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Affordable housing in England

After Kate Barker published her final report in 2004, *Review of Housing Supply: Delivering Stability: Securing our Future Housing Needs*, the Government committed itself to achieving a 'step-change' in housing supply.

This paper considers the key factors influencing the supply of 'sub-market' affordable housing in England, i.e. housing provided with public subsidy that is rented out at lower than market rents, or sold under a low-cost home ownership scheme. The paper also explains how the Government is seeking to improve the affordability of housing sold on the open market.

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Summary of main points

In February 2003 the Government published *Sustainable Communities: Building for the Future* in which the Deputy Prime Minister acknowledged that Governments over the last 30 years had failed to meet housing need. Against a background of rising house prices, increased numbers of families living in temporary accommodation and a reduction in the rate of affordable housing completions by social housing providers, the Chancellor and Deputy Prime Minister commissioned Kate Barker to carry out a review of housing supply in the UK in April 2003. The Barker Review focused primarily on issues underlying the lack of supply and responsiveness of the housing market in the UK but she also considered the need for additional sub-market affordable housing.

There is no statutory definition of sub-market affordable housing, but it is generally understood to include social-rented housing (provided by local authorities and registered social landlords) and other forms of subsidised housing, including low-cost home ownership schemes, which is rented out or sold at a price that is lower than the market rate.

Following the publication of Kate Barker's final report in 2004, *Review of Housing Supply: Delivering Stability: Securing our Future Housing Needs*, the Government committed itself to achieving a 'step-change' in housing supply. The aim is to secure 200,000 net additions to the housing stock per year (up from around 150,000 in 2004/05) by 2016. Much of this additional growth is expected to result from reforms to the planning system and from the development of four 'growth areas'. New household projections were published in 2006. These projections estimate future household growth and therefore the likely demand for additional housing. The 2006 projections take account of the 2001 census and predict an increase over the 2002 household projections of around 10%, leading housing commentators to question whether the Government's 'step-change' in housing supply will be sufficient to have any significant impact on house prices.

In addition to recommending an overall increase in housing supply, Kate Barker identified a specific need for an increase in the supply of social housing of 17,000 homes each year. She also said there was case for providing up to 9,000 homes a year above this level in order to make inroads into the backlog of unmet housing need. Her figures are not universally accepted. Research by economist Alan Holmans has concluded that a much higher level of provision would be needed to make inroads into the backlog of unmet housing need. An update of Barker's analysis carried out by the Centre for Housing and Planning Research at the University of Cambridge in 2005 (on behalf of Shelter) came to similar conclusions.

As part of the 2004 Comprehensive Spending Review (CSR) the Government committed additional funding to the development of new social housing. Planned expenditure on new affordable housing will have more than doubled since 1997 by 2008 (reaching £2.25 billion in 2008). The Government said that an extra 10,000 homes for social rent would be provided between 2004-05 and 2007-08, representing a 50 per cent increase in provision and amounting to 75,000 new social rented homes in total. A commitment was also made to deliver more than 40,000 homes for essential public sector workers and low-cost home ownership schemes in areas of high housing demand; almost £1 billion of

the Housing Corporation's National Affordable Housing Programme is being earmarked for shared ownership schemes over 2006-2008 (out of a total budget of £3.9 billion). The boost to affordable housing provision announced in the 2004 CSR was welcomed by housing commentators, but they also pointed out that the level of social housing supply envisaged was still short of the levels argued for by Kate Barker. There has been an increase in number of social rented homes constructed since 2002/03 but output is still at a substantially lower level than that achieved in 1994/95. Housing commentators are now looking towards the 2007 CSR for an announcement of increased investment in social rented housing.

The Government's focus on low-cost home ownership schemes as a means to address the shortage of affordable housing has been questioned. One of the main concerns expressed is that the promotion of subsidised shared ownership/equity share schemes might inflate house prices unless unaccompanied by an overall increase in housing supply. It is also argued that in some areas of England shared ownership does not represent an affordable housing option at all.

In addition to increased investment in the provision of sub-market affordable housing, the Government is in the process of reforming the planning system with the aim of speeding up the delivery of housing. Kate Barker identified the planning system and the availability of land as key determinants of housing supply. The Government has consulted on a policy framework for delivering the Government's housing objectives which, when finalised, will set out the national planning policies for housing that regional planning bodies and local authorities will have to take into account in developing 'Regional Spatial Strategies' and 'Local Development Frameworks'. Consultation has also taken place on proposals to introduce a 'Planning-gain Supplement,' another of Kate Barker's recommendations. This Supplement would act as a tax on some of the windfall gains that accrue to landowners from the sale of their land for residential development. The proposals are controversial, particularly amongst property developers, and there is some concern that a Planning-gain Supplement might actually have an adverse effect on the supply of affordable housing.

The Government has also taken steps to increase the supply of housing in other ways, some of which focus on making better use of the existing housing stock. These include initiatives to bring empty housing back into use, and limits on, the maximum discount available under the Right to Buy for tenants in social housing.

The Government department responsible for housing matters has changed four times since 1997. Prior to 1997 it was covered by the Department of the Environment (DOE). After the 1997 General Election housing became the responsibility of the Department for the Environment, Transport and the Regions (DETR). This department was disbanded after the 2001 General Election and housing matters moved to the new Department for Transport, Local Government and the Regions (DTLR). In 2002, housing became the responsibility of the Office of the Deputy Prime Minister (ODPM). This was disbanded in 2006 and housing matters are currently the responsibility of the Department for Communities and Local Government (DCLG). For ease of reference this paper uses 'the Department' when referring to the Government department responsible for housing matters. Similarly, the Environment Select Committee, Environment, Transport and Regional Affairs Select Committee, Urban Affairs Sub-Committee and, most recently, the

ODPM: Housing, Planning and the Regions Select Committee are referred to in the text as 'the Commons Select Committee'.

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I Defining ‘affordable housing’

In recognition of the fact that a shortage of housing and high house prices in recent years has made it difficult for many people to obtain affordable housing and, in turn, that this has had a detrimental effect on the ability of certain employers to attract ‘key workers’, the Department was set the following Public Service Agreement (PSA 5) target in 2002:

Achieve a better balance between housing availability and the demand for housing, including improving affordability, in all English regions while protecting valuable countryside around our towns, cities and in the green belt and the sustainability of towns and cities.¹

The need for subsidised housing provision has long been recognised. The cost of private sector housing that meets acceptable standards compared with the level and distribution of incomes and assets means that large numbers of households “lack the resources to make a demand for decent housing effective in the market.”² Without subsidised housing large numbers of people would fail to obtain housing of a decent standard. Yet one of the problems associated with discussions concerning affordable housing provision is that there is no statutory or agreed definition of what constitutes ‘affordable housing’. The Government’s position on the definition of affordable housing was set out in response to a Parliamentary Question in June 2005:

Baroness Andrews: The Government define affordable housing as including social-rented housing and other forms of sub-market housing (known as intermediate housing). Social-rented housing is housing at social rents (i.e. subject to the rent restructuring regime) and accessed via local authority or RSL housing registers. Other forms of sub-market housing include forms of low-cost home ownership such as shared ownership and Homebuy and housing available at intermediate rents (above social rent but below market rent). Affordable housing can generally be accessed only by existing social housing tenants or people on waiting lists, or others groups specifically identified, such as key workers. It is typically in receipt of public subsidy, but can also be provided by other means; for example, through “Section 106” planning agreements.

In addition, planning policy guidance note 3: housing (PPG3) requires a local planning authority to define what it considers to be affordable in its areas in terms of the relationship between local income levels and house prices or rents for different types of households. This is used in considering planning applications for both market and sub-market housing.³

There is a great deal of ambiguity in the way the term ‘affordable’ is used in relation to housing. Aside from covering housing provided with public subsidy, it is also used in a

¹ The Housing Market PSA was first introduced in 2002 (SR2002 Public Service Agreement 2003-2005 Technical Notes) and was extended to include improving the affordability of housing in the 2004 Comprehensive Spending Review (Treasury Press Release, *Delivering Stability: Securing our Future Housing needs*, 17 March 2004).

² *Housing Demand and Need in England 1996-2016*, March 2001, jointly published by the National Housing Federation and the Town and Country Planning Association, p1

³ HL Deb 9 June 2005 WA99

general way to describe housing of any tenure that is judged to be affordable to a particular household or group by analysis of housing costs, income levels and other factors. In 2002 the Chartered Institute of Housing (CIH) submitted evidence to the Commons Select Committee's inquiry into affordable housing in which it argued for precise and appropriate definitions of affordable housing where there is a need to achieve and measure specific outcomes.⁴ The CIH thought that in most instances it was no longer appropriate to identify the need for 'affordable' housing as separate from market housing:

This crude approach does not appreciate the complexities of modern housing markets, nor serve modern requirements and aspirations. A much more effective way forward is to identify the amounts and locations of a wide range of house types, sizes, tenures and prices that are required to achieve the strategic objectives identified.⁵

II How much affordable housing is needed?

A. Estimates of need 1995-2002

Since the early 1990s there has been a great deal of research and discussion around how much affordable housing is needed in England to meet household projections and to tackle the backlog of unmet housing need. This unmet need is illustrated, for example, by the number of homeless households placed in temporary accommodation and those living in overcrowded and/or unfit housing. There has been limited consensus about the precise amount of affordable housing needed, not least because there are many variables involved which are difficult to predict accurately.

In 1992 the Housing Corporation (the regulatory and funding body for registered social landlords, also referred to as housing associations) published research which concluded that an average of 100,000 new social housing units would be needed in England in each year until 2001.⁶ This figure was seen as the level at which adequate accommodation would be provided for the vast majority of those regarded as in housing need, as well providing for the projected increase in the number of households.

The Department of the Environment (DOE) issued a memorandum in May 1995 which set out its analysis of the need for new social housing provision in the period 1991-2001.⁷ In short, the Department concluded that between 60,000 to 100,000 new homes would need to be provided through the social housing route in each year of the 1990s. The higher figure was consistent with estimates produced by various other studies around that time, but the lower figure was derided as a "massive underestimate" for reasons that ranged from ignoring concealed households (i.e. those living with family and friends owing to an inability to obtain their own accommodation) and not accounting

⁴ HC 809-II 2001-02, July 2002, Memorandum by Chartered Institute of Housing
<http://www.parliament.the-stationery-office.co.uk/pa/cm200102/cmselect/cmtlgr/809/809m05.htm>

⁵ *ibid*

⁶ *A Review of Housing Needs Assessment, 1992, Whitehead and Kleinman*

⁷ Deposited Paper 1638, DOE, *Provision for Social Housing, 1995*

for unfit dwellings, to concern over assumptions on the likelihood of home ownership growth amongst younger households.

Research into housing need carried out on behalf of the Joseph Rowntree Foundation by economist Alan Holmans was also published in 1995.⁸ Holmans concluded that at least 117,000 new social rented homes per year would need to be provided from 1991 to 2011. He identified a need for at least 90,000 new rented homes per year over 1991-2001 rising to 100,000 per year until 2011, with a further 500,000 homes required to clear the backlog of unmet need. The key difference between Holmans' research findings and the Department's was that the Department did not produce and include an estimate of the backlog of unmet housing need in its figures.

In October 1995 the Commons Select Committee held an inquiry into housing need; the report of the Committee said:

The lower end of the range of the Government's estimate of the need for social housing is below all the estimates produced by respected organisations and academics, although the upper end of the range is more in line, excluding any calculation of and provision for backlog.⁹

The Committee went on to recommend:

It would only be prudent for the Government to assume that in determining policy, including the allocation of public expenditure over the next few years, it ought to provide for a figure at a higher point of its present estimated range of need for social housing. The longer such a decision is delayed, the larger the backlog of unmet need will be and the greater the ultimate expense.¹⁰

The then Government responded thus:

The future breakdown of tenure depends on many variables, each of which is difficult to forecast. That is why the Government's estimates of housing are a range: they reflect the range of what is likely. Given the level of uncertainty, the Government does not believe it would be appropriate to produce a less wide-ranging set of figures.¹¹

The Commons Select Committee carried out a further housing inquiry during the 1997-98 parliamentary session which, amongst other things, considered the validity of the Government's household projection figures and the regional allocation of the projected increase. The specialist advisor to that Committee, Dr Christine Whitehead, estimated that the social rented sector had provided about 335,000 additional lettings,¹² i.e. over 60,000 per year, during the five and a half years from 1991 to 1996-97.¹³ It was

⁸ *Housing Demand and need in England 1991-2011*

⁹ HC 22-1 of Session 1995-96, para 251

¹⁰ *ibid* para 252

¹¹ Cm 3259, para 25

¹² New lettings can include re-lets in addition to newly built properties, i.e. properties that become vacant owing to tenants moving out etc.

¹³ HC 495-I of Session 1997-98, *Housing*, para 48

noted that the private rented sector over this period had provided around 180,000 new lettings to the 'main needs groups.'¹⁴ Together these changes were taken to imply "that the private and social sectors together have provided enough lettings to meet newly arising needs and indeed to some extent reduce the backlog of needs." Witnesses to the Committee still expressed concern, however, over the future provision of social housing; the Committee reached the following final conclusions on this subject:

If the nation wishes to accommodate the household projections it will be essential to provide more social housing in both rural and urban areas. The estimates we have received are that although 37,000 social dwellings per year will be provided in 1999-2000, 60,000 to 100,000 are needed. We believe they can only be provided by additional public funds...A strategy for social housing is essential. The Government should publish clear reliable figures of the range of expected need and its strategy for meeting the gap between provision and need. It must clearly indicate both how many homes will be provided through funding by the Housing Corporation, by local authorities building council houses and by other means, and how a sufficient number of homes will be retained to meet social need. The strategy should also outline the financial arrangements for enabling those on low pay to meet their rents.¹⁵

Alan Holmans produced a further report on housing need in 2001 in which he used revised Government population projections to estimate the need for housing in England on a national and regional basis over a 20 year study period.¹⁶ The 1998 revised population projections¹⁷ suggested that England's population was set to rise by 1 million more by 2016 than had previously been predicted. This increase is attributed to more inward migration to England and improved life expectancy rates, particularly for men. It is estimated that more than two-thirds of the projected increase in households will consist of one-person households.

Holmans concluded that the higher population projections would result in the formation of an additional 420,000 households across England up to 2016. In turn, he estimated that on average every year an additional 80,000-85,000 affordable homes would be needed, including those available in the private rented sector to people eligible for housing benefit. In addition to the need to account for newly arising need, the report estimated that the backlog of unmet need, i.e. people living in temporary, overcrowded, or poor housing, stood at around 650,000 households.

A sub-committee of the Commons Select Committee carried out an inquiry into affordable housing during the 2001-02 parliamentary session which reported in January 2003.¹⁸ The Chartered Institute of Housing's (CIH) evidence to this inquiry pointed out that in England as a whole the output of rented dwellings from the Housing Corporation's

¹⁴ e.g. homeless households and overcrowded families

¹⁵ *ibid* para 266

¹⁶ A. Holmans, 2001, *Housing Demand and Need in England 1996-2016*

¹⁷ published in March 2000

¹⁸ The Urban Affairs Sub-Committee of the Department of Transport, Local Government and the Regions Select Committee, HC 75-I, Third Report of 2002-03

Approved Development Programme¹⁹ had been halved since 1995-96 with only 14,171 new homes provided in 2000-01. In London increased costs were cited as the cause of a reduction in the number of newly built dwellings by registered social landlords (RSLs) to some 2,850 in 1999-2000, compared with just over 5,000 four years earlier.²⁰ The gap between actual output of affordable housing and real needs was estimated at 40,000 units per year, even taking into account increased investment via the Corporation's Approved Development Programme from 2003-04.

