HOUSE OF LORDS

Revised transcript of evidence taken before

The Select Committee on Economic Affairs

Inquiry on

THE ECONOMICS OF THE UK HOUSING MARKET

Evidence Session No. 9 *Heard in Public* *Questions 141 - 163*

TUESDAY 23 FEBRUARY 2016

3.35 pm

Witnesses: Lord Porter of Spalding and Lord Kerslake

Professor Tony Crook and Trudi Elliott

Members present

Lord Hollick (Chairman)
Baroness Blackstone
Lord Griffiths of Fforestfach
Lord Kerr of Kinlochard
Lord Lamont of Lerwick
Lord Layard
Lord May of Oxford
Lord Teverson
Lord Turnbull

Examination of Witnesses

Lord Porter of Spalding, Chairman of the LGA, and **Lord Kerslake**, Chair, London Housing Commission

Q141 The Chairman: Lord Kerslake and Lord Porter, welcome to the Economic Affairs Committee and our housing inquiry. Can I start off by, first of all, before I ask a question of you, Lord Kerslake, just saying that I am a founding trustee of the IPPR—not that I am involved in any way in your current inquiry, but just for the record? Can we perhaps start in London? Your interim report paints a very bleak picture of the housing situation in London. We look forward to receiving the solutions in your final report. How does London differ from other parts of the country?

Lord Kerslake: It differs in a number of ways. I should declare also that I am Chair of Peabody, as part of the disclosure here as well. Let me start with the ways it differs. First of all, it differs in terms of where London is now compared to the past. London has always been expensive compared to the rest of the country. Currently, the average house price in London is in excess of £500,000. That is 12 times the average salary in London and that is the biggest gap in that ratio. It is the largest scale of difference since records were recorded. The first thing that is distinctive is that London is in a place it has not been in before. That is my first point.

My second point is that London faces a problem of affordability not just on its house prices, but on its rents as well. If you look at the analysis, and we will touch on this more in the final report, the Resolution Foundation has identified that living standards are falling in London relative to the rest of the country, despite the fact that pay is rising ahead of the rest of the country and the largest single factor is housing, no question.

The third way in which London is different is the structural way in which investment is coming into London, compared to the needs of London. The GLA has calculated that 80% of the properties being built in London at the moment are unaffordable to 80% of the population of London, which is a quite extraordinary situation. Two-thirds of new supply in London is actually investment properties to rent. That is the reality of what is happening.

Perhaps the final difference is that London is moving in a way that seems to suggest it is not now following the natural economic cycle. Take the property prices before the crash, the 2007 figures. The rest of the country outside London has returned to about 5% ahead of the pre-crash prices, so they have broadly recovered the ground lost in that downturn. In London, property prices are now 45% above the pre-crash prices, which suggests to you that something is going on in the London market that seems to be immune even to fairly significant economic cyclical effects.

The Chairman: We heard from Professor Rowthorn that nearly half of the increasing demand for housing in London over the next 25 years is likely to come from immigration. Is that a fact? Do you accept that analysis?

Lord Kerslake: There are a number of factors driving growth in London. There is a significant growth in the population of London. I was just searching for the numbers. The calculation is that, by 2030, London's population will have grown by about 10 million. The biggest factors driving that 10 million are actually in London today. They are to do with the demographic make-up of London now. In other words, births will exceed deaths in London. That is a key factor here.

It is definitely the case that a big factor is the number of people coming into London, not just from abroad of course, but from the rest of the country. People also leave London. You have both things working against each other. Immigration in the wider sense, both in-country and from abroad, is definitely impacting on the population in London, but it would be misleading to suggest that, if that was not there, you would not still have an issue. You would, because a significant part of the projections are based on the demographic make-up of London.

Lord Turnbull: When you said it would grow by 10 million, I think you meant to 10 million.

Lord Kerslake: I beg your pardon; that was a slip of the tongue. It should be that London will reach 10 million by 2030 from about 8 million now, I think. I do not have the exact number in front of me.

Q142 The Chairman: London clearly has its own special characteristics. When we heard from the Greater Manchester Combined Authority, Sue Derbyshire cautioned us. She said it was a great mistake to think of housing as something that is a national market and that it should be looked at regionally or locally. Lord Porter, is that a statement that you would agree with?

Lord Kerslake: It is entirely right. As I was saying earlier, there are some parts of the country where prices are still well below the pre-market crash figures and people still struggle to sell. We have a number of housing markets in this country. London stands as quite a distinct one. Clearly it has a close relationship with what is happening in the south-east, but it is very different from other parts of the country and it is one of the reasons why I feel passionately that housing policy cannot be a one-size-fits-all. In some parts of the country, the focus should be on economic growth, where you have houses but not necessarily jobs. In some parts of the country, like London, you have jobs but not necessarily houses. You absolutely need a policy that is tailored to local economies.

Some parts of the country actually need more diversification of mono-tenure estates; in London we have a desperate need for affordable rented housing. It is crucial that you see different housing markets in different parts of the country and you tailor policy accordingly. That is why Help to Buy, for example, worked very well outside of London. Something like a third of new homes benefited from it. In London, it was a tiny fraction of that.

Lord Porter of Spalding: It is a mistake to see London as a unique circumstance. Places like Harrogate and Winchester are suffering from the same issues of an under-supply of affordable homes in relation to average earnings. In terms of the private rented sector, there are places in the country outside of London where you will get a greater return on your investment. In my own district, for instance, you would probably get a 14% or 15% better return on a property than you would do in London. If everybody just focuses on the London bubble, we will miss the problem that is elsewhere. We should see the things that London has in common with other parts of the country and then allow local authorities in those areas to tackle those problems. You should not see London as being a unique space. The numbers are greater, but the affordability issues are similar in other parts of the country. You can be looking at between 9% and 15%.

The Chairman: Does that lead you to arguing for much greater devolution in terms of local authorities' power over planning and the like?

Lord Porter of Spalding: Yes. The only way to solve the country's national housing situation is to do it locally. All housing is local. Our members will better know what solutions are needed in their parts of the country. A one-size-fits-all national programme will not do it.

Q143 Lord Layard: Is it correct to look at these differences between regions in terms of the intersection between the rising demand and whatever constrictions there are on the supply, particularly the supply of land? Would it be correct to say that, essentially, house price levels are related to the extent to which the green belt is a binding constraint in the area in question? In areas where it is not a binding constraint you get the lowest prices. Where it is a very binding constraint, which I would have thought was the case with London, you have higher prices.

Lord Porter of Spalding: That is going to be a varied picture again. Nothing in the housing market follows normal economics. Just because land is hard to come by, in some areas it is not required. Therefore, even a shortage of land has no real impact on the house price. In some areas there can be quite a lot of allocated land, but that will still drive up high prices. In the south-east, you will invariably get very high land prices and very high house prices. In the East Midlands, you will get relatively cheap land prices but still very high house prices.

Lord Kerslake: Can I just add a couple of quick points? One is that I agree with Gary that there are hotspots that perhaps match London, but I do not think that any region or area of scale matches the issues in London, which is the point I was making.

The second point is that, again as Gary said, the green belt will vary across the country in terms of its issue. It is not the same issue in every part of the country. As you know, it is a planning policy intended to manage urban sprawl, rather than an environmental amenity. There is an issue about green belt that needs to be debated in London, but it is not the driving determinant of the high prices in London. Actually, London as a whole is not necessarily that dense compared to other major cities. If you look at other cities in other countries, you will see considerably higher densities than even central London. Of course, outer London is significantly less dense than central London, so there is space to build more, but there is also a case to have a debate about the green belt. I do not think it is solely down to the green belt. That is my point.

Lord Layard: I wondered if I could ask a question based on the supplementary evidence we heard from Professor Cheshire, because it is very relevant to local government. One of the puzzles we face is how to incentivise local councils to give more planning permission, so that we can have more houses built. Obviously one method could be a greater financial incentive, so I was wondering if you think that a greater financial incentive than exists at the moment would be helpful in inducing local authorities to release land. For example, his suggestion is that local authorities might get, say, the standard 20% of the final value of a development hypothecated for building the infrastructure and affordable homes. That would then replace the 106 and CIL system and help to simplify the system at the same time. That is one suggestion he had. That is what you might call the carrot.

The stick suggestion is that there should be a presumption that, if the land price is above a certain level, i.e. there is a real issue as to whether there is misallocation between land that is not for housing and land that is for housing, there should be a presumption that the local authority should give outline planning permission if it was requested. I would really welcome comments on those.

Lord Porter of Spalding: The issue is not planning. We have 475,000 extant planning permissions in the country. We granted over 250,000 planning permissions last year. The issue is not planning; it is access to finance to allow builders either to open up sites or people to access mortgages. This is nothing to do with a local-government-created problem. This is a central government fiscal problem. The quantitative easing money, which has made it easy for the banks to make money without lending money, needs to be looked at. It really is not planning. If you take nothing else from me being here, please take away that this is not a planning problem. There are plenty of planning permissions in this country to allow us to start to tackle the housing shortage. What we do not have is enough people in the building industry being able to do it. Most of the planning permissions sit in the hands of very few companies. Most of the small to medium-sized development industry has disappeared from this country, so we need to try to be able to create a system where smaller developers can get into the space. At the moment, the whole sector is geared to those few large developers and we need to find a way to be able to get more people back into that space.

Lord Layard: Is that not connected with the complexities of the planning system? It takes a big firm to cope with all of that.

Lord Porter of Spalding: No, we revised the planning system through the National Planning Policy Framework a few years ago. There is no excuse for anybody not to understand how the planning system works now. It is 56 pages of light, entertaining reading, so you should be able to become a planning expert almost in the space of one evening’s reading, if you are interested in the subject. It really is a financial issue. Like I say, there are 475,000 extant planning permissions already granted in this country. If it was purely about planning, we would have dealt with half of what the Government are saying we need to deal with over the life of this Parliament.

Lord Kerslake: The trouble with answering this question is that to do justice to it you have to go through all the factors that are holding back new supply in this country. When I was in government, I very quickly came to the view that there is no magic bullet. You have to tackle a whole set of things simultaneously, over a long period of time. I am resistant to any one single solution that says it is about planning, it is about the housebuilders or whatever; you have to do a set of things together to have any chance of tackling the scale of the issue.

Of course, we already have a financial incentive in relation to planning, the new homes bonus. I think that worked. The analysis and evaluation showed that it worked, particularly in those areas surrounding London, the district councils, where it was a significant part of their income, so it added some level of incentive.

