:

Indeed, house prices respond a lot to income growth because—this point is made in the review but not brought out enough—when people get richer they want more space. If you simply work on household projections then you will not supply as much space as people would like, given their incomes, and the result of that is that people with money do get the space they want. People without money do not get the space.

The Government has said that it aims to be supplying 300,000 new homes per year by the mid-2020s, and to supply 1 million new homes by the end of the current parliament.

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2. Ibid.
3. HC 861, 7 December 2016, Q2
1.2 Household projections for England

Projections of the number of households that will form in future are often used as a baseline for talking about housing need.

The Office for National Statistics (ONS) is responsible for producing projections of the number of households in England. It released projections in June 2020 which were based on population trends up to 2018. The number of households in England is projected to rise from 23.2 million in 2018 to 26.9 million in 2043 – an average increase of around 150,000 households per year.  

Source: ONS, Household projections for England: 2018-based principal projection dataset

These figures do not attempt to model the effect of future changes – for example, they don’t try to account for the impact on migration of the UK leaving the EU. The projections make assumptions, based upon

5 ONS, Household projections for England, 2018-based: Principal projection dataset, 29 June 2020
past trends, about how much the population will grow and the size of households that people will live in.

Household projections are not uniform across England. The map on the previous page shows the projected change for each local authority in England between 2018 and 2028. The number of households across England is projected to grow by around 7% in this period, but there is considerable variation between areas.

Areas of high and low growth are not concentrated in any one part of the country. Growth was projected to be highest in areas including Tower Hamlets (21%), South Derbyshire (19%) and North West Leicestershire (18%). The number of households was expected to fall in Barrow-in-Furness (-1%) and Copeland (-2%) in the North West, as well as in Cambridge (-1%), Oxford (-4%) and the Isles of Scilly (-27%).

The ONS’ Household projections for England: 2018-based statistical release explains the methodology behind the projections in more detail, and provides projections for individual local authorities.

Change from previous projections

Up until September 2018, household projections were published by MHCLG. MHCLG published a set of projections based on 2014 population trends which were higher than the current estimates. They put the average increase in households at 210,000 per year over 25 years. 6

The ONS subsequently took over responsibility for household projections, and published a set of 2016-based projections in September 2018. These 2016-based projections were lower than MHCLG’s, putting the average increase at around 159,000 per year. 7 A number of methodological changes caused this difference. Two key changes were:

- New, lower population projections were used. The 2016-based population projections assume lower numbers of births and less net international migration, as well as slower improvements in life expectancy, than the previous set.8
- The ONS made different assumptions about the rate of new household formation. Its projections were informed by more recent, short-term trends in the average household size. MHCLG’s projections were informed by trends from 1971-2011, during which time the average household size declined. For several reasons relating to data quality, the ONS’ projections only looked at trends from 2001-11. The average household size was relatively stable during that period, so the ONS’ projections assume less new household formation than the previous set.

A number of factors have been suggested for the lower-than-expected growth in households between 2001 and 2011, including families choosing to remain in one household where they otherwise might not have done so (e.g. young adults continuing to live with their parents).

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6 MHCLG, 2014-based household projections in England, 2014 to 2039
7 ONS, Household projections in England: 2016-based, 20 September 2018
8 ONS, National population projections: 2016-based statistical bulletin, 26 October 2017
The recession has been suggested as a cause for this, as has the constrained supply of suitable, affordable housing during this period. Additionally, levels of immigration were higher between 2001 and 2011 than previously; research suggests that recent migrants tend to live in larger household groups than long-term UK residents.

In June 2020, the ONS published an updated set of household projections based on population data up to 2018 (discussed above). These projections were slightly lower (an average of 150,000 new homes per year). The new figures reflect both the new population data used and some minor methodological changes.

Projections and the planning system

Guidance for local planning authorities’ assessment of housing need is partly based upon the 2014-based projections, rather than the ONS’ more recent projections. The Government has set out a standard method for assessing housing need which uses the projections as a baseline, before adjusting for affordability and other factors.

The Government originally introduced the standard method in the July 2018 update to the National Planning Policy Framework. Local planning authorities are expected to use the method when planning for housing.

The Government initially launched a consultation on the method in October 2018, in which it stated that the lower household projections did not affect its target of building 300,000 homes per year. The consultation document argued that new household formation is constrained by housing supply, and that this is part of the reason for the fall in projections; that there has been historic under-delivery of housing which needs remediating; and that low supply has led to declining affordability.

The Government responded to the consultation in February 2019 with a decision to continue using the 2014-based projections in the short term, while reviewing the standard method in more detail. A subsequent consultation launched in August 2020 proposed a new standard method, which would incorporate the most recent household projections (as well as a number of other methodological changes). However, the Government decided against implementing these changes in a consultation response published in December 2020, following concerns voiced about the distribution of need resulting from the proposed new formula. The Government instead decided to retain the 2014-based projections as the basis of the standard method, and to introduce a 35% uplift on the figures generated by the original method.

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9 E.g. by A.E. Holmans in Housing need and effective demand in England (2014) and New estimates of housing demand and need in England, 2011 to 2031.
10 A.E. Holmans in Housing need and effective demand in England (2014)
11 ONS, Household projections for England, 2018-based, 29 June 2020
12 MHCLG, Technical consultation on updates to national planning policy and guidance, 26 October 2018, p8
13 MHCLG, Government response to the technical consultation on updates to national planning policy and guidance, February 2019
14 MHCLG, Changes to the current planning system: consultation on changes to planning policy and regulations, August 2020, pp.8-19
to Greater London and to the local authorities representing the 19 other largest urban areas in England. The consultation response states that “we have chosen a 35 per cent uplift to ensure consistency with the government’s Manifesto commitment to see 300,000 homes per year delivered by the mid-2020s.”

For more detail on these developments, see the Commons Library briefing Planning for the Future: planning policy changes in England in 2020 and future reforms (CBP 8981).

1.3 What affects housing need beyond household growth?

Affordability of existing housing

One of the stated reasons for the Government’s target of supplying 300,000 homes per year is that this will directly reduce affordability pressures. When giving evidence to the Housing, Communities and Local Government Select Committee on 12 March 2018, the former Housing Minister, Dominic Raab, said:

First, the 300,000 target by the mid-2020s is the point at which we think that the affordability of homes will come down for the nurse, the teacher, and those on low and middle incomes, and particularly for those trying to get on the housing ladder for the first time.  

However, some commentators have questioned the extent to which an increase in housing supply can directly improve affordability. The 2017 UK Housing Review Briefing Paper (September 2017) summarises some of the existing evidence in this area:

Indeed, as the evidence to the Redfern Review from Oxford Economics reminds us, [increased supply] is unlikely to bring house prices down except in the very long term and with sustained high output of new homes relative to household growth. Even boosting (UK) housing supply to 310,000 homes per annum in their model only brings a five per cent fall in the baseline forecast of house prices. Oxford Economics says this has ‘important implications for a policy debate that has focused heavily on supply as both the cause of the problem of high house prices and its solution.’

More recent research has called for increased supply of affordable housing to meet affordability needs. Research commissioned by the National Housing Federation (NHF) and Crisis from Professor Glen Bramley at Heriot-Watt University identified a need for 340,000 homes each year in England to 2031, including a need for 145,000 affordable homes – comprising 90,000 homes for social rent, 30,000 for intermediate rent, and 25,000 for shared ownership.

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15 MHCLG, Government response to the local housing need proposals in “Changes to the current planning system”, 16 December 2020
16 Oral Evidence: MHCLG Housing Priorities, HC 830 Q3, 12 March 2018
17 2017 UK Housing Review Briefing Paper, Steve Wilcox, John Perry and Peter Williams, September 2017
18 Bramley, G. for Crisis, Housing supply requirements across Great Britain: for low-income households and homeless people, December 2018, p10
The backlog of existing need

Professor Bramley’s figures attempted to account for an existing backlog of housing need, as well as future household growth. The report (published in 2018) estimated that there were 4.75 million households in housing need across Great Britain (and 4 million in England). This figure included estimates of the number of ‘concealed’ households (i.e. adults who would prefer to live separately from their current households), and households that are overcrowded or living in unsuitable or unaffordable accommodation. The proposed housing need figures were intended to address this backlog over a 15-year timeframe. 19

The report also made use of an alternative methodology that attempted to address a “circularity problem” with official household projections. The official projections are based on past trends in household formation, which are themselves constrained by the availability of suitable housing. The report argued that using official projections to calculate housing need therefore “risks reinforcing the effects of historic undersupply”. 20

Geographic variation in need

The NHF/Crisis report also addressed the geographic variation in housing need, summarised in an article for the 2018 UK Housing Review:

While size (population) of a country/region is a factor, the increase should be skewed towards regions where the pressures are greatest, currently the South and London. The exact optimal balance between ‘within-London’, ‘near-to-London’ and the ‘Greater South East’ is an issue for careful consideration. In this exercise we constrain London to a reasonable estimate of its capacity to build additional housing each year, and thereby accept that a higher number will have to be in the South of England. 21

Other commentators have also drawn attention to geographic variation. A research report by the consultancy Residential Analysts (2018) used a range of indicators of housing demand at local authority level to explore trends across the country. The report measured lack of supply using indicators including affordability, overcrowding and population growth, and concluded that “while the lack of supply is frequently assumed to be a national issue, it is very much a London and South East problem with some other localised hotspots”. 22 Other indicators were used to assess areas of lower demand:

To identify where weak demand is most severe we have created a ranking based on three sub-categories. These are: weak demographic demand where the population is ageing and people are leaving, weak housing market demand where house price and sales activity are weak, and weak economic demand where job opportunities are poor and incomes are low with limited growth.

19 Ibid., pp8-9
20 Ibid., p14
21 2018 UK Housing Review Briefing Paper, October 2018, Mark Stephens, John Perry, Steve Wilcox, Peter Williams and Gillian Young, p7
The local authorities most affected by weak demand are typically found in Wales, the north of England, south west Scotland, and Northern Ireland. The underlying causes for these high rankings vary. […]

New supply is not a panacea for these markets. Indeed, it may even accelerate decline if the more affluent residents leave existing urban areas for new build estates. 23

1.4 Is new supply meeting housing need?

The key measure of housing supply in England is MHCLG’s net housing supply series. This measures the total increase in the number of homes in each financial year, factoring in gains from conversions and change-of-use as well as new build.

The chart below shows net supply in each year since 2006-07. Net supply has been increasing in recent years, from a low point of around 125,000 in 2012-13 to around 244,000 in 2019-20. **Annual net supply would need to increase by around another 23% by the mid-2020s to meet the government’s target, and by another 39% to reach the 340,000 per year called for by Crisis and the NHF.**

![How close is new housing supply to estimated future need?](chart)

**How close is new housing supply to estimated future need?**

Net additions per year (thousands of dwellings), England

- Bramley (2018): 340k per year over 15 years
- Government target: 300k per year by mid-2020s

Sources: MHCLG, [Live Table 120](https://www.gov.uk/government/statistics/housing-statistics); ONS, [Household projections for England: 2016-based](https://www.ons.gov.uk); estimated need referenced in this section.

23 Ibid., p13
2. Trends in housing supply

This section looks at both recent and long-term changes in England’s housing supply, and the impact of different factors that contribute to new supply.

The first part of this section looks at recent data on net additions to the housing stock, as well as the impact of Covid-19 on housebuilding in 2020. The second part uses historical data to describe trends over the last century. Finally, a third part looks at trends in identifiable expenditure on housing supply.

A note on housebuilding data series
MHCLG publishes two separate time series on housing: a quarterly publication that covers new builds only and an annual series covering overall net supply of housing.

The annual net supply series covers new builds, conversions, change of use, demolitions and other changes in the dwelling stock. See section 2.1 below for more on how these factors contribute to net supply.

The quarterly series covers new builds, but its figures are generally lower than the new-build figures given in the annual net supply series. Since 2012-13, the quarterly series has been 10% to 26% lower than the annual series (see chart below).

Sources: MHCLG, Live Table 120 (annual series), Live Table 213 (quarterly series)
MHCLG describes the annual series as ‘the primary and most comprehensive measure of housing supply’, while the quarterly series is a ‘leading indicator’ of the trend in supply. The quarterly series provides information faster, but the method used to collect the data means it is less complete. The quarterly series has some other advantages: it covers a longer time-span and identifies contributions from private developers, local authorities and housing associations. Equivalent quarterly statistics for the devolved nations are compiled by the devolved administrations and compiled by the Office for National Statistics.

This briefing paper uses quarterly data to discuss long- and immediate-term trends, as well as the contribution of different developers. In all other cases, the annual series is used because it is more accurate.
2.1 Headline trends

Recent trends in net supply

In 2019-20, England’s housing stock increased by 243,770 homes. Change in dwelling stock is not just a product of building new houses. Conversions (e.g. splitting a house into flats) and change of use (e.g. turning a commercial property into residential units) can add to the dwelling stock, while demolitions and other damage reduce it.

The chart below shows trends in the components of net supply since 2006-07 in more detail. New building has accounted for less of the net total in recent years, as change of use from non-residential to residential property has become more common. Additions through change of use grew by 65% between 2013-14 and 2014-15, and continued to rise over the next two years. However, change-of-use completions have declined each year since then.

The growth in change-of-use conversions is due to extensions to permitted development rights (a right to develop without the need to apply for planning permission). Permitted development rights were temporarily extended to include office to residential change of use in 2013, and made permanent in April 2016.

<table>
<thead>
<tr>
<th>What contributes to new housing supply?</th>
<th>Thousands of dwellings, England, 2006-07 to 2019-20</th>
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<tr>
<td></td>
<td>Net additional dwellings</td>
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<td></td>
<td>New build completions</td>
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<td></td>
<td>Net change of use</td>
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<td></td>
<td>Net conversions</td>
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<td>Demolitions</td>
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<tr>
<td>2006-07</td>
<td>200</td>
</tr>
<tr>
<td>2010-11</td>
<td>200</td>
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<td>2014-15</td>
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<td>2018-19</td>
<td>200</td>
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</tbody>
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Source: MHCLG, Live Table 120

Notes: The net additional dwellings total also includes adjustments based on the 2011 Census, and a small number of gains labelled as ‘other’.

Geographic variation in new supply

MHCLG also publishes statistics on net additional dwellings for local authorities. Larger local authorities tend to build more homes: areas that built the most over the three years from 2017-18 to 2019-20 included
Birmingham (11,087 homes), Cornwall (9,573 homes) and Manchester (9,323 homes).

By comparing housing supply figures to household population, we can see which local authorities have the most new supply relative to their current size. The map below shows the number of new homes supplied over the three-year period compared with the number of households living in the area in 2017.

The areas with the highest level of supply relative to their household population included South Derbyshire (in the East Midlands), Vale of White Horse (South East), Salford (North West), Stratford-on-Avon (west Midlands) and Uttlesford (east of England). The City of London had the highest rate, albeit with relatively low levels of building.
Areas with lower levels of supply were similarly dispersed around the country. Some of the lowest levels of supply relative to households were seen in Portsmouth, Adur and Eastbourne (in the South East) as well as Gateshead in the North East.

**The effect of Covid-19 on housebuilding**

The Covid-19 outbreak and subsequent restrictions put in place have had an impact on housing output. Evidence for this comes from MHCLG’s quarterly statistics on housebuilding in England. These do not capture all building activity, but are published as ‘indicators of new supply’ (see ‘A note on housebuilding data series’, above).

Recorded building starts and completions fell in the second quarter of 2020 (April-June, a period which includes the majority of England’s first national lockdown). The number of starts in this period was 59% lower than a year previously, reaching a level last seen in 2008 during the financial crisis. The number of completions was 64% lower. Starts and completions rebounded to close to previous levels in the third quarter, however. Both were at similar levels to a year previously (the number of starts was 7% lower).

Source: MHCLG, Live tables on housing supply: indicators of new supply, Live Table 213, 14 January 2021
2.2 Historical data on housing supply

This section looks at long-term trends in new housing supply – both the changing components making up net supply, and trends in the role of different sectors in new house building.

Looking at the period after the Second World War, growth was higher in the 1950s and 1960s than in subsequent decades. As the chart on the right shows, Great Britain’s housing stock grew by 18% between 1951 and 1961, and by 16% between 1961 and 1971. By contrast, it grew by just over 8% between 2001 and 2011.

**Trends in net supply**

Historical data shows how the components of change in housing stock have changed across the 20th and 21st centuries. The graphic overleaf summarises the trends.

The earlier part of the 20th century saw high levels of building, but also relatively high levels of demolition and slum clearance. This meant that the net increase in housing stock was generally lower than the number of houses completed, because some completions were replacing stock that had been demolished. Losses due to enemy action also had an impact on the total during WWII, although the overall net change remained marginally positive. The 1960s saw more demolition activity – mostly slum clearance – and more building than any point previously.

Since 1980, there has been less demolition and more conversion of existing properties to create housing units. These factors combined mean that the net increase in housing stock has tended to be higher than the number of new-build completions, as new builds are supplemented by conversions.

There was a net gain of 243,770 dwellings in 2019-20 – higher than the estimated average per year in the 1970s, 1980s, or 1990s. This was despite the 1970s having more new-build completions per year. The difference can be attributed both to the 1970s having considerably more demolitions, and the increasing use of conversions and change-of-use to increase the housing stock.

![Growth in housing stock](chart)

Source: MHCLG, *Live Tables 104, 106 and 107*
**Historical trends: components of net change in supply**

Thousands of homes per year (average)

**Great Britain**

New building increased after WWII. Its effect on net supply was moderated by slum clearance and other demolition.

**England**

Net supply in 2019-20 was higher than estimated averages for previous decades, partly because of increased change-of-use and conversions, as well as reduced demolitions.

Sources: A.E. Holmans, *Historical Statistics of Housing in Great Britain*, Table B.17; MHCLG, Live Table 120

Notes: Holmans reports the total number of dwellings for each time period; this chart shows the average per year. ‘Slum clearance’ refers to demolitions carried out by local authorities using specific powers for removing unfit dwellings under the Housing Act 1930 and Housing Repairs and Rents Act 1954.
Trends in housebuilding
This section looks at trends in the supply of new-build housing.

Housing starts and completions
The first chart on the right shows trends in house building in the UK since 1935. Housebuilding recovered after dropping substantially during WWII, reaching peak levels in the late 1960s (the highest number of completions was 425,830 in 1968). House building has seen an overall decline since then, with the most recent drop taking place after the 2008 financial crisis. 2013 had the smallest number of completions since 1946, but house building has increased year-on-year since then with completions in 2017 higher than the number in 2008.

Housing completions figures do not instantaneously reflect changes to policy or the economic climate, because the house building process takes time and is influenced by multiple factors. Trends in housing starts tend to be starker. For example, the financial crisis caused housing starts to fall by 46% between 2007-08 and 2008-09, whereas completions decreased more gradually over the following years.