During this period the supply of new private sector homes in the UK was also falling and in 2001/02 reached its lowest level, despite high demand, since World War II. The CIH's evidence to the sub-committee's inquiry predicted continuing house price inflation "at well above the level of wage inflation because of the fundamental imbalance between supply and demand."²¹

Housebuilding: permanent dwellings completed, by tenure, England

	Registered			All dwellings
	Private enterprise	Social Landlords	Local Authorities	
1990/91	132,499	14,575	12,958	160,032
1991/92	132,045	15,974	7,113	155,132
1992/93	115,913	23,969	2,579	142,461
1993/94	116,050	30,213	1,451	147,714
1994/95	125,738	31,375	853	157,966
1995/96	123,616	30,226	757	154,599
1996/97	121,165	24,630	451	146,246
1997/98	127,835	21,397	323	149,555
1998/99	119,516	18,920	194	138,630
1999/00	124,167	17,100	88	141,355
2000/01	116,412	16,520	179	133,111
2001/02	115,533	14,171	63	129,767
2002/03	124,278	13,242	199	137,719
2003/04	129,741	13,666	191	143,598
2004/05	138,133	16,637	100	154,870
2005/06	145,126	17,901	299	163,326

Source: DCLG, Housing Statistics, Table 204

Lord Best, Director of the Joseph Rowntree Foundation (JRF) and author of a working paper published in 2002, *Britain's Housing in 2022*,²² said:

We estimate that the difference between housing demand and supply will have widened to a yawning gap of 1.1 million homes in England alone by 2022: most of it in London and the South East. This genuinely shocking statistic shows why the time has come for policy makers to recognise that a plentiful supply of new and

¹⁹ Capital Funding for the development of new build by registered social landlords; this programme represents the main means by which new social rented housing has been provided since 1988 and is now referred to as the National Affordable Housing Programme.

²⁰ HC 809-II 2001-02, July 2002, Memorandum by Chartered Institute of Housing
<http://www.parliament.the-stationery-office.co.uk/pa/cm200102/cmselect/cmtlgr/809/809m05.htm>

²¹ *Ibid*

²² March 2002

affordable homes is of the greatest importance to the nation's future health and prosperity.²³

B. The Barker Review

As part of the 2003 Budget the Chancellor and Deputy Prime Minister announced that Kate Barker had been commissioned to carry out an independent review of housing supply. Her final report, *Review of Housing Supply: Delivering Stability: Securing our Future Housing Needs*, was published alongside the 2004 Budget. Although the Barker Review focused primarily on the lack of supply and responsiveness of the housing market in the UK, she also considered the need for additional social housing:

The scenarios for social housing are based on demographic projections. An increase in supply of social housing of 17,000 homes each year is believed to be required to meet the needs among the flow of new households. There is also a case for provision at up to 9,000 a year above this rate in order to make inroads into the backlog of need. Clearly, the scenarios for the private and social sectors for example, are to some extent independent of each other. It would be possible to take a more ambitious approach to social provision, irrespective of the approach to market provision. However, this would have implications for the level of investment needed.²⁴

Barker based her estimate of housing need on work carried out by Holmans, Monk and Whitehead for the Centre for Housing and Planning Research at the University of Cambridge (CCHPR) in 2004.²⁵ She questioned some of the assumptions used by the CCHPR and arrived at a lower estimate of how many new social rented homes are needed per year, i.e. 48,000 compared with 67,000 per year.

In the CCHPR report, Holmans *et al*, argue for a total of 89,000 new affordable dwellings to be provided in each year up to 2011. Of this total they identify 22,000 as necessary to reduce the current backlog of unmet need by 50 per cent over the fifteen years to 2020, leaving 67,000 new dwellings per year to meet newly arising housing need. They identify three categories of households that form the backlog of unmet housing need:

- households without self contained accommodation;
- owner occupiers and private renters needing social rented housing; and
- social tenants in unsuitable accommodation.

Some of the backlog of unmet need identified by Holmans *et al* is dismissed in the Barker Report as “frictional”:

There will be households whose circumstances feature in the backlog categories above, but who then move on quickly to suitable housing. This is largely a frictional backlog, which could be reduced by a better use of the existing housing

²³ JRF Press Release, *Shortage of homes over next 20 years threatens deepening housing crisis*, 19 March 2002

²⁴ *Review of Housing Supply: Delivering Stability: Securing our Future Housing Needs*, March 2004, http://www.hm-treasury.gov.uk/media/053/C7/barker_review_execsum_91.pdf

²⁵ A Holmans, S Monk and C Whitehead, *Building for the Future – 2004 Update*, Shelter, 2004

stock and more rapid administrative systems. For others, their circumstances result from a lack of suitable housing, and they are unlikely to be accommodated unless more housing is provided.²⁶

Barker also questions whether all the needs identified should be met by additional sub-market housing:

Whether all of these households should be categorised as equally needy is questionable. For example, it might be considered appropriate for those currently in owner occupancy who cannot afford their mortgage to move to cheaper market accommodation, where possible, as opposed to receiving subsidised housing.²⁷

Barker's final estimate of the need for additional social housing units above existing provision (17,000 per year) does not include an element aimed at reducing the backlog of unmet housing need but the Report concedes that "current provision is not enough to meet arising need and so the backlog is likely to worsen over time."²⁸

The need for 67,000 new affordable dwellings per year identified by Holmans *et al* is made up of:

- 28,000 to account for that part of the increase in the number of new households that will require sub-market housing;
- 22,000 to account for loss of re-lets sold under the right to buy;
- 10,000 to account for a reduction in the number of private lettings available to those in receipt of Housing Benefit;²⁹
- 5,000 to replace other losses, mainly through demolition; and
- 1,000 to account for an increase in vacant dwellings.³⁰

Kate Barker's figure of 17,000 additional social housing units needed each year is reached by scaling down the CCHPR's estimates for meeting future housing needs. For example, the Review rejects the contention that the private rented sector will contract³¹ and calculates annual need for housing by focusing only on two-thirds of newly arising households. Barker justifies this approach by assuming that some of these households will be "less needy than others," such as those living in shared accommodation and those with children living in accommodation above the ground floor. She contends that the ability of some of these households to qualify for low cost home ownership

²⁶ *Review of Housing Supply: Delivering Stability: Securing our Future Housing Needs*, March 2004, para 5.17, p93

²⁷ *ibid* para 5.16, p92

²⁸ *ibid*

²⁹ The CCHPR assumed that the availability of private rented accommodation for people on Housing Benefit would contract based on past trends showing a stronger decline in availability than could be explained by falling unemployment or improved job opportunities. Factors influencing this contraction could be Housing Benefit restrictions.

³⁰ *Review of Housing Supply: Delivering Stability: Securing our Future Housing Needs*, March 2004, table 5.1, p81

³¹ This is based on the assumption that a UK version of US style Real Estate Investment Trusts (REITs) might be expected to expand the sector (*ibid* para 5.26, p95)

programmes and/or to find housing through independent means “is much better” than assumed in the CCHPR’s analysis.³²

Hence the CCHPR’s estimated need for 67,000 new units of sub-market housing to meet housing need up to 2011 is reduced by 10,000 in respect of private rented housing provision and 9,000 in respect of those new households who are assumed to be less needy. This gives an estimated need for total social housing provision of 48,000 units per annum. In 2002-03 total new social housing provision stood at 21,000 units plus 10,000 (net) units purchased by registered social landlords (RSLs). With current social housing provision at around 31,000 per annum Barker identified a need to increase the level of new subsidised housing by 17,000 per annum in order to accommodate demographic expansion (giving a figure for total social housing provision of 48,000).³³ The Report goes on to suggest that if market housing supply is boosted sufficiently to reduce house prices this will alter the number of new households able to afford market housing and, in turn, this could cut the projected number of additional social houses required.

In terms of tackling the backlog of need for social housing, Barker identified a need for 9,000 additional units a year in order to accommodate those households in temporary accommodation over a ten year period.³⁴

In 2005 Shelter commissioned the CCHPR to update Barker’s analysis. The CCHPR disagreed with Barker’s downward revision of the number of new households that would require social housing. As noted above, this downward revision was based on two assumptions: i.e. that only two thirds of newly arising provision would be considered a ‘priority’ and that no allowance should be made for a reduction in supply in the private rented sector. However, for the purposes of updating the Barker analysis these assumptions were retained. The CCHPR reached the following conclusions:

Newly arising need

An estimated 40,000 units of social rented housing are needed each year to meet the level of need identified in the final report (10,000 a year more than will be provided under current spending plans). This would require an increase in public expenditure of £675 million a year.

Temporary accommodation target

Based on current spending plans, there is expected to be a shortfall of more than 30,000 social rented homes against the Government’s target to halve the use of temporary accommodation by 2010. Meeting this shortfall would require a public expenditure increase of £675 million a year.

A minimum requirement

Thus, in addition to the Government’s planned output of 30,000 homes a year by 2007/08, a total of 60,000 social rented homes, or 20,000 a year, are needed over the next Spending Review period from 2008/09 to 2010/11, simply to meet

³² *Review of Housing Supply: Delivering Stability: Securing our Future Housing Needs*, March 2004, para 5.27, p95

³³ *ibid* para 5.29 p96

³⁴ *ibid* para 5.33 p97

the level of need identified in the *Barker Review* and the temporary accommodation target. This would require an increase in public expenditure of over £1 billion a year.³⁵

The CCHPR also estimated the need for new social rented housing based on its original assumptions but with a reduction in the assumed contraction of the private rented sector for Housing Benefit claimants from 10,000 to 5,000 units per year.³⁶ The new estimate was also revised downwards by 6,000 units to take account of the provision of intermediate housing (this term is increasingly used to describe shared ownership and equity share schemes). On this basis the CCHPR produced an estimated need for 48,000 new social rented units per year. The table below compares the CCHPR's 2004 and 2005 estimates of the need for new social housing with Barker's analysis and includes the CCHPR's update of Barker's figures:

New arising need for social housing: comparison with the Barker Report

	CCHPR 2004 estimate for new social housing	CCHPR 2005 estimate for new social housing	Barker Report estimate for new social housing	CCHPR Barker- based estimate for new social housing
Net increase in households	28,000	25,000	19,000	16,000
Increase in vacant dwellings	1,000	1,000	1,000	1,000
Offset to loss of re-lets due to Right to Buy Sales	22,000	18,000	22,000	18,000
Reduction in private sector lettings to tenants with Housing Benefit	10,000	5,000	0	5,000
Replacement of losses through demolition, etc	5,000	5,000	5,000	5,000
Total	67,000	54,000	48,000	46,000
Less overlap with intermediate	-	-6,000	-	-6,000
Adjusted total	-	48,000	-	40,000

Source: Shelter, Building for the future - 2005 update

C. Household projections for England: 2003-2026

New household projections up to 2026, which take account of the 2001 Census, were published on 14 March 2006.³⁷ The projections show the number of households that would form if past demographic trends continue. The projections are linked to the Government Actuary Department's 2003-based national population projections for England and the Office for National Statistics' 2003-based sub-national population projections. Household projections form part of the evidence that Regional Planning Bodies and local authorities use in the assessment of future housing requirements.

The number of households in England is now projected to increase from 20.9 million in 2003 to 25.7 million by 2026, an annual growth of 209,000. As the table below illustrates,

³⁵ *Building For the Future – 2005 Update*, Shelter, November 2005:
http://england.shelter.org.uk/files/docs/14426/buildingfuture_summary.pdf

³⁶ The previous (2004) estimate of 10,000 was deemed to be too high.

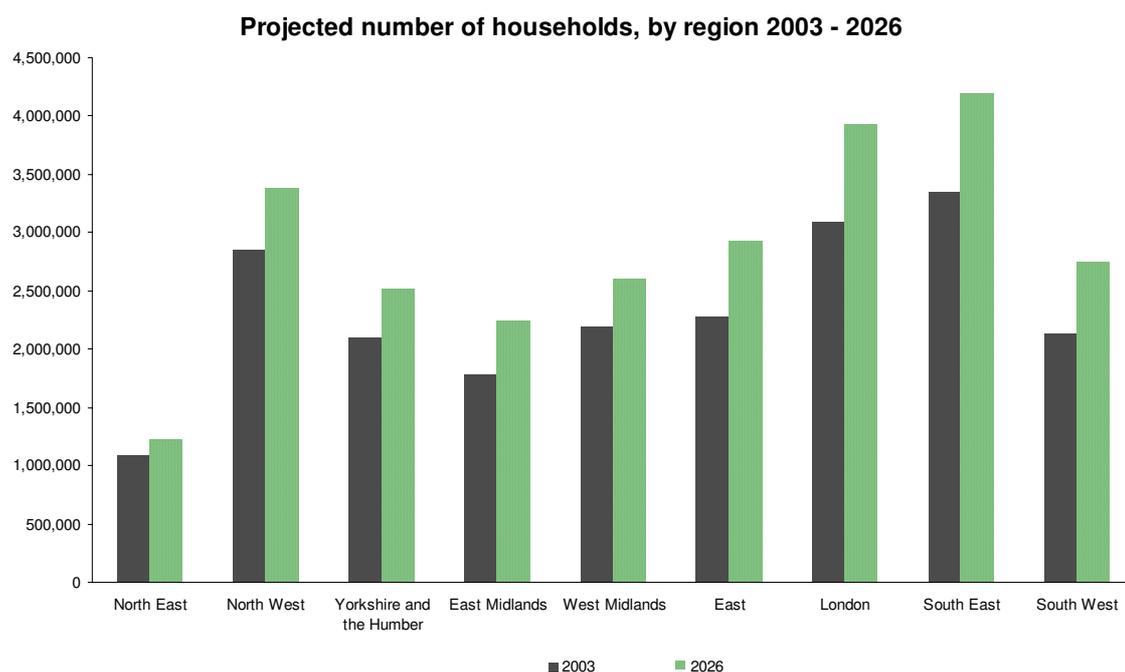
³⁷ See Library Standard Note SN/SG/3949, *Household projections in England and the Regions: 2003-2026*

around 60% of the increase is expected to occur in London, the South East, the South West and the East of England:

Household projections in England and the Regions (2003-based): 2003 - 2026

Region	Number of households		Average	% change
	2003	2026	annual change 2003-2026	2003-2026
North East	1,088,000	1,211,000	5,300	11
North West	2,847,000	3,378,000	21,900	19
Yorkshire and the Humber	2,104,000	2,511,000	17,700	19
East Midlands	1,782,000	2,230,000	19,500	25
West Midlands	2,193,000	2,602,000	17,800	19
East	2,286,000	2,926,000	27,800	28
London	3,093,000	3,926,000	36,200	27
South East	3,348,000	4,184,000	36,300	25
South West	2,137,000	2,745,000	26,400	28
England	20,904,000	25,713,000	209,000	23

Source: ODPM, Projections of Households in England and the Regions to 2026



Kate Barker's estimates of housing need were based on the 1996 household projections published in October 1999. In light of the latest projections Barker reportedly said that if the numbers are correct there will be even more pressure on the housing market.³⁸ After Barker the Government committed itself to delivering a 'step change' in total housing

³⁸ 'Barker fears supply crisis is worse than predicted,' *Inside Housing*, 17 March 2006

supply in England from around 150,000 units per year to 200,000 per year by 2016. The new projections mean that there is demand from the housing industry for the development of more housing, some of which might be expected to be sub-market housing. The Chartered Institute of Housing has said that the revised figures “put pressure on the Treasury to give housing more funding in the 2007 Comprehensive Spending Review” and that they “strengthen the case for getting more resources.”³⁹

The Commons Select Committee carried out an inquiry into *Affordability and the Supply of Housing over 2005-06* and published its report in June 2006. In relation to the new household projection figures the Committee concluded:

The Government’s objective to raise the net number of additional homes by 200,000 by 2016 may not be sufficient to keep pace with the latest household growth projections. We recommend that it be reviewed and regularly revisited. As part of adopting any revised target, it is important that the Government sets out in some detail what it expects to achieve in terms of tenure by promoting that level of building.⁴⁰

D. Rural areas

Rural areas are those with settlements with a population of under 10,000.⁴¹ Around 19 per cent of the English population live in rural areas. The Government’s response to the Barker Review acknowledged that rural areas face affordability issues which can be as acute as those faced in urban areas. The Affordable Rural Housing Commission was launched jointly by the Department for Environment, Food and Rural Affairs and the ODPM in July 2005 in order to identify ways of improving access to affordable housing for people in rural areas. The Commission’s final report was published in May 2006.⁴²

The Commission concluded that rural communities need a major increase in subsidised housing to prevent the next generation from being priced out of the countryside. Specifically, the Commission identified a need for a minimum of 11,000 new affordable houses each year in market towns and villages; this is equivalent to around six new houses a year in each rural ward in England.

