House of Commons

Treasury Committee

Oral evidence: Housing Policy, HC 861

Wednesday 7 December 2016

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Watch the meeting

Members present: Rt Hon Andrew Tyrie (Chair); John Mann; Kit Malthouse; Stephen Hammond.

Questions 1-50

Witness

I: Dame Kate Barker, Economist

Examination of Witness

Witness: Dame Kate Barker.

Q1 **Chair:** Good afternoon, Dame Kate. We are slightly thin on the ground, to put it mildly, because there is some rival entertainment in the House of Commons this afternoon, in the form of a debate on the Government's plans for Brexit. Nothing entertains politicians more than Brexit at the moment. Several colleagues will be coming shortly, I am told.

To kick things off, I would just like to ask you a few very simple questions about the state of the housing market. Perhaps we can start with supply. You wrote a report; how long ago was it?

Dame Kate Barker: It was published in April 2004.

Q2 **Chair:** So it was just over a decade ago. In that report you made clear that we were undersupplied. Have we cracked, or are we in the process of cracking, the supply problem, and how far short of getting where we need to get to are we on current plans?

Dame Kate Barker: We certainly have not cracked the undersupply problem, but I want to try quite hard to be clear about how serious it is today and how near we are to cracking it. Of course, it has been a long time since the review, when I had done a lot of work and had been thinking about this issue. By the way, I should declare an interest in housing. I am on the board of Taylor Wimpey, but I stress I am not here today to represent the company's view. I have done a lot of work in thinking about this issue and have certainly learnt a lot about how house builders operate.

The way in which I talked about supply back in that review is based very much around the standard way in which people talk about the need for new supply still today, which is based on the ONS's household projections. As you develop your work on housing you realise two things about that. One is that the ONS household projections to some extent are based on what has been happening in the past. They are not necessarily based on what people wish would have happened. The second thing is that the demand for housing is driven by two things at least. One of which is population growth, which is reflected in the ONS household projections. The other is income growth. Indeed, house prices respond a lot to income growth because—this point is made in the review but not brought out enough—when people get richer they want more space. If you simply work on household projections then you will not supply as much space as people would like, given their incomes, and the result of that is that people with money do get the space they want. People without money do not get the space.

In fact, as Danny Dorling has pointed out, we actually have quite a lot of rooms per head at the moment in England, certainly no worse than we have been in the past. However, the problem lies in two things. One is that people would like more rooms, as they have got richer. The second is that these rooms are shared out really rather badly. In that sense we have undersupplied. It is an interesting contrast. In other major European countries household size has tended to continue to fall. In England and Wales it has been almost unchanged at about 2.3 since 1991. We will go back to the review—when I was doing it, the household projections were only for England.

Q3 **Chair:** You are putting it down to the fact that undersupply would fall were the supply available. Is that your point? Is that what you are saying?

Dame Kate Barker: I would suggest that because, if you look at the demographics, one of the things that people said when I was doing the review is that we need to build lots of small houses because the new demand coming onto the market is generally from old people who will be living on their own. That is absolutely true; we do have a lot of old people living on their own, and they have often continued to single-occupy quite large houses. It has been offset by the fact that household size for other people has tended not to fall.

I should stress these numbers are for England alone. I am always infuriated by people who switch between England and the UK, so I will try not to do that. At the time I was conducting the review, the ONS household projections for England were around 200,000 a year projected household growth or a little bit more. Following my review, these projections were revised up quite steeply, partly because migration proved to be a lot stronger, and they peaked at about 250,000 and since then they have come back only to around 210,000 or 220,000. That is a good level to think of household projections. Against that, if you think that unconstrained household growth over the past 10 years would have been maybe 220,000, the normally quoted figures that we use for household completions are only about 130,000 a year, which is a heck of a gap.

As has recently been in the press, and in fact I have been aware of this since I did the review, there is a second and more complete set of household figures that CLG now publishes, called net additions. That data only goes back 10 years but over the last 10 years, compared with 131,000, that figure comes out rather higher, at about 166,000. The gap between that and possibly the unconstrained amount is probably about 60,000 houses a year over the past decade. A good question you might ask is about the fact that 60,000 households a year whose demand we have not met means 600,000 households and why do we not see them lurking around on the streets more.

If you look further at the data and think how this has probably been met, there are two prime ways in which I think it has been met. The first is, of course, we have far more young people living at home, some of them because they have gone to university and people tend to go from home now more than they did in the past. The ONS suggests that there are about 90,000 extra young people living at home each year compared with the previous trend. If you thought they would otherwise have lived in groups of three as a rough estimate—that is my view of how young people would have lived—that probably has reduced the pressure on the housing stock by about 30,000 a year.

In addition we have been successful—I am not really sure whether it is success—in bringing vacant homes back into use at the rate of about 20,000 a year. Those two things between them have filled up quite a lot of the gap. I am not sure that vacant homes being brought back into use is successful because in some sense I worry that we have made the housing market very tight in the UK. We have a low level of vacancies in a lot of countries and of course a lot of the vacancies are in some of the older industrial towns where the demand does not really exist. There are far fewer vacancies in the much more popular places and arguably the housing market is too tight. A little bit of structural vacancy would not necessarily be a bad thing. However, the fashion is rather against it.

That does not mean I do not think we are undersupplying. It depends of course on whether you think it is desirable for lots of young people to live at home, and depends a little bit on whether you are lucky enough to have one. It also depends a bit on how concerned you are with the labour mobility of these young people, if they are doing their job search only in their local area and are not able to move. I am concerned about that, actually. That is a real issue.

Sorry, this is a very long answer. The other thing that I feel is true is that because this has been going on for quite a long time, we are now starting to see real signs of strain in the housing system, which always come a bit further down. We are seeing the numbers of people in bed-and-breakfast accommodation picking up and we are seeing the numbers of homeless people start to rise. There is quite a bit of evidence that the homeless shelters tend to be full and people are having real difficulty in accommodating themselves. That sounds a little bit odd because you started with a question on the housing market, to which these people were hardly attached. These are the sort of people who really get squeezed out. We are now starting to see people squeezed out of housing more and some of these trends really cannot continue. We cannot continue to have poor, young people living at home. We have not really got many more vacant homes to use up. We are getting to the point where if we do not get housing supply pushed up we will be in difficulty.

However, having commented on the net additions data, the data which came out a couple of weeks ago, it was 190,000 for the last year for England. I thought that was pretty encouraging and it is clear from the way in which planning permissions have been picking up that that number is going to rise further still in the short term. When I look at the next two to three years, I am not wholly discouraged that we will not see supply at a reasonably adequate rate, but it will not do anything to make up the backlog of homes we have not produced over the last decade.

Q4 **Chair:** Just going through some of the points there for clarification, does the figure of 220,000 a year, which you reckon we are going to need, incorporate a constant or a falling occupancy ratio? Is that the 2.3 or a falling number?

Dame Kate Barker: I will just answer your question, but I will say something else. Generally, the ONS projections have been for house size to fall, because their past demographic experience suggests that house sizes will be falling. The way in which they have turned out to be wrong is that household size has not declined, so they do incorporate a fall. I cannot offhand remember how big the fall is.

Chair: The only reason I am asking is that it only has to fall a little for that number to—

Dame Kate Barker: Yes, it is very dramatic.

Chair: It is a highly geared ratio.

Dame Kate Barker: On the assumption that household size was not going to change—that it was going to stay permanently at 2.3—last year I calculated that you would only need 140,000 houses a year. You are absolutely right: the question about household size is a big number. Of course, however, household size on average, across the country, does not tell you much about the living conditions of people. My contention would be that in failing to build enough you will force some people to huddle up. Guess what? It is usually people who are worse off.

Q5 **Chair:** We might come on to the social aspects, one of the central aspects of the housing market in a sense, which is where there are some of the most concerning problems of all. Before I do that, however, I want to clarify something. However you do these numbers, although you have given us some good news, from what I gather you are saying, "We still have a shortfall, and we have to fill it somehow. We need more supply." What are your proposals for filling that supply? I have a little list here of things people tend to suggest at this point. We will see whether you are a taker for any of them: new towns; relaxation of green belt exclusion for development; or the growth of villages in national parks. Just look at the reactions. There are some people here who may need to visit St Thomas' for shock. There is then the whole issue of the public-sector land stock, for example the MOD estate, which is often in prime areas wedged between the M40 and the M4. Could some of the army be moved to places where they can do whatever they need to do perfectly satisfactorily while releasing more land?

