

Lyons Housing Commission – Update Report February 2016

The Lyons Housing Commission was established by Ed Miliband in the autumn of 2013 to advise on how a future Government might bring about a sustainable increase in house building in England to 200,000 homes a year by 2020. Under the chairmanship of Sir Michael Lyons, it was made up of twelve individuals drawn for their understanding and experience of different parts of the UK housing industry. Its report 'Mobilising across the nation to build the homes our children need' was published in October 2014 and widely welcomed within the industry for its comprehensive approach¹.

It underlined the importance of looking at housing supply as a whole system, and emphasised that any Government interested in increasing housing supply to the level of at least 200,000 homes a year, last achieved in 1988, could not rely on the volume house building industry alone but needed to engage with others, including small and medium sized house builders, the wider construction industry, housing associations, local authorities and investors in private rented accommodation.

In December 2015, responding to the Conservative Government's ambitious target of creating one million new homes by 2020, members of the Commission decided to reconvene on a wholly independent basis, to consider whether current policy initiatives were enough to reach that target and, if not, what other measures could be considered. This short report summarises the views of the Commission and makes five key recommendations to Government for action needed to deliver their house building commitments:

- 1) Broaden the housing strategy beyond the focus on home ownership to increase supply of both market and affordable homes for rent to secure sustainable growth in housing supply and lasting capacity in the house building supply chain.
- 2) Take a more ambitious approach to direct commissioning to deliver high quality and increase output and capacity through capturing land value to fund infrastructure, attracting a more diverse range of partners into housebuilding and building a mix of homes for sale and rent.
- 3) Work more closely with the industry in developing the model for starter homes to ensure an overall increase in homes and that the public subsidy of these homes exists in perpetuity to benefit future generations of house buyers and does not result in a reduction of affordable homes to rent.
- 4) Clearly acknowledge the importance of the contribution that local authorities and housing associations have to make to tackling the housing supply crisis; ensure local authorities have the flexibilities and support needed to promote, finance and commission new homes; and give housing associations the certainty they need to plan long term.

¹ The Lyons Housing Review, 2014

http://www.yourbritain.org.uk/uploads/editor/files/The_Lyons_Housing_Review_2.pdf

- 5) Ensure that government policies place greater emphasis on championing the highest quality of design and environmental standards for new homes and the places in which they are built.

Housing – a priority for the Nation

When our report was published in October 2014 the consequences of decades of failure to build the homes we need were stark and the case for step change in house building was clear. Our report called for decisive political leadership and a comprehensive strategy to drive the significant increase needed in housing supply. Now, almost 18 months and a general election later, dealing with the nation's housing crisis is firmly embedded as a top priority for the new Government. The Ipsos MORI issues index indicates that the level of public concern about housing is at its highest for 40 years, particularly amongst 18 -34 year olds. Government is clearly responding to this growing concern. David Cameron in his Party Conference speech of October 2015, called for a national crusade to get homes built and Government has made a bold commitment to a radical increase in housing supply, setting a new target of building one million new homes by the next election. Housing was also centre stage in the Chancellor's Budget and Autumn Statement and the Housing and Planning Bill is currently speeding its way through Parliament - all evidence of a determination to achieve change.

The focus of Government's strategy to date has been on increasing support for home buyers; tightening the requirements on local authorities to allocate land in local plans; liberalising planning; and most recently direct commissioning of housing on public land and regeneration of estates.

Notwithstanding these policy developments, the Government's target of building one million new homes by 2020 remains a very substantial challenge. It will require house building to ramp up in the next two years to somewhere close to the 240,000 new homes per year that most experts agree are needed - something that the country hasn't achieved since the mid-1970s. Latest housebuilding figures indicate that we built in the region of 155,000 homes in 2014/15². While that is an improvement on the darkest years of the recession it is clear that there is a long way to go to bridge the gap, especially over a sustained period and across multiple economic cycles. As the Commission's report demonstrated, getting to 200,000 homes per year would require extreme elasticity in the capacity of the existing house building industry and the skills and materials supply chain as well as rapid and significant increases in investment and development activity from housing associations, local authorities and new entrants into the market.