³⁹ *ibid*

⁴⁰ HC 703-I, ODPM: Housing, Planning, Local Government and the Regions Select Committee, Third Report of Session 2005-06, *Affordability and the Supply of Housing*, para 19: www.publications.parliament.uk/pa/cm200506/cmselect/cmmodpm/703/703-i.pdf

⁴¹ DEFRA, *The Rural Strategy 2004*, Annex A

⁴² *The Affordable Rural Housing Commission Report 2006*: www.defra.gov.uk/rural/pdfs/housing/commission/affordable-housing.pdf

III Factors influencing the provision of ‘sub-market’ affordable housing

A. Funding

There are two main types of sub-market affordable housing:

- social rented housing, provided by local authorities and registered social landlords (RSLs, also known as housing associations) at subsidised rent levels; and
- low-cost home ownership or ‘intermediate’ housing to assist people to enter home ownership through schemes such as shared ownership. Information on the various intermediate housing schemes in operation can be found in appendix 1 of this paper.

Funding to develop new affordable housing is allocated by the Government to the Housing Corporation which in turn, through its regional offices, makes payments to RSLs based on the strength of business plan proposals and a range of performance criteria. The programme under which the Corporation funds the provision of new social housing is called the National Affordable Housing Programme (formerly the Approved Development Programme). This funding is translated into new housing through a system of grants and subsidies. RSLs also raise private finance and commission private developers and builders to construct new dwellings. New development by RSLs generally levers in around 40% cent additional funding through private sector borrowing and for this reason the Government now expects new building to be concentrated through RSLs.⁴³

Intermediate housing schemes are now taking up a larger share of the funding for sub-market housing. In 2003 and 2004 around 40% of the homes completed with Housing Corporation funding were for shared ownership or equity share compared with 25% in 2002. The rationale for this shift in emphasis is to maximise the number of housing units secured per pound of public funding.⁴⁴

⁴³ DCLG, *From Decent Homes to Sustainable Communities: a discussion paper*, 2006, para 23: www.communities.gov.uk/pub/576/FromDecentHomestoSustainableCommunitiesAdiscussionpaper_id1500576.pdf

⁴⁴ HC 703-I Session 2005-06, para 37

Housing Corporation Expenditure 1997 - 2004: Funding by tenure

	Expenditure on social rented (£m)	Expenditure on shared ownership housing (£m)	Total expenditure (£m)
1997	545	160	705
1998	505	115	620
1999	582	79	661
2000	658	97	755
2001	736	90	826
2002	845	187	1,032
2003	1,272	547	1,819
2004	1,126	520	1,646

Source: Housing Corporation (ODPM: Housing, Planning, Local Government and the Regions Committee: Affordability and the Supply of Housing, Third Report of Session 2005-06)

Housing Corporation Outputs 1997 - 2004: Completions by tenure

	Social rented	Shared ownership	Total
1997	26,313	10,793	37,106
1998	24,737	8,202	32,939
1999	21,160	4,535	25,695
2000	18,724	4,196	22,920
2001	19,892	3,742	23,634
2002	18,515	6,460	24,975
2003	18,031	12,635	30,666
2004	17,114	12,801	29,915

Source: Housing Corporation (ODPM: Housing, Planning, Local Government and the Regions Committee: Affordability and the Supply of Housing, Third Report of Session 2005-06)

Expenditure on the provision of social housing rose from £705 million in 1997 to £1.6 million in 2004 but as the table above illustrates, the number of social rented houses completed in England fell from around 26,300 to around 17,100 over this period. The Barker Review attributed the fall in the rate of new supply to a strong rise in land prices (pushing up the cost of units) and the Government's focus on improving the standard of the existing social housing stock as opposed to developing new social housing.⁴⁵

In recognition of the need for a step change in the supply of affordable housing the 2004 Comprehensive Spending Review (CSR) committed additional funding to the development of new social housing. On 13 July 2004 the Deputy Prime Minister set out how the 2004 Spending Review would impact on the supply of affordable housing up to 2008:

- This Government will have more than doubled spending on new affordable housing since 1997, reaching £2 and a quarter billion in 2008.

⁴⁵ All social landlords have been tasked with bringing their stock up to the Decent Homes Standard by 2010.

- We will provide an extra 10,000 homes a year for social rent - a 50% increase compared with today - which means enabling 75,000 new social rented homes over the 3 years;
- On top of this, we will deliver more than 40,000 homes for essential public sector workers and low cost home ownership in areas of high housing demand.
- And our programme to increase the amount of affordable housing will also help turn around the rising trend in homelessness.
This growth in affordable housing will be achieved over the next 3 years through:
 - money for the Housing Corporation and Regional Housing Boards,
 - PFI credits for new homes;
 - and procurement savings.

Put together these are worth over £1.5 billion.⁴⁶

Over the period 2004-06 around £3.3 billion will have been spent by the Housing Corporation on the delivery of affordable housing. Initiatives taken by the Corporation to improve the efficiency of the sector include:

- the introduction of a two-year funding cycle to improve certainty and aid planning;
- the focusing of resources on fewer RSLs. Around 80% of the 2004-06 programme was allocated to 70 partner RSLs as part of the Corporation's pilot Investment Partnering programme; and
- the implementation of a framework for assessing the performance of RSLs in receipt of development grants.

Planned output by the Housing Corporation for 2006-2008 is 25% higher than over 2004-2006. Much of the growth will involve an increase of 17 per cent in the output of social rented homes. The low-cost home ownership element (including HomeBuy⁴⁷) will grow by 13 per cent. The 2006-2008 programme will be backed by £3.9 billion in grant funding; this will need to be matched by £5.7 billion in private finance arranged by RSLs through new loan facilities or from their own resources and assumes substantial efficiency savings (see below). £230 million of the National Affordable Housing Programme 2006-2008 will be utilised to build over 6,000 new affordable homes in rural areas of England.⁴⁸ This compares with an identified need by the Affordable Rural Housing Commission for a minimum of 11,000 new affordable homes per year in these areas.⁴⁹

As part of the 2006-2008 funding round private developers were, for the first time, invited to bid directly for Housing Corporation funds to build affordable housing.⁵⁰ The idea behind this is to encourage increased efficiency through greater competition. By

⁴⁶ ODPM Press Release 2004/0162, 13 July 2004

⁴⁷ There are three HomeBuy schemes which came on stream in April 2006. Each scheme gives an opportunity to various groups to enter into home ownership on a shared ownership or equity share basis. Full information can be found in Appendix 1 of this paper.

⁴⁸ Housing Corporation Press Release, 43/06, 9 May 2006

⁴⁹ See section II.D above.

⁵⁰ Section 27A of the 1996 Housing Act (inserted by section 220 of the 2004 Housing Act) enabled the payment of grants for social housing development to bodies other than RSLs.

May 2006 seven private companies had been approved to receive Social Housing Grant (SHG) allocations to deliver 2,170 homes.⁵¹ As with other areas of the public sector, the affordable housing delivery chain has been given a target of achieving efficiency gains for social housing amounting to £835 million by 2007-08, of which £355 million is expected to come from RSLs.

Key components of the National Affordable Housing Programme 2006-2008 include:

- £5.1 billion development of 41,645 social rented homes funded by £2.587 billion Social Housing Grant (SHG) and £2.5 billion private finance.
- £3.4 billion development of 32,078 low-cost home ownership units funded by £0.866 billion SHG and £2.5 billion private finance arranged by first-time buyers and RSLs.
- £230 million in SHG allocations for rural RSLs to develop 6,400 affordable homes.
- There is greater weighting of the programme towards London and southern England; up from 77% of the Approved Development Programme in 2004-06 to 79% of the National Affordable Housing Programme 2006-08.⁵²

Housing commentators are now looking towards the 2007 CSR for news of increased investment in social rented housing:

The Government intends to go further to respond to the challenges set out by the Barker Review, and will set out its ambitious plans for increasing social housing supply, with new investment alongside further efficiencies and innovation in provision, as part of the 2007 Comprehensive Spending Review.⁵³

In order to inform the 2007 CSR the Department issued a discussion paper in June 2006, *From Decent Homes to Sustainable Communities*, which, amongst other things, seeks views on ways to lever in additional resources and assets to support social and affordable housing. The consultation period closes on 15 September 2006.

Local authorities can also influence the supply of affordable housing through the planning system by ensuring sufficient land is allocated for housing⁵⁴ and by using developer contributions that are 'extracted' through the planning system (Section 106 agreements). These factors are discussed in the following sections **B-D**.

B. The planning framework

In 2005 the Department gave evidence to the Commons Select Committee's inquiry into *Affordability and the Supply of Housing* in which it described how the planning system contributes to the provision of affordable housing:

⁵¹ Barratt; Bellway; Gectect; George Wimpey; Lovell; Persimmon; Taylor Woodrow.

⁵² 'NAHP 84,000-home programme to be funded by £3.9bn SHG and £5.7bn private finance,' *Social Housing*, May 2006, pp2-3

⁵³ *Government Response to Kate Barker's Review of Housing Supply*, December 2005, para E13, http://www.hm-treasury.gov.uk/media/F59/0D/prb05_barker_553.pdf

⁵⁴ Priority is given to building on previously developed 'brownfield' land.

For the purposes of planning, demand for housing is defined as the quantity of housing that households are willing and able to buy or rent. Housing need is defined as the number of households who are unable to access suitable housing without some financial assistance.

Under current planning policy and practice, regions look at demographic and household projections, and some but not all, local authorities carry out local housing needs assessments to assess the need for affordable housing i.e. social and intermediate housing. This evidence is then used as a basis on which to plan for the provision of housing, alongside other factors, for example, environmental impacts or constraints on land.⁵⁵

The *Planning and Compulsory Purchase Act 2004* reformed the planning system so that there are two main levels of planning in England. First, each Regional Planning Body is required to prepare a Regional Spatial Strategy which details issues such as how many homes are required to meet the future needs of people in the region. Second, each local planning authority must prepare a Local Development Framework setting out how the local area may change over the next few years. Although this process identifies housing targets and earmarks land for housing, it is worth noting that private developers cannot be compelled to build a particular volume of housing.

Regional Housing Boards, which were established as part of the Sustainable Communities Plan (February 2003) are tasked with developing Regional Housing Strategies which determine the number of social rented and intermediate dwellings to be provided for the funding allocated. These strategies are aligned with the relevant Regional Spatial Strategy. Regional Housing Boards take account of the views of individual local authorities as expressed in their local housing strategies and which reflect local housing needs.

Kate Barker's Review of Housing Supply recommended the merger of Regional Housing Boards and Regional Planning Bodies to better enable the regions to take a strategic view of meeting housing and infrastructure needs. The Government accepted this recommendation and it is expected that the new bodies will be in place by September 2006.⁵⁶ An independent National Advice Unit will also be put in place by Autumn 2006 "to provide a common methodology for merged regional housing and planning bodies to use in deciding the right level of housing provision for their region."⁵⁷

The Department's evidence to the Select Committee's inquiry admitted that plans at the local and regional level "have sometimes failed to make provision for identified need and rising demand."⁵⁸ In July 2005 the Department published a consultation paper, *Planning for Housing Provision*,⁵⁹ in which it set out proposed changes aimed at ensuring a better supply of housing through the planning system:

⁵⁵ HC 703-II Session 2005-06, Ev 289, paras 63-64:

<http://pubs1.tso.parliament.uk/pa/cm200506/cmselect/cmopdm/703/703ii.pdf>

⁵⁶ *The Government's Response to Kate Barker's Review of Housing Supply*, para E20, December 2005

⁵⁷ *ibid*

⁵⁸ HC 703-II Session 2005-06, Ev 289, para 66

⁵⁹ ODPM, *Planning for Housing Provision*, July 2005:

www.odpm.gov.uk/pub/69/PlanningforHousingProvisionConsultationPaper410PDFKb_id1162069.pdf

Summary of proposed approach: Planning for housing markets

Determining regional housing provision

The Regional Spatial Strategy will establish the overall level of new housing provision needed in the region. Government will set out later in the year further details of the way in which Regional Spatial Strategies should better take account of housing need and housing market pressures in the region to improve affordability in responding to Kate Barker's proposed affordability goals.

Establishing the distribution of new homes across the region

The Regional Spatial Strategy will also set out the distribution of the new housing provision needed in each sub-regional housing market area. That distribution will be based on robust analysis of the housing market in the sub-region, housing land availability assessments, conducted in partnership with stakeholders, and a sustainability appraisal to take account of wider issues such as environmental or transport considerations. The Regional Spatial Strategy will therefore need to:

- Identify sub-regional housing markets, rather than simply looking at administrative boundaries.
- Decide whether sub-regional housing markets should be designated for high levels of new homes (for example, the Thames Gateway), for managed growth, for low levels of new homes, or for managed reductions in housing. This will need to take account of the local housing market and the level of demand, as well as wider environmental, social and economic considerations.
- Allocate housing numbers to sub-regional housing market areas and to local authorities within them.

The purpose of these proposed changes is to ensure that decisions about the level of new housing required in each area should be based on considerations of the housing market, rather than simply administrative boundaries, and that they should take proper account of affordability and market information about housing need, as well as wider social, economic and environmental considerations.

