

# Treasury Committee

## Oral evidence: The Budget Autumn 2017, HC 600

Tuesday 28 November 2017

Ordered by the House of Commons to be published on 28 November 2017

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Members present: Nicky Morgan (Chair); Rushanara Ali; Charlie Elphicke; Stephen Hammond; Mr Alister Jack; Alison McGovern; Catherine McKinnell; Kit Malthouse; John Mann; Wes Streeting.

Questions 1 - 69

### Witnesses

I: David Orr, Chief Executive, National Housing Federation; Brian Berry, Chief Executive, Federation of Master Builders; Cllr Nick Forbes, Senior Vice-Chair, Local Government Association.

## Examination of witnesses

Witnesses: David Orr, Brian Berry and Nick Forbes.

**Q1 Chair:** Good morning, gentlemen. Thank you very much indeed for coming to give evidence to the Treasury Select Committee this morning on what is clearly an important part of last week's Budget. I am going to start with some questions but, before I do, for the benefit of those watching, perhaps you could just introduce yourselves. Let us start with you, Cllr Forbes.

**Nick Forbes:** Good morning. I am Nick Forbes; I am Vice-Chair of the Local Government Association.

**David Orr:** I am David Orr and I am Chief Executive of the National Housing Federation.

**Brian Berry:** I am Brian Berry, Chief Executive of the Federation of Master Builders.

**Q2 Chair:** Thank you very much indeed, as I say, for coming in to give evidence this morning. I wanted to start with the projections on housing numbers, because Sajid Javid reportedly told the BBC he believed between 275,000 and 300,000 new homes needed to be built every year to begin to make a dent in the housing need. The Chancellor last week quoted the figure of 300,000 as the Government's new target. To start with a relatively straightforward question, is that the right number? Perhaps we can start with you, Mr Berry.

**Brian Berry:** Yes. It is well known that we have a housing problem in this country. We have not been building the number of homes required to meet current demand. My understanding was that we needed to be building about 250,000 homes a year, so the Government's target of 300,000 is ambitious, but it is probably needed if we are going to tackle the housing crisis, which has been with us for many years now. Last year, we built 217,000 new homes, which is below the target, and it was only a few years ago when we were building just over 100,000. Clearly there is a need to escalate the supply of housing in this country.

**David Orr:** I have worked in housing for a long time and, for as long as I can recall, people have said we need 250,000 homes a year. The last time we built 250,000 homes in a single year was 1977. That is 40 years ago. Just on a replacement basis, we should be building at that level every single year. If you think of 40 years of failing to meet the target, you can see why we have the level of housing stress we have in the economy. If we could get to 300,000 a year, it would begin to make a difference to the underlying level of gap between supply and demand. It feels like an aspirational target at the moment. Certainly if we could get to that point, it would be hugely helpful.



**Nick Forbes:** In 1977, which David referred to as the last time we built more than 250,000 homes, councils built 40% of them. The 300,000 target will only be achieved if councils are allowed to get on and deliver the homes that we want to deliver but cannot because of the constraints upon the way that the system works at the moment. There is no doubt that there is a pressing need for new homes; everybody agrees on that. The question is not what the target is but how we achieve it.

Q3 **Chair:** In questions, we are going to unpick the announcements made last week, the delivery and everything else, but perhaps I can keep it fairly broad. Is it possible to ramp up housing delivery from where you are now—particularly where the industry is now but also where councils are now? Is it possible to ramp up the means of delivering that number quickly enough to get to 300,000, or nearer 300,000, over the next few years? Perhaps we could start again with the industry.

**Brian Berry:** It will take time. One of the problems that we are facing in the housing market is the fact that the SME housebuilder has, over the last 25 years, been effectively squeezed out. In the late 1980s, two thirds of all new homes were built by SME housebuilders. Last year that had fallen to 23% so, if we are going to get the numbers up, we need to revitalise and overcome the barriers that SME housebuilders face. There are three major barriers: access to land, access to finance and the complexities of the planning system. If we tackle those, we can start to see an increase in the SME housebuilders.

Q4 **Chair:** The knock-on question to all of you when you answer that question is: do you see signs in what has been announced of the Budget broadly—and I will unpick some of those measures—that your three barriers have at least been identified?

**Brian Berry:** Accessibility to land came up strongly. Requiring local authorities to allocate 20% of sites for small development is a very positive move. The extra funding for the Home Building Fund, which would provide loans to SME housebuilders, is very positive. The £8 billion for the guarantees could be transformative, because access to finance is one of the major barriers that they are facing. There are a lot of things in the Budget and the consultations that are going to be announced, which were in the housing White Paper before the General Election, that we are broadly supportive of. There are very positive signs from the SME point of view that finally Government are beginning to listen in terms of revitalising and diversifying the housing market, which tends to be dominated by the major housebuilders.

**Chair:** Mr Orr, what do you think of that in terms of ramping up and broad signals from the Budget?

**David Orr:** There is a range of useful measures in the Budget, which will have a combined effect of seeing some relatively small incremental change and some relatively small growth in the number of new homes built. It was quite striking that the OBR's assessment of delivery of new



homes post-Budget was precisely the same as pre-Budget, so their assessment is that it is not going to make a fundamental difference. Brian mentioned the challenge of access to land. If we are to make a transformative change or a step change in the level of supply and build houses, you need access to land. If we are going to get to 300,000 homes a year, we will need quite muscular Government action on the supply of land and compulsory purchase of land, in the way that we did in the 1950s and 1960s for new towns and all of the peripheral estates and urban extensions that were built in those years. I certainly think that we need a much more vigorous approach to the use of publicly owned land.