²Net supply of housing: 2014-15, England, DCLG Housing statistical release November 2015
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/475832/Net_Supply_of_Housing_England_2014-15.pdf

With this in mind, it is the clear view of our Commissioners that Government will need to develop a more comprehensive strategy if it is to achieve the targets it has set to effectively tackle the housing crisis. This strategy needs to go beyond a focus on home ownership recognising that housing to rent has a very important part to play in driving up housing supply, supporting a functioning economy and increasing affordability and choice. There is a drastic need for more subsidised affordable housing alongside additional homes for private rent. An effective strategy also needs to maximise the opportunities to release untapped capacity for a wider range of organisations to build, commission and invest in housing.

The Commission's discussions explored a number of areas where further action is needed.

Land, planning and infrastructure

Government has grasped the need to ensure that a sufficient pipeline of land for new homes is identified in Local Plans and whilst recognising that stability and consistency in the planning system is needed, has tightened the requirements on local authorities to get plans in place. In particular, the announcement that local authorities who do not make adequate provision of land for housing will be subject to sanctions from the Secretary of State chimes with the findings of our work. However, it is important to note that the number of planning permissions granted for new homes has been on an upward trajectory and hit 200,000 in 2014/15³. By comparison the number of starts on site was approximately 138,000 in 2014/15⁴. This reinforces the conclusion we arrived at, that Government needs to broaden its focus beyond land allocation to making sure a wider range of sites are brought forward and that once sites have planning permission they are built out as rapidly as possible.

One of the Prime Minister's announcements in early January - direct commissioning of housing on public land - is a promising step towards another of the Lyons recommendations. If adopted at scale this could offer a means for Government to get much closer to achieving its targets, since it could provide a means to get a wider range of partners into house building, most notably tapping into the capacity that exists in the wider construction industry through increased commissioning from the HCA; housing associations and local authorities. It will also be important that this approach is applied to releasing land in the right place, providing for jobs as well as housing, and supported by necessary infrastructure.

Government's renewed determination to release surplus public land, particularly for housing, may offer the opportunity to deliver an early and significant uplift in the number of homes built and increase the quality and choice of housing. However, this will require the HCA to have real traction as the Government's land disposal agency and be able to rely on effective engagement of Government departments with recognition of the wider social value and positive housing implications of land

³ HBF and Glenigan Housing Pipeline Report Q1 2015

http://www.hbf.co.uk/fileadmin/documents/research/HBF_Housing_Pipeline_Report-_July_2015.pdf

⁴ DCLG House building Statistics, Live table 208 <https://www.gov.uk/government/statistical-data-sets/live-tables-on-house-building>

release. HM Treasury guidance on best value needs to be revised to facilitate this. There is strong emphasis on the development of brownfield land underpinning many of government's policy announcements and this emphasis is important. But there needs to be recognition that the work required for remediation and preparation of brownfield land is often costly and can take considerable time, meaning that many sites are not attractive or viable propositions for development and lead times can be extensive. In addition, our work clearly highlighted that the upfront provision of infrastructure was critical to unlocking housing growth. Much more rigorous attention is needed to securing investment in infrastructure if Government is to achieve its targets.

Government have recognised the importance of strengthening local government's ability to assemble land and drive progress on complex schemes as reflected in the powers granted to Greater Manchester and London to set up Mayoral Development Corporations with powers to compulsorily purchase land. We would encourage government to apply this approach more widely. The Commission's recommendation was for a more ambitious approach through a new generation of New Homes Corporations to play an active role in land assembly, commissioning development and powers to capture land value to invest in infrastructure. The Government's intended reforms to powers for Compulsory Purchase should go further to allow a greater part of the uplift in land value to be captured to pay for infrastructure and to the benefit of the local community whilst still granting a fair return to land owners. The implementation of the Government's Manifesto commitment to give councils a 10 per cent stake in public sector land deals would also provide a means of incentivising and resourcing development of public land.

There is a need to ensure that local planning authorities have the capacity, resources and skills within planning and delivery teams to proactively engage with development partners. The strain on resources is already an issue of concern to developers who have indicated a willingness to pay more to ensure sufficient resources in planning teams. Enabling councils to develop locally set planning fees would ensure high quality and speedy planning services.

Who will build?

Government's commitments to building one million homes by 2020 (an extra 100,000 homes per year on current levels) simply won't be achieved if the focus remains solely on the existing industry to build homes for private sale. More needs to be done to encourage a wider range of organisations, both public and private, into house building through joint venture partnerships, new delivery models and a more diverse mix of housing tenures. Our work highlighted in particular the capacity in the construction industry to play a greater role in housebuilding in partnership with a wider range of organisations commissioning housing including housing associations, regeneration agents and local authorities.