The Regional Spatial Strategy will allocate housing targets to each local area. The Local Development Framework/Local Plan will have to allocate an adequate volume of land to housing for those targets to be met.⁶⁰

A summary of responses to the consultation exercise was published in December 2005.⁶¹ The summary states: "57% of respondents were generally opposed to the policy proposals, 32% were generally in favour and 11% did not give a clear indication of their support either way." Respondents with reservations about the Government's proposals tended to question some of the underlying assumptions, such as the case for housing growth and the Barker Review findings. The role of the market in

⁶⁰ *ibid*

⁶¹ ODPM, *Summary of Responses to Planning for Housing Provision*, December 2005: www.communities.gov.uk/pub/74/PlanningforHousingProvisionSummaryofResponses222PDFKb_id1162074.pdf

determining the level and location of housing supply was a significant issue for most respondents. The Blueprint Group - made up of the Chartered Institute of Housing, Shelter, National Housing Federation, Local Government Association, Royal Town Planning Institute, and the CRC (an operating division of the Countryside Agency) - submitted a joint response to *Planning for Housing Provision* which expressed doubts about using a system of 'market signals' to determine land supply that would focus exclusively on house prices:

Market signals should be a consideration when planning housing supply, but market signals that focus exclusively on house prices must not dominate decisions about the amount of housing to be built in different areas. They must not override well thought out strategies for housing or the ability to meet the housing needs of local communities, especially those households which cannot secure accommodation within the housing market.⁶²

There is also concern about the impact of using such a system on the delivery of sustainable communities:

We do not support moves which could damage the creation of sustainable, inclusive, mixed communities which provide for a range of housing needs. Planning for Housing Provision proposes to remove phased release in areas where it could be most needed, and would support house building on greenfield land over more difficult brownfield sites. It is silent on measures to deliver a mix of housing. The planning system should support both increased supply and sustainability, and the Government's proposals must achieve both.⁶³

Also in December 2005 the Department published a consultation paper on a *New Planning Policy Statement 3 (PPS3) – Housing*. Planning Policy Statements set out the Government's national policies on different aspects of planning in England. PPS3 specifically sets out the national planning policy framework for delivering the Government's housing objectives:

The new PPS3 will set out the national planning policies for housing, which regional planning bodies and local authorities should take into account in developing regional spatial strategies and local development frameworks. Its objective will be to deliver new homes at the right time in the right place. The national policy framework will reflect the need for flexibility in planning between urban and rural areas, and in areas experiencing high or low demand. The aim is that the planning system is used to its maximum effect to ensure the delivery of decent homes that are well designed, make the best use of land, are energy efficient, make the most of new building technologies and help to deliver sustainable development.⁶⁴

⁶² Response of the Blueprint Group to *Planning for Housing Provision*, September 2005: www.cih.org/news/view.php?id=528

⁶³ *ibid*

⁶⁴ ODPM, *New Planning Policy Statement 3 (PPS3) – Housing*, December 2005 www.odpm.gov.uk/index.asp?id=1162075

In due course it is intended that PPS3 and accompanying guidance will replace Planning Policy Guidance Note 3: *Housing* (PPG3), which was revised in March 2000,⁶⁵ and Planning Circular 6/98: *Planning and Affordable Housing*. The responses to *Planning for Housing Provision*⁶⁶ were taken into account in drawing up the draft PPS3, as well as research into the implementation of PPG3 and a review of PPG3 itself.⁶⁷

Reproduced below is an extract from the draft PPS3 on affordable housing:

The Government defines affordable housing as including social-rented and intermediate housing. Sub-regional housing market assessments should help determine whether affordable housing is needed and guide the level, size, type and location of affordable housing provision, either through new provision or as replacement provision.

In determining the overall target for affordable housing provision, local planning authorities should have regard to the relevant sub-regional housing market assessments, the relevant Regional Spatial Strategy, Regional Housing Strategy, Regional Homelessness Strategy (where one exists), Local Housing Strategy and Community Strategy. The target should take account of the anticipated levels of finance available for affordable housing, including public subsidy (based on priorities set out in the Regional Housing Strategy and discussions with the Housing Corporation), and the level of developer contribution that can realistically be sought on relevant sites.

Separate targets should be set for social-rented and intermediate housing where appropriate. A sufficient supply of intermediate housing can help meet the needs of key workers and those seeking to gain a first step on the housing ladder, reduce the call on social-rented housing, free up existing social-rented homes, provide wider choice for households and ensure that sites have a balanced mix of tenures. Local planning authorities should aim to ensure that the provision of affordable housing meets the needs of both current and future occupiers.

Local planning authorities should set a minimum site-size threshold, expressed as numbers of homes or area, above which affordable housing will be sought. The indicative national minimum threshold is 15 dwellings, but local planning authorities may set a different threshold or series of thresholds where this can be justified. In determining the minimum site-size threshold (and any higher thresholds), local planning authorities will need to take into account the level of affordable housing to be sought, site viability, the impact on the delivery of housing provision, and the objective of creating mixed and sustainable communities.

Local planning authorities should balance the need for affordable housing against the viability of sites in their area. This will involve having regard to the implications of competing land uses and making informed assumptions about the levels of finance available for affordable housing. Local planning authorities should aim to

⁶⁵ It was updated in 2005 to provide guidance on the appropriate mix of housing to address households' needs.

⁶⁶ ODPM, *Summary of Responses to Planning for Housing Provision*, December 2005 (discussed on pages 22-23)

⁶⁷ ODPM, *New Planning Policy Statement 3 (PPS3) – Housing*, December 2005

manage the risks in terms of delivery to ensure they achieve their affordable housing targets. The companion guide sets out an approach that local planning authorities may use if the assumed level of finance available for affordable housing is not forthcoming and provides examples of innovative ways of delivering affordable housing where this is the case or to supplement the delivery of affordable housing.

The presumption is that affordable housing should be provided on the application site so that it contributes towards achieving the objective of creating more mixed communities and avoids creating concentrations of deprivation. However, local development documents may set out the circumstances in which provision would not be required on an application site or in which a financial contribution would be acceptable in lieu. In such instances, any off-site provision of affordable housing, or a financial contribution in lieu of on-site provision, must be of a broadly equivalent value and should contribute towards the plan objectives for mixed communities.

Advice on setting affordable housing targets, setting thresholds, the use of planning conditions and planning obligations, and ensuring affordable housing provided meets the needs of both current and future occupiers, is set out in the companion guide.

Consultation on draft PPS3 closed on 27 February 2006. The draft guidance can already be taken into account in determining planning applications and in the formation of development plans.

The Commons Select Committee's report on *Affordability and the Supply of Housing* reiterates some of the concerns raised by respondents to *Planning for Housing Provision* in relation to draft PPS3; the Committee specifically recommended:

- PPS3 should ensure that economic, environmental and social issues are given equal weight when housing sites are first considered.
- PPS3 should be revised to provide for the retention of the sequential approach to prioritising brownfield sites by local authorities.
- PPS3 should be revised to provide local authorities with the power to manage the release of sites for development.⁶⁸

C. Planning obligations (section 106 agreements)

Section 106 of the *Town and Country Planning Act 1990* (as substituted by the *Planning and Compensation Act 1991*) allows local planning authorities to negotiate arrangements with developers under which some undertaking is given in return for the grant of planning permission:

Planning obligations, also known as section 106 agreements, are typically agreements between local planning authorities and developers negotiated in the context of granting a planning consent. They provide a means of ensuring that developers contribute towards the infrastructure and services that local

⁶⁸ HC 703-I Session 2005-06, paras 92 & 99 -100

authorities believe to be necessary to facilitate proposed developments. Contributions may either be in cash or in kind. Planning obligations are also used to deliver affordable housing.⁶⁹

Section 106 has been described by the National Audit Office as an “increasingly important lever” in the affordable housing delivery chain.⁷⁰ The Department’s evidence to the Select Committee’s inquiry into Affordability and the Supply of Housing states that almost 50 per cent of new affordable homes are now delivered in part by developer contributions:

Most affordable housing delivered through the planning system also receives grant from the Housing Corporation, which ensures that it is available at a sufficiently low price to meet the assessed local need of target groups and that there are secure arrangements to ensure the unit is affordable for future occupiers (or any subsidy recycled for additional affordable housing). In some cases affordable housing is now provided grant-free through developer contributions, and the properties transferred to a housing association.⁷¹

Research published by the Department in May 2006 found that the proportion of planning permissions accompanied by planning agreements (including unilateral undertakings) had risen from 1.5 per cent of all permissions in 1997-98 to 6.9 per cent in 2003-04.⁷² The estimated value of affordable housing delivered through planning obligations in 2003-04 was approximately £600 million.⁷³

ODPM Circular 05/2005, *Planning Obligations*,⁷⁴ clarifies the basis on which planning obligations should be assessed for their acceptability in policy terms, and gives further guidance on the process of securing obligations. The Secretary of State’s policy requires, amongst other factors, that planning obligations are only sought where they meet *all* of the following tests:

A planning obligation must be:

- (i) relevant to planning;
 - (ii) necessary to make the proposed development acceptable in planning terms;
 - (iii) directly related to the proposed development;
 - (iv) fairly and reasonably related in scale and kind to the proposed development;
- and
- (v) reasonable in all other respects.

Circular 05/2005 gives an example of how planning obligations can be used to secure the provision of affordable housing in a development:

⁶⁹ DTLR, *Reforming Planning Obligations: a consultation paper*, December 2001, para 1.1

⁷⁰ *Building more affordable homes: improving the delivery of affordable housing in areas of high demand*, Joint National Audit Office and Audit Commission report, HC 459 Session 2005-06, December 2005

⁷¹ HC 703-II Session 2005-06, Ev 289, paras 49-50

⁷² DCLG, *Valuing Planning Obligations in England*, May 2006:

www.communities.gov.uk/pub/144/ValuingPlanningObligationsinEnglandFinalReport_id1500144.pdf

⁷³ *ibid*

⁷⁴ This Circular has replaced DETR Circular 1/97 on planning obligations:

www.communities.gov.uk/pub/320/Circular0505PlanningObligationsPDF149Kb_id1144320.pdf

Planning obligations can be used to secure the implementation of a planning policy in order to make acceptable a development proposal that would otherwise be unacceptable in planning terms. For example, where not possible through a planning condition, planning obligations can be used to secure the inclusion of an element of affordable housing in a residential or mixed-use development where there is a residential component.

A requirement through a planning obligation for the provision of an element of affordable housing in residential or mixed-use developments with a residential component should be in line with Local Development Framework policies on the creation of mixed communities. As per the guidance in Planning Policy Guidance Note 3 (Housing) (PPG3), Local Development Frameworks should identify the need for affordable housing and should set site-size thresholds above which the provision of a specified proportion of affordable housing would be expected.

The presumption is that the affordable housing elements of residential or mixed-use developments with a residential component required by local policies on mixed communities and provided through planning obligations should be provided in-kind and on-site. However, there may be certain circumstances, which should be specified in the Local Development Framework, where it may not be necessary for provision to be on-site, and where provision on another site or a financial contribution may represent a more appropriate option. These are set out in PPG3.⁷⁵

Planning Policy Guidance notes (PPGs) supplement Circular 05/2005. Currently PPG3⁷⁶ and DETR Circular 6/98⁷⁷ on affordable housing specify planning agreements as one means by which affordable housing can be secured through the planning system.⁷⁸ These agreements usually require developers to provide a proportion of affordable units on larger residential developments. In this context 'affordable' is defined as what the authority regards as affordable and includes both low-cost market and subsidised housing.⁷⁹ PPG3 emphasises the role of the authority in defining affordability with specific reference to incomes, house prices and rents for different types of household.⁸⁰

Where a local authority requires an element of affordable housing to be included in a suitable residential development it must be justified by a demonstrable housing need. Affordable housing can only be sought from residential development and on sites above prescribed thresholds. Circular 6/98 provides specific guidance on thresholds that can be adopted in local plans which effectively defines the sites on which affordable housing is sought:

- a) 25 or more dwellings or sites of one hectare or more;
- b) in inner London 15 or more dwellings on sites of 0.5 of a hectare or more;

⁷⁵ *ibid*, paras B12-B14

⁷⁶ DETR, *Housing*, 2000,

⁷⁷ *Planning and Affordable Housing*, 8 April 1998: www.communities.gov.uk/index.asp?id=1144410

⁷⁸ The ODPM will replace these documents with *Planning Policy Statement 3* in due course (see section **III.B** above).

⁷⁹ DETR Circular 6/98, para 9a

⁸⁰ DETR PPG3, para 15

- c) in settlements with a population of 3,000 or fewer, the local planning authority should adopt appropriate thresholds.⁸¹

Where a local authority can demonstrate 'exceptional local circumstances' it has flexibility to adopt a lower threshold but may not go below that set out in b) above. In the 2000 Rural White Paper⁸² the Department of Environment, Transport and the Regions emphasised that local planning authorities outside London could seek to adopt lower thresholds than 25 dwellings "where acute pressures can be shown to exist and smaller schemes would be viable."⁸³ It also referred to authorities' flexibility to set their own thresholds for settlements of 3,000 or less: the White Paper said that this option "is not always used to its full effect."

a. The reform of planning obligations

Research into the effectiveness of planning policy guidance on the provision of affordable housing was carried out on behalf of the Department for Transport, Local Government and the Regions over 2000 and 2001 in five English regions.⁸⁴ This research revealed a 'mixed record' on delivering affordable housing through the planning system. In December 2001 the Department published a consultation paper, *Reforming Planning Obligations: delivering a fundamental change*, in which it set out proposals for the reform and improvement of the planning obligations system.⁸⁵

The consultation paper proposed the replacement of the system of planning obligations with a tariff based system. Under such a system local authorities would set standardised tariffs for different types of development through the plan making process. These tariffs would contribute to meeting a range of planning obligations, including the provision of affordable housing. The paper proposed that negotiated agreements should only supplement or substitute for the tariff where these were clearly justified to deliver, for example, site-specific requirements.

The Commons Select Committee published the report of its Inquiry into the Planning Green Paper on 1 July 2002.⁸⁶ The Committee rejected the Government's proposal for planning tariffs claiming that the proposals 'would replace one form of complexity with another' and that 'there is a danger that the change to the tariff system will affect the Government's grant to local authorities.' The Committee was in favour of improving the speed and transparency of the system, but believed that other less radical procedural changes could help with this.

The Department announced how the Government intended to take forward the reform of the planning system on 18 July 2002. The Deputy Prime Minister, John Prescott, said that there would be changes to the section 106 planning obligations system to make it

⁸¹ Para 10(i)

⁸² DETR, *Our Countryside: The Future - A Fair Deal for Rural England*, 2000

⁸³ para 5.4.2

⁸⁴ *Delivering Affordable Housing through Planning Policy*, ENTEC, Three Dragons, Nottingham Trent University, February 2002

⁸⁵ This paper complemented the wider review of planning being undertaken by the Government.

⁸⁶ HC 476B-I Session 2001-02

more transparent and simple but that there would be no new legislation to introduce a tariff.⁸⁷

In February 2003 the Government announced its plans for securing affordable housing through the planning system. Specifically in relation to planning obligations a commitment was made to:

...seek to reduce the time taken for negotiations over planning obligations and to optimise outcomes for both local authorities and developers. One possibility is to encourage an "open book" approach which works well where developers and local authorities find this in their mutual interest.⁸⁸

On 6 November 2003 the Government issued a further consultation paper which marked a return to the idea of replacing planning obligation negotiations with a tariff-style contribution.⁸⁹ However, possibly in the light of concerns expressed by developers, the proposals offered the option of negotiating the level of contribution, instead of paying a fixed charge.⁹⁰

Clauses to provide the legal basis for the new system of planning obligations were added to the *Planning and Compulsory Purchase Bill* (Session 2002-03) on 8 December 2003.⁹¹ On 30 January 2004 the Government issued a statement on its planning obligation proposals and responses to the consultation exercise. The Government said that responses to the consultation paper had been 'more mixed and moderate' than responses to the previous consultation document issued in December 2001.⁹²

The proposed changes to planning obligations proved to be controversial as the *Planning and Compulsory Purchase Bill* progressed through Parliament. The Crossbench Peer, Lord Best, argued strenuously for the removal of the relevant clauses from the Bill because of the potential impact on the provision of affordable housing.⁹³ Sections 46 and 47 of the *Planning and Compulsory Purchase Act 2004*, which obtained Royal Assent on 13 May 2004, give the Secretary of State the power to make regulations to replace section 106. However, at the time of writing these powers had not been used.

