

# Submission: Budget 2018

## Building more homes, more quickly – why enabling the delivery of social housing is the answer

28 September 2018

### 1. Executive summary

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The country is short of four million homes. We need to build 340,000 homes a year, every year, until 2031 if we are to meet this backlog and provide for future demand<sup>1</sup>. For the first time, we are able to break this need down by tenure – 90,000 of these new homes must be for social rent. As the biggest deliverer of social and affordable housing in England, housing associations are committed to playing our part.

**We know that building more homes for social rent would greatly speed up housing delivery.**

The Rt Hon Sir Oliver Letwin MP's review of build-out rates has recognised the positive impact of social housing on the speed of delivery, and we look forward to reading his final report when it is published alongside the Budget this autumn.

In its Social Housing Green Paper, the Government says it wishes to “protect and grow” the contribution of social housing to the housing market<sup>2</sup>. The Prime Minister and the Secretary of State, addressing the National Housing Federation's Housing Summit earlier this month, both endorsed and announced new, long-term funding to support the delivery of more homes for social rent. In this submission, the National Housing Federation calls on the Government to build on its recent positive commitments made to the housing association sector.

**First, to achieve our shared ambitions on supply – particularly the requirement for more quality affordable homes – the Government should take action to reform the land market.** This includes giving communities a fairer share of the value created by development.

**Second, the Government should recognise that different areas of the country experience the housing crisis differently, and ensure that all regions are properly supported with the right kind of investment.**

We believe these proposals will contribute to HM Treasury's priorities of achieving strong and sustainable growth, of reducing the deficit and rebalancing the economy.

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<sup>1</sup>National Housing Federation, England short of four million homes, [www.housing.org.uk/press/press-releases/england-short-of-four-million-homes/](http://www.housing.org.uk/press/press-releases/england-short-of-four-million-homes/)

<sup>2</sup> Ministry of Housing, Communities and Local Government, A new deal for social housing, Cm 9671, August 2018, [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/733605/A\\_new\\_deal\\_for\\_social\\_housing\\_web\\_accessible.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/733605/A_new_deal_for_social_housing_web_accessible.pdf)

## **2. Building on sound foundations**

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**Over the past 12 months, there has been a series of welcome commitments made to the housing association sector.** At last year's Budget, the Government promised £2bn for affordable housing, including the first money for new homes for social rent since 2010. The sector received a rent settlement of CPI +1% that will lend certainty to business plans for the five years from 2020. The Government has confirmed that funding for supported housing will be protected within the social security system. Over the past year, we have also seen the launch of Homes England's first wave of strategic partnerships. These deals have enabled eight housing associations to take advantage of the greater flexibilities associated with longer-term funding arrangements.

The Prime Minister's announcement of an additional £2bn scheme – funding which can be bid for up until 2028/29 – lends further long-term certainty to housing associations' operating environment. The National Housing Federation has welcomed this as a step-change in the way public money is allocated for housing. It is a vote of confidence in the sector and confirms that we are trusted partners in solving the housing crisis, building new homes and communities.

Last year housing associations delivered 41,556 homes, about a quarter of the total number of homes built across England in 2017-18. Housing associations are ambitious to do more, and are proud of their £6.7bn contribution to UK GVA. Building new, genuinely affordable homes has a ripple effect across the construction industry supply chain, helping areas remain economically viable. Investing in one affordable home directly supports one job, with indirect impacts supporting another.

Housing associations are community anchors, investing not only in good quality housing, but also in training, skills and support services. At a time of uncertainty, housing associations can also be relied upon to deliver. **The National Housing Federation uses this submission to argue that land reform and public investment are key to this ongoing contribution.**

## **3. Building more quickly**

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The housing association sector accepts the Government's invitation to work with it and with local authorities to provide "a new deal for social housing". We are pleased that the Green Paper recognises the need to address the under supply of social housing as one of its five guiding principles, and that the Government wishes to build on its recent commitments.

The National Housing Federation welcomes the Rt Hon Sir Oliver Letwin's review into build-out rates and agrees with the central conclusion of its interim report, that delivering a wider range of tenures of housing on a site will increase build-out rates. It is positive to see acknowledged in the Government's Social Housing Green Paper that social housing "can be built out more quickly because it does not rely on the mortgage market, can provide up-front funding to unlock sites, and can ensure new homes are acceptable to local people"<sup>3</sup>.