**Nick Forbes:** There is an argument about the use of publicly owned land, but I would not want the Committee to take the view that the planning system is the fundamental problem here. We know that nine out of 10 planning permissions are granted by local authorities. Virtually every local authority has an ambitious local plan in place in order to deliver new housing numbers, and we estimate that, at the moment, there are around 400,000 planning permissions given but not being built out. I do not think the delay is in the planning system, although there will inevitably be issues around land supply in particular areas.

One of the issues that we face is around infrastructure, because you cannot simply build new homes without thinking about access to them, transport arrangements, healthcare, education and all the issues that support the development of new communities. Often, the debate focuses on the delivery of individual housing numbers and often the policies around funding for infrastructure are not necessarily directly aligned to that. There are policy dots to join.

The issue in response to your earlier question is that, if we are going to make a step change in the numbers of homes to be built, the way to do that is to allow local government to get on and deliver it. We think that we are the bit of the system that has the most capacity, if we are enabled, to simply get on with the job.

Q5 **Chair:** Can I ask you about national versus local? From your national perspectives, is this a problem everywhere or does this very much need to be looked at on a regional or even more local basis? Are there parts of the country where sufficient numbers of houses are being built, or is this a problem that applies everywhere? Does everywhere have this issue from a local government perspective?

**Nick Forbes:** The reason that we have a local planning framework is so that local circumstances can be taken into account and local communities can feel that they are in control of the developments that are happening in their area. The planning framework has an assumption built into it for ambitious housing growth numbers, and what we see around the country is that being delivered, on the whole, by local authorities.

The challenge we have had in the past is, when central government tries to start to control housing numbers, it fails to read the local housing



market effectively or it imposes targets or conditions that just do not work in local circumstances. For example, the latest set of housing targets that we have had in terms of delivery for the North East shows a net loss of 1,700 homes a year. That is in direct contradiction to many of our local plans, which see housing growth in terms of the numbers.

The argument that I would make is that we already have a planning framework in favour of growth. We have already had local authorities making often difficult and controversial decisions about release of green belt. We all have five-year strategic housing land supply arrangements in place. The challenge in the system is the funding to accelerate the housing growth in terms of the targets that we have already set.

**Chair:** I do not know if anyone else has any questions about this regional/local/national perspective.

**David Orr:** We do not have a single housing market. Housing markets are incredibly different and might be very different just a mile or two apart. Savills produced a report yesterday that made a pretty strong and compelling case for 100,000 new social rent homes a year, but that report was pretty clear in saying that the absolute need for new supply is very different in different parts of the country. My anxiety is that people read reports like that and take it to mean that, in some places, because there appears to be a more balanced market, there are no problems. Of course, there are many parts of the country where there are plenty of homes, but they are nowhere near where the jobs are and there is an economic restructuring and housing requirement that comes as a result of that. We are not going to create functioning housing markets across the country if we ignore the challenges of regeneration and investment in existing places, and look only at new supply.

One of the challenges that Government have slowly begun to accept is that, if you have an ambition to see more people able to access owner-occupation, as I think we all do, the only realistic way of making that happen—and creating the opportunities that come from that—is by having a market that functions at every part. Actually, investing in social rent is more likely to lead to a growth in the potential of owner-occupation than ignoring that end of the market and only investing in Help to Buy or whatever. There are some quite important strategic and structural challenges that have to recognise that housing markets are very different in different parts of the country.

Q6 **Chair:** Perhaps this is a question for Mr Berry, before I hand on. We are also quite reliant on large private sector developers, in terms of building out the planning permissions that are being granted, the developments and everything else. I wanted your perspective; obviously one of the other things that came out of the Budget last week was the OBR's revised growth forecast for the economy. How dependent is the delivery of the 300,000 target on the economic health of large private sector developers that may not be feeling quite so healthy at the moment?



**Brian Berry:** Yes, that is a concern in terms of the economy and what impact it would have on the housing market, particularly for the SMEs, because they are the ones that could be knocked out if there is a downturn in the economy. That is a major concern for us, given that the number of SMEs has declined. Then you have this reliance on the eight major housebuilders to do that. We need to diversify the housing market, which is why the housing White Paper and the Budget announcements were positive, in the sense that there were moves there to tackle the planning system and provide the funding for SMEs. That is the key: to break up the market and allow SMEs back in, because these are the people, the local housebuilders across the country, who can provide small-scale developments. 66% of our housebuilders build between one and 10 new homes a year. In terms of community engagement, it is much more likely to win community approval than hundreds of new homes on the edge of a market town. It plays well economically if you have small housebuilders operating right across the country in small-scale developments. They tend to employ apprentices, so the money stays in the regional area, rather than a workforce that is brought in and then taken away again.

Q7 **Catherine McKinnell:** Nick, you touched earlier on the ability of local authorities to get on and deliver the houses, so I just wanted to explore some of the tools that were announced in the Budget. Do you think there are still some tools missing from the box?