I do not think this is about financial incentives for local authorities, because it is about changing social attitudes. If you talk to council leaders, some of them will say that the quickest way not to get elected 10 years ago was to advocate new housing, because it was resisted. Social attitudes are changing now, and the reason they are changing is that people can see that they may have a home, but their children or their grandchildren cannot get one. We are seeing a shift that is enabling local authorities, and ultimately this is what drives members of local authorities to make decisions, to take a more positive view, even if there was not the NPPF shifting that attitude anyway. There are genuine shifts happening.

I would make two other points in this context of planning. There is a lot I could say. One is that one of the consistent messages I hear from developers and housebuilders is that they find planning departments denuded of resources, with higher turnover and with junior staff unable to take the decisions that are needed. We desperately need a more flexible planning fee system that allows local authorities to invest in their planning capacity. That is a major issue, and I argued this forcefully in the department and I argue it forcefully now.

I have two other points to make. The reason why housebuilders need more sites than they can build on, and I am sure this has been said to you before, is because of the model of their development. It is a risk-based model on how much the local area can absorb in sales. If you say to them that they are too cautious, they will point to the fact that a good number of them are still rebuilding their balance sheets after the near-death experience of the financial crash. My personal view is that we should be wary of putting all the responsibility for dealing with the new supply on our housebuilders. We actually need a mix of tenures and we need the state to be supporting new housebuilding, as well as the private sector. You could grant loads more planning permissions but, if they are on big sites where they see that they have sales risk, they are very unlikely to move faster than they feel comfortable with, and that is not going to change, in my view. You have to see other policies alongside it.

One last point on this is that, generally, I agree that planning is not the issue for big housebuilders now, but quite a lot of the smaller housebuilders still say that the complexity and uncertainty of the system gets in the way of their ability to get permissions and develop sites. We do not yet have a model where small housebuilders can move ahead in the way they ought to. We have seen a very dramatic reduction in the size of the SME sector, a huge reduction, and the only way back from that is to help those SMEs through permissioned sites, which they can take on and move quickly on, with lower costs. That is something I advocated at the HCA. One of the questions you might ask yourself is who the last new big housebuilder to come to the market is. The answer is that there is none. It is a sector that has consolidated, rather than grown, and I do not think that makes it a healthy competitive sector.

Lord Porter of Spalding: There are some financial things that you can do or that we could do. If we were able to start levying council tax on an assumed completion date of a property, whether that property has been started or not, that would encourage the person holding the planning permission to bring it forward. If we were able to levy fines on having land that was allocated and then not brought forward, it would do the same thing. There are some things that would act as a stick to the industry to say that, actually, if you have permission and that land is tied up, you need to get there. I struggle with the aspect that somebody has paid a lot of money for a piece of land and they are now struggling to try to find a way to make that land earn them some money. They should not have paid too much for it in the first place. We have a system that, to some extent, rewards bad business behaviour by people over-investing in a product in which they should never have invested.

Lord Kerslake: Some of them certainly pay too much for the land and then try to beat down their Section 106 planning gain. By the way, I would also support some form of council tax penalty for non-development over time. My point is a slightly different one, which is that over-reliance on the private sector build for sale would mean we do not deliver the numbers we require in this country. We need a diverse model of supply, including local authorities in that process as well.

Lord Porter of Spalding: If you look back since the war, or the 1947 Planning Act, the state has always provided a large chunk of the units that are actually built. The development industry is not that far below its normal peaks and troughs model. It is the state sector that has not delivered the units. Somehow, between councils and registered social landlords, we are going to have to start delivering a lot more homes that are owned by the country. At the moment, that is not the model that the Government have been following for the last five years. All of the subsidy has been pushed towards the tenants and taken away from bricks and mortar.

We need to return to a model where you are putting subsidy into bricks and mortar to encourage public sector landlords to get back to the development space. In that way, you would be able to encourage more smaller builders back into the marketplace. My own council has been building since 2006 and we let small sites of two, three or four to local developers—not local builders—to build. We take the development risk and they come in with a price to build the units for us.

Lord Kerslake: We need to do more of that, basically.

Q144 Lord Kerr of Kinlochard: The developers are gaining even if they are not building, as the value of the land rises. Once it has planning approval, the value rises much more steeply. I am intrigued by Lord Porter's suggestions of things that could be done, telling us not to concentrate on the planning permission but to make sure that planning approvals lead to the construction of houses. We have had evidence that the effect of, say, starting council tax or starting to penalise approved projects not going ahead would be that people would not seek approval; they would just sit on the land and see its value rise without applying for development. But there clearly is a problem. The evidence we have seen is that 242,000 homes were given planning permission in the year to June 2015, but only 136,000 were started. From 2012 to 2014, 510,000 residential planning permissions were granted for sites of 10 units or more, but only 348,000 housing starts resulted. That suggests that Lord Porter is quite right that the problem is not the planning process itself but the way that developers proceed once they have planning approval. When you talk of local authorities, you talk about financing. I buy that argument and understand the constraints on financing.

But when we are looking at private sector building, are you sure that the evidence that has been given is wrong that, if you were to start penalising people who do not use their permission, they simply would not seek permission? I agree that there is a problem, but I am not convinced about permission.

Lord Porter of Spalding: Look at the difference in the uplift in land prices in my own patch. It is in the East Midlands. It is not a massive high-demand area. It is a nice place to live, probably the closest to the 1950s you will ever find in England. You could buy a farm field at £10,000 an acre and pay somewhere between £500,000 and £750,000 for the same acre once it has planning permission on it. Do we really think that people would not try to come in for a planning permission if they thought they were going to have to build it quickly? The issue is that for speed of supply you cannot expect somebody getting planning permission today to start to open up a big site tomorrow. There needs to be a pipeline. In defence of the development industry, there needs to be a pipeline. It needs to be a steady process where land is fed in continually.

There are some people who have decided to buy land at a price that is far too high for what the land was worth and cannot afford to bring it forward, because it would be a loss on paper and there is no way the banks would allow them to do that. There are other people who think, "Actually, I have planning permission. I do not need to bring it forward, because my farm, family or whatever is doing quite nicely, thank you very much. In a few years' time, we might bring it forward when the land has gone up by even more". They are not developers. They are speculators.

Lord Kerslake: I agree with Gary that there is a difference between housebuilders buying and land speculators. There is a genuine difference here. I also think that the housebuilders have a point when they talk about the need to build out at a rate where there is absorption. Typically, permissions are often given on bigger sites, because that is less difficult politically than in-fill sites. On paper, you have a site that could be built out at 500, but they are going to be building it out at a much slower rate than that. They have a point about a pipeline and we should resist the temptation to say that the housebuilders are deliberately holding land for the sake of it. There are people who buy for the purposes of speculation.

On your point about planning permission, it is perfectly possible, if the local authority thinks that they are delaying the planning permission, to grant planning permission on the site themselves. You do not have to own the land to take forward a planning application on a piece of land. In many ways, you can get around that risk of people not getting planning approval, which is why I favour this council tax model, but what I would do is give it as a discretion to local authorities. If they have a site that is genuinely difficult to develop, where the viability is really difficult, then they have a discretion not to charge it if the delay is longer. If it is quite evidently a site that could be developed in a high-market area like Gary's, and nothing is happening, then they could apply it. It is not going to be a huge amount of money, but it would be important symbolically if they have that discretion, so I am in favour of that as a way of penalising them. Again, do not think that that will magically solve the problem. It adds another pressure into the system that is not there at the moment.

Q145 Baroness Blackstone: I want to come back to the bigger and broader question of what the role of local authorities should be in housebuilding and what their potential is. We have seen an unbelievably steep decline in local authority housebuilding since about 1980. The question we have to ask is what the appetite and capacity currently are for local government to get back into large-scale housebuilding. Is it there? Can it be provided? Is it just in the big cities, if it is there, or do you see local government in suburban and rural areas also having the capacity and the will to get back into large-scale housebuilding, so that we can deal with the acute shortage of affordable social housing?

Lord Kerslake: I will give a view and I know where Gary will come on this as well. Actually, I think there is a huge appetite to lead development of new housing by local authorities. In fact, we ran a relatively small-scale scheme in the last Labour Government about local authority housebuilding and the response was very strong. I think there is a sort of emotional thing; they take a personal pride in delivering new housing for their area and they are willing to be creative on sites of lands that they might otherwise not have taken forward. What I would say is that it should not be either local authorities or housing associations. It should be both. There is enough opportunity to do both and it would be even better if they are working collaboratively. In Sheffield, there is a collaborative partnership between the council that set up a local housing company and a housing association, Great Places. They have done some terrific work, in my view, building on vacant sites. For me, there is definitely an appetite to provide leadership and deliver new housing. A number of them are quite frustrated that they have created these housing companies and then the rent reduction has made their business model unviable or very difficult to make work. There are some quite big hurdles here.

The biggest hurdle, notwithstanding the fact that some have availability headroom, is the cap on borrowing for housing purposes. I have always found it difficult to understand why we allow local authorities to prudentially borrow to build a swimming pool. If Gary wanted to build four swimming pools in his district tomorrow, he could do so through prudential borrowing as long as he thought he could cover the costs, but they are capped on building new housing. I do not think there is any great logic to that, to be frank with you, because they both score in the same way on government spending. Clearly those local authorities that have an appetite could do more if they had more flexibility.

Baroness Blackstone: Could I just pick up on that before Lord Porter comes in? If the cap on borrowing were removed, where would the finance come from for local government to start major housebuilding programmes?

Lord Kerslake: They would prudentially borrow and then they would secure income streams from rent and indeed from sale, as well. In fact, it is pretty the same model as housing associations, which is why I say it is not either/or. Essentially, it has been a very successful model over the years, with modest amounts of public money going in as grant. Build for sale and built for rent; one cross-subsidises the other. Often the local authority will own the land, so it will be able to put that into the mix and then recover land values as they sell over time.

Baroness Blackstone: Do you see them being able to go out into the financial markets and borrow in the way housing associations can?

Lord Kerslake: With prudential borrowing they can borrow at very low rates at the moment, through the PWLB. Some have looked at bonds as well.

Lord Porter of Spalding: We have set up a local-government-owned bonds agency to take care of that. The appetite is huge and the ingenuity of people who have been trying to get around a system that has tried to dissuade them from doing it, for the last 20 years, has also been unique. My council owns four different housing vehicles now, just to try to get around different rules and regulations that would have me not building. I do not think any of us are proposing that we should go back to great, big, monolithic council estates. Everybody sees the wisdom of having mixed-tenure developments but, as Bob said, we can do cross-subsidy.