**We think housing associations have a vital role to play in leading on developments in order to help get sites built out more quickly.** There are good examples of housing association-led development of new, large sites, with higher proportions of affordable housing, and associated faster build-out rates. For example, L&Q have been able to quadruple the build-out rate after taking over the Barking Riverside site from a private developer. The range of tenures and products they can offer

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<sup>3</sup> Ibid

means housing associations are not as constrained by the absorption rate of homes into the private market. **We would support moves by the Government to encourage housing associations in this role, for example via the alignment of infrastructure and housing investment, the encouragement of joint ventures and, as we explore below, reforms to remove barriers to access to land.**

In addition, Homes England should be given the flexibility to offer grant on affordable homes delivered under Section 106 agreements on developer-led schemes, if it can be shown that this would unlock much higher levels of affordable housing delivery and faster build-out rates. Developers would be expected to engage with a housing association that would draw down the grant from Homes England. They would still have to demonstrate value for money, as at present.

## **4. Building at scale**

### **4.1 Land**

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**The cost and availability of land remains the single biggest barrier housing associations face to building more homes, more quickly.** To fully realise housing associations' ambition to deliver, and to enable the sector to help the Government meet its 300,000 homes a year target, access to readily available, affordable land is the missing piece of the supply puzzle that must be addressed.

The complex interactions between the planning system, the developer-led 'speculative' homebuilding model, and the laws around land ownership and purchase have created a dysfunctional and inefficient land market.

**The solution is careful public intervention at national and local level to reorient the land market towards homebuilding.**

In this submission, we are calling for the following priority reforms to the land market in this country:

- reform the 1961 Land Compensation Act to enable a fairer proportion of the uplift in land value is shared with the community, including for affordable housing
- a government commitment to delivering 50% affordable housing across public sector land
- a transparent database of land ownership.

#### **Ensuring a fairer proportion of the uplift in land value is shared by the community, including for affordable housing**

The National Housing Federation is calling on the Government to reform the 1961 Land Compensation Act.

Agricultural land in England becomes 275 times more expensive once it receives residential planning permission, according to research from the Centre for Progressive Policy<sup>4</sup>. When undeveloped land is sold for homes, it is the landowner or speculators that capture most of this uplift in value. This amounted to £13bn in profit for landowners in 2016/17.

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<sup>4</sup> National Housing Federation, England short of four million homes, [www.housing.org.uk/press/press-releases/england-short-of-four-million-homes/](http://www.housing.org.uk/press/press-releases/england-short-of-four-million-homes/)

**We believe that more of this profit could be shared with the community to provide vital infrastructure and affordable housing.** This proposal has widespread support and would contribute to the Treasury's main objective of placing the public finances on a sustainable footing.

Alongside the Government's response to its consultation on 'Supporting housing delivery through developer contributions', we would encourage the announcement of a further consultation on our land value capture proposal, and other longer-term reforms suggested by the Housing, Communities and Local Government Select Committee<sup>5</sup>.

**A commitment by the Government to deliver at least 50% affordable housing on all publicly owned land**

**The Government should use its position of influence to ensure that publicly held land makes the biggest possible contribution to tackling the housing crisis.** We estimate that 42% of all new homes built in England should be affordable, but last year we only delivered 23%.<sup>6</sup> Just 20% of the homes due to be built on public sector land are likely to be affordable<sup>7</sup>. Raising this to 50% overall would help offset historic undersupply and make it easier to meet overall affordable housing need.

**Prioritising the delivery of genuinely affordable housing on public land will also help to widen access for SME builders and housing associations.** It would ensure that competition for land is based on quality, tenure mix and speed of delivery rather than simply price. This would incentivise housing associations and smaller homebuilders who struggle to compete on price in the private land market.

We argue that the Government should:

- Direct Homes England to deliver 50% affordable housing across its land disposal and development programme. Aligning the Land Development and Disposal Plan with the Affordable Homes Programme could help ensure both meet their targets.
- Introduce a target of 50% affordable housing into the remaining years of the Public Land for Housing Programme (2015-2020). Post 2020, the successor to the Public Land for Housing programme should have affordable housing at its heart.
- Incentivise local authorities to offer fast-track planning approval for developments that offer at least 50% affordable housing on public land.
- Update guidance on 'best consideration' so that it's clear that public land can be sold with conditions attached on affordable housing provision. This would reassure public bodies that they are entitled to set a price for their land that can support delivery of 50% affordable housing.