**Nick Forbes:** The Chancellor announced in the Budget a lift of housing revenue account borrowing caps for areas of high affordability pressure, and also for local authorities to be invited to bid to increase the caps up to a total of £1 billion. While that is a welcome step, there are some challenges around how you would do that. For a start, there was a slight disparity in the announcement that the Chancellor made and the language in the Budget book, because areas of low affordability are not necessarily areas of high demand. It is possible to have high demand in areas of high affordability, so there is a question around how the Government will ensure that, if that is the process in order to lift HRA borrowing caps, those local authorities that have the opportunity to build faster in their areas will be able to access that. We are not entirely sure what the national competitive process will be for that.

The argument that we would make, from the Local Government Association point of view, is that rather than having a competitive process it is better to lift the borrowing cap for all local authorities, so that we can all get on and take the decisions that are in the interests of our respective communities. We have a situation where most of the HRAs for local authorities are operating within 10% or 20% of their cap, so the flexibility to manoeuvre is very limited. When you take into account things like fire safety measures, which a number of us are having to look at and explore, they will have to be funded in public housing through the HRA. Therefore, it forces us to make decisions about whether to invest in



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fire safety or new homes building. Those are the kinds of real issues for which local authorities are having to borrow.

There was no announcement in the Budget around Right to Buy receipts, as far as I saw. That is another one of the issues that I know exercises a lot of local authorities. Currently, we only retain 50% of the Right to Buy receipt; the rest goes to Treasury and we therefore have to bid competitively against other areas to get that money back into our areas. That makes it very difficult to guarantee a longer term like-for-like replacement programme, and it is one of the reasons that predictability over the lifetime of the HRA becomes more difficult, because it is very difficult to understand what scale of stock changes you would have and, therefore, what income you are able to retain over that period of time. Again, our argument would be that we should be allowed to use 100% of the receipts of Right to Buy sales to invest in new homes.

The measures that were announced in the Budget were a welcome step, but the Secretary of State for Communities and Local Government himself was starting to talk about a £50 billion investment in housing over the next period. £1 billion for HRAs and £8 billion in total go some way towards that, but it is not necessarily going to meet the scale of the challenge that we face.

**Q8 Catherine McKinnell:** Thank you. That was a very comprehensive answer. You touched on a whole range of issues there that might be helpful to explore. Just on a general level and to all of you, what are the advantages and disadvantages of local authorities building new housing, rather than the private sector or housing associations? Where do you see the correct balance of housebuilding between those three sectors?

**David Orr:** We have a market that is described by Government as a broken housing market. We have comprehensively failed to build enough new homes for a very long time. This is a moment when we need all hands to the pump. Of course local authorities have a role to play. My view, our view, is that this is a time when we should be borrowing, because borrowing is incredibly cheap in historic terms. This is not borrowing to fund revenue deficit; this is borrowing to invest in a product that is desperately needed and that will cover its own costs. It does not revert to a charge on the taxpayer. We should be looking at ways of borrowing more.

On the guarantee fund—the £8 billion that was promised in the Budget—we have already had a guarantee fund running. That guarantee fund has been for two products: for private rent or market rent housing—and a small amount of business has been done with that—and what they call the affordable housing guarantee fund. We have had more than £3 billion of investment out the door through that guarantee fund, and the Government closed it for reasons that just seem odd to us. We need to reopen that. That guarantee made it possible for housing associations to organise long-term debt at rates almost exactly the same as government gilts.



It is not difficult, frankly, in this market for housing associations to organise long-term debt and to do so cost-effectively but, if you can get it for a 3.5% all-in price without the guarantee and for marginally under 2% with the guarantee, that is a whole lot of new homes just by providing a guarantee, where the loss given default is effectively zero. There is no real risk to the public purse or to the Treasury. We need to be looking more creatively at how to make the best use of this. Local authorities have loads of stock—good quality homes—that they could use to secure debt. It seems perverse, at a time when we have such need, that one of the obvious ways of being able to deal with that need is being constrained in the way that it is.

**Catherine McKinnell:** Would you take the same view, Brian?

**Brian Berry:** We are seeing an increase in housebuilding from a low point of 123,000 about eight or nine years ago to 172,000 last year. There is a lot of scope to use small parcels of land all across the country that are not necessarily registered but could be built on, which would take the pressure off greenfield sites and enable local housebuilders to build a whole range of housing. We do not have figures about the numbers that would deliver but, if you bring in more of the local housebuilders, it would benefit the supply of housing and regional economies. There is a key role for local authorities in the housing market, and we know, in terms of the housing numbers, that if we are looking at 300,000 to 400,000, you have to go back 30 or 40 years ago, as David said, to get that required number.

If you look before the Second World War, in the mid-1930s we were building up to 400,000 homes a year. That is because we had a more flexible planning system. Now, obviously you probably want safeguards there, and there is a whole debate about the green belt, but it is possible to deliver a lot of homes if you tweak the planning system. The major problem with the housing market is a very simple supply and demand. We are not providing enough homes. We need to loosen up the supply side, and that means looking at the planning system and releasing land. Only 11% of this country is developed. There is scope there to free up more land.