What are your proposals for providing this extra land for development? Do you have other suggestions, like further changes to planning law? We have already had one major one, which appears to be doing a bit better, judging by your figures.

Dame Kate Barker: The other thing I should say about the undershoot is that, if you go back to the beginning of my remarks, I commented on income growth. If you just built to household projections, you are not accommodating income growth at all. You may build a number that would be sufficient. The household size might fall, but you might not deal with the inequalities in housing, which are a real issue. I will come back to that.

Chair: I am going to try to come on to the demand side in a moment. I just want to concentrate on the supply side.

Dame Kate Barker: I just wanted to make sure I made that point before I forgot it. There is a great temptation to say, "All of the above", to what you have just said.

Chair: There is an even greater temptation on this side of the table to say, "None of the above."

Dame Kate Barker: I will try to pick out the ones that are the most useful. One of the strands of working economics I found particularly interesting recently is, of course, the work around the linkages, which is not always a tremendously well worked field. These are linkages between housing and productivity and, indeed, agglomeration and transport—and, therefore, the environment.

We know that one of the reasons that people often oppose housing—or one of the reasons they say they oppose housing—is they think there is too much of an environmental cost. That is certainly why people oppose expanding villages in national parks. Indeed, of all the things you have suggested, that might be my least favoured.

Chair: Three-quarters of my constituency is a national park.

Dame Kate Barker: I am sure you will be pleased to hear me make that comment, but that is not why I am sitting here.

Chair: Could you tell me what you would like to do? I would like to move on.

Dame Kate Barker: There are two things I would favour the most. One would be a return to thinking about new towns. I stress "towns" rather than villages. I am not opposed to garden villages, because we need a whole range of solutions. In some ways, however, I do not find them totally attractive, because we have a view in England—maybe it is not right—that what we like is quite close urban areas and then open countryside. While garden villages remove the objection that you are building next to somebody, they will inevitably impinge on open countryside. They may very well not be places large enough to sustain a secondary school, which means you have to bus children all around. They may not be places where there is huge local economic activity.

Chair: I also mentioned expansion of existing villages.

Dame Kate Barker: Yes, I would very much prefer to see existing towns and villages expanded rather than moved to garden villages, given some thought about the appropriate transport links and, as I say, education.

Chair: But not Chichester, of course.

Dame Kate Barker: I do not know. I am sure Chichester would be a lovely place to expand.

Q6 **Chair:** You are saying you want to see proposals from the Government on new towns. You are less enthusiastic about new villages. You do not want to touch national parks. What about the green belt?

Dame Kate Barker: I support new towns or urban extensions. I was a big fan of the work that won the Wolfson Prize that URBED produced, setting out a case for well-planned urban extensions, where you would have the opportunity to think about good new transport links into the town you were expanding around.

Now, of course, this caused the most tremendous fuss, because one of the places they wanted to extend was Oxford, and this was, as you know, immediately opposed strongly.

Q7 **Chair:** What about the public-sector stock?

Dame Kate Barker: I have not said anything about the green belt. I would not put too much weight on the green belt, on both sides. The people who do want to build on green belt talk about it as though the whole thing was some wonderful environmental preserve, and the people who do want to build over it talk as though it was all complete scrub and purposeless. Neither of those things are true. Green belt is a planning designation, and there are lots of places in which the green belt is quite important. It should be used up rather thoughtfully, but I find it hard, particularly—

Q8 **Chair:** I am sorry. Can I just interpret that? You used the phrase "rather thoughtfully". You mean that it should be built on, but thoughtfully.

Dame Kate Barker: You should ask yourself about each piece of green belt, whether the planning purpose that caused it to be put in is as true today as it was originally. The sentence I disliked most in the original green belt policy, which was called PPG2, explained that the key characteristic of the green belt was its "permanence". That is quite an odd thing to say about a piece of land that is a planning designation.

If we are going to use the green belt, however, particularly around London, I would prefer for us to take very strategic views. You have to build quite a significant place, a place big enough to have a proper transport link. I find the lack of solution for London overspill around London very difficult. Commuting into London gets harder and harder all the time; I say this with feeling.

If we are going to build around London, my preference would be to do something that was less piecemeal and more strategic, linked to either the transport links we are already thinking about putting in—Crossrail is an obvious one—or where we are thinking of having some new transport links altogether. I am sort of reluctant to see further building around that is not really going to help resolve some of the problems. Transport linkages are a real issue.

Chair: I am just going to keep going for a short while and then I am going to hand over to colleagues.

Dame Kate Barker: I will just deal with public land. I am always quite surprised that the public sector spend such a long time criticising developers for not using up their own land and always wanting best value for it. I have to say my proposal on new towns will not necessarily be popular with landowners, because, like many people, I would want to see as much land as possible brought in close to existing use value. The purpose of opening up an area that has not previously been opened up to planning is that you have the opportunity to do that, which enables you to fund the infrastructure.

Q9 **Chair:** Now you have mentioned it, what about land banks? You have mentioned public-sector land banks. Are you for or against John Muellbauer's proposals?

Dame Kate Barker: John Muellbauer has a number of proposals. Which proposal do you mean?

Chair: He has proposed a land bank on the same lines that a number of Asian areas have developed. You have not seen these, I take it.

Dame Kate Barker: No, I have not seen that particular one. I am familiar with his council tax proposal.

Q10 **Chair:** Perhaps you can come back to us on it. He has also looked at the social side extensively. I have to be very brief now. Although you have been very thorough, it has taken a while and I want to bring in another colleague. How do you feel about policy on the demand side?

Dame Kate Barker: It is quite difficult to find economists who think it is a great idea, in a supply-constrained environment, to pump up the demand side. The difficulty, of course—

Q11 **Chair:** How do you feel about it?

Dame Kate Barker: I am afraid it is going to be difficult again today, because I am not happy about some of the policies that pump up the demand side. I understand, of course, the wish of Government to support home ownership. With the wages of young people having fallen and the introduction of the Mortgage Market Review and the low investment returns elsewhere, we have seen a big move into buy-to-let. It has been thought of as rather unfair that buy-to-let landlords have been able to benefit from the capital appreciation and other people have not.

The problem with demand-side measures is that, in the end, they are inevitably going to be self-defeating. If you price somebody in, you may price somebody out, and you may just push the whole level of house prices up altogether, which of course is quite nice for the landlords as well.

Chair: Perhaps you could send us a list of the measures you have in mind, which you think are not doing the right thing—and indeed the ones you think are doing the right thing on the demand side. However, I am particularly interested in the ones you think are not doing the right thing. I am going to move the questioning on now for the time being, but I realise I may have put thoughts in your mind you will want to come back to later.

Q12 **Kit Malthouse:** Good afternoon. Given the list you have just enunciated of the measures you would like to put in place, it strikes me that they all seem—forgive me—rather marginal. Given the scale of the problem you outlined, the growth in population and, as you say, the change in demographics, with people wanting to live alone, it is not really the kind of revolution that some of us might have wanted to get us back over 300,000 houses a year or whatever we had back in the 1930s. Is that because you feel constrained by the current system and that you have to fiddle with the machine you have rather than say, "Let us dump this and build a new machine"?

Dame Kate Barker: When you look back at the 1930s, the 1930s were a particular period where we did build very fast. If you were to look back at the pressure at the housing stock then, it would make the pressure we have on the housing stock today look quite trivial, actually. The problems of housing in the 1930s were really very acute, with slum clearances and many families living in tenements. The gap between households and the housing stock was much, much more evident than it is even today, when we are worried about the same issue.

The 1950s and 1960s are quite often introduced and talked about as a period where we built a lot. Once you have subtracted demolition and the fact we were making good war stock, in fact the net additions there rarely went over 250,000, because we took quite a lot of stock out as well as adding stock, and it is always worth remembering that.

My proposals should not necessarily be thought of as marginal. If I believe, and I do, that we are running up towards 200,000 now, and I still probably believe the number needs to be closer to 250,000 or a little bit more, I have to think, "How do I get another 50,000 houses into the system?" Will new towns and building on the green belt produce another 50,000 houses? Milton Keynes at its peak produced about 3,000 to 3,500 houses a year.

