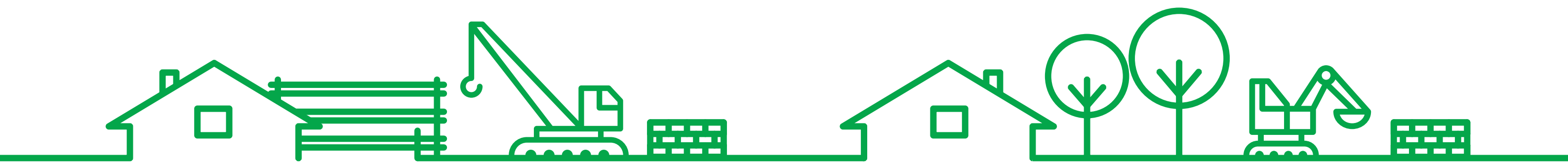
HOUSING COMMISSION | INTERIM REPORT 2

A SOCIAL JUSTICE HOUSING STRATEGY

Increasing the supply of truly affordable homes

October 2018



The Centre for Social Justice

CSJ Housing Commission

Since its inception in 2004 the Centre for Social Justice (CSJ) has worked to identify and reverse the root causes of poverty: worklessness; educational failure; family breakdown; addiction; and serious personal debt. But also vital in tackling poverty is providing the foundation all individuals need to flourish: a safe and secure place to live.

While the full causes and consequences of the tragedy remain unclear, the fire that engulfed Grenfell Tower in 2017 shone a spotlight onto the quality of social and affordable housing provision in this country and the living conditions of the poorest.

In March 2018, the CSJ established a Commission to address this and has been asked to report its findings back to government. In July 2018 it published its first interim report, Social Housing and Employment, which sets out how the Government can unlock the potential of housing associations to provide life-changing skills programmes for disadvantaged residents.

In the coming months, the Commission will continue to investigate the housing issues shaping the experiences of those most struggling.

Its Final Report will be published in Spring 2019.

A Social Justice Housing Strategy
Increasing the supply of truly affordable homes

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About the Centre for Social Justice

Established in 2004, the Centre for Social Justice (CSJ) is an independent think tank that studies the root causes of Britain's social problems and addresses them by recommending practical, workable policy interventions. The CSJ's vision is to give people in the UK who are experiencing the worst disadvantage and injustice every possible opportunity to reach their full potential.

Since its inception, the CSJ has changed the landscape of our political discourse by putting social justice at the heart of British politics. This has led to a transformation in Government thinking and policy. The majority of the CSJ's work is organised around five 'pathways to poverty', first identified in our ground-breaking 2007 report, *Breakthrough Britain*. These are: family breakdown; educational failure; economic dependency and worklessness; addiction to drugs and alcohol; and severe personal debt.

In March 2013, the CSJ report *It Happens Here* shone a light on the horrific reality of human trafficking and modern slavery in the UK. As a direct result of this report, the Government passed the Modern Slavery Act 2015, one of the first pieces of legislation in the world to address slavery and trafficking in the 21st century.

The CSJ delivers empirical, practical, fully funded policy solutions to address the scale of the social justice problems facing the UK. Our research is informed by expert working groups comprising prominent academics, practitioners and policy-makers. Furthermore, the CSJ Alliance is a unique group of charities, social enterprises and other grass-roots organisations that have a proven track record of reversing social breakdown across the UK.

The 13 years since the CSJ was founded has brought with it much success. But the social justice challenges facing Britain remain serious. Our response, therefore, must be equally serious. In 2018 and beyond, we will continue to advance the cause of social justice in this nation.

Walking through that door was phenomenal. I've never ever felt the sense of home in my life like that. I can't find words that are even consummate to the level of emotional experience I felt in that moment . . .

It's not life-long stability of course. Nothing is, but it's enough. It's long enough to get myself back on my feet. I could start to think about tomorrow, and the next day, rather than just the next five minutes.

Bill, in evidence to the CSJ, on leaving temporary accommodation after an eight-month stay and moving into his social housing place in Hammersmith, London.

Executive summary

The housing crisis has devastated lives. The experiences of millions of families squeezed by soaring housing costs, thousands of children growing up in (at best unstable, at worst unsafe) temporary accommodation, and many of those sleeping rough on the streets have been immeasurably shaped by the lack of housing they can afford.

Both the Prime Minister and the Leader of the Opposition have, accordingly, made fixing the housing crisis a key component of their domestic policy agendas. Yet, while all parties increasingly recognise the electoral significance of housing, it is vital we do not forget those sometimes heard less loudly at the ballot box.

In this report the CSJ Housing Commission examines the costs of crisis – that is, not only the consequences of the affordable housing shortage for poorer households in England, but also the eye-watering financial implications for the taxpayer of maintaining the status quo.

We question whether the Government's definition of 'affordable housing' truly captures what we believe should be its housing priority – to provide both the safety net for individuals and families unable to meet the costs of market housing as well as the springboard to a better life.

And we evaluate the effectiveness of the key vehicles employed to drive the supply of affordable housing in England.

On each of these points, we believe that our findings have serious implications for public policy. Our analysis finds that the proportion of the working-age population living in poverty[1] and in the private rented sector has doubled since 2000, yet renters remain those most likely to see over a third of their income swallowed up by housing costs each month – indeed much more in certain areas. Despite this, just 5,900 new homes for Social Rent were delivered last year, compared to 40,000 in 2010–11.

We highlight new analysis revealing the full extent of the backlog of housing need. We show how, for too long, the key vehicles of affordable housing supply have simply fallen short.

But we also believe that there are clear steps the Government can take to turbocharge the supply of truly affordable homes. By better capturing the dramatic uplift in land value when planning permissions are granted, providing greater financial leverage to housing associations, and revitalising councils' ability to build homes at scale, we will get much closer to ensuring that no household should suffer for being unable to afford rent in the private market.

1 That is, per the admittedly imperfect 'relative low income' measure used by the Government. Poverty is, of course, a much more complex phenomenon than can be understood through income measures alone.

At its best, social housing should be a springboard which supports people to achieve homeownership, this remaining the preferred tenure type across all income groups. Future CSJ Housing Commission research addresses this directly. But there can be no effective springboard without an adequate safety net.

We believe that, if the Government adopts our Social Justice Housing Strategy, the people facing the worst of the housing crisis may find their lives immeasurably improved.

Our key recommendations are outlined in summary below.

Reforming planning

- The Government should amend the NPPF 2018 to incentivise the delivery of homes for Social Rent. In the areas it defines as having high 'affordability pressure', Government should consider mandating a proportion of the affordable homes in LPA's baseline policies as for Social Rent, replacing the 10 per cent affordable homeownership requirement (which are ultimately inaccessible to those most in need).
- The Government should address the 'loss' of affordable homes contributed via the planning system as an increasing proportion of new housing is delivered through 'permitted developments'.

Strengthening the role of local authorities

- The CSJ Housing Commission welcomes the Government's recent announcement to abolish the cap on local authority borrowing for the purposes of building new homes. However, the Government should ensure that any new wave of local authority housebuilding prioritises the need for homes for Social Rent in areas of high affordability pressure, and look to forthcoming CSJ Housing Commission recommendations on how to foster ownership and independence among low-income social renters.
- The Government should address any practical barriers preventing local authorities from spending funds raised via S106 'commuted sums', and, if necessary, intervene through its Delivery Test mechanism to ensure that these are spent appropriately and effectively.
- Councils should be permitted to retain 100 per cent of the receipts generated by Right to Buy sales on the condition that these are reinvested according to local affordable housing need within three years.
- The Government should provide local authorities with greater flexibility in setting their own funding mix models for the development of new housing.

Reforming Section 106

- The Government should go further in its reforms to the S106 system by obliging developers to make concrete commitments, instead of 'aspirational targets', to meet the affordable housing contributions set out in Local Planning Authorities' planning obligations.

- The Government should explore whether regions beyond London could benefit from an affordable housing threshold (of 35 per cent, or indeed above) which fast-tracks developers through the planning process if they agree to a cast-iron affordable housing commitment.
- The Government should tighten the circumstances in which the viability of schemes can be reviewed after the plan making stage so that assessments leading to reduced S106 contributions are limited to the context of exceptional circumstances, such as a serious recession.
- The Government should monitor closely what constitutes a 'reasonable' return (as outlined in the new planning rules) in practice, as this can be set differently by local authorities from area to area. If expectations of high profit margins continue to be the basis of viability complaints, it should be replaced with, simply, 'a return'.
- The Government should go further to improve transparency and empower councils by making all viability documents assumed to be public, and provide additional resources, guidance and training to LPAs so they can negotiate with developers on a level playing field.

Focusing policy on the poorest

- The Government should establish an independent review to definitively model the financial implications of shifting demand-side subsidy through housing benefits to supply-side investment in truly affordable housing over the longer term. The conclusions of the review should then be used to inform the Government's strategy to meet the housing needs of low-income households.
- The Government should end the inflationary and regressive Help to Buy at the earliest opportunity and redirect funds into renewing the Affordable Homes Guarantee to further support housing associations with the construction of truly affordable homes.

Acknowledgments

We thank all who contributed to this report, including the participants of a roundtable hosted by the CSJ in March 2018: Phil Clark (Galliard Homes), Rose Grayston (Shelter), Lord Porter of Spalding (Local Government Association), Brian Robson (Joseph Rowntree Foundation), Sarah Rowe (Crisis), Catherine Ryder (National Housing Federation), John Slaughter (Home Builders Federation), and Henry Smith (Town & Country Planning Association). Special thanks go to the members of the CSJ Housing Commission Working Group, Francis Salway (Town and Country Housing Group), Nicholas Boys Smith (Create Streets), Hannah Gousy (Crisis), Steve Rance (Capiscum Re), Lynsey Sweeney (Give Us a Chance), John Clark (Plymouth Community Homes), its Chair, Lord Best (Crossbench Peer), and the CSJ team.

We would like to thank the sponsors of the CSJ Housing Commission.

Any errors remain the author's, and the proposals made in this report should not be construed as representative of the views of individuals or organisations listed.

Introduction

The housing crisis has devastated lives. The experiences of millions of families squeezed by soaring housing costs, thousands of children growing up in (at best unstable, at worst unsafe) temporary accommodation, and many of those sleeping rough on the streets have been immeasurably shaped by the lack of housing they can afford.

Of course, the situations people find themselves in are affected by myriad factors. Worklessness and low pay, educational failure, family breakdown, addiction and serious personal debt are all equally capable of holding individuals back.[2] However, there is a growing recognition in government that '[n]ot everyone will be able to meet their housing needs through the market',[3] and that people are trapped in poverty for this fact.

In September 2018 the Prime Minister reaffirmed her 'personal mission to fix our broken housing system'.[4] The current system faces many charges: an inflated land market pushing up house prices, glacial and restrictive planning processes, slow rates of build out, an oligopoly driving out competition.[5] Others argue that the affordability of housing is much more beholden to the 'vicissitudes of global financial conditions' than simply an issue of market supply and demand.[6]

Here, however, we focus on what the Government defines broadly as 'affordable housing' – that is, the homes provided outside of the mainstream market, including social housing, to meet the needs of those unable to afford private rents or mortgages. With the recent announcement to build on the existing funding envelope of £9.1 billion with an additional £2 billion for housing associations from 2022 to 2028–29, there is clear appetite in Government to energise affordable housing supply over the longer term.[7] The same can be said for local government: as many as 96 per cent of Conservative council leaders surveyed in 2018 said they wanted the Government to address the supply of low-cost rented homes for those who can't afford to buy.[8]

2 See: www.centreforsocialjustice.org.uk/library

3 Ministry of Housing, Communities & Local Government (MHCLG), *A new deal for social housing*, 2018 [assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/733605/A_new_deal_for_social_housing_web_accessible.pdf]

4 No 10, 'PM speech to the National Housing Federation summit: 19 September 2018', 2018 [www.gov.uk/government/speeches/pm-speech-to-the-national-housing-federation-summit-19-september-2018]

5 See, for example, L Murphy, *The Invisible Land: The hidden force driving the UK's unequal economy and broken housing market*, IPPR, 2018 [www.ippr.org/files/2018-08/cej-land-tax-august18.pdf]; K Niemietz, 'A simple answer to the housing shortage: Relax the planning strait-jacket', IEA, 2014 [iea.org.uk/blog/a-simple-answer-to-the-housing-shortage-relax-the-planning-strait-jacket]; P Jeffreys and T Lloyd, *New Civic Housebuilding*, Shelter, 2017 [england.shelter.org.uk/__data/assets/pdf_file/0005/1348223/2017_03_02_New_Civic_Housebuilding_Policy_Report.pdf]; Rt Hon Sir O Letwin MP, *Independent Review of Build Out Rates: Draft Analysis*, 2018 [assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/718878/Build_Out_Review_Draft_Analysis.pdf]

6 I Mulheirn, 'Part 3: Why are prices so high and will building more bring them down?', 2017 [medium.com/@ian.mulheirn/part-3-why-are-prices-so-high-and-will-building-more-bring-them-down-9b12dfec2720]

7 No 10, 'PM to address the National Housing Federartion Summit', 2018 [www.gov.uk/government/news/pm-to-address-the-national-housing-federation-summit]

8 Survation, 'As Many as 96% of Conservative Councillors Want the Supply of Low-Cost Rented Homes Addressed', Joseph Rowntree Foundation, 2018 [www.survation.com/as-many-as-96-of-conservative-councillors-want-the-supply-of-low-cost-rented-homes-addressed]

In this context, the CSJ Housing Commission set out to answer three key questions:

- is there sufficient supply of affordable housing for households unable to afford the private market costs?
- how effective are the current key vehicles of affordable housing supply?
- what steps could the Government take to boost the supply of housing that is truly affordable for those most in need of support?

The report is thus structured as follows:

In Part 1, we explore the costs of crisis. Here we look not only at the changes in housing costs for lower-income individuals and households, but also the long-term implications of these changes for the taxpayer. We examine the Government's definition of 'affordable housing' in the planning rules, and consider how far the different types of affordable housing are accessible for lower-income households.

In Part 2, we consider recent analyses and estimates of housing need in England. We evaluate recent governments' records on housebuilding and consider the trajectory in light of what is needed.

In Part 3, we take a closer look at the key vehicles of affordable housing supply, namely:

- the system used to capture some of the uplift in land value when residential planning permission is granted to benefit the wider community;
- the Government's direct investment through Homes England and the Greater London Authority, as well as additional support for housing associations in comparison to other housing programmes; and
- local authority housebuilding.

In this section of the report, we measure the effectiveness of these vehicles in providing affordable housing in recent years, and identify key barriers impeding the delivery of new homes.

But we also present solutions and suggest improvements. We believe that, through a number of changes, the Government can begin to turbocharge its affordable housing output within this Parliament. By better capturing uplifts in land value, providing greater financial leverage to housing associations, and revitalising councils' ability to build homes at scale, we will get closer to a society where no household can expect homelessness if they become unable to afford rent in the private market.

At its best, social housing should be a springboard which supports people over the long term to achieve homeownership, this remaining the preferred tenure type across all income groups.[9] Future CSJ Housing Commission research addresses this directly.[10] But there can be no effective springboard without an adequate safety net. We believe that, if the Government adopts our Social Justice Housing Strategy, the people facing the worst of the housing crisis may find their lives immeasurably improved.

9 MHCLG, *Public attitudes to house building*, 2018 [assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/714160/Public_attitudes_to_house_building_BSA_2017.pdf]

10 The CSJ Housing Commission's first interim report showed how social housing providers could be a key source of employment support for disadvantaged and low skilled tenants. See J Shalam, *Social Housing and Employment*, CSJ Housing Commission: Interim Report 1, Centre for Social Justice (CSJ), 2018 [www.centreforsocialjustice.org.uk/core/wp-content/uploads/2018/07/CSJ6364-Social-Housing-and-Employment-Report-180706-WEB.pdf]

part one

The costs of crisis

Housing poverty

In this chapter, we examine the costs of the housing crisis. Not only are we interested in highlighting the consequences of the affordable housing shortage for poorer households in England. We also emphasise the eye-watering financial cost of maintaining the status quo.

Housing in England is changing

In a hundred years, housing in England has evolved in many ways. By the end of the twentieth century, English society had transformed from one made up primarily of private renters to one of 'mass homeownership'.[11] The historian Robert Tombs has argued that this development was born of the wartime rent controls introduced in 1915, which as 'perhaps the most significant piece of social and economic legislation in the first half of the twentieth century … had the unintended long-term consequence of turning the middle classes from renters into homeowners'.[12]

Yet the last two decades have also seen historic changes in how this nation is housed. The proportion of households living in the private rented sector (PRS), for example, grew from one in ten to just under one in five of all households in the space of 15 years from 2001.[13] Despite owner-occupancy remaining the most common housing tenure, the proportion of homeowners contracted to just under two thirds of households by 2015–16 (see Figure 1) – the lowest level in forty years.[14] While in 1997, 55 per cent of 25- to 34-year-olds were homeowners, by 2017 this had fallen to 35 per cent.[15]

A significant turning point was marked in 2011 when the number of households living in social housing – that is, homes let at lower rents (by law) than the private market rate – was overtaken by those living in the PRS.[16]

11 Some academics argue that this trend has reached its zenith across Europe; see, for example, R Arundel and J Doling, 'The end of mass homeownership? Changes in labour markets and housing tenure opportunities across Europe', *Journal of Housing and the Built Environment*, 32:4, 17, pp 649–672, 2017 [link.springer.com/content/pdf/10.1007%2Fs10901-017-9551-8.pdf]

12 R Tombs, *The English and their History*, London: Penguin Books, 2014

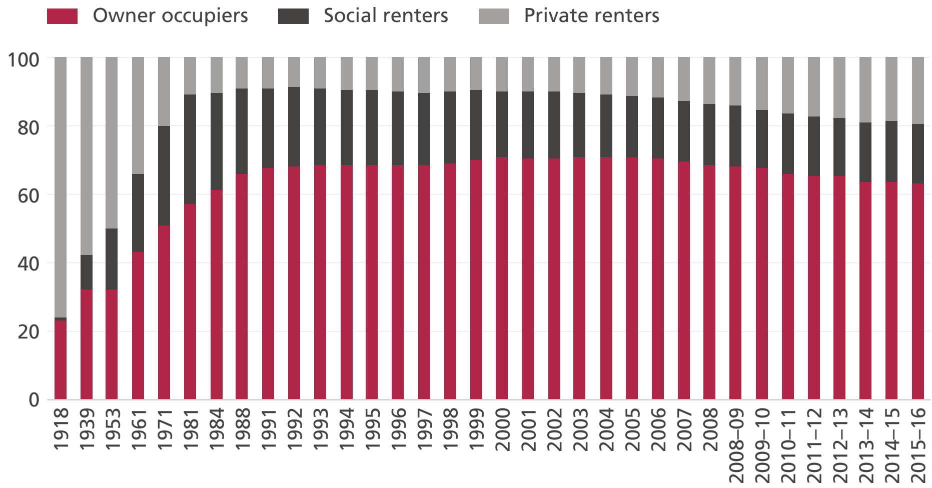
13 MHCLG, Live Table FT1101 [www.gov.uk/government/uploads/system/uploads/attachment_data/file/680495/FT1101_Trends_in_tenure.xlsx]

14 Ibid

15 J Cribb and P Simpson, 'Barriers to homeownership for young adults', The Institute for Fiscal Studies (IFS), 2018 [www.ifs.org.uk/publications/13475]

16 MHCLG, Live Table FT1101

Figure 1: Trends in tenure in England (%)



Source: MHCLG, Live Table FT1101

The proportion of households living in social housing has shrunk considerably since the 1980s. At its peak in 1981, nearly a third of all households rented in the social sector.[17] Kickstarted by Margaret Thatcher's policy to provide residents with the Right to Buy their council houses, over 1.5 million households had left the sector by 2016.

Social housing – which is increasingly comprised of different levels of subsidised accommodation[18] – nonetheless accounted for as many as 17 per cent of all homes in 2015–16.[19] Indeed, in a significant departure from prior governments' housing agendas, changes in both rhetoric and policy suggest a more substantial role for social housing is likely in the near future. The Prime Minister in her foreword to the recent green paper *A new deal for social housing* (2018) is clear:

> Towards the end of the last century council house building virtually came to a halt. Since 2010 that has begun to turn around, but now we need to get back to the scale of new social housing that will deliver a real difference to communities …[20]

As part of its plans to deliver a 'new generation' of social housing,[21] the Government committed £2 billion to be available for new homes for Social Rent, the most 'subsidised' form of social housing (see Box 4), in the 2017 Autumn Budget. This translates to some 5,000 additional social rented homes annually for a period of five years.[22] In September 2018, the Prime Minister announced that a further £2 billion would be available from 2022, with housing associations able to apply for this funding until 2028–29.[23] These commitments, in the context of the overall supply of housing, are explored in Part 2 of this report.

17 Ibid
18 The differences between which are considered later in this report; see Box 4
19 MHCLG, Live Table FT1101
20 MHCLG, *A new deal for social housing*, 2018 [assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/733605/A_new_deal_for_social_housing_web_accessible.pdf]
21 Conservative Party Manifesto 2017 [s3.eu-west-2.amazonaws.com/conservative-party-manifestos/Forward+Together+-+Our+Plan+for+a+Stronger+Britain+and+a+More+Prosperous....pdf]
22 MHCLG, '£2 billion boost for for affordable housing and long term deal for social rent', 2017 [www.gov.uk/government/news/2-billion-boost-for-affordable-housing-and-long-term-deal-for-social-rent]
23 No 10, 'PM to address the National Housing Federartion Summit', 2018 [www.gov.uk/government/news/pm-to-address-the-national-housing-federation-summit]

Box 1: What is social housing?

Social housing – in the most basic sense – is housing let at submarket rents to support lower-income households unable to meet the cost of market housing without the support of housing benefits. Such lets are provided by 'registered providers of social housing' – for example, not-for-profit housing associations (and a small proportion of profit-making organisations), arm's length management organisations (ALMOs) on behalf of local authorities – and councils themselves.[24]

The *role* of social housing, however, is less easily defined. Indeed, as recent attempts to 'rethink' social housing show,[25] the extent and nature of its function in society remains a topic able to generate lively debate. Moreover, attitudes towards social housing are invariably coloured by its rich and complex history.

In the post-war period, Clement Attlee's Labour Government built over a million homes – 80 per cent of which were let by councils – to replenish the stock of housing destroyed during the Second World War. 'Housing', the 1951 Conservative Party manifesto declared, 'is the first of the social services' – and Conservative governments throughout 1950s maintained the role of council housebuilding as a key component of the expanding welfare state. England's slums were cleared and millions of people rehoused. In their new towns and high-rises, many poorer families could enjoy a basic standard of housing previously unimaginable. But this optimism soon faded. By the early 1970s, the estates and concrete blocks once dubbed idealistically as the 'streets in the sky' had become associated with crime, decay and council corruption.

This was the context in which Margaret Thatcher's policy to provide tenants the Right to Buy their council homes at a discount price was born – marking a turning point in the role of social housing. At the advent of the Conservative and Labour governments of the 1990s, the notion that a lifelong council tenancy was part of the 'cradle to grave' welfare state had been supplanted by a view that social housing should provide a service for those more in need of support – that is, until they were able to enjoy the advantages and independence of homeownership.

In the 2000s, and sustained until recently, council housebuilding fell to historic lows – and the sector came to be dominated by independent (but highly regulated) housing associations. Since 2010 powers introduced by the Coalition Government's Localism Act (2011) granted social housing providers greater discretion over their allocation policies, allowing them to deny access to applicants on the basis of their criminal history, existing rent arrears, or 'connection' to the local area. In forty years, the picture of social housing had changed dramatically: while in 1979, a fifth of the richest ten per cent of the country were council tenants, today over two-thirds of those living in social housing have incomes in the bottom 40 per cent.[26]

The fire at Grenfell Tower (a residential tower-block in West London), which tragically caused 72 deaths in 2017, shone new light onto the safety as well as the overall provision of social and affordable housing. It remains highly unlikely that social housing will return as tenure inhabited by such a large proportion and wide distribution of the population as was once the norm. Yet the current Government's changes in both tone and policy around social housing were underscored with the publication of its 2018 green paper, which proposed a 'new deal for social housing' by 'renewing and deepening our commitment not just to the fabric of social homes, but also to the people who live in them'.[27] The story of social housing in England, then, appears far from over.

In future research, the CSJ Housing Commission will explore ways to ensure that social housing empowers its residents and provides a springboard to ownership, beyond merely catching them as part of the state's safety net.

