BUILDING HOMES FOR BRITAIN

Providing the people of Britain with the homes they need.

A report by Fabian Hamilton MP

Thank you to ...

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Researcher and Editor: Simon Jose

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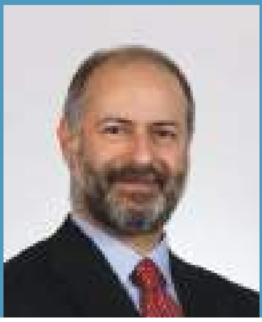


Foreword

by Fabian Hamilton MP

The need for a safe, secure and affordable home is shared by all human beings. In the United Kingdom we are failing to provide this for a whole generation of people. Most young people cannot hope to afford their own homes. The private rented sector forces them into short term contracts, and they often have to accept sub-standard housing and overcrowded conditions. Over recent decades, local authorities have lost the power to provide for the needs of citizens, and now even the housing associations, which have tried to fill the gap, are under threat from government proposals that will force them to sell off housing stock.

This report does not simply give an overview of the problem, as we are all too familiar with the ways in which poor housing exacerbates social problems such as ill health – especially amongst children – crime, inequality and lack of social cohesion. Instead it offers some solutions, and looks at the ways in which an integrated approach to housing can deliver the volume and quality of homes needed for the future.

Local authorities must be given the freedom to plan and create more homes. They are best placed to do this. However, they will offer only part of the solution. Their wealth of experience in housing needs to be brought together with government and institutional investment. The creation of Regional Public Housing Authorities could bring together local authorities as social housing providers. We also call for a National Housing Investment Bank. Elsewhere in Europe, such banks have proved effective at channelling investment into new housing development.

An integrated, locally planned and sustainable housebuilding program provides benefits that go way beyond simply building more homes. Improving the housing stock benefits the wider economy, boosting building and allied trades, and thus supports many small and medium sized enterprises. In addition, these offer training and apprenticeships that lead to local employment.

Twenty-first century housing must also respond to climate change. Good homes will reduce reliance on expensive energy. The Passive House model has been shown to reduce energy bills by up to eighty per cent, reducing harm to the environment and keeping money in the pockets of householders. Existing homes can be 're-greened'. By reducing VAT charged on refurbishing older and derelict property, we can help rejuvenate the housing stock.

Finally, what is needed is a co-ordinated and comprehensive plan for housing, offering innovative ways of planning, funding and building for the future. The election of a stronger Conservative government last May means that we will be forced to see further and deeper cuts to the system and an ever freer rein for the private rental sector. Whilst this will be disastrous for so many in our society, we must use the time to develop a coherent alternative and ensure that this vision can be realised under a future Labour Government.

Fabian Hamilton

FABIAN HAMILTON
Member of Parliament for Leeds North East

Content

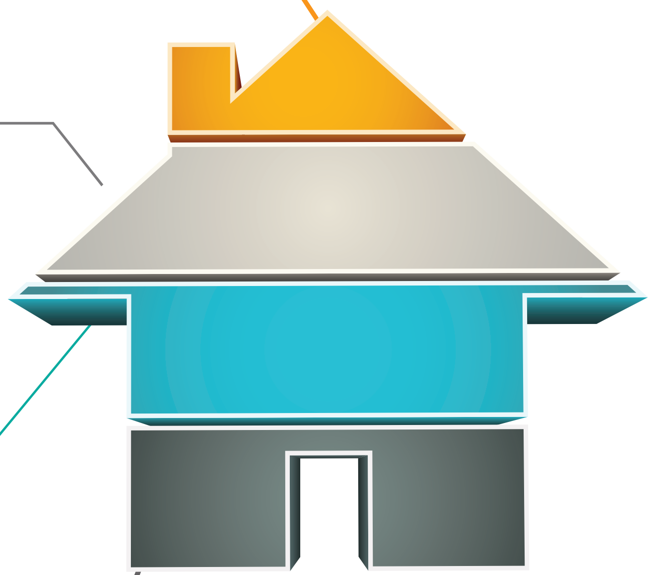
A NEW HOUSING MARKET

MORE NEW HOMES

- Give Local Authourities more freedom to create homes
- Establish Regional Public Housing Authorities
- Support practical alternatives to new build, such as renovation and retrofitting
- Support and encourage self-build and community-led housing

UNLOCK INVESTMENT

- Establish a National Housing Investment Bank
- Create the right environment to encourage institutional investors and pension funds to invest in residential housing
- Put housing at the heart of infrastructure spend



SUPPORT CONSTRUCTION

- Create support for SME builders
- Increase number of skilled workers in construction
- Close skills shortage and close the skills gap
- Increase apprenticeships

PEOPLE FIRST

- Create more mixed tenure developments
- Homes based on local demand
- Ensure homes are of exceptional quality for all tenures
- Create safe, sustainable and energy efficient homes for everyone
- Ensure safety and well being is at the heart of all developments

THE BIGGER PICTURE

- House building has a major multiplier effect
- Low import factor leads to less leakage of money
- Increased economic output and GDP
- Reduction of poverty and social blight
- Increased employment
- Increased numbers in training and apprenticeship
- Expansion of struggling SME build sector
- Expansion of various allied trades sectors
- Potential to kick start wider economy

1 A Dysfunctional System

We need to transform housing in Britain and to do so we have to address the simple fact that we are neither adapting to demand or keeping up with need. Removing the right of councils to build houses has been largely responsible for this lack of supply and private builders and housing associations have not filled that gap.

> *Britain needs a revolution in the scale, quality and funding of home building if we are to have any hope of meeting the housing needs of our growing and changing population.*
> *(McDonald, 2012)*

There is now a near unanimous consensus from the private sector, think tanks and housing professionals that housing in the UK is at a crisis point.[1] Talk of a desperate housing shortage, serious challenges and the longevity of the crisis all signal a failed housing market that requires immediate action and an acceptance that there is no quick fix.

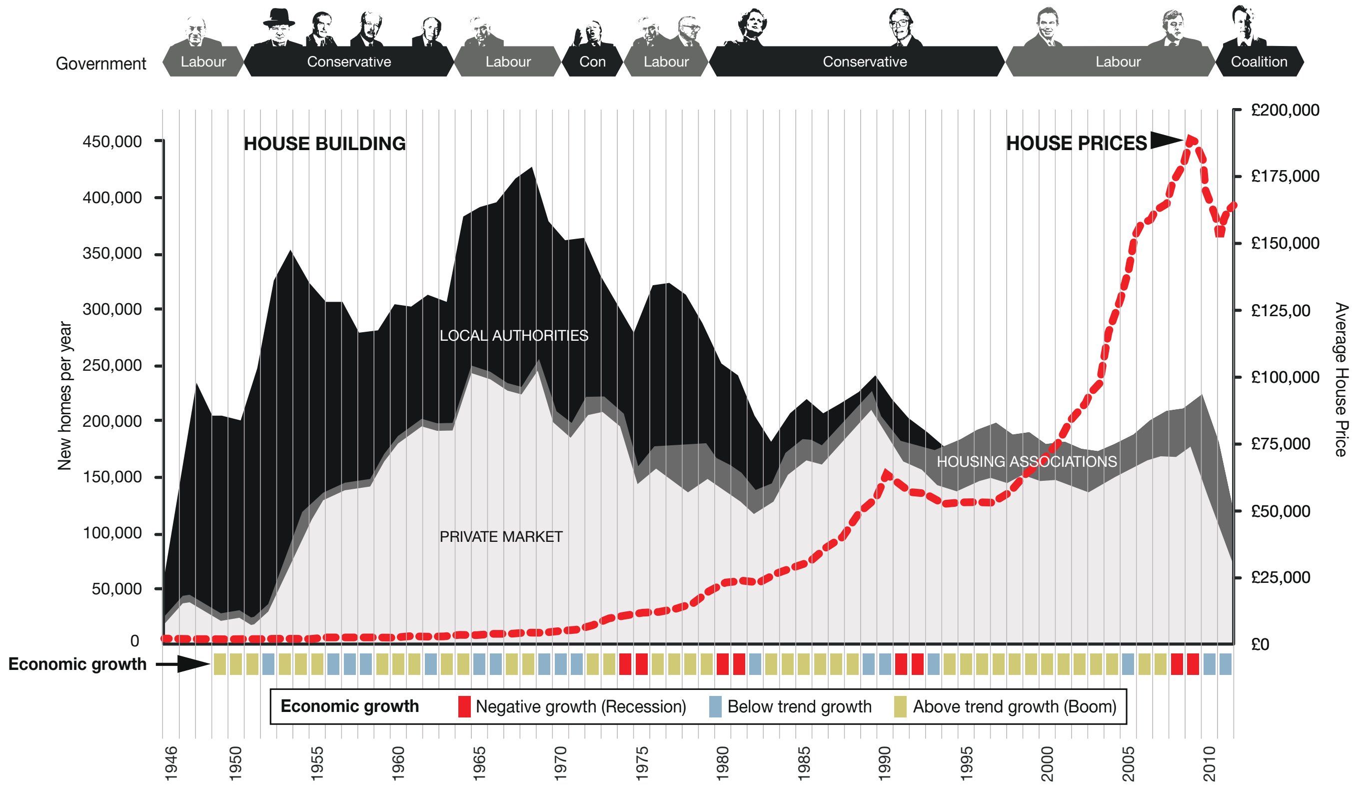
The Building and Social Housing Foundation (BSHF) cite five areas of dysfunction such as increasing unaffordability and unsuitability of the housing stock.[2] These systematic problems require comprehensive and coherent solutions. The ever increasing demand for housing and the asphyxiated supply means that tinkering at the edges is tantamount to doing nothing and, accepting that there are "deep and complex" problems,[3] requires us to see the precarious state of housing for what it really is, a market in crisis.

How did we get here?

Figure 1 shows the historical fall in housebuilding and it is clear from this that one of the major contributory factors towards the reduction in housing supply was the decision to remove local

> **"The UK housing system is large and complex, being intrinsically linked to almost every major area of government policy. It has become increasingly flawed and now has significant dysfunctional components."**
>
> **Diane Diacon, Director, BSHF**

Figure 1: House Building, House Prices and Growth in England



councils, for decades a major provider, from the mix. Councils are slowly beginning to build again but at nowhere near the volumes needed.

> *The Right to Buy, established by the Thatcher government in 1980, was lauded as a bold political move by many but instead of being a solution, the policy simply caused a major market distortion Right to Buy [...] created an astonishing leak of state money – taxpayers' money, if you like to think of it that way – into the hands of a rentier class.*
>
> *[...] Before Right to Buy, the government spent a pound on building homes for every pound it spent on rent subsidies. Now, for every pound it spends on housing benefit, it puts five pence towards building. The Housing Disaster · LRB 9 January 2014 (Meek, 2014)*

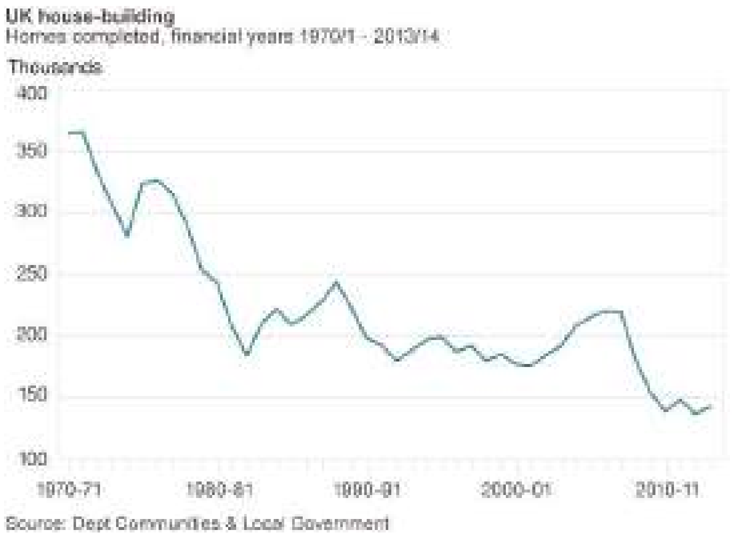
Meek's analysis is backed up by detailed studies in Scotland which found Right to Buy houses, removed from council stock, ended up in the private rented sector, which simply redirected funds away from councils to private sector landlords.

> *Another way to think about this is to look at these proportions in relation to overall Local Housing Authority expenditure. The JRF Housing Review 2011/12 gives the value of housing benefit support to the private rented sector of £7.6bn per year. If the 43 per cent of claims made from ex-right to buy stock in Renfrewshire is reflected in this overall cost to the Treasury then we are looking at an annual level of support to ex-right to buy stock of over £3bn per year with the additional cost over and above council rent levels possibly approaching £2bn per year (given that Local Housing Authority dependent households would probably be eligible for housing benefit in council stock). (Sprigings & Smith, 2012)*

It is this shift from investment in housing to subsidising the private rented class that reflects a much wider political attitude towards fiscal policy, of which housing cannot be separated.