Suppose you had another 10 new towns. You might think that would give you 30,000 or 40,000 extra houses a year, but this will be pretty long term; it will not come in all at once. Nothing is ever going to come in all at once. I would not have thought it was marginal. The key about the new towns and the things that will be difficult about them in planning terms for the local authority where they are is that they will only achieve the purpose of pushing supply up if they are additional to the plans we have today. Politically, that would be very difficult.

Q13 **Kit Malthouse:** From my point of view, I look at the housing market and it seems to me to be a bit of an "Adam Smith" situation, where developers and the Government have sat down together and, unwittingly perhaps, contrived to raise prices by, on the one hand, creating an incredibly highly regulated industry with massive impositions and taxes on it and, on the other side, there is this oligopoly of large developers who do not really compete. There is not true competition between them; they certainly do not seem to be competing for land.

It strikes me that the whole thing seems to be dysfunctional. I would question whether, in the long term, it can deliver—notwithstanding your accretive additions to the system—the sustained housing we are going to need every year for the next 20 or 30 years.

In particular, before you address that question, I wanted to ask you about the structure of the development industry. I know you are on the board of a developer. One of the things that strikes me is there are not many of the large developers that have a significant balance sheet. As a result, they are unable, perhaps structurally, to undertake the large-scale development we need. You are on the board of Taylor Wimpey. I guess if we said to Taylor Wimpey, "In the next three years, we need you to build 600,000 houses on your own," or whatever the number might be, they could not do it.

Dame Kate Barker: No, absolutely we could not.

Kit Malthouse: That is largely because they could not finance it, however.

Dame Kate Barker: We absolutely could not do it. There is something in that, but also, given that one of the criticisms that is often made of the UK housing industry—this is a UK point—is that it is overly concentrated. I am not quite sure why you would think it would be a good idea to get the big developers to build a lot more—

Q14 **Kit Malthouse:** That is all we have. Given the time constraints upon us, getting the small development community the capability and capacity to do the scale that we need is going to take quite a long time. You cannot just build it from nothing.

Dame Kate Barker: There is something in that. You say they do not have big balance sheets. Of course, all of the developers have much stronger balance sheets than they had ahead of the crisis. I would like to say that is a good thing, because although we all talk about the housing market as though it went forever upwards, I can think of reasons why the housing market might weaken over three, four or five years. It would be a good thing if the developers have sufficient strength of balance sheets that they can weather it and not have to cut back on their output in the way they did in the last cycle. That would be a healthy thing.

If they were to stretch their balance sheets out, you run the risk that, of course, the moment the weather changes and you write all your land values down, you are bust, and that would not be a productive way to carry us forward. You said there was nobody else. There is more competition coming in. One of the Government proposals I support—though I am a bit disappointed that it seems to be taking them time to get it off the ground—is the proposal for direct commissioning, where they will try not to use the big developers.

As you know, there are various sites that are down for that. Northstowe was on the point of being developed when I wrote my review, and 12 years later there has been some progress but it still has not really been built out. The intention there is to try to use contractors much more and not to use the big developers, who traditionally are speculative and use the land. They are trying to find places for smaller builders and particularly to try to find places for people who want to do either self-build or custom-build.

On top of that, of course, we have the interesting moves back towards what are rather quaintly called "modern methods of construction", although they have been going on for quite a long time, both in this country to build flats and in other countries to build all sorts of things. There is a large factory that Legal & General are building outside Leeds; they intend to run that out. All these things are very helpful to increase capacity. None of them will produce the big bang you want. It is very hard to get a big bang in this industry.

I want to come back to a point you made earlier. You said people did not compete for land. I can tell you, as a developer, we do actually compete for land. That is one thing we do compete for. If there is a piece of land around and people are bidding, we compete for the land. I think you meant it in a different sense.

Q15 **Kit Malthouse:** Yes, my experience is that the competition is—let us put it this way—not that vigorous. It strikes me that there is enough to go around. You do not see many developers who are short of sites. You do not see many developers who are short of sites. The Chair is shaking his head, but I have yet to see a report from a developer that says, "Do you know what? We just cannot find the land to bid on or develop on."

Dame Kate Barker: No, that is true, but that is different from saying, when a piece of land you would like to acquire comes on the market, there is no competition from other people who want to buy that piece of land.

Of course, we have land banks. I am here to speak on behalf of developers, but since I talked about this issue in the review, one of the comments I often made was that I was interested in going on the board of a house builder to see whether in practice they worked the way I thought they did in theory, and they absolutely do.

Land is crucial, but you do need quite a land bank, because you need to be sure, if you are going to keep a business going and keep everybody employed, that you can see your way forward for at least the next two or three years pretty accurately, so you do need a land bank. Beyond that, you are thinking, "Where will we go after that?" You are looking in your area; our land people are always looking in their area. "Where is the place we can go next? How will we get this much land?"

Kit Malthouse: I am sure that is right.

Dame Kate Barker: You will find yourself running up against other builders.

Kit Malthouse: I am sure that is right, but I am not sure if one developer knows that another developer is bidding against a site, they will take a view about whether they will bid or not or whether it is worth finding a different site.

Dame Kate Barker: Yes.

Kit Malthouse: Let us put it this way: there is not such a shortage of land that people think, "Oh my god, I have to have this, come what may," and then bid the price up enormously.

Dame Kate Barker: No. As a matter of fact, that would not have an enormous effect.

Q16 **Kit Malthouse:** On the finance side, is it the case that developers have difficulty getting finance?

Dame Kate Barker: Small developers still have difficulty getting finance.

Kit Malthouse: What about the big ones?

Dame Kate Barker: Small developers have difficulty partly because of the way construction finance is scored on banks' balance sheets. There is difficulty for SME builders to get finance, but the Government, of course, have made quite an effort to help there. For big developers, no. The balance sheets are very strong.

Kit Malthouse: Debt finance is pretty available.

Dame Kate Barker: Yes. I cannot speak for the others—and I do not really want to speak for Taylor Wimpy—but our aim since the last crisis has been to get ourselves in position where we do not need finance.

Q17 **Kit Malthouse:** Are the Government's measures on finance, pumping money into the system, still necessary on top of that?

Dame Kate Barker: In what way are they pumping money into the system?

Kit Malthouse: You have various schemes. You have the Home Building Fund. That is for smaller builders.

Dame Kate Barker: Yes, that is helpful. We have lost a lot of small builders. Of course, the number of small builders has been declining very steadily, and that is a problem. We have not really had medium-size builders developing. It is helpful for the Government to be standing behind small builders.

Kit Malthouse: The large need no assistance from the Government.

Dame Kate Barker: Not for finance, no.

Q18 **Kit Malthouse:** I wanted to ask a question just on the planning system. It is quite au courant amongst politicians to blame the planning system for holding development back. You referred to the fact that planning applications are actually up, or planning permissions are actually up, significantly.

One of the themes that is growing through the Neighbourhood Planning Bill and the Government's neighbourhood planning is the idea that local communities should be much more in charge of planning, which might well create greater certainty for developers, so the planning system becomes less of a gamble. Would that be helpful overall in terms of supply?

Dame Kate Barker: There is a proposal in the plan to have something called "planning in principle", is there not, so that you can be pretty confident within an area that you will get planning, and that is helpful. You still might not get the exact permission you want for that area. It may be that people will turn it down.

Kit Malthouse: They will turn it down on some of the detail, possibly, the density or whatever.

Dame Kate Barker: Yes, but that can still cause problems, because it can mean six months' delay while you go back and look at it again. You may say, "That is because you did not get the thing right in the first place; clearly, people were going to reject it." As we all know, people often reject things that previously they thought were fine, and it comes to the planning committee and it gets thrown out.

Q19 **Kit Malthouse:** Within, say, an agreed five-year land supply, you could have a system that was more prescriptive on a local level. The village says, "We are definitely going to have 100 houses on this field, 50 on this field and we will put another 50 on the allotments. That is it. Take it or leave it." There will be more certainty for developers, then. Would they possibly be more likely to build?