We can build private homes for sale and use some of the profit from those units to be able to build some more affordable homes to allow people to move up.

It is a sore point, but I am going to chance my arm with it. Right to Buy is a fantastic policy. People get into a home built with state funding, or partially state funded; establish themselves as a working family unit, whatever that happens to be; and change from paying rent to paying a mortgage. We take the capital receipt for that and then spend the money on building a new house. That seems a fantastic system, except that we are not allowed to do that because, if I build a nice shiny house, rent it to somebody for a while and then they decide they want to buy it, I have to give the Treasury the money for selling it, so I lose the money. There is an in-built disincentive for councils to get back into that space at the moment. We need to re-incentivise local authorities to be able to build. That way we encourage the development industry, smaller builders will get more work, we will end up with better mixed-use areas of land, we will end up with a cheaper housing benefit bill than the one we are currently running up and everybody wins out of it.

Lord Kerslake: Can I just add a wider economic point on this? When I took over the role of Chief Executive of the Homes and Communities Agency, we had just passed the financial crash. Trust me, private housebuilding just fell off a cliff. Private building for sale virtually stopped at that point and a large number of the major housebuilders very nearly went under. The only thing that kept going and kept the industry alive was building public housing for social rent, through grant funding. If you have a model that is entirely based on build for sale, as I think we are moving towards, it is entirely pro-cyclical. In my view, you will be at risk not of the same scale of problem, but most certainly of a slowdown in the economic cycle. You need a mix of private for sale, and public for sale and rent, in order to manage your way through economic cycles. What happened with housing association development when we hit that point was that we supported them to move into rent until the market recovered. Do you see what I mean?

Q146 Baroness Blackstone: Given the mix that you are proposing, how do you think the Treasury can be persuaded to take a different view, first on the cap on borrowing and secondly on capital receipts? What can this Committee say that will actually change the Treasury position, given their wider economic policies?

Lord Porter of Spalding: It should not conflict with wider economic policy. The fact that we are able to collect the receipt and reinvest it in a replacement unit in the area where that money is generated is cheaper for the country, because it means we are not all paying people in suits to handle money not to build anything. We will be paying people to lay bricks to build homes. What the Treasury is doing, in terms of taking the capital receipts away, is working against the Government's stated aims. It is not a conflict; it is just helping the Treasury to see the error of their ways and how we could help them get to the solution that they need to get to.

Lord Kerslake: I will not go too far into this, but I will just make a couple of points. One of the challenges with securing capital funding through central government resources into new housing was the economic model. The cost-benefit analysis meant that it almost always came below transport infrastructure. If you were looking at a finite sum of money for capital investment and you ranked schemes according to their cost-benefit, housing would typically come below and be squeezed out in the debate. That is pretty much what happened often. I think you need a different model that is based on local initiative, borrowing and return on investment, rather than relying on grant funding, for all those reasons.

The second point I would make it that we are putting very substantial money into housing. We just do not realise it, because it is going through financial instruments into Help to Buy. By 2020 that will add up to £10 billion but, because it is a financial instrument and there is an asset on the other side of the balance sheet, it does not score as deficit; it scores as debt. There are models here where we have managed to put money into housing. We are just putting it into sustaining demand, rather than building.

Q147 Lord May of Oxford: Could I ask you a question about a rather different issue in incentives to build more affordable houses? Given the reduction in social rents, we have essentially been told that this has caused housing associations to switch emphasis away from providing social and affordable rented accommodation, which is exactly the sort of thing that I would have thought housing associations existed for. I would like to hear your views on that, as briefly as you can.

Lord Kerslake: Let me take Peabody as an example. The change in rent policy, which was originally a policy for 10-year CPI plus 1%, to a rent reduction of 1% definitely took financial capacity out of Peabody. In order to respond to that, we will do two things. One is that we will look to drive efficiencies inside Peabody, which we might otherwise have reinvested, but will now help us to make the financial numbers work better. Secondly, we will change the mix. Our previous mix was 40% for sale and 60% affordable, of which half was shared ownership. That is our current model. We will probably shift the balance more towards 50% for sale, so we will not lose our social rent completely in the deal, but there is no question that we will shift the balance. Other housing associations with less financial capacity might take a different view and may not build at all, so there is a risk that the net effect of this is reduced supply and that was the judgment made by the OBR, which calculated a significant reduction as a consequence of the rent reduction.

Lord Porter of Spalding: We should not lose sight of the fact that the rent increases that we have seen over the last 10 years have been as a direct result of central government policy. Local areas have not set their rents. My council has always had to put up its rent in line with whatever central government has told me it was going up by. The Labour Government, in the Blair days before Brown, brought in rent convergence. Council rates are significantly cheaper than RSL rents, and there was an expectation that we would converge at some point. Councils were compelled to push their rents up by a significantly larger sum of money than the RSLs were, so we chased to catch up. It was obvious to anybody who was looking that, at some point, the rent bill for the country is going up, as a direct result of central government policy.

The trouble is that we have all built our business models on that. The councils bought our homes back a few years ago, when Grant Shapps was the Housing Minister, so four and a half to five years ago. We paid to buy our own houses back from the Government and we did that on a business model that showed an increase in rents. Our rents will now be going down, so the business model under which we bought back those houses is now flawed. There are still discrepancies, which is the bit that Bob and I disagree on. There is still a discrepancy of between £13 and £16, depending on whose numbers you look at, between a council social rent and an RSL social rent. My argument would be that the council rents should have carried on going up to catch up, not come down, because we will never get parity. You could have two people living next door to each other in almost identical houses but in the same street, paying different rents, as social tenants.

Q148 Lord Kerr of Kinlochard: I have a question for Lord Kerslake on making publicly owned land available. It is alleged that Transport for London, the NHS and to some extent the MoD are sitting on huge amounts of land that could be made available in London. Is it true and, if so, should it be made available? I have a question for Lord Porter: are new towns part of the answer?

Lord Kerslake: Those are two big questions. I am glad he has that one and I have the public land one. There is definitely scope to bring forward more public land. It is very uneven inside central government. Truthfully, the big potential sources are the MoD and Health. After that, the numbers are much smaller. Of course in London, TfL has significant land. There is scope to bring it forward. We could do more on that and I very much support the London Housing Commission. In fact, given a choice, I would put more resources into that.

I led the programme to identify public land for disposal across government and it was an immensely tough process. Basically, this is not the priority for any individual department, so you have to persuade, cajole and threaten them to release this land and get on with it. I would strongly argue, and recommended when under the Homes and Communities Agency, that surplus land should be professionally disposed of and new supply secured. The short answer is that there is a lot of opportunity with public land. Often, the issue is not people being resistant to it; it is that it is not as important to them as it is to us and the lack the capacity. This is particularly true in the Health Service, where you have major hospitals, often with huge amounts of land, which lack the capacity to bring forward the sites for development. The London Housing Commission is a really good idea that could enable them to move forward, then everybody is a winner.

Lord Kerr of Kinlochard: Has the centre lost an institution that had the role that you had? What did the Property Services Agency do? Did it own the land? Did it attack the Ministry of Defence more successfully than you could?

Lord Kerslake: I do not know. Truth be told, the Property Services Agency was not number one on the list of popular agencies in government, I am afraid.

Lord Kerr of Kinlochard: I remember it well.

Lord Kerslake: There was much resistance to that. I do not think I would recreate that. I would say that you could drive transparency of surplus land and centralise the process of taking that land and moving it out for development. That was the concept behind the Homes and Communities Agency, which was very similar to the approach of the London Land Commission.

Lord Turnbull: I think that, first, the PSA never had jurisdiction over the MoD and, secondly, was principally concerned with offices.

Lord Kerslake: Yes, you are right. It was a very much narrower field.

Lord Kerr of Kinlochard: There used to be a Ministry of Works, with which departments in Whitehall had to negotiate to get their buildings. Do we need a works Gauleiter who owns the property?

Lord Kerslake: I would not try to put all ownership of property under a works Gauleiter, because life is too short for that, to be honest. I would focus on identification of the surplus land and the professional capacity to put it forward for permission and disposal. That is the way a local authority would do it. They would have their own team to do that.

Lord Porter of Spalding: That is the solution. Just transfer the land that is surplus, which is owned by the state, into the local authority with an expectation that they will give the Treasury an uplifted return on the value of the land. Let us take the land. Let us push through the planning permissions. Let us set up the land and either develop it or push it on to other people to develop. Let us then return some money to the Treasury, which would be more than it is sitting on the balance sheet for now. We have released the land and all made some money out of it. It is easy. You do not need to create another bunch of offices somewhere and put in a load more people in suits. The only way to tackle the housing crisis is to pay more people to lay bricks, not people to talk about how they should be laid.

Lord Kerslake: I would probably part company with you in saying that some local authorities would be brilliant at that and some would not be. Actually, you need professional capacity. That is my experience. Whether they wear a suit or not is incidental.

Lord Porter of Spalding: The Homes and Communities Agency left loads of contaminated sites for some other people to pick up the pieces.

Lord Kerr of Kinlochard: New towns?

Lord Porter of Spalding: Where new towns are done with local consent, they are probably one of the easiest ways of putting up more units than you will ever do, but the country then has to be prepared to pay for the infrastructure necessary to make that development truly sustainable. You cannot just put a load of homes in a field and hope that everybody can get to and from them on roads, that water can supply them, that gas can supply them, and that schools and medical facilities are there. If you are going down the new-towns route, you have to be prepared to take a much longer position. You need to look at 30 to 50 years, not at five years. The trouble is that we always encourage Governments to look at five-year periods or, in the old days, less than five-year periods. I suppose five is an improvement from where we were then. If we are going to do big single-site developments in a few areas to try to make large numbers of units, we have to be prepared to put the infrastructure money upfront to make that sustainable.

Lord Kerslake: The truth is it is not a quick solution to the supply problem. New towns will take big investment and are a long game.

Q149 Lord Turnbull: Trying to summarise this, the narrative we started with was that the problem was that we have had a host of schemes to promote demand and nothing commensurate on supply. Therefore, the answer was more permissioned land through the planning system, which leads to more houses and lower prices. What we seem now to have come to is what I will call the Kerslake-Porter paradox. There are people who have permissioned land, the big builders. They can get finance but they are very reluctant to accelerate their rate of build and, what is more, they only build one kind of home, which is for sale. That is not the point where the greatest crisis is. On the other hand, there are willing people, the local authorities and the registered social landlords, and we seem to have put every possible obstacle in their way, through rent caps, forced sales, caps on borrowing, and bringing the RSLs back on to the balance sheet. Finding ways of releasing that, which do not offend the Government's fiscal policy, seems to be the quickest way that we can have an impact on this housing problem.