House building by type of developer
The chart overleaf shows housing completions broken down by type of developer: private enterprise, local authorities and housing associations. The annotations show some of the trends and policies that shaped the number and type of homes being built.

The type of developer building a property doesn’t always correspond to the property’s final use. For example, homes built by private enterprise may end up being let in the social rented sector and social housing providers may build homes for the private market.

The proportion of homes built by the social housing sector has changed considerably since 1945. The subsequent charts show trends in the proportion of dwellings built by local authorities and housing associations in the post-war period.
House building by type of developer: England and Wales, 1923-2019

- **Private enterprise**
- **Housing associations**
- **Local authorities**

**Sources:** B.R. Mitchell, *British Historical Statistics*; ONS, *UK house building: permanent dwellings started and completed*

**Notes:** Data is for financial years from 1923/24 to 1944/45, then calendar years. See data download for full notes.
House building by local authorities has declined substantially across the UK. The proportion of homes built by local authorities peaked in the 1940s and 1950s in Great Britain. In England, the peak was 87% in 1950. In Northern Ireland, the peak came later, in 1977 – unlike the rest of the UK, housing associations were already contributing to a substantial proportion of house building immediately after the war.

By the early 1980s local authority house building made up less than a quarter of the total across the UK. Building by housing associations increased, however, and in 2019 made up 18% of all completions across the UK. In all nations, the overall proportion of building by the social sector increased relative to the private sector in the years following the financial crisis. The private sector experienced a greater drop in the volume of completions during this period.

Source: ONS, UK house building: permanent dwellings started and completed; Scottish Government, Housing statistics quarterly update: September 2020
2.3 Expenditure on housing

While it is difficult to produce a consistent estimate of public spending on new housing supply, figures on broader expenditure on housing and related areas are available from the Treasury’s Public Expenditure Statistical Analyses (PESA).

PESA records spending by the UK government on ‘housing and community amenities’ – a category that includes spending on items such as water supply, street lighting and planning. However, the bulk of spending in this category is on ‘housing development’, including building, improvements, land acquisition and administration. Housing development accounted for 58% of housing and community amenities spending in 2019-20.

PESA’s longest time series covers spending on housing and community amenities in the UK. As the chart below shows, spending on housing and community amenities increased fairly steadily from 1998-99 onwards, reaching a peak of £19.4bn (in 2019-20 prices) in 2009-10. Spending then began to decline, averaging £11bn between 2012-13 and 2016-17 (again in 2019-20 prices). Spending increased by 18% in real terms between 2018-19 and 2019-20, reaching £14.5bn.

Data on housing development spending is only available for 2015-16 onwards. £8.8bn was spent in 2019-20, a real-terms increase of 23% on 2018-19.

The table overleaf shows regional expenditure on housing and community amenities, including per capita expenditure. The most recent data available is for 2018-19. Per capita spending was highest in London (£272) and in Yorkshire and the Humber (£164).
# Identifiable expenditure on housing & community amenities

## England and regions, 2018/19

<table>
<thead>
<tr>
<th>Region</th>
<th>Total (£ million)</th>
<th>£ per head</th>
</tr>
</thead>
<tbody>
<tr>
<td>London</td>
<td>£2,426</td>
<td>£272</td>
</tr>
<tr>
<td>Yorkshire and the Humber</td>
<td>£896</td>
<td>£164</td>
</tr>
<tr>
<td>North East</td>
<td>£422</td>
<td>£159</td>
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<tr>
<td>South East</td>
<td>£1,211</td>
<td>£133</td>
</tr>
<tr>
<td>East of England</td>
<td>£797</td>
<td>£129</td>
</tr>
<tr>
<td>West Midlands</td>
<td>£723</td>
<td>£123</td>
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<tr>
<td>East Midlands</td>
<td>£517</td>
<td>£108</td>
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<tr>
<td>North West</td>
<td>£751</td>
<td>£103</td>
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<tr>
<td>South West</td>
<td>£569</td>
<td>£102</td>
</tr>
<tr>
<td><strong>England</strong></td>
<td><strong>£8,313</strong></td>
<td><strong>£149</strong></td>
</tr>
</tbody>
</table>

Source: HM Treasury, [PESA 2020](#); Table 9.10; ONS, mid-year population estimates for mid-2019 via nomisweb.co.uk
3. Increasing supply in England: barriers and solutions

Box 1: Manifesto commitments General Election 2019

**Conservative Party**: A commitment to “continue to increase the number of homes being built” and to “rebalance the housing market towards more home ownership. The Queen’s Speech December 2019 included a commitment to build “at least a million more homes over this Parliament."

**Labour Party**: A commitment to create a new Department for Housing and to “deliver a new social housebuilding programme of more than a million homes over a decade, with council housing at its heart”.

**Liberal Democrats**: A commitment to build at least 100,000 social rented homes per year and ensure that total housebuilding increases to 300,000 homes per year.

**Green Party**: A commitment to create enough affordable homes, including 100,000 social rented homes each year built to a Passivhaus or equivalent standard.

Although there is consensus around the long-term under-supply of housing and the need to address this, there is less agreement within the industry about how best to achieve the necessary step-change in supply. Commentators agree there is no ‘silver bullet’ and call for a range of solutions across several policy areas. For example, the *UK Housing Review 2015* called for “a comprehensive housing strategy” with “actions coordinated and sustained over at least a decade.”24 Shelter and KPMG in *Building the homes we need: a programme for the 2015 government* (2015), set out a series of measures aimed at reversing “the model of a high cost, low output housing sector to a low cost, high output one” having identified “a number of self-sustaining and self-reinforcing problems that must all be addressed if the housing shortage is to be rectified.”25

As discussed in 1.2 of this paper, there is a focus on the need to increase supply, but affordability is also regarded as critical. In the *2020 UK Housing Review Autumn Briefing Paper*, Christine Whitehead and Geoff Meen note “Housing affordability has worsened in the age of Covid-19 for many households - but more for income than for price and rent reasons.”26

The 2015 Government set out an ambition to deliver 1 million net additions to the housing stock in England by the end of the Parliament, which was expected to be in 2020.27 This translated into around 200,000 net additions per year. This ‘target’ was arrived at after consideration of the household formation statistics.28 Critics said that

24 *UK Housing Review 2015*, Steve Wilcox, John Perry and Peter Williams, March 2015
25 Shelter and KPMG (2015), *Building the homes we need: a programme for the 2015 government*, p32 and p50
26 Whitehead C; Meen G: *2020 UK Housing Review Autumn Briefing Paper*, p15
27 Net additions includes, for example, conversions and changes of use in addition to newly built housing.
28 22 Mar 2016 - Economics of the United Kingdom Housing Market - oral evidence, Q237
the figure did not take account of the backlog of housing need.\textsuperscript{29} Research by Heriot Watt University for the National Housing Federation (NHF) and Crisis, calls for 340,000 new homes each year up to 2031.\textsuperscript{30} This research identified a need for 145,000 affordable homes per year of which 90,000 should be for social rent.\textsuperscript{31}

The previous Conservative Government was elected in 2017 with a manifesto pledge to meet the 2015 commitment to deliver 1 million homes by the end of 2020 and to “deliver half a million more by the end of 2022.” The current Government elected in December 2019 committed to building \textbf{at least a million more homes over this Parliament:}

\begin{quote}
...we will continue our progress towards our target of 300,000 homes a year by the mid-2020s. This will see us build at least a million more homes, of all tenures, over the next Parliament – in the areas that really need them. And we will make the planning system simpler for the public and small builders, and support modern methods of construction.\textsuperscript{32}
\end{quote}

In addition to questioning whether a target to deliver 1 million homes is ambitious enough, doubt was expressed over whether this number was achievable. The House of Lords Select Committee on Economic Affairs put this question to the then-Housing Minister, Brandon Lewis, during its Building More Homes inquiry. The Committee concluded that the target “was not based on a robust analysis” and went on to recommend that the housing crisis required the development of at least 300,000 new homes annually “for the foreseeable future”.\textsuperscript{33} The Committee called on the then-Government “to recognise the inability of the private sector, as currently incentivised, to build the number of homes needed.”\textsuperscript{34} Knight Frank’s Housebuilder Survey 2018 reported that 61\% of respondents thought that between 200,000 and 250,000 net additional homes would be achievable by 2022 in prevailing market conditions:

A quarter believe net supply will be fewer than 200,000, and 13\% said levels would reach 250,000-300,000. Only 1\% of respondents thought more than 300,000 was achievable by 2022.\textsuperscript{35}

The 2015 Government took action to stimulate housing supply through a variety of schemes.\textsuperscript{36} Its response to Building More Homes referred to these schemes and also to additional funding and measures announced during the Autumn Statement 2016.\textsuperscript{37} The response acknowledged

\textsuperscript{29} Shelter and KPMG (2015), \textit{Building the homes we need: a programme for the 2015 government}, pp19-20
\textsuperscript{30} National Housing Federation (NHF) Press Release, \textit{England short of 4 million homes}, 18 May 2018
\textsuperscript{31} Ibid.
\textsuperscript{32} \textit{Conservative and Unionist Party Manifesto 2019}, p31
\textsuperscript{33} Select Committee on Economic Affairs, 1\textsuperscript{st} Report of Session 2016-17, \textit{Building More Homes}, HL Paper 20, 15 July 2016, para 84
\textsuperscript{34} Ibid., para 85
\textsuperscript{35} Knight Frank, \textit{Housebuilding Report 2018}, July 2018, Figure 3, page 3.
\textsuperscript{36} For more information see Library briefing paper 06416: \textit{Stimulating housing supply - Government initiatives (England)}
\textsuperscript{37} Government response to the House of Lords Economic Affairs Committee Report: “Building more homes” CM 9384, December 2016
that “we have much more to do as a country to build more homes and that the Government has a role to play in making sure our housing market works for everyone.”

February 2017 saw the publication of the Housing White paper Fixing our broken housing market, which set out “a comprehensive package of reform to increase housing supply and halt the decline in housing affordability.” When giving evidence to the Public Accounts Committee in February 2017, Melanie Dawes, Permanent Secretary at DCLG, was questioned on when the gap between net additions to the stock and demand for new housing would be eliminated. She replied:

> It will continue as it has done for decades. I agree, and that will show itself primarily in affordability and in some places in homelessness. I am simply being honest with you. For something on this scale and of this magnitude, we do not have some neat line that tells us when those paths will cross.

The coronavirus pandemic and the closure of construction sites for a period during 2020 has impacted on housing delivery. Research conducted by Savills on behalf of Shelter (June 2020), predicted 84,000 fewer homes would be delivered over 2020-21 with overall output falling to 171,000 homes. Housing programmes delivered by Homes England “saw an overall decrease in starts and completions in the first half of 2020-21 compared to the same period last year” according to official statistics released in December 2020.

Some commentators are arguing for a housing-led recovery from the pandemic, emphasising housebuilding as a proven form of countercyclical investment.

The following sections highlight some of the key barriers and potential solutions to increasing housing supply which have been identified by commentators. As noted above, there is a lack of consensus on all the issues and possible approaches. Some proposals, such as building on the green belt, are particularly contentious.

A request made by the economist, Dame Kate Barker, when giving evidence to both the House of Lords Economic Affairs Committee and the Treasury Committee, during its inquiry into housing policy following the Autumn Statement 2016, was for housing policy to be joined up between the Treasury, Department for Work and Pensions (DWP), Department for Communities and Local Government (now the Ministry

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38 Ibid.
39 Cm 9352, Fixing our broken housing market, February 2017
40 Cm 9362, Autumn Statement 2016, November 2016, para 3.11
41 HC 958, 22 February 2017, Q132
42 Shelter, Over 80,000 new homes will be lost in one year to Covid chaos, 30 June 2020
43 MHCLG, New Homes England statistics show overall housing starts down, reflecting the impact of Covid-19 on housebuilding, 8 December 2020
44 E.g. UK Collaborative Centre for Housing Evidence, Housebuilding’s role in stimulating economic recovery, 5 May 2020
45 Select Committee on Economic Affairs, 1st Report of Session 2016-17, Building More Homes, HL Paper 20, 15 July 2016, para 59
46 HC 861, 7 December 2016, Q50
of Housing, Communities and Local Government, MHCLG) and the

3.1 The local authority and housing association contribution

The table on page 21 of this paper demonstrates that the delivery of
more than 200,000 homes per year in England has, since 1939, only
happened largely because of major public sector (local authority)
housebuilding programmes. The Shelter and KPMG report Building the
homes we need: a programme for the 2015 government (2015) noted
that, since World War II, private housebuilding has been through three
major periods of expansion followed by contractions and after each
crash the recovery has been slower, with the result that:

...for more than half the period, private house building has either
been contracting or stagnant, and total output has ratcheted
steadily down with each cycle.47

In this context, the contribution of the local authority and housing
association sectors could be significant in achieving the necessary step-
change in housing supply. The House of Lords Select Committee on
Economic Affairs was emphatic on this point:

To achieve its target the Government must recognise the inability
of the private sector, as currently incentivised, to build the number
of homes needed.48

Local authorities and housing associations need to make a much
bigger contribution to housebuilding if it is to reach required
levels.49

A further argument used to support the development of more social
and affordable rented housing, is its potential to reduce Housing Benefit
expenditure over the long-term.50 While there is agreement that overall
supply is important, commentators are increasingly focusing on the
need to deliver more truly affordable housing to tackle living standards
and “loosen the grip of poverty.”51

Commentators argue the pandemic has exposed the need for more
affordable housing to tackle homelessness and in anticipation of the
impact of reduced incomes on accessing home ownership and meeting
housing costs.52 In the 2020 UK Housing Review Autumn Briefing Paper
Christine Whitehead and Geoff Meen argue that stagnating incomes
will be the driving factor behind housing affordability in the foreseeable
future.53

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47 Shelter and KPMG (2015), Building the homes we need: a programme for the 2015
government, p20
48 Select Committee on Economic Affairs, 1st Report of Session 2016-17, Building More
Homes, HL Paper 20, 15 July 2016, para 85
49 Ibid., para 56
50 Ibid., para 201
51 Joseph Rowntree Foundation, Affordable housing: why current plans to invest don’t
go far enough, 27 March 2018
52 Stephens M; Perry J; Williams P; Young G: 2020 UK Housing Review Autumn
Briefing Paper, p5
53 Whitehead C; Meen G: 2020 UK Housing Review Autumn Briefing Paper, p15
The local authority and housing association sectors are keen to do more and argue that they have the capacity to deliver.

**Housing associations**

Housing associations are the largest non-market developers across the UK. In April 2020, an article by the National Housing Federation’s (NHF) Head of Policy said that affordable housing was quick and low risk to build and went on:

> Working with the government we can get residential construction back up and running within weeks, saving jobs and SME firms. If done as part of a long-term strategy for affordable housebuilding it could unlock wider benefits across the construction sector: unleashing the potential for modern methods of construction, which would deliver a new generation of skilled workers and improve productivity.

The NHF’s submission to the 2016 Autumn Statement expressed a desire in the housing association sector to work with the Government to “deliver 335,000 homes over the lifetime of this Parliament” with an offer of “£6 of private investment for every £1 of public money, maximum flexibility in the way we use our existing resources and a guarantee that all profits are reinvested in homes and communities.”

The NHF welcomed the commitment contained in the Social Housing Green Paper (August 2018) to “protect and grow” the contribution of social housing to the housing market.

The NHF’s submission to the 2018 Budget referred to the “series of welcome commitments made to the housing associations sector” over the previous 12 months. These commitments included:

- An increase in funding for affordable housing of £2 billion – increasing the Affordable Homes Programme to £9.1 billion.
- Confirmation of a five-year rent settlement from 2020.
- A further £2 billion initiative announced in September 2018. Under this scheme, associations can apply for funding and enter into longer-term partnerships up to 2028/29. The NHF described this as lending further “long term certainty to associations’ operating environment”.

The 2018 submission called for measures to build on Homes England’s strategic partnerships and the £2 billion up to 2028/29 to deliver “ten-year certainty over housing investment”. There was also an

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54 The representative body of housing associations.
55 NHF, *How can housing associations chart a course out of this crisis?* 27 April 2020
56 NHF, *An offer for everyone*, October 2016
57 Cm 9671, MHCLG, *A new deal for social housing*, August 2018, p11
58 NHF, *Submission: Budget 2018*, 28 September 2018
59 Announced at Budget 2017.
60 Summer Budget 2015 announced that social housing providers would have to reduce their rents by 1% each year for four years up to 2020. Analysis of the impact on associations by Savills Housing Consultancy, and seen by *Inside Housing*, reported that the sector’s financial capacity had reduced by 9% since the rent cut began in April 2016. *Inside Housing*, Sector’s capacity down 9% since rent cut, research shows*, 9 March 2018
61 PM to address the National Housing Federation summit, 18 September 2018
62 NHF, *Submission: Budget 2018*, 28 September 2018
emphasis, as there had been in previous submissions, on a more flexible funding system:

We are keen to see Homes England consolidate its existing funding streams into a single fund, and to remove restrictions around where future funding for social rent can be spent. Instead, Homes England should be allowed to work with local areas, to deliver according to local need.63

To achieve the 145,000 new affordable homes needed per year identified in the Heriot-Watt research64, the NHF estimates that around £8.1 billion of grant funding would be needed annually.

The current Government committed to “renew the Affordable Homes Programme”.65 Subsequently, the March 2020 Budget announced £9.5 billion for an extension of the AHP over five years from 2021-22:

The Budget announces an additional £9.5 billion for the Affordable Homes Programme. In total, the programme will allocate £12.2 billion of grant funding from 2021-22 to build affordable homes across England. This should bring in a further £38 billion in public and private investment. This new five-year programme will help more people into homeownership and help those most at risk of homelessness.66

The Government confirmed that as a condition of receiving AHP funding, homes built must have the Right to Shared Ownership attached.67 The November 2020 Spending Review confirmed funding for the AHP.68

The Prospectus for the 2021-26 AHP was published in September 2020. The plan is for funding to support up to 180,000 new homes, subject to economic conditions. The programme’s funding will be split: 50% to fund homes at a discounted rent, and 50% for affordable home ownership products. The mix of rented housing, e.g. between affordable rent and social rent, appears to be dependent of providers’ bids. London is set to receive a lower percentage of available funding than under the previous programme. Bidding opened on 15 December 2020.69

The NHF’s submission to the 2020 Budget identified certainty over funding for the Programme beyond 2021 as a priority.70 Thus the announcement of funding over a five-year period was welcomed.71 Providers expressed concerns about changes to the shared ownership model and the new Right to Shared Ownership which they think “may present some challenges to delivering new homes.”72 The latter years of

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63 Ibid.
64 See pages 11 and 26
65 Background notes to the Queen’s Speech, December 2019, p48
66 HC 121, March 2020, para 2.91
67 Affordable Housing: Construction: Written question – 28566, 17 March 2020
68 CP 330, November 2020, para 6.59
69 MHCLG, Apply for affordable housing funding, 15 December 2020
70 NHF Submission: Budget 2020 – A Home for Everyone, February 2020
71 NHF Spring Budget 2020 – briefing for housing associations, 26 March 2020
72 NHF, Details on the next Affordable Homes Programme announced, 9 September 2020. Also see Library briefing paper: Shared ownership (England): the fourth tenure?
the 2016-21 AHP saw more of an emphasis on the delivery of rented housing, particularly social rented housing, so the new AHP marks a shift in emphasis to homeownership.