A new planning obligations Circular, updating the 1997 version, was published in 2005 following consultation. This Circular seeks to ensure that affordable housing is secured through section 106 on a more consistent basis.⁹⁴ July 2006 saw the publication of

⁸⁷ ODPM press release 039/2002, 18 July 2002

⁸⁸ ODPM, *Sustainable Communities – Building for the Future*, February 2003: www.communities.gov.uk/index.asp?id=1139870

⁸⁹ ODPM, *Contributing to Sustainable Communities - a new approach to planning obligations*, November 2003: www.odpm.gov.uk/index.asp?id=1147841

⁹⁰ ODPM Press Notice 2003/0231, 6 November 2003

⁹¹ Background information on the Planning and Compulsory Purchase Bill can be found in Library Research Paper 02/81: <http://hcl1.hclibrary.parliament.uk/rp2002/rp02-081.pdf>

⁹² The full statement is accessible online at:

www.odpm.gov.uk/pub/842/AnewapproachttoplanningobligationsStatementonthereformproposalsWord49Kb_id1147842.doc

⁹³ HL Deb 2 February 2004 cc532-4

⁹⁴ HC Deb 2 November 2004 cc5-6WS

Planning Obligations: Practice Guidance.⁹⁵ This guide offers practical advice for local authorities on how to improve the development, negotiation and implementation of section 106 agreements.⁹⁶ August 2006 saw the publication of a model Section 106 agreement, prepared by the Law Society's Planning and Environmental Law Committee, for use by all parties involved in the planning obligations process.⁹⁷

Chapter V of this paper discusses the Government's proposal to introduce a Planning-gain Supplement as recommended in the Barker Review. If such a supplement is introduced the Government has said that planning obligations would be scaled back to cover only those matters relating to the physical environment of the development site and affordable housing provision.⁹⁸

D. The supply of land

The Barker Review concluded that an inadequate land supply acts as the key constraint on the supply of housing. Several factors were identified as contributing to the lack of responsiveness of land supply to high housing demand, including:

- The politically contentious nature of housebuilding that makes development less attractive and more costly where those already housed are resistant to additional building;
- The availability of infrastructure and the costs and complexities associated with developing on brownfield sites;
- Significant market and planning risks that make the industry reluctant to invest long term and employ direct labour (as opposed to contracting out work) so that production rates are held back at times.

In *Planning for Housing Provision* the Department set out proposals to reform the way land is identified, allocated, and brought forward for house building at the local level.

Summary of proposed approach: Identifying land for housing

Land supply at the local level

Local authorities, in their development plan documents, will allocate land to deliver housing for the first 5 years of their plan. They will also identify a further 10 years of land supply for future use.

Sites allocated in the first five years should offer the most sustainable option for development and be developable. Allocations need to take account of the government's brownfield target, as well as the readiness of land to be developed. Land will be identified through housing land availability assessments, in partnership with stakeholders.

In areas designated for high levels of new homes, developers will be able to bring

⁹⁵ DCLG, July 2006:

www.communities.gov.uk/pub/562/PlanningObligationsPracticeGuidance_id1501562.pdf

⁹⁶ DCLG Press Release, 2006/0074, 1 August 2006

⁹⁷ http://communities.gov.uk/pub/549/Modelplanningobligationsection106agreement_id1501549.pdf

⁹⁸ DCLG, *Planning Obligations: Practice Guidance*, July 2006, para 1.8

sites out of the 5 year land supply forward at any time. In managed and low growth/managed reduction areas local authorities will have the option to phase land release. Developable brownfield land in sustainable communities should be released first.

The purpose of this approach is to help ensure that new housing is delivered according to the plans. This is to address the current shortfall between plans and delivery which exists in some areas due to constraints on the supply of appropriate developable land.⁹⁹

As noted in section **III.B** (above), some respondents to *Planning for Housing Provision* expressed doubts about proposals to use a system of market signals to determine land supply that would focus exclusively on house prices. In addition, local authority responses expressed particular concern over the proposal to roll forward land from future housing provision:

It was felt that this proposal had the potential to trigger “constant” reviews of the Regional Spatial Strategy (RSS) which would have timing and resource implications as well as causing uncertainty for developers, Local Authorities and the wider community. It was also felt that constant RSS reviews could compromise the level of consultation surrounding the RSS. Furthermore, it was suggested that at the time of the review the level of infrastructure needed to support revised housing allocations should be taken into account.

The preparation of Development Plan Documents (DPDs) was another cause for concern as the requirement for Local Authorities to identify a 15 year supply of housing land was seen to be at odds with the requirement for DPDs to identify a 10 year housing supply. Many Local Authorities requested that this inconsistency be clarified.¹⁰⁰

In regard to RSL development, Kate Barker said that the rising cost of land was effectively increasing the subsidy bill for Government and resulting in fewer units for increasing levels of grant.¹⁰¹ She supported efforts to improve the supply of public sector land for affordable housing by English Partnerships. English Partnerships (EP) administers the Register of Public Sector Surplus Land¹⁰² which provides a single reference point for all participating public sector organisations on the available national supply of surplus land. The agency is also actively working in partnership with other organisations on how land can be used more productively to deliver sustainable communities.

Central government bodies are required to place surplus sites on the register; EP and other participating agencies then have 40 days to consider ways of maximising the use of the land to achieve policy objectives, such as increasing the supply of affordable housing, before the land is offered for sale on the open market. Of course, as the Barker

⁹⁹ ODPM *Planning for Housing Provision*, July 2005

¹⁰⁰ ODPM, *Summary of Responses to Planning for Housing Provision*, December 2005

¹⁰¹ *Review of Housing Supply: Delivering Stability: Securing our Future Housing Needs interim report*, December 2003, p174 para, 10.26

¹⁰² <http://www.englishpartnerships.co.uk/rspsl.htm>

Review acknowledges, there is no guarantee that the location of available public sector land will coincide with those areas where the need for social housing is at its greatest.¹⁰³

Measures were included in the *Planning and Compulsory Purchase Act 2004* to try to make land-banking¹⁰⁴ by large developers less attractive. The Act reduced the time allowed from five to three years for gaining outline planning permission to applying for the approval of reserved matters.¹⁰⁵ Once reserved matters have been approved developers have two years within which to implement planning permission; planning permissions are no longer automatically renewed and fresh applications are required once they expire.

The Commons Select Committee's report on *Affordability and the Supply of Housing* concluded that if house-builders are holding on to sites that are ready for development, "Councils should be encouraged as a last resort to use their compulsory purchase order powers and to find an alternative developer."¹⁰⁶

In December 2005 the Chancellor and Deputy Prime Minister commissioned Kate Barker to conduct an independent review of the land use planning system in England focusing on the link between planning and economic growth. Her interim findings were published on 4 July 2006¹⁰⁷ and the final report is expected at the end of 2006. The final report will explore the following issues:

Efficiency of process – how the planning system can be made more efficient, so that it delivers high quality and sustainable outcomes while providing value for money;

Efficient use of land – whether current land supply is optimal for development, while protecting environmental interests; and

Flexibility and responsiveness – can the planning system be made more responsive to price-signals and changing economic circumstances at a local and regional level and will explore the incentives facing decision makers.¹⁰⁸

¹⁰³ *Review of Housing Supply: Delivering Stability: Securing our Future Housing Needs interim report*, December 2003, p174 para, 10.27

¹⁰⁴ Land-banking is the term used to describe the process of buying up land cheaply without planning permission and simply holding on to it. When planning permission is obtained land value increases significantly.

¹⁰⁵ A reserved matters application sets out outstanding details of the proposal including access arrangements, siting, design and landscaping, while taking into account any conditions that have been given in the original outline consent.

¹⁰⁶ HC 703-I, Third Report of Session 2005-06, para 67

¹⁰⁷ Barker Review of Land Use Planning – information and links to documents can be found at: www.hm-treasury.gov.uk/independent_reviews/barker_review_land_use_planning/barkerreview_land_use_planning_index.cfm

¹⁰⁸ Treasury Press Release, *Building on planning reform: Barker publishes interim report*, 4 July 2006

IV Comment and progress on the provision of affordable housing

The number of social rented houses completed in England fell from around 38,500 in 1994-95 to around 17,100 in 2002-03.¹⁰⁹ This fall occurred despite increased expenditure over the same period. Rising land and construction prices pushing up the cost of new social housing have been blamed for the fall in the rate of new development.¹¹⁰

Section III.A of this paper set out the Government's commitment, as part of the 2004 Comprehensive Spending Review, to provide an extra 75,000 new social rented homes over 3 years up to 2008, deliver more than 40,000 homes for essential public sector workers and low cost home ownership in areas of high housing demand.¹¹¹ The annual increase of 10,000 new affordable homes for rent, together with the boost to low cost home ownership schemes (which will be primarily focused in London and the broader South East), was welcomed by housing commentators but they also were quick to point out that this would still leave the supply of social housing "well short of the levels argued for by Kate Barker."¹¹² Professor Steve Wilcox wrote in the *UK Housing Review 2004/05*:

Even if the ODPM output target is met this still falls well short of the additional provision of 17,000 to 20,000 new affordable housing dwellings per annum argued for in the Barker Report. The Barker Report recommendations are, in turn, more modest than those argued for in an earlier report by Alan Holmans and colleagues.

...it is therefore difficult to raise more than half a cheer for a planned increase in provision that still falls well short of the limited aims and ambitions of the Barker Report.¹¹³

The table below provides figures on the number of newly constructed homes for rent and shared ownership by social landlords in England since 1990-91. There has been an increase in numbers constructed since 2002/03 but output is still at a substantially lower level than that achieved in 1994-95:

¹⁰⁹ See table below.

¹¹⁰ DCLG, *From Decent Homes to Sustainable Communities: a discussion paper*, June 2006, p4

¹¹¹ ODPM Press Release 2004/0162, 13 July 2004

¹¹² *UK Housing Review 2005/06*, Chartered Institute of Housing and the Council of Mortgage Lenders, p74

¹¹³ *UK Housing Review 2004/05*, Chartered Institute of Housing and the Council of Mortgage Lenders, p64

Output from the Housing Corporation's Approved Development Programme (ADP) - completions

		Housing for rent			Sales and incentives			Total all completions	
		mixed and public funded	short life (Mini-HAG)	Housing Market Package Total Rent	Tenants Incentive Scheme	Low cost home ownership	Total sales/incentives	Key worker living	
1990/91	outturn	17,610	990	18,600	2,270	780	3,050		21,650
1991/92	outturn	21,190	1,610	22,800	2,690	1,280	3,970		26,770
1992/93	outturn	32,160	1,380	18,430	51,970	4,780	5,380		62,130
1993/94	outturn	38,393	1,924	40,317	6,450	7,990	14,440		54,757
1994/95	outturn	38,506	1,098	39,604	6,525	11,066	17,591		57,195
1995/96	outturn	40,583	1,482	42,065	6,400	10,471	16,871		58,936
1996/97	outturn	29,386	2,000	31,386	7,029	6,966	13,995		45,381
1997/98	outturn	22,843	2,777	25,620	4,262	6,336	10,598		36,218
1998/99	outturn	22,330	1,500	23,830	2,900	6,100	9,000		32,830
1999/00	outturn	19,768	1,194	20,962	503	4,032	4,535		25,497
2000/01	outturn	17,755	943	18,698	158	4,038	4,196		22,894
2001/02	outturn	18,500	894	19,394	1,403	2,211	3,614		23,008
2002/03	outturn	17,158	555	17,713	-	-	3,647		21,502
2003/04	outturn	-	-	16,853	-	-	6,174		23,027
2004/05	outturn	-	-	16,349	-	-	7,583	4,824	28,756
2005/06	targets	-	-	18,000	-	-	7,778	5,722	34,194

Source: Chartered Institute of Housing and the Council of Mortgage Lenders (2005) UK Housing Review 2005/2006

Notes: Mini-HAG and TIS figures include units financed through the special homeless programmes in 1990/91 & 1991/92. Rough Sleepers Initiative and City Challenge schemes are included within the mixed/public funded rent figures. Tenants Incentive Schemes include Purchase Grants from 1996/97 onward.

In December 2005 the National Audit Office (NAO), jointly with the Audit Commission, published *Building more affordable homes: Improving the delivery of affordable housing in areas of high demand*.¹¹⁴ This study found that in a survey of 50 authorities in areas of high housing demand, only one considered that it would be able to meet the need for new social rented housing over the next three years. The main reasons cited were insufficient funding and a shortage of land available for development.¹¹⁵ The rising number of homeless households in temporary accommodation in the south of England was also highlighted as factor that would impede progress in meeting housing need. The report identified several problems with the affordable housing delivery chain, and made recommendations for improvement. These are summarised below:

For Government Departments and national agencies:

- An enhanced and clarified role for Government Offices to improve links between national, regional and local levels 'so that guidance and decisions are made consistently and local authorities make more use of their expertise and advice.'
- Guidance on local authorities' strategic enabling role in relation to housing based on examples of best practice.
- The efficiency savings achieved by the Housing Corporation over 2004-05 are acknowledged¹¹⁶ but an extension to a three or five year funding cycle (from 2 years)¹¹⁷ would, it is suggested, 'act as an incentive for those bodies in receipt of social housing grant that demonstrate good financial stewardship and performance in developing new housing.'
- Further focus by the Housing Corporation on channelling resources into the best performing housing associations.
- Improved transfer of public sector land entered on the Register of Surplus Public Sector Land.

¹¹⁴ HC 459 Session 2005-06, December 2005

¹¹⁵ *ibid*, p11

¹¹⁶ Estimated to have resulted in an average of 28 more homes for every £10 million of public funding.

¹¹⁷ Longer funding cycles could increase certainty for developing RSLs and encourage developers to plan better and invest in future capacity.

For Regional bodies:

- Government Offices to encourage authorities to enter into Local Public Sector Service Agreements with financial incentives to promote co-ordinated action and staff sharing.
- Government Offices to encourage sub-regional working arrangements.
- Government Offices to act as champions for good practice in the use of Section 106 agreements.

For local bodies

- Authorities to work with their local communities to understand their concerns about new housing and involve them in the design and planning of new developments.
- Better integration of planning and housing functions.
- Promotion of joint working between authorities, particularly smaller district authorities.¹¹⁸

The Government issued a prompt response to the NAO report in which it said that local authorities were being “unduly pessimistic.”¹¹⁹ The response pointed out that the number of homeless people placed in temporary accommodation had “stabilised” over 2005 and emphasised the commitment to deliver an additional 10,000 social rented homes a year by 2007-08.¹²⁰ The response did however accept some of the NAO’s analysis and set out what action is being taken in the relevant areas:

- We have accepted the report’s view that the roles of local authorities, sub-regions and the Regions in the delivery of affordable housing are not as clear as they should be.
- We already have work in hand to clarify and revitalise the housing role of local authorities and will be taking this forward with stakeholders in the New Year.
- The role of the Regions will be greatly clarified by the decision to bring together regional housing and planning responsibilities within the Regional Assemblies. This move will also mean greater involvement in decision making for local authorities who make up 70% of the membership of Regional Assemblies.