Q9 **Catherine McKinnell:** Nick, you mentioned earlier that your preference would be to see the HRA borrowing cap lifted across the board, not just in high affordability pressure places. Presumably, the Government's thinking behind the limiting of it is not to give local authorities an artificial share of the housebuilding market, as opposed to that which is required. David, you seem to be suggesting that that is not a problem. We need so many houses the borrowing cap should be extended. Is that a view collectively shared across the panel?

**Nick Forbes:** I share it.

**Brian Berry:** Lifting the borrowing cap for local authorities is something for which we have said, yes, that is fine to invest in the housing market.



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We need to couple that with changes in the planning system to get that supply side.

**Nick Forbes:** I was just going to add that we seem to be in broad agreement that lifting the borrowing cap is a sensible thing to do to enable local authorities to build. If we look at where new homes are to be built, a lot of our towns and cities have significant amounts of brownfield land, which for some reason or another is contaminated or difficult to access, in terms of infrastructure and so on. The path of least resistance for new build is to go for green belt, but there is an argument around putting in the resources to enable brownfield land to be brought back to use. That is where we need local authorities to be working in partnership with housebuilders to ensure we get best value for money and do not just see a sprawling extension of our towns and cities across the green belt. Most local authorities have a brownfield-first approach, because we think it is better to try to reuse existing land—partly because it is in closer proximity to many town and city centres—than to simply open up the green belt. That does not mean that sometimes difficult political decisions have been taken around the selective use of the green belt.

Q10 **Catherine McKinnell:** You mentioned in your earlier reply the ability for local authorities to bid to increase their cap to £1 billion up to 2021-22. Is that timeframe acceptable to the LGA and is it sufficient to make an impact on housebuilding, in terms of its amount as well?

**Nick Forbes:** Of course, any flexibility is welcome over any timescale, but the general argument I would make is that we could do more and faster, if we were allowed to get on with it sooner.

**David Orr:** This issue about flexibility is really critical. Over the last couple of years, we have had an extensive conversation with the Government about flexibility, and the more flexibility that there is for the people who are in the best position to be able to build the new homes, the more prospect there is of the homes being built. For the biggest housing associations now, the fundamental core business model is a mixed-tenure delivery model.

That means that, when Bellway was the lead developer on the Barking Riverside development, they were building and then borrowing more, selling, borrowing more money, building, selling, borrowing more money. When London & Quadrant became the lead developer, the rate of delivery quadrupled. They are building four times as quickly, because their fundamental business model is a mixed-tenure business model, so they can build for rent at the same time as they are building for sale, and their financing does not require a stop to sell, then re-borrow and then another stop. Right across the board, the more flexibility we can get into this market, the more effective we will be.

Q11 **Catherine McKinnell:** I have just one final question. Nick, you touched on the fire safety measures that a lot of local authorities are looking at. I



understand the Communities Secretary wrote to local authorities saying that the Government's expectation is that local authorities would draw on existing resources to fund that work. Therefore, is there an expectation that authorities will draw on their housing revenue accounts to fund this work? If the cap is lifted more widely, will this therefore mean that more local authorities will have to self-fund this work and the Government will not have to meet this promise?

**Nick Forbes:** There were a number of public statements made in the weeks after the Grenfell Tower disaster that implied that central government would fund any fire safety measures that would need to be put in place. Subsequent correspondence from CLG has suggested, and this has been reinforced by clarifying comments from the Secretary of State, that local sources of funding will be the first call in terms of delivery.

That presents a challenge. In my authority, I know that, in three years' time, we will breach our internal borrowing cap in order to make sure that we are putting those fire safety measures in place. This is not a theoretical argument about where the money is within the system; this is a very real issue about decisions being taken to fund fire safety measures or fund new homes developments within the existing financial framework. From the Local Government Association point of view, we are really disappointed that early promises of ensuring that any of those measures will be fully funded by Government do not appear to have been followed through.

**David Orr:** This is a profound issue for housing associations, too. Indeed, across the country we have more of the towers than local authorities do and we are having a parallel conversation that is having exactly the same kinds of outcomes. In theory, the offer of funds is there if the circumstances require it; in practice, there has not been any of that. Some housing associations have the capacity to manage this financially themselves and are doing so, but there are others that have a real capacity challenge. This gets quite technical but, if you have access to long-term debt and have organised that money specifically for building new homes, you need the consent of the lender to use it for something else. On one or two occasions, we have already had lenders saying, "No, our money does not look as secure being invested in fire safety measures in existing towers as it does going into new build." This is a complex issue.

The argument that we have put to Government is that they should cash-flow it, so that the money is being spent on the remediation and the fire safety measures, and then we have the argument about who actually pays for it, rather than waiting until all these arguments have happened before the important work takes place.

**Nick Forbes:** The direct point that you make is that it is entirely possible that we will see some areas have an increase in the borrowing cap,



funded by central government permissions, without that leading to any further supply of housing.

- Q12 John Mann:** Just to pick up on two points, Mr Berry, you talk about small parcels of land, but the community infrastructure levy, the CIL, is required by most councils up front. It is not as high as it was. Until they got it changed, Hertfordshire's was £187,000 upfront, per property. In my own area, where the average new-build house price is about £200,000, it was £40,000 up front. Now, we have got that down, but there is still a significant sum required up front. How is someone meant to develop a small plot of land in that situation? Does it not alter the economics if they are saying, "Actually, we will use our money somewhere else"?