The NHF’s 2020 Budget submission also made a case for £12.8 billion in investment per year for ten years to build one million additional social rent and shared ownership properties:

To deliver the homes we need requires £12.8bn of government investment per year, in real terms, for the first ten years. This funding should be long term, flexible, available around the country, and should offer a higher level of grant per home, an average of 44%.

This ambitious kind of funding programme would unlock further borrowing from housing associations. They could then more than match government funding to build the truly affordable homes we need to tackle homelessness and reduce the cost of living for many hardworking families. No part of England would be left behind, with communities around the country seeing beautiful, great quality homes to rent and own.

Investing in new homes could also add £120bn to the economy each year, distributed across the country. As Britain negotiates a new deal with the EU, a social housing development programme can quickly create new jobs in construction and other industries; bringing investment to our local economies. It would also allow housing associations to invest in new technologies, Modern Methods of Construction and more. Effectively, every pound spent by the government would generate up to £8.22, boosting the economy in a balanced and sustainable way.73

The NHF’s submission to the 2018 Budget had suggested closing the funding gap by capturing a greater proportion of land value and to use this to fund affordable housing. The NHF estimated that this approach could reduce annual investment needed to £2.43 billion.74

AHP funding for the 2021-26 programme falls short of the NHF’s ‘ask’. John Perry, policy advisor to the Chartered Institute of Housing commented on the level of funding for the 2021-26 programme in the 2020 UK Housing Review Autumn Briefing Paper:

A new Affordable Homes Programme was announced for 2021/22-25/26, worth £11.5 billion together with £0.7 billion carried over from the current programme. Thus, in total investment will rise somewhat to £2.44 billion annually, a quarter more than the current level of spending. The government claims, correctly, that in cash terms spending will be the highest for a decade. However, by the final year of the last Labour government’s programme, cash spending was one-fifth higher than this and of course in real terms, higher still.75

The Housing, Communities and Local Government (HCLG) Select Committee’s inquiry into Building more social housing reported in July 2020.76 The Committee received “compelling evidence that England

The HCLG Committee cautioned against making the Right to Shared Ownership a condition of AHP grant funding. (2020, para 134)

For more information on ideas about capturing land value see section 3.2 of this paper.

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73 Ibid.
74 NHF, Submission: Budget 2018, 28 September 2018
75 Stephens M; Perry J; Williams P; Young G: 2020 UK Housing Review Autumn Briefing Paper, p5
76 HC 173, Third Report of 2019-21, Building more social housing, 27 July 2020
needs at least 90,000 net additional social rent homes a year\textsuperscript{77} and
called on the Government “to invest so the country can build 90,000
social rent homes a year.”\textsuperscript{78} It was accepted that it would take time to
scale up to the level of required funding (£12.8 billion per year) but that
savings in Housing Benefit and land value reform could reduce the
overall cost.\textsuperscript{79} The Committee wanted to see expenditure on social
housing development treated as infrastructure spending.\textsuperscript{80} They also
recommended the publication of annual net addition targets for social
rent, affordable rent, intermediate rent and affordable homeownership
tenures to improve transparency over the contribution of affordable
housing to achieving the target of 300,000 new homes a year.\textsuperscript{81}

Previous NHF submissions focused on the need to secure affordable
housing on public land. This ‘ask’ was included in the NHF’s 2017 and
2018 Budget submissions, alongside a call for a national minimum
threshold for affordable housing required on new housing
developments.\textsuperscript{82} The current version of the National Planning Policy
Framework (NPPF) states that where major development involving the
provision of housing is proposed, planning policies and decisions
“should expect at least 10% of the homes to be available for affordable
home ownership.”\textsuperscript{83}

The NHF’s 2018 submission called on the Government to “use its
position of influence to ensure that publicly held land makes the biggest
possible contribution to tackling the housing crisis” – the NHF said that
that Homes England should be directed to deliver 50% affordable
housing across its land disposal and development programme.\textsuperscript{84}
Reflecting on the 2018 Budget, Kate Henderson, CEO at the NHF,
expressed disappointment that the opportunity to overhaul how land is
sold had not been taken to ensure the delivery of more social rented
homes.\textsuperscript{85} The Public Accounts Committee was highly critical of the
approach to public land disposal in its July 2019 report, Sale of Public
Land:

The government has wasted a once-in-a-generation opportunity
to alleviate the nation’s housing crisis by failing to develop a
strategy for public land disposal.\textsuperscript{86}

The HCLG Select Committee also supported a review of the disposal of
public land strategy on the basis that it is “short-sighted to sell public

\textsuperscript{77} Ibid., para 53
\textsuperscript{78} Ibid., para 90
\textsuperscript{79} Ibid., para 92
\textsuperscript{80} Ibid., para 89
\textsuperscript{81} Ibid., para 53
\textsuperscript{82} NHF, Submission: Autumn Budget 2017, 22 September 2017
\textsuperscript{83} MHCLG, National Planning Policy Framework, February 2019, para 64 [exemptions
to this requirement are allowed in certain circumstances]
\textsuperscript{84} NHF, Submission: Budget 2018, 28 September 2018
\textsuperscript{85} Inside Housing, “Budget a ‘missed opportunity’ on housing says NHF”, 30 October
2018
\textsuperscript{86} HC 2040, One Hundredth and Tenth Report of 2017-19, Sale of Public Land, 29 July
2019, para 1
land to the highest bidder when social housing providers struggle with the cost of land.”87

The Government’s response to Building more social housing was published in October 2020.88 The response made no commitment to develop 90,000 social rented homes annually. The Government did not commit to the publication of targets for the delivery of specific tenures:

While we do not place a specific figure on the number of affordable houses which need to be built every year, we are committed not only to increasing the supply of new affordable homes, but ensuring that we build the right homes in the right places.89

On the approach to public land disposal, the Government said:

Planning reform will make land available for building more quickly, but making the best use of surplus public sector land plays a critical contribution towards this vision. As announced by the Prime Minister on 30 June 2020, work will begin to look at a new, ambitious cross-Government strategy to look at how public sector land can be managed and released so it can be put to better use. This will include home building, improving the environment, contributing to net-zero goals and injecting growth opportunities into communities across the country.90

Unlocking private finance – associations use public funding to lever in private finance for housing development. As grant rates per unit have generally reduced over time, associations have become more reliant on their ability to raise finance. In its 2016 submission to the Autumn Statement, the NHF argued that there was a “strong case” for the continuation of the Affordable Homes Guarantee scheme (AHGS) which had given them access to long-term, competitively priced finance to deliver affordable homes.91

On 16 October 2020 the Housing Minister announced that a new £3 billion Affordable Homes Guarantee Scheme would shortly open for applications and would be delivered by ARA Venn.92

Shelter and KPMG proposed the establishment of a national Housing and Infrastructure Bank funded from Housing ISAs along the lines of the Dutch Bank, Nederlandse Gemeenter (BNG):

A similar structure could be set up in the United Kingdom, with ownership of the bank exclusively in the hands of the government, shared with local authorities or as a not-for-profit vehicle. The bank would need to raise finance so that it could extend loans to housing associations and other providers of new affordable housing. This could come from issuing bonds to the capital markets, as is the case with BNG, and the bank could also

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87 HC 173, Third Report of 2019-21, Building more social housing, 27 July 2020, paras 44-45
88 CP 299, Government Response to the Housing, Communities and Local Government Select Committee report on the Long-term Delivery of Social and Affordable Rented Housing, 27 October 2020
89 Ibid., p6
90 Ibid., p6
91 NHF, An offer for everyone, October 2016
92 MHCLG, £3 billion affordable housing guarantee scheme to be operated by Ara Venn, 16 October 2020
use special savings accounts (housing ISAs) to raise finance from retail deposits, as in the French livrét A scheme. The Bank could be a new institution, or part of an existing or planned institution such as the Green Investment Bank, British Investment Bank or homes and communities agency (HCA).93

Associations have increased their income from non-core social housing activity and shared ownership sales in recent years. The 2020 UK Housing Review notes that “cross subsidy had become a very important component of overall funding capacity” but there are pressures on this model in the form of “the slow-down in prices and transactions and rising costs.”94 Constrained grant rates coupled with pressures on associations’ ability to cross-subsidise could put limits on their development capacity. The HCLG Committee (July 2020) observed “The cross-subsidy model has reached its limit.”95

The sector has also raised the issue of new liabilities, specifically pressures emerging from the need for fire safety upgrades. A survey of 30 of the largest housing associations by Inside Housing prompted seventeen responses – those respondents had reportedly spent more than £463 million on fire safety measures since June 2017 with development plans being reconsidered as a result.96 The NHF’s response to the 2020 Spending Review expressed disappointment at the lack of upfront finance for cladding removal.97

Local housing authorities
On the contribution of council housing, the 2020 UK Housing Review observes:

In the mid-twentieth century, an upsurge in housebuilding was almost unthinkable without a major contribution by local authorities building new council homes.98

In 1968 more than 352,000 new homes were completed with over 40% delivered by local authorities.99

Councils’ contribution to new housing supply had been contracting since the early 1980s so by 1995 English authorities were building fewer than 1,000 units annually but recent years have seen an upswing, albeit from a very low base.100 There is evidence of authorities being keen to increase their contribution.

The Local Government Association (LGA) said it is “imperative” in its response to the pandemic for the Government to consider “what steps,

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93 Shelter and KPMG (2015), Building the homes we need: a programme for the 2015 government, p75
94 Stephens M; Perry J; Williams P; Young G; Fitzpatrick S: 2020 UK Housing Review, p24
95 HC 173, Third Report of 2019-21, Building more social housing, 27 July 2020, para 67
96 Inside Housing, “Cladding scandal: the spend so far”, 30 October 2020 [subscription required]
97 NHF Spending Review 2020 – Briefing for housing associations, 2 December 2020, p3
98 Stephens M; Perry J; Williams P; Young G; Fitzpatrick S: 2020 UK Housing Review, p18
99 Ibid.
100 Ibid.
measures and reforms would support councils to work towards delivering a new generation of 100,000 high quality social homes per year.” In addition to stressing the multiplier effect of new social housing, whereby “every £1 invested in a new social home generates £2.84 in the wider economy”, the LGA’s report, Delivery of Council Housing – Developing a Stimulus Package Post-Pandemic, lists several policy and fiscal interventions that the LGA suggests would have a positive impact in stimulating an increase in the supply of council housing.

Policy developments favouring more council development include:

• Access to bid for grant funding.
• Freedom to combine grant funding with unrestricted prudential borrowing from November 2018.
• The end of enforced rent reductions between April 2016 and 2019.

**Remaining barriers include:**

• The level of grant funding. The Chartered Institute of Housing (CIH) has called for higher levels of investment and grant rates to aid providers’ response to the coronavirus-related economic crisis.\(^\text{101}\)
• Restrictions on authorities’ ability to retain and use capital receipts generated by Right to Buy (RTB) sales. The joint report published by the CIH, National Federation of ALMOs (NFA) and the Association of Retained Council Housing (Arch), Local authority new build programmes and lifting the HRA borrowing caps (January 2020), describes the rules on the use of RTB receipts as “a severe impediment” to local authority building programmes.\(^\text{102}\)
• The cost of fire safety remediation work.
• Land and planning constraints.
• Capacity.

These barriers and potential solutions are considered in detail in a separate Library briefing paper: A new era of social rented housing in England?

Section 3.4 of this paper refers to proposed changes to developer contributions which are viewed as a potential threat to securing development of affordable housing through their use.

The representative bodies of both housing associations and local authorities agree that to make a significant contribution to housing supply, the sectors require certainty around public policy matters. In 2016 the House of Lords Select Committee on Economic Affairs concluded:

> Government must recognise the effect that constant changes in public policy have on the housing market; housebuilders, housing

\(^{101}\) CIH, Grant levels need to rise to pump-prime social housing investment, 30 March 2020

\(^{102}\) CIH; NFA; Arch, Local authority new build programmes and lifting the HRA borrowing caps, January 2020, p4

The Government envisioned that lifting borrowing caps would enable councils to build around 10,000 new homes per year.

The Housing, Communities and Local Government Select Committee supports lifting restrictions on councils’ use of RTB receipts (July 2020, para 125). The Government response referred to publication of a response to the 2018 consultation exercise “in due course” (October 2020 p9).
associations and local authorities are unlikely to commit to large building programmes amid such uncertainty.\textsuperscript{103}

### 3.2 Land supply and capturing value

Around 10% of land in England is classed as ‘urban’ and 1% has domestic buildings on it.\textsuperscript{104} While there is sufficient land to build on, land is scarce in economic terms as its supply is inherently limited and fixed. This results in, it is argued, developers having to undergo ‘fierce’ competition for land “while remaining uncertain as to what planning permission they will be able to secure.”\textsuperscript{105}

The price of land is certainly viewed as a barrier to housebuilding. The gain in value that planning permission offers is said to encourage strategic land trading, rather than development, “resulting in the most profitable beneficiaries of residential development being the land owner, not the developer.”\textsuperscript{106} High land prices can, in turn, force down the quality and size of new homes and present difficulties for small and medium sized enterprises (SMEs) when seeking to compete for sites to develop. The New Economics Foundation (NEF) in \textit{What lies beneath} (July 2018), argues that unaffordable land is “at the heart of the housing crisis” and that “any solution to the housing crisis will never succeed unless it takes major steps to address our broken land system.”\textsuperscript{107}

Shelter and KPMG suggest that combined features of the land market mean that there is little competitive pressure at the consumer end of development process:

\[
\text{...the development process is highly vulnerable to shocks, requiring developers to minimise build costs and maximise sale prices by building at a rate that is not related to demand for homes, but demand for homes at certain prices. This strategy is only possible because barriers to entry and market concentration mean there is little competitive pressure at the consumer end of the development process, which might otherwise drive down margins. Competition is focused on acquiring land, rather than satisfying consumers. the result is a vicious circle in which high land prices ensure housing output remains low and house prices high – which in turn feedback to sustain higher land prices.}^{	ext{108}}
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One potential response to this could be a Land Value Tax (LVT). Essentially, under this system land-owners would be required to make payments based on the current market value of land, irrespective of whether, or how well, the land is used. Proponents argue:

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\textsuperscript{103} Select Committee on Economic Affairs, 1\textsuperscript{st} Report of Session 2016-17, \textit{Building More Homes}, HL Paper 20, 15 July 2016, para 61

\textsuperscript{104} \textit{UK National Ecosystem Assessment}, 2011, p23

\textsuperscript{105} Shelter and KPMG (2015), \textit{Building the homes we need: a programme for the 2015 government}, p8

\textsuperscript{106} Ibid.

\textsuperscript{107} NEF, \textit{What lies beneath: how to fix the broken land system at the heart of our housing crisis}, July 2018, p2

\textsuperscript{108} Shelter and KPMG (2015), \textit{Building the homes we need: a programme for the 2015 government}, p39
The necessity to pay the tax obliges landowners to develop vacant and under-used land properly or to make way for others who will.\textsuperscript{109}

In \textit{What lies beneath} (July 2018), the NEF proposed taxation mechanisms “to redistribute unfair gains which accrue to landowners through public investment and land value increases.”\textsuperscript{110}

There is some support amongst economists for an LVT to replace business rates, and, ultimately, Council Tax and Stamp Duty Land Tax. These ideas have not garnered wide political support.\textsuperscript{111}

A March 2018 \textit{briefing note} by thinktank Civitas proposed that councils should be allowed to buy sites at valuations that exclude potential future planning permission. This, it is argued, could reduce upfront development costs for 100,000 units from an estimated £24 billion to £15 billion using a new code for valuing land.\textsuperscript{112}

\textbf{There is support for reforms to the Land Compensation Act 1961 and for changes to the prospective use value that landowners can charge for sites.}

The NHF’s submission on Budget 2018 said “the cost and availability of land remains the single biggest barrier housing associations face to building more homes, more quickly.”\textsuperscript{113} The NHF called for:

- Reform of the Land Compensation Act 1961 to enable a fairer proportion of the uplift in land value to be shared with the community, including for affordable housing.
- A commitment to deliver 50% affordable housing on public sector land.
- A transparent database of land ownership.\textsuperscript{114}

Former Conservative Planning Minister, Nick Boles, expressed some support for giving authorities the ability to buy land at current use value\textsuperscript{115} and, in \textit{Green, Pleasant and Affordable} (June 2018), Neil O’Brien, writing for the Conservative think tank, Onward, said:

Give councils borrowing power to buy land and grant themselves planning permission, to enable councils to capture more of the gains from development. Reform the 1961 Land Compensation Act to clarify that local and central government can purchase land at current market use values, not inflated or speculative “hope” values. Reform Section 106 to relax constraints on what councils can charge.\textsuperscript{116}

The HCLG Select Committee conducted an inquiry into land value capture which reported on 13 September 2018.\textsuperscript{117} The Government

\begin{flushright}
\textbf{There is some support for reforms to the Land Compensation Act 1961 to enable land purchase at current use value.}
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\textsuperscript{109} Land Value Taxation Campaign [accessed on 4 January 2017]
\textsuperscript{110} NEF, \textit{What lies beneath: how to fix the broken land system at the heart of our housing crisis}, July 2018, p2
\textsuperscript{111} Institute for Economic Affairs, \textit{The case for a Land Value Tax}, 15 February 2016
\textsuperscript{112} Civitas, \textit{Reform of the land compensation rules: How much could it save on the cost of a public-sector housebuilding programme?} March 2018
\textsuperscript{113} NHF, Submission: Budget 2018, 28 September 2018
\textsuperscript{114} Ibid.
\textsuperscript{115} Financial Times, “Tory MP’s housing reforms divide industry,” 14 November 2017
\textsuperscript{116} Neil O’Brien MP, Onward, \textit{Green, Pleasant and Affordable}, June 2018, p8
\textsuperscript{117} HC 766, Tenth Report of 2017-19, 13 September 2018
\end{flushright}
response was published in November 2019. The Committee concluded there was scope for central and local government to claim a greater proportion of land value increases through “reforms to existing taxes and charges, improvements to compulsory purchase powers, or through new mechanisms of land value capture.” The previous Conservative Government agreed that there was scope to claim a greater proportion of land values but intended to “evolve the existing system of developer contributions to make them more transparent, efficient and accountable”. There was an intention to “continue to explore options for further reforms to better capture land value uplift, providing it can be assured that the short-run impact on land markets does not distract from delivering a better housing market.”