Despite the benign conditions being created for the industry and the corresponding increase in output, the Commission's analysis showed that there are limits on the rates at which house builders build out their sites. Although some house builders are committed to continuing growth, the industry as a whole continues to be haunted by the damage it suffered in previous downturns and will be wary of growing capacity too quickly.

Whilst the major national companies have increased output in the last two or three years, small and medium sized firms have not increased output despite increasing emphasis on helping them to grow. Measures to support small and medium-sized building firms, including the introduction of planning permission in principle, along the lines of our “redline application” proposal, could help diversify the industry and unlock small sites. However, there is room to do more to assist SMEs. The focus to date has been on planning and boosting the release of small sites, however accessing finance remains the major barrier to smaller businesses. The amounts of equity mainstream lenders look for in providing project finance for developments – often 35 or 40% - is a constraint on SME activity and ability to grow. Government will need to work with the industry and lenders to develop effective solutions to this issue.

Given the near 40 percent increase in output in the last two and a half years, the capacity of both industry skills and materials supply chain have become key considerations in sustaining further increases in supply. The industry is investing significantly in bringing in new recruits and training them, but a further step change in efforts will be needed to reach the level of output sought. The history of the last 30 years has shown that industry output closely follows the economic cycle with capacity contracting with each down turn and peak output of each cycle lower than the one before. This suggests that achieving the next 20% increase in capacity will be even more challenging. A steady profile of demand for house building will help encourage the industry to invest in increased capacity for skilled labour and materials for the long term. Support for the expansion of modern off site manufacturing technologies in the UK could play an important role in alleviating the pressure of labour shortages in the construction industry.

The level of private sector house building depends on real and effective market demand. Given the concerns, recently voiced by the Chancellor, about another economic downturn, greater attention needs to be given to an effective counter-cyclical strategy to achieve a steady profile for house building capacity that can withstand economic shocks.

The provision of more private rented and subsidised affordable rented homes has a crucial role to play in such a strategy. Investment in homes for rent, both at market and sub-market rent in addition to support for homeownership can play an important role in driving up build rates and providing some insulation in counter-cyclical periods. The fact that homes built specifically for rent do not compete with the traditional developer business core model of building homes for individual buyers, means there is a significant opportunity to increase the number of homes built. Our review found clear evidence of untapped potential for large scale institutional investment in homes for market rent. Not only could this counteract the shortage and improve quality of rented housing, particularly in London and other areas of intense housing shortage, it could help unlock wider development and urban regeneration opportunities. Government’s strategy should therefore place greater emphasis on tapping the potential for greater institutional investment in developing market rented homes at scale.

The extension of Right to Buy, the reduction of social rents and the classification of housing associations as public sector entities have caused concern and uncertainty

in the housing association sector. There are those in the sector that are seeking to respond to these challenges by creating the additional capacity needed to drive additional supply (including through mergers, diversification and new partnerships) but many will respond to the uncertainty they face by concentrating more on business sustainability than growth.

Recently announced deregulation measures are intended to reverse the ONS decision to classify housing associations as public bodies. We acknowledge that these measures are expected to give housing associations more control over their assets. They have the potential to allow associations to use their assets more effectively and this may boost capacity in the sector.

Councils' investment plans have also been seriously affected by the reduction in social rents and the requirement to consider selling high value council homes (to pay an equivalent levy to the Secretary of State) to fund the extension of the Right to Buy to housing association tenants. The LGA has recently estimated that up to 80,000 council homes could be lost as a result of government policies unless councils are given greater powers to build new homes⁵. As our report identified, England has only ever built sufficient homes to meet housing need when a strong role has been played by councils in supporting supply, but the direction of government policy makes that unlikely to happen. Between them, housing associations and councils built 28,380 homes in 2014/15 (27,020 by housing associations and 1,360 by councils)⁶. This is an important contribution and it must be expanded if we are to reach and exceed the implicit target of 240,000 homes per annum. If lost or impaired it will cancel out gains made in increased supply for example of starter homes.