24 Homes and Communities Agency, List of registered providers at 21 September 2018 [www.gov.uk/government/publications/current-registered-providers-of-social-housing]

25 See, for example, the Chartered Institute of Housing (CIH) *Rethinking Social Housing* project: www.cih.org/Rethinkingsocialhousing

26 J Shalam, *Social Housing and Employment*, CSJ Housing Commission: Interim Report 1, Centre for Social Justice (CSJ), 2018 [www.centreforsocialjustice.org.uk/core/wp-content/uploads/2018/07/CSJ6364-Social-Housing-and-Employment-Report-180706-WEB.pdf]

27 MHCLG, *A new deal for social housing*, 2018 [assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/733605/A_new_deal_for_social_housing_web_accessible.pdf]

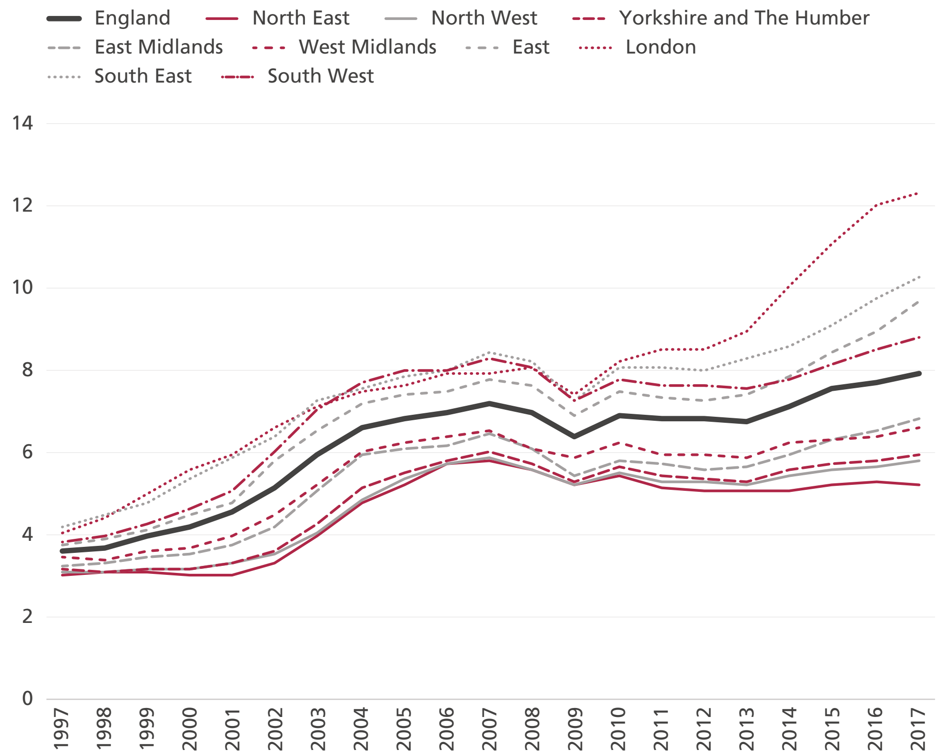
Housing costs are squeezing incomes

In the past two decades, the cost of housing has risen significantly. This has been the reality for many households living in various housing tenures and in different parts of the country, though with particular pressures in certain areas.

For one, house prices have risen much more rapidly than incomes. Average earners could expect to pay around 7.9 times their annual incomes on purchasing a home in England in 2017.[28] This represents an increase of over 115 per cent since 1998.

In London and the South East this development has been even more pronounced, where average earners can now expect to spend up to 12 and 10 times their income on the average home – up by 209 and 146 per cent respectively. This trend shows few signs of slowing, with the gap opening by a further 2.5 per cent across England between 2016 and 2017 (see Figure 2).

Figure 2: Ratio of median house price to median gross annual workplace-based earnings



Source: ONS, 2017

Homeownership is therefore increasingly out of reach for those on middle incomes – and, worse still, an unattainable dream for those earning below average salaries. This is despite persistently high levels of desire for homeownership across all income groups.[29]

28 Office for National Statistics (ONS), *Housing affordability in England and Wales: 2017*, 2018 [www.ons.gov.uk/people populationandcommunity/housing/bulletins/housingaffordabilityinenglandandwales/2017]

29 As many as 95 per cent and 79 per cent of respondents to the 2017 British Social Attitudes in the highest income and lowest income categories, respectively, said that, given a free choice, they would choose to buy over renting. See: MHCLG, *Public attitudes to house building*, 2018 [assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/714160/Public_attitudes_to_house_building_BSA_2017.pdf]

One estate agent recently found that bar staff, hairdressers and check out workers on the average salaries in their respective sectors would need to put away 10 per cent of their wages for over 100 years in order to afford a deposit on the average UK home.[30] Even with a 10 per cent deposit secured, the IFS find that as many as 40 per cent of people aged 25–34 are unable to borrow enough to buy the cheapest home in their area.[31]

> One estate agent recently found that bar staff, hairdressers and check out workers on the average salaries in their respective sectors would need to put away 10 per cent of their wages for over 100 years in order to afford a deposit on the average UK home.

As the gap between average incomes and house prices has widened, in turn making the average deposit increasingly unaffordable, the proportion of all households renting privately has doubled since 2001 to 20 per cent (as shown by Figure 1 above). The sector now houses some 4.7 million households and around 12.9 million people.[32] This change in the composition of housing tenure has also been driven by a prolonged shortage of social housing – the full extent of which is discussed in Part 2 of this report. There are some 1.15 million families on social housing waiting lists across the country.[33] Over 100,000 people have been on a waiting list for as long as five years, and tens of thousands others for over a decade.[34]

Simultaneously, the number of people in poverty in the private rented sector has risen markedly. Households falling below the Government's poverty line of 60 per cent of the weekly median income are said to be in 'relative low income'. As long argued by the CSJ, tackling the root causes of poverty requires much more than simply raising earnings above an arbitrary income line. Family breakdown, addiction, educational failure and serious personal debt may all play a role – individually or combined – in trapping people in poverty.

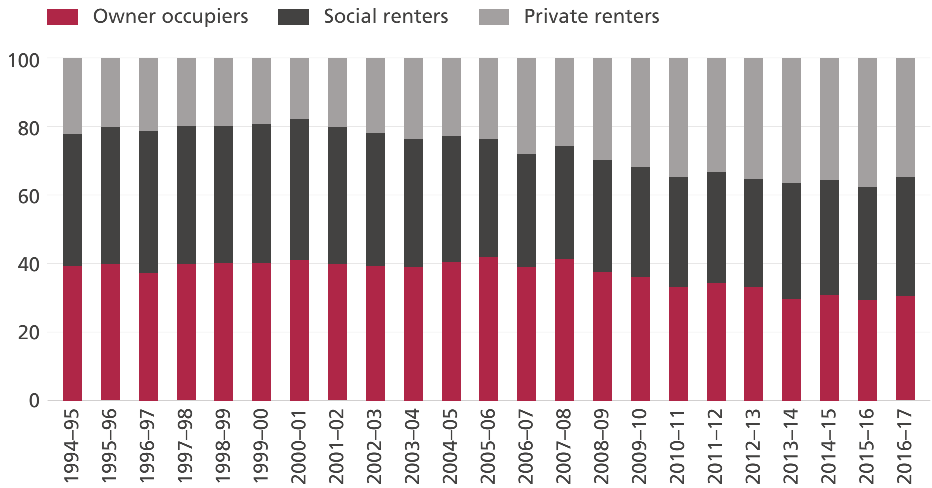
However, as the PRS has grown, the number of people both living in the sector and in 'relative low income' after their housing costs have been paid (AHC) has increased vastly. The House of Commons library finds this cohort to have more than doubled from 2.1 million in the late 1990s to 4.5 million.[35]

This accounts in part to the fact that, as mentioned above, the sector has grown overall. However, it is also clear that the proportion of people in poverty (by this admittedly imperfect measure) living in the PRS has expanded significantly – and at a faster rate than the sector's overall growth.

CSJ Housing Commission analysis of Department for Work and Pensions data finds that just over a third (35 per cent) of all working age adults in relative low income AHC lived in the private rented sector in 2016–17, similar to the proportion of adults in relative low income living in the social rented sector (34 per cent) or as owner-occupants (30 per cent). This compares to the 17 per cent of people in relative low income AHC who rented privately in 2000–01, when the proportion of owner-occupiers and social renters in relative low income were both around 41 per cent (see Figure 3).[36]

30 Droitwich Standard, '30 jobs which will take you 100 years or longer to save for a house deposit', 2018 [droitwichstandard.co.uk/news/30-jobs-which-will-take-you-100-years-or-longer-to-save-for-a-house-deposit]
31 IFS, 'Barriers to homeownership for young adults' (see earlier reference)
32 MHCLG, Live Table F1101; F McGuiness, *Poverty in the UK: statistics*, HoC Library, 2018 [researchbriefings.files.parliament.uk/documents/SN07096/SN07096.pdf]
33 BBC News, 'More than a million on social housing waiting lists', 2018 [www.bbc.co.uk/news/education-44413766]
34 LocalGov, 'Thousands stuck on council house waiting lists for over a decade', 2017 [www.localgov.co.uk/Thousandsstuck-on-council-house-waiting-lists-for-over-a-decade/42366]
35 F McGuiness, *Poverty in the UK: statistics*, HoC Library, 2018 [researchbriefings.files.parliament.uk/documents/SN07096/SN07096.pdf]
36 Department for Work and Pensions (DWP), Stat-Xplore, 2018

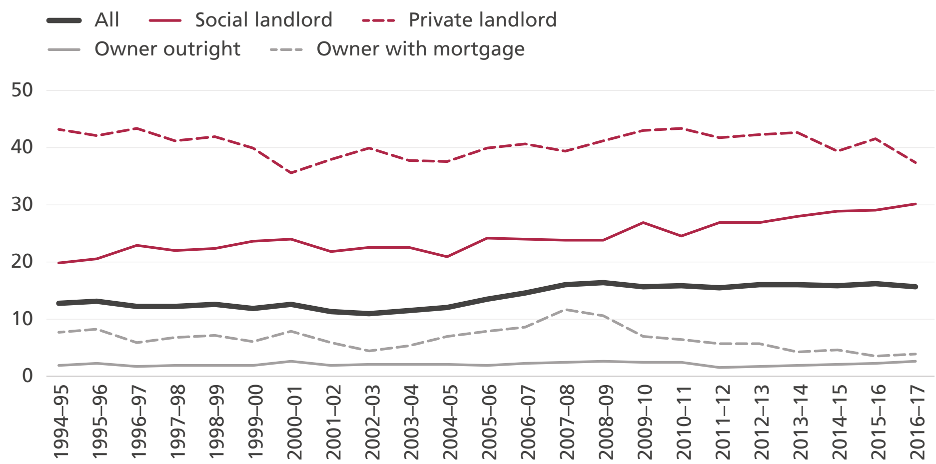
Figure 3: Percentage of working age adults in relative low income AHC



Source: CSJ Analysis of DWP, Households Below Average Income (HBAI)

Yet, while the proportion of people on relative low income in the PRS has risen to meet levels seen in other tenures, the PRS has remained the sector where tenants are most likely to be spending over a third of their income on housing costs. And by some way (see Figure 4).

Figure 4: Working-age adults spending more than a third of their income on housing by tenure



Source: JRF, 2017

This, moreover, makes it even harder for people to move onto the housing ladder as they are less able to save for a deposit. With average rents on two-bedroom properties rising 60 per cent faster than average wages since 2011,[37] it is perhaps no wonder that 37 per cent of renters believe buying will remain forever out of reach.[38]

37 That is, average wages for a two-person household including one full-time worker and one part-time worker. See: Shelter, *Rents rises vs. wage rises in England 2011–2017*, 2018

38 Guardian, 'UK housing crisis: four in 10 renters fear they will never own a home', 2016 [www.theguardian.com/society/2016/apr/30/uk-throes-of--housing-crisis]

Indeed, private renters are expected now to devote a much larger proportion of their income to housing costs today than previous generations.

Analysis produced by the House of Commons Library for the think tank Onward shows how, from the 1960s to the early 1980s, private renters could expect to pay on average around 10 per cent of their income on rent in most of the country, and around 15 per cent in London.[39] The same analysis found that, now, those figures have increased to over 30 per cent and nearly 40 per cent respectively.[40]

However, renters living in areas facing particularly high affordability pressures are expected to pay even more. The ONS found in 2015 that 25 areas had median private rents equal to 50 per cent or more of the median monthly salary. The most pressurised 18 areas were in London Boroughs, with average rents in Westminster equalling 73 per cent of average earnings.[41]

Of course, comparing average salaries to average rents can only illustrate so much. Research conducted by the Institute for Fiscal Studies (IFS) looked at housing costs in the PRS relative to the prices of every day goods and services (other than housing) to get a better impression of how far housing costs had squeezed incomes.

Their analysis found that, relative to the general price level, the average (median) private rent paid in the mid-2010s was 53 per cent higher than that in the mid-1990s in London and 29 per cent higher across the rest of Britain.[42]

Even when supported by the main form of state subsidy for private renters, Housing Benefit,[43] low-income renters in the private sector (here meaning those in the bottom 40 per cent of the regional income distribution), have had to pay more of their remaining disposable income on housing costs in recent years. As the IFS notes:

> the fraction [of private renters] whose housing benefit does not cover all of their rent has increased quite steadily, from 74% in the mid 1990s to 90% in the mid 2010s. The biggest change occurred among low-income working-age households with children, where it rose from 63% to 90% over the same period.[44]

The level at which Local Housing Allowance (LHA) rates are set – that is, the measure used to determine how much Housing Benefit private renters can receive – has been strongly criticised (see Box 2).

Even in the social rented sector, an increasing proportion of tenants spend over a third of their income on rent (and require further assistance through Housing Benefit), following the introduction of the Affordable Rent model of social housing – a key development explored later in this report.

39 N O'Brien MP, *Green, Pleasant and Affordable: Why we need a new approach to supply and demand to solve Britain's housing problem*, Onward, 2018 [www.ukonward.com/wp-content/uploads/2018/06/220618-Green-Pleasant.-Affordable-Web-ready.pdf]
40 Ibid
41 ONS, *Housing summary measures analysis*, 2015 [www.ons.gov.uk/peoplepopulationandcommunity/housing/articles/housingsummarymeasuresanalysis/2015-08-05#affordability-of-private-renting]
42 R Joyce, M Mitchell and A N Keiller, *The cost of housing for low-income renters*, Institute for Fiscal Studies (IFS), 2017 [www.ifs.org.uk/uploads/publications/comms/R132.pdf]
43 Currently being replaced by the housing element of Universal Credit
44 IFS, *The cost of housing for low-income renters* (see earlier reference)

Box 2: Local Housing Allowance

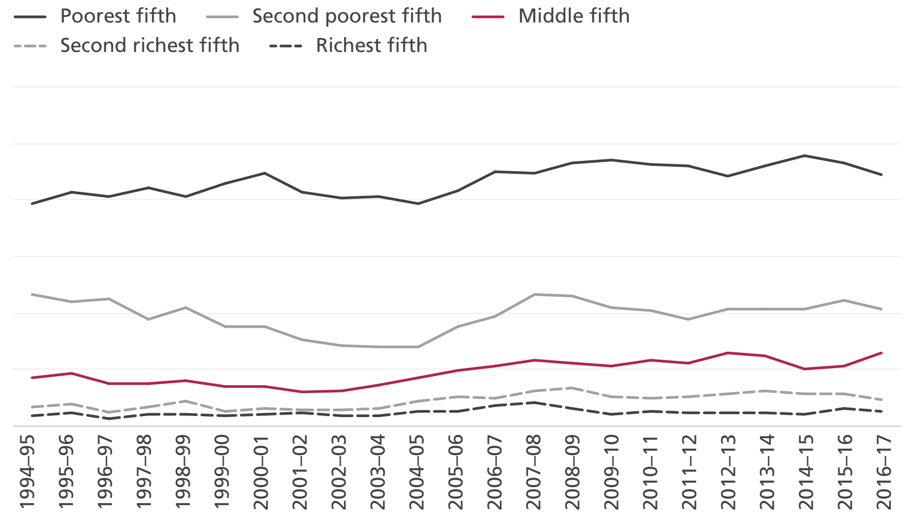
The LHA was introduced in 2008 to limit the financial assistance private renters could receive through Housing Benefit to 50 per cent of local market rents. In 2010, the limit changed to the lowest 30 per cent of local market rents. LHA rates were frozen in 2016 to last four years.

Analysis from the Chartered Institute for Housing indicates that 90 per cent of LHA rates now fail to cover the rent of the cheapest 30 per cent of private rented homes in the areas in which they are applied.[45] Indeed, it is argued that 'LHA rates are now so seriously out of line with local rents that private renting has become unaffordable for most low income tenants', with this raising the risk of homelessness.[46] To create a 'full alignment' between local rents and LHA rates would costs an estimated £1.2 billion.[47]

It should be noted, however, that the Government committed £125 million to the Targeted Affordability Fund in 2017's Autumn Budget, thus increasing the pot of money used to increase LHA rates in areas of particularly high affordability pressures. And in a measure welcomed by members of the CSJ Housing Commission, the Government also dropped plans to introduce the LHA cap for both general needs social housing as well as supported housing for some of the most vulnerable tenants (where rents can be much higher than even the private market). The overall freeze of LHA rate for private renters remains.

Most concerning to the CSJ Housing Commission is that, taking into account all tenures, it is the poorer members of society who have felt the squeeze of the housing crisis the most in recent years.

Figure 5: Percentage of working-age adults spending more than a third of their income on housing



Source: JRF, 2017

45 Inside Housing, 'Time to restore the link between benefit and rent', 2018 [www.insidehousing.co.uk/comment/comment/time-to-restore-the-link-between-benefit-and-rent-57709]

46 CIH, *Missing the Target?: Is targeted affordability funding doing its job?*, 2018 [www.cih.org/resources/PDF/Policy%20free%20download%20pdfs/Missing%20the%20target%20final.pdf]

47 Ibid

The proportion of working age adults in the poorest fifth spending over a third of their income (including Housing Benefit) on housing rose from 39 per cent from 1994–95 to 47 per cent in 2015–16.[48]

While rising housing costs is an issue affecting families across Europe, poorer British households have faced particular challenges. Research looking at changes in expenditure for the poorest households across Europe found that housing costs for people earning around £16,000 a year increased by 45 per cent between 2010 and 2016, compared with an average rise of 10 per cent for equivalent earners across the Continent.[49] Only in Bulgaria did costs rise higher out of 27 other European countries in the same period.[50]

Housing and social breakdown

The pressures of the housing crisis go further than reducing the amount of money families have to live on. At an individual level, housing stress is known to be detrimental to mental health. One in five English adults said a housing issue had negatively impacted their mental health in the last five years – with housing affordability issues being cited most frequently as the key issue behind this.[51] However, the lack of truly affordable housing can also pose a barrier to the flourishing of whole communities; indeed, we believe it to be a major contributor to social breakdown.

> One in five English adults said a housing issue had negatively impacted their mental health in the last five years – with housing affordability issues being cited most frequently as the key issue behind this.

A YouGov survey of 5,438 people commissioned by the housing charity Shelter illustrates the extent to which issues with housing affordability can negatively impact society and restrict individuals' life choices:

- 21 per cent of 18- to 44-year-olds without children said they were delaying starting a family because of a lack of affordable housing;
- Nearly a quarter of people continued to live with a partner, or know someone who has, because they couldn't afford to live apart;
- 22 per cent of 18- to 34-year-olds lived with their parents, and of this group, 58 per cent reported that developing and maintaining relationships was harder because of their living situation;
- Over a quarter of people reduced the amount they spent on food to help pay their housing costs;
- 12 per cent of people reported that high housing costs have affected their ability to move for work; and
- 13 per cent of people had resorted to sometimes borrowing on a credit card to help pay for housing costs.[52]

The migration of households on low-incomes to the PRS, where there is typically much less security than the social rented sector, has increased the number of households facing housing insecurity.

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48 Joseph Rowntree Foundation (JRF), 'Working-age adults spending more than a third of income on housing costs' [www.jrf.org.uk/data/working-age-adults-spending-more-third-income-housing-costs]

49 FEANTSA and Abbé Pierre Foundation, *Third Overview of Housing Exclusion in Europe*, 2018 [www.feantsa.org/download/full-report-en1029873431323901915.pdf]

50 Ibid

51 Shelter, *The impact of housing problems on mental health*, 2017 [england.shelter.org.uk/__data/assets/pdf_file/0005/1364063/Housing_and_mental_health_-_detailed_report.pdf]

52 B Turffrey, *The Human Cost*, Shelter, 2010 [england.shelter.org.uk/__data/assets/pdf_file/0003/268752/The_Human_Cost.pdf]

Box 3: Security of tenure in the PRS

Until quite recently, private renting was a tenure type dominated by a small number of people (nine per cent of all households in the late 1980s), typically in need of temporary housing – for example, young people, students and people moving for work.[53] Suitably, when Assured Shorthold Tenancies (ASTs) were introduced in 1988 they established a six- to twelve-month contracts as the norm for renters – with landlords able to evict tenants swiftly and easily through what are known as 'no-fault evictions'.

The PRS now comprises 20 per cent of all households, with the proportion of families with dependent children doubling since 1998.[54] And the average renting household now stay in their rented homes for nearly four years.[55]

Despite these changes in the composition of tenure, 81 per cent of rental contracts are ASTs with a minimum fixed term of just six to twelve months.[56] Those without a fixed term contract rent on a rolling basis and could be evicted at any time with two months' notice.

The Government has identified a need to reform tenancy, with the Housing Secretary stating: 'It is deeply unfair when renters are forced to uproot their lives or find new schools for their children at short notice due to the terms of their rental contract'.[57] The Government subsequently launched a consultation, proposing a 'model' three-year tenancy with a six-month break clause as a way of '[o]vercoming the barriers to longer tenancies in the private rented sector'.[58]

While improving security of tenure is an issue which lies beyond the scope of this report, future CSJ Housing Commission research will assess the extent to which current tenancy rules and evictions are negatively impacting the lives of low-income renters.

A three-year qualitative study conducted by the Joseph Rowntree Foundation looked at the ways housing pressures – such as affordability issues as well as housing insecurity – can interact with how households on low incomes deal with 'complex life events'.[59] Their research found that present 'housing systems' – including both the provision of affordable homes and welfare support for private renters – respond poorly to life events such as 'relationship breakdown, job insecurity, and the on-set of poor health and/or caring responsibilities'.[60] For many people, the 'housing ladder' now more closely resembles a 'housing treadmill' as finding an affordable and secure place to call home has become more unattainable – particularly when 'major life changes' had occurred, impacting household income or renters' capacity to work.[61]

Homelessness and temporary accommodation

In the worst cases, rising housing costs, the threat of eviction, and such life events as listed above can end with families becoming homeless. The termination of private rental contracts remains the principal reason for this.[62]

53 MHCLG, Live Table FT1101
54 MHCLG, *English Housing Survey Private rented sector, 2016–17*, 2018 [assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/723880/Private_rented_sector_report.pdf]
55 MHCLG, 'Longer tenancy plans to give renters more security', 2018 [www.gov.uk/government/news/longer-tenancy-plans-to-give-renters-more-security]
56 Ibid
57 Ibid
58 MHCLG, 'Overcoming the barriers to longer tenancies in the private rented sector', 2018 [www.gov.uk/government/consultations/overcoming-the-barriers-to-longer-tenancies-in-the-private-rented-sector]
59 B Robson, *Housing and life experiences: making a home on a low income*, JRF, 2018 [www.jrf.org.uk/file/51135/download?token=DgS7tvWo&filetype=findings]
60 Ibid
61 Ibid
62 MHCLG, Live Table 774_England [www.gov.uk/government/uploads/system/uploads/attachment_data/file/721292/Acceptances_and_Decisions.xlsx]

By every measure, homelessness has increased at an alarming rate in recent years. The number of annual homelessness acceptances (that is, when a household is understood as statutorily homeless by their local authority) was just over 59,000 in England in 2016–17 – 19,000 higher than in 2009–10.[63]

When certain conditions are met,[64] it is incumbent on local authorities to find settled accommodation for households who become homeless via what is known as the 'main homelessness duty'. Historically, this has been an offer of a tenancy in social housing. Since the introduction of the Localism Act (2011), local authorities have had the power to discharge their duty through an offer of a twelve-month assured shorthold tenancy in the private rented sector.