On calls to reform the Land Compensation Act 1961 to allow authorities to compulsorily purchase land at a fairer price, the Government said:

> Through the Housing and Planning Act 2016 and Neighbourhood Planning Act 2017, the Government has recently taken forward wide-ranging reforms to make the compulsory purchase process clearer, fairer and faster for all. These reforms include extensive changes to the Land Compensation Act 1961. We are keen to let these recent reforms bed in but will continue to monitor their practical application and remain open to considering practical improvements to the framework.

The HCLG Committee returned to the issue in Building more social housing (July 2020) in which they said “Reform of the Land Compensation Act 1961 is well overdue” and referred back to the conclusions reached in the 2018 report. The Government response (October 2020) referred to the reform of developer contributions and potential future reforms to the 1961 Act:

> The Government expects the new Levy to raise more revenue than under the current system of developer contributions and deliver at least as much – if not more – on-site affordable housing as at present. This approach to capturing land value will be simpler, more transparent and more consistent than the current system.

> The Government is also committed to a faster and better compulsory purchase process to support the delivery of housing, regeneration and infrastructure projects. We intend to publish proposals in the Autumn for consultation, including potential further reforms to the land compensation regime so it is fairer and easier to reach agreement.

In January 2020 the UK Collaborative Centre for Housing Excellence (CaCHE) published a briefing paper on Capturing increases in land value. The paper looks at the arguments for capturing increases in

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118 CM 9734, November 2018
119 HC 766, Tenth Report of 2017-19, 13 September 2018
120 CM 9734, November 2018, para 11
121 Ibid., para 29
122 HC 173, Third Report of 2019-21, Building more social housing, 27 July 2020, para 36
123 CP 299, Government Response to the Housing, Communities and Local Government Select Committee report on the Long-term Delivery of Social and Affordable Rented Housing, 27 October 2020, p5
124 Crook T: Capturing increases in land value, 13 January 2020, CaCHE
land values and reviews evidence on the impact of policies to date and what more might be done. The paper includes consideration of experience overseas and within the nations of the UK.

There is support for an increase in transparency of the land supply system through the release of data on land market activity and for incentives to promote the development of stalled sites. Better data would, it is argued, create a more level playing field and enable small builders to find sites more easily. The Lyons Housing Review of 2014 recommended that the Land Registry should open up land ownership information to the public and that it should be made a legal requirement to register land option agreements, prices and transactions:

> Greater transparency about ownership, options and transactions would deliver a number of important benefits that would result in better operation of the land market. It would assist in effective plan making by enabling local authorities to properly assess land availability and the record of landowners, agents and developers in bringing forward sites. It would greatly assist local authorities and other developers in land assembly, and provide information on achievable prices to landowners. It would also improve understanding of the viability of schemes to assist in negotiations of planning obligations. This would also increase the chance of planning gain being financed by a landowner rather than a developer.125

Fixing our broken housing market set out measures the 2015 Government intended to take to increase the transparency of land ownership and interests, including:

- A target for HM Land Registry to achieve comprehensive land registration by 2030 with all publicly held land in areas of high housing need registered by 2020, with the rest to follow by 2025.127
- Consult on improving the transparency of contractual arrangements used to control land with legislation to follow “at the earliest opportunity.”
- The release of the commercial and corporate ownership data set and the overseas ownership data set free of charge, and publication of a draft Bill on the reform of restrictive covenants and other interests.128

The annex to the White Paper contained consultation questions on these proposals. Responses could be submitted up to 2 May 2017.

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125 Shelter and KPMG (2015), Building the homes we need: a programme for the 2015 government, p13
126 The Lyons Housing Review, 2014, p63
127 In June 2019 the Government said it was working with the Land Registry to meet the White Paper commitments on land registration. Housing: Written question - 258995, 3 June 2019
128 Cm 9352, Fixing our broken housing market, February 2017, paras 1.17-21
Is land banking a problem?
Land banking describes the practice of land-owners who retain land while its value grows until it can be built on more profitably, sold on at an increased price, or is simply retained as an asset.

Several studies have considered whether land banking takes place. For example, a report by Molior for the London Mayor in 2012 found that of the 210,000 existing planning permissions for new homes in London, 55% were in the control of building firms while 45% were in the control of non-building firms such as investment funds, historic land owners, government and ‘developers’ who do not build. Molior concluded that accusations of land banking directed at builders were “misplaced.” An update report in 2014 found a smaller percentage of planning permissions held by non-developers.

It is acknowledged that developers retain stocks of land with planning permission as a strategy for managing pipelines and smoothing out peaks and troughs in resource allocation. There are also holdings of strategic land banks which are sites without planning permission which are generally held under option, i.e. not recorded as in the developer’s ownership. Shelter and KPMG conclude that incentives to get strategic land through planning are “very high” and expect any issues to be:

…more at the strategic and local planning level, with a lack of visibility over land control and intent meaning that it is less each to match planning strategy with land that is controlled by developers and hence more likely to be able to be brought forward quickly for development.

Sir Oliver Letwin’s review of build-out rates, the final report of which was published in October 2018, found no evidence of speculative land banking by large developers:

The other allegation – that the ‘real option’ value attaching to the non-depreciating asset of land is inducing the major house builders to engage in “land banking” in the sense of “locking away” land from the market before receiving implementable permissions is (albeit in a slightly less obvious way) equally implausible.

It is of course true that, although the land market can be highly volatile, land (unlike most assets) does not depreciate, and has generally tended to increase in value across the cycle, and has a ‘real option’ value. By holding rights over land that benefits from (or is soon likely to benefit from) some form of permission to build houses, the company which holds that land obtains a valuable ability to make profit by building on it at whatever time is thought likely to maximise the profitability of doing so. It would therefore be perfectly possible for financial investors of a certain kind to seek to make a business out of holding land as a purely speculative activity.

129 Molior/GLA, Barriers to housing delivery, December 2012
130 Molior/GLA, Barriers to housing delivery update, July 2014
131 Shelter and KPMG (2015), Building the homes we need: a programme for the 2015 government, p37
But I cannot find any evidence that the major house builders are financial investors of this kind.\textsuperscript{132}

**Release of public sector land for housing**

Government activity since 2010 in relation to land supply has been focused on **ensuring that land in public ownership is released for housebuilding**. Evidence submitted by the Home Builders Federation to the Lords Economic Affairs Committee (2016) said that between a quarter and a third of all potential residential land was controlled by the public sector.\textsuperscript{133} In June 2011, the then-Minister for Housing announced a plan to release enough public land to build up to 100,000 new homes by 2015.\textsuperscript{134} The Autumn Statement 2015 saw a commitment to sell land for more than 160,000 new homes up to 2020, while the then-Housing Minister told the Economic Affairs Committee that the 2015 Government was aiming for 320,000 homes on public land in the Parliament.\textsuperscript{135}

The Coalition Government’s land release programme attracted criticism from the National Audit Office and the Public Accounts Committee (PAC).\textsuperscript{136} Progress in disposing of sites was described as “slow” and many of the potential sites were considered to be at “high risk” of falling out of the programme. The PAC concluded that the disposals programme up to 2015 “could not demonstrate the success of the programme in addressing the housing shortage or achieving value for money.”\textsuperscript{137} The PAC identified some improvements in guidance and monitoring arrangements related to the delivery of the disposals programme.\textsuperscript{138}


> The Public Land for Housing programme (2015-2020) supports the government’s Estate Strategy aim to identify and release surplus central government land. The aim of the programme is to release land with capacity for at least 160,000 homes in England from the central government estate by 31 March 2020. This followed delivery of the 2011-15 Public Land for Housing programme through which surplus land with capacity for 109,000 homes against a target of 100,000 homes was released.

> The new performance data released on the Public Land for Housing Programme was published on Thursday 6th February 2020, (data release attached) and shows that since the start of the

\begin{itemize}
\item \textsuperscript{132} Rt Hon Sir Oliver Letwin, *Independent Review of Build Out Rates – draft analysis*, June 2018
\item \textsuperscript{133} Select Committee on Economic Affairs, 1\textsuperscript{st} Report of Session 2016-17, *Building More Homes*, HL Paper 20, 15 July 2016, para 154
\item \textsuperscript{134} DCLG Press Release, 8 June 2011
\item \textsuperscript{135} Select Committee on Economic Affairs, 1\textsuperscript{st} Report of Session 2016-17, *Building More Homes*, HL Paper 20, 15 July 2016, para 162
\item \textsuperscript{136} HC 634, Twenty-second report of 2016-17, 2 November 2016
\item \textsuperscript{137} Ibid., para 8
\item \textsuperscript{138} Ibid., p3
\end{itemize}
current programme to the end of June 2019, departments had sold 508 sites with capacity for 48,000 homes. We confirmed to the Public Accounts Committee in 2019 that land release for 160,000 homes will be achieved to a longer timeframe due to the complexities of disposal and the evolving demands placed on departments’ estates.

Full details of the data requested are set out in the data tables document attached. To note in regards to data on affordable housing, once a site has been sold by the department, the allocation of affordable housing is agreed between local authorities and developers on a site by site basis.

We are currently considering options for a future programme that supports the government’s emerging priorities, reflecting on lessons learnt from both programmes. Decisions on a future programme, including targets for departments, will be made at Spending Review.139

On release of the data on 6 February 2020,140 the New Economics Foundation (NEF) commented on the lack of affordable housing built on public land:

- While the government has sold enough public land for developers to build 131,000 homes, only 2.6% of those homes will be for social rent.
- 15% of homes built on public land will be classified as ‘affordable housing’. However, the government does not have data on what kind of affordable housing the majority of this is. Since the government changed the definition of ‘affordable’ to include homes rented at 80% market rates, social rent is widely understood to be the only housing genuinely affordable to people on low incomes. Such affordable housing also includes ‘shared ownership’ homes, which in London are accessible to those earning up to £80,000 per year.
- As a percentage of total affordable housing built on sold-off public land, social rented housing will still only make up 17% of all affordable homes built.141

In Building the social homes we need (November 2019), the NEF argued for, amongst other things, the ring-fencing of public land for the provision of social housing where appropriate.142

In Building the homes we need: a programme for the 2015 government (2015) Shelter and KPMG suggested that local authorities could set up joint ventures to lease land to affordable house builders, or institutional investors, while retaining the freehold. Leasing the land would mean that authorities could receive a share of any rental income:

Capital Economics modelling shows that such a model could be set up which requires no upfront grant funding to build the affordable homes and returns between 15% and 30% of rental

139 Government Departments: Land: Written Question – HL1573, 26 February 2020
140 MHCLG, Public Land for Housing Programme 2015-2020 data release, 6 February 2020
141 NEF, Sold off public land is creating miniscule amounts of affordable housing, 18 February 2020
142 Beswick J; McCann D; Wheatley H: NEF, Building the social homes we need, November 2019
income to the local authority dependent on location. The downside to local authorities would simply be the opportunity cost of not selling the land to a developer for full market value at that point (although freehold ownership would be retained).  

The Lords Select Committee on Economic Affairs expressed support for these types of initiatives and referred to calls from Orbit Group, a large housing association, for the identification and release of government-owned land specifically for the building of rented properties. Orbit’s suggested model would involve deferring the land costs for a period, e.g. 30 years, to ensure rents charged are affordable.

The 2017 Government’s response (November 2018) to the Select Committee’s inquiry into land value capture set out the local authority and Homes England role in land assembly:

The revised National Planning Policy Framework encourages local authorities to take a proactive approach to land assembly, supported where necessary by the use of compulsory purchase powers, where doing so would help to secure better development outcomes. This work is supported by MHCLG’s Land Release Fund which supports councils to bid for funding for land remediation and small-scale infrastructure, which will help bring sites forward for housing that would not have otherwise been developed. Additionally the £1.3billion Land Assembly Fund, launched in September 2018, enables the acquisition of land needing work to get it ready for the market.

Homes England also have an important role in assembling land for housing. They use mechanisms enabling control of the pace of development on land it disposes through the Public Land for Housing Programme. Instead of freehold sales, Homes England in many cases use building leases, which grant developers permission to build homes on its land. Freeholds are passed directly to homeowners. Conditions within the building lease set development milestones. In the event of failure by developers to meet milestones or other requirements within the lease, Homes England have the power to terminate leases and bring the land back to the market. Homes England already have broad compulsory purchase powers under section 9 of the Housing and Regeneration Act 2008 which can be used to assemble land for housing development and regeneration projects. In the Housing White Paper, Homes England committed to making more proactive use of these powers.

A PQ response issued on 3 March 2020 provided an update on local authority land release activity:

In addition, at Budget 2016, an announcement was made that councils would collaborate with central government on a local authority land ambition, working with their partners to release surplus local authority-owned land with the capacity for at least 160,000 homes by the end of March 2020. As of August 2019, two-thirds of local authorities in England were forecasting the release of land for approximately 128,000 homes by the end of March 2020. We will report on the final local authority land

143 Shelter and KPMG (2015), Building the homes we need: a programme for the 2015 government, p76
144 Select Committee on Economic Affairs, 1st Report of Session 2016-17, Building More Homes, HL Paper 20, 15 July 2016, para 176
145 CM 9734, November 2018, paras 43 and 44
ambition numbers in Summer 2020 once the final set of data has been collected. We are considering options for the future of the local authority land ambition after March 2020, including estimating the amount of surplus local authority land that could be used for housing.

Information on land held by individual sectors is continually refined. Numerous commentators and reports have questioned the sale of public land to the highest bidder. The New Economic Foundation (NEF, 2018) called for public land to be “put to the service of long-term public good” via a People’s Land Bank. The NEF also expressed support for the establishment of a Land Commission:

Recommendation: Following Scotland’s lead, an English Land Commission should be established to identify policies for an equitable distribution of land, and land values, and a fairer land system.

The Lords Economic Affairs Select Committee (2016) supported the relaxation of the requirement to achieve best market value when releasing public land but concluded that this would only work “if there is a central scheme that approves and compensates public bodies who sell land below market value.”

Consultation on “the disposal of surplus local authority land - rationalising and updating the rules which govern disposal of public land at less than best value” was conducted between 29 October 2018 and 14 January 2019. The Government response was published in May 2019. On disposing of public land at less than best value, the Government said: “We are considering the responses to this part of the consultation and will announce the way forward in due course.”

On 30 June 2020 the Prime Minister said that a new strategy for managing public sector land would be developed:

Ahead of the Spending Review, a new, ambitious cross-government strategy will look at how public sector land can be managed and released so it can be put to better use. This would include home building, improving the environment, contributing to net zero goals and injecting growth opportunities into communities across the country.

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146 Land: Public Sector: Written question – 18549, 3 March 2020
147 See for example: NEF, What lies beneath: how to fix the broken land system at the heart of our housing crisis, July 2018, p5; HC 2040, One Hundredth and Tenth Report of 2017-19, Sale of Public Land, 29 July 2019, para 1; HC 173, Third Report of 2019-21, Building more social housing, 27 July 2020, paras 44
148 NEF, What lies beneath: how to fix the broken land system at the heart of our housing crisis, July 2018, p5
149 Ibid.
150 Select Committee on Economic Affairs, 1st Report of Session 2016-17, Building More Homes, HL Paper 20, 15 July 2016, para 177
151 MHCLG, Planning Reform: supporting the high street and increasing the delivery of new homes, October 2018
152 MHCLG, Government response to consultation on Planning Reform: supporting the high street and increasing the delivery of new homes, May 2019, p22
153 Cabinet Office, PM: Build, Build, Build 30 June 2020
New Towns and Garden Cities

The Conservative Manifesto 2015 contained a commitment to support locally-led garden cities and towns in places where communities want them. The package of support available was set out in the prospectus: Locally-led Garden Villages, Towns and Cities (March 2016). The aim was for development to take place on brownfield and/or public land. There was a commitment to work with bidders in exchange for guaranteed delivery and there was a possibility of additional planning freedoms to support housing growth in certain circumstances.

The Lyons Housing Review (2014) referred to “a growing consensus, clearly reflected in the evidence to this review that a new programme of Garden Cities and New Towns would make an important contribution to delivering the homes we need.”

Dame Kate Barker also said she supported a return to thinking about new towns in her evidence to the Treasury Select Committee (2016):

**Dame Kate Barker:** There are two things I would favour the most. One would be a return to thinking about new towns. I stress “towns” rather than villages. I am not opposed to garden villages, because we need a whole range of solutions. In some ways, however, I do not find them totally attractive, because we have a view in England—maybe it is not right—that what we like is quite close urban areas and then open countryside. While garden villages remove the objection that you are building next to somebody, they will inevitably impinge on open countryside. They may very well not be places large enough to sustain a secondary school, which means you have to bus children all around. They may not be places where there is huge local economic activity.

**Chair:** I also mentioned expansion of existing villages.

**Dame Kate Barker:** Yes, I would very much prefer to see existing towns and villages expanded rather than moved to garden villages, given some thought about the appropriate transport links and, as I say, education.

Dame Kate emphasised that she would want to see “as much land as possible brought in at existing use value” to use the resultant planning gain to fund infrastructure.

New powers introduced on 23 July 2018 mean that councils can seek Government approval to launch a New Town Development Corporation which will be responsible for delivering new towns and garden communities in their area. The measure was described as “part of the government’s wide-ranging programme of planning reform and targeted funding to deliver 300,000 homes a year by the mid-2020s.”

Dominic Raab, then-Housing Minster, said:

We need to build the homes our communities need and I’m committed to giving councils the tools they need to deliver.

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154 The Lyons Housing Review, 2014, p90
155 HC 861, 7 December 2016, Q5
156 ibid., Q8
157 MHCLG, New powers for councils to deliver new homes for local families, 4 June 2018
That’s why we’re giving councils the option of applying to establish development corporations. These will be locally accountable and must listen to the views of the community to ensure that the right homes are built in the right places.\textsuperscript{158}

The 2017 Government consulted\textsuperscript{159} on draft guidance on the use of New Town Compulsory Purchase Order powers to “provide additional clarity and certainty to those with an interest in proposed new settlements, including promoters, investors, infrastructure providers, landowners and local communities.”\textsuperscript{160} The outcome of the consultation was published in May 2019\textsuperscript{161} and new guidance followed in July 2019.