Dame Kate Barker: That is true, and that is why one of the things I continue to find frustrating in England is that we have a plan-led system in which we still have too many local authorities who do not have plans. I am quite sympathetic to the idea. Actually, if the land is in a plan, you are much more confident of getting permission, but not totally confident.

Kit Malthouse: No, I understand that.

Dame Kate Barker: It is still the case that you can be refused.

Q20 **Kit Malthouse:** You could have the influence of the planning inspector, in circumstances where you have a local plan that is agreed with a five-year land supply and a neighbourhood plan that is agreed that says, "We want this on this field and a bit on the allotments." There still is quite an industry out there of developers or land speculators in gaming the system to go to the planning inspector to try it on, basically, and to push and probe and challenge the five-year land supply. That introduces an awful lot of delay, fear and tension into the system, which presumably must be counterproductive overall from a planning or a development point of view.

Dame Kate Barker: I do not know. If you have a site that you actually think will be better in planning terms than the one that has been put down in the local plan, I do not see what the objection is to putting that forward and making a case for it.

Kit Malthouse: The objection would be: what is the point of having a neighbourhood plan, then?

Dame Kate Barker: That is one of the problems. The point of having a neighbourhood plan is that, unless you can make that case very well, that site will be rejected, because it is outside the plan and it will not be supported by the planning inspector. I am slightly objecting to your expression of "gaming the plan", but you are right that people wish to put forward sites because they own them and they often think they are good places to develop.

Kit Malthouse: You do not think land speculators game the planning system.

Dame Kate Barker: No, I absolutely think they game the system. Land speculators game the plans, and they game particularly where there are no plans.

Kit Malthouse: Yes, absolutely.

Dame Kate Barker: They do not tend to game as much where there are plans. As I say, my regret is that we do not have more plans. I would not disagree with the proposition that I think you are making, that the activity of land speculators actually makes the whole thing worse for developers, because in some areas they have created ill feeling about the way in which they have gone about their planning applications.

Can I just say that I very much agreed with your first comment about the unspoken alliance between local people, developers and politicians? If you went back to my review, you would find a sentence that says pretty much exactly that.

Q21 **Kit Malthouse:** That is good. One thing I wanted to ask you about, as well, was the viability test. I do not know whether you looked at this.

Dame Kate Barker: I have.

Kit Malthouse: It strikes me that the viability test, which sits at the heart of all applications, causes more problems than it solves, because fundamentally the viability test means you cannot lose money on a develop,—or it is hard to lose money on a development.

If you look at how the viability test works in London, the developer comes along and they have half an acre of land in London and they say, "Right, okay, we want a 10 or 12-storey building on this land." The council says, "You cannot have that, because we have a six-storey limit." The developer says, "Look at the viability test. We have to have that. By the way, two of the storeys are for the social housing and the other two are for the CIL. There is another one that is for the other bits and pieces we have to do and we also have to pay for this road."

Before you know it, the viability test is dictating what is built, rather than the product of what is built. It is very rare that planning authorities look at a developer and say, "We are sorry, boys. You are going to lose money on this one."

Dame Kate Barker: The difficulty is, of course, that if people tell you you are going to lose money on building something out, the consequence is that you probably are not going to build it.

Kit Malthouse: Yes, you may well then dispose of the site at what should be the land value. It might mean you have overpaid for the land.

Dame Kate Barker: That is the point I was thinking of moving onto. There is an issue with the viability test once you have acquired the land. Of course, you have not always acquired the land on an absolutely final price; very often it will be an option and you will go back to the landowner and say, "Actually, we said we would pay you X, but we are not going to do anything unless you accept X minus Y." The problem with the viability test—I find the viability test incredibly difficult—is this view that the viability test is about what the land would pass at between the willing buyer and willing seller. This is kind of odd, because it is all completely set by the background. The view here, of course, is that landowners—I can understand this—are always going to be reluctant to sell at prices lower than they were two or three years ago.

If we carry on like this, we will never make any progress. If politicians were to bring themselves forward and say, "Actually, we are going to take a different view on the viability test. We would like to see land prices to landowners not as high as they are, because we would like to have more money for the public purse," that would be very welcome. I am, however, a bit baffled. Suggesting to developers they would lose money on lots of developments would not really move us forward. You have to go back in the chain.

Kit Malthouse: We are coming from the same argument from two ends.

Dame Kate Barker: Yes.

Kit Malthouse: It would stop them overpaying for land, because, certainly in areas of high demand like London, it means developers have no incentive not to bid up land and to pay more than it is worth, because they happen to have a political environment where they can build towers, so they just pay whatever for the land and add a few more floors on the tower, and away you go.

Dame Kate Barker: I rather thought that is what some people wanted developers to do in London—to build high-density housing.

Kit Malthouse: The point is that the land value then sets a benchmark for elsewhere.

Dame Kate Barker: Of course, yes.

Q22 **Kit Malthouse:** I guess what I am trying to posit to you is the theory that the viability test—I do not know whether this is what you said—is artificially raising land values, or at least providing a permanent ratchet for land values, to the extent that even if we wanted greater supply and cheaper land, the viability test would not necessarily allow us to do that.

Dame Kate Barker: I do not disagree with you. The viability test is a real problem. I read the Harman report on the viability test. I find it very hard to unpick, but I find it hard to know quite how the public sector—it would have to come from the public sector—is going to change expectations in the land market. I am not disagreeing with you; I am furiously agreeing with you. I am saying that I have not, unfortunately, seen very much good analysis of a good way forward.

One of the problems with trying to interfere with the land market is that there is always such a lot of land on the way through the process, which you do not want to interrupt. If you suddenly introduce a big change to land values, you often get landowners saying, "Okay, we will sit on our land for a bit and wait for the weather to change." That is the problem you have to face, and that would mean that, in response to that, the public sector—either local authorities or some other body—would have to be much more aggressive in acquiring land. Politically, that would clearly be a really hard issue for you to be able to face.

Q23 **Kit Malthouse:** Yes, absolutely, or the industry may well turn its attention to the less attractive sites. The viability test is particularly valuable where you have very attractive sites. You overpay for the land. The developer will think, "I am not interested in the old gas works, because no one wants to live down there and I will have to spend quite a lot of money making it attractive, so I will go for the site by the market in the centre of town and I will go for a tower there, because the viability test makes that work for me. I can leave the gas works until I am desperate."

Dame Kate Barker: I am not sure I entirely agree with that, because the truth is that the less attractive site will clearly yield lower prices, but the viability test can bite just as well there. There is a bit of an assumption here that, somehow, margins are higher on some of these high-value sites, and that is not necessarily true.

Large developers make very good money in the north of England where land prices are considerably lower, if they are attractive places in the north. I am not disagreeing with you about the viability test, by the way, but I am saying that if you then switch us all to using these less attractive sites, all that what will happen is those, too, will become more expensive and we will not be able to get anything there either.

Q24 **Kit Malthouse:** We can basically agree that the viability test is a problem.

Dame Kate Barker: Yes.

Kit Malthouse: We are just not sure how to solve it.

Dame Kate Barker: I have given this quite a bit of thought, and I have not thought of any way of solving it. I wish I had.

Q25 **Kit Malthouse:** Personally, I would just get rid of it, big bang. Take the pain; pull the plaster off the sore. We might start to get some sane land values coming through.

Dame Kate Barker: What will you do with the stuff that is going through today that people have already paid for?

Kit Malthouse: Dommage—the Government do that all the time. They move the goalposts on industries; they change the price.

Dame Kate Barker: I look forward to you presiding over the bankruptcy of the large house builders.

Q26 **Kit Malthouse:** I am not sure they would go bankrupt, because the market would not suddenly correct. The market would gently float to a value, because people's expectations of value, as you said, change over time. Landowners would say, "Well, we will hold on." Developers would happily go off and develop the gasworks for a bit and then come back to that land when the landowner has a bit more sanity about value.

Dame Kate Barker: My point was that it is the land the developers already own that would all be written down.

Kit Malthouse: Yes, the land which they overpaid for. You and I both think they have overpaid for it.

Dame Kate Barker: It would be sharply written down in value. No, they paid the price that was the market price at the time.

Chair: There is plenty of scope for lawsuits there.

Dame Kate Barker: Yes. You are arguing they have overpaid for it in social terms.

Kit Malthouse: I am arguing that the system has meant they have no interest in paying the real value.