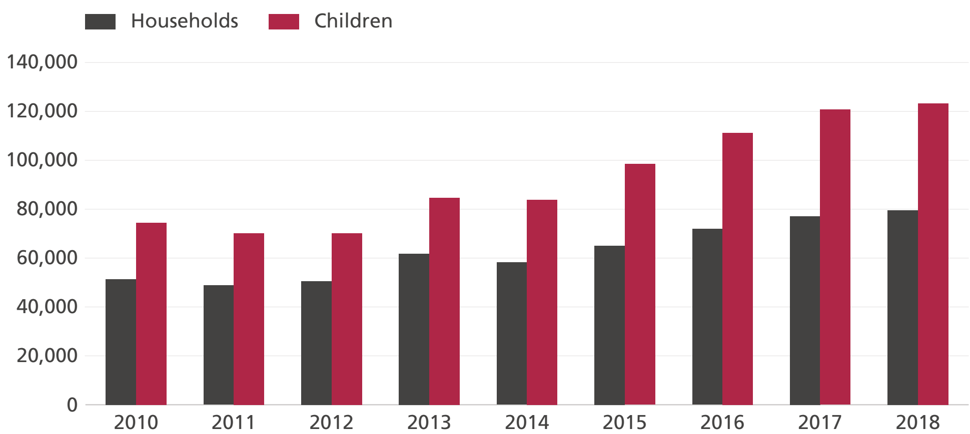
The majority of households continue to move – eventually – into social housing.[65] But local authorities unable to make an immediate offer of settled accommodation must ensure that temporary accommodation is found in the meantime.

While the passing of 2017's Homelessness Reduction Act brought in welcome new measures to bolster local authorities' role in both preventing and relieving homelessness, the number of families caught in the temporary accommodation trap remains alarmingly high.

The latest data shows that there are 79,880 statutorily homeless households currently living in temporary accommodation, waiting for an offer of permanent settled accommodation.[66] This represents a 56 per cent increase since 2010.

A continuation of current trends, according to Crisis's Homelessness Monitor, would see placements in temporary accommodation exceed 100,000 by 2020.

Figure 6: Households and children living in temporary accommodation



Source: MHCLG, Live Table 775

63 S Fitzpatrick, H Pawson, G Bramley, S Wilcox, B Watts & J Wood, *The homelessness monitor: England 2018*, Crisis, 2018 [www.crisis.org.uk/media/238700/homelessness_monitor_england_2018.pdf]

64 To qualify applicants must meet the five following criteria: be homeless or threatened with homelessness within 28 days; be eligible for assistance (e.g. be a UK national or habitually resident); be in priority need (e.g. have dependent children or demonstrate that you are significantly more vulnerable than the average person facing homelessness); be unintentionally homeless; and have a local connection to the local authority in which you make a homelessness application.

65 MHCLG, Live Tables 777 and 778 [www.gov.uk/government/statistical-data-sets/live-tables-on-homelessness]

66 MHCLG, Live Table 775_England [www.gov.uk/government/uploads/system/uploads/attachment_data/file/721296/Temporary_accommodation.xls]

“

Children lose an average of 55 school days a year due to the disruption caused by temporary accommodation. And children living in temporary accommodation are more likely to sleep rough in later life.

As stressed to us by the CSJ Alliance charities fighting poverty on the front line, the insecurity of living in temporary accommodation can have profound implications for households' wellbeing.[67] Over half the respondents to a survey of families living in temporary accommodation said that their health or their family's health had suffered as a result.[68]

As many as 123,000 children currently live in temporary accommodation – a rise of 65 per cent since 2010.[69] This environment can have a serious impact on a child's prospects. Children lose an average of 55 school days a year due to the disruption caused by temporary accommodation.[70] Moreover, children living in temporary accommodation are more likely to sleep rough in later life.[71]

Families may also be housed in what has been referred to as 'unsupported temporary accommodation', including private hostels, bed and breakfasts (B&Bs), and guesthouses.[72] Though accounting for a small number of placements overall, the number of households rehoused in B&Bs has risen particularly quickly, now standing 250 per cent higher than in 2009.[73]

People housed in unsupported temporary accommodation can face unimaginably poor living conditions.[74] During a three-year IPPR study following a cohort of 45 people in and out of unsupported temporary accommodation, five of those involved died.[75]

As of March 2018, 746 families with children had been living in B&B accommodation for over six weeks.[76]

Many people are unable to be rehoused, even 'temporarily', in their local area. Between December 2010 and December 2018 households placed in temporary accommodation outside the local authority that recorded them as homeless increased by 250 per cent.[77]

These figures on statutory homelessness, it should be noted, do not represent the full extent of homelessness in England. As noted by the Government:

> An unknown number of other homeless people are hidden in the overcrowded homes of friends or family, or are moving between hostels and the street. People become homeless for a number of reasons; the most common of these is the end of a private tenancy. Anyone can become homeless, but the risk is greatest for those on a limited income who live in expensive areas.[78]

67 Per anecdotal evidence submitted to the CSJ
68 F Mitchell, J Neuburger, D Radebe and A Rayne, *Living in limbo: Survey of homeless households living in temporary accommodation*, Shelter, 2004 [england.shelter.org.uk/__data/assets/pdf_file/0020/66404/Living_in_limbo.pdf]
69 Ibid
70 House of Commons Committee of Public Accounts, H*omeless households*, House of Commons, 2017 [publications.parliament.uk/pa/cm201719/cmselect/cmpubacc/462/462.pdf]
71 P Mackie, *Nations Apart? Experiences of single homeless people across Great Britain*, Crisis, 2014 [www.crisis.org.uk/media/20608/crisis_nations_apart_2014.pdf]
72 Homeless link, 'Nowhere Fast: the reality of unsupported temporary accommodation', 2016 [www.homeless.org.uk/connect/blogs/2016/apr/12/nowhere-fast-reality-of-unsupported-temporary-accommodation]
73 Crisis, *The homelessness monitor: England 2018* (see earlier reference)
74 C Maciver, C Snelling, A Fleming and B Davies, *The Journey Home: Building a solution to unsupported temporary accommodation*, IPPR, 2016 [www.ippr.org/files/publications/pdf/the-journey-home_report_Dec2016.pdf]
75 Ibid
76 MHCLG, Live Table 793
77 W Wilson and C Barton, Households in temporary accommodation (England), House of Commons Library, 2018 [researchbriefings.parliament.uk/ResearchBriefing/Summary/SN02110#fullreport]
78 HM Treasury, *Treasury Minutes: Government response to the Committee of Public Accounts on the Fourth to the Eleventh reports from Session 2017–19*, 2018 [www.parliament.uk/documents/commons-committees/public-accounts/Cm-9575-Treasury-Minutes-march-2018.pdf#page=29]

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Shelter estimate that, including these 'hidden homeless', there could be as many as 268,000 people homeless in England in total.[79]

One of the more visible (but still difficult to measure) forms of homelessness is rough sleeping. By the best count, rough sleeping has increased in England every year since 2010.[80] On a given night, around 4,759 people may be expected to be sleeping rough in England – that is, 169 per cent higher than in 2010.[81] The average age of death of someone who is rough sleeping is just 47.[82]

The financial costs – benefits over bricks?

Government spending on social housing may be broadly divided into demand-side subsidy (for example, individuals and households living in either the PRS or social housing sector supported by Housing Benefit or the housing element of Universal Credit), and supply-side subsidy (that is, 'bricks and mortar' subsidy through capital grants to social housing providers or other forms of direct investment to landlords, enabling them to both build and let homes at below-market rents). Complicating the picture, the administration of the different types of subsidy have historically been spread over a number of government departments and bodies, now including the Ministry of Housing, Communities and Local Government and Homes England, the Treasury, and the Department for Work and Pensions.[83]

Critically, where once the majority of government subsidy for social housing would primarily be invested in 'bricks and mortar' on the supply-side, this has shifted dramatically to housing benefits on the demand side over a period of forty years. Analysis conducted by Professor Steve Wilcox for the Chartered Institute for Housing suggests that while the total government housing subsidy was split 18:82 between demand – and supply-side subsidies in 1975–76, by 2000–01 this had inverted to 80:20 – with the pendulum swinging even further by 2015–16 to 96:4.[84]

But recent changes in the composition of housing tenure – and the rises in housing costs more generally – mean that our increasing reliance on demand-side subsidy may now be legitimately called into question. One consequence of the millions of low-income families moving into the PRS, for example, is that the Housing Benefit bill has skyrocketed.

The number of private renters in receipt of Housing Benefit increased by 42 per cent in the seven years to 2016.[85] By that time the Government was spending over £25 billion on Housing Benefit payments annually, representing 10 per cent of total welfare spending.[86]

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79 Shelter, *Far from alone: Homelessness in Britain in 2017*, 2017 [england.shelter.org.uk/__data/assets/pdf_file/0017/1440053/8112017_Far_From_Alone.pdf]

80 MHCLG, Rough Sleeping Statistics Autumn 2017, England (Revised), 2018 [assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/682001/Rough_Sleeping_Autumn_2017_Statistical_Release_-_revised.pdf]

81 Crisis, *The homelessness monitor: England 2018* (see earlier reference)

82 The CSJ's report, *Housing First: Housing-led solutions to rough sleeping and homelessness* (2017), provided the Government with a blueprint to end rough sleeping [www.centreforsocialjustice.org.uk/core/wp-content/uploads/2017/03/CSJJ5157_Homelessness_report_070317_WEB.pdf]

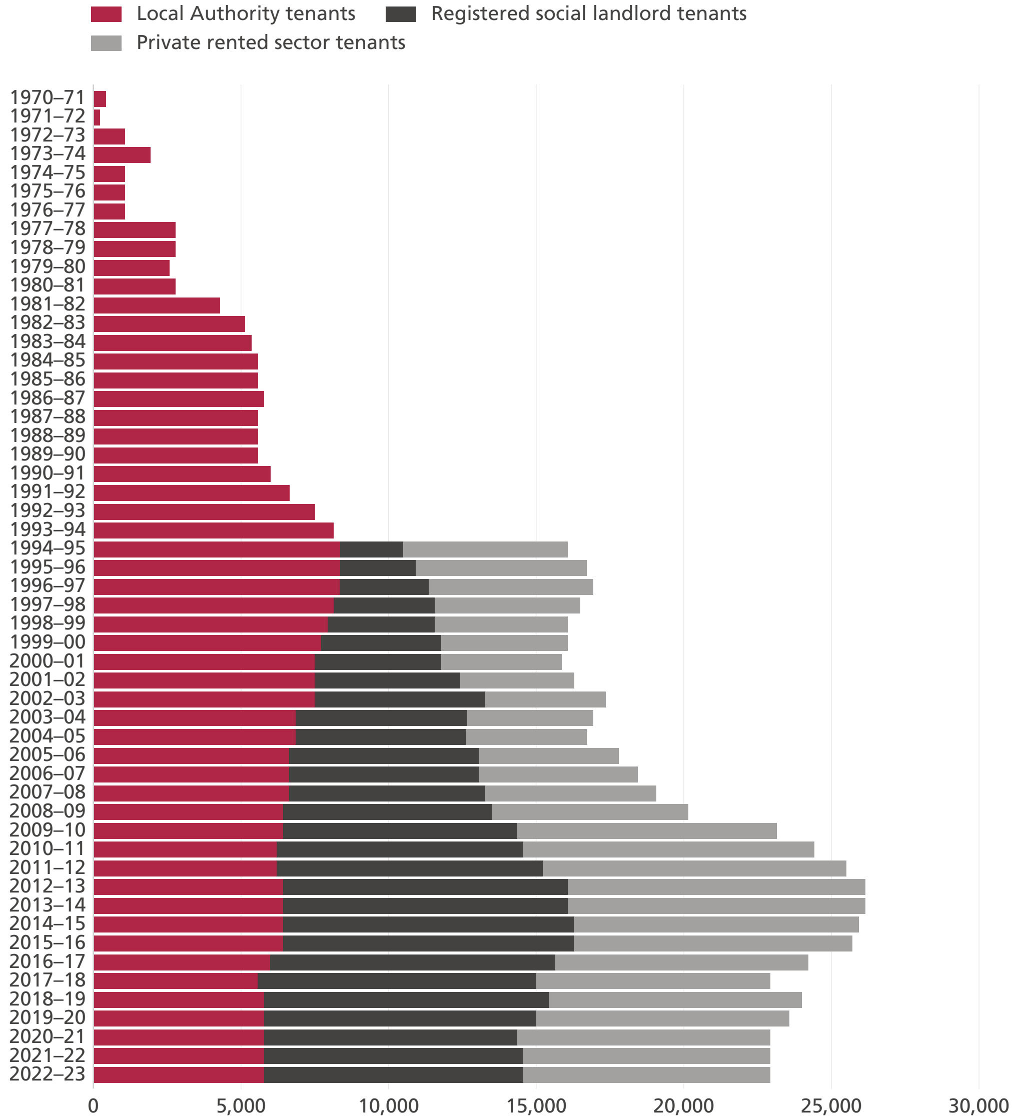
83 M Stephens, J Perry, S Wilcox, P Williams and G Young, *2018 UK Housing Review*, CIH, 2018

84 Ibid

85 Department for Work and Pensions (DWP), *Housing Benefit Caseload Statistics*, 2018 [www.gov.uk/government/uploads/system/uploads/attachment_data/file/733352/housing-benefit-caseload-data-to-may-2018.ods]

86 House of Lords Select Committee on Economic Affairs, *Building more homes*, 2016 [publications.parliament.uk/pa/ld201617/ldselect/ldeconaf/20/20.pdf]

Figure 7: Expenditure on Housing Benefit (UK) by tenure (including forecast to 2022–23), real terms 2018–19 prices (£million)



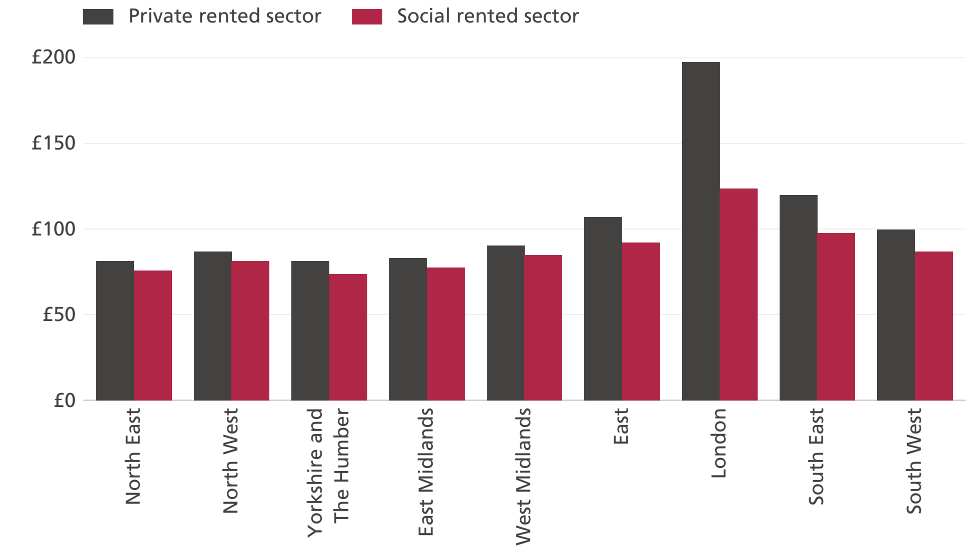
Source: DWP, 2018

Clearly, Housing Benefit is expensive – but particularly so in the private rented sector. The average weekly Housing Benefit award in the private rented sector is £113.55 compared to £90.44 in the social rented sector.[87]

The disparity in Housing Benefit awards is especially pronounced in areas of the country with high levels of affordability pressure. In London, for example, average Housing Benefit awards are £73 more expensive in the PRS than the social rented sector. Nationally, an average private rented household may therefore expect to receive upward of £1,200 more over the course of a year than a social rented household, rising to £3,700 in London.

87 DWP, *Housing Benefit Caseload Statistics* (see earlier reference)

Figure 8: Average weekly Housing Benefit award by region, March 2018



Source: DWP Stat-Explore, 2018

> CSJ analysis finds that if the trends of the last decade continue, the taxpayer will see the annual Housing Benefit bill rise to £71 billion by 2050, with £34.5 billion a year going to private landlords (before adjusting for inflation). By 2030 alone, private landlords are set to have received some £122 billion in Housing Benefit payments.

As the private rented sector expanded, Housing Benefit spending on private tenancy rents doubled to £9.3 billion between 2005–06 and 2015–16 (see Figure 7).[88] Since then, spending on PRS housing benefit has averaged £8.4 billion per year.[89]

CSJ analysis finds that if the trends of the last decade continue, the taxpayer will see the annual Housing Benefit bill rise to £71 billion by 2050, with £34.5 billion a year going to private landlords (before adjusting for inflation). By 2030 alone, private landlords are set to have received some £122 billion in Housing Benefit payments.[90]

Critically, as noted by the National Housing Federation, not only is it 25 per cent more expensive to house someone in the PRS through housing benefit, the money going to private landlords is rarely redirected into additional housing, unlike that going to many landlords in the social rented sector.[91]

The costs of the temporary accommodation trap

A further issue for some of the most vulnerable families is that the current homelessness relief system remains geared towards moving families into social housing, rather than through demand-side support (which, as discussed in Box 2, has been limited for a number of years).

88 Ibid
89 Ibid
90 CSJ analysis of DWP, *Housing Benefit Caseload Statistics*, assuming the future growth rate of both total Housing Benefit expenditure and the growth rate of the proportion going to private landlords to be the average between 2008–18.
91 National Housing Federation (NHF), 'How public money is spent on housing' [www.housing.org.uk/how-public-money-is-spent-on-housing]

As one commentator has noted, '[i]t seems the principle contained in councils' duty to house homeless families is in conflict with the decline of available social housing with which to fulfil it'.[92] The decline in bricks and mortar investment in social housing – with average PRS rents in some areas rising much more quickly than the demand-side subsidies available – has left thousands of families stuck in the temporary accommodation trap.

This set up is not only systemically confused, but extremely costly to the taxpayer.

> Between 2013–14 and 2017–18, English councils spent £3.87 billion on temporary accommodation costs. In the past year alone, £937 million was spent on temporary accommodation for homeless households.

Recent Freedom of Information returns show that, between 2013–14 and 2017–18, English councils spent a total of £3.87 billion on temporary accommodation costs.[93] In the past year alone, £937 million was spent on temporary accommodation for homeless households.

This amounts to an increase in the annual bill of 56 per cent, as temporary accommodation cost local authorities £602 million. Investigators noted that, as some of major metropolitan areas had not responded to the request, including Bristol, Leeds and Leicester, last year temporary accommodation spending could have surpassed the £1 billion mark.[94] (Note that these figures represent the gross spend and do not include money councils made back via rental income – almost all of which will be paid through housing benefit. Given the average returns made in the local authorities captured by the FOI analysis, further estimates indicate that the Government spent a net £3 billion on housing benefit to keep people in temporary accommodation across 290 local authorities.)[95]

Despite Sir George Young's exhortation in 1991 that housing benefit would 'take the strain' of the difference between rents in the social and private rented sectors,[96] the effective employment of private landlords to support central and local government in their efforts to rehouse homeless households has rarely been stated as government policy.

This is perhaps reflected in some landlords' attitudes. Evidence presented by the National Landlords Association (NLA) to the then Department for Communities and Local Government in 2013 showed that less than a quarter (22 per cent) of private landlords were willing to let to tenants in receipt of Housing Benefit, a marked drop from the 46 per cent of members who reported that they were prepared to do so in 2010.[97] A more recent survey by Shelter found that six in ten landlords either bar (43 per cent) or prefer not to let to (18 per cent) renters claiming Housing Benefit.[98]

Are demand-side subsidies a long-term solution?

For those at the sharpest end of the housing crisis, and the growing number of those experiencing homelessness and sleeping on the streets, the Government recognises that more affordable housing is needed as part of its longer-term response. Indeed, as stated in its recently published Rough Sleeping Strategy, '[e]nding rough sleeping starts with secure

92 B Irvine, 'Temporary accommodation in London is a system in crisis', Trust for London, 2016 [www.trustforlondon.org.uk/news/temporary-accommodation-london-system-crisis]
93 Inside Housing, 'The cost of homelessness: council spend on temporary accommodation revealed', 2018 [www.insidehousing.co.uk/insight/insight/the-cost-of-homelessness-council-spend-on-temporary-accommodation-revealed-57720]
94 Ibid
95 Ibid
96 Hansard, HC 30 Jan 1996, Col 940 [publications.parliament.uk/pa/cm199091/cmhansrd/1991-01-30/Orals-2.html]
97 House of Commons Work and Pensions Committee, *Support for housing costs in the reformed welfare system*, House of Commons, 2014 [publications.parliament.uk/pa/cm201314/cmselect/cmworpen/720/720.pdf]
98 Shelter [written evidence to the Public Accounts Committee] [data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/public-accounts-committee/homeless-households/written/73943.pdf]

and affordable housing'.[99] The House of Commons Public Accounts Committee has also concluded that the Ministry for Housing, Communities and Local Government 'is clear that the real long-term answer to homelessness is to have good quality social housing at affordable rents'.[100]

There is less commitment, however, to ensuring that homeless families on low-income households are supported with their housing costs while also ensuring that taxpayer funding of private landlords through Housing Benefit is not left to spiral further.

The reliance on demand-side subsidy flies in the face of numerous studies showing how 'bricks and mortar' investment in homes for Social Rent[101] would see cost benefits both for the taxpayer and for low-income households – albeit over the long-term. Analysis by Savills, for example, found that housing 100,000 households projected to live in the PRS in social housing sector instead would:

> reduce the hypothetical housing benefit … by £430m per year, with rents more aligned to the low incomes of those excluded from the market. And you get something tangible for your upfront subsidy in the form of new housing assets.[102]

The study found that this alternative could generate £23.9 billion in savings to Government over the long term in reduced Housing Benefit spending.[103]

A report produced by Capital Economics in 2015 likewise found that investing in 100,000 new Social Rent homes a year would deliver 'a sustained structural improvement' to public sector finances by reducing spending on welfare payments and generating higher tax receipts by stimulating the construction industry.[104] After an initial increase in borrowing to account for the period when demand-side subsidies would still outstrip the savings made by supply-side investment, the Exchequer would see a net surplus per their model by 2035.[105]

This analysis was recently updated to model for four different post-Brexit economic environments, finding that in each scenario 'the government would still achieve better value for taxpayers' money'.[106] It concluded that investing in 100,000 homes for Social

99 MHCLG, *Rough Sleeping Strategy*, 2018 [assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/733421/Rough-Sleeping-Strategy_WEB.pdf]

100 Committee of Public Accounts, *Homeless households* (see earlier reference)

101 Typically set at around 50 per cent of the market rate. See page Box 4 for a discussion of the different types of affordable housing

102 Savills, *Investing to solve the housing crisis*, 2017 [pdf.euro.savills.co.uk/uk/spotlight-on/spotlight-investing-to-solve-the-housing-crisis.pdf]

103 Ibid

104 J Chaloner, A Dreisin, Mark Pragnell, *Building New Social Rent Homes: An economic appraisal: Evaluating the economic case for building 100,000 new social rent homes each year*, Capital Economics for SHOUT and the National Federation of ALMOs, 2015 [d3n8a8pro7vhmx.cloudfront.net/themes/5417d73201925b2f58000001/attachments/original/1434463838/Building_New_Social_Rent_Homes.pdf?1434463838]

105 Ibid

106 J Chaloner and M Pragnell, *Building New Social Rent Homes: An updated economic appraisal: The economic case for building 100,000 new social rent homes a year in the light of Brexit*, 2017 [d3n8a8pro7vhmx.cloudfront.net/4socialhousing/pages/1/attachments/original/1475255900/SHOUT_Building_New_Social_Rent_Homes_V3.pdf?1475255900]

Rent a year at the cost of 7 billion a year – representing, the report emphasises, the cost of running the NHS for two weeks – would:

> generate material savings to the exchequer, ranging from £102 billion to £319 billion (in today's prices). Although the net impacts vary, they show that even under a range of plausible outcomes after Brexit, the case for investing in new social housing remains strong[107]

These studies reaffirm the assessment provided by the National Audit Office (NAO) of the value for money of the Coalition Government's Affordable Homes Programme. The NAO found that, over 30 years, funding housing at Social Rents offers better value for money for the taxpayer than charging higher Affordable Rents, in part through savings to the Housing Benefit bill.[108]

Although Housing Benefit spending is set in the near term to stabilise at current levels – that is, £23 billion per year – the Government should seriously consider whether a longer-term recalibration of demand-side subsidy to supply-side investment is needed in light of the worsening housing crisis.