**Autumn Budget 2017** included the following commitment:

> The government will bring together public and private capital to build five new garden towns, using appropriate delivery vehicles such as development corporations, including in areas of high demand such as the South East.\textsuperscript{162}

In December 2017, the then Housing Minister, Alok Sharma, said that the Government was supporting “24 locally-led garden cities, towns and villages, which have the potential to deliver around 220,000 homes.” He announced a further £3 million to support the delivery of 14 garden villages as part of the existing programme.\textsuperscript{163}

The then Secretary of State, James Brokenshire, announced a new garden communities programme on 15 August 2018.\textsuperscript{164} He provided an update on progress in response to a PQ on 6 March 2019:

> Across England, we are currently supporting twenty-four locally-led garden communities, to be exemplars of high quality, good design and best practice. This support has included the provision of £31 million of capacity funding to the garden towns and villages and nearly £300 million of infrastructure funding to Ebbsfleet Garden City, hands on expertise, support and delivery advice from experts within Homes England; and, cross-government brokerage to resolve barriers to delivery. Our support has helped foster ambition to accelerate the pace of delivery, with over 12,500 new homes now started.\textsuperscript{165}

**Budget 2020** (March 2020) announced:

> The government is also going to examine and develop the case for up to four new Development Corporations in the OxCam Arc at Bedford, St Neots/Sandy, Cambourne and Cambridge, which includes plans to explore the case for a New Town at Cambridge, to accelerate new housing and infrastructure development.\textsuperscript{166}
### 3.3 Funding infrastructure

A large-scale housebuilding programme requires investment in infrastructure. The Public Accounts Committee’s June 2019 report, *Planning and the broken housing market*, referred to the Department’s “rough estimate” of needing around £12 billion from the public purse to support infrastructure for 200,000 new homes a year, with the remainder coming from developers.\(^{167}\) The tools local authorities have at their disposal to get developers to contribute to the cost of infrastructure are currently section 106 agreements\(^{168}\) and the Community Infrastructure Levy – see section 3.4 for more information on these tools.

The Autumn Statement 2016 announced a new Housing Infrastructure Fund (HIF) of £2.3 billion by 2020-21:

> …funded by the NPIF [national productivity investment fund] and allocated to local government on a competitive basis, will provide infrastructure targeted at unlocking new private house building in the areas where housing need is greatest. This will deliver up to 100,000 new homes. The government will also examine options to ensure that other government transport funding better supports housing growth.\(^{169}\)

Bidding for the HIF opened in 2017. The Autumn Budget 2017 allocated an additional £2.7bn to bring total funding up to £5bn.\(^{170}\) *Budget 2018* announced a further £500 million bringing total funding to £5.5 billion “unlocking up to 650,000 new homes”.\(^{171}\) The background notes to the 2019 Queen’s Speech said that through the HIF “the Government has already allocated £3.07 billion to unlock over 280,000 homes”.\(^{172}\)

The Secretary of State, Robert Jenrick, said that a new version of the HIF would be created:

> In the previous Parliament we created the housing infrastructure fund, which was a huge success and has delivered billions of pounds of infrastructure. We have committed to create a new version of that, which the Chancellor and I will be announcing shortly and will be larger and longer-term than its predecessor.\(^{173}\)

The notes to the 2019 Queen’s Speech referred to a “a new £10bn Single Housing Infrastructure Fund” which will provide “roads, schools and GP surgeries needed to support new homes”.\(^{174}\)

Spending Review (SR2020) 2020 was deferred to November 2020 and covers one year.\(^{175}\) SR2020 announced the creation of a National Home Building Fund (NHBF) with £7.1 billion in funding made up of £4.8

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\(^{167}\) Public Accounts Committee, HC 1744, *Planning and the broken housing market*, Session 2017-19, 26 June 2019, para 14

\(^{168}\) Developers and local authorities agree a contract relevant to a specific development that will mitigate its impact. This can include the provision of affordable housing and payment for additional infrastructure.

\(^{169}\) Autumn Statement 2016, para 3.11

\(^{170}\) HC 587, 23 November 2017, para 5.18

\(^{171}\) HC 1629, October 2018, para 4.56

\(^{172}\) Background notes to the Queen’s Speech, December 2019, p50

\(^{173}\) HC Deb 13 January 2020, c736

\(^{174}\) Background notes to the Queen’s Speech, December 2019, p48

\(^{175}\) CP 330, November 2020
billion in previously announced capital grant funding, £2.2 billion in new loan finance for SMEs and innovative housebuilders, and £100 million for non-Mayoral Combined Authorities (MCAs). Additional funding will be announced at the next multi-year Spending Review:

...further funding for the NHBF will be confirmed at the next multi-year spending review, delivering on the government’s commitment to provide £10 billion to unlock homes through provision of infrastructure.176

The Lyons Housing Review (2014) pointed out that much of the infrastructure for the post-1949 New Town developments was publicly funded with Government loans over 60 years.177 Lyons went on:

A key challenge will be balancing the large up-front infrastructure costs against the longer term receipts and uplift. The lessons from the New Towns and the financial modelling conducted by some entrants to the Wolfson Prize shows that new settlements could be largely self-financing over the long term if they have an effective means of land value capture. This will need to be underpinned by reforms to powers for compulsory purchase which we propose. However, up-front financing will be required to support early, up-front costs incurred by the new development.178

The Housing & Finance Institute launched a pilot scheme with the aim of unblocking infrastructure delays on housing developments. The scheme brought together various parties and was focused on housing developments that were delayed due to a lack of water, sewage, electricity, gas or road connectivity. In November 2017, the Institute published a consultation paper which set out eight core areas of recommendations from its research work. The consultation ran until 31 December 2017.179

Fixing our broken housing market said that the Government would amend national planning policy so that local authorities will be expected to identify development opportunities arising out of new infrastructure. The NPPF states:

The supply of large numbers of new homes can often be best achieved through planning for larger scale development, such as new settlements or significant extensions to existing villages and towns, provided they are well located and designed, and supported by the necessary infrastructure and facilities. Working with the support of their communities, and with other authorities if appropriate, strategic policy-making authorities should identify suitable locations for such development where this can help to meet identified needs in a sustainable way. In doing so, they should:

a) consider the opportunities presented by existing or planned investment in infrastructure, the area’s economic potential and the scope for net environmental gains…180

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176 Ibid., para 6.59 [emphasis added]
177 The Lyons Housing Review, 2014, p92
178 Ibid., p93
179 Housing & Finance Institute, Proposed recommendations to improve the delivery of housing related infrastructure, November 2017
180 MHCLG, NPPF, February 2019, para 72
The NPPF requires local plans to set out policy requirements for **developer contributions** towards infrastructure and affordable housing:

Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure). Such policies should not undermine the deliverability of the plan.\(^{181}\)

Section 3.2 of this paper touches on debate around capturing increases in land value for the public benefit once planning permission is granted. Currently, the Community Infrastructure Levy (CIL) and section 106 agreements (see section 3.4 below) are the main means through which this increase in value is captured. Evidence submitted to the Housing, Communities and Local Government Committee’s inquiry into land value capture by the Chartered Institute of Housing argued that there is scope for an improved system to achieve a higher contribution towards the cost of infrastructure:

*Analysis* by the Centre for Progressive Capitalism identified that Section 106 agreements and CIL together captured £2.8 billion of the increase in land value for public benefit, leaving £9.3 billion as windfall profit, largely accruing to landowners/traders. They estimate that, at that rate, £185 billion of increased value over the next 20 years would be lost, which otherwise would be able to contribute towards the infrastructure required for that development, and the benefit of local communities. A system is required that enables a more balanced share of the increase in land value between landowner, developer and the public.\(^{182}\)

The Committee made several recommendations on funding infrastructure for housing developments, including changes to section 106 and CIL (see section 3.4):

- Consideration to be given to introducing a Local Infrastructure Tariff (LIT). The 2017 Government said it would continue to explore options, including a LIT but that there was no precise model for it.\(^{183}\)

- Further consideration of how Strategic Infrastructure Tariffs (SITs) could be used to capture value for specific large infrastructure projects. The 2017 Government consulted on proposals to take forward SITs for Combined Authorities early in 2018 – a summary of responses and the [Government response](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/889058/cm9734.pdf) was published in October 2018.\(^{184}\) In the longer term there was an intention to allow joint planning committees to charge the SIT and to “review options for giving other groups the power to levy a tariff.” Guidance was to be amended to encourage groups of charging

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\(^{182}\) [Written evidence submitted by the Chartered Institute of Housing to the HCLG Committee inquiry into land value capture](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/887917/lvc_052.pdf), LVC 052, March 2018


authorities to use existing powers to support the delivery of strategic infrastructure by pooling their local CIL receipts.\textsuperscript{185}

- Build on reforms to the Compulsory Purchase Order (CPO) process to make it faster and less expensive. The Committee said that CPO powers could be important in enabling the provision of necessary infrastructure on sites. The 2017 Government confirmed that CPO powers would be kept under review.\textsuperscript{186} The Government response to the HCLG Committee’s report, Building more social housing (July 2020), said that proposals aimed at achieving a faster and better compulsory purchase process would be published in the Autumn for consultation.\textsuperscript{187}

- Consideration of how Tax Increment Financing (TIF) could be used “more extensively to fund infrastructure in enterprise zones”. The 2017 Government said there were no plans to change this process.\textsuperscript{188}

### 3.4 The planning system

The planning system in England is frequently cited as a ‘blocker’ to achieving the necessary rates of housing delivery. The system regulates, amongst other things, where housing development takes place, density levels, the necessary supporting infrastructure, and the obligation to provide a proportion of affordable housing as part of a development.

It is an area that has attracted a good deal of Government attention. The Coalition Government’s \textit{Localism Act 2011} abolished nationally set housing targets and regional planning bodies. National planning policy is now set out in the \textit{National Planning Policy Framework} (NPPF), originally published in March 2012 – the current version was revised in February 2019. The NPPF and its accompanying Planning Practice Guidance gives broad guidance to local authorities about calculating the supply of housing.

Following the election of the Conservative Government in May 2015, there were several planning related consultations and announcements. Changes to the planning system were included in the \textit{Housing and Planning Act 2016} and \textit{Energy Act 2016}. Additional reforms were included in the \textit{Neighbourhood Planning Act 2017}.

The 2015 Government’s response to the Lords Economic Affairs Committee’s report \textit{Building More Homes} (2016), set out how the reforms made up to that point had impacted:

The Government strongly believes that our planning reforms to date have done much to streamline the planning system and remove barriers to development. 83 per cent of major applications were determined on time between April and June 2016, which is the highest percentage on record.

\textsuperscript{185} CM 9734, November 2018, para 21
\textsuperscript{186} Ibid., paras 23-28
\textsuperscript{187} CP 299, Government Response to the Housing, Communities and Local Government Select Committee report on the Long-term Delivery of Social and Affordable Rented Housing, 27 October 2020, p5
\textsuperscript{188} Ibid., para 38
In addition, in the year to 30 June 2016, the reformed planning system has given permission for 277,000 new homes. Finally, our reforms to Permitted Development Rights have led to a strong contribution to housing supply from conversions and changes of use in addition to new house building.\footnote{Government response to the House of Lords Economic Affairs Committee Report: “Building more homes,” CM 9384, December 2016}

The response went on say that the forthcoming Housing White Paper “will set out a further package of reforms to ensure that our planning system better supports housing delivery.”\footnote{Ibid.} Fixing our broken housing market\footnote{Background briefing notes to the 2019 Queen’s Speech, December 2019, p48} was published in February 2017. A summary of its proposals on planning, together with initial reactions, can be found in Library briefing paper Planning reform in the housing white paper.

The 2019 Queen’s Speech set out the Government’s intention to reform the planning system:

To deliver on the homes this country needs, the Government is committed to building at least a million more homes over this Parliament. In the coming months we will set out further steps to achieve this, including an ambitious Planning White Paper and funding for critical infrastructure.\footnote{MHCLG, Planning for the Future, 6 August 2020}

**The Planning White Paper, August 2020**

The Planning White Paper\footnote{Fixing our broken housing market, 2014 p43} was subsequently published in August 2020 with submissions invited up to 29 October. Responses are currently being analysed.\footnote{Select Committee on Economic Affairs, 1st Report of Session 2016-17, Building More Homes, HL Paper 20, 15 July 2016, para 148} There is a separate Library paper which discusses the contents of the White Paper and early responses in detail: Planning for the Future: planning policy changes in England in 2020 and future reforms.

It is unclear whether there is a groundswell of support for another round of major planning reform. The industry requires certainty and where this is lacking housing supply can be constrained. The Lyons housing review (2014) said:

> The evidence submitted to the review overwhelmingly cautioned against further fundamental and wholesale reform of the system which would lead to widespread uncertainty and undermine a rapid increase in housing supply.\footnote{Lyons housing review, 2014 p43}

Witnesses to the Lords Economic Affairs Committee (2016) expressed a variety of opinions on the need for planning reforms. Some thought that reform was “critical” while others thought that planning “was not a problem”.\footnote{Select Committee on Economic Affairs, 1st Report of Session 2016-17, Building More Homes, HL Paper 20, 15 July 2016, para 148}

In the 2020 UK Housing Review Autumn Briefing Paper Mark Stephens notes that the White Paper “articulates the widely held belief that the system is responsible for the housing shortage” and goes on:

> It argues that the discretionary system creates uncertainty and risk for developers, that preparing plans takes too long, and that developer contributions for infrastructure and affordable housing
The discretionary system refers to the role of planning authorities in approving or refusing planning permission on a case-by-case basis.

The key White Paper proposals which are aimed at impacting on housing delivery include moving towards a ‘rules-based’ system and the following measures:

- **A deadline of December 2023 would be set for all planning authorities (LPAs) to have in place an up-to-date Local Plan.** The Government would intervene where the deadline is not met. LPAs are required to assess housing need and plan for making sufficient land available as part of the development of Local Plans. There would be “A new nationally-determined, binding housing requirement that local planning authorities would have to deliver through their Local Plans.”

- **Public participation** in the planning process would be front-loaded and facilitated by digitalisation. Mark Stephens notes "This places much store on people’s willingness to become involved when there is no pressing reason for doing so. By the time a proposal is made it is likely to be too late to object. Public involvement at the application stage would be ‘streamlined’ because at present it causes delays and ‘allows a small minority of voices… to shape outcomes’.”

- **A zonal system would replace the discretionary system:** Under this system shorter ‘rules-based’ Local Plans would identify three types of area: ‘growth’ where outline approval would be automatic for the kinds of development identified in the plan; ‘renewal’ where some development would be allowed, such as ‘gentle densification,’ and ‘protected’ areas kept largely free of development. Mark Stephens notes “However, the zoning exercise would clearly be driven by the increased amount of development land that it would be obliged to identify.”

- **Local Plans would be subject to a single statutory “sustainable development” test,** and “unnecessary assessments and requirements that cause delay and challenge in the current system” would be abolished.

- **The Housing Delivery Test would be retained.** A separate consultation on the standard method for assessing housing need was issued in August 2020 the outcome of which is discussed in section 1.2 (p10) of this paper.

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196 MHCLG, White paper: Planning for the Future, August 2020, p6
197 Ibid., p19
199 See – Royal Town Planning Institute, Zoning: a single page (undated)
200 As opposed to containing general policies for development.
201 MHCLG, White paper: Planning for the Future, August 2020, p15
203 MHCLG, White paper: Planning for the Future, August 2020, p16
204 MHCLG, Changes to the current planning system: consultation on changes to planning policy and regulations, August 2020
• **Developer contributions**, in the form of the Community Infrastructure Levy (CIL) and planning obligations (section 106 agreements), would be reformed as a nationally-set value-based flat rate charge (‘the Infrastructure Levy’). 205

Some of these proposals and reactions to them are discussed in more detail in the following sections.

**Planning conditions**

The Home Builders Federation (HBF) pointed to an increase in the number of planning permissions granted over 2016/17 but still described the planning system as a ‘constraint’ based on the use of planning conditions:

> This is an encouraging headline figure but few of those recently permitted will yet be buildable. Permissions are recorded once one of the ‘conditions’ attached to them by the Local Authority is satisfied- or ‘discharged’. Many will have dozens of ‘pre-commencement’ conditions attached and so builders will not legally be entitled to commence construction until they are all discharged- a process which could take some months and is dependent on the ability and capacity of the authority to provide this service. 206

The HBF welcomed measures in the *Neighbourhood Planning Act 2017* to introduce a new process for agreeing pre-commencement conditions, but said it would like to see a limit on the number of conditions authorities can impose, and authorities prevented from imposing ‘spurious’ conditions that, the HBF argued, could be dealt with later in the construction process to enable builders to get on site more quickly:

> Many conditions – such as the Local Authority needing to approve a final children’s play area design – should not be holding up building work and could be agreed once work is underway through the imposition of a ‘pre-occupation’ condition. Information collected by HBF shows how authorities are holding up construction with demands for scale drawings of the placement of picnic tables and refuse bins in children’s play areas and detailed statements on the ‘engagement and recruitment of local artists’ to provide public art on the new estate. 207

A consultation process in 2018 invited comments on draft regulations to create an exemption to the requirement in the *Neighbourhood Planning Act 2017* that local planning authorities obtain the written agreement of an applicant before imposing a pre-commencement condition on a grant of planning permission. 208 The Government response was published in May 2018. *The Town and Country Planning (Pre-commencement Conditions) Regulations 2018* came into force on 1 October 2018.

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206 HBF, *New home planning ‘permissions’ up – but system remains a constraint*, 3 January 2017
207 Ibid
208 MHCLG, *Improving the use of planning conditions: consultation on draft regulations*, January 2018
The Planning White Paper included a commitment to introduce “clearer and more consistent planning conditions, with standard national conditions to cover common issues.”

Section 106 agreements and the Community Infrastructure Levy

There is a divergence of opinion on the merits of section 106 agreements and Community Infrastructure Levy (CIL) requirements.

Data from the National Housing Federation’s (NHF) survey of housing associations indicates the importance of section 106’s contribution to affordable housing development, in 2018/19:

- 51% (21,442) of affordable starts were delivered through Section 106 agreements
- 54% (20,757) of affordable completions were delivered through Section 106 agreements

In the 2020 UK Housing Review Autumn Briefing Paper Mark Stephens observes that developer contributions “are worth almost £7 billion, with affordable housing contributions worth almost £4.7 billion. This is clearly important as around half of affordable housing is currently provided through this mechanism.”

It is worth noting that the extent to which section 106 can be used to deliver affordable housing is limited where private housing development is already constrained.

Witnesses to the Lords Economic Affairs Committee (2016) commended the flexibility of CIL. However, others, including small builders, said section 106 and CIL were ineffective and an obstacle to development. The National Audit Office (NAO) reported that at January 2019 only 47% of local authorities had implemented the CIL. One company, Pocket Living, told the Lords Committee that it took 16 weeks to get planning consent and a further 22-44 weeks to negotiate the section 106 agreement. Small builders face the same level of complexity as larger developers – the Committee was told that an increasing number buy-in expertise to navigate the system.