> *Perhaps the most egregious consequence of Right to Buy and an abuse of the system has been the recycling of former council homes into the private rented sector. [...] This can result in the absurd situation of councils having to rent back their old stock from new private landlords at much higher rents in order to fulfill their statutory duties. The increased rental costs are then usually met by the benefits system. (London Assembly Housing Committee, 2013)*

The reduction in supply has been met in the other direction with increased demand and the light touch, or hands-off, approach to housing assumes the private sector will increase supply and fill this gap. This has not happened and is unlikely ever to do so.



Estimates of how many new homes we need are determined by population growth and shifts in demographics, such as more single and retired people. Around 206,000 to 282,000 additional households will be created by 2025, these could be families, single people or retired couples and there are quite distinct regional and local variations. However, there has been no significant increase in the supply of housing to match this demand.

> *The average rate of net additions to the dwelling stock in England over the last two decades was 160,000 per year. If additions continue at this rate, demand will outstrip supply by 750,000 by 2025, equivalent to the combined current housing demand of Birmingham, Liverpool and Newcastle. (Schmuecker 2011)*

There is the potential, given the volatility of the present housing market, and if house prices drop significantly, that there will be an even steeper decline in supply as the private sector reduces output.

> *….. successive governments have failed to get us building at the rate we once did, and no party has yet presented a credible plan to fill that gap. (Jefferys et al., 2014)*

Cost of failure

There is near endemic failure within the whole housing system. Unaffordable rents and high house prices, young people forced to live with their parents and many existing homes not fit for purpose. This pressure from all sides has created an unpalatable and negative experience for many people. The Chartered Institute of Housing (CIH) and the National Housing Federation stated;

> *… the costs of failure are being felt by more and more people – since May 2010 homelessness has risen, and the problem of homeless families stuck in unsuitable B&B's for more than six weeks has returned, while private rents and the number of Housing Benefit claimants are up, putting a strain on hard pressed families' budgets and the welfare bill alike. At best, the numbers suggest that housing in England is bumping along the bottom. (Andy Tate, Toby Lloyd, Sian Sankey, Tristan Carlyon, George Marshall, Peter Jefferys, 2012)*

This bumping along the bottom is indicative of the failure of successive governments to adopt serious long term solutions, damaging people's lives and the wider economy.

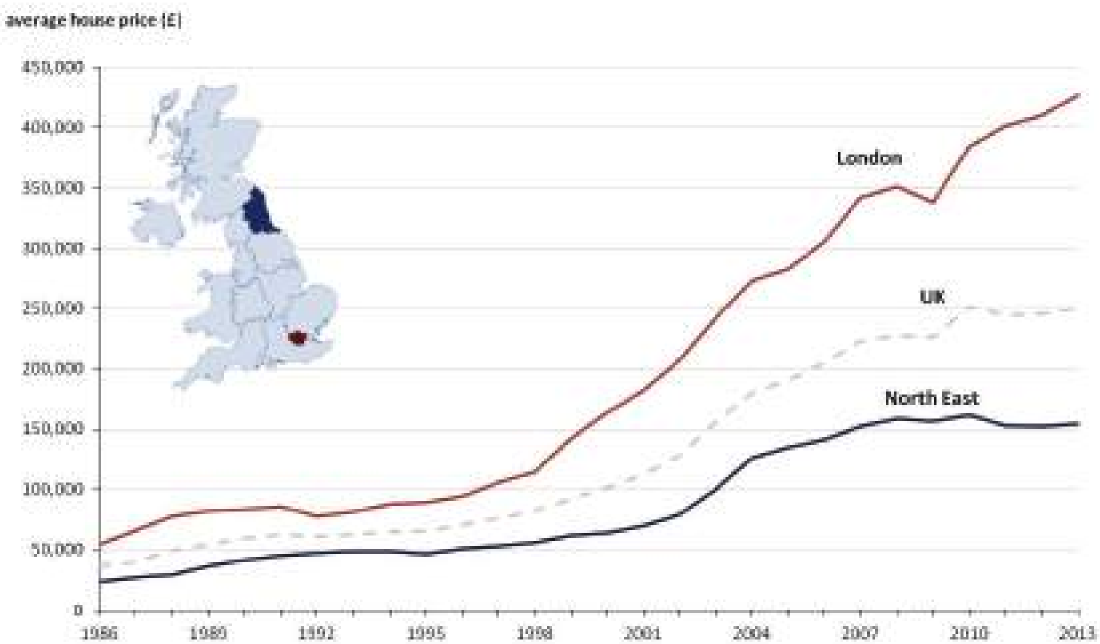
Often policy has been content with tinkering with the demand side by trying to get more people onto the housing property ladder, via schemes such as Help to Buy, but this is a short term fix targeting the symptom not the cause.

> *Given the current housing shortage and growth in the number of households, focusing on the demand side alone would exacerbate the wider affordability problem, and could push households into more marginal housing, resulting in worse social and economic outcomes (e.g. poor health due to overcrowding). (Frontier Economics, 2014)*

With house prices to wages ratios now hitting up to ten times annual salary in many parts of Britain [4] many people cannot afford to buy their own homes even if they wanted to.

This increasing unaffordabililty of homes, to both buy and rent is exacerbated by the gap between pay and house prices. House price inflation is likely to outstrip income growth for some time yet and even if it freezes immediately most houses will cost over six or seven time average salary, effectively excluding large numbers of people from home ownership. This volatility in the housing market has arisen due to a lack of a co-ordinated housing policy and we need to reverse that trend and we need to do it now.

> *…. that vision – rising levels of home ownership – must now come under scrutiny, and with it the vision itself. This is not to argue against home ownership, but it is to recognise that, like all historical phenomena, owner-occupation levels are not fixed*



> *but alter – as underlying social and economic factors themselves develop.*
> *(Heywood, 2011)*

Not addressing the seriousness and scale of the housing problem has, for years, been part of policy failure and now is the time for radical and bold moves and a clear-headed analysis of all solutions, including a rethink and restructuring of the rented sector. We also need to decide how we can deliver these homes at the speed and scale needed.

> *A strategic housing policy needs suitable framing within a long-term policy vision rather than tackling crises as they arise.*
> *(Gibb, Maclennan, & Stephens, 2013)*

Not having enough 'fit for purpose' homes creates adverse social impact and reflects the ubiquitous influence housing has on people's lives. Poor housing impacts on health and well-being, feelings of safety and community, stability and a sense of belonging.

This report is an attempt to pull these elements together in a workable, cohesive framework that will create a stable and sustainable housing market that not only works but puts the people of Britain first.

KEY POINTS AND RECOMMENDATIONS

- **Not enough houses being built year on year**
- **A dysfunctional and volatile system needs overhauling**
- **Hands-off approach has failed**
- **Too much emphasis on the demand side of housing**
- **Solutions need to be comprehensive by tackling all problems and barriers to the supply side**
- **Integrated not ad hoc approach needed**

2

Housing for People not Profit

One of the problems of modern housing is that it has become so unresponsive to need that supply tends to be aimed at where the greatest profit is. Therefore, those that can neither afford a mortgage or the market rent are invariably stuck in poor housing, living with parents or have to wait years for a local council or housing association to house them. Good quality homes should not be based on income but need.

> *Of course, there are many people who are not in the same boat when it comes to housing need; for some there is little or no struggle. But where people are struggling we should resist the urge to think of different types of struggle for different 'types' (tenures) of household. This thinking has constrained the politics of housing in Britain for decades and, at worst, has sustained a housing policy that has literally segregated many social housing tenants from mainstream society and the opportunities it brings. (Gregory, 2011)*

A More Equal Mix

There should be the framework that allows people to stay in their home if their circumstances change, as building housing based on income simply creates a form of social apartheid. Addressing the complexity of housing need requires that we move away from a simplified split tenure model of social and affordable housing versus all other households. Increased prosperity for everyone should be a political goal for all parties, the result being an overall reduction in state support via social housing and housing benefit.

We must also make it easier for people to establish their homes and not have to move when their income changes, but retain a degree of flexibility in line with their circumstances.

> **"There is a great deal of disconnect when dealing with housing. Policy makers and politicians often tackle types and tenures such as homeowners, first time buyers, social housing, sheltered housing, whereas there needs to be much more joined up thinking and a more holistic approach.**
>
> **(Gregory, 2011)"**

> *We need to pursue housing mix with real conviction. This means integrating public housing with private housing, not just in special project 'mixed communities', but across the full range of our housing stock. (Gregory, 2009)*

By creating a bigger and better regulated rented sector, a more stable and fairer allocation of housing can emerge. There is evidence that increasing the supply of homes stabilises rents and secure tenancies, at fair and affordable prices, can create a substantial increase in the quality of living spaces across the country.

Mixed tenure and "pepper pot" tenancies where people paying as private renters mix with people whose rent is subsidised is a much fairer and egalitarian system.

> *Expanding the programme of social housing, building houses as well as flats, and building in mixed tenure and mixed income areas would enable access to social housing to be widened again to include more working households and reduce the stigmatising both of the tenure and its occupants. (Bowie, 2013)*

> *In other parts of Europe, access to social housing is far less concentrated on those in greatest need, with a much wider range of income groups eligible, and as a result the sector as a whole is less stigmatised, and its composition less concentrated on the poorest. (Hills, John 2007)*

We have drifted away from creating homes for people and assessing their needs and instead concentrated on creating an environment of getting an ever dwindling pool of people to sign up to mortgages. Housing supply has to shift towards meeting the complexity of existing demand, be they young people, retired couples, sole occupants or families. Short-term tenancies, high rents and ever increasing house prices are not only unhealthy but impossible to maintain and this situation continues to contribute towards an unstable and volatile housing market. If we are to move forward we must reassess and rethink our housing strategy.

Housing for People

Instead of a rather disengaged housing market guiding policy we need to go back to basics and engage and consult with the very people we are trying to house. To meet those demands and engage with the local community there needs to be widespread adoption of Neighbourhood Planning Forums and expansion of the use of Housing Market Assessments, or similar, as used by organisations such as Re'new in Leeds. These joint consultation documents are prepared at the behest of the local authority to determine the housing needs in a specific location.

To determine housing need we need to analyse data sets and statistics to ensure that the correct planning decisions are made but not at the expense of public consultation. People often feel excluded from local decision making, especially when it comes to planning. However, it is rarely apathy that prevents meaningful involvement but a lack of understanding of the planning process and also a feeling, expressed by many, that "my views don't count".

Very few people want to live in high-rise flats but planners in the 50's and 60's made high-rise the default setting. Telling people where to live without any meaningful engagement has been disastrous and to allow that disconnect, between planners and the people, to re-emerge, as it is doing in London, is not appropriate in a modern democracy. People need to be able to influence and shape where they live. This has to be at the core of housing policy and all those involved in housing development need to take public engagement seriously and not just treat it as a box-ticking exercise or a theoretical aspiration. Democractic engagement is integral to a successful housing policy.

> *Creating places goes beyond merely creating spaces - it means designing buildings that cater to the needs of residents, supporting quality public spaces and providing opportunities for communities to thrive. [...] People prefer streets, blocks and squares. Mixed use and mixed communities are valued by most. (Prince's Foundation, 2014)*

A sense of place and belonging is something we should promote for all citizens. However, redevelopment can sometimes translate into social cleansing with communities replaced with property investment portfolios. Citizens should never be viewed as obstacles to development, especially in areas of regeneration and a crucial element is the 'right to remain'. Unfortunately, a number of housing developments have simply fuelled criticism that they are land grabs and represent social cleansing masquerading as regeneration.

This lack of meaningful engagement from planners and developers needs to be addressed. Many local authorities are performing excellent work within the sphere of community engagement but a significant minority are not.

Quality and Space

Part of engaging with people is to acknowledge that they need a level of quality in the places they live. We need to stop forcing people into smaller and smaller spaces and to also provide adequate heating and lighting that is as energy efficient and sustainable as possible. There needs also to be an awareness that green spaces are a contributory factor to good health, be they gardens or communal areas. Whilst people value privacy they also value a sense of community, belonging and safety. These should not be treated as abstract concepts but as a real part of the ongoing discussion around housing regeneration and development. There is ample evidence that a green environment carries real social and economic benefits and is not just a "hippy" ideal.

> *Our research has identified the qualities that people cherish in the places they want to live: walkability, street-based housing, well-defined public and private green spaces and a sense of local identity. These factors produce neighbourhoods that are desirable, supported and sustainable and cultivate a sense of place. (Prince's Foundation, 2014)*

A home is more than just four walls and needs to be viewed as an integral part of the environment, contributing, on many levels, to a healthy population.

