

The Lyons Housing Review: BSHF response

About BSHF

The Building and Social Housing Foundation (BSHF) is an independent housing research charity committed to ensuring that everyone has access to decent and affordable housing, and holds Special Consultative Status with the United Nations Economic and Social Council.

Since 1994 BSHF has organised an annual series of in depth consultations at St George's House, Windsor Castle, on a range of housing issues. Notably, the consultations in June 2010 and May 2013 focused on *The Future of Housing*¹ and *Delivering Successful New Settlements*² respectively.

This submission is based on the outputs of these consultations and on original research undertaken by BSHF.

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1. The land market: unlocking land for housing development

How do we get much more residential land to market and what are the best mechanisms to achieve this?

1. Encourage better use of public land by requiring public bodies to reflect a cost in their accounts as if they were paying market rent for their land and buildings. This ‘shadow market rent’ mechanism would increase public sector bodies’ appreciation of the holding cost of those assets³.
2. Removing Treasury rules requiring government departments to obtain “market value” for the land they sell would encourage public bodies to take a broader view of social benefits when disposing of assets⁴.
3. HM Treasury should investigate proposals for tax deferral to encourage the release of large areas of land for development. Specifically, the government could provide roll-over relief relating to Inheritance Tax and Capital Gains Tax.⁵

How can we ensure that the land brought to market is available for development and not simply landbanked?

1. Use of fiscal disincentives for holding land without development could encourage its release.⁶ There are a number of international examples of such systems of taxing unimproved land, such as in Denmark and New Zealand⁷
2. Local authorities could also create loan guarantee schemes to support community based housing solutions which otherwise may struggle to gain access to finance.

How will a “use it or lose it” power for local authorities to discourage land banking be implemented?

Land banking could be discouraged where sites have planning permission by introducing a pure land value tax to encourage efficient use of the asset – sites with planning permission to be charged at their eventual use value.

Given the consensus that our current development industry is not capable of delivering the homes we need, how can we bring about greater capacity, competition and diversity?

Facilitate investor models of development, such as Build to Let, and explore ways of increasing competition among existing players and bringing new entrants to the market (such as Community-based housing organisations), as per the Calcutt Review.⁸

2. Investment in housing and associated infrastructure

What flexibilities through the HRA and in other areas could be granted to local authorities so they can build more homes?

1. HM Treasury could move to the internationally accepted General Government Financial Deficit (GGFD) standard. This would remove local authorities' trading activities, such as housing, from the national debt, significantly increasing their freedom to borrow against their housing assets to increase supply.⁹
2. HM Treasury could lift the cap on housing borrowing for local authorities to enable them to develop.

What are the barriers to greater private investment, particularly long-term investment? How much investment must we attract and through what mechanisms? What part can institutional investment play?

Institutional investment in private rent

The key barriers to institutional investment in private rented housing are perceived to be:

- Yield: lower rental returns (but greater capital appreciation), when compared with other property investment
- Insufficient opportunity to invest at scale
- Novelty risk: the lack of a track record for the sector
- Development risk: the uncertainty of building property
- Reputational risk: concern regarding the negative stereotypes associated with private renting, i.e. poor management and low quality accommodation
- Political risk: concern that the government will reintroduce rent controls, or in some other way constrain the sector
- Management difficulties: difficulty in finding suitable property managers and providing a management service in a way that does not adversely affect returns.

To overcome these challenges and attract institutional investment requires a sufficient portfolio of property (around 3,000 units¹⁰) of good quality, managed by an organisation with a proven track record. Some of the larger developing housing associations meet these criteria and some have already entered the market.

BSHF's report, *Building New Homes for Rent*, examines the provision of purpose-built private rented sector housing through private investment in greater detail.¹¹

Facilitating infrastructure

1. HM Treasury could provide long term loans or loan guarantees to offset front-loaded infrastructure costs and encourage inward investment and development.
2. Local Authorities could create revolving funds for infrastructure development and land purchase.

