Achieving the nation's ambition on housing

KEY POINTS

The Spending Review is an opportunity for Government, councils and housing associations to work together to understand the cumulative impact of different housing policy initiatives on our collective ambition to build more homes, support home ownership, and reduce the welfare bill.

The Government should raise its ambition to sell off public assets from the current target of £5 billion between 2015 and 2020 up to £13 billion – the level that councils are set to achieve. If councils had a 'power to direct' the sale of government-owned public land and the ability to retain 10 per cent of receipts, they could deliver 180,000 new homes across the government-owned land. The sales would generate £11.7 billion capital receipts for the Government, which should be used to fund the extension of Right to Buy (RTB).

Local government must be given the tools to take an active direct role in shaping local housing markets, and the flexibilities to mitigate the impact of measures requiring the sale of high value council homes and the reduction of social rents on affordable housing in local housing markets. In particular, councils must be able to retain 100 per cent of all sales to reinvest in new and existing housing.

Building more homes can help meet aspirations of home ownership and meet housing demand, both of which are reflected in the Government's housing agenda. Local government is ambitious to support building. It must play a central role in expanding the stock of housing where it is most needed and be supported to take an active and innovative role in shaping local housing markets, for instance through local housing companies.

Tackling the housing deficit will require an increase in supply across all tenures, including bringing empty buildings back into use. Every local housing market is different and getting best value from public investment depends upon councils being able to develop a locally responsive mix of housing tenure that can work towards supporting home ownership while reducing welfare spending.

The Government has announced a number of initiatives which will have a significant cumulative impact on local housing markets around the country.

We want to work with the Government to understand potential effects on our collective ambition to provide more homes. In particular, we want to explore the impact of policy initiatives on:

- **The capacity of councils and housing associations to help deliver the levels of house building needed**. The country needs an additional 230,000 homes a year to keep up with the number of new households. The private sector cannot meet this demand alone, rarely building over 150,000 homes a year over the last 25 years.[20] Councils will need the stability, flexibility and levers – set out in this submission – to build the additional homes and associated infrastructure needed by our communities.
- **The number of families needing additional housing support, as falls in affordable and specialist housing stock lead more into the private rented sector**. The proposed extension of Right to Buy to housing associations, the sale of high value council homes, and the emphasis on home ownership – such as through the Starter Homes commitment – risks reducing

20 Live tables on house building, DCLG, August 2015

affordable housing stock by 150,000 over the Spending Review period,[21] which could generate an additional £460 million pressure on an already increasing Housing Benefit bill, as more tenants move into the private rented sector.[22] Furthermore, falls in the availability of specialist accommodation would generate upward pressure on health and social care costs.

- **Home ownership and the reduction of mixed tenure in communities, particularly in areas with high house prices**. Falls in affordable housing could lead more tenants into the more expensive private rented sector, reducing their capacity to pursue home ownership. It also risks creating recruitment challenges for employers in areas of higher house prices, particularly for vacancies on lower wages. This will likely have a knock-on impact on economic performance in a number of urban and rural economies, as employers struggle to fill vacancies that they need to grow.

In developing this understanding we would like to explore specific implications of individual policy initiatives. The Government has announced a set of policies affecting the local housing supply, and the following are sets of our initial recommendations for ensuring that they are implemented in a way that contribute to its housing ambitions.

Sale of high value council homes. Councils are committed to managing their housing stock in a way that benefits local communities. It is important that measures to encourage the sale of high value council homes support this ambition, and do not risk a drop in affordable housing which generates additional costs for the Government.

21 Estimate based on council Right to Buy replacement rate of less than 50 per cent, applied to estimate sale of 221,000 housing association homes through Right to Buy extension, estimated by the National Housing Federation (April 2015), and estimate 78,000 sales of high value council homes, estimated by Savills (June 2015)

22 Based on private sector tenants receiving £110 per week in housing benefit in England compared to £89 per week for those renting from a social rent landlord

As a starting point we believe that:

- the sale of high value council homes and the extension of RTB should be pursued as two separate policies
- councils should locally retain 100 per cent of receipts from selling their assets to reinvest in building more new homes
- homes should be defined as high value relative to the local housing market, rather than relative to council housing stock
- property built after 2008 and likely to have higher levels of debt, housing for vulnerable groups and specialist homes that reduce health costs should be exempt
- the policy should be time limited and subject to review of impact on asset management and housing investment plans.

RTB extension to housing associations. There is a need to ensure homes sold through the extended RTB are replaced locally and that housing associations continue to invest in new affordable homes. At the same time, the policy should be designed to ensure replacement homes are delivered with least additional cost to the public purse. Therefore, arrangements for compensation to housing associations should ensure that:

- housing associations are required to manage and utilise their assets effectively to make a contribution to the costs of the scheme
- the Government compensates housing associations for the cost of replacing homes sold net of capital receipts, not for the discount
- the grant subsidy element of housing association properties is recycled into the replacement property when a home is sold through RTB
- receipts from council RTB properties that have been retained by the Government are used to fund replacements
- the reform takes into account the impact on specialist housing which has adaptations in place to support vulnerable residents.

Better use of public land. There is significant value to be realised through better and more strategic management of public sector land, part of which could be used to fund the extension of the RTB to housing associations. The One Public Estate programme has demonstrated that council management of public land can achieve significant additional capital receipts, providing they have the necessary powers to do so. The Government has recognised this by allocating additional funding as part of the Summer Budget.