> *The British Medical Journal recently published the results of a pan-European study investigating the connection between greenery and obesity. [...] "For respondents whose residential environment contains high levels of greenery, the likelihood of being more physically active is more than three times as high, and the likelihood of being overweight and obese is about 40 per cent less. Conversely, for respondents whose residential environment contained high levels of 'incivilities', the likelihood of being more physically active is about 50 per cent less, and the likelihood of being overweight or obese is about 50 per cent higher". The article concluded: "Higher levels of greenery [...] in residential environments are associated with being physically active and not being overweight or obese; efforts to promote activity and reduce weight should take into account environmental facilitators and barriers." (Evans & Hartwich, 2006)*

There are many factors that make a house a home and key to this is space, an issue that has come under increasing pressure as developers and planners try to squeeze the maximum number of units out of valuable land. In the 50's and 60's there was a drive to put people in tower blocks when most people wanted to live in houses. When people exercise a choice over housing they tend to demand a big house, with a garden, access to amenities and located in a safe and welcoming neighbourhood. Often this choice is determined by income and there has tended to be a quality of life trade-off for the less well off. This lack of choice, for an increasingly significant number of people, is not a healthy situation. We need to adopt a much more European approach to space as people in the UK live in smaller houses and flats than in most other developed countries.

Research found that new homes in the UK not only appeared to be shrinking, but were also the smallest in Western Europe. Consumers in Ireland could expect new homes to be 15% bigger, in the Netherlands they were 53% bigger and in Denmark, the average newly built home was 80% bigger than in the UK. (Roberts-Hughes, Fox, Scott-Marshall, & Staunton, 2011)

Planning and development needs to go beyond "should we build here" to also ask "what should we build". It is imperative that we engage, on a meaningful basis, with local people and all those involved in the development of housing, and this should be part of an ongoing process to ensure planning is not just something local and national government do, or are perceived to do, behind closed doors.

There are serious social issues around housing that require a much more in depth discussion than we have space for here. Suffice to say though that housing policy can play its part in reducing some of these negative impacts. Energy efficiencies, especially in old housing stock, can significantly reduce the problem of leaky homes and, despite some recent improvement, the UK's housing stock remains "woefully inefficient" compared to other European countries.[1]

Where we live and how we live is fundamental to our well-being and the type of housing we need to build demands our full and urgent attention. Homes contribute to the state of the nation and we are failing to address a basic premise in housing policy that it should be tailored to meet the needs of the people. The state of our housing has become fragmented with decisions based on short term financial gain or on political expedience and not on the collective needs of the citizens of Britain. We need a vision that heralds in a fundamental shift towards quality housing that is affordable, inclusive and sustainable.

KEY POINTS AND RECOMMENDATIONS

- **Put people at the centre of housing policy**
- **Create more mixed tenure developments**
- **New homes need to be based on local demand**
- **Establish a meaningful and transparent consulation processes**
- **Create homes with adequate space**
- **Create energy efficient homes**
- **Ensure safety and well being is at the heart of all developments**

3 Delivery Organisations

The private sector created around 77,000 homes in 2013, with housing associations and local authorities contributing around 22,400 and self-build 7,500. This is nowhere near the 200,000 plus needed each year and as such we need to address where this major increase in supply, which is so desperately needed, will come from.

> *The gap between housing supply and projected new household formation is still a very wide one. [...] The massive mismatch between household growth and housing output suggests that housing shortages will increasingly prevent people from forming households and lead to greater sharing and overcrowding. (Wilcox & Perry, 2013)*

Over the years the erosion of local authorities' ability to deliver homes has resulted in the private sector creating more homes than councils, housing associations and self-build put together. This long term fall in the number of homes built requires an acceptance that the existing market mechanisms for delivering an adequate supply of housing has failed.

A major leap forward would be to expand the capacity of local authorities and set up new structures to facilitate this.

When we talk of building homes we invariably visualise new houses or flats emerging from an empty plot of land. However, we also need to address problems associated with existing housing stock. Properties that have fallen into disrepair, many empty or derelict, with some areas blighted by whole streets boarded up. Whilst there is a need to increase the supply of new homes this should not preclude a strategy to improve existing housing stock.

> **“The biggest return on investment would be to invest directly in building new Council Housing.**
>
> **Written evidence to Communities and Local Government Committee from Oxford City Council (LGCF, 2012)”**

Housing Associations

Housing associations, originally part of a Victorian philanthropy movement, have contributed to the provision of many high quality social and affordable homes and they assumed a more direct role in "social housing" when they took on the transfer of council housing stock.

> *Many housing associations are embedded in their local community; they are also local employers and investors and often underpin social and property development in these areas. They have a critical role to play in initiating, supporting and accelerating a range of programmes which can facilitate regeneration. (Court, 2014)*

Whilst accepting their "critical" role there are simply not enough housing associations to deliver housing on the scale needed. The Joseph Rowntree Foundation (JRF) have studied the capacity of smaller housing associations and their potential to grow.

> *Even where there is clear financial capacity available to an association, a lack of organisational capacity – the particular skills, expertise, contacts and experience essential to delivery of housing development – may limit its ability to fully exploit that capacity. (Lupton & McRoberts, 2014)*

> *… the hole left by local authorities ceasing to build has only partially been filled by the housing associations' programme.*
> *(Housing Commission, 2010)*

Many housing associations have shifted the focus away from renting to "social" tenants to developing large parts of their portfolio for sale to cross subsidise other projects. One consequence is that housing associations have diversified furiously. The Gentoo Group, created out of the transfer of Sunderland's council houses in 2001, has gone into construction, facilities management, solar panels, bulletproof glass, train windows and a third of Gentoo's £175 million turnover is now unrelated to social housing.[1]

There are other examples of housing associations moving away from their original model such as Cosmopolitan having to be rescued by Sanctuary as they made a disastrous foray into the student housing business.

> *The idea is that housing associations and other social housing providers will provide more units for less public funding by raising finance from other sources. However, there are concerns regarding the speed at which they will be able to change their business model, particularly considering that credit conditions are still tight and thus raising private finance is likely to be difficult. (FMB, 2011)*

There are 2.7 million homes under housing association ownership or management with 96% of these owned by 300 providers. It is these largest housing associations that have seen their business model shift dramatically with the combined surplus of these biggest housing association's hitting £1.9bn in 2012/13.

It is clear that "The sector is experiencing major changes to its core financial model" [2] seeing income shift due to a reduction in government grants (down 63% since 2010) and welfare reforms impacting housing benefit, as well as a reduction in loans and re-investment due to falling credit scores, limited availability of finance and increased surpluses. The increase in the surplus in one year of two of the big providers, West Mercia Housing Group and Sanctuary Trust, has been 226% and 203% respectively

The increased surplus, or retention of profits, is perceived by many of the larger housing associations as a repositioning in terms of accepting they will need to be increasingly self-financing. However, this creates a problem in that to borrow more at a decent rate of interest they have to show lenders higher profits, meaning they have to retain a higher surplus, causing them to borrow more. Many housing associations see this as a move they had to make to plug a gap in funding. As Keith Exford, chief executive of Affinity Sutton stated in Inside Housing; "We're borrowing more to meet the gap caused by the reduction in public funding - we're heavily indebted and we will become more indebted." [3]

This does not help the people that housing associations were set up to help, those in social need on low incomes. A paradox has been created where housing associations have shifted towards a profit-driven leveraged model at the expense of investing in tenants and housing stock.

To an extent many housing associations have been forced into this position because of external pressures.

It is important that we encourage the best housing associations to continue what they are doing, however, the capacity is simply not there to provide the quantitative jump in housing. That is not to say that they should be left out of the equation, far from it. Housing associations have an important role to play, and, with many smaller housing associations having close connections with the community in which they operate, they should be encouraged to pursue their original socially beneficial objectives.

Local Authorities/Councils – The Sleeping Giant

In Britain, council housing has for years been stigmatised as the poor relative of the private "build to sell" sector whilst in many other European countries houses are regularly built, rented and sold by municipal authorities.

> *Instead of playing a direct strategic role in shaping local housing supply, local authorities have been pushed towards cross-subsidising affordable housing through Section 106 agreements, a planning tool designed for the mitigation of the negative impacts of new development. This has made the role of local authorities almost entirely dependent on new private development, effectively precluding the production of new affordable homes in periods or areas of low private development.*
> *(Jefferys et al., 2014)*

If councils had continued to provide housing we would not be in the dire situation we now find ourselves. To increase the housing supply we need to invest directly in new council housing, and evidence shows that this would create a substantial return on investment in jobs, infrastructure, growth and social mobility.[4]

Evidence collected by the Local Government Association's Housing Commission, chaired by Lord Best, demonstrates that it is cheaper for local authorities to build new build properties, compared to the costs for housing associations.

> *The average cost per property (in England) if built by a Housing Association is £73,000, while for a local authority it is £63,887. (LGCF, 2012)*

Cost, whilst a major factor, is not the only advantage councils have as delivery organisations. Their geographical reach, democratic accountability, multi-agency approach and their access to land puts them in pole position to take a more central role in the supply of housing. It is with good reason that Shelter call local authorities the "sleeping giant" of housing delivery.[5]

> *Local authorities are now in a strong position to act as a counter cyclical delivery agents, as - unlike private developers and housing associations – they have low housing debt profiles and strong income streams. Local authorities also have access to land and greater control over planning decisions, enabling more innovative delivery approaches than centralised structures tend to support.*
> *On the face of it, councils have great potential to re-emerge as contributors to new housing supply.*
> *(Griffith & Jefferys, 2013)*

There has been little political will to utilise this "great potential" of the "sleeping giant" with government restricting council activity to the Housing Revenue Account (HRA). However, even with the HRA cap lifted, which 75% of councils agree should be done, the volume of house building would not be adequate to meet demand. Even if councils used existing borrowing rules, whilst capacity would increase, they would still fall significantly short of the number of homes needed.[6]

Councils are compromised from two directions. One obstacle, as we have discussed above, is the ringfencing of the HRA and the effective restriction on investment. The other, as we have also highlighted, is the Right to Buy, which has effectively transferred wealth from elected councils to the private sector. This has created a political and operational climate where councils modest aspirations simply reflect reality.

Estimates of new houses will remain low until there are clear signals from politicians that there will be a fundamental shift in policy to bring councils back to the fore. We also need to tackle how local authorities are prevented from accessing the necessary investment to build the homes we need. The call for reform of council borrowing has come from many quarters.[7]

> *Government should also review its approach to the classification of local authorities' housing debt. This debt is currently capped for councils despite the self-financing brought in by reforms to the housing revenue account (HRA). A major problem is that governments in the UK have traditionally centred their fiscal policies on the public sector borrowing*

requirement (PSBR). If they instead adopted fiscal rules and accounting practices based on general government borrowing and debt (as happens elsewhere in Europe), local authority house building would be removed from the targeted fiscal measure. (Hull & Cooke, 2012)

Unlike our European counterparts, we struggle with an inconsistent and unplanned investment strategy for housing. Part of this inconsistency revolves around how debt is measured within the UK as our definition and measurement of public sector debt differs from all other European countries.[8]

The broad case for change is that moving towards international debt measures would bring the UK into line with other countries and would not affect the way our debt is viewed internationally. (Perry, 2013)

In support of this potential change, four national housing bodies and the Local Government Association have made the case for new borrowing rules that would build on the self-financing reform. Since the report came out in November 2012 it has received considerable support and has been welcomed by a range of local authorities across the political spectrum.[9]

We have seen that local authorities, working in partnership, have the potential to make a significant contribution to the financing of new housing supply. There is, however, a risk that local government will not be able to make the most of this potential because of constraints placed upon it by central government. [...] We urge the Government to give councils the freedoms they need to provide finance for new housing supply. (LGCF, 2012)

Tempting councils with new targets whilst keeping them on the leash is plainly counterproductive. Talk of removing the HRA cap whilst restricting council house building in other areas will mean any new housing policy will be doomed to failure. Access to finance and additional resources for councils to expand their ability and capacity has to be part of the solution to the housing crisis. One of these resources is land.

If local authorities are able to show that they have land which is only accessible if they develop it themselves (or are partners in its development), this may be decisive in itself. This could be the case where releasing the land means reconfiguring an estate, for example, and residents would insist on the authority having a decisive role and/or they would want to remain secure tenants of the authority. Estate redevelopments have often been delayed or foundered because of the need to also dispose of the land to an association (and in some cases a private developer as well). (Hall & Perry, 2009)

Looking at innovative ways to use land as an instrument to increase the supply of housing and to reduce the long term cost of renting has significant potential. Land set aside for housing development that is not being built on is a wasted asset. There has to be a balance between local authorities maximising revenues and using land in a socially and economically productive way. Selling land off to property developers, or non-housing developers, such as supermarkets, needs to be seen as one of many options and not, as often is the case, the only option. Land is valuable, as both a financial and social asset and this needs to be taken into account when considering removing it permanently from the balance sheet of local authorities.

As we have shown, councils have been reduced to managing private developments through the release and sale of land and building, in some cases, a limited number of homes dependent on ad hoc housing programmes, such as the Affordable Housing Programme. This ensures councils never develop any capacity of their own and, by extension, fail to develop their own models to meet demand.