Additional investment solutions

To reduce risk-aversion in the housing market, Government could also explore (in addition to, or instead of Help to Buy):

- A hybrid Mortgage Indemnity Guarantee (MIG) and Mortgage Payment Protection Insurance (MPPI) product.¹² An MIG covers the lender if the mortgage fails and they repossess the property and do not recoup their losses. MPPI protects the borrower by covering their payments if they lose their job, for example.
- Sustainable Home Ownership Partnerships (SHOPs)¹³ where contributions insure against the 'designated' risks of unemployment, the failure of self-employment, accident or sickness. Three parties contribute: the borrower pays 50 per cent, and the lender and government pay 25 per cent each. This would be an alternative to the current SMI cover.
- It is strongly recommended that some form of subsidy is made available to increase the supply of social rented housing, to reduce pressure on the private rented sector and lower the national cost of housing benefit. While private finance may contribute to this, public finance is needed to ensure genuine long term affordability and to avoid social exclusion and deprivation.¹⁴

3. The role of a new generation of New Towns and Garden Cities

What contribution can a new generation of New Towns and Garden Cities make to a step-change in housebuilding?

1. The creation of new settlements has a track record of delivering housing at scale in the UK: two million people now live in New Towns and a further 80,000 live in Garden Cities.¹⁵
2. As well as offering the potential for a significant proportion of required housing growth, new settlements provide an opportunity to respond to some of the wider problems in the housing system and society, such as a growing and ageing population, climate change and weak economic growth.¹⁶

The importance of housing mix in terms of location, type and tenure, quality and affordability to households cannot be overemphasised. It is essential that this Review does not focus solely on numbers, but on these vital interrelated issues.

What are the barriers to, and solutions to ensure, their effective delivery in terms of:

Financing new settlements

Land and land value capture

Infrastructure

1. Each party should provide a costed commitment to the establishment of new settlements. This would build a clear mandate for meeting the need for housing and reassure financial backers and developers of the political will for the project.
2. HM Treasury should investigate proposals for tax deferral to encourage the release of large areas of land for development.
3. HM Treasury should ensure that sufficient finance is available for upfront development of infrastructure through loan guarantees or revolving funds.

What are the most effective and appropriate mechanisms/agencies for delivery?

1. The Department for Communities and Local Government should commission a full audit of previous new settlements in the UK. An in-depth analysis of earlier generations of new settlements will provide a wealth of information on the barriers and success factors for future developments on this scale.
2. The Government should oversee a national strategic spatial plan¹⁷ for England that incorporates housing, and work with stakeholders to communicate with the general public about housing issues on a national scale.
3. DCLG should endorse and actively promote *New Settlement Partnerships*¹⁸ as a means to achieve locally planned new settlements. In short New Settlement Partnerships are considered an alternative vehicle to post-war New Town Development Corporations. Resources should be made available for the training and support of communities to contribute to this process.
4. DCLG should work with local authorities to develop mechanisms and statutory guidelines for involving communities in planning beyond the local level.
5. Other tools may include Community Development Corporations¹⁹ and legislation to facilitate new towns, as suggested by the Town and Country Planning Association.²⁰

Further details can be found in BSHF's report, *Creating the Conditions for New Settlements in England*.²¹

How can a local authority or groups of authorities best be incentivised to come forward and identify locations capable of sustaining large scale sites for New Towns and Garden Cities?

A national strategic spatial plan would provide a geographical context for national aspirations by planning the spatial distribution of a range of development objectives.²²

4. A new “right to grow”

How can we ensure that Local Authorities that want to expand, but do not have the land on which to grant planning permission without cooperation from a neighbour, are able to do so?

What are the incentives, disincentives and requirements (and what is the correct mix) that should be used to ensure cooperation between Local Authorities in a joint-planning process in their areas?