Recommendation 1

The Government should establish an independent review to definitively model the financial implications of shifting demand-side subsidy to supply-side investment over the longer term.

The conclusions of the review should then be used to inform the Government's strategy to meet the housing needs of low-income households.

The costs of crisis are unsustainable. Increasing the supply of affordable housing will be one important part of the solution relieving the pressures on households and the public finances described in this chapter – thus making it a key focus of the CSJ Housing Commission.

Thankfully, the Government recognises its importance too. But whether it recognises the full extent of the need for truly affordable homes is less clear. In Part 2, we consider the scale of the challenge ahead.

107 Ibid
108 National Audit Office (NAO), *Financial viability of the social housing sector: introducing the Affordable Homes Programme*, DCLG, 2012 [www.nao.org.uk/wp-content/uploads/2012/07/1213465.pdf]

part two

The need for truly affordable housing

Understanding housing need

In this chapter, we examine one of the key drivers of the housing crisis – the shortage of homes in England. Between 2001 and 2010, an average of 144,000 new homes were completed annually: 100,000 fewer per year than in the 1970s.[109] After the downturn in housebuilding following the financial crisis of 2008, the number of new homes built each year has picked up steadily – reaching 183,500 in 2016–17. But not by nearly enough.

The Government, to its credit, recognises the seriousness of the housing shortage and has been bold in placing it at the heart of its domestic policy agenda. However, examining the full extent of the shortage highlights the scale of the challenge facing us. Recent estimates find that as many as 340,000 additional homes are needed annually for 15 years in order to meet both future need and the existing backlog.

We also argue, here, that numbers aren't everything. The types of homes delivered matter just as much as their quantity. So we explore the extent to which there is a shortage of homes that may truly be considered 'affordable' for families on low to modest incomes. In Part 3, we investigate the reasons for these shortages and make recommendations that, we believe, will turbocharge the key vehicles of affordable housing supply.

England's housing shortage

A strong consensus has emerged that the number of new homes needed in England has outstripped supply.[110] Yet there is far from universal agreement over the precise scale of this shortage. This is, in part, because defining 'need' is not straightforward.

109 NAO, *Housing in England: overview*, DCLG, 2017 [www.nao.org.uk/wp-content/uploads/2017/01/Housing-in-England-overview.pdf]

110 With one notable exception being Prof Ian Mulhiern of Oxford Economics, who argues that there is, in fact, a surplus when looking at the national household formation compared to supply. This analysis, as others have noted, does not give full appreciation to the recent growth in concealed households as well as the affordability pressures in specific areas that could be relieved through the supply of new homes.

How many new homes are needed?

As one recent report has argued, 'housing need' can be 'understood as the amount of housing required for all households to live in accommodation that meets a certain normative standard'.[111] Social norms relating to the space, affordability and suitability of housing all shape society's expectations of the homes individuals and their families should be living in.[112]

As these norms evolve, need is also driven by the relative 'demand' for housing in any given context – that is, what households choose, or wish, to spend on the costs of housing 'given their preferences and ability to pay'.[113]

Housing need is thus often calculated using demographic trends to compare growth in the number of households with trends in the supply of homes. A further factor contributing to need is the 'backlog' of households already living in unsuitable housing and requiring new accommodation – again, with 'unsuitability' shaped by contemporary norms and quality standards.

Given the speculative nature of these considerations, calculating housing need may never be an exact science. However, organisations and researchers have made a range of estimates for housing need, acknowledging this reality.

In 2014, Dr Alan Holmans at the Centre for Housing and Planning Research, Cambridge University, produced an influential new calculation of housing need which was published by the Town and Country Planning Association. The analysis updated the Government's official estimate – which was based on earlier census data and population forecasts to 2021 – with an extended projection to 2031. Dr Holmans' model, which included higher population estimates than in the past but lower household formation rates (as well as adjustments taking into account second homes and housing vacancies), indicated that around 240,000–245,000 additional homes were required each year to meet newly arising demand and overall need.[114]

In 2016, the House of Lords Economic Affairs Committee found that at least 300,000 homes a year were needed to be delivered 'for the foreseeable future' in order to meet the current backlog.[115] This was based on evidence taken from the Exchequer Secretary to HM Treasury, who told the Committee that Treasury 'modelling suggests that in order to keep the house prices to earnings ratio constant, somewhere between 250,000 and 300,000 homes per year need to be built'.[116]

Recent and more sophisticated analysis produced by Professor Glen Bramley at Herriot-Watt University, commissioned by the National Housing Federation and Crisis and submitted in evidence to the CSJ Housing Commission, finds current housing need to constitute four million additional homes over a 15-year period.

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111 W Wilson and C Barton, *Tackling the under-supply of housing in England*, House of Commons Library, 2018 [researchbriefings.files.parliament.uk/documents/CBP-7671/CBP-7671.pdf]

112 DCLG, *Estimating housing need*, 2010 [assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/6338/1776873.pdf]

113 W Wilson and C Barton, *Tackling the under-supply of housing in England* (see earlier reference)

114 A Holmans, 'New estimates of housing demand and need in England, 2011 to 2031', Town & Country Planning Association, 2013 [www.cchpr.landecon.cam.ac.uk/Downloads/HousingDemandNeed_TCPA2013.pdf]

115 HoL Select Committee on Economic Affairs, *Building more homes* (see earlier reference)

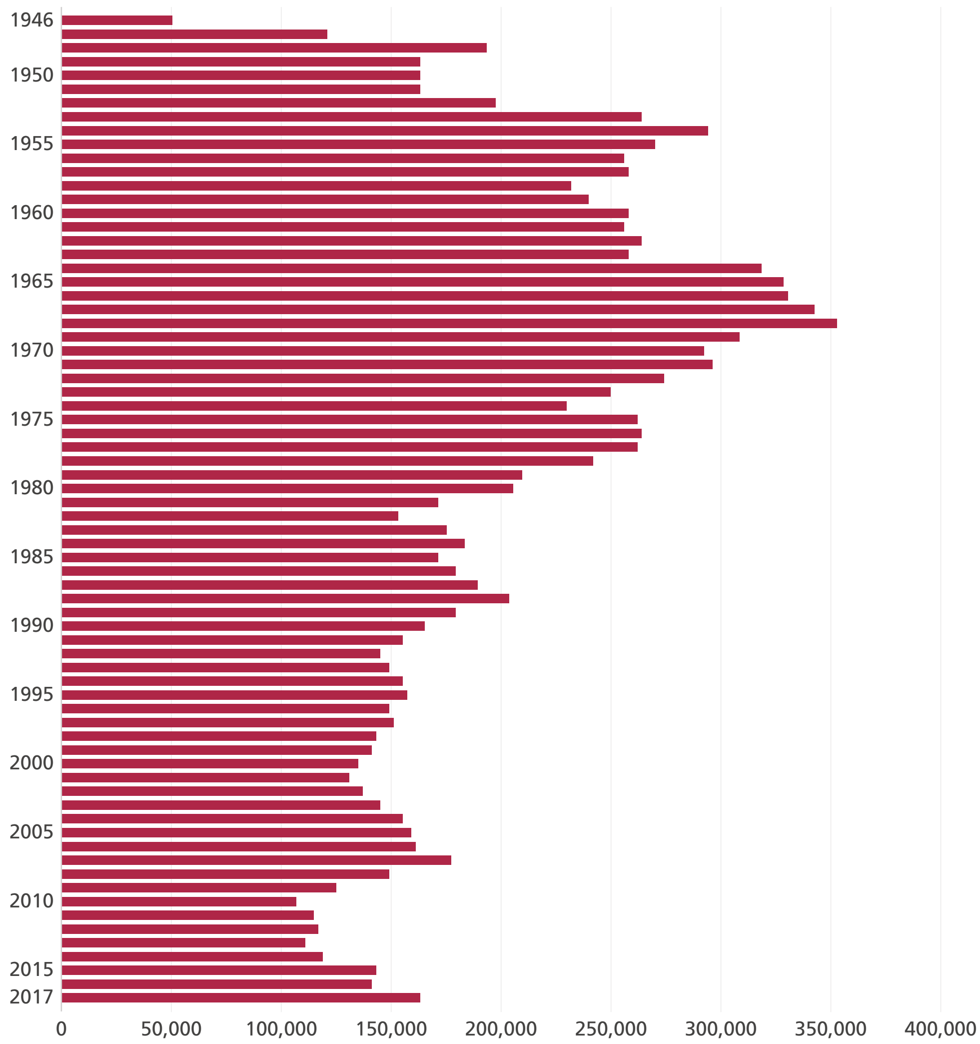
116 Ibid

In the analysis, which is explored in detail below, greater emphasis is given to backlog of households including some of society's most disadvantaged. These include not only those spending vast amounts on rent, but also 'children unable to leave the family home … [and] couples delaying having children because they are stuck in unsuitable housing', as well as those who are homeless.[117] Including these groups on top of households forming in the future means that as many as 340,000 new homes are needed every year until 2031.

What is the Government's housing target?

The Government's most recent projections estimate that the number of households in England will have grown from 22.7 million in 2014 to 28.0 million by 2039, representing an average annual increase of 210,000 households.[118]

Figure 9: Permanent dwellings completed, England



Source: MHCLG, Live Tables 244

117 NHF, 'England short of four million homes', 2018 [www.housing.org.uk/press/press-releases/england-short-of-four-million-homes]

118 DCLG, 2014-based household projections in England, 2014 to 2039, 2016 [assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/536702/Household_Projections_-_2014_-_2039.pdf]

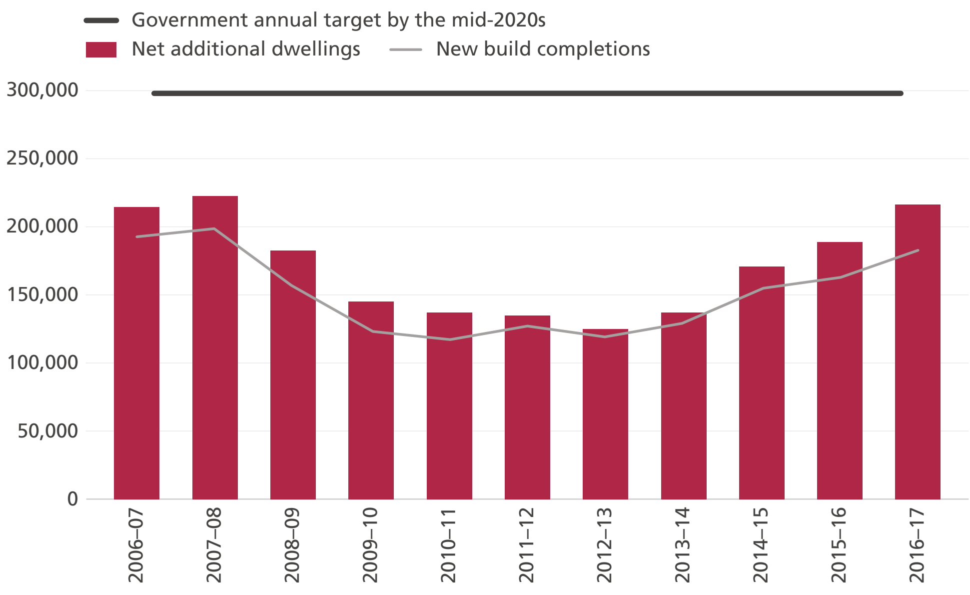
The 2015 Conservative Government's pledge to supply one million homes by the end of 2020 fell roughly in line with this projection with 200,000 new homes set as the annual target. The 2017 Conservative Government was elected on a manifesto which maintained this commitment, but pledged to accelerate delivery to 'half a million more by the end of 2022'.[119] The Autumn Budget 2017, however, announced an ambition to put England 'on track to raise housing supply to 300,000 per year, on average, by the mid-2020s'.[120]

The Government's aim to boost housebuilding to levels not seen in over half a century has been welcomed by many. But it is clear that a significant upturn in building is needed in order to achieve this. Data collected by local authorities and published by MHCLG recorded that just 163,000 new homes were completed in 2017 (see Figure 9).[121]

These figures do not, it should be noted, capture the full extent of new homes delivered each year. The MHCLG also publishes data tracking net additional homes – that is, including converted properties and new builds and as well as homes demolished – from 2006–07. Progress has been made since net additional dwellings fell to as low as 124,720 in 2012–13, with 2016–17's net additions reaching 217,350. In this more reliable dataset (according to MHCLG), the number of new builds completed is recorded as 183,570.[122]

This represents the second highest net count in a decade, since 223,530 were delivered in 2007–08 (see Figure 10).[123]

Figure 10: Net additional dwellings 2006–07 to 2016–17



Source: MHCLG, Live Tables 120

119 Conservative Party Manifesto 2017 [s3.eu-west-2.amazonaws.com/conservative-party-manifestos/Forward+Together+-+Our+Plan+for+a+Stronger+Britain+and+a+More+Prosperous....pdf]
120 HM Treasury, *Autumn Budget 2017: Building the homes the country needs*, 2017 [assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/661430/Building_the_homes_the_country_needs.pdf]
121 MHCLG, Live Table 244 [www.gov.uk/government/uploads/system/uploads/attachment_data/file/720262/LiveTable244.xlsx]
122 MHCLG Live Table 120 [www.gov.uk/government/uploads/system/uploads/attachment_data/file/659546/Live_Table_120.xls]
123 Ibid

Yet despite the more positive impression given by this data, there remains a significant way to go for the Government to boost delivery up to the level set out in 2017's Budget, let alone the level required to meet the backlog of 'concealed' households and those in desperate need.

IPPR have highlighted that 67 per cent of local authorities failed to meet the levels of supply required by their own policies in 2015–16.[124] And there continues to be doubt across the housing sector as to whether the Government will meet its mid-2020s target. Just 12 per cent of chartered surveyors believe the Government will reach 300,000 new homes a year under the current system.[125] Among housebuilders, this falls to just one per cent.[126]

What is the shortage of 'affordable' housing?

Looking at the gross number of new homes needed does not tell the whole story. The CSJ Housing Commission strongly emphasises that there is a particular scarcity of affordable housing within the (already insufficient) supply of new homes.

Box 4: Defining 'affordable housing'

Although no official definition exists legally, the Government's definition of 'affordable housing' for the purposes of planning is stated in Annex 2 of the National Planning Policy Framework (NPPF), the document which 'sets out the planning policies for England and how these should be applied'.[127]

A revised NPPF was published in July 2018, defining 'affordable housing' as:

> housing for sale or rent, for those whose needs are not met by the market (including housing that provides a subsidised route to home ownership and/or is for essential local workers)[128]

Notably, this definition does not directly factor in individual occupants' circumstances – that is, what they are able to afford given their income and dependants.[129] Despite 'affordability' arguably remaining abstract unless considered in relation to someone or group's ability to pay, the NPPF's definition effectively includes all homes outside the private rental or ownership market.

There are a number of types of affordable housing within this bracket:

a. **Affordable housing for rent,** where the rent is set in accordance with the Government's rent policy for Social Rent (typically 50 per cent of local market rents) or Affordable Rent (typically 20 per cent below local market rents).

   The main form of affordable housing delivered historically have been homes for Social Rent – that is, 'social housing' in its more traditional sense – and they remain the vast majority of the existing affordable housing stock (some 17 per cent of all homes in England). The other variants of affordable housing outlined here comprise one per cent of all homes. Since 2011, however, the number of new homes for Social Rent delivered each year has fallen dramatically – almost entirely in many areas – as other types of affordable housing have been given priority.[130]

"Just 12 per cent of chartered surveyors believe the Government will reach 300,000 new homes a year. Among housebuilders, this falls to one per cent.

124 D Baxter and L Murray, *Priced Out? Affordable housing in England*, IPPR, 2017 [www.ippr.org/publications/priced-out-england]
125 Independent, 'Only 12% of surveyors think government target of 300,000 new homes will be hit', 2018 [www.independent.co.uk/news/business/news/new-homes-government-target-300000-royal-institution-of-chartered-surveyors-12-per-cent-a8187911.html]
126 Building, 'Just 1% of housebuilders think government housing targets are achievable', 2018 [www.building.co.uk/news/just-1-of-housebuilders-think-government-housing-targets-are-achievable/5094519.article]
127 MHCLG, *National Planning Policy Framework*, Jul 18 [assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728643/Revised_NPPF_2018.pdf]
128 Ibid
129 See: Shelter, 'What is 'affordable housing'?', 2015 [blog.shelter.org.uk/2015/08/what-is-affordable-housing]
130 Shelter, 'In 60% of the country, social house building has effectively stopped', 2014 [shelterpolicy.wpengine.com/2014/11/in-60-of-the-country-social-house-building-has-effectively-stopped]

b. **Starter homes,** as specified in Sections 2 and 3 of the Housing and Planning Act 2016 and any secondary legislation made under these sections (note that these are not yet in force). The definition of a starter home, as advised by the NPPF 2018, should reflect the meaning set out in the appropriate legislation.

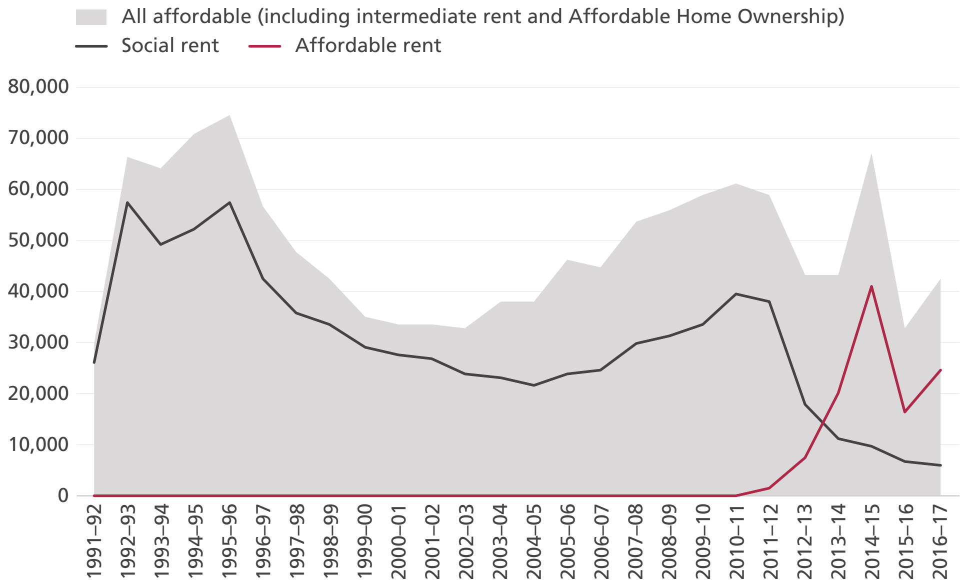
   The inclusion of starter homes here in the revised NPPF 2018 follows past governments' widening of the definition of affordable housing to include low(er) cost homes to purchase. It is notable, however, that the final document omitted details contained in the draft NPPF 2018 which specified explicitly that 'eligibility to purchase a starter home to those who have maximum household incomes of £80,000 a year or less (or £90,000 a year or less in Greater London)'. Now these limits are left to be decided in future secondary legislation.

c. **Discounted market sales housing,** which is that sold at a discount of at least 20 per cent below local market value with provisions in place to ensure housing remains at a discount for future eligible households.

d. **Other affordable routes to home ownership,** which is housing provided for sale that provides a route to ownership for those who could not achieve home ownership through the market. It includes shared ownership, relevant equity loans, other low cost homes for sale and rent to buy (which includes a period of intermediate rent).[131]

As to whether the Government's prioritising of certain 'types' of affordable housing is adequately serving the members of society most in need of support with their housing costs is discussed in Box 5, below.

Figure 11: Affordable housing completions, by tenure



Source: MHCLG Live Table 1000

While it has not been stated explicitly, the 2017 target to deliver around 250,000 affordable homes by the end of this parliament (that is, 2015–20) implies, as noted by the Chartered Institute for Housing,[132] that the Government's aim is to deliver 50,000 affordable homes each year.

131 MHCLG, *National Planning Policy Framework*, Jul 18 [assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728643/Revised_NPPF_2018.pdf]

132 CIH, 2018 UK Housing Review

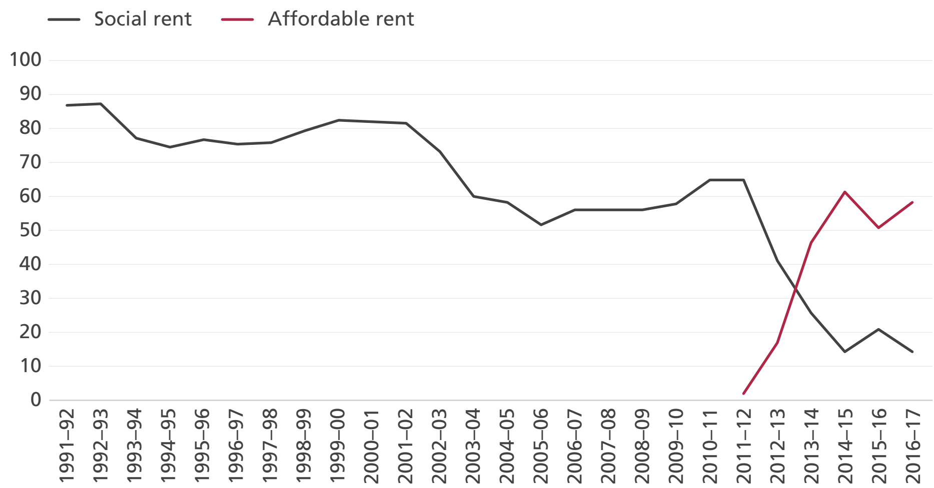
The Government's gross figures on affordable housing supply show that there were 42,220 affordable homes completed in 2016–17, this figure encompassing each variant of 'affordable housing' as set out in Box 4.[133] This represented an increase on the previous year of 9,590, but remains 24,480 fewer completions than were delivered in 2014–15 (see Figure 11).[134]

As unveiled in October 2010's Spending Review, the Coalition Government decided all but to end funding for homes for Social Rent – the most subsidised housing tenure, where rents are typically set at around 50 per cent of local market rents – and direct social housing investment into a new model known as Affordable Rent, as well as a number of homeownership programmes. The Affordable Rent Model allows social housing providers to set rents up to 80 per cent of local market rents.

Figure 11 above illustrates the impact of this policy on overall affordable housing completions, as housing associations – the primary delivery agent of affordable housing – shifted their output from Social Rented homes to Affordable Rented homes.

39,500 Social Rented homes were completed in 2011–12, compared to just 5,900 in 2016–17.[135] The yearly average from 2011–12 to 2016–17 was 14,748.[136] The yearly average in the same length of time preceding 2011–12 was 30,352[137] – representing a decrease of over 51 per cent. Figure 12 shows starkly how the delivery of homes for Social Rent has fallen as a proportion of annual affordable housing supply.

Figure 12: Additional homes for Social Rent and Affordable Rent as a proportion of annual affordable housing supply (%)



Source: CSJ analysis of MHCLG Live Table 1000

The full implications of the Affordable Rent model across the key vehicles of affordable housing supply – that is, interventions in the private market, government investment, and local authority delivered homes – are explored in Part 3.

133 MHCLH, Live Table 1000 [www.gov.uk/government/uploads/system/uploads/attachment_data/file/717044/Live_Table_1000.xlsx]
134 Ibid
135 MHCLG, Live Table 1000
136 CSJ analysis of MHCLG Live Table 1000
137 Ibid

Box 5: Is 'affordable housing' actually affordable to those most in need?

The legitimacy of the NPPF's definition of affordable housing is hotly debated. This debate is shaped by a number of key considerations including planning rules, government priorities, public attitudes, average incomes and normative expectations of how much of a household's income should go towards housing costs.

The NPPF 2018 has been commended by some for including a recognition of Social Rent within the affordable housing for rent category, which was absent in the NPPF 2012 (indeed, as well as the draft NPPF 2018), in line with the Coalition Government's adoption of the Affordable Rent model and later governments' prioritisation of reduced cost homeownership.[138] Yet the variants of affordable housing in the NPPF 2018, as listed above, vary significantly in *how* they provide lower-cost housing as well as the *extent* to which they are accessible to lower-income households.

Critically, social housing has become less affordable as households attempting to access it have found new lettings to be set at Affordable Rent rather than established Social Rent levels.