All else being equal, prioritising delivery of 50% affordable housing would yield lower overall receipts from land sales, which we recognise would need to be accounted for. This could in part be achieved by Homes England and public agencies retaining equity stakes in schemes, to generate future income and capital receipts.

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<sup>5</sup> Housing, Communities and Local Government Select Committee, Land Value Capture, HC766, <https://publications.parliament.uk/pa/cm201719/cmselect/cmcomloc/766/766.pdf>

<sup>6</sup> National Housing Federation, England short of four million homes, [www.housing.org.uk/press/press-releases/england-short-of-four-million-homes/](http://www.housing.org.uk/press/press-releases/england-short-of-four-million-homes/)

<sup>7</sup> <https://neweconomics.org/uploads/images/2017/05/NEF-housing-and-land-briefing-May-2017-WEB.pdf>

### Greater transparency in the land market

A lack of transparent information about the land market makes it more difficult for local authorities to understand and operate in their local market. Not knowing who controls land makes it harder to plan strategically and identify a five-year land supply. A lack of clear market price data reduces their ability to enforce affordable housing requirements.

**The Government should take steps to make the land market more transparent, by requiring public bodies to collect and publish information on land prices, transactions, ownership and options agreements.** Ideally, this would be in a standardised format, so it can be mapped and matched with planning information.

## 4.2 Investment

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Housing associations welcome the commitment of the Prime Minister and the Government to fixing our broken housing system. The signalling of a long-term approach to public funding marks a crucial departure from the stop-start nature of government capital investment programmes that have traditionally led to peaks and troughs in delivery.

Important steps have been taken over the past year to unlock the investment needed to meet the scale of the challenge. However, a significant gap remains. The £2bn announced at last year's Budget will, on the Government's own calculation, deliver just 25,000 more homes for social rent over the course of the Parliament<sup>8</sup>. We know that 90,000 per year are required to address housing need.

### Using the value capture from land to fund more homes for social rent

In the run up to next year's Comprehensive Spending Review, the National Housing Federation will be working with our members and partners to model the scale of the funding gap, and suggest in more detail than we do here, policy and investment steps that should be taken to close it. **In this submission, we demonstrate the indicative investment gains from the reforms to land that we have called for above.**

Research for Crisis and the National Housing Federation by Heriot-Watt University has identified a need for 145,000 new affordable homes per year. Based on existing grant rates, we estimate that these new homes would need roughly £8.1bn of grant annually to become reality. **We suggest that capturing a greater proportion of the value of land, and using this to help fund the affordable homes we need, could bring this annual investment total down to £2.43bn.**

Figures from the Centre for Progressive Policy<sup>9</sup> show that we currently capture about 26% of total land value uplift. This leaves a gap of over £4bn per year needed to subsidise the 145,000 affordable homes we need. If we could capture 40% of total land value uplift this could be reduced to around £2.4 bn in grant needed per year.

### Guarantees

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<sup>8</sup> <https://www.gov.uk/government/news/2-billion-boost-for-affordable-housing-and-long-term-deal-for-social-rent>

<sup>9</sup> Centre for Progressive Policy, Gathering the windfall: How changing land law can unlock England's housing supply potential, 2018

The National Housing Federation welcomed the announcement of a further £8bn of guarantees to support housebuilding in the Autumn Budget 2017. We now urge the Government to announce how this will be used, and to ensure support for affordable housing forms an important part.

The previous guarantee scheme for affordable housing (the Affordable Homes Guarantee Scheme (AHGS)) was extremely successful, particularly in supporting smaller and medium sized housing associations to develop new homes. **We suggest a new scheme should be modelled on the AHGS, with some additions.** First, allowing it to be used for refinancing, as well as new debt. Second, allowing housing associations to make the best possible use of the guarantee by allowing use of the higher Market Value Subject to Tenancy valuation (MVSTT), as well as the lower Existing Use Value Social Housing (EUVSH) valuation.