Lord Kerslake: That is pretty close to it. I think you still need to keep the pressure on permissions and private land being brought forward. As I said earlier, if you looked at the London Plan, you would see lots of permissioned land, but much of it is very complex to develop out. This is where I part company with Gary a bit. To do that requires big investment, huge amounts of expertise and quite a long time. To give you one example, Peabody is responsible for Thamesmead. We could double the number of houses in Thamesmead, but it would take us 20 or 30 years and a lot of investment in infrastructure. You definitely need to bring more sites out to the market as well, but alongside that you need to encourage housing associations and local authorities to build. What I would have wanted after the election is for everybody to be brought in a room to say what their contribution to tackling this country's supply problem is.

Lord Porter of Spalding: That is the problem. The problem is so big that there is more than enough problem to go around for everybody to have a little piece of it. That is why Bob and I have disagreements around the edges. Fundamentally, we all believe that this country needs more homes built and it needs them built quite quickly. The only way of doing that is by everybody working together. We already own 4 million social units between us, across the country. Certainly in local government we have 2 million homes, which we cannot take the capital out of and reinvest, just because of the way we treat state-owned housing debt in this country, which is relatively unique in Europe. Other people do not treat state-owned properties as a debt. We should be able to exercise some of the capital from that, and sweat it to be able to deliver more homes. That will not cost the Treasury any more money. That is free money, because we can borrow it from the private sector. We do not need to go back to the Treasury to borrow it.

Lord Turnbull: Can I come to the mechanisms that take the difference between your £10,000 per acre and your £500,000 per acre? That can be shared in various ways. We have Section 106 and the community infrastructure levy. Is that being used enough to incentivise local authorities, but also to give them the resources to fulfil those bits of this plan that they need to provide?

Lord Porter of Spalding: At the moment, we do not have anything like full cost recovery of planning fees. Most planning applications are subsidised by local taxpayers, so we need to move to full cost recovery to be able to put enough skilled planners in planning departments to be able to do the planning side quickly.

Lord Turnbull: Who controls that?

Lord Porter of Spalding: Central government sets planning fees. We do not have locally determined planning fees.

Lord Turnbull: What they are saying is that you can take value off a developer, through 106 or the community infrastructure levy, but you cannot use it to service the transaction costs of the whole development.

Lord Kerslake: It is worth adding to that that because local authorities have faced severe financial pressures in other ways, planning services have suffered their share of the reductions as well. You scale back a resource just at the point when, truthfully, you need to be investing more in it, in my view. The fees are set nationally. I would absolutely endorse Gary's view that you need an economic rate for the planning application and to allow local authorities to build. Typically planners are going into the private sector now when they train, not into the public sector. I am sure Trudi will say a bit more about that.

Lord Turnbull: I cannot see why, given that this Government by and large do not believe in price controls, they are selling a public service delivery at a loss to people who would be able to pay.

Lord Porter of Spalding: There is a fear in some areas that planning fees could be used as a way to stifle development. There is an argument that says that, if some authorities were able to charge whatever they liked for a planning fee, some would charge fees at such a high level that they would deter developers coming forward anyway. I do not share that idea, but it is one that is out there. There needs to be some way of full cost recovery on an open book accounting basis, so that we would have to demonstrate, as councils, what the actual cost of a planning scheme was. If we do not, we will never be able to get enough high-quality planners to stay in local authorities because, as the development industry picks up, they will come and poach those people from us, then they will be complaining that we are not granting planning permissions fast enough, yet they would have been the people who would have stolen half of our planning officers.

Lord Turnbull: We heard from Bob Kerslake earlier that the obstacle to building or giving planning permissions is not so much incentive as mindset. They hitherto thought that their electorates would not stand for it. If a council wants to obstruct something, it does not need to obstruct it by putting the planning fee up; it can just say no.

Lord Kerslake: I do not think the planning fee is the way in which they would obstruct it. They would charge a reasonable economic rate. Most developers and housebuilders would be willing to pay more if they had confirmed performance, actually. There was a concern about raising fees during the period of the downturn, because of the worry that it would just switch off people's desire to develop at that point, but we are at a different point now.

Lord Porter of Spalding: That is not true though. We had the first planning fee rise for ages a couple of years ago. We got a decent rise a couple of years ago, so it is not to do with that. To be fair, Section 106 is going down. Developers are finding it easier to go around 106. CIL, for whatever reason, is not getting any traction in many places. Section 106s are being renegotiated on an almost weekly basis now, so we are moving further away from having resource that makes development acceptable. Most people will say yes to development in their area, if it brings some social good with it, other than just somebody making a few pounds on an uplift on a piece of land. We need to find a way to continually make development acceptable to communities, and the best way of doing that is to tell them that their services would be enhanced by somebody building some more homes. It is easy to sell the idea of a development to somebody who has grandchildren, because you can say to them, "Where would you want your grandchildren to live?" Unfortunately, when most people buy a view, they do not actually buy the view. They just think the view came with the house that they bought, so it is very difficult to make people in communities to accept more development, unless you can personalise it to them.

Lord Turnbull: I am getting confused here. I thought that, between you, you were saying that the under-resourcing of planning departments was one of the constraints of this system. The fact that you have people willing to pay more and not being charged seems to be a ridiculous own goal.

Lord Kerslake: That is precisely what I am saying. I am agreeing with Gary that, if people had more flexibility to charge an economic rate, they would be able to plan resource better when they are planning services. I am saying precisely that. You were asking why it has not been moved in the past and I am just recording, but not necessarily agreeing with it, that there was some nervousness at the time when the economy was very slow in taking off during the last Government, about whether or not you would dampen some appetite for smaller-scale developments, not the bigger ones but people's individual back-door developments. That was a factor. I would not say it was the only factor. For good or for ill, there has been a resistance to creating greater flexibility and increasing these fees, which gets in the way of capacity and the ability to move forward quickly on development.

Lord Turnbull: This is my last question. You have mentioned the buoyancy in London. What one reads in the *Evening Standard* is that stamp duty is beginning to cool it down. Do you see any signs of that?

Lord Kerslake: There are two different points. There is some evidence of a cooling generally on the market a bit—not much yet, but some. That may impact on supply, of course. The issue on stamp duty really only affects the higher-value properties and their sell-on. What stopped it is the second-hand market sales of properties from £2 million up, which is an issue, but not the issue that we are facing. That is my understanding. I am not a property expert, but the stamp duty effect has hit that territory hardest, rather than the lower-end market we might be talking about in this conversation or the new build. Stamp duty has impacted the higher-end properties and it has impacted on transactions.

Q150 Lord Griffiths of Fforestfach: I am going to ask two questions. The first is particularly to Lord Kerslake. I would like it if you could sum up what the feeling is on the following issue. We have taken evidence and have heard that developers, housebuilders and so on are hoarding land. The speculative element was mentioned. Some people have paid a price above the odds of what they should have paid if they were looking at a long-term development. You also mentioned, however, that, given the near-death experience of 2008 for some, they were repairing their balance sheets, which seems quite a legitimate thing to do. It is what the banks have been doing, after all. I just wondered, as a Committee, what you think our expectation should be if the planning process was made simpler or faster. What should be our expectation of the response we get from the private sector housebuilders?

Lord Kerslake: You will get some response from the housebuilders from that, if you can improve the system, especially if you can make it consistently good across the country. What I am saying is to be careful of any idea that will magically get you to the level of supply we need in this country. Completions last year were roughly half of what we need in this country. However slick, efficient and effective you make the planning system, you will not double supply through that route. That is just for the birds. That is why I am saying that there is not one magic bullet here. You need to carry on improving the planning system, but not to see it as the central issue and certainly do not see planners as the villains actually. A lot of them understand this agenda, but they need proper resourcing. You need to help small builders get back in the market, but that will not solve it by itself. You should do it because it is the right thing to do. You need to bring public land into play. You need a strong public sector housebuilding programme. You need to do every one of these things for a sustained period of time, not five years but 10 years, and then you might start to get somewhere.

Lord Porter of Spalding: The problem is so significant that there is not going to be one magic bullet, but we are not pulling all of the levers we have at our disposal. There are a lot more things that we can be doing to increase supply. Do not see planning as the place to put the effort.

Lord Griffiths of Fforestfach: Thank you. My second question is that we have taken two pieces of evidence on local authorities providing sites for development. The local authorities have been criticised, because it has been alleged that they like to go for one large site, 1,000 acres or something, as opposed to providing five sites of 200 acres each. Secondly, it is argued that, in drawing up the housing need, they tend to suppress the level of local housing requirement. I wondered whether you think that these two charges that have been made against them have any weight.

Lord Kerslake: It is hard to say that they do not have any weight anywhere, because local government is a variable thing. Actually, if they were to wholly manage their five-year land supply through big sites that were not truly viable to move forward, they would be challenged on their plans, because they would not be creating a deliverable plan. There is a limit to how much they can do that in reality and not be challenged through the inspection process. Nevertheless, there is a tendency to go for bigger sites that are less controversial than in-fill, which is why people have to be careful to see the problem as being, "We have all these permissions; why are they not building them out?" There is an issue with that, but there are constraints on local authorities.

Similarly, the question of estimating their demand is all subject to public inquiry and testing. If they try it, they will be challenged in the process. That is a possibility, but certainly not the issue, in my experience.

Lord Porter of Spalding: I concur with Bob that the needs assessment strictly lays out what needs to be done and what needs to be included. The planning inspector would not pass off a plan if it was not believed it was done properly. Large sites are easier to grant, because you affect fewer neighbours, bizarrely. The ability to mitigate against issues on a large site is a lot easier than it is to do it on a smaller site, but again we need a mixture. We need large sites to deliver the volume that we need to deliver, but we need to deliver small sites to make areas sustainable.

Q151 Lord Teverson: I was just going to say that this Select Committee is completely non-political in the way that it asks these questions, but there are few times that I have felt like saying, "Right on" to Conservative leaders on councils. That is very good. Can I come back to a couple of specific things? Both of you have said that Section 106 agreements do not really work and are retreating in terms of their usefulness at the moment, with developers trying to get out of them. I am interested to know if that system should be fixed or changed. On a couple of minor or smaller issues, the New Homes Bonus was created by the Coalition Government and is under amendment at the minute. How do you feel about that? As someone who comes from a rural area myself, the area of rural exception sites is quite important to rural housing and I wondered how you felt the Starter Homes scheme and the whole area of Right to Buy might be affected in terms of rural exception sites. There is a particular concern about people who have let housing land come forward without that huge increase that you talked about and whether people will trust authorities to do that in the future, if Right to Buy or these other schemes come in.