Affordable Rents can be far from affordable for those most struggling. JRF analysis shows how Affordable Rent for a typical two-bed property is £1,400 per year more expensive than Social Rent, with this rising to £3,350 per year more expensive in London and £2,000 in the South East.[139] In ten London boroughs the difference is over £5,000.[140]

Indeed, the *un*-affordability of the Affordable Rent rate is such that some large providers chose to maintain lower rents; recently, some have converted homes let at Affordable Rent to the 'London Living Rent' rates established in the Mayor's *London Housing Strategy* – these are 'based on a third of local average household incomes … a widely accepted measure of housing affordability'.[141]

Affordable homeownerships programmes, furthermore, remain inaccessible to those at the sharpest end of the housing crisis. At the point of entering social housing, just 3 per cent of new social tenants could afford even low-cost home ownership options like shared ownership or starter homes.[142]

Despite their all but disappearance from the Government's housing agenda,[143] the inclusion of Starter Homes in the NPPF 2018's remit of affordable housing has serious implications for how credible its definition of affordable is. Analysis by Shelter has found that Starter Homes for families earning average wages would be unaffordable in over half (58 per cent) of local authorities across the country in 2020.[144] Families on the National Living Wage will only be able to afford a Starter Home in two percent of local authorities.[145]

Even low-cost homeownership schemes remain inaccessible to many households, as private rents swallow up a huge proportion of an average earner's income.

The private rented sector, while it can be well suitable to certain tenants, is far from suitable for the poorest families (unless the housing benefit bill can be expected to rise indefinitely); it is essential, then, that the affordable housing delivered by the Government outside of the private market is *truly* affordable.

138 DCLG, *National Planning Policy Framework*, 2012 [webarchive.nationalarchives.gov.uk/20180608095821/https://www.gov.uk/government/publications/national-planning-policy-framework—2]
139 B Robson, 'Three test for the Social Housing Gren Paper', JRF, 2018 [www.jrf.org.uk/blog/three-tests-social-housing-green-paper]
140 Ibid
141 Inside Housing, 'Peadboy plans to stop charging affordable rent', 2018 [www.insidehousing.co.uk/news/news/exclusive-peabody-plans-to-stop-charging-affordable-rent-56041]; Mayor of London, London housing Strategy, 2018 [www.london.gov.uk/sites/default/files/2018_lhs_london_housing_strategy.pdf]
142 B Robson, *Using the Social Housing Green Paper to boost the supply of low-cost rented homes*, JRF, 2018 [www.jrf.org.uk/file/51011/download?token=JZg1DLwe&filetype=download]
143 No Starter Homes have been built since their announcement 2014, and (in a move much welcomed by the CSJ Housing Commission) funds allocated initially to Starter Homes have been redirected into other schemes, including homes for Social Rent
144 Shelter, *Starter Homes: Will they be affordable?*, 2015 [england.shelter.org.uk/professional_resources/policy_and_research/policy_library/policy_library_folder/research_starter_homes-_will_they_be_affordable]
145 Ibid

Some organisations have proposed ways for the Government to more closely align its definition of affordable housing with the reality for households on modest to low-incomes – such as by comparing how much households have leftover after housing costs to a 'minimum residual income', or by assessing whether households are expected to pay over 35 per cent of their income on housing costs.

Recommendation 2

The title of the category, 'affordable housing', is perhaps intrinsically misleading. The 'affordability' of any product is not static; rather, it is something which moves dynamically as prices, incomes and other factors change. Indeed, all housing could well be affordable to *someone*, whether it is traded the private market or not.

It is right, therefore, that the Government has provision in the planning rules to stimulate the supply of a range of submarket housing options suitable to different households with varying circumstances. However, as shown above in Figure 12, while homes for Social Rent have historically been a key component in the supply of new affordable housing, the introduction of the Affordable Rent model and promotion of homeownership schemes has run in parallel to the supply of homes for Social Rent dropping dramatically. Today, the meaning of 'affordable housing' in the Government's language appears increasingly disconnected from the needs of lower-income households.

The Government should explore ways to improve the language surrounding 'affordable housing' to focus policy on increasing the supply of homes which meet the needs of those at the sharpest end of the housing crisis.

The CSJ Housing Commission acknowledges, however, that altering the language around affordable housing in the planning rules and guidance is a change that will take time to implement. The priority should be boosting the number of truly affordable homes, whatever they are called. For now, and for the purposes of this report, we focus in particular on increasing the supply of homes for Social Rent – as currently the most affordable form of 'affordable housing' – so as to provide immediate relief to the households desperately in need.

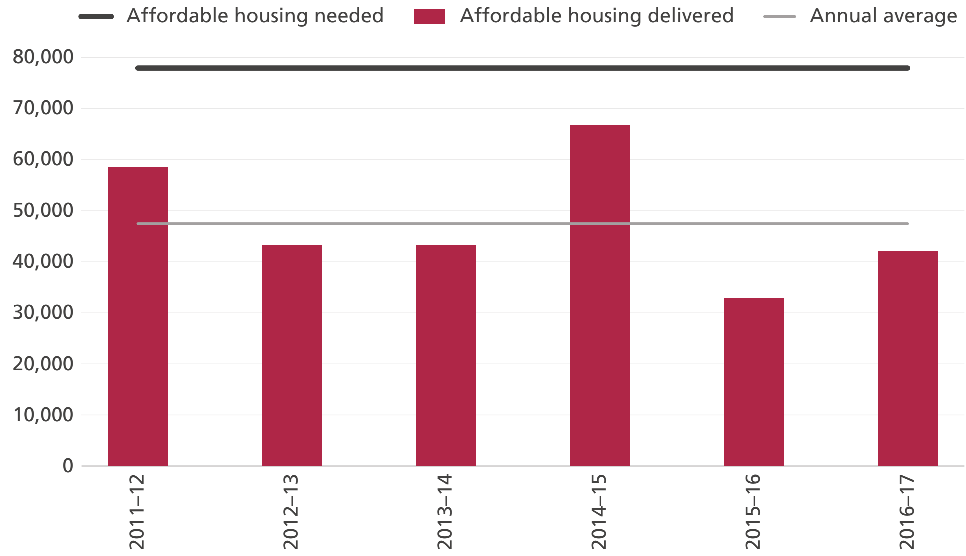
Using the analysis produced by Dr Alan Holmans, the JRF has argued that England requires 78,000 new affordable homes every year. This analysis also indicates that there has been an average annual shortfall of 47,520 affordable homes every year since 2011.[146]

More recent estimates commissioned by Crisis and the National Housing Federation and produced by Professor Glen Bramley at Herriot-Watt University find the shortage of affordable homes to be even more severe, and provide a breakdown of the specific shortfall across the different types of 'affordable housing' encompassed in the Government's definition.

Previous estimates of housing need have neglected the full extent of, specifically, affordable housing need. The Ministry for Housing, Communities and Local Government (MHCLG) considers local workplace-based affordability ratios in their calculations for the number of new homes needed in each local authority – but similarly their model does not specifically prescribe how many new affordable homes are needed in any given area overall. Nor does it set out how many of these should be, for example, homes for Social Rent, Affordable Rent, Shared Ownership, etc.

146 B Robson, *Using the Social Housing Green Paper* (see earlier reference)

Figure 13: Dr Alan Holman's analysis of affordable housing need



Source: Adapted from JRF, MHCLG Live Table 1000

As mentioned above, Professor Bramley's analysis establishes the backlog of existing need using Understanding Society data of the number of existing and projected households who are:

- living as a 'concealed' family or 'concealed single' (including nondependent children) wanting to move;
- living in overcrowded accommodation;
- facing serious affordability problems based on combination of ratio measures and subjective payment difficulties;
- suffering serious self-reported physical condition problems;
- living in accommodation unsuitable for families; and
- sleeping rough, living in cars, tents and public transport, hostels, sofa surfing, squatting, living in non-residential buildings, or living in unsuitable temporary accommodation.[147]

These figures are then adjusted using a sub-regional housing market model – with 150 indicators including household demographics, economic and labour market trends, incomes and poverty, and rents and affordability – which are forecast over a thirty-year period.

This modelling provides a more sophisticated estimate of optimum levels of provision of the new (and different types of) homes needed to deliver on a range of indicators and outcomes such as:

- reducing those in relative low income AHC;
- reducing the number of homelessness households;
- improving the affordability of housing costs overall;
- reducing the backlog of housing need; and
- reducing the number of sharing or 'concealed' households.

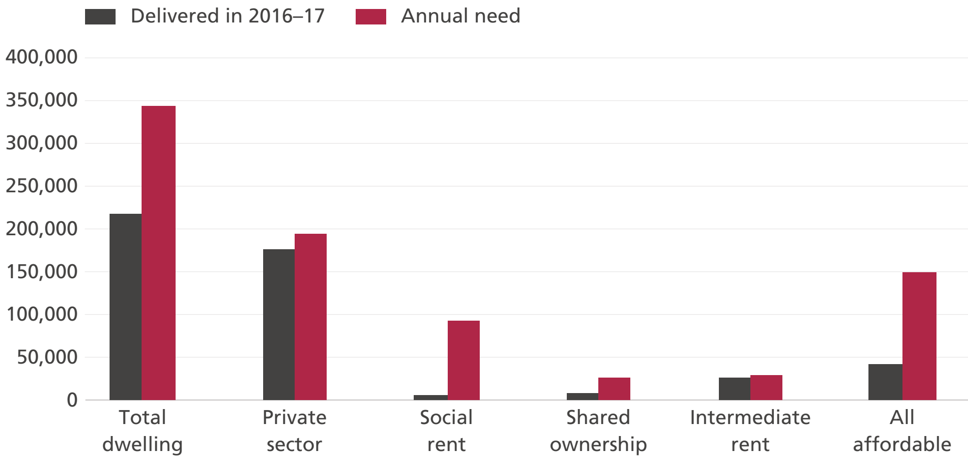
147 For more information on how Professor Bramley's calculations are made, see M Downie, *Everybody In: How to end homelessness in Great Britain*, Crisis, 2018 [www.crisis.org.uk/media/239346/everybody_in_how_to_end_homelessness_in_great_britain_2018.pdf]

Professor Bramley's model also considers the 'ripple effect' on the housing market as new homes are delivered.

The analysis finds that, while 340,000 homes are needed annually to meet the overall need, 148,202 specifically affordable homes are needed annually to improve overall affordability across the market as well as to provide for the families and individuals struggling with 'after housing costs' poverty and homelessness and the 'concealed' households living in overcrowded accommodation.

This includes 91,000 homes for Social Rent – increasing the supply of which is the key policy priority of this report. By this measure, 2016–17 saw a shortfall of homes for Social Rent of over 93 per cent. Figure 14 below illustrates the stark gap between annual need, as calculated in this analysis, and the different types of homes delivered in 2016–17.

Figure 14: Housing delivery (2016–17) compared to annual need



Source: Adapted from Crisis and the National Housing Federation, MHCLG Live Table 1000

The estimates of need highlighted in this chapter illustrate the scale of the challenge to end the housing crisis for low-income households. It also suggests that the current system is failing to deliver the truly affordable homes we need. The reasons for this we turn to now.

part three

The main vehicles of affordable housing supply are falling short

How is affordable housing delivered?

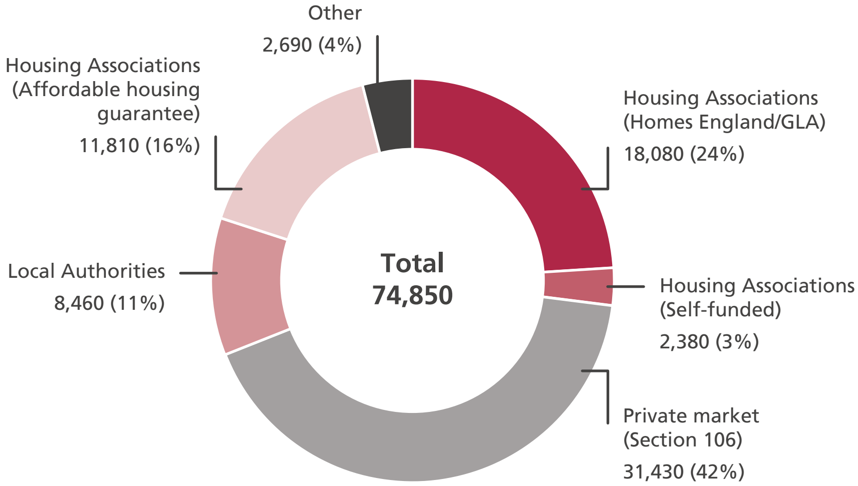
Government policy measures designed to stimulate the supply of affordable housing are spread across a number of channels. This includes interventions in the private housing market, direct investment through the central non-departmental public body that funds affordable housing, Homes England (and via the Greater London Authority), as well as through smaller programmes including freedoms for local authorities to deliver affordable housing.

CSJ analysis of official data shows that of the 74,850 new affordable homes (of each type) between 2015–17, an average of:

- 42 per cent were delivered via intervention in the private market;
- 40 per cent were delivered through housing associations funded directly by Homes England (until 2018 known as the Housing and Communities Agency) and the Greater London Authority – as well as through the Government sponsored borrowing;
- three per cent of housing association affordable homes were self-funded by those providers;
- 11.5 per cent were delivered through local authorities – including Right to Buy additions; and
- an additional 3.5 per cent were provided through alternative schemes, including units delivered by private registered providers or other unregistered providers without government investment or funds raised through intervention in the private market. In some cases, these were solely funded by the provider and in others from alternative sources.[148] Also included in the Other category below is the small number of homes delivered through private finance initiatives as well as permanent affordable sites for Traveller communities.

148 Such as, according to the MHCLG, grants from local authorities or funding from the local authorities' Housing Revenue Accounts, Right to Buy recycled receipts, the Empty Homes Community Fund or the Department of Health's Extra Care Fund.

Figure 15: Affordable housing completions by delivery mechanism, 2015–17



Source: CSJ Housing Commission analysis of MHCLG Live Table 1000C

Reforming Section 106

As shown above, the private market has served as a key vehicle in the delivery of affordable housing in recent years. In 2016–17, this represented a contribution of 44 per cent – or, 18,520 homes – to the overall supply.[149] Given the importance of this delivery mechanism, it is vital that the Government ensures it is maximising its output. However, strong evidence suggests that this is not yet the case.

Land value 'uplift' and affordable housing

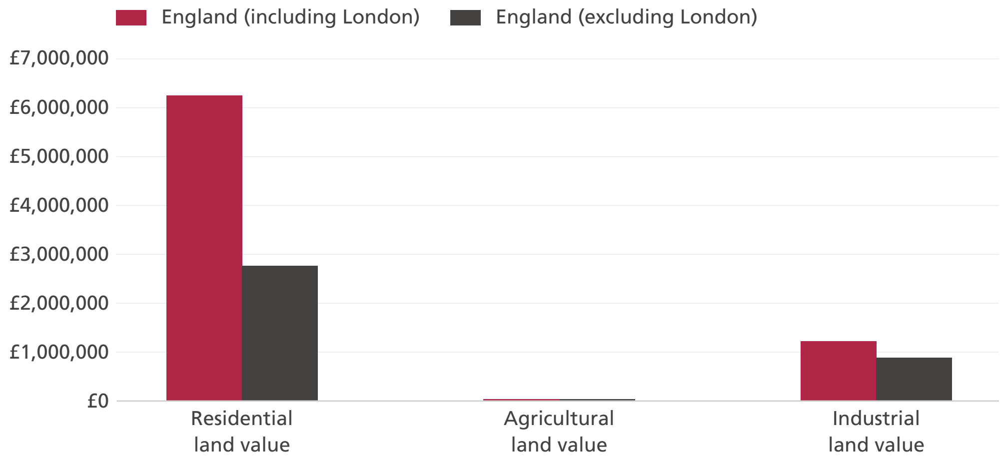
Government intervention in the private market to stimulate affordable housing supply operates chiefly through Section 106 (S106) of the Town and Country Planning Act 1990.[150]

When Local Planning Authorities (LPAs) grant permission on a plot of land for residential development, the value of that land is expected to substantially rise. MHCLG figures presented in Figure 16 below demonstrate the sharp disparities in land value according to planning status.[151]

S106 is a measure which captures some of the 'uplift' in the value of land, as it becomes intended for residential use, to provide benefits to the wider community. The Housing, Communities, and Local Government Committee has recently noted that, although S106 was arguably not designed with this specific purpose in mind, it has the 'character of a hypothecated tax to be spent locally'.[152]

149 CSJ analysis of MHCLG Live Table 1000C
150 Town and Country Planning Act 1990 [www.legislation.gov.uk/ukpga/1990/8/section/106]
151 CSJ analysis of MHCLG, Land value estimates, 2017 [www.gov.uk/government/uploads/system/uploads/attachment_data/file/710453/Land_value_estimates.xlsx]
152 House of Commons Housing, Communities and Local Government Committee, *Land Value Capture*, House of Commons, 2018 [publications.parliament.uk/pa/cm201719/cmselect/cmcomloc/766/766.pdf]

Figure 16: English land value estimate by planning status, per hectare



Source: CSJ analysis of MHCLG, Land value estimates, 2017

LPAs use S106 to outline 'planning obligations' as policies in their Local Plan – Local Plans being the 'framework for the future development of the area, addressing needs and opportunities in relation to housing, the economy, community facilities and infrastructure – as well as a basis for safeguarding the environment, adapting to climate change and securing good design'.[153] LPAs' affordable housing targets are also often set out in these Local Plans, which are (in theory, at least) reflected in the 'planning obligations' laid down for certain sites.

Housing developers must then agree to meet these obligations in order to gain planning permission to build homes for private rent or for sale.

The specific obligations for each site, however, are negotiated between the local authority and the developer on a case by case basis. Typically these agreements include requirements to deliver a certain proportion of affordable housing on larger sites, or for 'developer contributions' to be made from the profit of private sales to go towards homes with subsidised, below-market rents or lower-cost forms of homeownership.

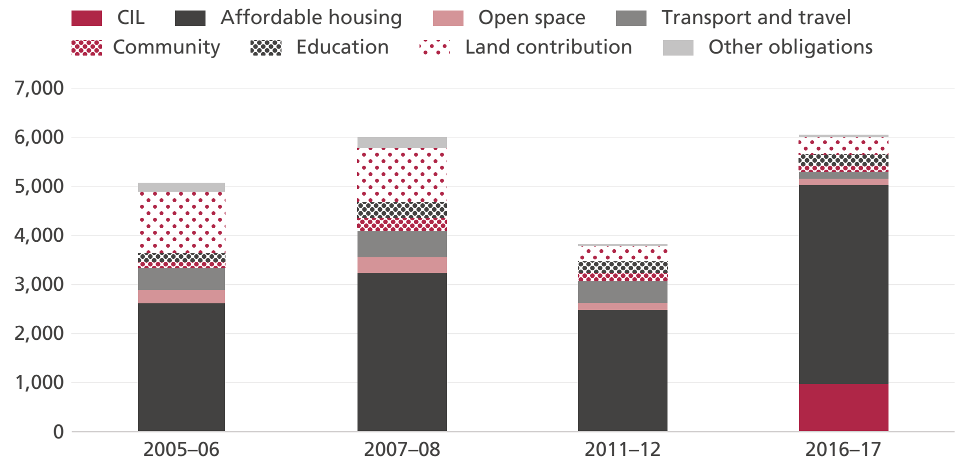
Alongside S106 is the Community Infrastructure Levy (CIL), introduced in 2012, which provides local authorities with an additional ability to levy funds specifically for infrastructure projects – including, for example, local schools, hospitals or parks – from sites developing more than 10 units and above 1,000m^2.

MHCLG analysis estimates that, in 2016–17, local authorities raised £5.1 billion via S106 agreements, including £4 billion in affordable housing contributions. £0.9 billion was levied through the CIL.[154] This includes both contributions made 'in-kind' (that is, the value of the new homes or infrastructure built), as well as 'commuted sums' (where direct payments are made in lieu of 'in-kind' contributions).

153 GOV.UK, 'Guidance: Local Plans', 2016 [www.gov.uk/guidance/local-plans--2]

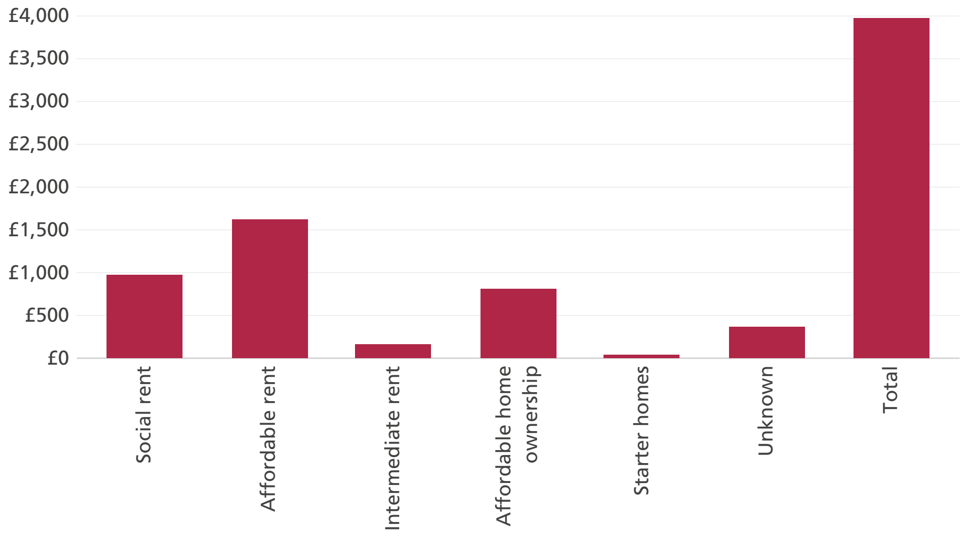
154 MHCLG, *The Incidence, Value and Delivery of Planning Obligations and Community Infrastructure Levy in England in* 2016–17, 2018 [assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/685301/Section_106_and_CIL_research_report.pdf]

Figure 17: The value of developer contributions, adjusted for inflation (£million)



Source: MHCLG, 2018

Figure 18: The value of in-kind developer contributions towards affordable housing 2016–17 by tenure (£million)



Source: MHCLG, 2018

Contributions worth £1 billion and £1.6 billion were committed for Social Rented homes and Affordable Rented homes respectively (see Figure 18).[155]

Clearly, substantial sums of money are raised through S106 for affordable housing – indeed, the total amount of developer contributions committed has risen since 2011–12 alongside increases in the numbers of homes built. But it should be noted that this data only captures the money committed in the planning permissions, rather than that actually making its way

155 Ibid. Note that this does not include the affordable housing direct payment commuted sum, which totalled £75.4 million.

into new homes. Taking into account the permissions which lapse or never materialise, one recent estimate finds the value of developer contributions to be closer to £4 billion (rather than the £6.007 billion committed through both S106 and the CIL).[156]

It is also worth noting that MHCLG analysis has found that the overall S106 contribution *per dwellings built* has remained 'broadly the same' despite house prices increasing by 30 per cent in the same period.[157]

The 'loss' of affordable homes through S106

As noted in a recent report by the House of Commons Housing, Communities and Local Government Committee, S106 has been broadly 'successful in generating significant revenue for infrastructure and affordable housing'.[158] However, in recent years, the S106 system has been plagued by issues leading to thousands of homes being 'lost' every year from the output of new affordable housing.

One such issue is the existence of a 'loophole' allowing developers to reduce their affordable housing contributions through the use of viability assessments.

Viability assessments are used to appraise whether a housing development is considered financially 'viable'. The assessments estimate the spending costs for developers building on a given site, as well as the profit they can expect to make from selling the properties outlined in the planning proposal.

The National Planning Policy Framework published in 2012 established that, if the overall expected profit was found to be insufficiently high – that is, below a 'competitive return' – the scheme could be deemed 'non-viable'. If, for example, the Residual Land Value (i.e. the value of the land post development including the building costs, planning obligations and developer's competitive return) was lower than the Benchmark Land Value (i.e. the value given to the land so that it made it profitable enough to incentivise the owner to sell), the viability of the scheme could be legitimately called into question.

Local authorities then decide whether to challenge the assessment, scrap the scheme altogether, or renegotiate the S106 contribution so that the scheme remains 'viable'.

In practice, the agreed 'planning obligations' are frequently renegotiated. Official statistics show, for example, that as many as 65 per cent of planning authorities renegotiated a planning agreement in 2016–17; of these, the most common reason for negotiation was to change the type or amount of affordable housing required.[159] As also noted by the MHCLG, while renegotiations can help retain the viability of a development, they can also 'lead to a lack of trust with local communities who feel they are unable to hold developers to account'.[160]

"In recent years, the S106 system has been plagued by issues leading to thousands of homes being 'lost' every year from the output of new affordable housing.