Government needs to ensure the important contribution that both local authorities and housing associations can play alongside private sector is reflected in their policies. As a country we have only ever managed to build the number of homes we now need when the public sector has funded a significant number of them and in recent years housing associations have been key delivery agents. Finding ways in which local authorities can promote, support, finance and commission new homes and giving housing associations the certainty they need and the ability to plan long term will be critical if the Government is to achieve its targets.

Houses for whom?

Whilst it is right that more can and should be done to help meet the widespread public aspiration for home ownership, a comprehensive strategy for tackling the nation's housing issues will have to go beyond home ownership to increase supply across all tenures. Even with increased support for home ownership and the unequivocally welcome boost for Shared Ownership homes (another Lyon's recommendation), there will remain many people for whom home ownership is out of reach and those who looking for alternative options for a home that suits their

⁵ http://www.local.gov.uk/media-releases/-/journal_content/56/10180/7668062/NEWS

⁶ DCLG House building Statistics, Live table 209 <https://www.gov.uk/government/statistical-data-sets/live-tables-on-house-building>

needs and different stages of life. As the London Chamber of Commerce⁷ found, young professionals may not mind if they rent or own as long as they are able to live close to their place of work. Given their importance to the functioning of the London and national economy, there is a strong case to do more to meet demand from this group and drive up supply by unlocking the potential for institutional investment in the development of homes for market rent at scale.

The government's new Starter Homes policy is intended to provide homes for first time buyers 20 percent below market price. However recent research from Shelter cautioned that Starter Homes could be unaffordable for families on average wages in 58 per cent of local authorities in the country and families on the national living wage will be able to afford a starter home in just 2 per cent of local authority areas⁸. There are also questions as to the extent the policy will result in additional supply since it is likely that starter homes will in part displace homes built for full market price sales. At the same time developers will be able switch their required affordable housing contributions to Starter Homes leading to a further reduction in new homes at sub-market rents. Furthermore there is a question of value for the public purse since, under the current proposals, the individuals buying a Starter Home will be able to sell it at full market price after five years. Government will need to work more closely with the industry in developing its model for Starter Homes to mitigate these risks and should ensure that the subsidy is linked to the property so that the benefit is retained in perpetuity rather than resulting in a windfall gain for a limited number of individual buyers.

The Commission's work was always focused on the knotty problem of increasing housing supply, but we were also clear about the importance of housing to many of the nation's key objectives including educational attainment, labour force productivity, managing pressures on the NHS and social cohesion. The housing crisis is perhaps most acutely felt by those who through chequered employment, illness, disability or sudden changes in family circumstance face the prospect of losing a secure home or increased risk of becoming homeless. There is a real concern that in placing such emphasis on those who aspire to, and can realistically expect to, own their home, Government policies will decrease the availability of affordable homes for rent with detrimental impacts on other citizens and increased pressures on the public purse in future.

Put simply we will need to continue to provide stable and long term tenancies for people at rents they can afford. The withdrawal of government support – both financial and in policy terms – will make it much more challenging to build homes for social and affordable rent. Recent analysis by Savills amongst others have warned that the shift in policy drive from affordable rents to the other tenures, and in particular the classification of Starter Homes as a form of Affordable Housing, is

⁷ Getting Our House in Order, London Chamber of Commerce 2014
<http://www.londonchamber.co.uk/docimages/12438.pdf>

⁸ Starter Homes, will they be affordable? Shelter 2015
https://england.shelter.org.uk/_data/assets/pdf_file/0011/1183790/Starter_Homes_FINAL_w_Appendix_v2.pdf

likely to leave a gap in housing provision for those on lower incomes⁹. Government should recognise the importance of this provision and ensure that councils and housing associations have the flexibilities they need to replace homes sold through Right to Buy and use surpluses generated by shared ownership, Starter Homes and outright sale to cross-subsidise the delivery of sub-market rented housing.

Creating Attractive Homes and Places

Government's reaffirmed commitment to releasing surplus public land and steps towards direct commissioning of the type and standard of homes delivered on these sites is an unprecedented opportunity to create inclusive communities where people want to live. We now need to re-kindle the interest that was evident prior to the election in the potential for new settlements and urban extensions that offer a way to create attractive, high quality environments and successful strong communities. The government could, through its devolution agenda encourage local areas to come forward with proposals for such large scale development, allow for greater capture of land value to pay for infrastructure and provide investment and support from government needed to make these schemes a reality.