David Orr, then-CEO of the NHF, referred to the complexity of section 106 agreements which make it difficult to calculate the value of the contributions made. Professor Paul Cheshire of the London School of Economics told the Committee that section 106 and CIL should be

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209 MHCLG, White paper: Planning for the Future, August 2020, p32
210 Developers and local authorities agree a contract relevant to a specific development that will mitigate its impact. This can include the provision of affordable housing and payment for additional infrastructure.
211 A local authority may set a levy on all new building in their area. The money raised is used to fund general infrastructure.
212 NHF, How many homes did housing associations deliver in 2018/19? June 2019
214 NAO, Planning for more homes, HC 1923, February 2019, para 2.18
215 Select Committee on Economic Affairs, 1st Report of Session 2016-17, Building More Homes, HL Paper 20, 15 July 2016, para 115
216 Ibid., para 116
replaced by a single, national development charge of 20% of the sale value of land.\textsuperscript{217}

The Lords Committee recommended that, as part of its ongoing reviews of planning obligations and CIL, \textbf{the Government should aim for simplicity, transparency and a system that is responsive to smaller builders}. The value of developer contributions should act as a sufficient incentive to local authorities to grant planning permission.\textsuperscript{218}

In November 2015, the Government asked Liz Peace, former chief executive at British Property Federation, to chair an independent group to conduct a review of the CIL. The aim was to assess the extent to which CIL does, or can, provide an effective mechanism for funding infrastructure, and to recommend changes.\textsuperscript{219} The group recommended a twin track approach - combining a low level local infrastructure tariff (LIT) and section 106 - describing this as “the best of both worlds”.\textsuperscript{220}

\textit{The Incidence, Value and Delivery of Planning Obligations and Community Infrastructure Levy in England in 2016-17} was published by MHCLG on 5 March 2018. At the same time, the Ministry launched a consultation on proposals to reform developer contributions to support housing delivery and infrastructure – a summary of responses and the Government response was published in October 2018.\textsuperscript{221} The consultation paper set out the perceived shortcomings of the system, including delays in negotiating and renegotiating section 106 planning obligations and lack of transparency. It set out the 2017 Government’s objectives for reform, focused on reducing complexity and increasing certainty; supporting swifter development; increasing market responsiveness; improving transparency; and allowing local authorities to introduce a Strategic Infrastructure Tariff to help fund or mitigate strategic infrastructure.

A further \textit{technical consultation on draft regulations to reform developer contributions} ran from December 2018 to January 2019. The \textit{summary of responses to this consultation} and the Government’s view of the way forward was published in June 2019.

The following changes were implemented:

- Restrictions on pooling section 106 planning obligations and CIL were lifted in September 2019. The regulations allow local authorities to use both the Levy and section 106 planning obligations to fund the same item of infrastructure.\textsuperscript{222}
- The regulations made amendments in relation to the calculation of CIL where planning permission has been ‘amended’, including

\begin{itemize}
\item \textsuperscript{217} Ibid., paras 140-46
\item \textsuperscript{218} Select Committee on Economic Affairs, 1\textsuperscript{st} Report of Session 2016-17, \textit{Building More Homes}, HL Paper 20, 15 July 2016, para 147
\item \textsuperscript{219} HM Government, \textit{Review of the Community Infrastructure Levy: Terms of Reference}, November 2015
\item \textsuperscript{220} \textit{A new approach to developer contributions: a report by the CIL review team}, October 2016: paragraph 3.5.5
\item \textsuperscript{221} MHCLG, \textit{Government response to supporting housing delivery through developer contributions}, October 2018
\item \textsuperscript{222} \textit{Community Infrastructure Levy (Amendment) (England) (No. 2) Regulations 2019}
\end{itemize}
providing for credits to be moved between phases of planning permissions. 223

- The regulations introduced Infrastructure Funding Statements, requiring local authorities to report on developer contributions received and allocated, and increase transparency over the indexation of CIL rates. 224

As previously noted, Planning for the Future (August 2020) proposes to further reform section 106 contributions and CIL to create an Infrastructure Levy as “a nationally-set value-based flat rate charge”. This might involve a single rate or variable rates. There is an aim for the new levy “to raise more revenue than under the current system of developer contributions, and deliver at least as much – if not more – on-site affordable housing as at present.” 225

The Government also consulted on some shorter-term measures including:

- securing of First Homes, sold at a discount to market price for first time buyers, including key workers, through developer contributions in the short term until the transition to a new system;
- temporarily lifting the small sites threshold, below which developers do not need to contribute to affordable housing, to up to 40 or 50 units. 226

Commenting on these proposals in the 2020 UK Housing Review Autumn Briefing Paper Mark Stephens said:

The white paper optimistically suggests that this could be a more effective mechanism for land value capture. However, the evidence is that CIL has raised less than anticipated and that authorities are cautious in setting rates so as not to risk the viability of lower-value developments. The 2019 edition of the Review concluded that CIL “has an inbuilt and entirely predictable tendency to under-tax land value uplift arising from planning permission”.

The white paper also suggests giving local authorities discretion on spending proceeds from the levy, which might lead to a shift away from affordable housing. A short-term concern arises from the government’s intention to amend the NPPF to require a quarter of affordable units supported by s106 agreements to take the form of First Homes, i.e. houses or flats for sale at discounted prices. Longer-term, for affordable housing delivery much will depend on the design of the instruments that are developed once the white paper is implemented. 227

The NHF has expressed concerns over the proposed short-term changes saying they:

- Would mean a reduced supply of new affordable homes, particularly in areas that rely on Section 106 contributions.

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223 Ibid.
224 Ibid.
225 MHCLG, White paper: Planning for the Future, August 2020, p18
226 MHCLG, Changes to the current planning system: consultation on changes to planning policy and regulations, August 2020

For more information on First Homes see section 2.2 of Planning for the Future: planning policy changes in England in 2020 and future reforms. The HCLG Committee concluded that First Homes proposals “have the potential to negatively impact on social housing delivery.” (2020, para 99)
May also mean that fewer new homes would be built due to landowners reassessing ongoing developments.

May present a greater risk to smaller developers due to increased land prices and a reliance on the open market.228

There are concerns that the creation of a single levy will put affordable housing in competition with other infrastructure projects. The Chartered Institute of Housing, Royal Town Planning Institute, and Town and Country Planning Association said that more evidence, modelling and policy development is needed to establish that the new levy will not result in reduced delivery of affordable housing.229

John Perry, policy advisor to the Chartered Institute of Housing, wrote:

The government must remember that the present scheme, for all its faults, delivers a huge proportion – approaching half – of the affordable homes built each year. Most of this is provided without any government grant. Section 106 therefore plays a major part in delivering the housing the country needs for people on lower incomes, independent of the government’s Affordable Homes Programme.

Common sense would indicate that scrapping it should be done only if there is a convincing case that the alternative will be better – and not just for developers, but for social landlords, potential tenants and society as a whole.230

Viability tests

There has been an increased focus on the role viability tests can play where developers seek to reduce/remove the affordable housing contribution from a proposed development. To assist a sluggish housing market in the wake of the financial crisis, the Coalition Government acted to allow certain section 106 agreements to be renegotiated where they rendered a scheme unviable – this was a temporary measure.

The UK Housing Review 2018 considered some examples of developers using viability assessments to reduce their affordable housing contributions and concluded that, although the examples looked at were “illustrative rather than representative” …this is “clearly an area of potentially great significance”.231

The New Economics Foundation also recommended the closure of “viability loopholes” as a way of reducing the cost of land:

Reforming the planning system by closing viability loopholes, which enables developers to evade building affordable housing, and strengthening the obligations on developers are ways that land price increases can be collectivised. Developers would have to factor these more fixed contributions to affordable housing and

228 NHF, Proposed changes to the planning system – our consultation response, 6 October 2020
229 Inside Housing, “What the sector thinks of the Planning White Paper: six key takeaways”, 6 November 2020 [subscription required]
230 Inside Housing, “Is this the end of Section 106?”, 10 August 2020 [subscription required]
231 Stephens; Perry; Wilcox; Williams and Young, 2018 UK Housing Review, Heriot-Watt University and the Chartered Institute of Housing, March 2018, p26
other community benefits into their bids on land, making it cheaper overall.232

The Planning Practice Guidance (PPG) on the use of viability tests was updated alongside the publication of the first revision of the NPPF on 24 July 2018. The guidance made it clear that plans should set out “the levels and types of affordable housing provision required, along with other infrastructure”. The PPG was updated in September 2019 and currently states:

Plans should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure).

These policy requirements should be informed by evidence of infrastructure and affordable housing need, and a proportionate assessment of viability that takes into account all relevant policies, and local and national standards, including the cost implications of the Community Infrastructure Levy (CIL) and section 106. Policy requirements should be clear so that they can be accurately accounted for in the price paid for land. To provide this certainty, affordable housing requirements should be expressed as a single figure rather than a range. Different requirements may be set for different types or location of site or types of development.233

The National Housing Federation said that if the changes on viability are well implemented they “should increase the numbers of affordable homes”.234 There were remaining concerns about ‘front-loading’ the process:

I’m still concerned though that ‘front loading’ the process means considerable efforts are required upfront to assessment viability. That’s a big ask for hard-pressed local authorities who have only just managed to achieve 50% coverage of up-to-date local plans. And the options for application-specific assessment remains.235

The Housing, Communities and Local Government Select Committee’s inquiry into land value capture welcomed moves to increase transparency in the viability process but emphasised “the need to ensure the changes lead to real improvements”. The Committee asked for a report on the impact of these reforms from Government in 12 months’ time. The 2017 Government agreed to report back at the end of 2019.236 No further correspondence is listed on the Committee’s webpage.

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232 NEF, What lies beneath: how to fix the broken land system at the heart of our housing crisis, July 2018, p4
233 MHCLG, Planning Practice Guidance – Viability, 1 September 2019
234 NHF, Initial thoughts on the new National Planning Policy Framework, 26 July 2018
235 Ibid.
236 CM 9734, November 2018, para 12
Planning for the Future (August 2020) said “Assessments of housing need, viability and environmental impacts are too complex and opaque.”\(^\text{237}\) The reform of developer contributions will, the White Paper suggests “enable us to sweep away months of negotiation of Section 106 agreements and the need to consider site viability.”\(^\text{238}\)

**Resourcing authorities’ planning capacity**

One area where there appears to be a good deal of agreement in the industry is on the need for proper resourcing of local authority planning departments. The Lords Economic Affairs Committee (2016) noted that cuts in local government expenditure “have fallen particularly heavily on planning departments.”\(^\text{239}\) Local authority witnesses told the Committee that they were “under resourced and desperately short of …staff.” There is a view that the balance of power has shifted towards developers when negotiating planning matters.\(^\text{240}\)

The Lords Economic Affairs Committee recommended that the Government:

1. allows local authorities to set and vary planning fees in accordance with the needs of their local area. To prevent abuse there should be an upper limit or cap on the level of fees. To allow sufficient discretion to local authorities, this cap should be significantly higher than the current fees that can be charged; and

2. provides that the money raised from these fees is ring-fenced for expenditure on planning and development.

*Fixing our broken housing market* set out the 2015 Government’s intention to increase nationally set planning fees:

Local authorities will be able to increase fees by 20% from July 2017 if they commit to invest the additional fee income in their planning department. We are also minded to allow an increase of a further 20% for those authorities who are delivering the homes their communities need and we will consult further on the detail. Alongside we will keep the resourcing of local authority planning departments, and where fees can be charged, under review.\(^\text{241}\)

The 20% fee increase was introduced on 17 January 2018.

Consultation on additional increases in planning application fees in those areas where local planning authorities are delivering the homes their communities need was launched in September 2017.\(^\text{242}\) A summary of responses to this process, together with the Government’s

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\(^\text{238}\) Ibid., p18


\(^\text{240}\) Ibid., para 120

\(^\text{241}\) Cm 9352, *Fixing our broken housing market*, February 2017, para 2.15

\(^\text{242}\) MHCLG, *Planning for the right homes in the right places: consultation proposals*, 14 September 2017
view on the way forward was published on 5 March 2018.\textsuperscript{243} The Government said it would assess the impact of the fee increase introduced in January when considering any further increases.\textsuperscript{244}

The Housing White Paper also set out an intention to consult on the introduction of a fee for making a planning appeal on the basis that “unnecessary appeals can be a source of delay and waste taxpayer’s money.”\textsuperscript{245}

\textit{Planning for the Future} (August 2020) committed to developing “a comprehensive resources and skills strategy for the planning sector to support the implementation of our reforms.”\textsuperscript{246} A strategy will be developed incorporating the following elements:

- Planning fees will be set on a national basis and cover the full cost of processing application types based on national benchmarking.
- Subject to reform of developer contributions, a “small proportion of the income should be earmarked to local planning authorities to cover their overall planning costs, including the preparation and review of Local Plans and design codes and enforcement activities.”
- A “deep dive regulatory review” would “identify and eliminate outdated regulations which increase costs for local planning authorities, especially to the decision-making process.”
- Some local planning activities would still be funded through general taxation “given the public benefits from good planning”.
- Time limited funding would be available in line with the new burdens principle “to support local planning authorities to transition to the new planning system as part of the next Spending Review.”
- LPAs would be subject to a new performance framework “which ensures continuous improvement across all planning functions from Local Plans to decision-making and enforcement – and enables early intervention if problems emerge with individual authorities.”
- Workforce planning and skills development, including training, would be for the local government sector to lead on, “working closely with Government, statutory consultees, planning consultancies and universities.”
- A commitment to “work with local planning authorities, professional bodies and the wider planning sector to ensure views about implementation are considered.”\textsuperscript{247}

\begin{itemize}
\item\textsuperscript{243} MHCLG, \textit{Government response to the Planning for the right homes in the right places consultation}, 5 March 2018
\item\textsuperscript{244} Ibid., p31
\item\textsuperscript{245} Cm 9352, \textit{Fixing our broken housing market}, February 2017, para 2.17
\item\textsuperscript{246} MHCLG, \textit{White paper: Planning for the Future}, August 2020, p57
\item\textsuperscript{247} Ibid., pp57-58
\end{itemize}
The Duty to Cooperate and housing market areas

The Lyons Housing Review (2014) called for more cooperation across local authority boundaries when identifying land suitable for development:

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

The Duty to Cooperate has been criticised for not being a duty of any substance. It is a duty which does not require agreement, it simply requires that evidence is shown that attempts to cooperate have been made. As noted in an article in the Planner, there is little incentive for a neighbouring authority to cooperate and its enforcement relies on planning inspectors taking a “robust approach”.

In its final report to Government, the Local Plans Expert Review Group (LPEG) said that it received “strong representations” that the Duty to Cooperate was “not effective in ensuring agreement between neighbouring authorities about the distribution of housing needs and that this was one of the most significant constraints to effective plan making.” The LPEG recommended changes to planning policies to strengthen the duty, as well as an expectation that where there has been no agreement across boundaries on distributing housing needs, the Government should take and use powers to direct the preparation of a high level Joint Local Plan for the housing market area.

The NPPF was amended to include an expectation that statements of common ground would be prepared in line with planning guidance:

In order to demonstrate effective and on-going joint working, strategic policymaking authorities should prepare and maintain one or more statements of common ground, documenting the cross-boundary matters being addressed and progress in cooperating to address these. These should be produced using the approach set out in national planning guidance, and be made publicly available throughout the plan-making process to provide transparency.

Planning for the Future (August 2020) proposed the abolition of the Duty to Cooperate but said that “further consideration will be given to

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248 The Lyons Housing Review, 2014, p8
251 The Local Plans Expert Group (LPEG) was established by the then Communities Secretary, Greg Clark and the Minister of Housing and Planning, Brandon Lewis MP, in September 2015, with a remit to consider how local plan making can be made more efficient and effective.
253 Ibid
254 MHCLG, National Planning Policy Framework, February 2019, para 27
the way in which strategic cross-boundary issues, such as major infrastructure or strategic sites, can be adequately planned for”.255

Incentives to develop - speeding up and monitoring build-out rates
Witnesses to the Lords Economic Affairs Committee 2016 inquiry considered that the system does not provide authorities with sufficient incentives to allow developments and that this lack of incentives also affects local residents and developers. Three linked problems were identified:

- Local opposition creates pressure on local councils to resist development.
- The lack of any immediate financial benefit to the local authority from the planning process. In contrast, a ‘windfall’ created by the granting of planning permission is retained by the landowner. The Community Infrastructure Levy (CIL) can act to address this disparity but it is not transparent, and it is not always clear to residents what a development has funded. One suggestion is to reward developing authorities with the retention of business rates.
- A lack of incentives for builders to develop permissioned land.256

In terms of solutions, there is some support for a ‘use it or lose it’ approach. For example, the Labour Party Manifesto 2015 included a commitment to:

…introduce greater transparency in the land market and give local authorities new ‘use it or lose it’ powers to encourage developers to build.257

The Lyons Housing Review (2014) proposed disincentives to holding a planning permission and not building it out, in addition to measures to incentivise swift delivery of land allocated in a plan, for example:

- Shortening the lifetime of planning permission to 2 years with higher fees for renewal.
- Requiring greater substantive progress to demonstrate that works have started on site.
- Giving local authorities the option to charge Council Tax on the land-owner in respect of the number of proposed dwellings where development has not started on sites with planning permission within an expected timeframe.
- Compulsory Purchase Order powers strengthened and streamlined to make it easier for public bodies to acquire land where it is not brought forward and where it is a priority for development.258

255 MHCLG, White paper: Planning for the Future, August 2020, p26
256 Select Committee on Economic Affairs, 1st Report of Session 2016-17, Building More Homes, HL Paper 20, 15 July 2016, paras 110-14
257 Labour Party Manifesto 2015, p46
258 The Lyons Housing Review, 2014, p67
These options were also considered by the Lords Economic Affairs Committee. Developers opposed these changes, arguing that a range of factors outside their control can influence build-out rates.\textsuperscript{259} The Committee supported giving local authorities the power to levy Council Tax on developments that remain incomplete within a given time period.\textsuperscript{260} The 2015 Government’s response did not address this specific recommendation but said that the Housing White Paper would set out a further package of reforms to “ensure that our planning system better supports housing delivery”.\textsuperscript{261} The Government also said: “We are also clear that it is the responsibility of the house building industry to be more transparent and forthcoming in agreeing a trajectory for build-out rates on sites with local authorities.”\textsuperscript{262} The revised NPPF set out an expectation of how authorities should monitor the supply and delivery of new housing within their areas:

To maintain the supply of housing, local planning authorities should monitor progress in building out sites which have permission. Where the Housing Delivery Test indicates that delivery has fallen below 95\% of the local planning authority’s housing requirement over the previous three years, the authority should prepare an action plan in line with national planning guidance, to assess the causes of under-delivery and identify actions to increase delivery in future years.