### **Long-term and flexible funding**

**Similar to the long-term settlement agreed for the NHS, the Government should aim to deliver ten-year certainty over housing investment. This should be a rolling programme, set in the Spending Review and updated at the Budget each year.** Homes England's strategic partnerships, and the Prime Minister's recent announcement of £2bn for social housing available until 2028/29 are positive developments.

Strategic partnerships will play an important part in unlocking large sites, and boosting supply figures. **Within the largest housing associations, there is undoubtedly capacity and enthusiasm to lead on more large sites, should the infrastructure, land, and partnership opportunities be available.** There is also an opportunity to bring in many more associations if the public sector can take the lead in assembling and then parcelling up land on large sites to housing associations and others, and if smaller associations partner to deliver.

In its Social Housing Green Paper, the Government states it will "commit to actively investigating the benefits of going further with our strategic partnerships with housing associations by offering longer term certainty."

**We call on the Government to expand the benefits of a more flexible approach to housing investment across the country.** We call for appropriate and accessible investment across the country to meet local need. We are keen to see Homes England consolidate its existing funding streams into a single fund, and to remove restrictions around where future funding for social rent can be spent. Instead, Homes England should be allowed to work with local areas, to deliver according to local need.

### **Reorienting Help to Buy towards those who need it most**

Over 150,000 properties have been purchased with support from the Help to Buy equity loan scheme, with the Government loaning £8.27bn. In its early days, Help to Buy made an important contribution to stimulating new supply – contributing to 45% additional new build output when it was first introduced. However, since then its impact in stimulating new supply has weakened (it was only estimated to contribute 14% additional new starts, even in June 2015). At the same time, it is predominantly helping people who do not need support. 40% of Help to Buy loans have gone to people with incomes

of more than £50,000, 20% of purchasers are not first time buyers, and 57% would have been able to afford a similar house without the scheme<sup>10</sup>.

The money currently being spent on Help to Buy should be reoriented to better achieve additional delivery of new affordable homes for people who could not otherwise afford to rent or buy. This should be done in two ways:

- Tightening eligibility restrictions to ensure that only those who could not otherwise buy a house are eligible for Help to Buy. For example, by introducing a maximum salary cap, by restricting availability to first time buyers, and by lowering the maximum house price band from its current level of £600,000.
- Tying Help to Buy subsidies to developer's wider adherence to government policy, by requiring that Help to Buy equity loans are only available on homes in schemes which achieve policy compliant levels of affordable housing.

## 5. The right homes in the right places

### 5.1 Meeting local housing need

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Across the country, long-term underinvestment by the public and private sectors in housing has resulted in high housing need and stark inequalities in social and economic outcomes. Alongside the clear need for more homes, we know that in parts of the country there is a pressing requirement for better quality and diversity of homes and reinvigorated local economies. However, access to investment and support is inconsistent.

The National Housing Federation argues that we do not have one uniform housing crisis, but a series of local crises, which require locally-led responses. Current restrictions on access to funding makes it difficult for our members to develop in areas where social rent is the only tenure that meets local demand. In the absence of government investment, housing associations have used the profits from market sale to cross-subsidise affordable housing delivery. However, in many parts of the country this approach is now reaching its limit, or was never possible to begin with given low local house prices.

In other areas, the funding required is for regeneration of old and unsuitable housing stock. For example, there are over 120,000 empty homes across the Midlands and the North, demonstrating the considerable underutilisation of existing resources and the need for flexible investment to bring them back into use<sup>11</sup>. We argue that such an approach aligns well with the Government's Industrial Strategy and pursuit of inclusive economic growth.

The Government's Social Housing Green Paper recognises that "social housing helps to keep neighbourhoods diverse and integrated...it provides the stability people need to build lives and strong communities". **Housing associations are key local partners in this development, delivering employment, skills and social infrastructure to support communities.** Our investment in training, apprenticeships, coaching and support builds personal and community resilience and helps to move

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[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/499701/Evaluation\\_of\\_Help\\_to\\_Buy\\_Equity\\_Loan\\_FINAL.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/499701/Evaluation_of_Help_to_Buy_Equity_Loan_FINAL.pdf)

<sup>11</sup> Ministry of Housing, Communities and Local Government, Table 615 Vacant Dwellings by Local Authority district, 2017

some of the hardest to reach people back into the labour market. Our supported, sheltered and specialist housing schemes deliver preventative approaches to social issues and allow people to live independently and with dignity in the community. Our supply of new homes delivers significant multipliers across the economy and continues even during market downturns.