**Brian Berry:** The whole issue of developer contributions in terms of Section 106 and the CIL needs to be looked at. In the Budget, there is going to be a consultation on the way the CIL operates. Certainly our members are saying that it does prohibit development from taking place because, for an SME housebuilder, it is prohibitive. They will say it is too expensive, it is not viable and they will not go ahead with it. It needs to be more proportional for an SME as compared with a large housebuilder, because it stops development taking place.

Anything that simplifies the arrangement about CIL and Section 106 would be welcomed. It is interesting that Liz Peace's review recommended a tariff. The advantage of a tariff is that developers would know what the cost was and it would simplify the process because, at the moment, it is too onerous.

**John Mann:** Of course, if there is a tariff on someone trying to develop a single plot with a small builder, a micro builder, and that tariff is upfront—

**Brian Berry:** It depends what the tariff is, doesn't it? It has to be proportionate to the size. If it is the same for a large housebuilder as for a small one, then it will knock out the SME.

- Q13 John Mann:** That point was made at this very Committee to the then Chancellor, George Osborne, five years ago, so it has taken some time for this to fully work through in politicians' logic. Cllr Forbes, can I just come on to what you said? You said that there is no problem with this SHLAA and that local plans are in place. It was not that long ago that 95% of local authorities had no local plan, because of the changes made in March 2013 by the Government, which required virtually all local authorities to start again and consult their neighbours. Now, most of the land in England anyway, and I would guess wider, is in two-tier authorities and the housebuilding rests with the lower authority. A lot of small district councils sit on the vast majority of land that is theoretically available in the country. Most of those are still dealing with the repercussions of the change in 2013 and do not have a local plan in place. The SHLAA takes up dramatic amounts of their planning time



looking at whether they have met it.

Is it not true that, in recent months, the Government have changed the goalposts again in terms of housing targets, meaning that, for example, Bolsover—next door to me—has a set of preferred options for its local plan? They have their preferred options and then their second set of preferred options depending on what the outcomes of the changes in the Government targets are. That looks to me like an awful lot of chaos and an awful lot of priority being put into handling the bureaucracy of the planning system precisely because of changes central government have made. Were you not being overly kind to central government and unkind to local government in writing off those problems?

**Nick Forbes:** It is fair to say that there has been a significant amount of turbulence over the last decade in the planning system generally, whether they are changes in national government policy, changes in legislation or the requirement to introduce local plans, which all have to go through very extensive local consultation processes and rounds. Local authorities have had a huge amount of work to do in simply processing the information that is required to put plans in place and, of course, each plan is then supported by a whole range of supporting documents, like the strategic housing land availability assessments that each authority has to do to provide a five-year supply of land. There are currently 27 local authorities in the country that do not have a local plan in place, so the vast majority do. There is an issue about the delivery of strategic housing land availability assessments, because obviously they are a matter for each local authority to determine how and where they want places to be built.

You picked up on the point around the community infrastructure levy; one of the challenges of the planning system is that it is developer-blind. It cannot make assumptions around preferential treatment for one type of developer over another. This touches on Brian's point around enabling more providers to come into the market. The framework does not allow that to happen at the moment, because planning teams around the country will rightly be worried about issues about state aid. That is one of those issues that, if it is the direction of travel for Government, will need to be considered.

The general point that I want to make is that, from a local government point of view, our assessment of the evidence suggests that it is not the planning system that is the major hold-up in terms of delivering new homes.

Q14 **John Mann:** For the local plans, you are talking of some 20 years out of date. If we talk about the local development frameworks, it is not the case. Vast numbers of local authorities still do not have them in place. I have just final question for Mr Orr. The Government seem to be shifting in saying, in essence, "Let's build in cities." That appears to be the mood music. With the levels of housing that the Government and you are talking about, isn't it the case that they can only be delivered by some



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new conurbations, bigger villages or new towns? The Government have suggested five. If we are going to have that level of housebuilding, we will need quite a lot more than that—not necessarily new towns but new conurbations built to meet that housing supply. Otherwise, we are going to be spending our entire time trying to develop sites that will take 10 years to sort out because of the contamination. That may be a good thing, but that is 10 years away, as we have seen with some of the colliery sites, as opposed to meeting the demand even in the potential theoretical four-year lifetime of this Parliament.

**David Orr:** As I think the Chancellor said, there are no silver bullets here. The idea that we are going to solve this problem by doing one thing in one place is fanciful, I am afraid. We need a bit of densification in some of our cities. We need to build on brownfield land inside our towns and cities. We need to build extensions to some of our towns and cities. We need new towns. We need new villages. We need half a dozen new homes in hundreds of little villages around the country. This is not just an urban issue. In fact, you might argue that it is even more of a rural issue. Rural house prices are typically higher than urban, as a rule, and rural wages are typically lower. Some 20% of our population lives in rural England. It is a different proportion in Scotland and Wales, but it is 20% in England and only 10% of the investment in new homes goes into rural England, so villages are dying.

