

**Response to the Communities and Local
Government Select Committee
Call for Evidence re:**

New Ministers for Planning and Housing

**Submission by the
Joseph Rowntree Foundation**

September 2012

The Joseph Rowntree Foundation (JRF) is one of the largest social policy research and development charities in the UK. For more than a century we have been engaged with searching out the causes of social problems, investigating solutions and seeking to influence those who can make changes. JRF's purpose is to understand the root causes of social problems, to identify ways of overcoming them, and to show how social needs can be met in practice. The Joseph Rowntree Housing Trust (JRHT) shares the aims of the Foundation and engages in practical housing and care work.

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Summary

1. JRF's main concern with the Government's recent stimulus package is that it does not create a long-term housing finance system that is able to withstand the boom and bust of the economic cycle.
2. This submission highlights important lessons for the CLG Select Committee in relation to the Government's proposals to boost house building and the economy. In highlighting lessons from JRF's evidence base this submission draws particularly on: emerging findings from an international review of innovations in financing affordable housing (Gibb, Maclennan and Stephens, forthcoming) and on the work of the [JRF Housing Market Taskforce](#).
3. The response is structured around the following questions:
 - *What are the impacts of allowing revisions to s106 agreements?*
 - *What is the most effective solution to increasing investment in private rented housing?*
 - *How will releasing public land influence housing supply? and;*
 - *What feasible mortgage proposals will get people onto, and moving up, the housing ladder?*
4. Whilst the recent stimulus is to be welcomed as demonstrating a commitment to improving housing supply, we are concerned that the needs of vulnerable households are not sufficiently acknowledged. To be effective in addressing the chronic and long standing undersupply of housing the Government, together with housing providers, must ensure that we have a long term housing strategy framework that:
 - Defines affordable housing and is explicit about the trade-off between shallow subsidy to increase supply and deeper subsidy to provide for lower income households;
 - Better targets supply and demand side subsidies in order to balance the need for supply stimulus together with the need for additional subsidy for low income households;
 - Recognises the crucial role of social landlords in making build to (private) rent schemes work and uses loan guarantees and

- other incentives as leverage to address the problems of cost and insecurity in the private rented sector;
- Releases public land with the right infrastructure in places where people want to live;
- Considers more 'risk sharing approaches' to mortgage provision across the market rather than focusing solely on new build.

What are the likely impacts of allowing revisions to s106 agreements?

5. This section argues that:

- Contributions to affordable housing and infrastructure could be simplified but should include a narrowly defined affordable housing contribution through s106;
- There is no 'zero subsidy' solution that will provide housing for low income groups;
- A clearer strategic framework is needed to define affordable housing and make explicit the trade-off between shallow subsidy to increase supply and deeper subsidy to provide for lower income households.

6. The UK's long running shortage of housing is well documented (Stephens, 2011). The impact of the recession has also been felt very strongly on the pro-cyclical nature of the S106 funding regime for new affordable housing. However prior to the recession the S106 link to market developments was delivering increasing numbers of social housing (Monk, *et al.*, 2006). Housing funding or subsidy regimes must be able to weather both the upward *and* downward phases of the economic cycle (Hall and Gibb, 2010; Oxley and Haffner, 2010). It is important that we retain the S106 link between market and affordable housing outputs so that affordable housing outputs can increase when the market improves. S106 offers this certainty in an increasingly uncertain context. The viability of developments and related planning obligations, such as the level of s106 contributions, are related to prevailing market conditions rather than planning obligations per se. As such Burgess et al (2011) suggest that contributions to affordable housing and infrastructure might be simplified but would include a narrowly defined s106 contribution for affordable housing. A clear decision to retain s106 contributions would protect our ability to build more affordable housing during an upswing.

7. Efforts to stretch limited public resources and increase private finance's contribution to housing supply are necessary in such a challenging economic context. However we must be clear that there is no 'zero subsidy' solution for low income households that will bridge the gap between the cost of housing and the higher returns required by private investors (Gibb, Maclennan and Stephens, forthcoming).
8. As the Affordable Homes Programme demonstrates, greater reliance on private finance leads to higher rents and in turn higher Housing Benefit bills. However, impending restrictions on Housing Benefit, and proposed changes to the way it is paid, risk prompting many housing associations to house fewer low income tenants in order to reduce their financial risks. Whilst Government has already opted to spread subsidy more thinly in an effort to produce more homes, it is notable that cost-benefit analysis found that the abandoned National Affordable Housing Programme offered better value for money over 30 years (NAO, 2012). There are clear risks that the decision to spread subsidy more thinly could be at the cost of limited access and affordability for many low-income households.
9. Housing associations have already raised more private finance since 2008 than in the previous 20 years. This reliance on private finance will accelerate further to deliver the Affordable Homes Programme. However the recent failure of the large housing association Vestia (in the Netherlands) showed the dangers of financial market activity both to an individual association and to the sector as a whole. In the context of the increased reliance on private finance the Government's proposed guarantee fund makes sense, but it must be structured in such a way as to avoid moral hazard.
10. Such is the level of under-supply, there is a strong case for rebalancing housing subsidies towards the supply side beyond the current stimulus package. The Spanish VPO (officially protected housing) programme suggests that this can be done in a way that retains some income targeting. Nonetheless, the issue of the much deeper subsidies that are required for low-income households remains to be addressed. This is urgent given the limited capacity of housing associations to fund a second round of the Affordable Homes Programme (Stephens and Williams, 2012) We would like to see the resolution of this question more clearly stated in national and local Government strategy, as well as within registered providers' business plans.