On the question of whether enough land will be forthcoming to enable the delivery of sufficient social housing, the Government responded:

- Draft planning policy statement 3: Housing (PPS3) expects that plans will look further into the future, and will allow more land to be brought forward for housing where it is needed and appropriate.
- Local authorities should do more to bring forward brownfield land so we can continue with the clear priority for brownfield development. Local brownfield strategies will be complemented by the English Partnership’s

¹¹⁸ HC 459 Session 2005-06, December 2005

¹¹⁹ ODPM, 20 December 2005: <http://www.communities.gov.uk/index.asp?id=1162749>

¹²⁰ *ibid*

national brownfield strategy which aims to identify and bring forward sites.

- Using practice guidance on land availability assessments, it will be important for local authorities to develop an understanding of the pattern of land availability in their areas, their potential as sites for housing, and the constraints on development and how they might be addressed, especially as regards brownfield sites.

In the 2004 CSR the Government said that it would deliver 40,000 homes for essential public sector workers and low cost home ownership in areas of high housing demand. On 22 March 2006 the Chancellor announced in his Budget speech that almost £1 billion of the Housing Corporation's National Affordable Housing Programme would be earmarked for shared ownership products over 2006-2008. This focus on expanding low cost home ownership schemes (see appendix 1 for detailed information on these schemes) has attracted particular attention. The current aim is for RSLs to develop 49,000 new affordable rented homes and 35,000 for low cost home ownership over the period.¹²¹ In the *UK Housing Review 2005/06* Professor Steve Wilcox compared the amount of planned shared ownership and social rented housing provision:

There is very little planned growth in the provision for social rented dwellings in 2005/06 and if account is taken of the ending of the Local Authority Social Housing Grant programme (which predominately funded social rented dwellings)¹²² the output of new social rented dwellings will remain at historically low levels, even allowing for some further increase in Housing Corporation funded schemes in the following years.¹²³

The Commons Select Committee's report on *Affordability and the Supply of Housing* concluded that the "overwhelming need is for social rented housing to make up for the shortfall in supply and to recoup the very significant losses in social housing that have occurred over the last 15 years."¹²⁴

The Department's discussion paper, *From Decent Homes to Sustainable Communities*, states that the Government is examining innovative ideas for high performing local authorities and arm's length management organisations (ALMOs) to build more social housing. The paper also raises the possibility of new council housing being developed in the future: "We are also keen to explore innovative ways for local authorities to be able to use their land for new council housing."¹²⁵

As previously stated, housing commentators are looking towards the 2007 CSR for news of increased investment in social rented housing.

¹²¹ Housing Corporation Press Release 26/06, 23 March 2006:

<http://www.housingcorp.gov.uk/server/show/ConWebDoc.7405>

¹²² For more information see Library Standard Note SN/SP/2082, *The abolition of Local Authority Social Housing Grant*, 6 November 2003

¹²³ *UK Housing Review 2005/06*, Chartered Institute of Housing and the Council of Mortgage Lenders, p74

¹²⁴ HC 703-I Session 2005-06, para 32

¹²⁵ DCLG, *From Decent Homes to Sustainable Communities: a discussion paper*, June 2006, para 25

One of the main concerns expressed by housing commentators in relation to the Government's home ownership initiatives is that the promotion of subsidised shared ownership/equity schemes might further inflate house prices unless accompanied by an overall increase in housing supply. Dan Kemp, senior fund research analyst at stockbroker Christows, has reportedly said:

Far from being a boon to those in need, it is actually an encouragement to invest in an already inflated asset class, which could have disastrous longer-term effects on the housing market, and in particular on first-time buyers.¹²⁶

The Chartered Institute of Housing supports proposals to help individuals realise their aspirations to own their own homes and to enable more people to share in the equity of their homes, but does not want this to take place at the expense of delivering more rented homes.¹²⁷ The National Housing Federation has echoed this sentiment:

Mortgage subsidies are not a substitute for more investment in new homes...the Government needs to tackle a range of housing problems. With 100,000 families homeless and in temporary accommodation and a government pledge to reduce that number by 2010, it is vital that there is no substantial diversion of public funds away from building affordable rented homes.¹²⁸

A further concern of housing organisations is that proposals to increase home ownership amongst 'marginal' owners on lower salaries and in relatively unstable employment should be accompanied by measures to provide improved financial protection for these owners.¹²⁹ Unemployed home owners are not entitled to Housing Benefit to cover their mortgage repayments and may only become entitled to assistance with meeting the interest payments on their mortgage nine months after becoming unemployed (depending on their circumstances).¹³⁰ Home owners are not universally wealthy; a study published by the Joseph Rowntree Foundation in 2003 found that half of all people living in poverty in Britain were home-owners.¹³¹ At a conference on Extending Home Ownership in England in September 2005, Marianne Hood, Chair of the National Housing Forum, emphasised that sustainable home ownership requires owners to be able to afford the cost of living in their homes, not just the cost of buying them.

Some commentators have questioned whether shared ownership actually represents an affordable option in some parts of England. Surrey County Council's evidence to the Commons Select Committee inquiry estimated that:

¹²⁶ 'Building on Brown's cheap mortgages plan,' *Financial Times Money*, 28 May 2005

¹²⁷ CIH Press Release, 25 May 2005, <http://www.cih.org/news/view.php?id=503>

¹²⁸ 'Building on Brown's cheap mortgages plan,' *Financial Times Money*, 28 May 2005

¹²⁹ This applies particularly to those who may qualify under the Social HomeBuy Scheme.

¹³⁰ For more information on the 'safety net' for home owners see Library Standard Note SN/SP/737, *Means tested benefits: help with mortgage costs*

¹³¹ *Home ownership and Poverty in Britain*, JRF Findings January 2003 Ref: 113, www.jrf.org.uk/knowledge/findings/housing/113.asp

An income of at least £20,000 would be needed in the South East to purchase a 50% share in a property under this [*intermediate housing*] scheme. This is well above the average income for social rented households of £16,000.¹³²

In March 2006 the Chancellor announced the establishment of a Shared Equity Task Force which is examining ways to increase the number of people able to benefit from shared equity products.

The Commons Select Committee recommended that all low-cost home ownership schemes should operate in such a way as to support increases in overall housing supply rather than intensifying pressure on existing supply and that the benefits arising from the public subsidy should be passed on to future purchasers. The Committee also recommended that a limit be set on the proportion of the Housing Corporation's funding that is allocated for low-cost home ownership schemes.¹³³

V A Planning-gain Supplement

Chapter 4 of the Barker Review, entitled *Contributing to Development*, recommended the introduction of a 'Planning-gain Supplement', a proportion of which would be paid to local authorities:

"Government should use tax measures to extract some of the windfall gain that accrues to landowners from the sale of their land for residential development.

Government should impose a Planning-gain Supplement on the granting of planning permission so that landowner development gains form a larger part of the benefits of development.

The following principles might be considered:

- Information would need to be gathered as to the value of land proposed for development in each local authority. Sources of data could include actual transactions and/or Valuation Office Agency estimates as to the land prices in various local authority areas.
- Government would then set a tax rate on these values. This tax rate should not be set so high as to discourage development, but at a rate that at least covers the estimated local authority gain from Section 106 developer contributions and provides additional resources to boost housing supply.
- The granting of residential planning permission would be contingent on the payment of the supplementary planning contribution of the proposed development.
- Government may want to consider the operation of a (substantially) lower rate or housing development on brownfield land, and the possibility of varying rates in other circumstances, e.g. for areas

¹³² HC 703-II, Session 2005-06, Ev 111

¹³³ HC 703-I, Session 2005-06, paras 42-43

where there are particular housing growth strategies, or where other social or environmental costs may arise.

- A proportion of the revenue generated from the granting of planning permissions in local authorities should be given directly to local authorities. Government should also amend the operation of Section 106 planning obligations, as set out in Chapter 3, to take account of this new charge.
- The Government may want to consider allowing developers to pay their contributions in instalments over reasonable time periods so as to ensure that housebuilder cash flow pressures are sufficiently accounted for.

The introduction of a tax would need to be accompanied by transitional measures to ameliorate the impact on developers already engaged in land sales contracts that were drawn up before this charge was introduced, or for those who hold large amounts of land already purchased, but where planning permission has yet to be secured.¹³⁴

The Government issued an early response to this aspect of the Barker Review's proposals:

The Barker Review concludes that a Planning-gain Supplement based on the uplift when land is sold for development would be an efficient source to release resources to help in the expansion of housing supply.

The Government accepts that, in order to meet the key objectives of stability and improved market affordability, there is a good case for additional social housing investment, incentives to local authorities to deliver housing growth, support for infrastructure to complement new developments and potentially support to the industry to train their employees to deliver this challenging agenda, all of which would require additional investment. The Government agrees with the recommendations of the Review that it is in principle fair to fund this proposed package of measures out of the uplift in land values experienced during the development process. This could also alter the balance of incentives between greenfield and brownfield development, helping to encourage a more efficient use of land.

Achieving long-term stability will require the delivery of all the elements within this overall package. The Government will work with stakeholders to ensure that the necessary conditions are in place for the package proposed by Kate Barker to succeed. Therefore, in considering a package of reforms to follow the Barker Review, the Government will need to be sure that:

- planning reforms are underway and the system is delivering a coherent and efficient service capable;
- there is a positive impact on supply from the introduction of these incentives;
- the industry is responding to the Review's recommendations and is capable of rising to the challenge;

¹³⁴ The Barker Review, March 2004, recommendation 26, para 4.73

- the 2004 Spending Review has begun to put in place increased investment for social housing; and
- the design of the proposed Planning-gain Supplement is effective and workable.

The Government will review progress against these objectives by the end of 2005. If the Government is satisfied that these are all on track, it will bring forward this package to deliver economic stability and improved affordability to address housing needs.¹³⁵

A joint consultation paper, *Planning-Gain Supplement*, was published by HM Treasury, HM Revenue & Customs and the ODPM in December 2005.¹³⁶ The closing date for responses was 27 February 2006.

There is some concern amongst housing bodies that a Planning-gain Supplement might have an adverse effect on the supply of affordable housing. The Chartered Institute of Housing commented, for example:

It is appropriate that the cost of any affordable housing to be provided should be deducted from PGS liability, but there is some possibility that this system could be abused and lead to under-provision of social housing. Some areas could be tempted to forfeit provision of affordable housing to increase PGS revenue which can be spent on local infrastructure. The PGS system should interact with PPS3 to ensure that use of the planning system to meet affordable housing targets is prioritised over raising revenue for other local needs.

Government should clarify whether RSLs would have to pay PGS. Although they too benefit from uplift in value of land they own, payment of PGS would limit the funds they could reinvest in the community and, for schemes using SHG, would amount to taxation of government funding. Exemption from PGS liability would make better use of government resources and help to deliver the increased level of affordable housing which government desires.¹³⁷

The consultation paper anticipates that authorities will still be able to seek Section 106 contributions for affordable housing but it has been suggested that developers will not welcome this on top of having to pay a Planning-gain Supplement:

“Unless a significant proportion of the ‘national share’ of PGS were to be earmarked for grant to supplement the existing Housing Corporation programme, the net result could well be a reduction in the number of affordable homes delivered through the planning system, the very opposite of what the government is seeking to achieve.”¹³⁸

¹³⁵ ODPM Press Release, 2004/0062, 17 March 2004

¹³⁶ www.hm-treasury.gov.uk/media/F59/D3/pbr05_planninggain_449.pdf

¹³⁷ The CIH's submission to the consultation on Planning-gain Supplement, February 2006: www.cih.org/display.php?db=policies&id=620

¹³⁸ ‘More Pain than Gain,’ *Roof Magazine*, March/April 2006

At the time of writing the Government was still considering responses to the consultation paper but in May 2006 the Minister for Housing, Yvette Cooper, in announcing the publication of research into the use of Section 106 agreements, said:

We need to build far more homes and that means funding the infrastructure to support them. The research shows there should be plenty of scope to increase contributions from planning gain without hindering development. The value of land can shoot up just because of planning permission. It is only fair that local communities should also be able to benefit from that gain through more affordable housing or infrastructure.¹³⁹

The Commons Select Committee published a volume of written evidence on the PSG in May 2006.¹⁴⁰ Further comment on the PSG can be found in Library Standard Note, *Paying for Infrastructure*.¹⁴¹

VI Market housing and affordability

Kate Barker's review of housing supply focused primarily on issues underlying the lack of supply and responsiveness of the housing market in the UK. However, the affordability of market housing inevitably has an impact on demand for sub-market affordable housing. A higher rate of private house-building that leads to a reduction in real house prices could improve access for those households who are currently priced out. This could, in turn, reduce pressure on sub-market housing providers.

Kate Barker, taking as a baseline the level of private sector build in 2002/03 of 140,000 gross starts and 125,000 gross completions, estimated that:

- reducing the trend in real house prices to 1.8 per cent would require an additional 70,000 private sector homes per annum; and
- reducing the trend in real house prices to 1.1 per cent would require an additional 120,000 private sector homes per annum.¹⁴²

Barker recommended that the Government should establish a market affordability goal and that every region, through the Regional Planning Body, should set its own target to improve market affordability.

The Government accepted the case set out in the Barker Review for a step-change in housing supply and is committed to increasing total housing supply in England from around 150,000 net additional units per year to 200,000 per year by 2016. Much of this additional growth is expected to result from reforms to the planning system and from the development of four 'growth areas'.¹⁴³ In addition, the Government launched a

¹³⁹ DCLG Press Release 2006/0013, 19 May 2006

¹⁴⁰ HC 1024-II 2005-06,
www.publications.parliament.uk/pa/cm200506/cmselect/cmodpm/1024/1024ii.pdf

¹⁴¹ SN/SC/3890

¹⁴² The Barker Review, March 2004, para 13

¹⁴³ The *Sustainable Communities Plan*, 2003, announced funding for four growth areas: Milton Keynes/South Midlands, Ashford, London-Stansted-Cambridge-Peterborough and Thames Gateway.

consultation process in July 2006 on a proposal for a new Housing and Planning Delivery Grant:

Under our proposals, a performance related grant would be paid to local authorities as a reward for meeting the housing needs of the community and in improving planning performance. The proposal is part of the Government's package of measures to improve housing affordability and our commitment to create and maintain sustainable communities.

The Government's aim with a new grant would be to encourage local authorities to become active in the delivery of new housing to meet local housing demand. The grant would be awarded to local authorities with high levels of demand who are delivering additional housing. The proposal envisages that the grant would continue to resource planning to ensure effective delivery of the new planning system.¹⁴⁴

It is acknowledged that the speed at which any increase in housing supply can be achieved, and affordability benefits realised, will depend on the provision of investment in the infrastructure necessary to support housing growth.¹⁴⁵ On 16 February 2006 the Government announced a £300m package to support infrastructure projects in the growth areas.¹⁴⁶ In July 2006 the Minister for Housing, responding to a parliamentary question, said that a failure to increase housing supply would result in a fall in the proportion of 30 year-old couples who can afford to buy a home from just over 50 per cent now to around a third by 2016.¹⁴⁷ The Government's aim is to reach a home ownership level of 75 per cent.¹⁴⁸

However, Barker's assumption that an expansion in the number of houses developed would result in a fall in house prices has been criticised by, among others, the Royal Town Planning Institute:

The economics of housing markets are far more complex. Housing has several unique features that make conventional market economics inappropriate, such as a fixed location, with values dependent on many externalities, their long life and the fact that they are (increasingly) regarded as an investment, rather than consumption, demonstrated, for example, by the growth of the buy to let sector.¹⁴⁹

In 2004 the Government commissioned a group of academics led by Professor Geoff Meen of Reading University to quantify, at a regional scale, the relationship between affordability and construction. The group reported in December 2005 and concluded that:

The funding allocated was for site assembly and remediation of brownfield land, delivery mechanisms, additional affordable housing and essential local infrastructure. Additional funding has subsequently been allocated.