This is a challenge that affects every part of the country in different ways and in every market. This is an occasion when we need some bold thinking. On the conversation about Section 106 and particularly CIL, we all understand why CIL was introduced. It has not worked in the way that Governments of left and right had hoped and anticipated, but the fundamental problem is that we are all challenged by this thing that, if you own a piece of agricultural land, it is worth a small amount. If you give it residential planning consent, it is worth a vast amount. At the moment, most of that benefit goes to the landowner and, if we are going to make significant changes, we have to change that fundamental thing. Instead of trying to recapture that value through Section 106 or CIL, we need more active planning that says, "On this site, we need 35% affordable homes and we need a school and we need this." That is the package by which you then compete for the land.

The consequence of that is that the price of the land would come down, the value would be captured in the development and the landowner would get less. That is just the way it is. This is not just about private landowners; this is the way the HCA operates with publicly owned land—public land owned for the benefit of the public. They sell it at top dollar. Price-based competitions for public land strip all the value out of that development, so you do not get the level of affordable housing that we should have, even on land owned by the HCA. We have been tinkering with the planning system for 40 years and it has not made any fundamental difference.



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Nick is right: the challenges of the planning system are a second order issue, not a first order issue. The much bigger challenges are about the identification of land and making it available quickly. Nonetheless, the way that we have been doing this is through all these little incremental things and additional bits of bureaucracy. This is the moment. If we want to get to 300,000 homes a year, we have to think different, we have to think bold and we have to think in the way that the Macmillan and Wilson Governments did.

**Chair:** I want to move on, because we are going to come back and talk about planning reform and the use of land. I know Charlie wants to come in. Is it specifically on this?

**Charlie Elphicke:** It is on exactly this point.

**Chair:** Be brief and then we are going to move on to housing associations.

Q15 **Charlie Elphicke:** Cllr Forbes, having listened to what Mr Orr has just said, do you think there is a strong case for councils to be active in terms of developing and planning their areas and maybe in buying in land to grant themselves permission and fatten it up, so that councils can build more houses themselves?

**Nick Forbes:** That sounds like a money-making scheme for local authorities, if I have understood the question correctly. The challenge, as we have been setting out, is not the planning permission process and the planning framework but the availability of land and the issues around either the affordability of that or the financial cost of de-risking it for development. That is where there is no alignment at the moment between the funding that supports that and the strategic housing land supply process.

I would be concerned if local authorities simply got into the game of trying to buy up pockets of land to then sit on and wait for them to increase in value. Most local authorities would want to ensure that land was developed quickly. One of the questions that is floating around more generally within local government is how we could incentivise building by perhaps starting to ask for set timescales for things to be developed in, rather than permissions sitting. As I was saying, 400,000 permissions have been delivered so far that have not started to be built out.

I am not sure that fully answers your question.

Q16 **Charlie Elphicke:** Let me ask a different question then. Do you think that councils have an important role to play not simply in maybe land assembly and things like that, which you are not so keen on, but in getting on top of developers and asking them questions about build rate? If they have a 2,000-house site and they are dribbling them out at 20 a year, that is not good enough. Do you think councils should have powers to step in, urge them to do more and things like that?



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**Nick Forbes:** Indeed, and one of the things that we could do is say that we would start to collect the council tax on a development within a certain number of years, and that would then build in an incentive for that to be developed quickly, because otherwise the developer would have to start paying the council tax that would otherwise be paid by occupied homes.

**Chair:** We are going to come back to some of this in a bit, Mr Orr.

**David Orr:** I cannot see any reason in principle why it would not be sensible for local authorities to be able to buy land at existing-use value, grant themselves consent, put in the services and then sell the plots on. They could make a small profit on that and generate the income that allows them to do the same again, thereby creating service plots for small developers or individuals who would like to build their own homes. There is a whole range of things we could do differently, if we just had a different approach. All of the changes that we have made to planning have been process; they have not been about rethinking the planning culture, and that is the fundamental challenge.

Q17 **Chair:** This Committee is particularly looking at the measures announced in the Budget last week, but this is just a simple yes or no question, before I move back to housing associations. Mr Orr, from what you are saying, yes or no, did the Budget actually do much to address the issues that you are saying are of fundamental importance to unlock more housing being built in this country?

**David Orr:** It identified all the important issues but did not quite do the things that we need to see done.

Q18 **Rushanara Ali:** I just wanted to pick up the point about the Grenfell Tower fire and safety that was discussed earlier, before I go on to some of the other questions. From what I am hearing, certainly in my constituency and elsewhere, housing providers, whether ALMOs or housing associations, were starting to redirect funds to deal with the fire safety changes they need to make quickly, and that was moving funding directly away from the repair and maintenance programmes that they had in place. How widespread is that, David, in your assessment?

**David Orr:** I do not have a huge amount of properly verifiable evidence of that, but a lot of organisations are caught between a rock and a hard place. Like local authorities, they have also had to deal with a 1% per annum rent cut, so the amount of money that was available to them has diminished at the same time that this huge new challenge has arisen. People are trying to make sense of what proportion of the money we have available we can afford to spend on repairs and renewals. How much now needs to go into this major fire safety challenge? How much can we afford to spend on building new homes?