Chair: We will have one more go on this and then we are going to move on.

Kit Malthouse: They paid an artificially inflated price.

Chair: We were hoping that you may be able to crack the viability test. We have had a good go at it today.

Dame Kate Barker: Let us just think about this. I am struggling slightly. When you pay for land, what do you do? You work out how much you will sell the houses for. Land, as we know, has a residual value. You work out how much you think you are likely to pay away in social housing or whatever. You agree a price with the landowner.

That is the way it works. Clearly, in London that is a very high price, because the value you get back for it is very significant. Now, when you are saying, "It is too high," what you mean is, "If we were more effective in getting money out of this for the public purse, land prices would be driven down over time." I would not disagree with that. That is right.

Kit Malthouse: Yes.

Dame Kate Barker: Therefore, a way into this with the viability test is perhaps that you just say over time, "We are going to be more stringent about this," but not as a big bang, which would be very unhelpful.

Chair: We are going to move on.

Kit Malthouse: Yes, I am sorry, but I just have one small thing.

Chair: He wants the last word.

Kit Malthouse: I agree that high house prices are broadly a product of the demand-supply equation, but they are also a product of the fact that constrained supply and the viability test push the prices up. In the absence of the viability test, even with the demand-supply factors, the price of housing would be lower, because you would not be paying so much for the land. You do not have any—

Dame Kate Barker: No, the builders would sell the house at the market rate; they just make more money.

Kit Malthouse: I do not think so. They manage demand by using the price. Anyway, I am sorry. Excuse me.

Chair: We have had a very good canter around the viability test.

Dame Kate Barker: Yes, that was very enjoyable.

Chair: We have also had put on the record, clearly, a bid to be Junior Housing Minister when the next completely unassailable Government proposal comes forward. You are our man, Kit.

Q27 **John Mann:** Let us move to the north of England, which would be a rational move for anybody. You said that house builders did very well in the north of England, but of course there is problem with that statement, is there not? Because what house builders are doing in the north of England is building four, five, six or seven-bedroom houses, which wealthy people buy as assets. You get two people retiring to a five or six-bedroom house, because they see it as a good investment. That does not necessarily solve the housing problems, however.

Dame Kate Barker: There are two things about that. The first thing is that I slightly resent that implication. Although there are some large houses built, it is not the case that every house built in the north of England by any means is a large house. There are plenty of flats that go up around cities. There are also plenty of smaller houses on greenfield estates that I have been around recently. Indeed, that is often one of the criticisms of the houses that are built by house builders: that they are too small. It is quite refreshing to have somebody say they are all too large.

Even in the case you have described, if a person who can afford to live in a five-bedroom house wishes to buy one and buys it, presumably they have been living somewhere else before and they have moved out of it.

That house then comes into the market. My problem with this—I always find this very interesting—is that the solution to this would be to have a very sort of Stalinist view, where you are only allowed to live in a house that kind of fitted your household, or that we would have a rather more draconian system of council tax—

Q28 **John Mann:** That is one perspective. Another perspective would be that what we ought to be doing is facilitating local authorities and others to build small, affordable housing—for example, bungalows for pensioners or small start-up houses in villages, which in areas like mine simply does not happen.

In areas like mine, the housing market is skewed towards the larger developers building more profitable, larger houses rather than smaller properties, because their margins are bigger on that. What should be done to affect the housing market, where the undersupply for young people and the undersupply for small units, such as bungalows for pensioners, is chronic?

Dame Kate Barker: Firstly, I am not necessarily convinced that we do have this undersupply of small houses. That was actually the point that was put to me 10 or 12 years ago, when I was dealing with the housing supply review. I made this point already. There was a view that there was going to be lots and lots of—

John Mann: You now have proper, empirical evidence. In respect of the neighbourhood planning process, everywhere there is a neighbourhood plan there is now a validated local evidence base of what the local community says the issues are. Have you looked at them?

Dame Kate Barker: First, can I finish the answer I was giving you? Would that be at all possible? I made the point that actually, if anything, household size has not changed on average, so I am slightly suspicious of this argument that the thing we most need is lots more small houses. Indeed, in a lot of places people would say what they need is properly sized family homes. They have to stay in smaller homes than they would really like, because they are unable to move up the ladder.

To go back, I am not going to say for an instant that we should not be building some starter homes and affordable homes. Indeed, if you ask me the question later on, I will be very supportive of the fact that more money was made available for social housing in the Autumn Statement. That is great, because you clearly do need more affordable homes.

Whether they all have to be small or not, I do not know. Very often, the need for affordable homes is for families, and they will, not unreasonably, want two or three-bedroom houses, not necessarily small units. I believe it is quite difficult to get planning permission for bungalows these days, because of the density requirements, but it may be that people want them.

Since you asked me a question about neighbourhood plans, it sort of depends on what you mean by "neighbourhood plans". I live in an area where I have been sent around a survey to fill in about a neighbourhood plan. I have no idea. I will be straightforward. I have no idea what the need is in the place where I live—absolutely none. Even though I live there all the time and I see people going around, I do not know what the need is for young people coming up, nor, I suspect, do half of the other people who filled in the survey.

Q29 **John Mann:** The fact that turnout in referenda for neighbourhood plans is dramatically higher than turnout in any other balloting in this country you do not regard as significant and important in terms of the local community specifying what its needs are. You are being rather patronising to the 22 neighbourhood plans in my area.

Dame Kate Barker: Yes, I am afraid I am prepared to be patronising towards some neighbourhood plans. I do not mean all of them; some of them are really very good.

John Mann: Who are you to say that? Who are you to say that?

Dame Kate Barker: One of the problems with some neighbourhood plans—not necessarily in the area you are coming from, but certainly in the area where I live—is that one of the driving forces for the neighbourhood plan is trying to push down on the demand for housing in the area. I find that problematic, because if it happened systematically everywhere we will simply not get enough housing built. That is my problem with neighbourhood plans.

John Mann: According to the Minister, most neighbourhood plans agreed are growth plans.

Chair: Just let Dame Kate say what she has been saying.

Dame Kate Barker: No, carry on. I am very happy to take another question.

John Mann: Most of the neighbourhood plans agreed are growth plans.

Dame Kate Barker: When you say they are "growth plans", do you mean they are larger than the plans that existed for the area before?

John Mann: Yes, across the country.

Dame Kate Barker: In that case, I am prepared to take it back. I have not seen that evidence, but you obviously have. The neighbourhood plan in the area I am talking about is unfortunately not a growth plan.

Some of them are not, but if they are growth plans I am very happy to support them. If they are growth plans and they are going to turn out to be additional across the country to the local plans, on the whole I am happy to support them—probably, because maybe in planning terms they are not great places to build houses. I find it difficult to know.

Q30 **Chair:** Just to be clear, the area you are describing, the one you know personally, where you live, is Great Dunmow.

Dame Kate Barker: Yes, I am describing my village neighbourhood plan, which is under development. I do not want to go into it.

Chair: We are talking about reasonably high-stress areas on the edge of the commuter belt in mid or north Essex.

Dame Kate Barker: Yes, north Essex. It is quite high-stress. We do not have a local plan, by the way.

Chair: Sorry. I just wanted clarification on that.

Q31 **John Mann:** I will come on to local plans. Would it surprise you, then, that the overwhelming majority of neighbourhood plans agreed by referenda, are a) growth and b) specify precise requirements for more small units, for pensioners to be able to continue living in villages and for young people to be able to live in villages? They are specifying growth and, precisely and specifically, a need for smaller units.

Dame Kate Barker: If they are specifying houses for pensioners, I am quite sympathetic to it, provided you are sure the pensioners actually want to live in them. One of the things I would be strongly supportive of is pensioners being given more support when they have to face the difficult business of moving out of large houses into smaller ones. One of the things that stops people moving often is the difficulty of moving—although, of course, people may not wish to move, because they are attached to their larger houses.

I do not have a problem with that. I have a slight problem, however, with the smaller houses, because of the point I have already made about the size of the stock. The point I am making, perhaps patronisingly, is that when you are looking at a small area and you are thinking about the people who are growing up in that area, you tend to think about those as the people who are moving into the new homes. You do not always tend to think about—because it is a difficult thing to think about—the people who wish to move on into family homes.