**Finally, housing investment needs to be better aligned with infrastructure spending.**

Investment in infrastructure is vital for unlocking delivery of new homes and supporting regional growth to support communities.

At the last Budget, the Government announced its support for the Oxford-Milton Keynes-Cambridge corridor and its ambitious vision to deliver one million new homes across the region by 2050. In the response to the National Infrastructure Commission report, we urge the Government to set out a vision for where and how this new housing will be delivered, with a particular focus on affordability. Housing associations stand ready to work with the Government and local agencies to deliver this vision.

Elsewhere, we urge the Government to take a similarly coordinated and ambitious approach to aligning new infrastructure investment with housing delivery, particularly in areas of the north of England where the economic gains from well-planned infrastructure and housing investment will be vital to improving productivity, retaining and attracting skilled workers, and maintaining and building thriving communities.

There are opportunities now to address historic underinvestment in housing and communities and ensure that the right homes are built in the right places. The Social Housing Green Paper has asked important questions about the role of social housing in society. The UK's exit from the European Union provides an opportunity to refresh our approach to economic development and recast the relationship between national government, local government and communities across the country. The Prime Minister has been clear in her commitment to addressing these issues, and there is also a strong economic case for increasing economic opportunities and resilience nationwide.

**This Budget and the upcoming Spending Review provide an opportunity to draw together these threads into a coherent plan for inclusive economic growth with good quality, affordable housing at its heart. Housing associations stand ready to partner with the Government to deliver this.**

## **6. Other considerations**

### **6.1 The impact of Britain's exit from the European Union**

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Housing associations face specific risks connected to the uncertainty around the UK's exit from the European Union, to do with funding, skills and access to materials. The Government should:

- **Consult on and then announce details of the Shared Prosperity Fund as soon as possible, in order to ensure the continuation of vital funding for housing associations delivering skills, employability and other support.** Despite the tight timescale, we would urge the Government to be ambitious in the scope of its review, including amalgamating other funding streams where desirable.
- **Clarify as soon as possible the UK's continued involvement with the European Investment Bank.**



- **Take into account the likely dramatic short-term impacts on the availability of skilled workforce for the housebuilding and care sector** if EU workers are no longer able to work in the UK after Brexit. The Letwin review's interim report highlighted a particular problem with the availability of bricklayers. A system must be designed to smooth the transition while the sector trains a new generation of workers.

## 6.2 A tax system that supports the supply of good quality, affordable homes

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### Continued exemption from VAT for housing associations that form Cost Sharing Groups

Many smaller housing associations form Cost Sharing Groups jointly to procure services. They are currently exempt from VAT. However, the Government are reviewing whether housing associations can continue to be exempt in future.

We strongly urge the Government to retain the Cost Sharing Exemption for housing associations, reflecting their not-for-profit status and the charitable nature of their activities. A recent survey<sup>12</sup> suggested at least 47 housing associations use cost sharing groups, saving £4.6m annually across the sector. This could be used to service £102m of debt that would fund an extra 4,500 homes over five years.

## 7. Conclusion

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While housing supply numbers are rising, we still need a step-change in build-out rates if we are going to get close to delivering the homes we need. This is particularly so when it comes to homes for social rent, which the National Housing Federation calls on the Government to continue to support.

We believe that the package of measures on land, funding and flexibilities suggested here, combined with a locally-focused approach to investment, will be the best way for the country and the Government to achieve its housing ambitions.

Housing associations welcome the recent commitments made to the sector by the Government. We stand ready to work in partnership, with reformed access to land, to build the social housing we know the country needs.

Contact name: Jessica Levy  
Job title: Public Affairs Manager  
Direct line: 020 7067 1199  
Email: [jessica.levy@housing.org.uk](mailto:jessica.levy@housing.org.uk)  
Reference: Budget 2018 submission, September 2018

National Housing Federation  
Lion Court  
25 Procter Street  
London, WC1V 6NY  
[www.housing.org.uk](http://www.housing.org.uk)

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<sup>12</sup> Conducted by the National Housing Federation on our members