To enable local authorities to respond to local need there needs to be an integrated approach to housing. Using land they own, access to low-cost borrowing and investment, and using economies of scale to deliver cost reduction in construction are all factors in creating a sustainable long-term housing model.

We must also look at increasing efficiencies on the build side such as the application of Building Information Modelling (BIM), off-site frame build, and sustainable and energy efficient dwellings. Many build companies are already investing in these areas and an increasing number of local authorities have adopted and promoted innovation in housing, such as Passive House and other sustainable initiatives. Furthermore, when projects are complete, on-site management, local firms bidding to supply repairs and intelligent management of properties are just some of the areas that would further reduce costs and leakage.

Another option is the establishment of direct labour organisations, to take on the maintenance and repair of housing. This model has been adopted by a number of housing organisations such as the Bournville Village Trust and Shepherds Bush Housing Group. This "in-house" approach was previously the default model for local authorities and is now gaining traction as a more economically viable option to sub-contracting or paying PFI style service fees.

By adopting more creative housing models at each step, from planning to build to long-term management, then the target of low rents coupled with desirable and affordable homes can become a reality.

Self–Build and Community-Led Housing

Whilst self-build and community-led housing is not a major sector in the market, there is a real demand from individuals and groups who want to explore this as an option. In the UK, self, or custom build, is embryonic in terms of the number of houses built but there is an argument that, as a sector, it can contribute to a more democratic process.

> *Self-build housing is housing built by individuals or groups of individuals for their own use. It typically involves individuals commissioning the construction of a new house from a builder, contractor or package company or, in a modest number of cases, physically building a house for themselves. It also includes community-led housing projects who build mostly affordable homes for the benefit of the community, either individually or in cooperation with a builder or housing provider. Community groups are likely to be co-operatives, community land trusts, community interest companies or cohousing groups. Residential refurbishment projects involving the conversion or regeneration of disused buildings are also part of self-build housing. (NaSBA, 2011)*

The proportion of homes delivered by self-build is over 50% in Canada, Finland, Switzerland, Ireland, France, Germany, Norway, Sweden, Italy and Belgium with Austria topping the chart at over 80%. In the UK that figure is 7-10%, although it is a popular option with over 53% of people stating they would like to build their own home given the opportunity.[10]

There is a great deal of potential demand based on the interest in self-build and its success in many other countries. However, a lack of information, reticence from both central and local government to see community build as an option and an absence of a policy framework, amongst many other factors, has created a rather uncoordinated negative climate around community-led housing.

A much clearer, practical approach is needed that takes into account the unique approach of non "housing" individuals and groups attempting to build their own homes.

> *Two important themes emerged from our analysis of the impact of the planning regime on self-builders. Firstly, that national and local planning policy, as it now stands, does little to encourage self-build housing. Secondly, that the planning process is overly complex, risk averse and has become far too bureaucratic. [...] we feel strongly that the self-builder is more disadvantaged than the typical professional because he or she, almost by definition, often knows little of the procedures beforehand, and needless time and money gets wasted as they struggle to negotiate sensible outcomes. (NaSBA, 2011)*

Whilst government has been slow to adopt self-build as a meaningful option, there is a grassroots movement creating their own structures and strategies intent on exercising their right to build. We should encourage this process as there are significant advantages to community-led housing arising from participation in the planning process, and the idea that you can actively create your own decent, secure and affordable living space can only empower people and create a sense of community. There is also the potential to grow this sector.[11]

> *Given the current very low level of self-building in England, compared to most other developed countries [...], creating a space in which self-build could flourish should add an extra stream of housing numbers to supplement England's overall housing output. (Griffith & Jefferys, 2013)*

For self-build to take on the prominence it has in many other countries two major obstacles have to be overcome: one is access to affordable building plots and the other is access to finance. Invariably those wanting to self-build have to pay up front for land. This is of particular concern when large developers are regularly sold land that is paid for post-development when the houses they have built have been sold. No such structure exists for the ordinary citizen.

The positive attitude to self-build in many other countries is something that could be adopted in Britain. For example, in many German cities and towns, self-build has expanded and "Building Groups" (Baugruppe) have emerged in the last few years as a real force in the urban housing market.

> *Some 190,000 dwellings have been constructed in Berlin by self-build and custom-build groups. What is fascinating in Berlin is that the municipality—the local council or the Berlin senate— actively seeks to help. For example, a group of parents will come together and say to the local council that they want to build a block of apartments with a garden in the middle and a school. (Evidence at Adjournment debate quoted in Wilson & Heath, 2014)*

Although many other countries have sturdy and well developed self-build, community-led housing organisations and policies some UK based organisations are setting up similar groups and models. One such model is Community Land Trusts.

Community Land Trusts

A Community Land Trust (CLT) is a community-led organisation that provides land and buildings to meet the long term needs of its community. It offers a way to provide permanently affordable housing as well as fulfilling other community needs, like meeting spaces, workspaces, shops, pubs, farms and gardens. It holds these assets in trust, so the community benefits forever. A defining aspect of CLTs is to provide affordable homes to those with low or average incomes and keep them affordable. There have been a wide range of schemes from small to large scale and, although predominately rural at present more inner city and urban schemes are taking hold.[12]

There needs to be a level playing field, with other developers, where land is made available to community-led housing groups and access to finance, from inception to completion, is available and not via a hotch potch of grants and loans. There also needs to be a wider recognition of the potential value in community-led housing, an institutional framework, and the political will to accept that this is a scalable option.

To enable this sector to be more successful local authorities should set aside a percentage of land for self-build and community-led housing. This would remove the first barrier of land availability and actively engage councils with local people. There also needs to be clear and honest advice made available about the pros and cons of self-build and a much more robust financial model.

KEY POINTS AND RECOMMENDATIONS

- **Councils need to become central to delivering the homes we need**
- **Remove the restrictions on the number of houses councils can build**
- **Remove Housing Revenue Account cap**
- **Allow councils more financial freedoms**
- **Continue supporting housing associations to deliver social housing**
- **Bring debt definition in line with EU**
- **Promote and support self-build and community-led housing**

4 Delivering Scale

We need to deliver new homes at scale and at speed otherwise demand will continue to outstrip supply. Existing mechanisms cannot increase capacity quickly enough, so there needs to be a strategy to coordinate planning, using council knowledge and expertise and engaging communities. There must also be a national dimension to policy so that investment can be encouraged and structures put in place to deliver the volume of homes needed.

The Barker Review of Housing Supply published its final report in 2004. Authored by economist, Kate Barker, it presented recommendations to the UK government for securing future housing needs. The review led to the establishment of the National Housing and Planning Advice Unit (NHPAU) their remit being to give guidance on housing and to gain a greater understanding of the housing market and advise government, planners and local authorities. Although widely praised for its work the unit was closed by the Con-Lib coalition government in 2010.

In an online article Chartered Institute of Housing (CIH) chief executive Grainia Long points to the Barker report being a milestone that "set out clearly, on the basis of excellent analysis, the measures that could be taken to increase supply sustainably over time." [1]

> **"Planning, funding and winning popular support for new homes in these challenging conditions requires strong local leadership. It also requires the ability to co-ordinate plans and provide infrastructure across municipal boundaries. Unfortunately, England's city leaders have far less autonomy than those elsewhere in Europe or America, and England is now the only advanced economy to have no strategic planning for homes above the most local level.**
>
> **(Jefferys et al., 2014)"**

Regional Public Housing Associations

Barker highlighted the dysfunctional nature of the housing market and how a radical overhaul is required of the delivery and planning mechanisms. A dedicated housing body, established at a regional level, with a national remit, would aid and support all local authorities and other housing providers. This advice still holds true and the establishment of Regional Public Housing Authorities (RPHAs) would strengthen councils ability to build houses and increase capacity.

One of the recommendations of the Barker Review was "a regional planning executive should be set up to bring together regional planning and housing boards." This structure would be replicated across the UK and the establishment of Regional Public Housing Authorities would create a number of distinct benefits.

It it worth noting that many local authorities are using the Local Enterprise Partnerships (LEPs) to coordinate housing policy. The establishment of LEPs in 2011 as a replacement for Regional Development Agencies are effectively public private partnerships with the boards invariably made up of a mixture of local councillors and private sector representatives. There is no formal structure within the LEP set up to prioritise housing. The idea of the RPHA is that we need an organisation that concentrates solely on housing and is not distracted by other functions. Housing needs to be prioritised and not have to compete with other infrastructure projects and the RPHAs will act as coordinators of both planning and delivery and compliment existing services within local authority housing departments.

> *A stronger role for regional planning bodies is recommended, with an independent Regional Planning Executive charged with setting out advice on market affordability targets, housing numbers, strategic growth areas and co-ordinating links between the key players. (Barker, 2004)*

> *Partnerships between neighbouring local authorities can drive successful responses to sub-regional housing requirements. Housing need does not respect local authority boundaries and Councils, of course, need to understand and work with their neighbours across housing market areas. [...] Co-ordination of policies can ensure a level playing field to the benefit of all Councils in a sub-region. (Housing Commission, 2010)*

There is the need not only to co-ordinate housing planning and development within councils but also at a regional and national level, and utilise a co-operative model, where best practice is shared amongst all the agencies.

Regions should establish market affordability targets that make these trade-offs clear.

> *To assist in this process a Regional Planning Executive should be established in each region. The Executive would be responsible for developing an independent evidence base, and for advising on the scale and distribution of housing required to meet the region's market affordability target. (Barker, 2004)*

One of the main function of the RPHAs would be to direct and co-ordinate the flow of investment and funds from the National Housing Investment Bank (NHIB), which we discuss in the next chapter.

> *We have capacity within existing communities to create all the new homes we need. Small available sites of under two hectares within built up areas are rarely counted (this is a lot of new homes) and micro-sites of half an acre of less (one fifth of one hectare) are literally too numerous to count. Yet it is estimated that even in inner London, where population density is highest and land scarcest, there are enough micro-sites to supply all the new homes we need. (Power & Lane, 2011)*

Many local authorities already bundle up smaller sites but within London these sites, where the concentration is on large scale developments, are often ignored. A RPHA would co-ordinate these smaller plots to bring them back into use.

The RPHAs would also share knowledge of new building technology with each other and allow local authorities to share best practice across all areas of housing. Housing finance models are a good example where a much more flexible use of land and investment can be used to develop models to reduce rent levels.

One of the many consequences of the distorted housing market is that the costs of housing, post build, have been neglected. The problem of leakage and long-term management costs of property developments, need to be addressed, and, with proper governance, utilising the historical expertise of local authority housing departments and the sharing of best practice, these costs could be driven down with leakage and inefficiency reduced dramatically.

The idea of the RPHAs is to ensure clarity and accountability to enable those that deliver housing work towards a co-ordinated plan. Strong RPHAs would also liaise with other agencies, central and local government departments and the private sector to ensure the relevant infrastructure needs are met. One such problem is that utility companies, under the existing, unco-ordinated system, may re-lay pipes in an area only for the local authority to dig up the same streets a year later. There needs to be much more of a co-ordinated effort where short terms and long-term infrastructure planning and information is shared, thereby reducing costs and disruption to the public and business.

Working hand in hand with the National Housing Investment Bank (see Chapter 5) the RPHAs would be able to add a secure layer to council housing development. It would also be able to "bundle" housing projects together to make it more attractive to institutional investors.

> *Planning, funding and winning popular support for new homes in these challenging conditions requires strong local leadership. It also requires the ability to co-ordinate plans and provide infrastructure across municipal boundaries. Unfortunately, England's city leaders have far less autonomy than those elsewhere in Europe or America, and England is now the only advanced economy to have no strategic planning for homes above the most local level.*
> *(Jefferys et al., 2014)*

Each RPHA would have representatives from each of the councils in its catchment area, tenants and trade bodies, where relevant, and this would enable housing policy to be more co-ordinated and accountable than it is at present. They would also act as an engine to drive forward cross-boundary local authority housing strategies and co-ordinate more innovative ways of developing many aspects of housing policy such as investment, sustainability and cost reduction.

The Building Sector

At the 'pointed end' of housebuilding are a whole host of building companies, from large firms to family run small and medium sized enterprise (SME) builders, that will construct, retrofit, renovate and, ultimately, create the homes we need. This army of small and medium builders are often treated as peripheral actors when debating housing policy but they are one of the major components to its success.

One of the consequences of the lack of activity in the market has seen many of these smaller building firms go to the wall and the number of SMEs in the construction industry has declined.

> *Over the last twenty years the relentless increase in the cost and complexity of development has made it ever more difficult for small and medium sized enterprises (SMEs) to engage in housebuilding. The number of SME house builders is at its lowest point since 1982 and the number of firms registering below 500 units per annum has fallen by over 8,600. This is a drop of around 69%.*
>
> *The extent of the decline in the number of firms registering smaller quantities is of particular concern as they provide the greatest potential for growth and tend to utilise the small urban infill site that help relieve pressure on green belt land.*
> *(FMB, 2011)*

These firms need to be able to respond to an increase in demand for their services and more must be done to encourage and enable growth in this sector so they can contribute in an efficient and effective manner. There is often a conflict between builders and their engagement with local policy makers, planning laws and land procurement leading to frustration where delays can affect small firms least able to shoulder these delays and costs. Builders have also highlighted problems arising from the procurement process.