If you only build small homes for the young people, when they wish to have families they will presumably want to move into larger homes. I would want to ensure they are able to do so. I am not trying to be patronising here. I am trying to ensure people are able to move into decently sized homes for their families. I feel very strongly about that.

Q32 **John Mann:** You mentioned local plans. You must have been dismayed in 2012 when the Government forced the vast majority of local authorities to restart their local plans by requiring them to consult with their neighbours, putting in a two to three-year time lag on local plans being completed.

Dame Kate Barker: The issue of developing local plans is very difficult. There was some very good work done by the Local Plans Expert Group; I do not agree with absolutely everything they said, but I am very sympathetic to what they tried to do. I am not sure whether I was dismayed, because one of the issues about local plans is that some areas really cannot accommodate the growth they might potentially have and, therefore, there are spill-overs to their neighbours. I have already made the comment about London, where it is completely obvious that there is spill-over to the neighbours. If the local plans are not prepared to accommodate that, you reach a complete logjam, so it is very reasonable for Government to say that this ought to be taken account of in local planning. Of course, whenever you introduce a change it will always then bring delay, but in the long run I have to say that is a good way to proceed.

Q33 **John Mann:** The Government also introduced the Community Infrastructure Levy in Essex. In parts of Essex it was running at around £150,000 per property for self-build or small builders. In one part of Hertfordshire it was £187,000 per property CIL that was levied. In areas like mine, it was £35,000, which is about a third of the price of the cheapest new housing. How did that impact on small builders and on self-builders when for a period of two to three years the Government were allowing these high additional taxes of up to a third of the value of property?

Dame Kate Barker: I am slightly surprised by your numbers, but I have not looked at them in particular, so I am certainly not going to query them. We have just had a discussion about the viability test and the difficulty of the viability test. £187,000 a house is a very large levy indeed. I would have thought you would have to build a very large house in order to pay for the levy.

John Mann: Precisely.

Dame Kate Barker: If they are really introducing that, it is too high. However, what is the average price of a house in the areas you are talking about?

John Mann: The average house price for any house is £220,000.

Dame Kate Barker: It would be higher in Hertfordshire and Essex. The cost of building the house would be perhaps £100,000 or £120,000. It would not necessarily push it up relative to the market price, but those figures do sound very high.

Q34 **John Mann:** It would, if you are a self-builder or a small builder, have a huge, disproportionate impact, would it not?

Dame Kate Barker: If you compare it to the value of the house, you could perhaps still build and sell a reasonably sized house in Hertfordshire—I do not know; I am taking a rough guess—for £300,000.

John Mann: The money is before completion. If you are adding £187,000 to a self-build, that is quite a big additional up-front amount of money for anybody to pay.

Dame Kate Barker: Yes, your problem with this is that it is up-front, not that it is a large sum of money.

John Mann: It is both.

Dame Kate Barker: It is a problem if it is up-front, because, as I have already said, the cash-flow issues for small builders are very great. Government are doing quite a lot to help them with those cash-flow issues, however.

Q35 **John Mann:** Let us talk about this £5 billion the Government has allocated to pre-build infrastructure. It is a huge sum of money in the Budget. How is that best employed? Is it best employed by building a road network and utilities for a new housing development to allow the plots to be immediately built on by a whole range of developers? Would that be the quickest and most effective use of it?

Dame Kate Barker: Are you asking me which is the quickest use or the most effective use?

John Mann: I am asking both.

Dame Kate Barker: If you want the most effective use, you would look at areas where there is clearly a great deal of housing need but, clearly, as I was talking about in areas around London, a shortage of infrastructure, i.e. an area of need and demand. If you think of the areas around London, we think of London and the South-East as a very productive area. In an economic sense, it might be a good thing to have more housing there, but you cannot do it because you are very short of transport infrastructure. That would be a very effective place to do it in the long run, but it might not be very quick, because you would have to go through a lot of trouble to get the planning permission.

If you want to do it quickly, you would look at land that is probably always owned by the public sector or land that has already been taken through the planning system but is stuck. For example, Northstowe was stuck for a long time because of a reluctance to dual the A14 and put the money into that, because you already have the plots alongside it and that would deliver more quickly.

Q36 **John Mann:** Why should a disproportionate amount of it not be used in the north? The average is £23,000 per new property. Looking at the average property sale price, the disproportionate impact on the market would be huge in the north, if you were putting in that level of subsidy. One could see new villages or towns being built very quickly, very rapidly, of mixed size and usage, if that money was concentrated in the areas that could deliver the most quickly.

Dame Kate Barker: I have already indicated that you might wish to put it in the areas that would deliver most quickly, but let us stand back a little bit. Are you talking about places that have already been identified in the planning system?

John Mann: Some of them will be. Not all of them, but some of them will be, yes.

Dame Kate Barker: If there are places in the north that have already been identified in the planning system and are not going ahead for want of infrastructure—I know a few years ago there was an area outside Newcastle that was delayed because of problems around the A1—then absolutely the money should be spent there. I know the places in the south because I happen to live there; it does not mean I have any issue about places in the north. I am sure they are analogous.

Q37 **John Mann:** Is there not a danger that housing strategy is too obsessed with housing problems in London, rather than looking at what the economy should, could and will be in five or 10 years' time? In other words, if one built broadband-enabled properties in the north with industrial units nearby, evidence shows that people will move there. There are no empty new properties that have been built in the north of England.

Therefore, would it not be a common-sense approach for Government to pick winners and start building in the north—building in a way that will attract people, including putting in other infrastructure such as the highest quality of broadband, so people can be actually generating additional industry as well?

Dame Kate Barker: I am really reluctant to get drawn into a favouring of the north over the south in this session. I do not favour the south over the north or vice versa. I am sorry the examples I have drawn have been chiefly in London, but one of the reasons I did that is that if you ask me where planning is failing most to plan for the right number of houses, it would be around London.

When you look at the work the local plans group did on planning throughout the country and you look at the northern areas, they are already planning for enough. Suggesting there is a planning issue there is not one I would necessarily go for. You have made some very eloquent points, actually, about the positive planning in your areas and the fact that people are prepared to welcome growth, and all of that is absolutely great.

Should Government be trying to move economic activity around the country? I tried to talk about this back in my review in 2004. At the time, we had a Labour Government and they were very keen on regional policy. You may remember they had a policy that they wanted every region to grow faster and enter into catch-up, although unfortunately we did not see that.

I have no issue at all with wanting to use some of this infrastructure to open up the north, partly because it is a complete myth that the north is an area where infrastructure is not heavily used. I sometimes make a quip when I am talking that somebody who says that has never driven along the M62 in anything like rush hour or attempted to get into Manchester in rush hour. There are, indeed, transport bottlenecks throughout the country. I would be perfectly relaxed for people to put forward proposals in any part of the country—and they should do—about where the housing should be built.

Q38 **John Mann:** My final question is on prefabricated housing. Most of the prefabricated housing in the last five years in this country has been Swedish/Scandinavian-style, very expensive housing, which has been built on a bespoke basis. Is there not a case now for significant input into much smaller, and therefore much cheaper, environmentally sound—in other words, very low bill and low energy-usage—properties, offering more choice to people who want to rent or buy and getting our modern housing stock rapidly upgraded in some parts of the country in the quickest and most affordable way?

Dame Kate Barker: I am going to push back slightly against your desire to put everybody into small units, which you said you wanted. You said they need to be small as well. I do not quite know what you mean by "small". You might have a different view of "small".

John Mann: The reason is that, for example, in my area—and, I believe, all of the surrounding areas—when there are small bungalows up for sale or rental, they go instantly. There is a huge premium on bungalow prices.

Dame Kate Barker: People like bungalows.

John Mann: In the rental market, however, a bungalow goes instantly—within seconds. There are no hard-to-let bungalows in my area or any of the surrounding areas. That suggests to me that there is a huge shortage, and I get many people coming and wanting to move into a smaller bungalow. They want to do so partly because it is cheaper and easier to manage, on one level, but also because the bills could be significantly cheaper than living, say, in an old, three-bedroom draughty building built by the coal board in the 1930s or 1940s.

In my area, I am very much in favour of lots of small bungalows, because there is no doubt whatsoever that the demand would be huge. The evidence I hear from elsewhere suggests that there are many areas like mine, where people would like that choice but there is not enough supply available.