Q19 **Rushanara Ali:** You mentioned housing associations having a lot of towers. I have quite a few in my constituency, as well as ALMOs. In the



light of what has happened and the to-ing and fro-ing about who pays and who is responsible, are you concerned that we are leaving ourselves vulnerable to other dangerous circumstances if we do not get a grip, between national Government and local housing providers, to ensure that this happens—that all the changes and adjustments are made? Again as you will know, my constituents have been at the receiving end of some of those problems. Are we leaving ourselves exposed as a result to other potentially fatal areas of major repairs and maintenance?

**David Orr:** What people are trying to do is work out what is the right thing to do now. If you have ACM cladding and you have stripped it off, it compromises the energy efficiency of the building. In some cases, it compromises the weather durability of the building. If you are going to strip it off, you need to know what you are going to put back. People have been very anxious not to put something back that is also found, in some point in the future, to be unsafe. This has been part of the challenge.

If you are the owner of a building, absolutely you want your building to be a safe and secure place. We have sought assurance from a variety of different places—from building control, architects and elsewhere—and there appear to have been systemic failures that mean that you cannot take assurance from those assurances. Everyone in our industry is looking with considerable interest at the outcome of both the public inquiry and the Dame Judith Hackitt review, because people want to get on and do this. They want to do it properly and quickly, and make sure that what they are doing is the right thing to do.

**Nick Forbes:** The month or so after the Grenfell Tower disaster was probably my worst four weeks as a local authority leader, because it flushed out some huge and systemic failures in our system. There is a specific issue about fire safety of tower blocks and the arguments around that have been well rehearsed, but one of the things that horrified me was that we knew the situation within the tower blocks that the council owns, but we did not know the situation within the other tower blocks in the city, because we have a deregulated building inspection process. That meant we had not only no oversight of them but no records of them. As a local authority leader in my area, I was unable to give guarantees about public safety, and that really worried me. We had no ability to guarantee that we at least understood the position and knew what to put right.

That is one of the reasons why we had a whole series of really difficult announcements being made, right the way around the country, as more and more providers of housing and high-rise buildings found that they were at risk and there was a fault.

Q20 **Rushanara Ali:** Just to wrap up on this section, what do you think needs to be done quickly? Yes, there are the inquiries, but what can be done quickly to allay those concerns and in terms of resources? People do not want to see this happen again and there seems to be a huge amount of



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complacency in national government. What should be done, both on the regulatory front to tidy this up quickly while we wait for the reviews to conclude, which will take some time, and on the resource front? What would you emphasise to the Government that they need to do?

**Nick Forbes:** In my experience, the tower blocks fell into a number of different categories. Local authority ones were the easiest to deal with, because we knew what the situation was, we were able to directly intervene and we knew exactly what to put right if there were things to be put right. A number of local authorities had difficulty engaging with housing association providers and a number of housing association providers had blocks that were affected.

Q21 **Rushanara Ali:** Were there private providers?

**Nick Forbes:** There were a number of blocks that were private developments. It was the majority of those where we had building inspection issues, because we just did not know what the situation was. Local authorities worked closely with fire services at a local level to arrange inspections, but those are the most difficult ones to arrange, often because the owners of them are not based in the UK. Particularly for big PRS schemes, it is quite difficult to track down who actually owns the building and therefore has responsibility for it.

Q22 **Rushanara Ali:** What would you do to clean that up? Nationally, what would you recommend to the Government and the inquiries? I am sure you are all giving evidence.

**Nick Forbes:** Without second-guessing where the Grenfell Tower inquiry might go, it is entirely appropriate that local authorities should have oversight and overview arrangements of all of the buildings in their area. Local authorities and fire services should have the ability to inspect without notice and be able to identify and have records of who owns and is responsible for each building.

Q23 **Rushanara Ali:** On resources, are there any points of emphasis that you want to take the opportunity to say here?

**David Orr:** One of the points of learning is that, when it comes to matters of people's safety—and this is a life-and-death issue—clear explicit specific regulation is a good thing, not a bad thing. We need a regime post hoc that will properly understand that. Now, because of the testing regime, there is greater clarity about what materials can safely be put on the outside of buildings. That is helping and more people are now doing that. Where there are resource challenges, and I said this earlier, my proposition is that Government cash-flows it—not necessarily says, "We'll pay for it," but cash-flows it so that the availability of funding is not stopping important safety work taking place.

**Brian Berry:** Grenfell was a disaster, but it also shows that we need to change our perception of the building industry in terms of raising standards. There has been an emphasis on deregulation. We need tight



building controls. We need more resources there in terms of building control. The building regulations need to be kept up to date. They are not clear. There was an attempt to simplify them, probably to the extent that there is now a lack of clarity about what they actually mean. That whole direction of travel needs to be reversed and we need to raise standards in the building industry.

Also, the point I would make from our end is the fact that anyone can call themselves a builder. Is that really acceptable, when there is no registration or licensing? We are talking here about people who are involved in the safety of people's lives, so let's have a whole debate about raising standards in the building industry and up our game, because it is the last bit in the built environment that has been left untouched.

**Q24 Rushanara Ali:** On finance, I am being told I have speed questions, so I need speed answers. On the finance side of housing associations, they are delivering 29% of new homes in England and one in seven in the rest of the UK. What are the key issues constraining housing associations from delivering even more homes? The Chancellor made a £44 billion commitment, but reports suggest that the actual new investment is about £3 billion. David, maybe you can start on what barriers there may be.