¹⁴⁴ HC Deb 24 July 2006 cc65WS

¹⁴⁵ More information on the environmental issues associated with increased housing supply can be found in the Environmental Audit Committee's report, *Housing: Building a Sustainable Future*, HC 135-I 2004-05: www.publications.parliament.uk/pa/cm200405/cmselect/cmenvaud/135/135.pdf and the Government's response, Cm 6893: www.official-documents.co.uk/document/cm68/6893/6893.pdf

¹⁴⁶ DCLG Press Release, 2006/0025, 16 February 2006

¹⁴⁷ HC Deb 4 July 2006 cc956-7W

¹⁴⁸ ODPM, *HomeBuy – Expanding the opportunity to own*, April 2005

¹⁴⁹ HC 703-II Session 2005-06, Ev 347, Evidence submitted by the Royal Town Planning Institute to the ODPM Select Committee's inquiry into Affordability and the Supply of Housing

Large increases in construction do have significant effects on affordability, measured in terms of the ratio of lower quartile house prices to incomes. But the increases in construction have to be large. Furthermore, the improvements in affordability are permanent, reflecting the increase in supply. Many changes associated with demand shocks are temporary and cyclical, although frequently large.

Spatial targeting presents practical problems. On the one hand, regions may be considered too large as entities since many regions contain areas of both high and low demand and expansion of construction will have a differential effect according to which is chosen. On the other hand, targets for smaller spatial areas are probably impractical because of the induced migration inflows discussed in the report. Particularly within Travel to Work Areas, migration flows offset any improvements in affordability.

Although we have been asked to look particularly at 2016 as a target year, we would not recommend the choice of any single year as a target. Affordability is simply too volatile over the cycle for this to be a reliable target. Supply-side policies, linked to the planning system, cannot be used to offset the short-run cycle.¹⁵⁰

In *Affordability and the Supply of Housing*, the Commons Select Committee expressed doubt over the relationship between increases in housing supply and prices:

A simple supply and demand model cannot be applied uncritically to the behaviour of the housing market and house prices. The particular nature of the housing market makes it very difficult to be certain about the effect which a certain level of increase in supply will have on prices and thereby affordability.¹⁵¹

Private sector completions *have* increased since the Barker Review was published - in 2005 they reached over 160,000¹⁵² but the Government has acknowledged that the rate of production is not yet keeping pace with the rate of new household formation. The Commons Select Committee highlighted the fact that existing house-building targets¹⁵³ are not being met:

The emerging and adopted regional spatial strategies have an overall target of about 170,000 new homes per year. This target is not being achieved: in 2005 only 160,000 homes were built. In some areas there are large numbers of unimplemented outline planning permissions and sites allocated for housing which have not been taken up. In the South East, for instance, seven years' supply of land has been identified. There are several reasons why these sites have not been developed. Kate Barker's report highlights the problems of

¹⁵⁰ DCLG, *Affordability Targets: Implications for Housing Supply*, December 2005: http://www.communities.gov.uk/pub/84/AffordabilityTargetsImplicationsforHousingSupplyPDF423Kb_id1162084.pdf

¹⁵¹ HC 703-I, Session 2005-06, para 52

¹⁵² HC Deb 24 July 2006 cc65WS

¹⁵³ For information on how house-building targets are produced through the planning system see Library Standard Note *Housing Targets and Planning*, SN/SC/3741

securing infrastructure and her interim report suggested that 40,000 homes were being held up in the South East due to the lack of suitable infrastructure.¹⁵⁴

There is resistance in some areas to substantial increases in the supply of housing. The South East Regional Assembly's draft plan, which was submitted to the Government in March 2006, provides for 28,900 new homes per year up to 2026.¹⁵⁵ The draft has been criticised by the National Housing Federation as failing to meet the region's future housing needs; the Federation has said that the region needs at least 32,000 new homes a year. The assembly chair, Keith Mitchell, has defended the figure:

...anything more than 28,900 new homes annually would risk unacceptable incursions into the green belt, environmental damage and the possibility that water provision and the transport infrastructure would be unable to cope.

The Federation's view doesn't surprise me. Nor would it surprise me if the government wasn't happy.

But the fact is that a large number of electors and organisations like the Campaign to Protect Rural England will feel our figure is too high. We believe it is a sensible compromise and represents what is do-able.¹⁵⁶

The Government was asked to comment on the housing targets contained in the South East Regional Assembly's draft plan:

Mr. Hunt: To ask the Secretary of State for Communities and Local Government whether she plans to increase the regional housing target for the South East from the 28,900 per annum target from 2006 to 2026 adopted by the South East Regional Assembly.

Yvette Cooper: Current housing targets for the South East are set out in the Regional Planning Guidance for the South East (RPG9) and subsequent revisions for the Growth Areas. In reviewing this guidance, the South East Regional Assembly has submitted a draft Regional Spatial Strategy in which they propose housing targets for the South East. It would be inappropriate for the Secretary of State to pre-empt the outcome of the forthcoming Examination in Public into the draft South East Plan by commenting on the housing targets proposed by the South East Regional Assembly.¹⁵⁷

In addition to questioning the "simple" supply and demand model of the housing market, the Commons Select Committee was not convinced that the Government's target of 200,000 new homes per year would have a significant impact on house prices:

¹⁵⁴ HC 703-I, Session 2005-06, para 63

¹⁵⁵ *A clear vision for the south east:*

www.southeast-ra.gov.uk/southeastplan/plan/march_2006/exec_sum/executive_summary.pdf

¹⁵⁶ *Inside Housing*, "Regional assembly chair defends housing limit," 7 April 2006

¹⁵⁷ HC Deb 3 July 2006 c764W

With the new housing supply figure so close to the projected increase in the number of households, it is difficult to see how the Government proposed building rate will have any detectable impact on house prices.¹⁵⁸

VII Other initiatives

In addition to increasing investment in the supply of sub-market affordable housing and revisions to the planning system, the Government has taken steps to increase the supply of housing in other ways, some of which focus on making better use of the existing housing stock. These are summarised in the sections **A-F** below.

A. The Right to Buy

Around 1.7 million social rented homes have been sold under the Right to Buy since its inception (see table below). Recent years have seen calls from some housing bodies, such as Shelter, for a curb on the right to buy in response to rising number of homeless households in temporary accommodation, and shortages of social housing in areas of high housing demand:

When we presented oral evidence to the Urban Affairs sub committee earlier in the year, a significant proportion of our session was spent discussing the impact of the Right to Buy on the supply of affordable housing. Since then, we have published a new report which sets out what we believe is a compelling case for reforming the scheme:

- It is exacerbating the shortage of affordable housing.
- The high public expenditure costs associated with the scheme are an inefficient use of public funds.
- It is increasingly concentrating the lowest income households in the least popular housing, undermining the Government's social inclusion, opportunity and neighbourhood renewal agendas.
- As has been widely reported in the media, there is growing evidence that the scheme is being unacceptably exploited.

Twenty years ago, a parliamentary select committee concluded that 'the effect of council house sales on the numbers of new lettings and transfers available in the local authority sector will be substantial'. As the Committee correctly predicted, the cumulative impact of the scheme on the supply of lettings has indeed been significant. Our report estimates that, as a result of sales under the Right to Buy, by 2005/06 around 4,000 fewer lettings per year will be made by local authorities in London and the South East alone than is the case currently. The cumulative loss of lettings in these areas over the period up to 2005/06 can be estimated at more than 13,000 and the cost of building new affordable housing to compensate for this at over £1 billion.

Although reforming the Right to Buy would not, on its own, be enough to tackle the shortfall in the supply of affordable housing, it could have a significant impact on the supply of lettings, particularly in areas where shortages are most severe.

¹⁵⁸ HC 703-I, Session 2005-06, para 48

We believe it must therefore be part of the equation for increasing the supply of affordable homes and delivering the 'step change' called for by the Deputy Prime Minister.¹⁵⁹

Right to buy in England

	Local authorities	New towns	Housing associations	Total
1986	73,767	556	2,791	77,114
1987	84,007	792	2,046	86,845
1988	128,566	1,091	3,323	132,980
1989	139,722	1,332	3,700	144,754
1990	92,995	365	3,369	96,729
1991	51,414	177	1,871	53,462
1992	41,445	166	669	42,280
1993	41,188	180	666	42,034
1994	44,999	45	831	45,875
1995	33,960	1	592	34,553
1996	31,781	0	562	32,343
1997	39,875	0	-	39,875
1998	39,846	0	-	39,846
1999	51,212	0	-	51,212
2000	54,856	0	-	54,856
2001	50,735	0	-	50,735
2002	58,526	0	-	58,526
2003	71,910	0	-	71,910
2004	58,478	0	-	58,478
Total sales 1980 - 1985	512,876	5,614	7,990	526,480
Cumulative total 1980-2004	1,702,158	10,319	28,410	1,740,887

Source: UK Housing Review 2005/06

In February 1999 the Government had reduced the maximum discount under the right to buy from £50,000 to between £22,000-38,000 depending on where the property being bought is situated. For example, the maximum discount in the North East is £22,000. Further limits to the maximum discount were introduced in March 2003 in 41 regions in London and the South East; in these areas the maximum discount is now £16,000. The Welsh National Assembly also acted to reduce the maximum discount entitlement in all regions of the Principality to £16,000 from 2 April 2003.¹⁶⁰

Measures were included in the *Housing Act 2004* to extend the qualifying period for the right to buy and to extend the period after sale during which landlords may require owners to repay some or all of the right to buy discount on early resale. Social landlords also acquired a right of first refusal to buy back properties acquired through the right to buy if they come on the market within ten years following the exercise of the right. Total sales under the right to buy have fallen since the measures in the 2004 Act have been implemented.¹⁶¹

¹⁵⁹ Shelter's evidence to the Urban Affairs Sub-Committee's inquiry into affordable housing 2001-02: [http://england.shelter.org.uk/files/docs/2846/Affordable%20Housing%20\(2nd%20submission\).pdf](http://england.shelter.org.uk/files/docs/2846/Affordable%20Housing%20(2nd%20submission).pdf)

¹⁶⁰ SI 2003/803

¹⁶¹ HC Deb 8 March 2006 c804

B. Empty housing

In *Sustainable Communities: Homes for All* (January 2005) the Government made a commitment to reduce the number of long term empty private sector properties by 25,000 by 2010. The number of dwellings that have remained empty for more than six months remains relatively constant at 300,000 (representing 1.7 per cent of the private housing stock). The Government regards bringing empty properties back into use as having fewer environmental implications than building new homes, as the properties are already near to existing facilities and infrastructure.¹⁶²

Powers were included in the *2004 Housing Act* to enable local authorities to serve Empty Dwelling Management Orders (EDMOs) where private sector properties have been empty for six months or more (certain types of empty property are exempt). Regulations to implement the EDMO provisions came into force in April 2006. Guidance on EDMOs can be found online at:

www.communities.gov.uk/pub/652/EmptyDwellingManagementOrdersGuidanceforresidentialpropertyownersonnewpowersforsid1500652.pdf

C. Real Estate Investment Trusts

Kate Barker's interim report concluded that "there is merit in the Government considering a vehicle, based on the US Real Estate Investment Trust (REITS) model, to encourage increased institutional investment." Alongside Budget 2004 the Government launched a consultation paper, *Promoting more flexible investment in property*, to consider the introduction of Real Estate Investment Trusts (REITs) with the aim of promoting greater efficiency in the property investment market. The main beneficiaries of such reform are expected to be in the commercial property market but the Treasury has said that reform "would also aim to address the unresponsive supply of housing through greater institutional investor participation in the residential market."¹⁶³

March 2005 saw the publication of *UK Real Estate Investment Trusts: a discussion paper*¹⁶⁴ and, subsequently, provisions to introduce a new regime in the UK for Real Estate Investment Trusts were included in the *Finance (No.2) Act 2006*.¹⁶⁵

It is unclear what sort of impact REITs might have on the residential private rented market. The British Property Foundation's Housing Manifesto 2006, *Letting in the Future*, notes:

There are few residential property companies with a listing on the full London Stock Exchange. The costs, both to apply and maintain listed status, make it prohibitive to property portfolios much below £500m in value and there are very few investment portfolios of residential property of that size in the UK. It has been mooted that a couple of consortia of Housing Associations are considering

¹⁶² *The Government's response to Kate Barker's Review of Housing Supply*, December 2005, para 2.21

¹⁶³ www.hm-treasury.gov.uk/budget/budget_05/other_documents/bud_bud05_odreits.cfm

¹⁶⁴ www.hm-treasury.gov.uk/media/A61/AB/Bud05Reits.pdf

¹⁶⁵ Some background on the consultation process can be found in Library Standard Note SN/BT/4045, *Real Estate Investment Trusts*, 31 May 2006

establishing REITs using their market-rented stock, but that apart, it is difficult to see where growth in residential REITs would come from. The primary problem is the current requirement for a REIT to have a full listing, which we believe will stifle the growth of a thriving residential REIT sector.

We recommend that as a priority the Government should consider introducing unlisted or at the very least AIM-listed REITs.¹⁶⁶

D. The Extra Homes pilot

The Extra Homes Pilot was announced by the Chancellor of the Exchequer in the 2006 Budget. The aim of the pilot, which has been allocated £30 million in investment funding, is to help councils provide settled homes for families currently in temporary accommodation. The Government is committed to reducing the number of households living in temporary accommodation by 50 per cent by 2010.¹⁶⁷

London authorities and housing associations were invited to pilot an approach using a mixture of capital funding and rental income (subsidised by Housing Benefit) to purchase homes for families who would otherwise be living in insecure and expensive private sector accommodation. Under the pilot, the Government is looking for the provision of settled homes with fixed-term tenancies that can be converted to affordable social housing in the long term.¹⁶⁸

E. The Design for Manufacture competition

The Design for manufacture competition was launched in April 2005 by the Deputy Prime Minister in response to significant increases in construction costs in recent years. English Partnerships is running the competition on behalf of the Department for Communities and Local Government. The aim of the competition is to challenge the house-building industry to build a home for a construction cost of £60,000. The figure of £60,000 is a target construction cost, not the total development cost or final sale price. By focusing purely on the cost of construction the Competition aims to improve construction efficiency, quality and design. The cost efficiency should have an impact on total scheme costs and should help to make homes more affordable.

Over 100 companies took part in the first stage of the competition, with 33 bidders shortlisted to the second stage in June. Six developers were finally selected to build on publicly-owned competition sites across the country:

On the 10 demonstration sites, competition winners will build at least 300 homes for sale on a shared equity basis for first time buyers unable to compete in the market. These will include properties where people will be able to buy their first equity share of a two-bedroom home for between £55-70,000. The homes are being built on former public sector land as part of mixed, sustainable communities where at least half of the homes will be affordable. Of the 1,000 homes provided,

¹⁶⁶ The full manifesto is accessible online at: www.bpf.org.uk/files/pub11525383972682-1.pdf

¹⁶⁷ DCLG Press Release 2006/0025, 12 June 2006

¹⁶⁸ DCLG Press Release 2006/0059, 14 July 2006

a further 200-300 homes will be social housing for rent with the balance being housing for full sale by developers on the open market.