Dame Kate Barker: I would not disagree with you, but I would come back to a point I made earlier. Density requirements have often made it quite tricky to get bungalows built. Perhaps we should not argue about bungalows. I was asking about what you meant by "small".

On prefabricated housing, it is rather surprising that prefabricated housing has not been built in the UK in more quantity in the past. It is slightly difficult to disentangle the reasons for it. A house does not have to be prefabricated to be energy-efficient. A well-built house built by traditional means can also be very energy-efficient.

The purpose of prefabricated housing is twofold. One is that it will reduce the skills needed for housing. One of the issues we face post-Brexit, of course, is that there may be more of a problem with skills in the construction industry, because the native UK construction workforce is aging and has not been replaced sufficiently, partly because so many people went out of it during the last housing crisis. That makes a very good case for doing more prefabricated housing.

I should say that it does not suit every site. One of the reasons you see a lot of prefabricated housing in countries such as the Netherlands is, bluntly, the ground level. Having it does not suit every site, but I have no issue with having more prefabricated housing. Most developers are thinking about whether prefabricated housing makes more sense as the economics of the industry change. Of course, we have the very large Legal & General site outside Leeds; I have already referred to that. I know they have ambitions to move on with other sites. The market will tend to move us further towards prefabricated housing over the next few years.

Q39 **Stephen Hammond:** Good afternoon. Just so we have it on the record, can we just go through a few of the Government's policies and just get your clear view on some of those, if we may? Let us start with the Autumn Statement, where the Chancellor announced £3.7 billion of spending on affordable houses, broadly split between the housing infrastructure fund, which was 100,000, and the affordable homes fund, which had a target of 400,000. Can I ask you for your views on the likelihood of achievability and scale, etc?

Dame Kate Barker: I am incredibly sorry. I did not recognise the numbers. Can I have another go? What exactly are you asking me about?

Stephen Hammond: The Government announced £3.7 billion of extra money in the Autumn Statement for the construction of affordable housing, and they split that between two programmes. One was the housing infrastructure fund and the other was the affordable homes fund. It was 40,000 in one and 100,000 in the other.

Dame Kate Barker: Do you mean 40,000 and 100,000 homes?

Stephen Hammond: Yes, homes.

Dame Kate Barker: I am sorry. I was struggling with the numbers. 40,000 is from where?

Stephen Hammond: That is from the additional affordable-homes funding, and the 100,000 is inside the national—

Dame Kate Barker: I am sorry. I do apologise. I thought you were still talking about money rather than—

Stephen Hammond: No, no. The £3.7 billion is the total amount, but they split it between those two funds and then set targets.

Dame Kate Barker: On the affordable-housing front, I certainly hope that we would see that come through. It should be possible for it to come through. I have already talked about the fact that planning permissions have been rising. We know that, in some sense, if planning permissions rise and there are more subsidies available, you can usually get more of the houses switched between affordable housing and market housing. The housing associations themselves still have scope in their balance sheets, and they are becoming keener on development.

I would be very positive. It is additionally true that local authorities will often prefer—not least because, as John Mann says, people want this in their plans—to give permissions that have higher affordable housing content. I would be very positive about the ability to deliver the affordable housing.

On the infrastructure money, I find it harder to know, because I do not know whether they had specific places in mind where they were going to spend the money to unlock the housing. I do not find it particularly surprising. As long ago as when I did my review I suggested a similar fund on infrastructure, which the Government then introduced. It was estimated that there were 40,000 houses in the south of England—I am sorry to use the south again, John—that were not being built, because there were infrastructure problems. I would have thought the number today was equally large. I would hope we could see those houses built, but I would not be confident of the time period, because, of course, large sites typically do not get built up quickly.

Stephen Hammond: The time period set out in that fund is out to 2021-22.

Dame Kate Barker: Yes, I would not be so confident of it happening in the time period. I would be confident that, in that time period, they will all be permissioned.

Q40 **Stephen Hammond:** In your answer, you have just said you believe housing associations are now keener to develop. Were you as surprised as I was that the OBR said that the impact will be broadly neutral, because housing associations will build fewer homes? Given what you have just said—which I suppose comes from, one, some of the statements from chief executives and, two, the fact they were asking the Chancellor to be able to build free of tenure and he had allowed them to do that—is that not a surprising remark from the OBR?

Dame Kate Barker: I was surprised by the OBR. I have not been back over the numbers. They are based on the fact that, of course, housing associations will get less money, because of the change in rents that the Government also talked about at the time. I do not want to say whether they got their sums wrong or right, but, like you, I note that the chief executives have said, "No, we will be able to deliver more." Since I have quite high regard for the housing association chief executives, they will probably do it.

Q41 **Stephen Hammond:** The overall housing body explicitly lobbied to be able to build free of tenure. The Chancellor has now delivered that.

Dame Kate Barker: Yes, that is right, yes.

Stephen Hammond: It seems a very odd remark from the OBR.

Dame Kate Barker: Yes, it was quite odd.

Q42 **Stephen Hammond:** When announcing the Help to Buy scheme, the Government said this was going to increase the supply of new housing and contribute to economic growth. Has that been borne out?

Dame Kate Barker: Are you asking me here about both parts of the Help to Buy scheme or the new-build scheme particularly?

Stephen Hammond: Principally the new build scheme.

Dame Kate Barker: The new-build Help to Buy scheme certainly has supported the industry and has certainly brought forward more new supply than would have occurred otherwise, yes.

Q43 **Stephen Hammond:** Obviously, DCLG have claimed that 43% of the purchases through the Help to Buy equity scheme have brought through new build. Does that claim ring true?

Dame Kate Barker: I think it is true. One of the questions, however, is whether the house would not have been built, or whether something slightly smaller would have been built. It has in some cases enabled people to buy houses larger than they otherwise would have been able to afford to do. However, since you will have gathered, I am quite in favour of people being able to live in family houses, so that may have been a good thing for them in the long run.

Q44 **Stephen Hammond:** You referred a couple of times to your 2004 review. I note the comment that taxation alone is too blunt an instrument in terms of development. I suspect most people would agree with that. Can you talk about the sort of tax measures you have in mind, in terms of influencing behavioural change that might incentivise even greater development of affordable homes, beyond what the Government have put in place?

Dame Kate Barker: I am really sorry. When you say "affordable homes", do you mean social housing or cheaper housing?

Stephen Hammond: Let us start with social housing and then say first-time buyers.

Dame Kate Barker: I am really sorry to be pernickety about it.

Stephen Hammond: That is a fair comment. I have sat in endless Westminster Hall debates where "affordable" has been the definition and all of that. Let us start with starter homes and then social homes—either way. Or homes for first-time buyers

Dame Kate Barker: Starter homes are a particular manifestation of support for first-time buyers.

Stephen Hammond: Yes, I know. That is why I moved away from it. Sorry.

Dame Kate Barker: I am not that keen on starter homes. I will say why. Partly, they are indeed a demand-side subsidy. Secondly, they are oddly a demand-side subsidy that will give the group of people who benefit from starter homes a capital appreciation down the line. This is a bit odd, because in other parts of our system—for example, if you are unemployed and your mortgage is paid—we are very opposed to subsidising your acquisition of a capital asset. I am not quite sure why somebody who is unemployed is not allowed to participate in the acquisition of a capital asset but a young first-time buyer is. I am not personally in favour of the starter homes programme.

I am, however, more in favour of the more traditional shared ownership and shared equity schemes, where you assist people in and then enable them to buy on as they get wealthier. Those schemes are better founded and easier to accommodate within the existing system.

On social housing, my view is that we have undersupplied social housing. I am pleased to see the Government moving back to supplying a little bit more social housing through bricks and mortar rather than through housing benefit. That has proved rather painful, not least because of all the questions about effects on rents. When you try to keep rents down you run into all the problems of landlords then deciding, "I do not want to let to housing benefit people." It is not a totally unsuccessful way to go about it, but it has not proved very much cheaper. We have seen a very big rise in the housing benefit bill.

Personally, I do favour the existence of some traditional social homes, because I think there are households and families for whom that is a very good form of tenure. It gives them the confidence that they are going to be able to stay in the same house, for example, through a period where their children are going to school. That is very important.