> *Public sector procurement continues to be a common source of frustration for National Federation of Builders (NFB) members. The differences in time, cost and practice between public bodies in the way they procure work need to be reduced in order to support construction SMEs and reduce costs for both clients and contractors.*
> *(NFB, 2014)*

The present system of wildly different procurement processes from local authority to local authority needs to be replaced with a more consistent one.[2]

There needs to be a local element where local authorities can be encouraged to use SME builders and other contractors from within their region. Procurement is not just a fiscal decision but needs to take into account the very real value of local economic growth. The Local Government Association (LGA) has voiced concerns over the Government's intention to insist that all local authority contracts are advertised nationally[3] thereby undermining a local element to house building. In fact the end result will most likely be that large builders, already well versed in complex procurement, or with dedicated departments, simply have the upper hand over SMEs, making the 'playing field' even more uneven.

As well as helping local authorities make the best decisions, there needs to be an awareness that SMEs require help that larger businesses do not need.[4]

Councils should view builders as part of the solution to the housing problem and a flexible and communicative policy is central to ensuring a truly co-operative approach.

> *For small companies, who often have limited financial resources or reserves, small differences in the way lending is structured and delays related to planning applications (among other factors) can be critical and could potentially force them out of business. (NHBC Foundation, 2014)*

Banks have all but given up lending to SMEs and this cutting off of credit could hamstring smaller builders. There need to be funding structures in place to prevent lack of access to credit from hampering the growth of SMEs. If banks are unwilling to fund local businesses we will look at creating alternative sources and structures of finance via intuitive local authority partnerships and the NHIB.

There is a challenge for builders, depleted as their numbers are, in meeting demand and central and local government must do their part to grow this sector and encourage more new firms into the market. Micro-builders have certain advantages over the larger firms. They are best placed to understand the needs of the local community and tend to produce less "identikit" homes many of the larger building companies produce.

Empty Homes, Derelict Properties and Regeneration

Building new homes is a major step forward but we must also be conscious that exploring options outside of new build is imperative if we are to genuinely solve the housing crisis.

> *New builds seem the straightforward answer but there are many smaller scale options that, put together, can have a significant impact on supply. Retro-fitting old homes, bringing derelict and empty homes back into use, changing the use of existing buildings and mixed developments are all housing strategies that require a more detailed analysis. (Legal & General, 2014)*

As of 2014 there were over 610,000 empty homes in England, about one third of these being long-term homes that have been empty for six months or more. Bringing empty homes back into use is a very hit and miss affair, with some councils having dedicated departments whilst others have no empty homes policy at all. There is a difficulty in gauging which empty homes can easily be brought back into use and also in estimating the cost. However, there are many organisations that are renovating and rebuilding, such as Latch and Canopy in Leeds and Giroscope in Hull, that are creating sustainable business models that provide good quality refurbished homes, supporting people who invariably struggle to get a decent place to live.

A major boost in this area has been the £160 million DCLG Empty Homes Programme which allocated £50 million to the Empty Homes Community Grant Programme (EHCGP). The EHCGP programme saw funding for over 100 organisations that created around 2,000 homes.

Professor Mullins[5] commented: "We have identified that the three outstanding benefits of the Empty Homes Community Grants Programme (EHCGP) in the Midlands have been to get new groups into housing; to make a real difference locally and to build independence and the ability of community-led groups to help themselves and are planning further evaluation to demonstrate the extent of these wider social benefits." For it to grow and develop there needs to be further funding to bring empty private properties into use.

Whilst many areas have individual houses that are not in use, or derelict in some areas, clusters of empty homes have become a blight. Private developers don't want these houses and third sector organisations do not have access to the level of funding to purchase multiple units. So decay just begets decay. In cases such as these we need to enable organisations and the community to reverse this decline.

To make this happen we must make it easier for people with empty properties to bring them back into use themselves or failing this, transfer the property to an organisation that can take on this role. Of the organisations that were involved in the EHCGP it is, yet again, scale that is a problem as is made clear by one the EHCGP Project Champions.

> *"We've got them (terraced houses) to a higher standard in eco-terms. If we could change the street as we originally intended it [...] to green the street to make it safe for people, to make it attractive in the outside of the properties [...] if we buy these properties at the current value, bring them up to the standard that you've seen, the budget including changing the external infrastructure it's about £85,000 per property .. new houses in the area will sell for £125-145,00 [...] so for £40-60,000 less per house [...] but you'd need to change the whole street to convince them to move in. But nobody's prepared to take the big step to do that." (Project Champion, Hill Holt Gainsborough). (Mullins & Sacranie, 2014)*

We need to encourage and empower such organisations to take that "big step" and reduce the decay and blight that exists in many areas in the UK. This will probably mean more joint ventures with community-led organisations and local authorities, which can, in the end, be beneficial to all parties.

Another major obstacle to regeneration is the VAT burden on housing renovation and repair work. An overwhelming number of trade organisations have backed an ongoing campaign by the FMB to cut the rate from 20% to 5%.

> *... a cut in VAT on housing renovation and repair could provide a huge economic stimulus of more than £15 billion over the five-year period to 2020. This VAT reduction could also create more than 42,000 extra full-time equivalent construction jobs and an additional 53,000 jobs in the wider economy by the end of this period. (Experian, 2014)*

As well as newbuilds we need to encourage renovation, repair and refit of a whole host of properties and give the relevant organisation the tools to do this.

Many of these organisations spend valuable time and resources chasing funding pots when they have already proved more than capable of carrying out the task of bringing homes back into use. In view of this grants, via the National Housing Investment Bank, should be made available on a revolving door basis. We must also ensure that local authorities have power over absentee landlords sitting on derelict properties be they individuals or companies.[6] Much clearer information should be made available to people who own empty properties and structures need to be in place where swift action can be taken, either to help the owners bring empty properties back into use, or to replace them as managers or owners.

Retro-fitting old homes, bringing derelict and empty homes back into use, changing the use of existing buildings and mixed developments are all housing strategies that require a more detailed analysis

(Legal & General, 2014)

KEY POINTS AND RECOMMENDATIONS

- Establish Regional Public Housing Authorities to co-ordinate and boost housebuilding
- Encourage councils to work together
- Establish regional and national housebuilding targets
- Set timescale for delivery
- Share knowledge and best practice in all aspects of housing
- Create a fair and sustainable business environment for SME builders
- Simplify and standardise the procurement process for all builders
- Develop a comprehensive empty homes policy
- Support existing community organisations regeneration work

5

Finance

Of the many dysfunctional aspects of housing, finance and investment are at the very core. Huge sums of money are pumped into high-end property developments in London, whilst at the other end of the scale whole streets, often derelict, struggle for the faintest whiff of investment.

It is clear that the housing market faces difficulties providing the investment needed to build new homes. As British architect, Richard Rogers pointed out in 2012, the government's attack on the planning system ignores the glaring lack of investment in new housing: "The problems are financial. From institutional investors, to grants for social housing, to mortgages for first-time buyers, the funding that fuels construction has dried up. Our problem is not too much planning; it is not enough investment." [1]

> **"..... the funding that fuels construction has dried up. Our problem is not too much planning; it is not enough investment.**
>
> **Richard Rogers 2012"**

We need to be blunt about the financial challenge that lies ahead if we are to create a more dynamic and fair housing strategy. And it is up to central government to kick-start the house building process and enable local authorities, housing associations and private builders to meet housing demand.

> *There are many sites available with planning permission that are not being delivered due to a lack of available development finance. According to the Local Government Association, planning permission has been granted for 400,000 new homes that are not being delivered due to constraints on finance for developers to build the properties or concern that the properties will not sell because of insufficient demand. (BSHF, 2013)*

The aim of any government housing policy should be to deliver housing at the highest possible quality at the lowest feasible cost. To deliver such a programme the distorted market has to be reset and move away from subsidising the private rented sector via housing benefit or artificially inflating demand with Help to Buy type schemes. Local

authorities developing their own housing means that land remains on their books as an asset and the houses become income generators for future generations. We need public investment to place housing at the very heart of government policy and with it move from a dysfunctional and failed model to one that serves the citizens of Britain.

The Case for Public Investment

The case for public investment in infrastructure projects, such as energy and transport, has always been relatively easy to make as these sectors are seen as necessary for a functioning economy. Housing, however, as an infrastructure investment, has always taken a back seat. We need to change this dynamic and view housing as an important part of the UK economy in its own right. There are also calls from some quarters to simply increase the percentage of GDP spent on new housing.[2]

> *There is a strong economic, as well as social case, for arguing that the government should be prepared to increase borrowing to finance a social housing programme. The UK government can borrow very cheaply and such a programme would aid economic recovery, while supporting construction. (Gibb et al., 2013)*

Stimulating the housing market by encouraging new entrants into the market, such as pension and annuity funds, is unlikely without government intervention.

> *If it were possible for the private sector or housing associations to economically build more, one can reasonably assume they would – but returns are too tight for private investors, while projects are too difficult for housing associations to make viable with current grant levels. In some ways state intervention is required to encourage new investment. (Chaloner & Pragnell, 2014)*

Government stimulus for house building has support from business and trade bodies such as the Confederation of British Industry, British Chamber of Commerce and the Federation of Master Builders. The housing shortage is already a major constraint on businesses' ability to expand. As part of a package of infrastructure investment, house building would create assets that can help underpin economic activity and generate long term economic and social returns to Britain.

London's housing market stands apart from the rest of the country in that many of the capital's postcodes house prices, to buy or rent, are now way beyond the reach of the average worker and London runs the risk of simply being both uncompetitive and unattractive to businesses, as people are unable to live there.[3]

On a national level increasing public investment would provide a major boost to the wider economy.

> *Following the 2010 Spending Review [there was a] cut in capital investment in housing from £8.4bn for the period 2008-11 to £4.5bn for 2011-15. This represented a 63% cut in real terms – the biggest single cut to any capital budget across government. Reversing this cut would have quick and effective impacts. (Griffith & Jefferys, 2013)*

There is now increased concern regarding investment in housing. This is driven by evidence that the existing financial structures are not working. Local authorities are restricted to building a few hundred homes or, at the most a few thousand, instead of the tens of thousands needed. Institutional investors wary of the housing market, straitjacketed local authorities and small building companies failing are symptoms of a deep malaise. Short-term fixes, that concentrate solely on already failed policies, especially those around demand side stimulus, such as the Help to Buy, will simply increase the frailty and dysfunction of the housing market. A comprehensive long-term investment strategy is the only sensible option.

Investment Sources

It is noteworthy that institutional investors are actively looking to the housing market as a robust and long-term investment option and there is a willingness to look at lower, but more stable returns. This is a direct result of the global financial crisis and government would be foolish to ignore this desire from the private sector, as well as public sector pension funds, to invest in housing.

Professors Tony Crook of Sheffield University and Peter Kemp of Oxford University, discussed attempts over the last thirty years to bring in institutional investment. They considered that successive governments had sought to adapt "existing schemes designed for other purposes" rather than bringing forward initiatives "with the specific needs of private renting in mind"; moreover, governments had not addressed "the fundamental barriers preventing the emergence of larger companies and institutional investment." [4]

There is a need to create financial structures and strategies that fit housing need and enable this by creating an environment where housing investment is both forward thinking and proactive. They also need to be designed to best serve the interests of the people and not just investors. Whilst other countries have created imaginative, sustainable and robust housing investment strategies, the UK has allowed the housing of its citizens to drop to the bottom of the political agenda and stagnate.

To tackle the housing crisis there is now little doubt that major investment is needed to capitalise on the demand for new housing.

Local Authority Pension Funds

Pension funds are a huge source of potential funding for house building and, more specifically, local authority pension funds are a good fit for the housing sector.

> *Our assessment is that local authority pension funds are the most likely source of institutional investment for new house building in England (CLGC 2012). These funds can be patient and their management boards include councillors, who understand both the need for more housing and the potential solid return over the long term offered by investment in it. (Hull & Cooke, 2012)*

The eighty nine funds of the Local Government Pension Scheme collectively hold £178bn of assets, making them one of EUs largest pension schemes and it is part of this money that RIBA suggests using to fuel a surge in house building in every city, town and village in Britain.

The commission, a national enquiry established by the Royal Institute of British Architects to investigate the housing crisis, says that investment should be pumped into high-quality designs to end the construction of what have been described as rabbit hutch homes (The Guardian, Friday 26 October 2012)

Many local authorities are now taking this advice and Matrix Homes, a joint venture in Manchester uses available land owned by Manchester City Council, including a site offered by the Homes and Community Agency (HCA), supported by money from the Greater Manchester Pension Fund. Pension funds in Cumbria and West London have also chosen to invest money in property and there is a trend to do so indirectly in property funds run by private sector organisations such as Aviva. [5]

It is encouraging to see local authorities taking the initiative on housing investment and if the correct mechanisms were in place then other similar schemes could be encouraged and rolled out.