156 T Aubrey, *Gathering the Windfall*, Centre for Progressive Policy, 2018 [https://progressive-policy.net/wp-content/uploads/2018/09/LVC-Report-Sep-2018.pdf]
157 MHCLG, *Supporting housing delivery through developer contributions: Reforming developer contributions to affordable housing and infrastructure*, 2018 [assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/691182/Developer_Contributions_Consultation.pdf]
158 Housing, Communities and Local Government Committee, *Land Value Capture* (see earlier reference)
159 MHCLG, *Supporting housing delivery through developer contributions* (see earlier reference)
160 Ibid

The industry standard accepted as a 'competitive return' rose significantly after 2008, with the expected profit margin rising from around 14 per cent to 20 per cent of the Gross Development Value – that is, the costs of development which, critically, included the cost of land – because of increased risk following the crash in the housing market.[161]

As the housing market picked up, it has made good business sense for developers to gain the edge over their competitors by factoring in the future use of viability assessments when bidding for new sites. Knowing that they will be able to renege on meeting their affordable housing commitments through viability assessments at a later stage, developers and land traders have been able to trade land at highly inflated values – using these high costs to subsequently make the case for the non-viability of the scheme.

When faced with the choice between scrapping a scheme as non-viable, or allowing developers to proceed with their S106 contribution cut, local authorities (many of whose planning departments have seen significant budget cuts in recent years)[162] have faced significant pressure to go ahead with developments in light of the housing shortages in their areas.

Yet the existence of this loophole has, since 2012, significantly reduced the effectiveness of the S106 system, and led to dramatic reductions in the annual supply of affordable homes.

Drawing from research conducted at Oxford Brookes University, Shelter have demonstrated that, between 2007–08 and 2011–12, even as 'the housing market suffered its worst downturn in a generation', S106 delivered an average 27,000 homes annually.[163] This comprised as much as 52 per cent of all new affordable homes.[164]

But after the introduction of the NPPF 2012, the output of affordable housing fell sharply, even as the housing market regained its strength. In 2011–12, S106 delivery fell to only 17,000 or 32 per cent of affordable homes, declining further in 2013–14 to 16,200.[165]

Indeed, the average number of affordable homes delivered annually through S106 had fallen by over 10,000 by 2017, even as the overall output of the private housebuilding market had grown significantly from the lows of the crash (see Figure 19).

161 See, for example, BNP Paribas, *Affordable Housing Viability Assessment*, London Borough of Islington, 2009 [www.islington.gov.uk/~/media/sharepoint-lists/public-records/planningandbuildingcontrol/information/adviceandinformation/20112012/20120303affordablehousingviabilityassessment]

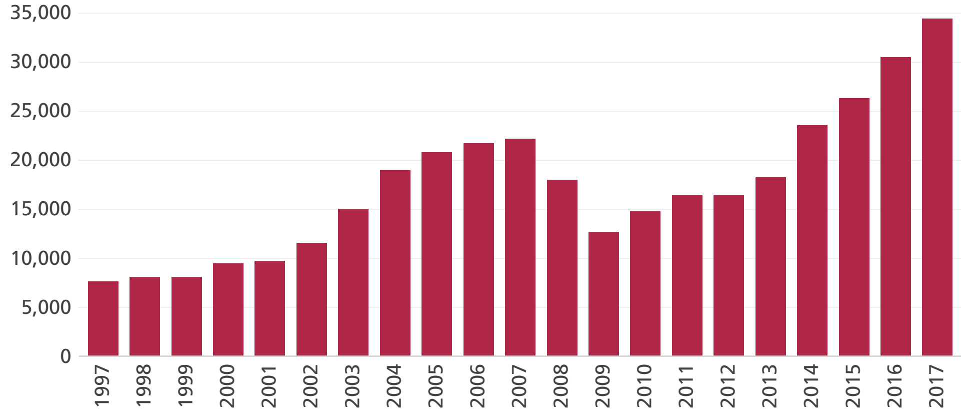
162 A recent study found that, between 2010 and 2015, net local authority budgets on planning and development in London fell from £259m to £148m, a reduction of nearly 43 per cent – that is, more than in any other council service. See the Guardian, 'Want more houses, Mrs May? Then fund council planning properly', 2018 [www.theguardian.com/housing-network/2018/mar/09/houses-theresa-may-council-planning-local-government]

163 R Grayston, *Slipping through the loophole: How viability assessments are reducing affordable housing supply in England*, Shelter, 2017 [england.shelter.org.uk/__data/assets/pdf_file/0010/1434439/2017.11.01_Slipping_through_the_loophole.pdf]

164 Ibid

165 S Brownill et al, *Rethinking planning obligations: balancing housing numbers and affordability*, JRF, 2015 [www.jrf.org.uk/report/rethinking-planning-obligations-balancing-housing-numbers-and-affordability]

Figure 19: Private housing construction output, seasonally adjusted (£million, current prices)



Source: ONS, 2018[166]

More in-depth analysis looking at 11 local authorities across England found that, where developers had used viability assessments, as many as 2,500 affordable homes had been lost in 2015–16 alone.

This represented a 79 per reduction in affordable housing on the levels required by council policies.[167]

Most alarming is that this analysis only represents a snapshot of the effects of the practice across the country. National estimates suggest that total losses reach the tens of thousands.[168]

Box 6: Snapshot of affordable homes lost through viability assessments

The 2015–16 financial year, sites where developers submitted viability assessments saw:

- 1,003 affordable homes lost in Birmingham. Just 18 out of a staggering 2,916 homes were affordable – less than 1 per cent of the total.
- 472 affordable homes lost in Manchester. None of the 2,362 homes permitted on sites where developers used a viability assessment were affordable.
- 338 affordable homes lost in Leeds. Just 8 per cent affordable housing was achieved on sites where developers submitted viability assessments, compared to 17 per cent affordable housing elsewhere.
- 196 affordable homes lost in Bristol. Just 8 per cent affordable housing was achieved on sites where developers submitted viability assessments, compared to 30 per cent affordable housing elsewhere.

Source: Shelter, 2017

166 ONS, *Output in the Construction Industry*, 2018 [www.ons.gov.uk/file?uri=/businessindustryandtrade/constructionindustry/datasets/outputintheconstructionindustry/current/bulletindataset2.xlsx]
167 R Grayston, *Slipping through the loophole* (see earlier reference)
168 Politics.co.uk, 'Change to planning rules could lead to thousands more affordable homes', 2018 [www.politics.co.uk/comment-analysis/2018/07/30/change-to-planning-rules-could-lead-to-thousands-more-af]

More recent research, looking beyond England's key cities, found that the practice has led to significant reductions in affordable housing supply is rural areas too. From 2015–16, in 150 planned developments (across just eight rural authorities) where a viability assessment was submitted, 938 affordable homes were lost, representing a 48 per cent shortfall in the numbers of affordable homes delivered compared to what council policies said developers should build.[169]

These new housing sites achieved just 18 percent affordable housing – that is, half the level required by councils' policies.[170]

Realising the potential of S106

> By ending abuse of the 'viability assessment' process, we're going to make it much harder for unscrupulous developers to dodge their obligation to build homes local people can afford.
>
> Theresa May, March 2018

The publication of the NPPF 2018 and new planning guidance makes significant headway in addressing the issues outlined above. As argued by the Prime Minister in her speech to the National Housing Federation in September 2018:

> Our new National Planning Policy Framework has removed unnecessary barriers to homebuilding and made it harder for commercial developers to dodge their affordable home obligations.[171]

In fact, rules over viability assessments have been removed from the NPPF altogether and are now detailed in the new Planning Practice Guidance (PPG). Here, the Government has introduced changes in a number of areas in an attempt to close the loophole:

- **Timing and suitability –** The changes to viability assessments introduced in 2012 were designed to provide reassurances of a 'competitive return' to developers in order to stimulate housebuilding in the context of a sluggish housing market following the crash. But as the market picked up, viability assessments assumed a new role and it became simply good business sense for developers to factor in low (or non-existent) S106 contributions into their bids for land. To uproot the reliance on this practice, the new guidance emphasises that planning applications should be conducted on the basis that they are 'assumed to be viable', with viability assessments conducted at the 'plan making' stage, rather than the later 'decision-taking' stage, except for in certain circumstances, including 'where a recession or similar significant economic changes have occurred

169 R Grayston and R Pullinger, Viable villages: closing the planning loophole that undercuts affordable housing in the countryside, Campaign to Protect Rural England and Shelter, 2018 [www.cpre.org.uk/resources/housing-and-planning/item/download/5317]
170 Ibid
171 No 10, 'PM speech to the National Housing Federation summit: 19 September 2018', 2018 [www.gov.uk/government/speeches/pm-speech-to-the-national-housing-federation-summit-19-september-2018]

since the plan was brought into force'.[172] Notably, other justifying circumstances include 'where further information on infrastructure or site costs is required' and, more vaguely, other 'particular circumstances' – so long as these are justified by applicant.[173]

- **Deflating land values –** The paragraph in the NPPF 2012 specifying the 'competitive return' has been removed and replaced in the new guidance, which instead makes it clear that a benchmark land value should be calculated based on the existing use value of the land, plus a premium for the landowner (EUV+). Now with looser language, the guidance states the 'premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land'.[174]
- **The price paid for land is no longer the basis for viability –** As viability is now agreed at the plan making stage and councils' affordable housing policies must be taken into account when agreeing the premium on the land value, developers may no longer cite land costs as making their scheme non-viable: indeed, '[u]nder no circumstances will the price paid for land be relevant justification for failing to accord with relevant policies in the plan'.[175]

But despite the progress undoubtedly made by these amendments, the CSJ Housing Commissions believes that the Government must be much more ambitious in utilising the S106 system to boost the delivery of affordable homes – and in particular, homes for Social Rent.

This is especially the case given the significant S106 losses accrued in the years from 2012, and the overwhelming backlog of homes as shown in Part 2 of this report.

Matters relating to land – its acquisition, use and value – are crucial to securing the quantity and affordability of the new homes the nation needs.[176] Wholesale reform of the processes for land purchase may well be required.

But any major change will take some years to implement and our Commission has concentrated on the actions which the Government can take today. Below we outline policy changes which we believe could have an immediate, positive impact – and which aim to refine S106 in line with its existing character as a hypothecated tax.

Commitments, not aspirations

Currently, developers' affordable housing contributions remain treated as ambitions. This approach is reflective of the need to provide confidence and flexibility in the context of the housing market crash. But while the market is more buoyant (see Figure 19), and given the high number of losses of affordable homes in the recent years, the Government should reinforce the expectation on developers to meet their agreed obligations.

172 GOV.UK, 'Guidance: Viability', MHCLG, 2018 [www.gov.uk/guidance/viability]
173 Ibid
174 Ibid
175 Ibid
176 A growing consensus of opinion emphasises this point. See, for example, Shelter, 'An unlikely coalition for land reform', 2018 [blog.shelter.org.uk/2018/08/land_reform]

Recommendation 3

The Government should go further in its reforms to the S106 system by obliging developers to make concrete commitments, instead of 'aspirational targets',[177] to meet the affordable housing contributions set out in LPAs' planning obligations.

In response to low levels of new affordable homes supply in London – only 13 per cent of the new homes approved in London in, for example, 2014–15 were classified as affordable – the Mayor of London introduced a system in August 2017 where planning permission can be granted more quickly (with developers being exempt from revealing the profitability of their schemes in the viability process) when they commit to a baseline contribution of 35 per cent affordable homes. The Mayor's Affordable Housing and Viability Supplementary Planning Guidance (SPG) also proposes a threshold of 50 per cent affordable housing for schemes on public land.

While the threshold system is still nascent, its effectiveness so far has received some criticism as developers continue to backtrack on their commitments.[178] However, our analysis finds that in the applicable planning applications since July 2018, the average proportion of affordable housing has increased from 24 per cent in the previous quarter to 44 per cent.[179]

Critics also note the potential of this approach if 'strengthened in future'.[180] Indeed, although some developers have expressed scepticism of the Mayor's system, 62 per cent of housebuilders said they favoured a threshold approach to affordable housing, provided the target was set clearly and adhered to.[181]

We believe that reinforcing developers' requirement to meet their contributions could see the threshold approach generate a significant increase in the overall affordable housing delivered in the years to come.

Recommendation 4

The Government should explore whether regions beyond London could benefit from an affordable housing threshold (of 35 per cent, or indeed above) which fast-tracks developers through the planning process if they agree to a cast-iron affordable housing commitment.

Alongside turning targets into commitments, incentivising LPAs to adopt this baseline affordable housing policy would establish greater certainty for developers and limit further inflation on the price of land by allowing both landowners and developers to factor in the costs of S106 contributions earlier in the process.

177 BBC News, 'The social housing that never got built', 2017 [www.bbc.co.uk/news/education-41429486]
178 See, for example, S Berry AM, *No-show homes: finding London's missing affordable housing*, 2018 [www.london.gov.uk/sites/default/files/2018_09_13_no_show_homes_sianberryam.pdf]
179 CSJ analysis of the London Development Database, 2018 [data.london.gov.uk/dataset/planning-permissions-on-the-london-development-database--ldd-]
180 S Berry AM, *No-show homes* (see earlier reference)
181 Building, 'Just 1% of housebuilders think government housing targets are achievable', 2018 [www.building.co.uk/news/just-1-of-housebuilders-think-government-housing-targets-are-achievable/5094519.article]

Ensuring that viability reviews are used appropriately

Concerns remain in the housing sector that the provisions designed to tighten up the viability process set out in the NPPF 2018 do not go far enough to avoid some of the pitfalls of the past.

A key success of the new planning guidance is its repeated emphasis that the 'price paid for land is not a relevant justification for failing to accord with relevant policies in the plan'.[182] But although the Government has made significant progress in emphasising that the 'role for viability assessments is primarily at the plan making stage',[183] there remains concern among the CSJ Housing Commission about the mitigating circumstances which allow developers to bring forward viability complaints later in the process. The wording in the guidance remains vague:

> Such circumstances could include, for example where development is proposed on unallocated sites of a wholly different type to those used in viability assessment that informed the plan; where further information on infrastructure or site costs is required; where particular types of development are proposed which may significantly vary from standard models of development for sale (for example build to rent or housing for older people); or where a recession or similar significant economic changes have occurred since the plan was brought into force.

As implied by the word 'could', this list represents only some examples of the circumstances permitting developers to bring forward viability complaints.

The Government should, as recommended above, make developer contributions into commitments rather than aspirations, as the current system provides developers with a security extremely few other businesses can enjoy. In certain exceptional economic events, however, it is fair that developers should be able to challenge LPAs on the viability of their schemes.

Recommendations 5

The Government should tighten the circumstances in which the viability of schemes can be reviewed after the plan making stage so that assessments leading to reduced S106 contributions are limited to the context of exceptional circumstances, such as a serious recession.

A welcome improvement to the planning rules has been the removal of the Paragraph 173 of the NPPF 2012 which effectively guaranteed developers a 'competitive return', widely taken across the industry to mean a profit margin of 20 per cent. This was necessary in the context of providing confidence following the crash. Again, however, it provides a level of business profitability and security unthinkable in other sectors. And it is unclear as to whether the 'reasonable' return guaranteed could continue to distort the land market.

182 GOV.UK, 'Guidance: Viability', MHCLG, 2018 [www.gov.uk/guidance/viability]
183 Ibid

Recommendation 6

The Government should monitor closely what constitutes a 'reasonable' return (as outlined in the new planning rules) in practice, as this can be set differently by local authorities from area to area. If expectations of high profit margins continue to be the basis of viability complaints, it should be replaced with, simply, 'a return'.

Strengthening councils, while ensuring that S106 contributions are spent appropriately

An often highlighted failure of the S106 system in recent years, including by the then Housing Secretary in March 2018, has been the lack of 'transparency' surrounding the viability assessment process.[184]

> Survey data indicates that, between 2010 and 2015, local authority planning departments have lost as much one-third of their staff across the UK.

Developers' viability assessments have often been veiled from public scrutiny – including, in some cases, planning officers themselves – on the grounds that trade secrets should be protected from competitors. Public scrutiny is also compromised when, as seen in a recent case in Southwark, local authorities do not have the right computer software to view developers' assessments.[185]

The Government has directly addressed this issue in the revised NPPF 2018 by placing the onus on the applicant – that is, the developer (or indeed land promoter) – to present viability concerns after the plan making stage, and making it clear in the guidance that all viability appeals should be available for public scrutiny (if only the executive summaries at the least).[186]

The new guidance also attempts to bolster LPAs' negotiating power, stating that 'Review mechanisms are not a tool to protect a return to the developer, but to strengthen local authorities' ability to seek compliance with relevant policies over the lifetime of the project'.[187]

Yet evidence collected by the Housing, Communities and Local Government Committee highlights the extent to which some local authorities were 'anaemic by comparison with the very well-staffed departments that developers can put forward'.[188] Survey data indicates that, between 2010 and 2015, local authority planning departments have lost as much one-third of their staff across the UK.[189] Evidence submitted to the CSJ suggested that this was a problem for developers, too, as it slowed down the negotiating process.[190]

184 Inside Housing, 'Government announces viability assessment changes amid planning shake-up', 2018 [www.insidehousing.co.uk/home/home/government-announces-viability-assessment-changes-amid-planning-shake-up-55058]
185 Guardian, 'Revealed: how developers exploit flawed planning system to minimise affordable housing', 2015 [www.theguardian.com/cities/2015/jun/25/london-developers-viability-planning-affordable-social-housing-regeneration-oliver-wainwright]
186 GOV.UK, 'Guidance: Viability', MHCLG, 2018 [www.gov.uk/guidance/viability]
187 Ibid
188 Ibid
189 RTPI and ARUP, Investing in Delivery: How we can respond to the pressures on local authority planning [www.rtpi.org.uk/media/1496890/RTPI%20Arup%20Research%20Report%20Investing%20in%20Delivery%2010%20October%202015.pdf]
190 Evidence submitted to the CSJ

Recommendation 7

The Government should go further to improve transparency and empower councils by making all viability documents assumed to be public, and provide additional resources, guidance and training to LPAs so they can negotiate with developers on a level playing field.

Yet it is also critical that empowered local authorities 'do their bit' and ensure that the significant funds raised through S106 are spent appropriately.

Recent research has found that millions of pounds contributed through both S106 and the CIL have been 'sat on' by local authorities for a number of years. Freedom of Information (FOI) returns showed that, of £71 million was received by seven councils in the last five years, £36.3 million remained unspent. Nearly 20 per cent was, according to the returns, yet to be allocated to any project.[191]

Recommendation 8

The Government should address any practical barriers preventing local authorities from spending funds raised via S106 'commuted sums', and, if necessary, intervene through its Delivery Test mechanism to ensure that these are spent appropriately and effectively.

Permitted developments

In an effort to boost overall housing supply the Government introduced 'permitted development rights' in 2013. These allowed developers to bypass the full planning system for certain types of development, including conversions of commercial buildings or storage spaces into residential use.

Since their introduction, a growing proportion of new housing delivered in England has been contributed through permitted development 'changes of use' – totalling just under 19,000 in 2016–17, an increase of 36 per cent on the year before.[192] In London, permitted developments comprised 16 per cent of all new housing in the capital that year.[193]

Critically, permitted developments are excluded from the S106 and CIL system. Therefore, while developers have benefitted from converting many large office buildings into lucrative, centrally located residential properties, the potential (and significant) contributions these schemes would have made to fund new affordable housing have been lost.

191 DevonLive, 'Councils have millions of pounds of developers' cash waiting to be spent', 2018 [www.devonlive.com/news/devon-news/councils-millions-pounds-developers-cash-1951395]
192 MHCLG, Live Table 120
193 MHCLG, Live Table 123 [www.gov.uk/government/uploads/system/uploads/attachment_data/file/659552/Live_Table_123.xls]

The property consultancy Bidwells estimate that, of the new dwellings in permitted developments in London, the equivalent of 1,000 new affordable homes could have been generated had they gone through the planning system.[194]

In the face of the housing supply challenge, it is welcome that Government measures to increase overall supply are providing an increasing number of homes each year. But it is also vital that this policy does not undermine the planning system's ability to provide wider benefits for the community – nor, specifically, to ensure that the need for new affordable housing is prioritised.

Recommendation 9

The Government should explore ways of ensuring that the increasing numbers of 'permitted developments' are not excluded from making affordable housing contributions via the S106 system.

"While in 2015–16, 25 per cent of homes delivered through the S106 system were for Social Rent, in 2016–17 this fell to 15 per cent. In the same period, S106 homes for Affordable Rent rose from 29 per cent to 45 per cent.

Boosting homes for Social Rent through S106

As well as the overall 'losses' of affordable homes outlined above, it is also worth considering changes in the types of affordable housing delivered through the S106 system.

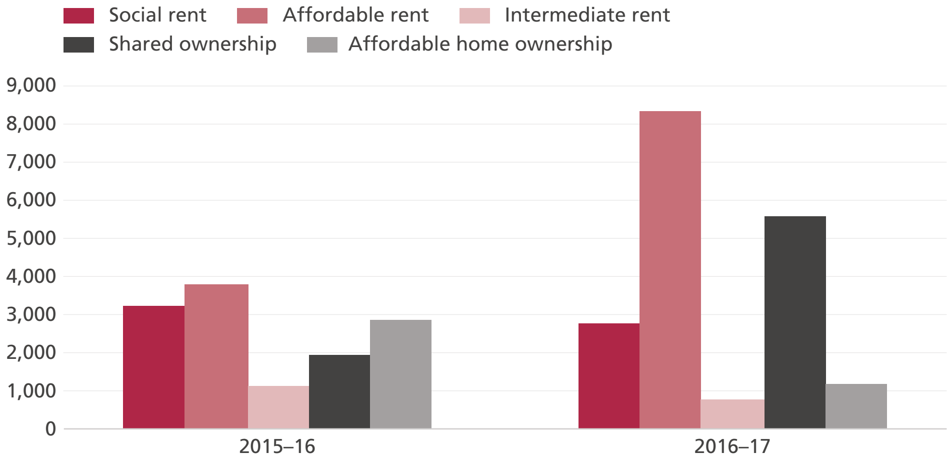
CSJ analysis of official data shows how the types of affordable homes contributed through the S106 differed between 2015–16 and 2016–17. Analysis of earlier years is, for now, precluded by an inconsistency in the data where, prior to 2015, thousands of S106 completions are included in the HCA and GLA figures, preventing the numbers from being split accurately into the different affordable housing types.

However, the available data shows that, while in 2015–16, 25 per cent of homes delivered through the S106 system were for Social Rent, in 2016–17 this fell to 15 per cent.

In the same period, the proportion of contributions taken up by homes for Affordable Rent rose from 29 per cent to 45 per cent. Moreover, the proportion of affordable housing for Shared Ownership contributed through S106 rose by 183 per cent.

194 RTPI, 'Permitted development rights: Latest changes and impacts on London', 2017 [www.rtpi.org.uk/media/2225918/pd_rights_presentations.pdf]

Figure 20: Section 106 funded affordable housing completions, by type, 2015–17



Source: CSJ analysis of MHCLG Live tables 1000C

As the NPPF's 2018 definition of affordable housing has widened (see Box 4), some commentators have argued that 'developers should find it easier to meet the affordable housing requirements' set by LPAs.[195] While this wider definition, in theory, gives councils more flexibility to design their local policies, the new NPPF 2018 does afford certain affordable housing types special status in the regulations to incentivise their delivery on larger sites.

These also happen to be the types of affordable housing less accessible for lower-income households – that is, homes for 'affordable homeownership' – which are typically preferred by developers as they require less funding per unit than homes for Social or even Affordable Rent.

The NPPF 2018 states that as part of the overall affordable housing contribution made on major developments:

> planning policies and decisions should expect at least 10% of the homes to be available for affordable home ownership, unless this would exceed the level of affordable housing required in the area, or significantly prejudice the ability to meet the identified affordable housing needs of specific groups. Exemptions to this 10% requirement should also be made where the site or proposed development:
>
> a) provides solely for Build to Rent homes;
>
> b) provides specialist accommodation for a group of people with specific needs (such as purpose-built accommodation for the elderly or students);
>
> c) is proposed to be developed by people who wish to build or commission their own homes; or
>
> d) is exclusively for affordable housing, an entry-level exception site or a rural exception site.[196]

195 Lexology, 'Will the revised NPPF lead to more affordable housing?', 2018 [www.lexology.com/library/detail.aspx?g=89fb29c4-1ef8-42a2-a99e-cf24139cdc89]
196 MHCLG, *National Planning Policy Framework, 2018* (see earlier reference)

Notwithstanding the limitations of assessing short term trends, we may confidently estimate, then, that the contribution to affordable housing supply through S106 will increasingly pivot towards the more expensive of the affordable housing types, despite the inaccessibility of these for low-income households and the growing backlog of need outlined earlier in this report.