By using public sector land and lower construction costs, English Partnerships has been able to deliver higher than average levels of affordable homes within mixed communities on these sites. The government now wants to see the same approach rolled out on surplus public sector land across the country to increase affordable housing. Ms Kelly is calling on local authorities to use their own surplus land to deliver more shared equity schemes for local families. The government will be producing guidance for local authorities who want to adopt English Partnerships' approach.¹⁶⁹

More information can be found online at www.designformanufacture.info

F. The New Growth Points Initiative

The Department's New Growth Points scheme, which was launched in December 2005, is intended to encourage local authorities (in the East, South East, South West, West Midlands and East Midlands) who wish to pursue large scale and sustainable economic and housing growth, to put forward and agree strategic growth proposals with Government which are sustainable, well planned, acceptable environmentally and realistic in terms of infrastructure. Pilot project funding of £40 million is available in 2007-08; future resources are dependent on the outcome of the 2007 CSR.

The scheme is based on achieving housing growth of at least 20 per cent above 2003 development plan levels and all proposals are subject to public consultation and testing as part of the statutory planning process at both regional and local level.

On 20 June 2006 the Minister for Housing, Yvette Cooper, announced that 20 bids had been received covering more than 50 authorities. She said that if all the bids are realised they would secure an extra 8,000-10,000 homes per year amounting to 80,000 by 2016 over and above existing plans and existing growth areas.¹⁷⁰ A list of those bids that have had an initial assessment carried out can be found in the DCLG Press Release 2006/0031.¹⁷¹

More information on this initiative at:

<http://www.communities.gov.uk/index.asp?id=1162073>

¹⁶⁹ DCLG Press Release 2006/0006, 14 May 2006

¹⁷⁰ HC Deb 20 June 2006 cc87-88WS

¹⁷¹ www.communities.gov.uk/index.asp?id=1002882&PressNoticeID=2177

Appendix 1

Low cost home ownership (LCHO) initiatives

Low cost home ownership schemes of various types have been in existence for many years. For example, under the Conventional Shared Ownership scheme applicants may buy a share of between 25 per cent and 75 per cent of a property, depending upon their financial circumstances. Priority for the scheme is generally given to existing social tenants, or those on the housing register. If they wish, shared owners can increase their share of the property over time, as and when they can afford to do so. It has been funded through the Housing Corporation's Approved Development Programme.

In January 2005 the Department launched its Five Year Plan, *Sustainable Communities: Homes for All*, in which a commitment was made to assist over 80,000 people, who are currently renting privately or living with family members, into home ownership by 2010. Low cost home ownership schemes form a key strand in the Government's policy for increasing the supply of sub-market affordable housing. Almost £1 billion of the Housing Corporation's National Affordable Housing Programme has been earmarked for the development of shared ownership products over 2006-2008 out of a total budget of £3.9 billion. The Government has also established a Shared Equity Taskforce which is being run jointly by the Treasury and DCLG. The aim of the Taskforce "is to increase the number of people able to benefit from shared equity programmes and help the growing number of 'intermediate' households, building on the success in helping key workers into home ownership."¹⁷² Shared ownership and schemes such as the Right to Buy are now frequently referred to as 'intermediate' housing schemes.

The sections below describe the different sorts of Government led LCHO schemes that have been devised to boost the supply of affordable housing and deliver the commitment made in the Five Year Plan.

1. Housing for key workers

The Starter Home Initiative (SHI) was launched in 2001-02 and was expected to help around 10,000 key workers, particularly nurses, teachers and the police, to buy homes in urban and rural areas where high prices would otherwise prevent them from living in or near to the communities they serve. The SHI marked a departure from housing need as the main determinant of access to subsidised housing.

The scheme operated in London, the South-East and housing 'hot spots' in Eastern and South Western England. The Government made available £250 million for this scheme over three years: £50m in 2001-02 and £100m each year in 2002-03 and 2003-04. The type of assistance available varied between the schemes in each area. Equity loans and shared ownership were the most common forms of help. The maximum level of help available also varied between schemes. By mid-February 2004 7,500 key workers in

¹⁷² ODPM Press Release 2006/0064, 28 March 2006. The terms of reference of the Taskforce can be found online at: http://www.odpm.gov.uk/pub/785/SharedEquityTaskForcetermsreference_id1164785.pdf

England (including over 3,500 in London) had been helped to buy a home under the SHI.¹⁷³

On 21 October 2003 the Deputy Prime Minister, John Prescott, outlined details of the new key worker programme which would succeed the SHI from 1 April 2004:

We have listened carefully to what key workers and their employers have told us about their housing needs and aspirations, and this new programme is built firmly upon the foundations laid by these views.

The new key worker initiative will ensure support is better targeted and tailored to meet the needs of public services. Most assistance will continue to be directed towards priority categories, such as health workers and teachers. However, it is also proposed the programme should be widened to include other public sector workers to tackle recruitment and retention problems.

The programme will offer four simple options to help key workers into home ownership, upgrade to family homes or rent at affordable levels. There will also be more emphasis on larger homes, reflecting the problems faced by many key workers when they seek to upgrade to a family home.

This will support the Government's drive to create a world class education system in London. Funding for affordable homes will help retain more high quality teachers in the capital and transform standards of achievement by their students. To support this aim the key worker housing initiative includes a higher value Homebuy scheme especially for teachers in local schools who have the potential to become leaders of London's education system in the future...

...Allowing for additional resources in the transitional Local Authority Social Housing Grant and the additional homes we expect to be provided through an innovative English Partnerships scheme, we have been able to increase the funding towards key worker housing. The total for key worker housing is £1 billion over the three years to March 2006.¹⁷⁴

The nature of key worker assistance changed from 1 April 2004:

Mr. McNulty: From 2004-05, funding for the provision of key worker housing will be integrated into the Housing Corporation's affordable housing programme and will target key public sector workers. The Housing Corporation expects to invite bids for key worker housing schemes at the same time as bids for other affordable housing schemes, in the autumn 2003. It will be made clear at that stage which key worker groups will qualify for assistance, taking into account the advice of Regional Housing Boards.¹⁷⁵

The type of assistance available under the Key Worker Living Scheme (KWL) takes the form of:

¹⁷³ HC Deb 1 March 2004 c755W

¹⁷⁴ ODPM Press Notice 2003/0214, 21 October 2003

¹⁷⁵ HC Deb 26 June 2003 c902W

- Open Market Homebuy: 'Equity loans' of up to £50,000 to help key workers buy a home on the open market or a new property built by a registered social landlord.
- Higher-value equity loans of up to £100,000 for a small group of school teachers with the potential to become leaders of London's education system in the future.
- New Build Homebuy: Key workers buy at least 25% of the home and pay a reduced rent on the remaining share.
- 'Intermediate renting' where the rent is set at a level between that charged by social and private landlords.
- The NHS also provides some short term intermediate rented accommodation for **all** key workers. This is managed through the NHS accommodation website. Key workers can search for this accommodation at: www.nhs.uk/accommodation

Eligibility under the KWL scheme was expanded from 14 November 2005.¹⁷⁶ A full list of the key worker categories eligible under the scheme and the areas in which the scheme operates can be found on the dedicated key worker website: www.keyworkerliving.co.uk

A Housing Corporation press release issued on 22 November 2005 announced that the KWL had assisted between 6,500 and 7,000 key workers by the end of 2005-06 against a target of 5,722. The total number of those assisted through key worker housing initiatives reached 18,244 at the end of October 2005.¹⁷⁷

2. HomeBuy

In April 2005 the Department published a consultation document, *HomeBuy – Expanding the Opportunity to Own*,¹⁷⁸ in which it set out three 'HomeBuy' options for people seeking to enter home ownership. In September 2005 the Government announced that three new LCHO products would be introduced from 1 April 2006:¹⁷⁹

- **Social HomeBuy:** This scheme is open to existing tenants of social landlords who cannot afford (or do not qualify for) the Right to Buy or the Right to Acquire. Exemptions operate in rural areas that are exempt from the Right to Buy and Right to Acquire and to housing specifically for those with long term disabilities or special needs, or housing specifically provided for 'older people.' Sales take place at a discount (up to the local Right to Acquire discount). The sale is on a shared ownership basis with a minimum initial purchase of at least 25 per cent of the equity. The rental charge on the balance is set with a target rate of 2.75 per cent of the capital value and is capped at 3 per cent. Stair-casing¹⁸⁰ is allowed in minimum 10 per cent tranches up to 100 per cent. It is possible to use receipts raised from sales for 'housing related purposes'. They will be recycled into a Disposals Proceeds Fund.¹⁸¹

¹⁷⁶ HC Deb 25 April 2006 cc1007-8W

¹⁷⁷ 'Double announcement means good news for key workers,' <http://www.housingcorp.gov.uk/server/show/conWebDoc.6246/changeNav/431>

¹⁷⁸ www.communities.gov.uk/pub/41/HomebuyexpandingtheopportunitytoownPDF371Kb_id1157041.pdf

¹⁷⁹ ODP, *Homebuy- Expanding the Opportunity to Own – The Government's response to consultation*, September 2005: www.communities.gov.uk/index.asp?id=1157066

¹⁸⁰ The term used to describe the process of buying additional shares in a shared ownership property.

¹⁸¹ This is held by each RSL, the purpose of which is to provide replacement properties for rent.

The Government wants both local authorities and registered social landlords to offer this scheme to their tenants but participation is discretionary. It is also hoped that charitable housing associations, which do not have the power to dispose of charitable assets at less than their full value, will participate.

- **Open Market HomeBuy:** This scheme enables a purchaser to buy a share of the equity in a home bought on the open market. The buyer pays around 75 per cent of the purchase price with a mortgage and savings. A housing provider (e.g. RSL) provides a loan for the balance required. The provider is able to make a small charge on the loan. Loan repayment is possible in minimum tranches of 10 per cent up to 100 per cent. Receipts will be recycled into a Recycled Capital Grants Fund.¹⁸² It is open to a Government defined group of key workers, social tenants, people on housing waiting lists and first-time buyers identified as having priority by Regional Housing Boards.
- **New Build HomeBuy:** This scheme enables people to buy a share of a newly built property. Eligibility is as for Open Market HomeBuy. Properties are offered on a shared ownership basis with applicants buying a minimum 25 per cent share. Buyers can buy the maximum share they can afford. The provider charges rent of up to 3 per cent of its equity holding but must aim to achieve an average charge of 2.75 per cent of the capital value. Staircasing is possible in minimum 10 per cent tranches up to 100 per cent. Receipts will be recycled into the Recycled Capital Grants Fund.

Future provision under all of these schemes will be protected by the providers having rights to nominate new purchasers from their waiting lists or to buy back properties.

Further information on HomeBuy, including how to apply for housing via this route, can be found online at: www.shared-ownership.org.uk/homebuy.html

3. First Time Buyers Initiative

The First Time Buyers Initiative is a form of New Build HomeBuy which uses public sector land. English Partnerships is leading on the delivery of 15,000 homes under this scheme up to 2010. Keith Hill, then Minister for Housing, outlined the scheme in a letter to Regional Housing Boards in March 2005:

Under this scheme, the cost of land will be separated from the cost of construction requiring the First Time Buyer to cover at least the latter as an equity share. So, for example, if the construction costs of a home are £60,000 and the land cost £40,000, the purchaser takes a 60% share. Although we are looking at ways to ensure these homes remain available to First Time Buyers in areas of the highest demand, we expect staircasing up to 100% to be allowed. Providers will, however, have a right of first refusal to purchase when the First Time Buyer wants to move on. Despite this flexibility to move to full ownership, we would prefer purchasers, over time, to use their equity share to enable them to move on

¹⁸² Held by the RSL.

to independent home ownership freeing up their home for another First Time Buyer. We expect receipts to be re-cycled within the programme.

On eligibility, the Initiative aims to help lower income groups who cannot access sustainable home ownership without our support. Half the new homes built under this programme will go to key workers in groups identified at national level. The intention is that the rest should be allocated to groups identified as local priorities, taking account of local affordability issues and the need to create more balanced, mixed tenure communities. As indicated in "Homes for All", we want the Regional Housing Boards (RHBs) to make recommendations on the priority groups for their regions. It would be helpful to have this alongside its allocation recommendations due in May.

The identification and bringing forward of suitable land is key to the success of the initiative and it is important that key partners, such as local authorities and RDAs, explore the scope for them to 'contribute' land on a shared equity basis to the EP led programme or develop their own scheme independently. RHBs will have an essential role to play in working closely with EP on this initiative and in encouraging others to make land available.

The intention is for the programme to start in 2006/07 with an overall budget of £350 million for this and the subsequent year. Most of the funding is to come from EP's existing budget but we have, after careful consideration, decided to supplement this with some small shifts of resources from other programmes. These include a switch of £50 million out of the overall regional housing pot (RHP) funding for 2007/08.¹⁸³

Additional information on this scheme can be found on English Partnerships' website: www.englishpartnerships.co.uk/ftbi.htm

4. Shared Equity Loans

In the Department's Five Year Plan the Government said it was exploring with the Council of Mortgage Lenders (CML) the scope for introducing private finance for the funding of equity loans.

On 25 May 2005 John Prescott and Gordon Brown launched a pamphlet entitled *Extending Home Ownership*.¹⁸⁴ This document explained that the Government's discussions with private lenders were exploring the possibility of joint public/private funding of equity loans using a model similar to that of the Open Market HomeBuy scheme. In the model the borrower would:

- obtain a conventional mortgage to pay for a proportion of a property's value, e.g. 75 per cent;
- the mortgage provider would provide an equity loan of 12.5 per cent of the property's value; and,

¹⁸³ <http://odpm.gov.uk/staging/index.asp?id=1150456>

¹⁸⁴ http://www.hm-treasury.gov.uk/media/132/79/home_ownership_250505.pdf

- Government (probably through a registered social landlord) would provide an equity loan for the remaining 12.5 per cent.

In a rising market when a property is sold at the prevailing market rate the outstanding value of the standard mortgage would be repaid and both equity loans would be repaid in line with their original proportions. Where a property is sold at below the original purchase price, the full outstanding value of standard mortgage would be paid back. This would be followed by the full outstanding value of the mortgage provider's equity loan. A proportion of the Government's equity loan would be paid back only if there is a surplus after the first and second charges are met.

On 31 July 2006 the Government announced that agreement had been reached with Advantage (a Morgan Stanley group company), Halifax Bank of Scotland, Nationwide and Yorkshire Building Societies over the private financing of equity loans.¹⁸⁵ These loans, which will be based on the model described above, are expected to be available on a pilot basis for two years from October 2006. The provision of a private equity loan will mean that Government funding will go further and has the potential to increase the number of people who can be assisted to buy a home on the open market. The Government believes that 20,000 households could be assisted into home ownership using shared equity loans.

It is expected that this new product will be available to the same groups originally proposed for Open Market HomeBuy: key public sector workers, social tenants, those on the housing register and other groups of first time buyers given priority by Regional Housing Boards.

¹⁸⁵ DCLG Press Release, 2006/0072, 31 July 2006

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