Institutional Investors – Pensions and Annuities funding

Alongside local authority pension funds there is a desire amongst a large number of private institutional investors to move into stable and long term investment opportunities; housing fits both criteria.

Ian Fletcher, Director of Policy (Real Estate) at the British Property Federation considered that the conditions were "all there for large-scale institutional investment in the sector" adding that it was "now or never". [6]

It is clear that, on the demand side, there is real potential for investment in large scale developments of purpose built rented housing to grow and to be viable. (Montague, 2012)

The Resolution Foundation, an independent research and policy organisation, discussed the potential for a "new approach to build-to-let development using institutional investment", arguing that such an approach could help to meet "the housing needs of individuals and families on low-to-middle incomes who are unable to buy a home in the medium to long term". (LGCF, 2012)

To facilitate this investment it is necessary to question why institutional investors have barely engaged in the residential housing market in the UK. Part of the answer lies in identifying and tackling what these potential investors see as barriers to entry. There are a number of flags raised by institutional investors regarding investment. Nick Jopling, Executive Director of Property at Grainger plc identifies three barriers as "scale, suitability of stock and yield". [7] There is also the lack of residential experience amongst many UK investors.

There is considerable potential for large-scale developments on regeneration sites, and mixed-community developments are popular especially in London – so there are more investment opportunities. There is a great deal of enthusiasm among stakeholders, including from major investors, especially annuity funds, who see that residential investment could provide a long-term income stream with growth potential that would match their long-term liabilities. There are at least three important missing elements: experience of successful schemes, a pipeline of larger developments suitable for residential rental development and data that would allow decision makers to determine acceptable overall returns and on-going performance. (Scanlon, Whitehead, Williams, & Gibb, 2013)

This reticence to invest in housing, due to a lack of experience, is exacerbated by the lack of historical market data, itself a direct result of the lack of experience. To create an environment where these obstacles to investing are removed, or their impact reduced, will require institutional investors, central and local government to work together, ensuring there are workable mechanisms to pull in institutional investment. Ignoring the potential of releasing investment on this scale is to miss a golden opportunity.

The Future Homes Commission,[8] in their report "Building the Homes and Communities Britain Needs", highlights how we have fallen behind Europe and the US. The Investment Property Forum (IPF)[9] reported recently, less than 1% of UK financial institutions' property portfolios is spent on the

residential sector. This is compared to over 15% for six other Northern European markets, and over 21% in the US.

So a typical UK pension fund would have less than 7% of their assets in property and only 1% of the property portfolio would be in residential property — with the balance in the more volatile retail and office sectors. (McDonald, 2012)

The housing shortage, and subsequent pent up demand, has created huge potential capacity for growth that, in turn, has made residential housing more attractive as an investment proposition. Residential housing in other countries has historically generated high returns for investors and, with the right strategy in place, this can also be the case in the UK.

Over the last 20 years the total returns from US apartment investments have exceeded 9% a year, outpacing all other property sectors (McDonald, 2012)

Often, in attempting to attract institutional investors, such as large pension funds, compromises have to be made trading off the social benefit for the return on investment. But housing is different. High quality sustainable build, low carbon footprint, desirable and attractive housing, and long term rental agreements are not only beneficial to investors, government and tenants alike, they are actually desirable.

Units could be built by the consortium on sites across the country to generate the scale of investment required by investors without that having to be delivered on a single site. For example, 10 sites that could accommodate 100 units each could create a fund of £100 million to attract large scale investors. (Alakeson, 2012)

The recent financial crisis has created a rather unstable investment market. Consequently a stable housing market is now a much more attractive financial proposition to investors.

.... recent volatility in the financial markets and diminished opportunities for such a high level of return on investment has resulted in an increased appetite for lower yield but more secure returns. This includes an interest in long leased properties, preferably with index-linked rent as liability-matching assets. (Williams, Salisbury & Caven, 2011)

The dichotomy of investors willing to invest but being prevented from doing so by various obstacles requires some form of intervention and there is evidence that initial intervention in other areas of housing works in priming the market.

.... government might wish to consider how it can share investment risk in the short term in the same way as universities did in the early days of the student housing market. (Montague, 2012)

To ensure the UK model can follow the success of its EU and US counterparts we need to create mechanisms that will expedite this. One such mechanism is the establishment of a National Housing Investment Bank.

National Housing Investment Bank

The housing crisis requires a stable, coherent, comprehensive and integrated financial structure which presently does not exist. What is proposed is not new but based on the very successful Bank Nederlandse Gemeenten (BNG Bank) in the Netherlands[10] as a model for a new National Housing Investment Bank. Other countries also have similar banks such as the German Kreditanstalt für Wiederafbau (KfW), the Nordic Investment Bank and the European Investment Bank. The BNG Bank does not provide financing to private customers, but exclusively to semi-public organizations, such as municipalities, provinces, public utilities and public housing.

> *If we are ever to build enough homes in this country to meet demand, we need to muster all the resources we can. I would urge those within the housing sector to join us in encouraging the government to establish a housing investment bank at the earliest opportunity. (Clive Betts 2012)* [11]

The calls for such a bank have come from many quarters and it is now, more than ever, that a bank dedicated to housing is part of a comprehensive solution to the housing crisis.

> *The House of Commons Communities and Local Government Committee, Shelter, IPPR and the Scottish Government have all joined the call for a national housing investment bank. As far back as 1992 the Royal Institution of Chartered Surveyors called for a National Housing Investment Bank to be established to attract investment funds and provide loans to builders for the construction of low-cost housing. The idea has been adopted in other countries and is once again worthy of consideration in the UK (Diacon, 2009)*

> *In the longer term, we will establish an Infrastructure Investment Loan Fund and a National Housing Investment Bank, to mobilise all possible sources of funding for housing investment. (Scottish Govt., 2011)*

The advantages of these types of banks is that they can sit relatively separate from the private sector and thereby not get involved in speculative dealings outside of their public remit. This is an important factor in the health and stability of the bank which needs to be run in a transparent and ethical manner. The Dutch bank have layers of providence including a supervisory board made up of independent board members with experience in specialised fields. The executive board will be responsible for the management of the bank's activities.

It is envisaged that the structure will allow local authorities, either directly, or via the RPHAs, to be shareholders alongside central government.

The bank will make money available to local authorities, in conjunction with the RPHAs, through various financial instruments including bonds, loans and grants. The bank would facilitate and co-ordinate the financing of the RPHAs, housing associations and self-builds, and, where necessary, SME builders.

Many organisations, predominantly non-profit groups, that renovate and bring empty and derelict properties into use should have access to finance that ensures they spend less time chasing funding from diverse source and can concentrate on more effective uses of their time and resources. We would also release grant funding to these organisations, that do a great deal of social good by bringing empty homes, in predominantly deprived areas, back into use. The BNG Bank model creates a surplus each year and a part of that profit should be set aside to help such organisations to carry on the good work of programmes, covered in Chapter 4, such as the Empty Homes Community Grant Programme (EHCGP). The same model would be used to enable renovation organisations, to compete at auctions with property speculators. They would need to demonstrate a social need and that there would be a long-term social gain from their intervention as we would not want to dissuade, or create an uneven playing field for genuine individual investors who want to buy and renovate property to live in.

The NHIB, by acting as a catalyst, could also bring institutional investment into the housing market.

> *A 'National Housing Investment Bank' could attract investment funds and provide loans for the construction of low-cost housing. In European countries such banks have proved effective at leveraging public funds to channel private finance into both house building and improvements to the existing stock, a model that RICS [the Royal Institution of Chartered Surveyors] have called on to be replicated in the UK. (LGCF, 2012)*

The stability of the BNG,[12] in a rather unstable industry, reflects the solidity of housing as an investment. Unlike the exotic financial products that caused the global financial crash, housing is a basic need with a high demand. There is no real complexity to the mechanism of investing in housing as there are for products such as derivatives.

Ironically, such a bank could help the economy, where other banks did so much damage;

> *A housing investment bank could also be a revenue source for government. As it could be owned by the state, any distributed dividends would be returned to the Treasury. For example, the Bank Nederlandse Gemeenten has paid out €275 million in dividends in the period 2010-2012 [...]. This shows that the profit a national housing investment bank makes could either be used to fund more affordable housing, pay down government debt or, more likely, a combination of the two. (Chaloner & Pragnell, 2014)*

Housing has for decades been the victim of under-investment and attempts to stimulate housing growth have been symbolised by a fragmented mix of loans, grants, subsidies and various failed attempts to stimulate demand. We are all now playing catch up where past failures have created a deep hole in the provision of investment. A stable, long-term, low-cost source of investment prudently managed is what is needed. A National Housing Investment Bank, solely dedicated to housing, and investing in that market alone, will create a structure and stimulus to push forward a comprehensive housing strategy.

As far back as 1992 the Royal Institution of Chartered Surveyors called for a National Housing Investment Bank to be established to attract investment funds and provide loans to builders for the construction of low-cost housing

KEY POINTS AND RECOMMENDATIONS

- Establish a National Housing Investment Bank
- Treat housing investment in the same way as other infrastructure spending
- Redefine public sector debt to bring it in line with Europe and free public corporations and councils
- Provide financial support for the Regional Public Housing Associations and local councils
- Liaise with institutional investors and local authority pension funds to implement new joint ventures and learn from existing schemes
- Provide finance specifically to housing projects such as self-build and renovating and refurbishing old or empty properties

6
Tackling the skills shortage

There is both a skills shortage in construction, where industry needs workers that are simply not there, and a skills gap, where existing workers and training programmes need to modernise and take technological innovation into the building trade. Both the skills shortage and the skills gap have to be tackled head on: solving one without the other is not an option.

The United Kingdom Commission for Employment and Skills (UKCES) projection implying a need for an average of 100,000 new faces a year between 2012 and 2022 compares with CITB's latest forecast of an annual recruitment rate of just shy of 45,000 between 2015 and 2019.
(Brickonomics web article; Construction's daunting challenge: Find one million new recruits in a decade, Brian Green Feb. 2015)

In line with the 2011 skills survey, 55% of the respondents cite a lack of skilled UK domestic construction personnel. Comments highlight the scarcity of, and lack of investment in, quality training and 'traditional' apprenticeship schemes as key factors contributing to skills shortages. (CIOB, 2013)

Because of the recession and the overall lack of housebuilding, the numbers of people in the construction industry available to build, renovate and retrofit the homes we need has dwindled. This has been exacerbated by structural problems within construction relating to training and reactions to changes in the market.

The industry is regarded as slow to innovate. High risks and the high cost of mistakes do tend to favour a level of conservatism compared to other industries. Change tends to be iterative and cautious. (CIOB, 2013)

People who have left the industry tend not to return so the solution to this shortage needs to be a serious and concerted effort to bring in new

> **"A virtuous circle needs to be created (or recreated) of excellent training, direct employment in to decent work helping to generate a well paid, high skill, high productivity industry with buildings of the highest quality.**
> **(Davies, 2008)"**

workers. Most of these new workers will come from apprenticeship schemes and, although some attempts have been made to address the problem of the lack of people signing up to apprenticeships, there is still a huge shortfall.

> *One million NEETs aged 16-24. 182,000 construction jobs to be filled by 2018. Yet just 7,280 completed a construction apprenticeship last year. We have to do better. (Raynsford & Best, 2014)*

If construction activity, especially in housing, as it is at present, is low, then there is little or no chance of people moving into the industry and, even with demand now starting to rise for skilled and semi-skilled workers in construction, the supply is not there, especially in London, where skilled construction workers command higher than normal salaries. However, the numbers of apprentices and workers we need to enable this major expansion in housing means recruiting hundreds of thousands of workers and training a similar number. For this to be achieved we need to expand and encourage the take up of apprenticeships on a major scale.

> *There are concerns that the Further Education sector will not be able to respond with suitable training provision unless there is an evident demand for particular skills. (Bryer, 2010)*

Without an immediate start to this process and a demonstration that future demand will rise, people, especially school leavers, will see no value in joining the industry. This will simply inflame an already existing problem, where growth in the construction industry will be seriously impeded by a lack of skilled workers. The result will be housing projects hampered by rising costs.

A major expansion in the housing sector will undoubtedly lead to more interest in apprenticeships, with people viewing construction and associated trades as a potential vocation but there are a number of barriers to overcome first.

The construction industry, especially in the UK, suffers from an image problem in that it is often seen as dirty, hard physical work with a very low glass ceiling for women. Of course there is an element of hard physical work in some areas of construction but the reality is that the industry is incredibly varied, as are the related jobs and careers.

However, the lack of women in this sector should be of concern. In engineering alone, the EU has 47-49% women in the industry, in the UK it is 9%. There has to be more done, on a much wider scale, to show women that there are real choices for them in construction.