Q45 **Stephen Hammond:** You mentioned rents and rental property. Can we just have a quick look at that as well? There have been some major changes in the Government's attitude towards rental over the last two or three years. If you buy a buy-to-let property in a personal capacity, your interest relief is going to be restricted. The stamp duty has been increased, and there are the cuts in capital gains that are not available for buy-to-let landlords. It is clearly going to have quite an impact on the market. Have you made any assessment of the likely decline in the scale of the rental market?

Dame Kate Barker: I have not made a personal assessment of it. Since I sit on my own, I do not have the ability to do many personal assessments. If you wish to promote owner occupation rather than the private rented sector, not because you have a down on the private rented sector, but because you think it has become slightly too hard for people to buy homes, you are facing two issues. Those issues are why young people find it difficult to buy homes: one is the relative fall in their incomes; the other is the impact of the mortgage market review, which has meant, rightly, that people are more cautious about encouraging young people to stretch to buy homes.

You can decide to subsidise those young people, and effectively that some of the people who may get squeezed out will be buy-to-let landlords, or you can decide to tax the buy-to-let landlords a little bit more. From the public-purse point of view, my sense is that I would prefer the latter to the former. That means I am generally supportive of the decision to increase stamp duty for people who are buying to buy to let, although it has difficulties in implementation.

Where I have more difficulty, because it affects the stock, is the change in the mortgage tax relief for buy-to-let landlords. I would be uneasy if it has the unintended consequence of meaning that these families, of whom I have tried to speak about passionately, who have been living in a house for some time and paying their rent and everything, are then forced to move, because the buy-to-let landlord no longer finds the yield acceptable or cannot afford it. That effect on stock does worry me rather more, not so much because of the landlords, but because of the impact on the tenants down the line.

Q46 **Stephen Hammond:** As you are aware, the crunch in that is likely to happen in two years' time, as I understand it.

Dame Kate Barker: Yes, that is right. Yes.

Stephen Hammond: It seems to me at that stage there is going to be a very significant issue unless corporate rental companies come into the market to buy up rental properties

Dame Kate Barker: Small buy-to-let landlords will buy scattered properties of all ages, sizes and types, whereas corporate landlords tend to prefer purpose built. There is nothing wrong with that, but it means that they may not be the same properties. I do have some concerns about the social consequences of that policy. The positive thing is that, because it has been introduced with a time lag, landlords have time to assess their situation and possibly to adjust to it. However, I am somewhat concerned that the shift has gone too far.

I do not buy completely the IFS argument that we should not think about this taxation at all. This is a world where over time, because of rising incomes but pressures on land, house prices are likely to rise. I worry that if we have a completely flat playing field, as economists love, between owner occupation and buy-to-let, over time the capital appreciation will inevitably move more and more to buy-to-let, and less and less to owner occupation. The wealth divide that people like Piketty talk about so strongly will get bigger and bigger. If you think about it in that context, it is a sensible policy. The question is whether in the short term that particular policy has gone too far and will disrupt the lives of tenants, which I would think would be unwelcome to everybody. I am hedging my bets a little bit.

There is another point that I would not like to go without making, so I am going to, rather meanly, make it in response to your question. I have just been guilty of talking, as people often do, as though house prices inevitably do rise over time. In the long run, as I say, with rising incomes and constraint on housing space, that is quite likely in the UK for the foreseeable future. In 1,000 years I have no idea what house prices will be, obviously.

However, in the short term we do still have housing market cycles, so we do have to be careful when we go back to thinking about first-time buyers. That is why I support the mortgage market review in making sure that we do not ever encourage first-time buyers into the market just ahead of a market collapse. After all, it is true that in the North-East, house prices are still lower than they were at the peak of the last crisis. People who have bought in the North-East and not profited at all would be startled by some of this discussion about buy-to-let landlords.

Q47 **Stephen Hammond:** You are absolutely right in terms of housing cycles. At the moment, with the exception of a relatively short period post the financial crash, we have seen an elongated housing cycle.

Dame Kate Barker: A very long housing cycle.

Stephen Hammond: It brings us back to the point that there are many who argue that the increase in stamp duty had nothing to do with the housing market. It was more just that there was a bout of inflation in that part of the overall economy, which had to be dampened down.

Dame Kate Barker: The increase in buy-to-let or the increase in the top of the market?

Stephen Hammond: Both. They both have the same effect in dampening down the potential asset price inflation that was there.

Dame Kate Barker: Yes. I do not have any special insight into the thinking at the time. I welcomed the fact that stamp duty no longer had the slab system for general homeowners. I thought actually the rise at the top, as many people did, was rather steep. I think on the buy-to-let side it was indeed an attempt to ensure that that did not stoke up house price inflation.

Q48 **Stephen Hammond:** As the Chairman is not going to stop me, I am going to continue with a couple more questions, if I may. Would you accept the proposition that some people have made that the increase of stamp duty at the top of the market has had a pretty major ramification all the way through, and that has prevented movement at the bottom of the market that has allowed people to come into the market?

Dame Kate Barker: I am not completely sure I would accept that. I have already indicated that I do believe in players in the market. That is why I always worry about saying what we need is a particular type of stock. People circulate within the market, and you have to try to estimate what you think demand is as a whole. It may have had that effect in London. Outside of London I would be very surprised if it had had very much effect.

Q49 **Stephen Hammond:** I have one last question. In the Autumn Statement we saw letting fees to be charged on tenants was abandoned, or the Government took it away. Do you have any view as to the likely impact on rental levels?

Dame Kate Barker: No. I am really sorry, I simply have not thought about that. I simply have not reflected on that question.

Stephen Hammond: Okay. There has been some evidence. It is difficult to understand whether or not the evidence is correct or not. There has been some evidence for Scotland that says that, with a lag of about a year, you have seen increases in rental levels of about 4.5% or 5%.

Dame Kate Barker: I have not looked at that evidence, I am afraid.

Q50 **Chair:** You are without doubt one of the leading experts in the country on all this. We are very grateful to you for giving evidence, and you are going to supply us with a few extra odds and ends in writing, which we are very grateful for. I just want to end with one question. Imagine it is the beginning of a Parliament. This is imaginary—who knows, but at the moment it is an imaginary question. The Government have won an election with an overwhelming majority, so there is not much of a political constraint on getting the right policy in place. Dame Kate Barker has just been appointed Chancellor of the Exchequer and has the Prime Minister completely under her thumb. What is the Budget going to say on housing?

Dame Kate Barker: I fear that I would be Chancellor of the Exchequer for a very short time, because I would probably wish to put capital gains tax on your first property.

Chair: So it is the absence of a tax on imputed rent, for which most people consider the gains relief as a rough and ready substitute, that most concerns you. This is the abolition of schedule A.

Dame Kate Barker: Yes, it is. You could achieve the same effect in a way, and I gave some thought to this, through a better system of council tax. It is a slight response to John Mann's point about people who live in very large houses, and they do it partly for investment reasons. The argument that you should not buy a house for investment reasons at all is a little bit peculiar. It is very clear that you prefer a house as an asset because it is a great shelter against what you need in old age, which is somewhere to live.

However, if you are buying it not just because you want to be confident of having somewhere to live in in old age but because you want to have somewhere to live in old age and sell at a vast profit, that creates a different set of incentives in the housing market. It makes it difficult for the people at the bottom of the market, who you perhaps think I do not care about, but who actually influence all my policy thinking, to get into the market and be properly and decently housed.

Chair: I note that the first lever you moved to, though, would be on the demand side, not on the supply side, notwithstanding all the evidence you have given so far.

Dame Kate Barker: Yes. Perhaps this is because, as the Chancellor of the Exchequer, I would not wish to tread on the toes too far of the Housing Minister.

Chair: Oh, my goodness me. It has never stopped Chancellors in the past.

Dame Kate Barker: You have, however, come back to give me the opportunity to say that if I had any hope of housing policy being joined up between the Treasury, DWP, DCLG and the Bank of England, I would be absolutely delighted.

Chair: That is a fairly clear signal as well. Thank you very much for coming to give evidence. We appreciate it very much. It will be very helpful for us in the work we are doing to put together some views on this as part of a report on the Autumn Statement.

Dame Kate Barker: Thank you very much for allowing me to indulge my views at such length.