Lord Porter of Spalding: With Right to Buy, they will be able to be excluded from the schemes anyway, so that is not an issue. Starter Homes are going to be a problem, as the discount will only be there for five years. That is too short a period of time. I am not sure where the real number is, but it should certainly be more than 10 years to make those affordable units stay affordable or at least for the local community to take an uplift in the value of that 20% that is put into the space.

I would struggle to differentiate too much between rural exceptions and other developments. If people are taking that kind of considered view around a small scheme, whether that is on a rural exception site or in-fill site, once it changes its type of tenure, we need to be careful about the impact that has on the surrounding area. You cannot afford to have villages with nowhere for people to rent or else they will all become dormitories for people who can live better. You cannot sustain a village with mono-tenure housing stock. You need mixed developments everywhere, including small developments.

Lord Kerslake: To come back quickly on Section 106, the evidence from research work done by Sheffield University is that it has been effective in capturing value, but only if it is done properly and done well—and the experience is uneven. Some local authorities negotiate on it very well and some do not, so there is a variable story here. I do not think it has run its course yet and it needs to.

There is a distinct issue in London, which we are going to consider as part of the Commission, about whether what we have in this so-called viability test is a competing of consultants on both sides, who then swap sides for the next negotiation, one for the local authority and one for the developer. So there may be a different story in London that we need to think about, but I do not think that Section 106 as a whole has run its course. It is down to the capacity and expertise of those delivering it. There are still some issues with how CIL works and sits alongside Section 106 that have not been fully resolved. Remind me what your second question was about.

Lord Teverson: The new homes bonus.

Lord Kerslake: Just before I departed from the department, we produced an evaluation of the new homes bonus. My own view, for what it is worth, is that running it as a country-wide scheme was not terribly effective, because you are effectively taking money from one council and handing it to another. In many places, such as big metropolitan areas, it was a relatively modest sum of money. Where I do think it worked—which I touched on earlier—was in the district councils in the higher-growth areas surrounding London, where it formed quite a big part of their income and seemed to have a positive impact. So I would revise the scheme rather than abandon it completely. That is my personal view on this point.

I think rural exception sites have a place. There was a real concern that landowners might have given over land for that purpose and then found it sold off. We can avoid that through the voluntary scheme, so it still has a role and is still valuable in these rural areas.

Lord Teverson: Just coming back on 106s, they are very limited in that the payments have to be specific to the scheme. Does that limit them too much in terms of being able to provide the wider infrastructure that may be needed for development?

Lord Kerslake: That was what CIL was supposed to handle. It was designed in part to deal with infrastructure needs. You can say that in London the CIL that has been created for Crossrail has been a useful mechanism to raise funds. So there are ways around it that could be made to work here. You now have the CIL option where you need infrastructure that straddles more than one scheme.

Q152 Lord Lamont of Lerwick: Could I ask you about housebuilding targets? There was a very interesting article in the *Economist*'s Free Exchange blog. I do not know if you have seen it; we have all seen it on the Committee. It made the rather unusual point of attacking what it called “the economists’ obsession with building new houses”. It said that what is important is the use of the housing stock and the turnover of second-hand homes in the market. It said this: “The problem for Britain is that far fewer already-existing homes are coming on the market each year. In the late 1980s, roughly 2 million second-hand houses were put up for sale annually. Last year less than half that were. So the supply of houses on to the market has dropped quite substantially. This leads to inefficient use of the housing stock. Small wonder that prices are rising fast”. I wonder whether you would comment on that. It is rather an unusual perspective.

Lord Kerslake: Yes, it is. The efficiency of the use of stock and what that might achieve is certainly something that we looked at in the department. You could definitely achieve more through greater efficiency of use of stock. There are an awful lot of people living in properties now that are too big for them, as we know. Typically, people in our age group, let us say, are hanging on to very substantial assets that are probably not quite fully occupied—let us put it that way. There is something in that, but I do not think that that is the answer to the underlying housing supply. It might help ease the challenge of supply, but it is unrealistic to think that it will tackle the underlying need for housing in this country. Again, it is a contributor.

Just to finish on that point, one of the areas where I think it could contribute more, and we have never cracked this problem, is how we create housing that is attractive for older people to live in, as a step down from their existing properties. We have never found a good market solution to that in this country. More could be done in that area to try to advance it, but it is one part of a bigger picture; it is not the answer to the supply issue.

Lord Porter of Spalding: How does turnover of properties increase the number of available properties, because people are living in them while they are selling them?

Lord Kerslake: I guess the point that they are making is that people live in houses that are bigger than their needs. That is the issue.

Lord Porter of Spalding: Your house is as big as you need it to be, whenever you need it to be that size. Just because you get to a certain age, it does not mean to say that you should be confined to living in a small box somewhere. At one point you will be. I cannot even follow the logic of that. Just because somebody is selling their home does not mean that there is one less that we need to find, because I am assuming that at some point, unless they are going abroad, they are going to be buying another home. So the net number of homes needed must still be the same. It is just that some people are in a transitionary state where they are getting ready to pay Pickfords.

Lord Lamont of Lerwick: I think it depends on the number of people per private house. You are dealing with very large entities and, if the number has changed dramatically, it will have a big effect. The number of second-hand houses on the market used to be six times higher than the quantity of new-build houses. Now that is not the case. So you are not talking about a marginal factor; you are talking about something that is very big.

Lord Porter of Spalding: Unless we compel divorced couples to stay living in the same home and children to stay living in the same home, how does that change? The home may be on the market and available for somebody to buy but the people selling it will be buying somewhere else. Quite often they will be buying two somewhere elses because they are no longer living together.

Lord Kerslake: The other point I would make on that argument—and we would need to do more analysis to prove this one way or the other—is that there could be a substantial number of people who in the past might have sold to move to a bigger property but no longer find themselves in a position to do so, basically because house prices have widened the gap, as a piece of arithmetic, between where you are and where you want to be. They do by definition. So rapid house price rises have stopped people making the move they might have made in their lives to a bigger property. I suspect that that is at least one of the drivers of lower transactions. Generally though, Gary, I think that there is some scope for making a better choice for people who are older, not necessarily to live in a box but to live in a different type of property, rather than hang on to a property that is bigger than they need.

Lord Porter of Spalding: If that is by their choice. If they wish to move to a smaller property because that better suits their circumstances, that is a good thing to do, just because it improves the quality of their life. That in itself will not increase the availability of homes. The only way to get the housing issue sorted is to build more homes. We are not building enough homes, and the reason we are not building enough homes is that there is not enough money in the system to make it possible for small to medium-sized builders to get into the space to be able to open up sites, and for people to buy or rent the finished product when it is completed.

Lord Kerslake: You will not be surprised that I agree with you about the need to build more homes. That is the fundamental issue that we have. So in that sense I am disagreeing with your author.

Lord Lamont of Lerwick: It is not me; it is only the *Economist*.

Lord Kerslake: I am sure the *Economist* will have an article next week saying the exact opposite. My point is that the fundamental issue is about more homes. It has been since Kate Barker wrote her report and it is an even more acute issue now. To that extent I do not buy it. What I am saying is that there are ways in which you could make the housing market more efficient in the way it operates, by giving people better choices at different points in their lives.

Lord Lamont of Lerwick: It also indicates that the stamp duty effect might be a key issue, even though you said, in response to Lord Turnbull, that it is only at the higher end. Maybe it is having a psychological effect further down as well.

Lord Kerslake: It may be.

Lord Lamont of Lerwick: If that were true, this would be quite a big issue. Can I just ask two other questions? I will just put them together. Would the conversion of existing houses into flats help the supply problem in London? Also, there is converting office space into residential property. I know that sometimes people say that that is more expensive, but what sort of scope do you see for that?

Lord Kerslake: Let us deal with the office space one. There is scope for conversion in some places where offices have ceased their economic use and are unlikely to be used again for offices. It is not cheap to do and often the footprints to do it do not work, but it can be done. I personally have been worried about the current model, which other than in certain selected areas involves people getting prior approval rights to convert from office to residential, because it risks taking out employment space in places where it is still needed. I would prefer there to be more control by the local authorities over where that happens in some places. Converting an office in Westminster, say, to a high-end luxury property that may not be occupied does not seem to me to be a smart move, to be frank. So there is a case for office to residential, but it should be a process that is managed as part of the wider role of local authorities. That is my view.

The Chairman: That brings this session to an end. Thank you very much indeed for a lively and informative session. We shall look forward to reading the transcript to see if we can solve the Kerslake-Porter paradox. Thank you very much.

Examination of Witnesses

Professor Tony Crook, University of Sheffield, and **Trudi Elliott**, Chief Executive, Royal Town Planning Institute

Q153 The Chairman: Ms Elliott and Professor Crook, thank you very much for joining us this afternoon. I should just preface my question by saying that our previous witnesses—and I think Ms Elliott was here to hear them—said that there was absolutely no problem with the planning system. Against that backdrop, we shall nevertheless be asking you about some of the problems that possibly exist with the planning system. A number of witnesses pointed to a golden era before 1991, when the developers could go and sniff out building opportunities and sniff out land. Effectively, the process was led by them. First of all, do you think that that was a fair characteristic of the pre-1991 environment and do you think that the current system is working well? Ms Elliott, would you like to start?

Trudi Elliott: There is no real appetite to put the clock back 25 years. I would preface my answer by saying that, if we regard planning only as a reactive regulatory function, we are going to continue to see an under-delivery of houses and even higher house prices in some areas, with all the economic and social consequences that flow from that. So we have to use planning in a creative way.

The question is harking back to the introduction in 1991 of the new clause that said that planning decisions must be taken in accordance with development plans unless material considerations indicated otherwise. Somehow, therefore, whereas developers were incentivised to find land and bring it forward before, they are not now. I do not recognise that model and we are still seeing developers bringing forward land and putting it forward for submission in local plans, but also making applications where appropriate. We need to remember what the problem was in that era and why the clause was entered. We got to the stage in the 1980s when we were actually having planning by appeal. For lots of planning authorities, that became really problematic in terms of democratic accountability. In one district alone, for example, 40% of applications were determined on appeal. That is no way to run a system.

I think the current system will work well with certain requirements. Councils have to have sufficient resources to do the job. There has to be a strong national policy indicating that the provision of adequate housing is a national priority but that the delivery of that is suitably locally empowered. As previous witnesses indicated, we do not have one national housing crisis; we have a selection of housing crises that add up to a national crisis and they vary from place to place. We need builders that can actually build and we also need political leadership.