Estate regeneration offers the opportunities to improve housing conditions, create mixed communities and increase housing density as well as improved design. It will also be crucial to ensure that estate regeneration avoids displacing and disrupting long standing communities with unintended consequences for labour supply and potential for social unrest.

The drive for volume must not come at the expense of the quality of the homes that are built. There is also a need to take stock of whether the current design, space and environmental standards will result in the quality of homes and places we aspire to create and we know many of our European neighbours achieve. The NPPF includes important policies on quality and climate change, however they are not easy to implement given the emphasis in the NPPF on financial viability of development. A reaffirmation of the commitment to zero carbon homes will be crucial if we are to play our part in the international efforts to reduce greenhouse gas emissions as Government has recently pledged in the Paris Agreement. The weakening of policy on zero carbon homes, a retreat from meaningful space standards and the collapse of the previous Government's policy for sustainable drainage raise concerns that quality and sustainability have reduced importance in Government policy. As the work of our Commission highlighted, tools have been developed by the industry and local authorities to promote and support high quality design, such as Building for Life 12, which we should not discard. It is important for Government to reconfirm its commitment to quality and lend clear support to those industry participants who are building to high quality standards, alongside policies that encourage others to follow suit. As highlighted by the All Party Parliamentary Group for Excellence in the Built Environment, the focus on increased volume makes quality more important than ever¹⁰, far greater emphasis on the importance

⁹ http://www.savills.co.uk/research_articles/141285/198958-0?utm_source=ExactTarget&utm_medium=Email&utm_term=1853096&utm_content=2668837&utm_campaign=B2B+policy+responce+Feb+2015

¹⁰ <http://cic.org.uk/services/inquiry-into-the-quality-of-new-build-housing-in-england.php>

of quality of homes and places is needed to ensure that the legacy of Government's national crusade on house building is the creation of great places to live.

In summary we make five key recommendations to Government:

- 1) Broaden the housing strategy beyond the focus on home ownership to increase supply of both market and affordable homes for rent to secure sustainable growth in housing supply and lasting capacity in the house building supply chain.
 - 2) Take a more ambitious approach to Direct Commissioning to deliver high quality and increase output and capacity through capturing land value to fund infrastructure, attracting a more diverse range of partners into housebuilding and building a mix of homes for sale and rent.
 - 3) Work more closely with the industry in developing the model for starter homes to ensure an overall increase in homes and that the public subsidy of these homes exists in perpetuity to benefit future generations of house buyers and does not result in a reduction of affordable homes to rent.
 - 4) Clearly acknowledge the importance of the contribution that local authorities and housing associations have to make to tackling the housing supply crisis; ensure local authorities have the flexibilities and support needed to promote, finance and commission new homes; and give housing associations the certainty they need to plan long term.
 - 5) Ensure that government policies place greater emphasis on championing the highest quality of design and environmental standards for new homes and the places in which they are built.
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The Lyon's Review Commission:

- Chair: Sir Michael Lyons
- Tom Bloxham, Chairman and Co-Founder, Urban Splash
- Mark Clare, formerly Group Chief Executive, Barratt Developments PLC
- Caroline Green (Lyons Review Director of Research) and Assistant Chief Executive, Oxford City Council
- Julia Evans, Chief Executive, BSRIA
- Kate Henderson, Chief Executive, Town and Country Planning Association
- Neal Hudson, (Advisor to the Lyons Review) Associate Director, Residential Research, Savills
- Bill Hughes, Head of Real Assets at Legal and General Investment Management (LGIM)
- Grainia Long, formerly Chief Executive, Chartered Institute of Housing, now Chief Executive, Irish Society for the Prevention of Cruelty to Children and Board Member, Thames Valley Housing
- Simon Marsh MBE, Head of Sustainable Development, RSPB
- David Orr, Chief Executive, National Housing Federation
- Richard Parker, Partner and Head of Housing, PwC
- Malcolm Sharp MBE, Past President Planning Officer's Society
- Cllr Ed Turner, Deputy Leader, Oxford City Council and Senior Lecturer, Aston University
- Prof. Cecilia Wong, Professor of Spatial Planning, University of Manchester

We are grateful for the advice, expertise and contributions from:

- Eamon Lally, Local Government Association
- John Slaughter, Home Builders Federation
- Andrew Taylor, PwC

All Commissioners were acting in a personal capacity and the views expressed here don't necessarily reflect the views of their organisations.