1. DCLG should strengthen mechanisms supporting the Duty to Cooperate. Improved guidance should be issued that clarifies the requirements and incentivises closer working.
2. A regulating body with appropriate authority and powers to sanction could be one of a range of potential solutions to manage disagreements between local authorities. The Planning Inspectorate would appear to be well-placed to take on this role as they have the knowledge and expertise required. They could provide sanctions for those statutory organisations which have not consulted widely enough or worked constructively with other authorities. The Planning Inspectorate should receive adequate support and resources to take on this function in a timely manner, in order not to create additional delays.
3. A national strategic spatial plan would provide a geographical context for national aspirations by planning the spatial distribution of a range of development objectives.²³

5. Share the benefits of development with local communities

Is the current planning gain system fit for purpose and what alternatives exist?

How can we ensure that a larger share of the windfall gains from planning permission goes to local communities?

1. The current planning gain system is focused heavily on financial contributions. The efficiency and effectiveness of the negotiation process may benefit from greater community involvement from the outset, not solely regarding financial gain but in shaping good quality development. The introduction of New Settlement Partnerships²⁴, for example, is one potential option to facilitate this.
2. Introduce a land auction mechanism as proposed in the 2011 budget.
3. Consider the use of models such as constraint of land values to an agreed multiple of existing use value, or a fixed percentage of outturn sales value to increase the proportion of uplift available for local communities.²⁵

Government could also explore the potential for ‘homesteading’ or other community build approaches²⁶.

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- ¹ Diacon, D., Pattison, B., Strutt, J. and Vine, J. (2010) More Homes and Better Places: Solutions to address the scale of housing need www.bshf.org/published-information/publication.cfm?lang=00&thePubID=25E04994-15C5-F4C0-99170AE24B5B0A84
- ² McFarlane, M., Pearce, J., Ciaglia, A., Czischke, D. and Pattison, B. (2013) Creating the Conditions for New Settlements in England www.bshf.org/published-information/publication.cfm?lang=00&thePubID=DA16820B-D4AE-52C7-70495EE78A4F3D3C
- ³ Diacon, D., Pattison, B., Strutt, J. and Vine, J. (2010) More Homes and Better Places: Solutions to address the scale of housing need www.bshf.org/published-information/publication.cfm?lang=00&thePubID=25E04994-15C5-F4C0-99170AE24B5B0A84
- ⁴ Dobson, J. (2010) In the public interest? Community benefits from Ministry of Defence land disposals www.urbanpollinators.co.uk/wp-content/plugins/downloads-manager/upload/MOD%20disposals%20report%20composite.pdf
- ⁵ Adaption of Taxation of Chargeable Gains Act 1992 s247 and Inheritance Tax Act 1984 s104 Business Property Reliefs
- ⁶ International Monetary Fund (2013) United Kingdom: 2013 Article IV Consultation Concluding Statement of the Mission www.imf.org/external/np/ms/2013/052213.htm . There are a number of international examples of such systems of taxing unimproved land, such as in Denmark and New Zealand (Monk, S., Whitehead, C., Burgess, G. & Tang, C. (2013) International Review of Land Supply and Planning Systems www.jrf.org.uk/sites/files/jrf/land-supply-planning-full.pdf)
- ⁷ Monk, S., Whitehead, C., Burgess, G. & Tang, C. (2013) International Review of Land Supply and Planning Systems www.jrf.org.uk/sites/files/jrf/land-supply-planning-full.pdf
- ⁸ Callcutt, J. (2007) The Callcutt Review of Housebuilding Delivery http://webarchive.nationalarchives.gov.uk/20070130001032/http://callcuttreview.co.uk/downloads/callcuttreview_221107.pdf
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- ¹² Diacon, D., Pattison, B., Strutt, J. and Vine, J. (2011) More Homes and Better Places: Solutions to address the scale of housing need www.bshf.org/published-information/publication.cfm?lang=00&thePubID=25E04994-15C5-F4C0-99170AE24B5B0A84
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