The public sector holds more than £300 billion worth of land and buildings. While local government is set to achieve £13.3 billion land and property sales up to 2018[23], the Government had a target of realising just £5 billion by 2020.[24] We therefore recommend that:

- the Government match the scale of ambition and pace of change achieved by local government on management of assets and raise its own target to £13 billion by 2020
- councils are given the 'power to direct'[25] the strategic development and sale of publicly owned sites in order to bring forward the land to develop 180,000 additional homes, and are able to retain at least 10 per cent of receipts from sales of surplus central government land for local investment[26]
- the remainder of the £11.7 billion central government receipts from the sale of surplus land is used to help fund the extension of the RTB, with councils retaining 10 per cent (£1.3 billion) of capital receipts to reinvest in further development.

Social rent reductions. Proposals that Government will seek to reduce rents paid by tenants in social housing in England by 1 per cent a year for four years from 2016 will have a significant financial impact on councils and housing associations, adversely affecting their long-term housing investment plans. This will significantly limit their capacity to build new homes needed to deliver the Government's ambitions. Furthermore, council tenants already pay the lowest rents across all housing providers at an average £82 per week in 2012/13,[27] less than the £96 per week charged on average by private registered social landlords,[28] and the average £137 per week in the private rented sector.[29]

The LGA estimates councils will lose around £2.6 billion in planned revenue over the four years up to 2019/20, equivalent to almost 19,000 new homes, with a gap of £1 billion per year thereafter assuming the lower rent base of CPI+1 per cent is reintroduced in 2020/21.[30] The annual £1 billion gap is equivalent to 60 per cent of the total maintenance budget. We recommend that the Government:

- reduces the duration of the social housing rent reduction policy from four to three years, ending in 2018/19 in line with the Government's timetable to achieve a surplus by 2019/20
- includes exemptions to protect investment in specialist accommodation for the vulnerable, in line with RTB exemptions, and for council tenants that do not claim housing benefit and can afford social rent levels
- delivers wider flexibilities enabling councils to adapt to the impact on their Housing Revenue Account (HRA), in particular allowing councils to retain 100 per cent of all sold assets and additional receipts generated

23 Fiscal Supplementary Tables, Office for Budget Responsibility, March 2013

24 Investing In Britain's Future, HM Treasury, June 2013

25 As recommended by the Elphicke-House Report, DCLG, January 2015

26 The Conservative Party Manifesto 2015, Conservative Party, April 2015

27 Local authority housing statistics: year ending March 2014, DCLG, 2014

28 Private registered provider social housing stock in England, DCLG, January 2015

29 Private rental market statistics, Valuation Office Agency, December 2014

30 Reducing social rents will cost councils £2.6 billion by 2019/20, LGA, July 2015

- gives councils additional powers to set differential discounts on house sales in the same way as the proposed differential rent levels policy
- offers additional stability and flexibility to HRAs by committing to no further changes to the rent policy and lifting the borrowing cap.

Pay to stay. Councils welcome the principal of additional powers to set differential rent levels based on local circumstances. Tenants need to be protected so they can remain in their own home and retain the incentive to work and earn more. The proposal should also be delivered at minimum cost to the taxpayer. We would recommend that:

- information on tenant pay is generated nationally using HMRC data and an additional national tax is applied to bring up rent to the wider local housing market level
- whatever the delivery model, the Government pass the additional rental income to councils and housing associations to invest in new and existing homes
- a taper is introduced so tenants are not discouraged from earning above the threshold, particularly in areas with a large gap between social and market rent.

Planning for infrastructure and growth. The planning system is not holding back house builders from delivering the homes we need. There are measures the Government could take which could support both councils and developers in their shared aim to bring forward housing in a way that brings forward the necessary infrastructure to build strong communities:

- introducing locally-set planning fees to ensure effective, responsive and fully funded council planning services, removing the burden from taxpayers who currently subsidise 30 per cent of total costs
- removing national exemptions to section 106 contributions and Community Infrastructure Levy (CIL), to be replaced by a more robust and transparent local viability assessment process to ensure development and supporting infrastructure meets community need
- ensuring that local areas are able to use the growth fund to support local housing and infrastructure investment strategy
- enabling local communities to have a say over new development on all brownfield land and the conversion of office to residential property, combined with giving councils the power to ensure developers prioritise brownfield sites
- streamlining and simplifying CIL regulations and guidance
- removing the restriction on pooling section 106 contributions for strategic sites identified in local plans.

Skills to build. The construction sector identifies skills shortages as one of the greatest barriers holding back housebuilding, rather than the planning system. The industry's forecasted annual recruitment needs have increased for the last three years consecutively, up from 29,050 a year in 2013, to 44,690 a year from 2015. More than half of skilled trade vacancies in the construction sector were hard-to-fill in 2013, up from 46 per cent in 2011.[31]

At the same time, the number of people in construction-related training has declined across all learning. Since 2012/13, the number of construction-related vocational learning qualifications has dropped by 4 per cent, including apprenticeships which have fallen by 58 per cent, and higher education qualifications in construction and engineering fell by 17 per cent.

31 Skills to Build. Local Government Association, 2015

Our proposals to ensure local labour markets have the right mix of skills to maximise employment opportunities are set out earlier in this paper. Specifically for the housing labour market we also recommend that:

- the Government works with industry, councils and education providers to explore and develop a national Skills to Build strategy
- councils who work with developers through the planning process to identify skills gaps are empowered to ensure publicly funded local skills and training providers train unemployed residents to take jobs created
- councils and local partners gain the levers to shape the local skills and employment services so that they meet the needs of employers as set out in the section above.