Professor Crook: Perhaps I could add to that. First of all, to go back to the period that the HBF has told you about, it was a period when there was very inadequate coverage of plans.

Demand for housing was high. The Government of the time was getting local authorities to focus on the development controls system. Builders were acquiring what we technically call "white land"—land that was not allocated in a plan. So they were buying it at close to agricultural-use value, taking it through the development control system, getting permission and making some quite good profits out of it. So if they say they were incentivised, it meant they were able to capture the land-value uplift that resulted from that. But, as Trudi said, it resulted in a lot of concern in local authorities, including among MPs, where people were concerned that it was an appeal-led system and that infrastructure was not being co-ordinated with allocations.

In terms of the current system, decisions should be made in accordance with the plan unless there are other material considerations. If you have those in place and if you have the evidence-based need in the plan requirements, which is absolutely critical; if you have the variety of sites that people need, whether they are volume housebuilders or small builders; and if you are saying you want to build about 250,000 homes a year, just to choose a number, you probably need to be injecting at least that number into the system with consents every year. Sites take about four years to work through, so you want to have about 1 million plots. If you look at the current evidence, consents were given for that 250,000 last year. What is interesting is that, where local plans were in place, the evidence is that those local authorities were allocating more sites than the evidence-based need. So critically, if you have the capacity to deliver the plans and those plans provide the adequacy, hopefully the system will provide that.

Now, clearly you need more than that number. You need a buffer because some of the sites do not come through and builders do not develop the sites and you have land traders who are holding on to land. So you probably need to be injecting more than 250,000 each year—but it is moving in that direction.

The Chairman: We have been told by some witnesses that a plan-led system does not actually deliver enough houses. Where does that come from? You seem to have contradicted that point.

Professor Crook: I would not accept that, except that in the past, when we did not have the adequate coverage of plans, the plan-led system was not doing that because we did not have adequate plans. So it ended up being an appeal-led system. What I am saying at the moment, Lord Chairman, is that on the current evidence the plan-led system is delivering that in terms of what was delivered in the last year. There is that capacity and recognition of the need that needs to be there; provision is being made in the plans. Clearly we need to deliver more annual consents than the numbers we want to build because builders fail to take sites forward. We have land traders who are sitting on land and speculating on it, so we probably need quite a decent buffer, but we are moving in that direction. The evidence is that, with a plan-led system, you also have the possibility of co-ordinating the infrastructure that is necessary.

The Chairman: To what extent are land and house prices an indicator of the need to bring forward more land for building?

Professor Crook: It is one of the things that local authorities look at when they are thinking about the evidence base for their local plans. It is a clear requirement of local authorities. They are required to do that in their strategic housing market assessments, looking at the evidence of prices as an indicator of excess demand. They should be making requirements in relation to that. It is part of the mix.

Q154 Lord Lamont of Lerwick: Under the National Planning Policy Framework, we have heard the criticism made that local authorities are seeking to game the system and seeking to achieve the minimum rather than the optimum number of houses. We had a witness from Taylor Wimpey. It was given in public, so I am not releasing any great secret, but the accusation was that local authorities find it a great burden to carry the objectively assessed need and try to suppress the level of housing requirement, which is then rolled into the local plan process. It is quite a harsh criticism. Do you think that there is any justification in that?

Trudi Elliott: It is quite difficult to game the system if you are a local authority because of the checks and balances in it. The NPPF makes it quite clear what test you have to fulfil in terms of assessing the needs in the plan. There are ample opportunities for landowners and developers to put forward sites and propositions to the local authority, and they have to balance those fairly. But the whole system is tested through the Planning Inspectorate. So there are enormous debates going on up and down the country, on a daily basis, about what the objective need is in a particular local authority area. One side of the House is arguing one figure and one side of the House is arguing another. We are ending up getting pretty close to a fair reflection of the needs of that community in that local plan. It is robust and it is fair to say that, for many a politician, this is the most challenging part of their role, articulating to their local community what the needs of that community are in terms of housing, the need to put it in the local plan and how to overcome the challenges.

For a lot of local residents, their concerns about increased housing are not unreasonable. What they are worrying about is the impact on infrastructure, and what we do not do in this country, as many other countries do, is align as effectively as we might the provision of supporting infrastructure in its widest sense—economic infrastructure, transport infrastructure and social infrastructure—with the provision of housing through local plans. So that is the concern for local communities and politicians. Politicians are often worrying about the balance between the housing they need to provide with the infrastructure that the community needs to support that housing. As I say, it is very difficult for them to avoid their responsibilities in that respect now.

Professor Crook: I would add, if I may, that as part of the process the core strategy has to be tested in front of an inspector. Inspectors have now been saying fairly regularly that, if it does not add up, go back and do it again. There is a delay in the process but it is part of that public debate in which people take part. There have been quite a few cases in recent months, although I cannot identify them.

Lord Lamont of Lerwick: The same witness told us that most housebuilders would prefer to have five sites of 200 units rather than one of 1,000. Do you think that local authorities are providing a sufficient variety of sites within local plans, and are they suitable for the smaller builders?

Professor Crook: No, there is an issue about variety and a particular issue about the inadequacy of sites being provided for small builders—people who build 10 or 50 a year, maybe just on two or three sites. Local authorities have tended to deal with this in two ways. One is that they have tended to allocate on their plans large sites of the sort that you are talking about. Then they say that, if developers come forward with small sites they will have policies to respond to that. We call them windfall sites, because they cannot be predicted in advance. Who knows? It depends on the vagaries on the land market.

When they respond and a local builder puts in an application to develop a site of, say, 10 houses, that builder then finds the process of putting that through the planning system really quite cumbersome. It is not the only reason small builders have disappeared, but it is one of the factors. Another factor is the difficulty of getting hold of finance. I am personally very keen—and I think we can say the Institute is, Trudi—on making sure that that greater variety is part of the mix. It has to be quite critical. It is not the only reason that some small builders have disappeared, but it is one of the factors. If you look at the evidence that I am sure they have given to you, they have identified it as one of those critical factors.

Trudi Elliott: We looked at this in the RTPI when we prepared a report in 2013 on delivering large-scale housing. Although we were looking at that issue, a whole range of wider issues came up. We thought that a number of things would assist in this. First, we need greater access to information for local authorities about who owns land and who has an option on land. Greater transparency there would be helpful. Local authorities need to take a greater role in land assembly and they need to explore some of the mechanisms in Europe around land pooling that enable them to create serviced sites that they can then put out to the market, oven-ready for small and medium-sized builders. Local authorities need to look at how they manage the very large sites. While the temptation can be that it is easier to deal with one large developer, looking at how you might use those larger sites to also create self-build sites for small builders and build to rent can help the flow of those houses on to the market, as well as also creating more economic activity in your area and regenerating the SME market for builders, which we need.

Professor Crook: I have two other points to add, if I may. One is that the large-volume builders typically tend to break up the site for which they have acquired consent, so may well be passing it on to other developers, including small builders. The other point I would make is that the neighbourhood planning process appears to be providing the capacity in which local people can say, "This is a sensible site for building those five or six houses, where the grandchildren can live in the future". That is a really important thing in overcoming some resistance. They need to be convinced that the infrastructure is there. Of course, that then becomes part of the statutory planning system, because it is subject to a vote—a local referendum—on whether it should be adopted and incorporated.

Trudi Elliott: At the risk of being a broken record about local government planning resources, which I am likely to be, local authorities can do more in terms of site identification and proactivity, but they need to be resourced to do it and they are not at the moment.

Q155 Lord Teverson: Perhaps I could just follow up on Lord Lamont's question. It was about neighbourhood planning, which is particularly important in rural areas as well. I wanted just to get your comments as to whether you felt that neighbourhood planning was something that is going to get in the way, because it is another level of planning in some ways, or whether, as I think you suggest, it buys in a commitment to this before the process starts so that you get less resistance locally. Do you see it as a good or a bad thing?

Professor Crook: If I say it is a curate's egg, I am saying that there are good things and bad things. The bad thing is that the local authority has to resource the process, to some extent, but the good thing is that it is engaging with the capacity of people at local level—parish councils and town councils—which is engaging people in the process of putting a plan together locally for their needs for their parish, their village and their suburb, as opposed to dealing with a consultation on a rather remote local plan for the whole area. So it is a resource issue for the local authority but I think that on balance it is a good thing. The evidence on neighbourhood plans from work that we have done at the institute gives us some positive feelings about that.

Trudi Elliott: We have opened a Pandora's box in terms of neighbourhood planning. If you look at the number of communities that are engaging in neighbourhood planning, it speaks volumes about people's interest in their local community and willingness to spend their spare time helping to shape it. We are up to 1,700 areas working on local plans and we do, through our work with neighbourhood plans, have examples of where a local community has done a lot of work identifying housing. If you look at the Winsford Plan, land has been allocated for 3,362 houses. That is a greater figure than was in the local plan, but are they the exception that proves the rule? In some areas, neighbourhood plans have come together because of their concerns about the proposed housing number and the lack of infrastructure connected with it. It tends to be the latter problem that they are concerned about rather than providing the homes that people need.

The problem we have had with neighbourhood planning is that we introduced neighbourhood planning that is supposed to reflect the local plan above it, at a time when we did not have overall local plan coverage, so we made it more complicated than we needed to and it was a very complex system. We said that at the start, and the Government have listened and are trying to make the process simpler, because of the resource consequences for all concerned.

Lord Teverson: If I can come quickly on to the green belt, we have had a number of witnesses who have been fairly dismissive of the green belt, although they agree that it is quite difficult politically and locally. I used to live in a suburb of London called Wanstead, which theoretically had Epping Forest on its doorstep, although you would not recognise it as a forest. It was all very emotional. I see that the institute has been fairly questioning, contrary to the view of some of our other witnesses, of whether development on the green belt would be useful and some of the consequences would go in the wrong direction. I wonder whether you could outline your views further on that. Perhaps it would be useful to start with Professor Crook.

Professor Crook: My personal view—and I am not going to dissent from my professional Institute's view—is that yes, we really have to look at this. The context in which the green belts were formed is very different now. Then, we were thinking about a stable population and trying to prevent the outward sprawl of towns. Now we have a very different context socially, economically and demographically. So on a case-by-case basis with a strategic view, this is perhaps an issue for combined authorities to look at with their strategic powers. We need to revisit green belt boundaries. There are opportunities to insert new settlements in public transport corridors through green belts. You could see this happening with local authorities' land banking and bringing land into public ownership, perhaps joint ventures with landowners and housebuilders, and making sure that you have the provision for small sites for custom building. That is quite an exciting possibility.