Unless these are met by commensurate new homes for Social Rent, trends of this kind must be reversed. Rather, the types of affordable housing needed for those most struggling should be prioritised in the National Planning Policy Framework.

Recommendation 10

The Government should amend the NPPF 2018 to incentivise the delivery of homes for Social Rent. In the areas it defines as having 'high affordability pressure',[197] Government should consider mandating a proportion of the affordable homes in LPA's baseline policies as for Social Rent, replacing the 10 per cent homeownership requirement.

Prioritising housing investment for those most in need

The second key vehicle for affordable housing supply in recent years has been through direct government investment, loans and guarantees. In 2015–17, an average of 24 per cent of all new affordable housing was delivered through Homes England, the non-departmental public body responsible for allocating grants for new affordable homes (as well as the Greater London Authority, which was given responsibility for funding affordable housing in London in 2012). A further 16 per cent was provided through housing associations with Government guaranteed borrowing.

In June 2017 the Government boosted overall public spending on housing, and increased investment in specifically affordable housing in measures announced in the Autumn Budget 2017. The Government calculates that its funding envelope for the latter now stands at £9.1 billion to 2020–21.[198] £2 billion of this was also announced to support the development of homes for Social Rent.[199] And more recently, the Government announced an additional £2 billion building fund lasting until 2028–29, for which housing associations may bid from 2022.

Overwhelmingly, however, as shown by analysis conducted by the CIH, the Government's funding commitments are focused on the private housing market, and specifically through homeownership programmes. The CIH calculate that from 2015–16 to 2020–21, 79 per cent of government support for housing is directed towards the private market

197 See MHCLG, *Additional Housing Revenue Account Borrowing Programme*, 2018 [assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/738566/Additional_housing_revenue_account_borrowing_programme_prospectus.pdf]

198 MHCLG, '£2 billion boost for affordable housing and long term deal for social rent' [www.gov.uk/government/news/2-billion-boost-for-affordable-housing-and-long-term-deal-for-social-rent]

199 This was financed by 'reducing spending on 'accelerated construction' and 'starter homes' across the four years from 2017–18 to 2020–21. See the Office for Budget Responsibility (OBR), *Economic and Fiscal Outlook: November 2017*, 2017 [cdn.obr.uk/Nov2017EFOwebversion-2.pdf]

(£53.1 billion), with just 21 per cent going directly to affordable housing.[200] Of course, comparisons between grant and loan funding should be treated with caution. But it is indicative of the Government's housing policy priorities that the £23.8 billion (45 per cent) committed to the Government's Help to Buy equity loan and ISA schemes compares to £11.2 billion on affordable housing schemes in this period.[201]

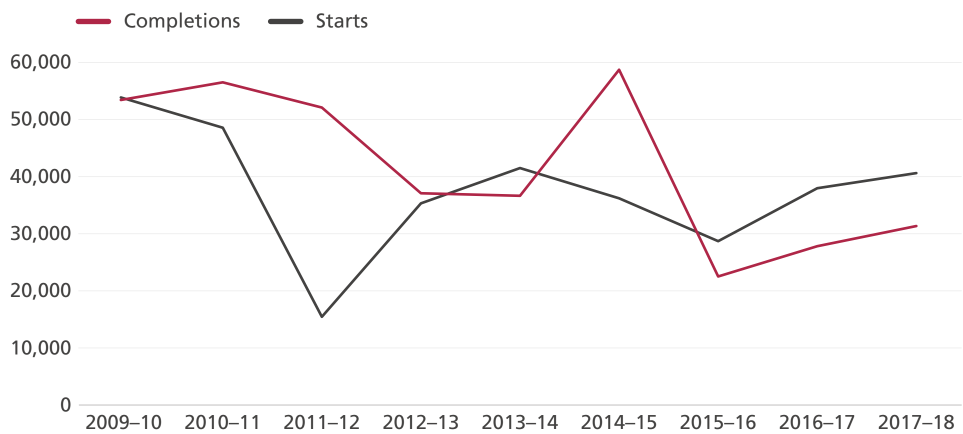
In this section, we examine the Government's shifting housing priorities and emphasise how recent and future spending is insufficiently targeted towards providing the truly affordable homes that are needed to catch those unable to afford rent in the private market.

The Government's Affordable Homes programmes and Help to Buy

Government funding for affordable housing has been split between two programmes since 2015: the Affordable Homes Programme 2015–18, which was superseded by the Shared Ownership and Affordable Homes Programme 2016–21.

The number of affordable homes provided each year through Homes England and GLA investment is shown in Figure 21. The delivery of affordable homes fell considerably in 2015–16 to 23,000, with small rises taking it to the provisional estimate of 31,000 for 2017–18.[202]

Figure 21: Affordable housing starts and completions funded by Homes England and the Greater London Authority



Source: MHCLG, Live Table 1012

Recent years' historically low output of government grant funded affordable housing has, however, existed alongside expensive schemes designed to support homeownership. The key homeownership programme funded by the Government has been through Help to Buy (see Box 7).

200 CIH, 2018 UK Housing Review
201 Ibid
202 MHCLG, Live Table 1012

Box 7: Help to Buy

Help to Buy refers to a number of schemes aimed at helping people buy homes, launched by the Coalition Government in 2013. In England, it is made up of the Help to Buy equity loan and Help to Buy ISAs.

People wanting to buy a new-build property (worth less than £600,0000) may receive a Help to Buy equity loan of 20 per cent of the property's value, free of interest for five years. Buyers must contribute a deposit of at least 5 per cent of the property's value, and take out a mortgage on the remaining value of the property. Buyers in London may borrow 40 per cent of the property price from the Government.

Help to Buy ISAs are a savings account to help prospective buyers. For every £200 saved, the Government contribute an additional £50 (to a maximum of £3,000).

Help to Buy was designed with two key policy aims in mind. The first was to provide a stimulant to the market needed to kickstart developments when building had ground to a halt in the context of the crash: in the then Chancellor's words, a 'dramatic intervention to get our housing market moving'.[203] The second was in order to open up homeownership to those for whom:

> buying a home seemed all but impossible – people who worked hard, had good jobs and could afford the monthly mortgage payments, but didn't have the large deposit needed up front. For those without rich parents, the dream of home ownership remained just that: a dream[204]

From its launch in April 2013, over 169,000 properties have been bought with a Help to Buy equity loan.[205] The value of the equity loans totals £8.93 billion, with 81 per cent of purchases made by first time buyers.[206]

How effective has Help to Buy been?

Key developments call into question how effective Help to Buy has been in achieving the Government's original aims.

Rather than targeting support to those facing the most impenetrable barriers to the housing market, Help to Buy is largely – and, increasingly – supporting households on above-average incomes. Figures released in August 2018 showed that average Help to Buy recipients had a household income of £46,000 – a little over the national average first time buyer income (of £42,000), but well above the UK median household income of £27,300.[207]

203 HM Treasury, 'Budget 2013: Chancellor's statement', 2013 [www.gov.uk/government/speeches/budget-2013-chancellors-statement]
204 No 10, 'Help to Buy: opening up home ownership and boosting housing supply', 2014 [www.gov.uk/government/news/help-to-buy-opening-up-home-ownership-and-boosting-housing-supply]
205 MHCLG, Help to Buy (Equity Loan scheme) and Help to Buy: NewBuy statistics: Data to 30 September 2017, England, 2018 [assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/672965/20180111_HTB_EL_and_HTB_NewBuy_statistical_release.pdf]
206 Ibid
207 ONS, 'Household disposable income and inequality in the UK: financial year ending 2017', 2018 [www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/householddisposableincomeandinequality/financialyearending2017]

Indeed, over one third of households benefiting from Help to Buy equity loans had household incomes of £50,000 or higher (42 per cent), with nearly one in ten of buyers over £80,000.[208]

Some 6,700 households with incomes above £100,000 have benefitted from the scheme.[209]

As noted by the Social Mobility Commission in 2017, the average incomes of Help to Buy recipients, and the scale of better-off buyers utilising the scheme, 'clearly suggests that the scheme was not helping *lower-income* first time buyer households'.[210]

Yet since its introduction, Help to Buy has drifted further from its target audience. While the median average income for families purchasing through Help to Buy in the initial stages of the scheme was £37,000, by the first quarter of 2018 this had risen to £50,379.[211] It has been pointed out that, in London, this has risen further with better-off buyers making use of the scheme: the average income of users has risen from £47,250 to £62,000 in the same period.[212]

While households on average incomes continue to be priced out of the market (as shown in Part 1), the Government's own analysis shows that over a third of households purchasing homes through Help to Buy would have been able to buy at some point in the future anyway.

MHCLG found that as many as 35 per cent of Help to Buy users could have bought a similar home without the subsidy (with similar meaning 'in terms of type, size and location').[213] 17 per cent could have bought the same property without the assistance of Help to Buy.[214]

Moreover, Help to Buy's effectiveness in supporting specifically first-time buyers and those locked out of the market has recently been subject to criticism. While more than eight out of 10 of users have been new buyers, as many as 32,000 households are believed to have used the scheme to 'upgrade' their current property since 2013.[215]

Perhaps most alarming is that Help to Buy has, overall, very slightly worsened the housing crisis of affordability rather than eased it. By stimulating demand alongside still insufficiently boosted supply, and encouraging over-confidence on the part of developers, there is evidence suggesting that the policy has actually inflated house prices further.

“Government analysis finds that 35 per cent of Help to Buy users could have bought a similar home without the subsidy. 17 per cent could have bought *the same property* without the assistance of Help to Buy.

208 MHCLG, *Help to Buy (Equity Loan scheme) and Help to Buy: NewBuy statistics: Data to 31 March 2018, England*, 2018 [assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/734061/HTB_EL_and_HTB_NewBuy_statistical_release.pdf]

209 Ibid

210 B Provan, A Belotti, L Lane, A Power, *Low Cost Home Ownership Schemes*, Social Mobility Commission, 2017 [assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/624152/Low_Cost_Home_Ownership_Schemes.pdf]

211 MHCLG, *Help to Buy (Equity Loan scheme) and Help to Buy: NewBuy statistics: Data to 31 March 2018* (see earlier reference)

212 City Metric, 'The number being helped by Help to Buy is at a record high. That's not a good thing', 2018 [www.citymetric.com/politics/number-being-helped-help-buy-record-high-s-not-good-thing-4142]

213 DCLG, Evaluation of the Help to Buy Equity Loan Scheme, 2018 [assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/499701/Evaluation_of_Help_to_Buy_Equity_Loan_FINAL.pdf]

214 Ibid

215 The Times, 'High earners are winners in Help to Buy scheme', 2018 [www.thetimes.co.uk/article/high-earners-are-winners-in-help-to-buy-scheme-xbx3lt825]

Analysing the component of mortgage growth that can be attributed to Help to Buy, recent research found that the scheme had contributed an additional £8,250 to the average house price nationally.[216] As 169,000 buyers have been supported, it has been made even more difficult for the 4.7 million private renting households to save for a home of their own.

More recently, a report published by Morgan Stanley echoed these findings, showing how the premium on new-build homes has been inflated since Help to Buy's introduction. '[T]he divergence between new-build and second-hand prices', the report finds, 'is higher than it's been since records began',[217] with the price of new builds now exceeding that of second-hand homes by 15 per cent – almost as much as the full amount of the Government's equity loan of 20 per cent.

Rather than those locked out of the market, it has been argued that the main beneficiaries of the policy have been the major developers, whose earnings have tripled since its launch.[218] Indeed, as the £10 billion extension of the scheme was announced in October 2017, nearly £1 billion was added to the share prices of the top developers, 'reflecting a view in the City that these subsidies help builders more than buyers'.[219]

The points made above should not be interpreted or construed as a moral critique of private businesses, here acting in their rational interests. And Help to Buy served a clear purpose specific to the context of its introduction: to kickstart housing construction after the crash and create business confidence among developers.

But even beyond its distortionary effects outlined above, the prolonged availability of Help to Buy has also been extremely costly. As it is a loan scheme, Help to Buy is not considered as part of the Government's annual deficit, and because the Government expects these to be paid with interest the longer-term impact to the public finances has been estimated by MHCLG of around £0.5 billion for the loans granted to 2017.[220] However, the OBR estimates that cash requirement restrictions on Government will total £9.1 billion from now until it's the scheme's currently scheduled end.[221]

Help to Buy does not effectively support the households most in need and most seriously impacted by the housing crisis. Indeed, the policy 'has helped a small number of people to buy, at the expense of worsening the overall affordability crisis for everyone else'.[222] Nonetheless, it is reportedly set to be extended – for the second time – so that it lasts until 2023.[223]

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216 Shelter, *How much help is Help to Buy? Help to Buy and the impact on house prices*, 2015 [england.shelter.org.uk/__data/assets/pdf_file/0010/1188073/2015_09_how_much_help_is_Help_to_Buy.pdf]

217 W Wilson, H Cromarty, A Seely, C Barton, *Extending home ownership: Government initiatives*, House of Commons Library, 2017 [researchbriefings.files.parliament.uk/documents/SN03668/SN03668.pdf]

218 Morgan Stanley, 'The help to buy premium – and its unintended consequences', 2017

219 Hansard, HL 11/01/18 vol 778 [hansard.parliament.uk/lords/2018-01-11/debates/5C593D58-0CC2-404C-8C69-32472C5C0C81/Housebuilders]

220 L Judge and D Tomlinson, *Home Improvements: Action to address the housing challenges faced by young people*, Resolution Foundation, 2018 [www.resolutionfoundation.org/app/uploads/2018/04/Home-improvements.pdf]

221 OBR, *Economic and fiscal outlook: March 2018*, 2018 [cdn.obr.uk/EFO-MaRch_2018.pdf]

222 Shelter, *How much help is Help to Buy?* (see earlier reference)

223 The Times, 'Help to Buy may be capped during two-year extension', 2018 [www.thetimes.co.uk/article/help-to-buy-may-be-capped-during-two-year-extension-9s935tjf8]

Renewing the Affordable Homes Guarantee

Despite the new money announced in the Autumn Budget and the longer-term commitments to support housing associations made by the Prime Minister in September 2018, it appears highly unlikely that the Government will soon return to the levels of grant funding of homes for Social Rent seen historically. However, recent governments have pulled financial levers to support the development of affordable housing.

In 2013 the Coalition Government announced new legislation that would allow the Government to underwrite the debt of housing associations and private sector developers.[224] This Affordable Homes Guarantee Programme (AHGP) had, by 2015, enabled registered providers of social housing to raise more than £1.4 billion of inexpensive debt in support of the development of almost 13,500 new homes.

The AHGP officially ended in March 2016 but development with the finance awarded continued until 2018. With these schemes now ending, the AHGP closes having provided £2.5 billion of guaranteed lending to 70 housing associations, and supporting the delivery of around 27,000 new affordable homes.

However, it also closes at a time when some associations have found borrowing from the bond markets on their own become more expensive. Ratings agencies have downgraded in light of uncertainty arising from the UK leaving the European Union, and as debt levels have risen in the sector.[225] The European Investment Bank had been an important lender through AHF.[226] And while the UK's exit brings many new opportunities in housing finance, it remains unclear as to whether the past arrangement will be replicable given the withdrawal of the AHGP.

Thankfully, in the Autumn Budget 2017 the Government indicated that it would explore options with the industry to create £8 billion of new guarantees to support housebuilding. It does not specify whether any of this would include guarantees specifically for affordable housing. Yet the recent green paper, *A new deal for social housing* (2018), is more indicative:

> Through our extensive market engagement in recent months, housing associations have told us that the previous Affordable Housing Guarantee Scheme was helpful, particularly for smaller and medium-sized providers who are less well placed than the larger associations to access the capital markets in their own right. We have taken on board that providing access to the capital markets in the way the Affordable Housing Guarantee Scheme previously did would help support more affordable homes to be built.[227]

Here, the CSJ Housing Commission adds its voice to those calling for a renewal of the Affordable Homes Guarantee.

224 W Wilson, *Stimulating housing supply – Government initiatives (England)*, House of Commons Library, 2018 [researchbriefings.files.parliament.uk/documents/SN06416/SN06416.pdf]

225 Inside Housing, 'Walkley: 'definitely' scope for more loan guarantees for affordable housing', 2018 [www.insidehousing.co.uk/news/news/walkley-definitely-scope-for-more-loan-guarantees-for-affordable-housing-55271]

226 Inside Housing, 'Walkley: 'definitely' scope for more loan guarantees for affordable housing', 2018 [www.insidehousing.co.uk/news/news/walkley-definitely-scope-for-more-loan-guarantees-for-affordable-housing-55271]

227 Ministry of Housing, Communities & Local Government (MHCLG), *A new deal for social housing*, 2018 [assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/733605/A_new_deal_for_social_housing_web_accessible.pdf]

Recommendation 11

The Government should end Help to Buy at the earliest opportunity and redirect funds into renewing the Affordable Homes Guarantee to further support housing associations with the construction of truly affordable homes.

Any immediate withdrawal of Help to Buy would have serious repercussions for the housing market and particularly for the builders most reliant on government equity. The government should avoid a cliff edge and phase it out so that the market is able to adjust.

Direct investment and the Affordable Rent model

It is again important, here, to recognise the *types* of homes delivered through the Government's direct investment in affordable housing. As set out in Part 2 of this report, the Government's definition of affordable housing is comprised of as many as seven different affordable housing 'products'. In this section we examine the extent to which direct Government investment in recent years has been targeted to the less affordable of the affordable schemes.

Following the financial crash, the Coalition was elected on a mandate to rebalance the public finances in light of what the new Government described as its 'terrible economic inheritance'.[228] The introduction of the Affordable Rent model flowed from the logic of needing to be creative in the context of the reduced availability of public subsidy, alongside the persistent need for new homes let below the market rate.

As the then Housing Minister described, the Affordable Rent Model was designed to:

> Maximise the delivery of new social housing by making the best possible use of constrained public subsidy and the existing social housing stock; and provide an offer which is more diverse for the range of people accessing social housing, providing alternatives to traditional social rent[229]

The introduction of Affordable Rent, officially launched in February 2011, accompanied a significant reduction in the level of investment in affordable housing. In the previous Comprehensive Spending Review (CSR) 2008–11, £8.5 billion was allocated to fund new affordable housing through the National Affordable Housing programme, with a target of 155,000 new homes. At the time, the 2011–15 Comprehensive Spending Review reduced this investment to £4.5 billion while only slightly lowering the target of new affordable homes to 150,000 a year.[230]

228 Cabinet Office, 'PM and Deputy PM press conference', 2010 [www.gov.uk/government/speeches/pm-and-deputy-pm-press-conference—2]

229 W Wilson and A Bate, Affordable Rents (England), House of Commons Library, 2015 [researchbriefings.files.parliament.uk/documents/SN05933/SN05933.pdf]

230 London Councils, *The Affordable Rent Model*, 2011 [www.londoncouncils.gov.uk/node/1026]

The adoption of the Affordable Rent model thus required social housing providers[231] to deliver more new homes for each pound of subsidy, but allowed them greater flexibility to generate rental income (through less subsidised lets) in order to fund new homes.

But since the introduction of the Affordable Rent model, the number of new homes supplied at Social Rent levels has fallen significantly. Indeed, the impact of the end to state subsidy for Social Rented homes was felt almost immediately.

In 2010–11, just under 36,000 Social Rented homes were started.[232] Next year, work started on just over 3,000.[233]

Figure 22 demonstrates the output of the Government's Affordable Homes Programmes. The most obvious story told by this data is the transfer of investment from homes for Social Rent, which peaked with the completion of 37,000 homes in 2010–11, to Affordable Rent, which rose to 40,000 in 2014–15 before falling (provisionally) to 22,000 in 2017–18.[234]

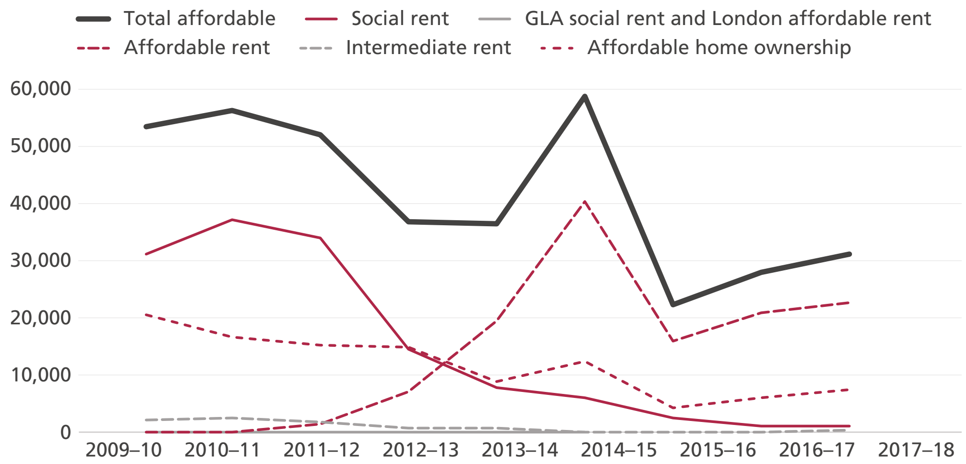
The number of homes for Social Rent completed through the Government's key Affordable Homes Programme fell to as low as 950 in 2016–17.

Yet the Affordable Rent model had significant implications not only for the numbers of new homes delivered, but also for changes in the existing stock of social housing.

The depletion of the existing stock of homes for Social Rent – through, for example, conversions to Affordable Rent – has had a dramatic impact on the quantity and availability of the most subsidised forms of social housing.

The number of homes for Social Rent completed through the Government's key Affordable Homes Programme fell to as low as 950 in 2016–17.

Figure 22: Affordable housing completions funded by Homes England and the Greater London Authority



Source: MHCLH, Live Table 1012

231 For the sake of clarity, this report has used the phrase 'social housing providers' to encompass what were known as registered social landlords (RSLs) and are now defined as private registered providers of social housing (PRPSHs), as well as social housing managed by local authorities (typically termed 'council housing'), except where these are delineated.
232 MHCLG, Live Table 1012
233 Ibid
234 Ibid

As part of the Government's push for social housing providers to deliver more 'affordable housing' with reduced grant, social housing providers bidding for development grants have been required to convert Social Rent homes to Affordable Rent levels as they become empty.[235]

As a result of this policy, 102,000 homes for Social Rent were converted to Affordable Rent between 2012–17.[236] The new grant money made available to fund Social Rented homes announced in the Autumn Budget is likely to ease the depletion of homes for Social Rent through conversions. But the Government should recognise the need to replace these lost homes.

Recommendation 12

The Affordable Rent model, while necessarily adopted in the context of 2010, has allowed the Government's housing priorities to become misaligned to the needs of those at the sharpest end of the housing crisis. **The Government should, at the earliest opportunity, revert to the standard funding model which prioritised homes for Social Rent.**

There are, of course, long-term financial implications to this – homes for Social Rent simply require more government grant. This recommendation should require prior confirmation by independent review (see Recommendation 1) that savings in Housing Benefit over the longer term would justify the building of new homes for Social Rent.

A 'new generation of council homes'?

Key, historically, to the supply of homes in England – and, in particular, of affordable homes – has been local authorities. As noted in Box 1, local authority building played a central role in the housebuilding projects following the Second World War, with just under 200,000 new homes completed in 1953 alone.[237] But the extent to which councils have been responsible for supplying new homes has changed dramatically over time.

Local authorities and housing

It is often highlighted that the last time the Government's target of 300,000 homes a year was achieved in England was in 1969, when local authorities supplied over 135,000 homes.[238] That is, 44 per cent of all completions.[239] Yet the number of council homes delivered each year fell markedly from the 1980s, from 55,200 in the first year of Margaret Thatcher's premiership to just 400 in the last of John Major's.[240]

235 M Downie, *Everybody In: How to end homelessness in Great Britain*, Crisis, 2018 [www.crisis.org.uk/media/239346/everybody_in_how_to_end_homelessness_in_great_britain_2018.pdf]
236 Homes and Communities Agency, *Statistical Data Return 2016 to 2017: private registered provider social housing stock in England*, 2017 [www.gov.uk/government/uploads/system/uploads/attachment_data/file/653706/SDR_Additional_Tables_2017_FINAL_v01.0.xlsx]
237 MHCLG, Live Table 244
238 Ibid
239 Ibid
240 Inside Housing, 'Have the Conservatives really built twice as much council housing as Labour?', 2017 [www.insidehousing.co.uk/insight/insight/have-the-conservatives-really-built-twice-as-much-council-housing-as-labour-50497]

Since then, governments of all stripes have overwhelmingly relied on alternative vehicles of housing supply. Whereas in 1968, when the highest annual delivery of new homes was recorded, the total proportion completed by local authorities was just over 40 per cent, the yearly average from 1997 was just 0.01 per cent.[241]

The Labour Government elected in 1997 prioritised improving the existing stock of local authority homes, investing £22 billion in its Decent Homes Programme from 2000.[242] The Government also reduced the discount on Right to Buy (RTB) – making it less attractive for social housing tenants to purchase their homes, and leading by 2009 to sales of around 2,000 homes a year compared to 13,000 a year now.[243]

Box 8: Right to Buy

The Right to Buy scheme was introduced in 1980 and is designed to help social housing tenants in England buy their home through a discount price.