To help ensure that proposals for housing development are implemented in a timely manner, local planning authorities should consider imposing a planning condition providing that development must begin within a timescale shorter than the relevant default period, where this would expedite the development without threatening its deliverability or viability. For major development involving the provision of housing, local planning authorities should also assess why any earlier grant of planning permission for a similar development on the same site did not start.\textsuperscript{263}

Lyons specifically commented on the need to persuade communities of the benefits of housing development:

The public is frequently concerned that houses are often built in the wrong place, for the wrong people and without adequate attention to the pressures created for existing infrastructure. As new housing changes and shapes the places in which people live, communities should make the decisions about how they grow. It is the job of elected local authorities to do this with their communities and to ensure the homes they need are provided. We therefore recommend that local authorities play a much more energetic role in leading housing development for their communities.\textsuperscript{264}

\begin{itemize}
\item \textsuperscript{259} Select Committee on Economic Affairs, 1\textsuperscript{st} Report of Session 2016-17, \textit{Building More Homes}, HL Paper 20, 15 July 2016, paras 131-33
\item \textsuperscript{260} \textit{Ibid.}, para 139
\item \textsuperscript{261} \textit{Government response to the House of Lords Economic Affairs Committee Report: “Building more homes”} CM 9384, December 2016
\item \textsuperscript{262} \textit{Ibid.}
\item \textsuperscript{263} MHCLG, \textit{National Planning Policy Framework}, February 2019, paras 75-76
\item \textsuperscript{264} \textit{The Lyons Housing Review}, 2014, p8
\end{itemize}
Also relevant here are references in the previous section to the desirability of incentives to encourage authorities to work across boundaries with a better focus on functional economic areas:

In housing, the responsibility for need assessments and land use planning rests at the individual local authority level, when the reality is that people live and work across administrative boundaries.265

Shelter published updated research on Planning permissions and completions in August 2019.266 In February 2020, the Local Government Association (LGA) published an analysis of planning permissions to show that “more than a million homes granted planning permission in the past decade have not yet been built”.267 Based on this, the LGA argues that “the backlog of unbuilt homes shows the planning system is not a barrier to house building”268 Instead, the LGA called on the Government to use the Planning White Paper to give councils more powers to deal with unbuilt land with planning permission.269 On publication of the White Paper the LGA said:

The system needs to ensure planning permissions are built. Any loss of local control over developments would be a concern. It would deprive communities of the ability to define the area they live in and know best and risk giving developers the freedom to ride roughshod over local areas.270

Fixing our broken housing market (February 2017) said that the 2015 Government wanted development to happen as soon as possible where planning permission is granted.271 The White Paper contained proposals aimed at achieving this, several of which picked up on some of the themes set out above. The outcome of consultation on these proposals was announced on 5 March 2018; relevant changes were included in the revised NPPF originally published on 24 July 2018.

The then-Government considered the implications of amending the NPPF to encourage authorities to shorten the timescale in which developers should implement planning permission from the default three years to two years, with an exception where this could hinder viability.272 Following mixed responses, the NPPF was amended to “encourage local authorities to consider shorter timescales for implementing planning permissions where appropriate.”273

On 14 January 2018, MHCLG launched an independent review chaired by Sir Oliver Letwin which looked to “explain the gap between the number of planning permissions being granted against

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265 Shelter and KPMG (2015), Building the homes we need: a programme for the 2015 government, p48
266 Shelter, Research note, Planning permissions and completions, August 2019
267 LGA, Unimplemented planning permissions: Permissions under construction (units) England, January 2018
268 LGA Press Release, 20 February 2020
269 Ibid.
270 Ibid.
271 LGA responds to Government ‘Planning for the Future’ proposal, 5 August 2020
272 Cm 9352, Fixing our broken housing market, February 2017, para 2.41
273 Ibid., para 2.41
274 MHCLG, Government response to the housing White Paper consultation: Fixing our broken housing market, 5 March 2018, p48
those built in areas of high demand.”\textsuperscript{274} Some of the responses received to questions posed in the Housing White Paper (2017) informed the work of this review.\textsuperscript{275}

Sir Oliver published an \textit{Independent review of build out: preliminary update} on 13 March 2018, in which he said that the first stage of the work would focus on an analysis of the reasons why build out rates “are as they are”. A draft analysis was published in June 2018: \textit{Independent review of build out: draft analysis} – at this point Sir Oliver highlighted absorption rates on large sites as a key determinant of build-out rates. The final report was published alongside Budget 2018: \textit{Independent review of build out: final report}. Sir Oliver recommended that the Government should:

...adopt a new set of planning rules specifically designed to apply to all future large sites (initially those over 1,500 units) in areas of high housing demand, requiring those developing such sites to provide a diversity of offerings, in line with diversification principles in a new planning policy document; and

establish a National Expert Committee to advise local authorities on the interpretation of diversity requirements for large sites and to arbitrate where the diversity requirements cause an appeal as a result of disagreement between the local authority and the developer.\textsuperscript{276}

The 2017 Government’s response to the findings was issued on 14 March 2019. James Brokenshire, then-Secretary of State, promised guidance for councils on building a diverse range of homes on large sites and a new Accelerated Planning Green Paper.\textsuperscript{277} This was overtaken by the 2019 Government’s commitment to introduce a Planning White Paper (see below).

Lichfields, the planning consultancy, published \textit{Start to Finish} in February 2020 which considers the factors influencing build-out rates on large sites.\textsuperscript{278}

\textit{Planning for the Future} (August 2020) takes on board the Letwin recommendations with a proposal:

...to make it clear in the revised National Planning Policy Framework that the masterplans and design codes for sites prepared for substantial development should seek to include a variety of development types from different builders which allow more phases to come forward together. We will explore further options to support faster build out as we develop our proposals for the new planning system.\textsuperscript{279}

In the \textit{2020 UK Housing Review Autumn Briefing Paper} Mark Stephens observes:

Of course, planning permission does not guarantee the speed at which houses are built. The white paper is rather weak on this

\textsuperscript{274} MHCLG, \textit{Independent review to tackle barriers to building}, 14 January 2018
\textsuperscript{275} MHCLG, \textit{Government response to the housing White Paper consultation: Fixing our broken housing market}, 5 March 2018, p44
\textsuperscript{276} CM 9720, 29 October 2018
\textsuperscript{277} MHCLG Press Release, 14 March 2019
\textsuperscript{278} Litchfields, \textit{Start to Finish} (Second edition), February 2020
\textsuperscript{279} MHCLG, \textit{White paper: Planning for the Future}, August 2020, p19
point, acknowledging it but relying on master plans and design codes to ensure a variety of houses are built by a wider range of builders to encourage faster build out.280

Better use of green belt land

Government statistics on green belt land in England for 31 March 2018 estimated that it covered 1.63 million hectares, i.e. around 12.5% of the land area of England.

The Government’s policy on protection for the green belt is currently set out in chapter 13 of the NPPF. The fundamental aim of green belt policy is to prevent urban sprawl by keeping land permanently open. The NPPF states that that the construction of new buildings should be regarded as “inappropriate” for the green belt, although there are some exceptions, which are listed.281

Greenbelt policy is generally regarded as having been effective in preventing urban sprawl and maintaining a clear physical distinction between town and country. The 2010 Natural England and CPRE report, Green Belts: A greener future, concluded green belt policy was “highly effective” in its principal purpose, but called for “more ambition” to further enhance the green belt protection for future generations.282

It is inevitable that discussions about securing a sufficient supply of land suitable for housing development often turn to the question of whether some areas of green belt land should be utilised for this purpose. The question was put to Dame Kate Barker during the Treasury Select Committee’s 2016 evidence session on housing policy:

**Dame Kate Barker:** I have not said anything about the green belt. I would not put too much weight on the green belt, on both sides. The people who do want to build on green belt talk about it as though the whole thing was some wonderful environmental preserve, and the people who do want to build over it talk as though it was all complete scrub and purposeless. Neither of those things are true. Green belt is a planning designation, and there are lots of places in which the green belt is quite important. It should be used up rather thoughtfully, but I find it hard, particularly—

**Chair:** I am sorry. Can I just interpret that? You used the phrase “rather thoughtfully”. You mean that it should be built on, but thoughtfully.

**Dame Kate Barker:** You should ask yourself about each piece of green belt, whether the planning purpose that caused it to be put in is as true today as it was originally. The sentence I disliked most in the original green belt policy, which was called PPG2, explained that the key characteristic of the green belt was its “permanence”. That is quite an odd thing to say about a piece of land that is a planning designation.

If we are going to use the green belt, however, particularly around London, I would prefer for us to take very strategic views. You have to build quite a significant place, a place big enough to have a proper transport link. I find the lack of solution

281 Para 145 of the NPPF. Background information on green belt policy can be found in Library Briefing Paper 0934: Green Belt
for London overspill around London very difficult. Commuting into London gets harder and harder all the time; I say this with feeling.

If we are going to build around London, my preference would be to do something that was less piecemeal and more strategic, linked to either the transport links we are already thinking about putting in—Crossrail is an obvious one—or where we are thinking of having some new transport links altogether. I am sort of reluctant to see further building around that is not really going to help resolve some of the problems. Transport linkages are a real issue.283

Witnesses to the Lords Economic Affairs Committee’s 2016 inquiry expressed divergent views. Martin Wolf, chief economics correspondent at the Financial Times said that building on the green belt was “probably not the whole solution” but noted that a lot of protected fields are “not particularly beautiful” and that building on them could form part of the solution.284 Trudi Elliot of the Royal Town Planning Institute said that green belt land served “a very important purpose” and building on it “is a complex issue that is not really helped by some of the simplistic debate we have about it.”285

Shelter and KPMG (2015) pointed out that the value of land mainly depends on what it can be used for. In this context, the planning system drives the motivations of key participants in the development process:

…restrictions on land use reduce the supply of land at the right price in the right places. for example, green belt designation in the south east restricts development around London and forces expansion beyond the green belt with people commuting across it in huge numbers.286

Paul Cheshire, Professor Emeritus of Economic Geography, LSE, argues that building on the least attractive and lowest amenity parts of green belts could solve housing supply and affordability problems.287 His evidence to the Lords Economic Affairs inquiry stated that it is “imperative” for land supply decisions and demand to “systematically respond to price information since this is the signal allowing our economy to provide enough of any good or service: with the single exception of land for development.”288 He set out a method for achieving this outcome:

…the price differential between land in any use and its alternative proposed use, if it exceeds some threshold, should constitute a ‘material consideration’. There would then be a presumption that the alternative development would be permitted unless (and this is an important ‘unless’) it can be demonstrated that the environmental or amenity benefits generated by keeping the land

283  HC 861, 7 December 2016, Q7
284  Select Committee on Economic Affairs, 1st Report of Session 2016-17, Building More Homes, HL Paper 20, 15 July 2016, para 149
285  Ibid., para 150
286  Shelter and KPMG (2015), Building the homes we need: a programme for the 2015 government, p35
287  “Greenbelt myth is the driving force behind housing crisis” The Conversation, 13 September 2013
288  Select Committee on Economic Affairs, 1st Report of Session 2016-17, Building More Homes, HL Paper 20, 15 July 2016, [written evidence EHM0156]
in its existing use were of sufficient value to society to refuse the proposed development. It would be necessary to decide on an appropriate ‘threshold’ level for price differentials not to trigger a potential presumption of development. If the threshold was set at, say, £1 million, this would represent a significant hurdle to changes of use since the costs associated with such changes would not normally be as much. One can envisage, for example, agricultural land on the urban fringe or land zoned for industrial use in places where there is an undersupply of housing, so housing land prices exceed agricultural or industrial land prices by £1m or more. In neither case is it likely that basic infrastructure investment to make the land suitable for development in the new use would exceed £1m per Ha. So, if one was envisaging developing agricultural land on the urban fringe, a threshold of £1m could be viewed as the equivalent of a tax on Greenfield development, reducing the total urban land take.\textsuperscript{289}

There are calls on all sides for green belt principles to be re-evaluated in a 21\textsuperscript{st} century context. The Royal Town Planning Institute, in a November 2016 policy statement, called for the purpose of green belts to be revisited:

But it is important to revisit the purposes that green belts need to fulfil over the coming generation. The value of green belts is not simply about what is ugly and what is attractive, as some argue. We need to talk about who green belts are for, and about their social impact, along with their continued role in shaping and managing urban growth.

Green belt boundaries may well need to change, but only through careful reviews over wider areas than single local authorities, and where safeguards are put in place to ensure that development is sustainable, affordable and delivered in a timely manner, and without prejudice to the renewal of brownfield land.\textsuperscript{290}

Following consultation on proposed amendments to the green belt provisions in the NPPF, set out in the 2017 Housing White Paper, the Government announced on 5 March 2018:

In the revised Framework we are proposing to make clear the criteria that must be satisfied before the release of Green Belt land may, in exceptional circumstances, be justified. We are proposing to state that, as well as optimising density and co-operating with neighbouring authorities, local authorities should give priority to suitable brownfield and land well-served by public transport.

We are proposing to create an expectation that loss of land from Green Belt should be off-set by means of compensatory improvements to environmental quality and access on remaining Green Belt land. We are proposing to make it explicit that rural exception sites can be created in Green Belt, and that development under neighbourhood development orders and changes of land-use for outdoor sport and recreation or provision of burial grounds is ‘not inappropriate’ in Green Belt if it preserves its openness and would not conflict with its purposes.\textsuperscript{291}

\textbf{Planning for the Future} (August 2020) states that the proposed nationally determined binding housing requirement to be delivered

\textsuperscript{289} Ibid., [written evidence EHM0156]
\textsuperscript{290} RTPI, \textit{Where should we build new homes?} November 2016
through Local Plans “would factor in land constraints, including the Green Belt”. Green belt land would fall into the ‘protected’ category for development and “The existing policy for protecting the Green Belt would remain”.

3.5 Support for SME developers

Most of England’s new housing is built by a small number of large firms. By 2012, 70% of homes in England were built by large firms operating on similar business models. This concentration of market power is thought to inhibit competition and to exacerbate the impact of market shocks when all the large firms simultaneously reduce output. Section 3.2 of this paper considers the barriers that smaller and medium sized enterprises (SME) face in trying to compete for land.

Housebuilding requires considerable up-front investment, meaning that in most cases, new housing developers need access to finance. In common with the rest of the economy, finance was less readily available in the construction sector after the financial crisis, although this situation has improved.

For the housebuilding industry, a particular concern is access to finance for SME developers. The Aldermore Group, a bank specialising in finance to small businesses, commented in 2016:

…smaller developers continue to struggle with access to finance, with a recent industry survey showing that more than 50,000 construction and real estate firms have begun the year in ‘significant’ financial distress…unless more is done by lenders to increase funding to smaller regional developers, the potential for the industry to reach…[the Government’s house building target]…will be less likely.

Problems accessing finance can have an impact on housebuilders’ ability to produce high quality housing, as well as on the overall capacity of the house building industry. With reduced access to upfront investment, housebuilders may choose to use cheaper, less skilled construction workers or lower quality materials. Both strategies together with cost saving can have a direct impact on the quality of completed homes.

Budget 2014 included a commitment:

To support SME access to finance, the government will create a £500 million Builders Finance Fund, which will provide loans to developers to unlock 15,000 housing units stalled due to difficulty in accessing finance.

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292 MHCLG, White paper: Planning for the Future, August 2020, p19
293 Ibid., p24
294 Ibid., p28
295 Shelter and KPMG (2015), Building the homes we need: a programme for the 2015 government, p9
296 The Library briefing paper on the Construction industry: statistics and policy provides further statistics and discussion on policy support for the sector in recent years.
297 BBA, High street bank lending, July 2016
298 Mortgages for business, Smaller property developers struggling to access finance, 18 January 2016
299 HC 1104, Budget 2014, March 2014, para 1.141
In July 2015, the then Housing Minister announced that the Fund would be extended; Spending Review and Autumn Statement 2015 said that the £1 billion Fund would be extended to 2020-21.\(^\text{300}\)

October 2016 saw the launch of a £3 billion \textit{Home Building Fund} under which builders, including SME builders, can obtain loan finance to assist with development costs and infrastructure work. Autumn Budget 2017 announced a further £1.5 billion for this Fund “providing loans specifically targeted at supporting SMEs who cannot access the finance they need to build.”\(^\text{301}\) The 2017 Budget also said: “The government will explore options with industry to create £8 billion worth of new guarantees to support housebuilding, including SMEs and purpose built rented housing.”\(^\text{302}\)

Spending Review 2020 (November) announced:

...a National Home Building Fund investing £7.1 billion over 4 years, which will shake up the housing market by backing smaller developers, unlocking brownfield land and supporting innovative construction techniques.

The fund will support up to 660,000 jobs and unlock up to 860,000 homes. This includes funding for:

- a new ‘Help to Build’ equity loan scheme for people who want to build their own homes, providing access to low deposit mortgages
- \textbf{£2.2 billion of loans for small and medium enterprises (SMEs) and innovative housebuilders to support new housing in areas where it is needed most}
- an additional £100 million of grant funding in 2021-22 for unlocking brownfield sites, supporting house building on land that may be less attractive such as ex-industrial sites.\(^\text{303}\)

\section*{In Building the homes we need: a programme for the 2015 government}

Shelter and KPMG recommended the provision of government guarantees for bank lending:

This would work through a guarantor bank, which would guarantee certain tranches of the loans to SME builders, conditional on the funding being used to develop homes. The loan guarantees would be made by government, but this doesn’t mean that government would take all of the risk. Risk sharing arrangements would be put in place, to reduce the government’s risk and ensure that the guarantor bank remains incentivised to lend to those firms most likely to succeed.\(^\text{304}\)

This proposal was described as a ‘mirror’ of the Help to Buy: Mortgage Guarantee scheme (now closed). KPMG and Shelter argued that the biggest impact of such a scheme would be to improve the percentage of loan to value (LVT) that SMEs could achieve. Capital Economics estimated that reducing SME builders’ funding costs and restoring their

\begin{footnotes}
\footnote{300}{Cm 9162, November 2015, p41}
\footnote{301}{HC 587, 23 November 2017, para 5.21}
\footnote{302}{Ibid., para 5.22}
\footnote{303}{MHCLG, £10 billion package to build more homes and level up communities, 26 November 2020 (emphasis added)}
\footnote{304}{Shelter and KPMG (2015), \textit{Building the homes we need: a programme for the 2015 government}, p64}
\end{footnotes}
credit allocation to pre-2007 ratios would support the development of an extra 3,000 homes per year.\textsuperscript{305}

SME developers are less able to withstand market shocks. This is illustrated by the fact that their share of total housing starts declined after each of the last two house price crashes. A factor that would reduce risk and improve confidence in the development process is house price stability. Shelter and KPMG called for the launch of a \textit{review led by the Bank of England} “on the impact of house price volatility on the economy and the policies that would be required to stabilise prices relative to incomes over the long term.”\textsuperscript{306} They also called for a \textit{review of property taxation} to consider “potential extra revenue for the affordable house building programme but also in the context of economic and housing market stability.”\textsuperscript{307}

When giving evidence to the Treasury Select Committee on housing policy, Dame Kate Barker was asked what key housing measure she would introduce if given the opportunity, she said:

\textit{Dame Kate Barker:} I fear that I would be Chancellor of the Exchequer for a very short time, because I would probably wish to put capital gains tax on your first property.