> *Respondents highlight concerns and perceptions within "young generations" that a career in construction involves long hours and little pay, and that many tasks require manual labour rather than technical skills, all of which act as a barrier to entry. (CIOB, 2013)*

These perceptions needs challenging by promoting the wide choice of careers construction offers. This requires a concerted and co-ordinated effort from local and central government, trade bodies and other organisations, like the Construction Industry Training Board (CITB), to promote the industry and dispel myths. Promoting apprenticeships in construction also needs to be done on a more general level, building on projects that aim to improve awareness, such as the GoConstruct initiative run by the CITB.[1]

In view of this there needs to be a construction industry promotional strategy at both a local and national level, in conjunction with local colleges, delivering construction industry courses, and local authorities. Apprenticeships also need to be given a much higher profiles than at present and those colleges running construction courses should have access to all schools.

We also need to reduce the gap for older students, as 16-18 year olds get fully funded through the levee system whilst anyone over the age of nineteen has to find £5-6,000 in loans over a three year apprenticeship. This need to be radically reduced or removed all together to encourage older students back into the apprenticeship system.

Increasing class sizes, from around 12 per class to 18, would keep the classes manageable and there is the capacity to do this in most colleges. So, whilst there is not the immediate need for substantial resources from the teaching side, there is a need to implement a much more flexible apprenticeship system. This flexibility is driven by the need for more specialised labour and by technology. Construction, like most other sectors, cannot hide from the fact that technology is changing the nature of work and driving the modernisation of the construction industry. This creates a more diverse range of career options and this message needs to be clear to attract more young people into the industry. To reflect this constantly changing modernisation process more flexible modular type training strategies need to be adopted.

> *Apprenticeships may need to adapt to meet needs of new technologies - the relevance of the traditional three-year Apprenticeship was called into question within focus groups in England. The general perception is that this should focus more on core units plus 'bolt-on' modules in specialist areas that can be flexible and adaptable in line with priorities and future change. Additional modules should be easy to learn – with a cultural shift needed towards lifelong learning and continuous development. (Bryer, 2010)*

This idea of core units with a built in flexibility to add modules is central to modernising the apprenticeship system and only government at a national level can implement and guide this.

A lack of investment in training and the labour market can also create deep structural problems.

> *It was found that countries that actively invested in the labour market, such as Sweden and Denmark, but unlike Britain, put themselves into a far better position for the economic recovery of the mid-1990s. As a result, Denmark's long-term unemployment was reduced by 44% over the period. Conversely, the UK shied away from active labour market measures, opting to tighten up benefits and resist regulation – leading to mass unemployment and huge skills shortages during the recovery stages. (CIOB, 2013)*

For all the discussion about investment, supply and demand, the wider economy, delivery mechanisms and so on, it is people who will deliver the homes we need. Architects, civil engineers, electricians, joiners, plumbers, heavy plant operators, labourers and bricklayers. For the volume of homes to be built we need more of all of these people and we need them trained and ready to go to work. This is not happening and all to often warnings have been ignored.

Recently Brian Berry, Chief Executive of the FMB, warned of the dangers of not having a robust apprenticeship strategy and also highlighted the danger of a skills "time bomb" where companies, small and large, are struggling to hire skilled construction workers, undermining wider economic growth.[2]

We must ensure that the right people get the right training and that we invest in the future of the construction industry. Apprenticeships need to be flexible enough to adapt to new technology and demonstrate to school leavers and more mature students that knowledge of this sector will hold them in good stead for the future.

> *A virtuous circle needs to be created (or recreated) of excellent training, direct employment in to decent work helping to generate a well paid, high skill, high productivity industry with buildings of the highest quality. (Davies, 2008)*

By investing in people and skills we are investing in the future quality and sustainability of the construction industry benefiting not only the people we train but also the wider economy.

By investing in people and skills we are investing in the future quality and sustainability of the construction industry benefiting the people we train and the wider economy

KEY POINTS AND RECOMMENDATIONS

- Increase the number of apprentices
- Close skills shortage and skills gap
- Make apprenticeships and training more flexible and adaptive to new techniques and technologies
- Reduce entry cost for mature students
- Encourage more women into construction
- Set up local and national promotional campaigns for construction apprenticeships
- Exemption for SMEs to pay up front funding for apprenticeships

7 The Bigger Picture

Having looked at the various problems and solutions to a complex housing crisis it is clear that solving this problem would bring huge social and economic benefits beyond simply creating safe and sustainable homes for the citizens of Britain. It would be thoughtless to not acknowledge the positive ramifications that a stable and inclusive housing strategy brings to the whole country and it is to that we now turn. Much of the debate on housing, and subsequent government policy that led to massive inter-war council house building, was around slum clearance. It was those appalling housing conditions, along with the added destruction of many houses after WWII, that compelled the Labour government to build. Beveridge made the reason clear in 1944.

> *"The greatest opportunity open in this country for raising the general standard of living lies in housing."*

This still rings true and it is worth a nod to the past to remind ourselves why housing is so important and why it represents substantially more than just bricks and mortar.

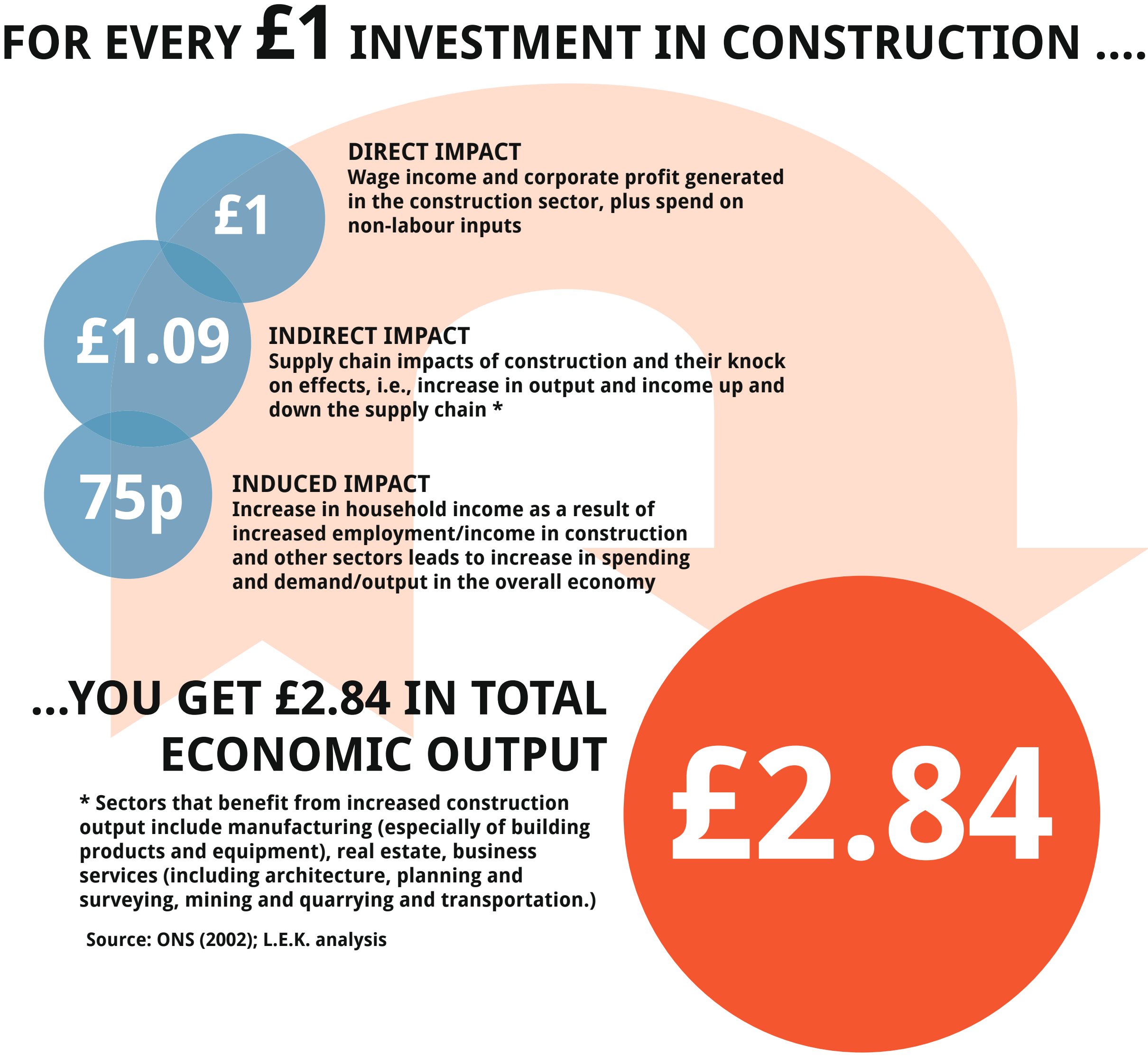
> *Perhaps the firmest evidence on the economic role of housing is in relation to the more enduring impact it has on human capital formation and life chances. Put simply, families living in poorer quality, less desirable housing stock face lower life chances and health costs associated with poorer quality stock itself.*
> *(Regeneris and Oxford Economics, 2010)*

More recently, in 2015, the Building Research Establishment published new data estimating the cost of poor housing to the NHS was between £1.4bn and £2.5bn. However the authors make it clear that these figures still underestimate the true costs.[1]

Whilst there may be variations in the estimated amount poor housing costs society, highlighting

> **"Greater investment in new housing, which will increase construction activity, can help plug the output gap quicker – and in doing so deliver higher economic growth and more jobs. Compared to many other areas of government investment such as infrastructure spending, there are relatively short lead times in housing between making a decision and seeing construction activity on the ground. Unlocking more funding for 'shovel ready' housing schemes is a straight-forward way to support the economic recovery and take up the excess slack created by five years of recession and stagnation.**
> **(Chaloner & Pragnell, 2014)"**

Figure 2



the difficulty in compiling precise figures, the overwhelming evidence is that poor housing is a drain on national resources.

As well as benefiting the health of the nation there would be significant economic benefits from a resurgence in housebuilding. Allied to that, there are a very unique set of factors that set house building and construction apart from other sectors. Construction boasts a very extensive supply chain, with the potential to increase employment, alongside a strong multiplier effect that is one of the highest in any sectors (See Figure 2). In short any investment will be returned many times over to the wider economy.

A major component of a healthy economy is employment, one of the single biggest drivers in reducing economic inequality. A burgeoning housing market would have a far reaching and positive impact on employment.

> *Our model estimates that, if housebuilding were to increase gradually to 300,000 dwelling starts between 2012 and 2015, some 201,000 extra permanent jobs in the construction sector would be created, and the sector would provide an extra £75 billion contribution to GDP over the time period [...].*
> *(Corfe & Mohamed, 2011)*

> *The economic implications of housebuilding would defray, very materially, the capital cost of the programme. Very large numbers of workers would become taxpayers instead of benefits claimants, their employers' tax payments would rise, and spending by newly employed workers would boost the broader economy.*
> *(Morgan, 2012)*

Another advantage is that housing and construction have strong multiplier effects, where any investment is recirculated within the UK economy.

> *Moreover, house-building is an essentially domestic industry, which has very important economic implications. If government were to initiate a major house-building programme, a host of businesses (including builders, electrical contractors, plumbers, builders' merchants and various sub-contractors)*

> *would benefit, as would their employees. Most of this business would be placed with British suppliers, so far less of this stimulus would 'leak' into imports as it would if, say, VAT was cut as an alternative stimulus technique. (Morgan, 2012)*

> *Housing therefore matters in macro-economic terms, especially as the overall national multiplier is one of the highest of any sector (due to the relatively low import content of housing output). (Regeneris and Oxford Economics, 2010)*

The relative ease with which housebuilding can create new economic activity (and we include renovating, regeneration and retrofitting in the description) compared to other sectors, means that positive social and economic impacts can be realised relatively quickly. In comparison big infrastructure projects can take decades to plan and execute. Here we have a domestic demand led solution to many social and economic problems.

> *Greater investment in new housing, which will increase construction activity, can help plug the output gap quicker – and in doing so deliver higher economic growth and more jobs. Compared to many other areas of government investment such as infrastructure spending, there are relatively short lead times in housing between making a decision and seeing construction activity on the ground. Unlocking more funding for 'shovel ready' housing schemes is a straight-forward way to support the economic recovery and take up the excess slack created by five years of recession and stagnation. (Chaloner & Pragnell, 2014)*

In macro-economic terms a stable housing market contributes to more stability in the wider UK economy and increases GDP. The flipside, carrying on with the status quo and not tackling the housing crisis on a comprehensive level, has its own consequences.[2] Inaction is no longer an option and bold moves are now an economic necessity. An unstable housing market can create problems and pressure points in the wider economy. The combined effects of these various social and economic problems often create fault lines through society.