You can think of an implementation mechanism that would use the new town approach but is not a new town—in other words, assembling the land and buying it at close to existing use value. There are some legal issues about whether that is possible or not. Capture the land value that way, put in the infrastructure and build the facilities that we need. If you do it close to public transport routes, you can do it in a reasonably sustainable way, not building another Stevenage out in the distance. That would be my approach and we have to address that.

Trudi Elliott: One of the complications about green belt is that the narrative and the reality are not aligned at the moment. Green belt is a planning tool. It is not a landscape designation. It is not a descriptor of amenity value, but those two things have become entwined in the public and political discourse around green belt. We also talk about green belt as if it is one thing, whereas actually we have a dozen green belts nationally, which are quite different in their shape and purpose.

Our policy on it is very challenging for local government in that green belts straddle multiple areas, but we require local authorities to deal with them on the basis of each district or planning authority, whereas that is not how they were introduced. Having said that, clearly our position is that they have served a very important purpose and we have avoided some of the key challenges that some other countries are currently grappling with in terms of infrastructure costs, sprawl, declining cities, et cetera. So we have avoided some real challenges.

The question that you are actually asking me is what role there should be in local green belt boundary reviews, because there are limited circumstances in which you can build on green belt now. They are incorporated in the National Planning Policy Framework and it is a very high bar. This is an area that we are looking at within the institute at the moment. In particular, we are consulting our members about what role that green belt boundary review and different types of land should take in meeting the country's housing needs as we move forward. It is a complex issue that is not really helped by some of the simplistic debate we have about it. Some of the evidence is that the simple answer to the country's housing problems is to abolish green belt policy. I would take issue with that.

Q156 Lord Griffiths of Fforestfach: I would like to come back to Trudi Elliott's description of sounding like a broken record. We have taken so much evidence from people who said that the planning departments of local authorities are desperately understaffed. I would like to ask you what you think.

Trudi Elliott: We were getting anecdotal evidence from our members, particularly our members in the private sector. I should add, just by way of explanation, that RTPI represents 23,000 chartered planners, 50-50 as between the public and private sectors, and not just based in the UK. The biggest concern we had from our private sector members was the resourcing of planning in local authorities. They were using language like "decimated".

We undertook some research in this area. We commissioned Arup to look at the north-west, on the basis that it is microcosm of the country, in terms of the shape and size of planning authorities. There are large ones, metropolitan ones, small ones, districts, et cetera. Actually, the position was worse than we had anticipated. Since 2010, there has been an overall decrease of 37% in planning policy staff and 27% in development management staff. There has been a 20% to 30% loss in managerial staff. That is one of the complaints that we get from the private sector, in that a lot of the historical and senior experience of those that were capable and experienced at negotiating with the private sector had been lost to the sector. The report was pretty blunt on the impact that that is having on delivery. In particular, a whole range of activities, such as pre-application advice and discharge of conditions, which help make things happen were more problematic.

It also makes it much more difficult for officers to give strong, robust advice to politicians around the difficult decisions that they are making. It reduces the capacity for proactive plan-making and therefore the bringing forward of complex projects where the local authority might need to bring partners together and be proactive, rather than responsive.

This was at a time when many of those authorities had received really substantial funding through the new homes bonus. Arup found that there was no correlation between the receipts that a local authority received from the new homes bonus and the reinvestment in planning services. The authority was receiving large funds that you could say were heavily dependent on the skills and expertise of the planning department, but they were not reinvesting them in their planning department, no doubt because of the enormous challenges that they have elsewhere across the organisation, because budgets are not ring-fenced and because planning is not a statutory function in the way that, say, children and adult services are.

Lord Griffiths of Fforestfach: A further question I would like to ask is that we have taken evidence, and some have said that local developers that have planning permission tend to hoard land. Others, particularly from the industry, have said not at all; that it is not in their interest to hoard the land because they only make money when they start building and selling homes. I wonder what your view on that is.

Professor Crook: The evidence is reasonably clear. There have been quite a lot of surveys looking at this. Once a developer has got discharge of all the consent requirements and can get on site, for the kinds of large sites that we were talking about in answer to Lord Lamont's question, developers will say that it is going to take four to five years to work through that. They talk about an absorption rate—the number of houses they can sell per month. I sit on a housebuilding board and I can see that evidence in the papers coming across my desk.

Once they have the site, people will look at that site and say, "That builder is sitting there. They have been there four years; they must be hoarding the land". They are just working through it. They have put in the investment, bought the land and put in the infrastructure. They have made a big capital investment and are waiting for people to come along and buy it. It tends to go faster when they have a Section 106 agreement, because then a housing association will buy some of the housing upfront, which is very helpful to their cash flow.

Where you may have a land hoarding problem is where you have land traders who are buying the land either to get the consent for valuation purposes or to sell it on to a volume housebuilder. That is where the land hoarding issue may well arise, but not in terms of the volume housebuilder. Most of the research evidence says that people are working through this at the pace at which the demand comes forward. Builders are not going to build houses unless they are confident that there is the demand for them, because they do not want to tie up working capital.

Lord Teverson: That is the whole point. We are saying that there is excess demand. We are saying that there are hundreds and thousands of people who want those houses, so what is the disparity? We are saying that there is the demand but there is not the supply. Why is that?

Professor Crook: There is a macro issue of whether there is the adequate demand for the sites available, and there is a micro issue. On the micro issue, there tends to be a limitation on the number of people who will buy a house on that particular site, so the individual builder is faced with a marketing issue.

In terms of the quantity of demand, builders are saying that they have had a lot of help from things like to Help to Buy, which has been quite important in moving things forward. I have seen some research evidence that says that up to a third of sales on the volume housebuilder sites have come through that mechanism. Another third may well be coming from Section 106 deals, where a housing association is buying a stock of housing either for rent or for shared ownership. But, on the market side, there appear to be limitations on the number of sales. What can happen is that a builder will then break up that site and sell it on to other builders, because it appears that each builder has a particular market segment. You break the 500 up into five 100s, each of which gets four sales a month, whereas the 500 might only get one a month—because each builder has a particular market it is looking at.

Q157 Lord Turnbull: Can I come back to the question of planning fees? You may have heard the exchange earlier and the fear that was expressed that, if this was deregulated, local authorities could push fees up too far and discourage investment. Can we not find some new regime for higher planning fees? It could be sophisticated in various ways, with sliding scales according to the size of the plot. If you renew your passport, you pay different fees for different kinds of service. Surely there must be some way of getting more resources into this sector.

Trudi Elliott: As part of our response to the consultation on the Housing and Planning Bill, we have come up with a proposition for the Government around this. One of the concerns about increasing planning fees is that, if you increase planning fees, they do not necessarily get reinvested in planning. Certainly my private sector members are happy to pay higher fees, but they want them to go into the service they are paying for and not some other service, if I can put it that way. Of course, the Government have sold the pass in relation to this by un-ring-fencing local government budgets. What we have suggested to the Government, who have come up with a proposition in the Bill around market testing, partly as a way to get in additional resources, is that that is quite a complicated tool. You could simply say that local authorities are empowered to increase their planning fees, at the very least to cost recovery.

Is it sensible that 80% of applications do not cover the costs of the application? I built an extension; my planning fee was less than the first skip. I got the planning permission more quickly than three builders could quote. It is bonkers. You could have an arrangement whereby local authorities can increase their fees to cost recovery, but on the basis that they can demonstrate that those moneys are reinvested in planning services and/or demonstrate innovation. You could encourage the use of fee flexibility to encourage the sorts of behaviours you might want around collaborative behaviour between local authorities, innovation, et cetera. The private sector has been worried about unleashing fees if there is not a mechanism to ensure that they are reinvested in the planning service, but it is surely not beyond our wit.

Lord Turnbull: What response do you anticipate on this?

Trudi Elliott: I raised it with the Planning Minister, who said that they would give consideration to it. So we are in that process at the moment. Clearly if this Committee were to encourage consideration of this, it would be persuasive.

Q158 Lord Turnbull: I have to leave in four minutes. If I rush out of the meeting, it will not be because I am so disgusted by the answer. I just have one further question on the green belt. If you try to do something in an area covered by a habitats directive, say, you can often get the development approved provided you provide some other amenity to replace the land that you have taken. Is that possible in the green belt? Could you say that this bit would no longer be green belt but the bit that local people value—some copse or wood somewhere—would come into it for the first time?

Trudi Elliott: Green belt reviews enable local authorities both to take land out of the green belt and also put land into the green belt.

Lord Turnbull: Are they used much?

Professor Crook: Yes, Birmingham has done it on a fairly regular basis and Newcastle did a major swap on the north-west side of the city, with a quasi-new settlement.

Lord Turnbull: The other thing I have noticed is that, if you take Cambridge, you now have the M11 running up one side. On the city side of that is just agriculture, but surely the motorway is basically the new boundary. Can you take the crescent of land that is on the inside of the new bypass and add that to the urban land?

Trudi Elliott: I cannot comment on the specifics of Cambridge but, if land is in the green belt and you are conducting a green belt review, you can take land out of the green belt and you put land in. Very high tests apply. They are very, very high tests, but it is possible.

Q159 Lord May of Oxford: I want to ask a rather curiously different question, based on that fact that all these problems derive from having too many people here already in Britain. It is not as much an issue here as it is on the west coast of the United States, for example, where Paul Ehrlich and others have done very careful analysis of the difficulties that are created by the fact that we are living on a finite planet. It is a curious way to end the session, but it may be interesting to ask why we have not even mentioned in this that part of the problem is increasing immigration. Many of these people are wonderful people and they bring a lot with them but, at the same time, nobody is happy discussing the problems that are inherent in that. I wonder what you think of that rather unpopular statement.

Professor Crook: From the perspective of planning policy, one starts with the proposition that it is the duty of planning authorities to meet the defined need. Now, that is not the answer to the question really, is it? On the grounds that we are welcoming people to this country, they have jobs and they need housing, the proposition is that that need should be met. This is tested almost to the death in public inquiries. The evidence suggests that many of those who are coming to our country are actually moving into the private rented sector. That is not quite the answer to your question, but the big increase in the private rented sector is due to a number of things.

It is certainly due to the number of people who are coming to this country for work, often not bringing their families with them and not intending to stay forever, often living in houses in multiple occupation, where there are issues to do with standards, et cetera, but maybe being prepared to put up with that because they do not have a long-term commitment to this country and want to send their wages home. That creates a difficult issue for local authorities in enforcing standards, but it has certainly been part of the reason why you have the big growth in buy-to-let landlords, who are responding to that demand.