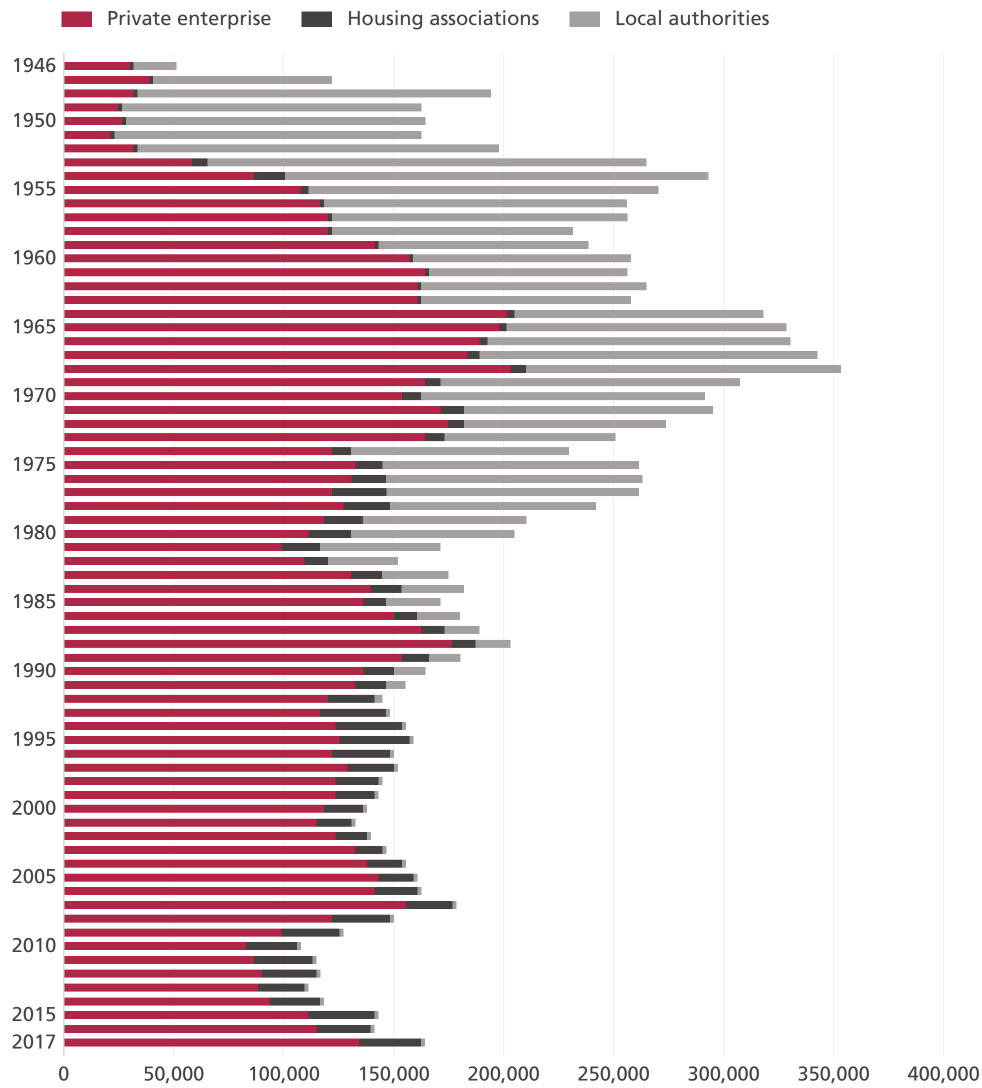
From 6 April 2018, tenants could get a maximum discount of up to £80,900, or £108,000 if living in London. This amount increases every year in April in line with inflation.

Since the introduction of RTB, some 2.5 million people have purchased their social homes.

During the Coalition and subsequent Conservative Governments, the number of homes delivered annually by local authorities rose slightly, hovering at around 1,500 on average. However, their role remained vastly overshadowed by the contributions of housing associations and private builders.

241 Live Table 244
242 NAO, *The Decent Homes Programme*, 2010 [www.nao.org.uk/wp-content/uploads/2010/01/0910212.pdf]
243 MHCLG, Live Table 671

Figure 23: Permanent dwellings completed in England



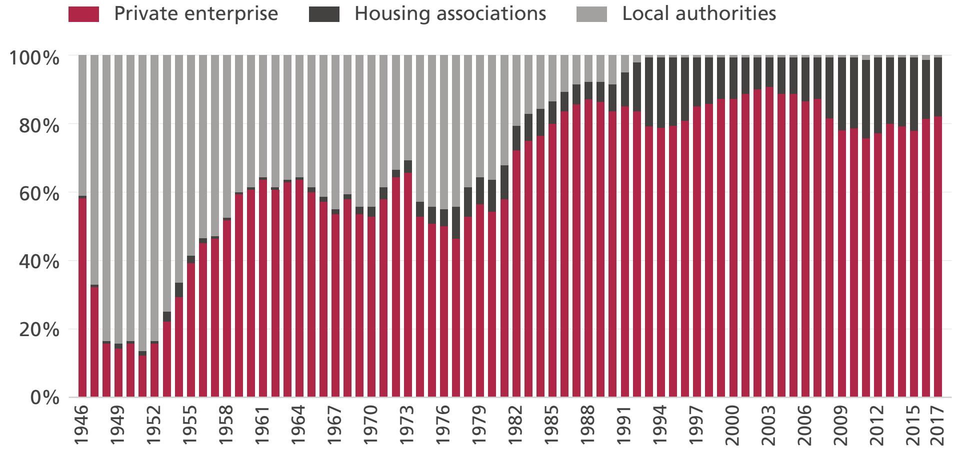
Source: MHCLG, Live Table 244

Moreover, as the RTB discount was increased in 2012, the number of sales of local authority housing rose to an average of 13,000 a year.[244] **The total sale of council homes (the majority through RTB) reached 63,000 between 2010–17, while building just 12,000 new homes the same period.[245]** In 2016, the number of new homes built by local authorities amounted to just 1,730 of 183,570 overall.[246]

But despite these historical trends, mounting calls from stakeholders across housing sector – and, more pertinently, changes in Government policy – indicate that a new role for local authorities in the delivery of affordable housing will be forged in the years to come.

244 MHCLG, Live Table 678
245 MHCLG, Live Table 678 and 244
246 MHCLG, Live Table 244

Figure 24: Permanent dwellings completed in England



Source: MHCLG, Live Table 244

In the recently published social housing green paper, *A new deal for social housing* (2018), the Government built on previous commitments to deliver 'a new generation of council homes'. The Government outlined three key barriers preventing local authorities from contributing more to the delivery of affordable housing:

- restrictions imposed by the Government on their ability to borrow money to fund house building;
- uncertainty about the level of rent that they can charge residents from 2020–21; and
- limitations on how they are able to use their receipts from homes sold under the Right to Buy.[247]

The second point was addressed most quickly, with the Government announcing in October 2017 that increases to social housing rents will be set to Consumer Price Index (CPI) plus one per cent for five years from 2020.[248] Between 2016 and 2020, social housing rents have been cut by one per cent annually, reducing the amount of money available (and resulting in an estimated 14,000 fewer affordable homes being built).[249] Increasing rents is likely to provide the confidence and security to social housing providers (of all kinds) that will facilitate higher output in the near future.

Here, however, we explore the other measures planned and proposed as solutions and question whether they go far enough to realise the potential of local authorities to contribute to the supply of truly affordable homes.

Empowering local authorities to build

Given the ongoing budget constraints and the Government's ambition to maintain a 'balanced' approach to the public finances, it is highly unlikely that we will see a return to the mass scale grant funding of council delivered homes as was the case in the years following the Second World War.

247 MHCLG, *A new deal for social housing* (see earlier reference)
248 MHCLG, '£2 billion boost for for affordable housing and long term deal for social rent', 2017 [www.gov.uk/government/news/2-billion-boost-for-affordable-housing-and-long-term-deal-for-social-rent]
249 M Downie, *Everybody In: How to end homelessness in Great Britain*, Crisis, 2018 [www.crisis.org.uk/media/239346/everybody_in_how_to_end_homelessness_in_great_britain_2018.pdf]

The key way that councils fund the delivery of hew homes, then, is through local borrowing. Existing rules have meant that councils may only borrow to a certain limit for the purposes of building homes, despite the security of rental income new housing generates. Caps on borrowing were imposed on each of 169 councils that had housing stock in April 2012 through the Housing Revenue Account (HRA) system.

The HRA borrowing caps have been subject to criticism for their 'arbitrary' application. As explained by the CIH:

> The impact of the caps is very arbitrary – some councils that need to borrow have no or limited headroom, others have significant headroom and may not need it.
>
> The caps were put in place because government knew that within a few years of the start of self-financing councils would easily be able to afford to borrow more. All council borrowing affects government debt. So even though councils have to stick to prudential borrowing rules, these further limits were judged to be necessary. They mean that few if any councils can borrow as much as they could afford to do sustainably within the prudential rules.[250]

As such, councils' housing debt is currently considered within the overall measure of public debt in way that sets it apart from international models used by countries across the EU, as well as the IMF and OECD, and means it is subject to the fiscal rules established in the Public Sector Net Debt (PSND) measure.[251] The criteria for public debt as accepted by these bodies includes both central and local government debt, but excludes public corporation borrowing (which critically includes local government borrowing for the purpose of housebuilding).[252]

Many councils have utilised local housing companies (LHCs) to enable them to build new homes beyond the confines of the borrowing cap. This still emergent sector has, according to some estimates, the capability to deliver 2,000–3,000 homes annually;[253] however, the reliance on housing companies has been criticised for reducing the number of homes specifically for Social Rent let by councils,[254] as well as encouraging 'landbanking'.[255]

Greater freedoms allowing local authorities to borrow to build themselves would, it has been found, allow them to boost their building capacity to deliver as many as 60,000 homes in five years.[256]

250 CIH, *Why is it important to change local authority borrowing rules?*, 2014 [www.cih.org/resources/PDF/Policy%20free%20download%20pdfs/Policy%20essay%209%20-%20Why%20is%20it%20important%20to%20change%20local%20authority%20borrowing%20rules%20-%20July%202014.pdf]

251 L Murphy, *The Invisible Land* (see earlier reference)

252 Ibid

253 P Hackett, *Delivering the renaissance in council-built homes: the rise of local housing companies*, The Smith Institute, 2017 [bit.ly/2hIV6qe]

254 Public Finance, 'Should councils borrow to build houses that aren't for social rent?', 2015 [www.publicfinance.co.uk/2015/02/should-councils-borrow-to-build-houses-that-arent-for-social-rent]

255 Crisis, 'Innovating to increase the supply of permanent mainstream housing for homeless people: Summary of roundtable discussion on 14th February 2018', 2018

256 National Federation of ALMOs, *Let's get building: the case for local authority investment in rented homes to help drive economic growth*, 2012 [www.almos.org.uk/include/getDoc.php?did=5300&fid=6097]

It has been highlighted that housebuilding borrowing caps do not exist in Scotland.[257] Scottish local authorities have been able to fund the completion of over 1,000 new homes, on average, every year since 2000.[258] This represents 50 per cent fewer new local authority homes a year than those completed by English councils, but for a population nearly ten times smaller.

Within a package of measures designed to increase the overall output of homes, the Government more clearly recognised the potential of local authority building, announcing in the Autumn Budget 2017 that it would lift the cap on the Local Authority Housing Revenue Account borrowing account for:

> councils in areas of high affordability pressure, so they can build more council homes. Local authorities will be invited to bid for increases in their caps from 2019–20, up to a total of £1 billion by the end of 2021–22. The Government will monitor how authorities respond to this opportunity, and consider whether any further action is needed.[259]

However, this measure was designed so that the borrowing leverage would be available for councils only in those deemed 'high demand areas'.[260] This policy's limitations were criticised by both the Local Government Association as well as the Treasury Committee for not going far enough to utilise the position of local authorities to contribute to supply. As per evidence submitted to the Treasury Committee:

> Rather than having a competitive process, it is better to lift the borrowing cap for all local authorities, so that we can all get on and take the decisions that are in the interests of our respective communities. We have a situation where most of the HRAs for local authorities are operating within 10 per cent or 20 per cent of their cap, so the flexibility to manoeuvre is very limited.[261]

Indeed, in the Government's green paper, it noted that:

> many local authorities, especially those who are more ambitious and have already borrowed to build, have very little headroom left to borrow. 47 local authorities have less than 5 per cent of their borrowing headroom available, so they simply cannot build any new council homes.[262]

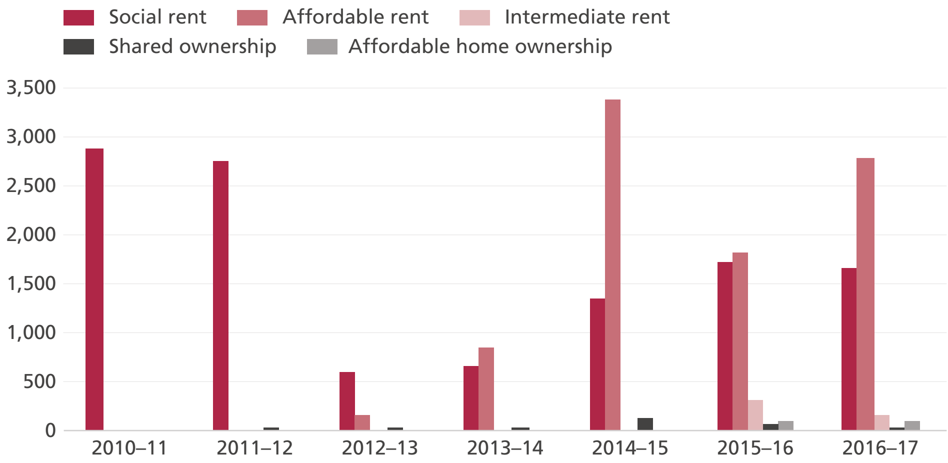
However, in a change in policy not to be underestimated in its potential impact, the Prime Minister's announced at the 2018 Conservative Party conference to 'abolish' the cap on borrowing to build homes.

257 CIH, *Why is it important to change local authority borrowing rules?* (see earlier reference)
258 Gov.scot, *Housing Statistics for Scotland – Local authority new build* [www.gov.scot/Resource/0054/00540951.xls] and MHCLG, Live table 244
259 HM Treasury, *Autumn Budget 2017*, 2017 [www.gov.uk/government/uploads/system/uploads/attachment_data/file/661480/autumn_budget_2017_web.pdf]
260 HM Treasury, 'Autumn Budget 2017: Philip Hammond's speech', 2017 [www.gov.uk/government/speeches/autumn-budget-2017-philip-hammonds-speech]
261 House of Commons Treasury Committee, *Autumn Budget 2017*, House of Commons, 2018 [publications.parliament.uk/pa/cm201719/cmselect/cmtreasy/600/600.pdf]
262 MHCLG, *A new deal for social housing* (see earlier reference)

The CSJ Housing Commission welcomes this announcement, for if the Government is determined to increase the supply of truly affordable housing, it should put all local authorities in a much more empowered position to do so. Figure 25 shows the types of affordable housing built by local authorities in recent years. Notably, it displays a familiar swing towards homes for Affordable Rent.

> For every six homes sold through RTB between 2012 and 2016, just one new home was provided. And as many as four in ten RTB homes are now let as private tenancies, further inflating the Housing Benefit bill.

Figure 25: Affordable housing delivered by local authorities



Source: MHCLG (various)

We stress here, again, that the *types* of homes built matter as just much as their number. It is a sign of significant progress that local authorities will be given greater freedom to build in the future. But this should prioritise the homes for those most in need in any given area.

Recommendation 13

The CSJ Housing Commission welcomes the Government's recent announcement to abolish the cap on local authority borrowing for the purposes of building new homes. **However, the Government should ensure that any new wave of local authority housebuilding prioritises the need for homes for Social Rent, particularly in areas of high affordability pressure, and consider forthcoming CSJ Housing Commission recommendations on how to foster ownership among low-income social renters.**

Utilising Right to Buy to deliver more homes

Since the introduction of Right to Buy (RTB) in 1980, millions of council tenants have been given a foot on the housing ladder and a stepping stone to independence.

At the same time, for every six homes sold through RTB between 2012 and 2016, just one new home was provided. And as many as four in ten RTB homes are now let as private tenancies, further inflating the Housing Benefit bill.[263] Given the extent of the housing crisis it is now paramount that the takings made by local authorities from the sale of council homes are reinvested in order to maintain (and, indeed, increase) the supply of affordable housing.

Existing rules have blocked councils from utilising their RTB receipts in this way. In 2012, rules were introduced to allow councils to retain more of the money generated through RTB sales; before, just a 25 per cent of RTB receipts were returned to local authorities, with the remaining 75 per cent going to the Treasury.[264]

The new rules were aimed at committing to replace each home sold under RTB with a new home for Affordable Rent – 'One for One' – using receipts from sales to go towards the cost of the replacement. This continues to operate through a '141 agreement' signed by each authority to spend the retained amount within three years of the sale, with this money having to be returned along with interest calculated at four per cent cumulative plus base rate if not reinvested in that time.

Importantly, for councils seeking to reinvest into new affordable housing developments, money raised through RTB sales can only fund up to 30 per cent of each individual scheme, with the remaining 70 per cent to be funded from other Housing Revenue Account resources, borrowing, or other registered providers funding.

Recent research has found that the limit of 30 per cent RTB contributions in new schemes is restricting councils' ability to reinvest in local housing.

Much of this pivots on the specific 'headroom' available to local authorities in their Housing Revenue Accounts. For most local authorities, and those with the headroom enabling them to sustain a programme over a number of years, the 30:70 funding mix 'is able to generate a higher programme level' than other variations – for example, 40:60 or 50:50.[265]

Yet for councils with less breathing space, in certain parts of the country, the flexibility to shift these funding models could increase the number of homes delivered. Analysis conducted by Savills shows that enabling councils to set their own policies could increase replacement supply by as much as 10 per cent.[266]

However, flexibility for councils to use RTB receipts is only worthwhile if there are receipts available in the first place. It remains the case that a significant proportion of the funds generated through local RTB sales is swallowed up by the Treasury.

263 Guardian, 'Four in 10 right-to-buy homes are now owned by private landlords', 2017 [www.theguardian.com/society/2017/dec/08/right-to-buy-homes-owned-private-landlords]

264 D Davis and F Field, *Right to Buy 2.0*, IPPR, 2012 [www.ippr.org/files/images/media/files/publication/2011/12/right-to-buy-2_Jan2012_8423.pdf]

265 Local Government Association, *Sustainability of Right to Buy*, 2018 [www.local.gov.uk/sites/default/files/documents/lga%20right%20to%20buy%20sustainability%20analysis%20-%20apr18%20-%20FINAL.pdf]

266 Ibid

Less than half of the £4.8 billion raised through RTB since 2012 was spent on replacements. The Treasury took in £920 million of this.[267] The Government has again displayed awareness in recognising that its One for One policy has not been as effective as it could be, and so has launched a consultation to reform Right to Buy.

In March 2018, on publication of the RTB statistical bulletin, the then Housing minister stated:

> To help councils build more homes, we believe there is a case for greater flexibility on the use of receipts from Right to Buy sales. We will consult further with the sector on providing greater flexibility around how local authorities can use their Right to Buy receipts, and how to ensure that we continue to support local authorities to build more council homes.[268]

It has been estimated that, with 'greater borrowing freedoms, full receipts retention and flexibility to fund new developments, local authorities could build 1.3 homes for every 1 sold under RTB'.[269] That is, 16,000 new homes for the 12,000 sold each year.

The Government should now unlock this potential fully.

Recommendation 14

The Government should recognise in its consultation response on Right to Buy that local authorities should be given greater flexibility in setting their own funding mix models.

Recommendation 15

Councils should be permitted to retain 100 per cent of the receipts generated by Right to Buy sales – on the condition that these are reinvested according to local affordable housing need within three years.

267 Inside Housing, 'Less than half of £4.8bn Right to Buy receipts used for replacement housing', 2018 [www.insidehousing.co.uk/news/news/less-than-half-of-48bn-right-to-buy-receipts-used-for-replacement-housing-56498]
268 MHCLG, Written Statement HCWS614 Social Housing Update [www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2018-03-29/HCWS614]
269 Local Government Association, *Sustainability of Right to Buy* (see earlier reference)

appendix

Recommendations

Recommendation 1

The Government should establish an independent review to definitively model the financial implications of shifting demand-side subsidy through housing benefits to supply-side investment in truly affordable housing over the longer term. The conclusions of the review should then be used to inform the Government's strategy to meet the housing needs of low-income households.

Recommendation 2

The Government should explore ways to improve the language surrounding 'affordable housing' to focus policy on increasing the supply of homes which meet the needs of those at the sharpest end of the housing crisis.

Recommendation 3

The Government should go further in its reforms to the S106 system by obliging developers to make concrete commitments, instead of 'aspirational targets', to meet the affordable housing contributions set out in Local Planning Authorities' planning obligations.

Recommendation 4

The Government should explore whether regions beyond London could benefit from an affordable housing threshold (of 35 per cent, or indeed above) which fast-tracks developers through the planning process if they agree to a cast-iron affordable housing commitment.

Recommendations 5

The Government should tighten the circumstances in which the viability of schemes can be reviewed after the plan making stage so that assessments leading to reduced S106 contributions are limited to the context of exceptional circumstances, such as a serious recession.

Recommendation 6

The Government should monitor closely what constitutes a ‘reasonable’ return (as outlined in the new planning rules) in practice, as this can be set differently by local authorities from area to area. If expectations of high profit margins continue to be the basis of viability complaints, it should be replaced with, simply, ‘a return’.

Recommendation 7

The Government should go further to improve transparency and empower councils by making all viability documents assumed to be public, and provide additional resources, guidance and training to LPAs so they can negotiate with developers on a level playing field.

Recommendation 8

The Government should address any practical barriers preventing local authorities from spending funds raised via S106 ‘commuted sums’, and, if necessary, intervene through its Delivery Test mechanism to ensure that these are spent appropriately and effectively.

Recommendation 9

The Government should explore ways of ensuring that the increasing numbers of ‘permitted developments’ are not excluded from making affordable housing contributions via the S106 system.

Recommendation 10

The Government should amend the NPPF 2018 to incentivise the delivery of homes for Social Rent. In the areas it defines as having high ‘affordability pressure’, Government should consider mandating a proportion of the affordable homes in LPA’s baseline policies as for Social Rent, replacing the 10 per cent affordable homeownership requirement (which are ultimately inaccessible to those most in need).

Recommendation 11

The Government should end Help to Buy at the earliest opportunity and redirect funds into renewing the Affordable Homes Guarantee to further support housing associations with the construction of truly affordable homes.

Recommendation 12

The Affordable Rent model has allowed the Government's housing priorities to become misaligned to the needs of those at the sharpest end of the housing crisis. The Government should, at the earliest opportunity, revert to the standard funding model which prioritised homes for Social Rent.

There are, of course, long-term financial implications to this – homes for Social Rent simply require more government grant. This recommendation should require prior confirmation by independent review (see Recommendation 1) that savings in Housing Benefit over the longer term would justify the building of new homes for Social Rent.

Recommendation 13

The CSJ Housing Commission welcomes the Government's recent announcement to abolish the cap on local authority borrowing for the purposes of building new homes. However, the Government should ensure that any new wave of local authority housebuilding prioritises the need for homes for Social Rent, particularly in areas of high affordability pressure, and look to forthcoming CSJ Housing Commission recommendations on how to foster ownership among low-income social renters.

Recommendation 14

The Government should provide local authorities with greater flexibility in setting their own funding mix models for the development of new housing.

Recommendation 15

Councils should be permitted to retain 100 per cent of the receipts generated by Right to Buy sales on the condition that these are reinvested according to local affordable housing need within three years.

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