> *The recent slump in housing activity has served to intensify the economic down turn – accounting for around a third of the 6% drop in GDP over the recession. Second, changes in household wealth as a result of shifts in house prices affect consumer spending. Thirdly, the extreme instability in the housing market leads to increased instability in the overall economy. (Home Group, 2010)*

> *Better housing supply could also play a part in reducing economic volatility. Most major cycles in the UK economy over the past thirty years have been associated with instability in the housing market. This instability is a problem because of the link between house prices, credit constraints and household consumption. As house prices rise, consumers are able to spend more; as house prices fall spending also contracts. Consumer expenditure in the UK is sensitive to house prices (more so than elsewhere in the EU), so volatility in house prices is transmitted into volatility in the wider economy, which policy may not be able to offset fully. This macroeconomic instability can have damaging effects on levels of business investment and long-term growth prospects. (Barker, 2004)*

The positive impact of housebuilding on many levels, social and economic, local and national, coupled with a much deeper macro-economic stabilising effect on the wider UK economy, is evidence that an end to the housing crisis is not simply overdue but vital to the health of the nation.

Simply put, a stable housing market contributes to more stability in the wider UK economy and increases GDP

KEY POINTS AND RECOMMENDATIONS

- Housebuilding has a major domestic multiplier effect; very high compared to other sectors
- Increased economic output and GDP
- Reduction of poverty and social blight
- Increased employment
- Increased numbers in training and apprenticeship
- Expansion of struggling SME build sector and allied trades
- Potential to kick start wider economy

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Chapter 1 - A Dysfunctional System

1: "The UK has had a housing crisis for about 25 years." Quote from Legal & General's CEO Nigel Wilson in Let's House Britain 2014 and "Everyone now accepts we have a desperate housing shortage in England" Introduction to Building the Homes We Need; Shelter and KPMG 2014. " … the housing market is facing serious challenges of both a cyclical and structural nature" (Introduction to the CBI report Unfreezing the housing market 2011)

2: The evidence is overwhelming, from all quarters, that there are serious consequences of this dysfunction and a negative impact on the wider UK economy such as an increasing unaffordability of housing for many people; failure of housing supply to respond to changes in demand; unsuitability of the housing stock for current and future needs and a failure to meet acute housing need and the adverse social impact this causes. (BSHF, 2013)

3: Introduction (Hull & Cooke, 2012)

4: The national ratio of house prices to earnings grew from 3.5 in 1997 to 6.7 in 2013, but these figures mask some huge regional variations. Whilst Kensington and Chelsea is now at a staggering 32.4 many other areas are now nearly double the national average. South Bucks. 13.4, East Hampshire 11.2, Epping Forest 10.5, Seven Oaks 10.5, Tandridge 13.5 and St.Albans 13.3. However, it not just the South that has seen prices spiral. Harrogate, Derbyshire Dales, South Lakeland (Cumbria), Rutland UA are now all over 8 times average earnings. (Table 577 Ratio of median house price to median earnings by district, from 1997-2013; ONS, Annual Survey of Hours and Earnings, HM Land Registry)

Chapter 2 - Housing for People not Profit

1: In the UK, around twice as many people describe their home as "leaky" as do in Scandinavia, and the number of people who say they cannot afford adequate heat in the UK is around three times higher than in Scandinavia, despite significantly lower temperatures there. Six facts about fuel poverty
(Synopisis from Warmer Homes report, Policy Exchange January 2015)

Chapter 3 - Delivery Organisations

1: Where will we live?: The Housing Disaster. (James Meek, London Review of Books January 2014)

2: Analysis on Social Housing and Social Investment; Social Investment and Finance Team, Cabinet Office July 2014

3: Quoted in Inside Housing online article "Landlords warned they must use cash to improve services or build homes - Housing association surpluses soar by 60 per cent to nearly £1 billion."
(Ben Cook, November 2013)

4: "The biggest return on investment would be to invest directly in building new Council" Local authorities have the potential to play an important role in providing direct or facilitating new housing supply. Councils are able to internally borrow capital and also have access to more affordable finance than Registered Providers or the private sector, thus ensuring bigger returns on investment.
Written evidence to Communities and Local Government Committee from Oxford City Council Ev 136/137 (LGCF, 2012).

5: As Shelter point out in their report "Solutions for the Housing shortage: How to build the 250,000 homes we need each year"
The local authority sector is the 'sleeping giant' of housing delivery. Increasing its role would allow an additional supply of housing which would add to market and housing association delivery – an obvious supplement to help bridge the gap between current supply and housing need.

6: The Let's Get Building 2012 report estimated that if councils were able to use their full borrowing potential, still under prudential rules, they would have capacity to borrow up to £20bn over five years, or up to £27bn if they were to let new homes at 'Affordable Rents'. This could mean in theory having capacity to build 170-230,000 extra homes in total. In practice, work by the Chartered Institute of Housing (CIH) showed that, if the caps were removed, councils would aim to build rather less than this, some 60,000 extra, or an extra 12,000 units per year. (Perry, 2013)
Given the desire to build new council homes, we asked how many new council homes councillors expect their council to build over the next decade. Some 19% replied between 1-100 units; 43% between 101 and 500 units; 24% between 501 and 1,000 units; and nearly 10% said over 1,000 units (Hackett, 2013)
Figures vary between between 1,000 over a decade to 12,000 per year. This barely scratches the surface of the 240,000 additional homes needed every year.

7: London Councils will continue to call for the complete removal of the artificial housing borrowing cap, among a raft of other measures, so that boroughs can properly address London's housing crisis. (Wilson, 2013)

8: No other EU country treats social housing investment in the way that happens in England. In part, this is because England's 'council housing' model is unusual, because few other EU countries have social housing managed directly by local authorities and where they do, stocks are generally small. However, the model of management or ownership being in the hands of a municipally owned company is relatively common (e.g. Sweden, Austria, Finland and parts of France), and such companies elsewhere in Europe enjoy the same borrowing freedoms as housing associations. (Perry, Let's Get Building Report – Federation of ALMO's, 2012)

9: Let's Get Building report published by National Federation of ALMOs In association with: Association of Retained Council Housing (ARCH), Chartered Institute of Housing (CIH), Local Government Association (LGA) and Councils with ALMOs Group (CWAG)

10: Proportion of all homes delivered by self build, by country (NaSBA, 2011)

11: We believe there is the capacity and demand to significantly increase the number of self built homes in the UK, and that self build can become a mainstream source of housing provision, as it is in many other countries. [...] We want to create the conditions to enable more community-led group developments to be built, and to make it easier to undertake refurbishment projects. (NaSBA, 2011)

12: West Rhyl, Granby Four Streets in Liverpool, East London CLT, West Kensington & Gibbs Green Community Homes, London are just a handful of successful urban CLT. There are also a number of rural CLTs usch as Bishop Castle and District, Buckland Newton CPT and Lyvennet CT in Cumbria. (CLT National Network website)

Chapter 4 - Delivering Scale

1: Online article from Chartered Institute of Housing website; "Ten years on from the Barker Review of housing supply"
(Grainia Long CEO of CIH, March 2014)

2: Central government have adopted PAS91 for all public sector works which standardises the pre-qualification questionairres (PQQ) process. Local government should be encouraged to adopt such a system and implementation of a much more standardised procedure.

3: "The LGA are very concerned that the Government is intending to mandate the use of a single online portal (Contracts Finder) to advertise all contract opportunities. Mandatory use of Contracts Finder, and national advertising of all contract opportunities will undermine local government's ability to take into account social value

and stimulate local economic growth and could actually disadvantage local SMEs."
Public Contracts Regulations 2015 consultation - Local Government Association 13 October 2014

4:The NHBC lists those of significant impact as the length of time to get a planning decision, level of Section 106 requirements and the new Community Infrastructure Levy (CIL) with general concerns about the difficulty of communications between builders and planning departments. Although many were unaware of the S106 and CIL exemptions for small builders. NHBC Foundation. (2014). Improving the prospects for small house builders and developers.

5: Evaluation of the Empty Homes Community Grants Programme (EHCGP) - Midlands region, Baseline Case Studies Report, David Mullins and Halima Sacranie Housing and Communities Research Group University of Birmingham April 2014

6: Organisations that are trying to bring empty properties back in use often cite the complexity of ownership as a problem. An empty dwelling management order (EDMO) allows the local authority to step into the shoes of the owners and make sure that empty properties are occupied and managed properly.

Chapter 5 - Finance

1: British Architect Richard Rogers quoted in the Financial Times, September 10, 2012 (Murray, 2012)

2: Martin Wolf, the chief economics commentator at the Financial Times, recommends an infrastructure spending programme of between 3 to 4% of UK GDP (approximately £40 to £50 billion), while the Secretary of State for Business has argued for spending 1% of UK GDP on new house building alone (approximately £11 to £12 billion).

3: The vast majority of London businesses surveyed (83%) feel that there is a lack of good quality affordable housing in the city, with half (48%) saying that this has increased their costs. Two-thirds of respondents (61%) list housing costs and availability as having a negative impact on recruitment of entry level staff, with half of respondents saying the same thing for mid-level managerial employees and a quarter (23%) for senior staff. Firms highlighted various other negative effects on business growth:
42% said that they are having to pay a premium to attract and retain staff; 41% said they have experienced issues with people being unable to afford to live in the local area; 24% said employees were having to move away from the local area because off housing costs and therefore having to leave their job.
(CBI London Business Survey April 2014)

4: Financing of new housing supply Eleventh Report of Session 2010-12, Communities and Local Government Committee (CLGC) Volume II Additional written evidence Ev w51

5: Pension funds in Cumbria and West London have also chosen to invest money in property and there is also a trend to do so indirectly in property funds run by private sector organisations such as Aviva. Falkirk Local Government Pension Scheme Fund has put £30 million into social and affordable housing and Islington is putting £20 million of its pension fund into residential housing.

6: Financing of new housing supply Eleventh Report of Session 2010–12, CLGC Volume I Ev.12

7: Financing of new housing supply Eleventh Report of Session 2010–12, CLGC Volume I Ev. 26

8: Future Homes Commission, "Building the Homes and Communities Britain Needs" 2012

9: UK Residential Property : Institutional Attitudes and Investment Survey 2013 – Investment Property Fourm (IPF)

10: The BNG Bank is a Dutch bank and Local Government Funding Agency, specializing in providing financing for semi-publicly owned organizations. Ranked by assets alone, it is the fourth largest bank in the Netherlands. The Dutch state owns 50% of the company, while the remainder is owned by the municipalities and provinces. The company was founded in 1914 in The Hague as the Gemeentelijke Credietbank (Municipal Credit Bureau), changed its name to Bank voor Nederlandsche Gemeenten in 1922, before finally changing it to Bank Nederlandse Gemeenten in 1990's

11: Newspaper article by Clive Betts who is Labour MP for Sheffield Attercliffe and chair of the Communities and Local Government Select Committee. "Why the government should establish a housing investment bank", (Clive Betts, September 2012)

12: It is noteworthy for all the criticism of the banking system, especially after the global financial crisis, the BNG was named by Global Finance named BNG as the world's second safest bank, "Global Finance announces a half yearly update World's Safest Banks: April 2012", www.gfmag.com.

Chapter 6 - Tackling the Skills Shortage

1: GoConstruct is an industry-wide initiative funded by the CITB levy and run by the CITB to promote construction as a career. www.goconstruct.org

2: Responding to the findings of the FMB's State of Trade Survey for Q3 2015, Brian Berry, Chief Executive of the FMB, said: "The Prime Minister stated last week that he wants his legacy to be defined by increasing home ownership, but this won't be possible without an ample supply of skilled construction workers. Our latest research shows that a skills time bomb is in danger of exploding with a staggering 60% of small construction firms struggling to hire bricklayers. This has leapt up from 49% just three months ago. Looking at other vital trades, 54% of firms are struggling to hire carpenters and joiners, up from 47% in the previous quarter. If the skilled labour isn't available, the Government's ambitions for home ownership won't be realised."

Chapter 7 - The Bigger Picture

1: The BRE Briefing Paper quoting £1.4bn to £2.5bn as the cost of poor housing to the NHS states; "This is still an under-estimate of the true picture. Minor hazards of the sort that are found in the majority of homes have not been costed, and there will be health and care issues which linger long after the immediate NHS treatments costs. There will be other losses to society of leaving people in poor housing, such as the impact on educational attainment and economic performance. These are the subject of ongoing research, but earlier estimates suggest that this would add at least two-and-a- half times the first year treatment costs."
The Cost of Poor Housing to the NHS, Briefing Paper (Roys, M, Davidson, M & Nicol, S 2015)

Horton (2005) cites national annual estimates of the increased costs associated with those public sector homes considered unfit for habitation at £3 billion due to poor health (plus £1.8 billion due to increased crime and £120 million for the cost of fire services. (Regeneris and Oxford Economics, 2010)

2: The recent fall in housing activity has contributed to a 1% fall in GVA. Oxford Economics estimate that impact of the fall in house prices on consumer spending has contributed a further 1% fall. Put another way, the impact of changes in the housing market contributed to around a third of total fall in UK GDP from 2007 to 2009. (Regeneris and Oxford Economics, 2010)

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