Lord May of Oxford: To a certain extent, if you plot the number of people who grew up and were born here, it continues to go up and is going to go up forever, but nobody is prepared to discuss it.

Trudi Elliott: Planners discuss it both within the UK and globally, because the global population is rising dramatically and rapid urbanisation is the greatest challenge that we are facing globally, particularly if you combine it with climate change. We commissioned a piece of work from Cambridge University looking at household formations. Actually, it was about whether local authorities' assessment of their need could rely on national statistics or how much work they needed to do looking at their own particular area. That demonstrated that some of the growth we had seen was to do with both immigration into the country and movement within the country; some areas have very significant in-country migration.

A lot of the growth that we are anticipating is birth rates and also smaller house sizes, the impact of divorce and the impact of people living longer. What we know is that planning has the tools to deal with all these problems, if we have holistic planning where we integrate the provision of infrastructure with the provision of housing and look at this holistically and we focus as much on the link between jobs and homes as homes on their own. It is not beyond our wit to deal with this; we just need to deal with it systematically and with a will.

Q160 Baroness Blackstone: What do you think of the Government's decision to include Starter Homes in the definition of affordable housing?

Trudi Elliott: The RTPI view is that really they ought to divide this up. Simply lumping Starter Homes into the affordable homes definition is problematic for a number of reasons. Starter Homes are distinct from other affordable housing in two fundamentals. Number one, they are restricted to under-40 year-olds. No other affordable housing has any sort of age requirement, and they are also time-limited. That is very significant. They are only for five years.

Baroness Blackstone: Do you have a view about that? That was going to be my second question.

Trudi Elliott: Clearly our view is that the longer they are maintained for lower-cost housing, the better for the system.

Baroness Blackstone: So why have the Government done this? How do you explain it? It is very hard to find anybody who supports it.

Trudi Elliott: We say that Starter Homes are a valuable addition to the mix. But it is challenging for us. The evidence from the HBF that I read said: "The new Starter Homes scheme, with a target of 200 homes by 2020, will add home ownership numbers largely by replacing affordable and social rented housing within affordable housing provision on private housing sites". What we need is Starter Homes to add to the overall provision of homes, not to replace other affordable homes, so we would suggest that you need two definitions—a definition for Starter Homes and a definition for affordable homes—and to keep the two separate.

We would also urge the Government not to be unduly prescriptive about the percentages and impose a national model of Starter Homes on local authorities, otherwise you will undermine viability on some sites and reduce the flexibility of local authorities to get things delivered. So have Starter Homes by all means, but you need to ensure that they add to the overall and do not simply divert from somewhere else in the market. We certainly do not want reduced flexibility and fewer schemes being viable as a result.

Professor Crook: I agree with all of that. Just to reinforce and add to the point, the first thing is that it risks displacing the housing that can be provided in perpetuity under Section 106 agreements. Shared ownership is important, as well as affordable rented housing. The other thing is that typically those are locked in in perpetuity, because the legal Section 106 agreements require them to be provided in perpetuity, so the subsidy to be provided by the landowner is locked in, in the form of a lower price paid for the land on which it is built. The Starter Home subsidy is captured by the first-time buyer after five years. This could create all sorts of interesting legal problems. People are talking about landowners saying, "This is very interesting. I hear that that subsidy I am providing in the lower land price is going to be captured by the first-time buyer. I would like more for my land, in that case". Trudi is right that we need to give local authorities the discretion to make a judgment about the mix that is appropriate, and one might think of ways of capturing that discount in perpetuity. One could think of ways of doing it. The lawyers would have lots of words to say about that, but they have drafted legal agreements to make sure that rented housing is provided in perpetuity. You could restrict the value at which the house might be sold to the 20% discount.

Q161 Lord Layard: Most of our witnesses have referred to the problem of local resistance to development and have said that, if local services can be adequately improved, it helps to overcome that resistance. So I guess that is what lies behind the 106 idea, but it does not seem to be working that well. CIL does not seem to be working that well. You have the problem you referred to of inadequate finance for planning departments and lack of finance for any kind of local authority housebuilding programme. What would you think of a standard levy on the final value of all development, say 20%, paid to the local authority on a completely standard basis, replacing 106 and CIL? As you said, that must be hypothecated so that it is spent on the things that we have been talking about, which are paying for the planning department, paying for the infrastructure, paying for the affordable housing and allowing the local authority to do some of that itself? What would you think of that?

Professor Crook: First of all, I would contest the argument that Section 106 has failed. It is not straightforward, I agree, but it has produced very significant sums of money for affordable housing and for local infrastructure—far more than was ever collected by national betterment tax arrangements. Why does it work? It works because it is a local initiative. It is negotiated with the developer so the viability issues can be addressed in that kind of way and it has produced large sums of money—£5 billion in 2007-08 and £4 billion in 2011-12—and did not collapse when the market collapsed.

That interesting idea is actually quite close to the 20% planning gain supplement that Kate Barker had proposed. Her proposal was 20% on the difference between the value of the land in its existing use and its permissioned use. If you said that the tax would be 20% of the gross development value, it might wipe out all residual value completely. It is something I looked at on the train down this afternoon and ran some numbers on a spreadsheet and it completely wiped out the land value.

Lord Layard: The number would obviously have to be determined, but it would be a simpler system. What about a simpler system?

Trudi Elliott: The trouble with all simple systems is that they impact on different places differently and you are immediately going to affect the viability in some places by that system. One of the things that CIL was supposed to do was to simplify the system but give some local flexibility in relation to the housing market. I too would contest that Section 106 has failed. Like it or not, we have not provided enough affordable housing—but, since 2004, at least half of the affordable housing we have provided in this country has been through Section 106 agreements.

At the moment, we are looking at this issue. The Government have commissioned a group to look at the operation of CIL, which will inevitably look at the interplay between Section 106 and CIL. We think that you have to look at some of these issues slightly more widely and, in particular, the gain that arises from transport infrastructure and some planning applications to non-applicants, which is not captured in any way at all, at the moment—Crossrail, for example. For those who happened to put planning applications in during the period, contributed through CIL, there have been massive gains elsewhere as a result of that public investment. If we could capture some of that gain and reinvest it in transport and other infrastructure, we think that that recycling of the money could be very helpful in terms of providing the infrastructure that we have all agreed is a condition precedent to successful housing development and persuading communities that the housing in their area is not going to just have a wide range of disbenefits for them.

Q162 The Chairman: Staying with Section 106, we have asked a number of witnesses what percentage of the value of the planning gain is captured by 106. To be fair, nobody has an accurate answer on it, but a quarter seemed to be something that people would accept. In a sense that is baked into the business model already. Why is it that the viability test is being used by developers and builders so effectively to game the system to reduce this 25%—if it is 25%—to a much lower level? Why is it that the local authorities are unable to resist the gaming by builders?

Professor Crook: To make a start, one of the problems is that often these agreements are struck in different economic circumstances. The viability test for the builder and for the landowner suggested that they could enter into an agreement to supply so much towards the infrastructure and so much affordable housing, and then circumstances change and the viability is not as they thought it was. What they are doing in the negotiations with local authorities is offering up some of the affordable housing that they no longer want to provide, but guaranteeing to provide the infrastructure. Local authorities find themselves in difficult circumstances then, because they are saying, "Do we insist on the provision of the affordable housing but without the infrastructure, or do we let the housing development go ahead, although we do not have the infrastructure necessary?" What some wise authorities are doing is saying to put an overage clause in. In other words, they try to relate the Section 106 payment and the CIL payment to the economic changes over time, so that payments can come in when times are much better and markets are performing much better. There is quite a lot of evidence that that is taking place.

Trudi Elliott: One of the challenges that we are facing at the moment is shortages and cost inflation in the system. If you talk to local authorities at the moment, they are surprised, when they are looking at viability, at the increasing cost of everything, particularly skilled labour. One of the challenges for us, from top to bottom in the construction industry, from spades in the ground to professionals, is that we have underprovided in terms of skills. We do not have the workforce we need to deliver the homes we need.

If we solved every other problem that we have identified during your inquiry, around sufficient planning permissions and sufficient money in the system, we would also have a challenge in terms of the people to do the job and cranking that up swiftly enough, because we have shortages from top to bottom. We are doing our bit in terms of trying to address the shortage of planners. It is not just about whether local authorities are actually investing in their planning service; actually recruiting a planner is very difficult at the moment, particularly for local authorities that are competing with the private sector. Planning is now one of the top five professions in terms of employability, so our challenges around demand are reflected right through the industry.

Professor Crook: There is an asymmetry issue as well because, in these negotiations that go on, local authorities often do not have the capability to handle some of the viability assessments, whereas the developer has done it regularly over time and has a large army of people to make a convincing statement. The negotiations become quite problematic then.

Trudi Elliott: The whole issue of finance viability has become so important that we have actually changed the requirements of what you need to become a planner. Understanding the interplay between planning and the economy is now an essential requirement because it has become such a challenging issue.

Q163 Lord Teverson: I would just like to follow up on Trudi Elliott's rather pessimistic, if realistic, view about the supply side being able to put resources to actually build houses. Does that mean that the problem that we have identified of a small handful of major builders and very few of the smaller builders left, if we wanted to solve it, is impossible to solve as well?

Trudi Elliott: No, of course it is not impossible to solve, but we have to address it as a problem and act accordingly. There is an enormous amount you can do relatively rapidly in terms of addressing that issue. We have introduced an RTPI apprenticeship scheme, for example. Within six months, we introduced a bursary scheme. You can do that right through the system, but we have to acknowledge that we have a challenge in terms of skills and manpower and womanpower through the system.

Lord Teverson: Say you solved that then; how do we actually get more players into the market? How do we get more housebuilders back in? In any other industry, you would have people from abroad come in and take up the space. Can we do that? How do we solve that issue?

Trudi Elliott: We have done that in some trades. In terms of the SME market for housebuilding, some of our research has outlined a number of initiatives that you could do in terms of encouraging more players back into the market. I touched upon some of them earlier: serviced sites, where a local authority assembles the land, puts in the services, gets it consented and then puts it out to market for construction; and creating space on larger sites for self-build and SME. There is a whole range of issues around access to finance, which is probably the biggest challenge for the sector. We can do our bit within planning, but the challenge to market entry is much more profound. A lot of it is finance and risk aversion.

The Chairman: That was very much the headline message from the last session: that finance was the missing link. Thank you both very much indeed for a helpful session.