\textit{Chair:} So it is the absence of a tax on imputed rent, for which most people consider the gains relief as a rough and ready substitute, that most concerns you. This is the abolition of schedule A.

\textit{Dame Kate Barker:} Yes, it is.\textsuperscript{308}

The Lords Economic Affairs Select Committee considered changes to the taxation system and, while supporting amendments to Council Tax, the Committee concluded that “it is wrong to create specific tax rules, as is the case with recent changes to capital gains tax and inheritance tax, around housing.”\textsuperscript{309}

The Home Builders Federation (HBF) published an analysis of the position of SME builders and possible measures to tackle the issue: \textit{Reversing the decline of small housebuilders: Reinvigorating entrepreneurialism and building more homes} (2017).

On 29 January 2020, the Secretary of State, Robert Jenrick, confirmed the British Business Bank’s ENABLE Build Programme would shortly begin guaranteeing new loans for local, independent construction businesses to deliver new homes.\textsuperscript{310} The Government established this £1 billion guarantee scheme to allow smaller housebuilders to enter the market.

\textsuperscript{305} Capital Economics, \textit{Increasing investment in affordable homes}, 2014, section 6.4

\textsuperscript{306} Shelter and KPMG (2015), \textit{Building the homes we need: a programme for the 2015 government}, p67

\textsuperscript{307} Ibid.

\textsuperscript{308} HC 861, 7 December 2016, Q50

\textsuperscript{309} Select Committee on Economic Affairs, 1\textsuperscript{st} Report of Session 2016-17, \textit{Building More Homes}, HL Paper 20, 15 July 2016, para 253

\textsuperscript{310} MHCLG Press Release, 29 January 2020
The Housing Minister, Christopher Pincher, referred to Government support for SMEs during a Westminster Hall debate on Housing and Planning on 3 March 2020:

We are supporting SME housebuilders with a package of measures to help the sector to grow and develop, including the home building fund, the housing growth and housing delivery fund, the ENABLE Build guarantee scheme, and our ongoing reforms to the planning system, more of which he will hear about in due course. We believe that SMEs have a key part to play by increasing their output, as the biggest home builders in our country will not meet the Government’s housing building target alone. SMEs are well placed to help to deliver new homes, welcomed in their communities rather than resisted, and those homes will be built to last.311

On 11 January the Minister provided an update in response to a PQ:

A number of transactions were, and continue to be, under consideration for the programme but some of these were curtailed by the onset of Covid-19. Activity is resuming and, while there are currently no lenders accredited (and therefore no associated portfolio value) under the new ENABLE Build Programme, it is our expectation that SMEs will have access to ENABLE Build-backed lending shortly.312

Planning for the Future (August 2020) has as one of its aims supporting SME builders and developers. The press release accompanying the launch of the White Paper argued its proposals could provide a “major boost” to SME builders:

The changes will be a major boost to SME builders currently cut off by the planning process. They will be key players in getting the country building on the scale needed to drive our economic recovery, while leading housebuilding that is beautiful and builds on local heritage and character.

(…)

Recent studies show smaller firms feel the complexities of the planning process and its associated risks, delays and costs are the key challenges they face in homebuilding.313

Planning for the Future suggests that the new Infrastructure Levy would reduce cashflow difficulties for SME developers:

As a value-based charge across all use classes, we believe it would be both more effective at capturing increases in value and would be more sensitive to economic downturns. It would reduce risk for developers, and would reduce cashflow difficulties, particularly for SME developers.314

Also relevant are proposed “shorter-term” measures which would temporarily lift the small sites threshold below which developers do not need to contribute via developer contributions to affordable housing to

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311 HC Deb 3 March 2020 c248WH
312 Written Question: Housing: Construction – 130887, 11 January 2021
313 MHCLG, Press release: Launch of Planning for the future consultation to reform the planning system, 6 August 2020
314 MHCLG, White paper: Planning for the Future, August 2020, p49
up to 40 or 50 units.\textsuperscript{315} This is controversial, comment can be found on pages 56-57 of this paper.

### 3.6 The construction industry

For any package of solutions to deliver a step-change in housing supply, the construction industry must have capacity to be able to deliver. Several issues have been identified within the industry which require strategic intervention to address them.

#### Labour market and skills

The 2015 Government expressed concern that the “structure of industry training” is not sufficient to deliver the skilled workforce required to build enough adequate housing.\textsuperscript{316} The Chartered Institute of Builders reported in 2016 that the construction sector would need to hire an additional “157,000 new recruits by 2021 in order to keep up with demand.”\textsuperscript{317}

Arcadis, a built-environment design consultancy, had addressed these concerns in 2015:

- Arcadis argued that if the government’s target for building new houses was to be met, the industry would need to recruit 224,000 new people by 2019.
- The fact that the number of people joining the sector has been declining for some years led Arcadis to argue that there is a weak “pipeline of talent” into the house building sector.
- Arcadis found that many construction workers were retiring early, meaning that around 700,000 new recruits would be required just to replace the 2015 workforce by 2019.
- Another issue is a lack of relevant skills needed to build houses among existing construction workers. Arcadis reported that the following trades or professions were constraining house-building due to under-supply of labour: bricklayers, plasterers, architects and quantity surveyors.
- Training or re-training existing workers is more difficult in the construction sector compared with other sectors due to above average rates of self-employment and “the fragmentation of the supply chain”. These factors make organising widespread training difficult.\textsuperscript{318}
- Arcadis reported that many construction workers were operating in different sectors. But there was also evidence that people with relevant skills were operating in shrinking sectors.

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\textsuperscript{315} MHCLG, \textit{Changes to the current planning system: consultation on changes to planning policy and regulations}, August 2020

\textsuperscript{316} The Construction Index, \textit{Ministers tell industry leaders to sort out skills shortage}, 1 February 2016

\textsuperscript{317} Infrastructure and Projects Authority, \textit{Government construction strategy 2016-20}, March 2016, p9

\textsuperscript{318} The Construction Index, \textit{Ministers tell industry leaders to sort out skills shortage}, 1 February 2016
(such as manufacturing), suggesting a potential source of new labour for the construction sector.319

**A further factor is the industry’s reliance on non-UK born EU workers**: 11% of construction workers were non-UK EU citizens, compared to 7% in the whole economy in 2016.320

Construction and house building trade associations expressed concern that the UK’s new relationship with the EU could adversely affect the supply of migrant labour, which, combined with the other labour issues mentioned above, could cause considerable “damage” to the sector’s capacity. The Federation of Master Builders (FMB) said:

> …It is now the government’s responsibility to ensure that the free-flowing tap of migrant workers from Europe is not turned off…321

The CIOB’s report, **The Real Face of Construction 2020**, referred to an ageing workforce and reliance on overseas labour:

> But the industry faces major challenges. Not least it has an ageing workforce and has relied heavily on overseas labour in recent years. Fears that it may face labour shortages in the years ahead have focused minds on how to increase productivity. This has been a constant cry for decades, not just in the UK but worldwide.322

The **Construction Sector Deal** (July 2018) detailed the 2017 Government’s framework for construction sector policies and made a number of commitments around skills and the construction labour force:

- Reform the CITB to enable greater strategic leadership of training in the sector, based on recommendations from a review published in November 2017.
- An ‘aspiration’ of 25,000 new construction apprenticeships by 2020. Create 50 new apprenticeships standards that better reflect the skills needed by the modern construction work force.
- The Confederation of British Industry and the Trade Union Congress to work in partnership with Government to establish a National Retraining Partnership to work to give existing construction workers the skills they need for modern construction work.
- A new construction ‘**T-Level**’ technical qualification will be developed which will enable vocational construction training to be recognised.

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319 Arcadis, *People and money: fundamental to unlocking the housing crisis*, 2015, pp4-7
321 Inside Housing, Builders: immigration rules must protect construction workers, 1 July 2016 [subscription required]
322 CIOB, *The Real Face of Construction 2020*, p5 and p22 on labour market trends
• Invest £34 million to “scale up innovative training models across the country to support the delivery of 1.5 million new homes by 2022.”

On 16 November 2018, the Government reported on the allocation of £22 million from the Construction Skills Fund to 26 ‘hubs’ at live construction sites which would train up “thousands of workers”.

Lord Agnew provided a detailed summary of actions to support skills in the construction sector in response to a PQ in July 2019:

The government’s role is to make the skills system more responsive to demand. We are reforming the technical education system to be more responsive to the needs of employers. These reforms sit alongside our now-established programme of apprenticeship reforms.

60 apprenticeship standards for construction routes are now approved for delivery, with more in development. We are also running pilots across the country to raise the profile of apprenticeships in disadvantaged areas, to improve access to apprenticeships in key sectors such as engineering, manufacturing and construction.

In the Construction Sector Deal, the construction industry has committed to raising the number of apprenticeship starts to 25,000 starts per year by 2025.

Construction is also one of the first routes for T level delivery, with the Design and Planning pathway launching in 2020. The Onsite Construction and Building Engineering pathways are expected to launch in 2021.

The construction industry has shown that it values T Levels and has committed through the Construction Sector Deal to offering 1000 work placements from 2020. This will enable all Construction T level students to access a high quality, real-life experience which will help make sure that they are ‘site-ready’ on completion of their course.

Collectively, these reforms will improve the supply of new entrants to the construction sector. Officials estimate that these changes will increase the number of new sector entrants by approximately 25% by the mid-2020s.

For adults already in the labour market, construction offers a range of high quality job opportunities. The Construction Skills Fund is a cross-government programme with industry and is underway to address the current skills shortages in the sector. The department was allocated £24 million to support the development of on-site construction training hubs across England in 2018-19 and 2019-2020. The Construction Industry Training Board (CITB) are allocating this fund and have committed to delivering more than 20 hubs that will train 13,000 employment-ready learners by March 2020.

The CITB provides a wide range of services and initiatives to mitigate the current skills shortages, including paying grants to employers to carry out training to improve standards, adopting modern methods of construction (MMC), improving careers advice and improving site readiness and transitions from study to

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323 BEIS, Construction Sector Deal, July 2018, pp14-16
324 MHCLG Press Release, 16 November 2018
work, including through a new “boot camp” pilot scheme initiative.

Lastly, the government is encouraging the expansion of MMC, which presents the opportunity to greatly reduce the level of skilled workers needed on building sites using these methods.

The department has built 57 schools using MMC and, this financial year, we plan to open another 21 schools. The department has announced a new procurement framework with a value of up to £3 billion for MMC solutions in schools. This framework is due to go live by November 2019.325

**Innovation in construction**

Innovation in construction methods and materials can mean more homes being produced quickly, cost-effectively and to modern standards. Among other things, this can increase the life-span of housing, improve energy efficiency and reduce the need for major repairs.

The UK construction industry has been accused of being slow to adopt technological and other innovations which are frequently used by house building industries in other countries.326

These innovations include:

- Increased use of data and data management in the design and planning of house building. This formed an important part of the [Construction strategy 2016-20].
- Innovation in the way the workforce and businesses involved in house building are organised might provide a way to standardise house building and make the industry more efficient, according to [Innovate UK].
- Mass produced modular components are a feature of commercial building but are less regularly used in house building in the UK. These methods reduce the time required to build houses and require less manpower. They also help to ensure standardised levels of quality and durability.

Adopting modern construction methods can also lead to increased productivity in the sector, meaning that fewer people are required to build the same number of houses.

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325  HL16616 [Construction: skilled workers], 8 July 2019
326  Innovate UK, [Construction industry summit, blog post], 18 September 2015
The 2015 Government launched its Accelerated Construction prospectus on 3 January 2017:

Through our new Accelerated Construction programme, we now want to provide a tailored package of support to ambitious local authorities who would like to develop out surplus land holdings at pace. The programme aims to deliver up to 15,000 homes (housing starts) on central and local surplus public sector land in this Parliament through £1.7 billion of investment. In doing so, we want to use Accelerated Construction to tackle broader constraints to seeing more homes built. The programme is designed to support our market diversification objectives by supporting non-major builders and help tackle the construction skills gap, including through greater use of Modern Methods of Construction (MMC).327

During a speech to the Northern Powerhouse Summit on 5 July 2018, then Business Secretary, Greg Clark, announced £420 million investment in construction technology. The Government is contributing £170 million and industry is contributing £250 million to innovation in construction techniques and materials.328

The Government response to the HCLG Select Committee’s report, Modern methods of construction329 was published in September 2019.330 Pages 4-6 provide a progress update on the Government’s MMC programme at that time.

In The Real Face of Construction 2020 the CIOB considered the implications of MMC on future training requirements:

The trends suggest the production methods of industry are set to undergo a radical shift, with far more work being done offsite. This has major implications for training.

The most obvious is that the blend of skills needed nationally will change, as factory production is adopted. CITB’s analysis into the impact of modern methods of construction on skills requirements for house building suggests there could be a shift of between 44% and 60% in skilled trades and manual occupations to working offsite. This will not be a one-off change. Assuming offsite is widely adopted, there will be rapid development as it matures.331

The CIOB also identified a need for training incentives:

There is a need to provide strong incentives to encourage training. This is particularly true of construction where the workforce can be highly mobile and move firm to firm, or into self-employment. This can disincentivise firms from training, as the opportunities for free riders are great. We suggest that it may be appropriate as far as possible and practicable to encourage training through obligations embedded in the system of public procurement. The dynamism of change that appears to be facing construction should be grasped as an opportunity to deliver smarter, more

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327 DCLG, Accelerated Construction: expressions of interest, 3 January 2017
328 The Planner, “£420 to be invested in smart construction”, 5 July 2017
329 HC 1831, Modern methods of construction, Session 2017-10, 3 July 2019
330 CP 168, September 2019
331 CIOB, The Real Face of Construction 2020, pp61-2
effective training and seen as a springboard to create a more diverse and engaged workforce.332

Planning for the Future (August 2020) says that the Government will:

...support innovative developers and housebuilders, including small and medium sized enterprises (SMEs) and self-builders, those looking to build a diverse range of types and tenure of housing, and those using innovative modern methods of construction (MMC).333

The Farmer Review’s recommendations 2016

A combination of these issues led the 2015 Government to commission research from the Construction Leadership Council into how the industry’s skills and manpower problems might be overcome. The Farmer Review of the UK Construction Labour Model: ‘Modernise or die’ was published in December 2016. The review concluded that the construction industry and clients that rely on it were “at a critical juncture”. The following symptoms of failure and poor performance were identified:

- Low productivity.
- Low predictability.
- Structural fragmentation.
- Leadership fragmentation.
- Low margins, adversarial pricing models and financial fragility.
- Dysfunctional training funding and delivery model.
- Workforce size and demographics.
- Lack of collaboration and improvement culture.
- Lack of R&D and investment in innovation.
- Poor industry image.334

Amongst these, the review identified the industry’s workforce size and demographic as “the real ticking time bomb.” There was potential, according to the review, for the workforce to decline by 20-25% within a decade:

This scenario has never been faced by UK construction before and would be a capacity shrinkage that would render the industry incapable of delivering the levels of GDP historically seen. Just as importantly, it would undermine the UK’s ability to deliver critical social and physical infrastructure, homes and built assets required by other industries to perform their core functions.335

332 Ibid., p62
333 MHCLG, White paper: Planning for the Future, August 2020, p14
334 Farmer Review of the UK Construction Labour Model: ‘Modernise or die’, December 2016, p7
335 Ibid., p8
The review proposed the establishment of a **tripartite covenant** “between the construction industry, its end clients (private and public) and government” with the latter acting as a strategic initiator to pump prime change.\(^{336}\)

The review’s ten headline recommendations are set out below:

1. **Construction Leadership Council (CLC)** to have strategic oversight of the implementation of the review’s recommendations and evolve to coordinate and drive the process of delivering the industry change programme.

2. **Construction Industry Training Board (CITB)** to be comprehensively reviewed and a reform programme instituted.\(^{337}\)

3. Industry, clients and government to work together leveraging CLC’s Business Models workstream activity, to improve relationships and increase levels of investment in R&D and innovation by changing commissioning trends from traditional to pre-manufactured approaches.

4. Industry, clients and government, supported by academic expertise and leveraging CLC’s Innovation workstream activity, to organise to deliver a comprehensive innovation programme. Programme to be aligned to the market and generate a new shape of demand across the industry with a priority on residential construction.

5. A reformed CITB to look to reorganise its grant funding model for skills and training aligned to what a future modernised industry will need. Bodies to play a more active role in ensuring training courses produce talent appropriate for a digitally enabled world.

6. A reformed CITB or stand-alone body should be challenged and empowered to deliver a more powerful public facing story and image for the holistic ‘built environment’ process. To include an outreach programme to schools and draw on existing industry exemplars and a vision for the industry’s future state.

7. Government to recognise the value of the construction sector as part of its industrial strategy and be willing to intervene by way of appropriate further education, planning and tax/employment policies to help establish and maintain appropriate skills capacity.

8. Government to provide an ‘initiation’ stimulus to innovation in the housing sector by promoting the use of pre-manufactured solutions through policy measures. To be prioritised either through the conditional incentivisation of institutional development and investment in the private rented sector; the promotion of more pre-manufactured social housebuilding through Registered Providers; direct commissioning of pre-manufactured housing; or a combination of any of the above.

9. Government, as part of its housing policy planning, should work with industry to assemble and publish a comprehensive pipeline of demand in the new-build housing sector. This should be along the same lines as the National Infrastructure Pipeline, seeking to

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\(^{336}\) Ibid., p10

\(^{337}\) Building Support: the review of the Industry Training Boards was published in November 2017.
bring private developers and investors into this as far as possible to assist with longer term innovation and skills investment planning.

10 In the medium to longer-term, particularly if a voluntary approach does not achieve the necessary step-change, government to consider introducing a charge on business clients for the construction industry to further influence commissioning behaviour and to supplement funding for skills and innovation at a level commensurate with the size of the industry. The charge should be set at no more than 0.5% of construction value with a clear implementation timetable. Clients would be able to avoid payment by showing how they are contributing to industry capacity building and modernisation.338

A schedule of responses to the review was published in 2016 while the Government’s response was published in a letter of 19 July 2017:

Since its publication in October, we have been incorporating the review’s findings and recommendations into policy development. The attached annex sets out more fully how the Government has responded to each of Mark’s recommendations. In particular, Mark’s recommendations influenced the measures in the Housing White Paper to support increased housing supply, and helped inform the review of the Construction Industry Training Board (CITB).339

338 Farmer Review of the UK Construction Labour Model: ‘Modernise or die’, December 2016, p11
339 Government Response to the Farmer Review, 19 July 2017
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