What is the most effective solution to increasing investment in private rented housing?

11. This section argues that:

- The Government must ensure that its stimulus package delivers additional housing supply rather than substituting one type of supply for another;
- Lessons from similar schemes in other countries show that registered providers have played a major, and greater than anticipated, role in such schemes;
- Neither has institutional investment been forthcoming at the hoped for levels;
- Government guarantees or other subsidy could be used as leverage to create more stable private sector tenancies;
- In addition to near market housing for those nearer median incomes, schemes such as the Irish Rental Accommodation Scheme may offer better value for lower income households and the state.

12. It is crucial that any stimulus package for private rented housing creates additional housing supply rather than simply substituting one type of supply for another. A range of evidence demonstrates that whilst near market rental schemes can offer interesting partnerships and provide additional housing there are key lessons for the UK context (Gibb, Maclennan and Stephens, forthcoming; Scanlon and Kochan, 2012; Oxley, *et al.*, 2010), namely that:

- Registered providers/social landlords play a crucial role in making such schemes work; and
- Levels of institutional investment were not as high as expected.

13. As noted in the previous section, registered providers in the UK are increasingly stretching the definition of affordability and shifting their focus further up the income scale. At the same time poverty measured after housing costs are taken into account has tended to increase over the past two decades (Tunstall, *et al.*, forthcoming). The JRF Housing Market Taskforce highlighted that as long as the combined problems of costs and insecurity related to private assured shorthold tenancies are not resolved, there will be a continued need for traditional social rented housing in the long-term (Stephens, 2011). However, given current waiting lists, greater use will need to be made of private renting for low income and

vulnerable groups, including the rising numbers of statutorily homeless households.

14. With Clapham et al (2011) predicting that there will be an extra 1.5 million households under 30 looking for private rented housing in 2020 it is not only low income households who will experience such insecurity. The additional 320,000 families who will be looking for private rented homes in 2020 will have a particular need for stable housing. If the Government is to offer guarantees to the sector these could be used to secure more favourable terms for tenants. The same principle applies to other subsidies such as deferred land payments or discounted land. Scanlon and Kochan (2012) argue that it is these enhanced terms that make renting more acceptable to middle class families. In Germany – which has the largest private rented sector in the European Union – landlord subsidies in the form of depreciation allowances were introduced to compensate landlords for security of tenure.
15. The Government could also consider greater use of private leasing by local authorities to limit housing benefit costs and provide greater security. The Irish Rental Accommodation Scheme provides an example of how a Government private leasing scheme might provide a more cost effective route to driving down housing costs and providing more stable accommodation for vulnerable groups. Coates and Silke (2011, cited in Gibb, MacLennan and Stephens, forthcoming) note that over a 20-year period the net cost of providing rental accommodation scheme properties is significantly cheaper than rent supplement. Again this scheme offers a clear link between the supply and demand side elements of housing subsidy approaches.
16. In summary, international evidence is clear that institutional investment alone cannot deliver either sufficient additional housing or a more stable private rented sector. Social landlords are crucial to making build to (private) rent schemes work. Incentives such as loan guarantees or discounted land could also be used as leverage to enhance security of tenure and address costs.

How will releasing public land influence housing supply?

17. This section argues that:

- Land supply needs to be in the right places – public land supply is not necessarily in the places where people want to live;
- Land is not the only issue in improving housing supply – the right infrastructure must be in place to facilitate development.

18. The underlying volatility in the UK housing system inhibits house building due to its impact on land prices and credit availability for both builders and house purchasers (Stephens, 2011). Land supply in the right place and with the right infrastructure is a key part of the jigsaw in making housing developments both viable and acceptable to the public (Monk and Whitehead, 2011). The release of *appropriate* public land for development is therefore a welcome strategy to increase the land available for housing development. However, as Monk and Whitehead (2011) note, some public land is on flood plains or sites too exposed to ever get built out, regardless of its planning permission status. Thus public land is part of but not the sole solution to increasing the land available for housing.

19. Plans to improve the supply of housing through releasing public sector land must take account of local markets, the relationship to the niche products of local developers (Ball, *et al.*, 2000) and the time it takes to assemble strategic sites (Monk, *et al.*, 2008). Taking these factors into account would support a more realistic assessment of the impact of the Government land release proposals on housing supply.

20. The Government should also continue to explore ways of providing cheaper land such as land pooling and Community Land Trusts (Monk and Whitehead, 2011).

What feasible mortgage proposals will get people onto, and moving up, the housing ladder?

21. It is clear that the supply of mortgage finance, and the terms on which it was made available, will not return to the levels seen in the 25 years that preceded the credit crunch in the foreseeable future. The downward adjustment of house prices provides a vital part of

the solution. However, mechanisms are still required to help first time buyers with deposits.

22. Equity loans, such as those in the FirstBuy scheme, have the attraction of introducing a degree of risk-sharing as well as helping to improve access to home ownership (Whitehead, 2010). However they are currently limited to the purchase of new build properties which carry a price premium. If we are to get the housing market working more effectively it would be prudent to consider extending such schemes to existing properties.

Conclusion

23. Whilst the recently announced supply side stimulus is to be welcomed, demonstrating as it does a commitment to improving housing supply, it is not sufficient. More explicit recognition of how more efficient links between demand and supply side subsidies might be fostered is required. In addition a clear definition of what affordable housing is and who it is for might enable better targeting of scarce public resources or at least a more explicit awareness of the trade-offs between shallow and deep housing subsidies.

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