**David Orr:** Housing associations' core business is providing good quality genuinely affordable homes for people on low incomes. Since 2010, there has been no Government investment to support that work—none—until the Prime Minister's announcement at the Conservative Party conference in October.

**Rushanara Ali:** You mentioned a 1% reduction.

**David Orr:** We have also had to deal with the 1% per annum reduction in rents, as have our colleagues in local government. This has meant that housing associations have been building new homes by using their commercial potential. That means there is a limit to what they can do. That commerciality constrains what is possible. There has been Government funding for what is called affordable rent, which is affordable in some places but not in others, and for shared ownership. That has been helpful but, if we are to see a significant growth in the number of new homes that housing associations build, the first most important thing is access to affordable land quickly. The second thing is that, if we want to see a growth in the number of homes for people who are in genuine housing need on low incomes, it needs further intervention from Government. Subsidised housing needs subsidy.

**Rushanara Ali:** Your revenue has gone down.

**David Orr:** It has gone down and will go down for the next two further years, and then we will revert to CPI plus 1% from 2020.

**Q25 Rushanara Ali:** How do the changes in universal credit affect that and



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your ability to build?

**David Orr:** The proposal that social housing tenants would be affected by the LHA cap had the potential to be hugely problematic, not just in supported housing, about which there has been a huge debate, but more generally. The decision to remove that threat is a big help. On Universal Credit, I quote from Halton Housing Trust; 18% of their tenants are on universal credit, but they own 55% of the arrears in that organisation. There have been two big problems with Universal Credit. One is the administrative transition challenge, which was always going to be a challenge. The second is the design. The design has started from an assumption that it would be six weeks before you got any money, which meant that people were absolutely forced into debt before they were getting money.

Again, the changes announced in the Budget are a big help. The removal of that week's waiting time, which I think was cruel, is a big help. The availability of a two-week overlap period of housing benefit, which is actual additional money that will go to people, is a big help, but it is still not sufficient. The design is not right. The problem is it is designed on the assumption that people in work get paid a monthly salary. People in this room in work get paid a monthly salary but, overwhelmingly, the people who are on Universal Credit are in the gig economy; they are in short-term work. They are being paid daily, weekly or fortnightly, and Universal Credit has to be redesigned to reflect that reality.

Q26 **Rushanara Ali:** Just to wrap this point up, given what you have said about revenue going down, do you feel housing associations are going to be in a position to provide housing on lower rents to tenants and still be viable organisations, particularly the smaller ones?

**David Orr:** Yes I do, because they will continue to use the commercial potential that they have, but they will not be building social housing at a rate that we or anyone else thinks is sufficient. The only way that we can up the numbers of new genuinely affordable homes for people on low incomes is with more help from Government. The £2 billion that was announced by the Prime Minister is very important, because it is a statement of intent. It moves away from no money for social rent. I have described it as a down-payment; it needs to be a down-payment because, on its own, it will not have a huge impact.

Q27 **Stephen Hammond:** I want to ask Mr Berry a number of questions, but can you be clear on that £2 billion point, Mr Orr? There is a lot of comment about the size. That £2 billion, as you say, is a down-payment; it is a statement, but it generates up to £6 billion overall with the investment that the housing associations will put in.

**David Orr:** The amount of private investment that we will bring to match that is directly related to the rent level. If you have low rents, you need a greater degree of subsidy. If you have a smaller degree of subsidy, you have to charge higher rents. The Government's own assessment was



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that that £2 billion would produce something like 5,000 new social rent homes a year. I think that is an underestimate. That is based on the way that housing associations managed their affairs five or 10 years ago. Now, with the mixed funding model and commercial use, we can expand that and make it go further.

**Stephen Hammond:** The gearing factor is about three times.

**David Orr:** It may be twice as much.

Q28 **Stephen Hammond:** Mr Berry, can I ask you a few questions, in terms of the detail of what you said to the Chair at the beginning? I know that, both privately and publicly, you have been very clear that the Government have to do something to help with access to finance. Can you say exactly what those problems are and how much of that is inability to access, hence loan guarantee schemes, or how much is cost? What did you see in the Budget that might help with that problem?

**Brian Berry:** We do a survey of our housebuilder members, and 54% of our members said they had problems accessing finance, which is causing a problem to housebuilding. We have been engaging with the Government about how to overcome that. The problem is that the banks, since the financial crisis, have adopted a blanket approach to SME housebuilders. They see them as high risk, so the pendulum has swung from too much easy lending before 2007 to it being too tight in the period that has followed it. What we have seen is a plethora of small alternative lenders coming into the market, which has been helpful, but their costs are higher. That again is deterring development in the SME sector.

There were obviously some positive announcements in the Budget, in terms of helping the SMEs. The £8 billion of financial guarantees that we heard last week is positive. If there are some new measures to underwrite lending to SMEs from the Government, they would be extremely helpful and tackle what has been a problem for the last 10 years for SME housebuilders.

**Stephen Hammond:** The £1.5 billion for the Home Building Fund plus the guarantees are going to start to address that problem in a fairly substantial way.

**Brian Berry:** There is extra money for the Home Building Fund. Initially there were problems with that fund but, over time, it has been simplified to make it more attractive for the micro housebuilder and our members are now taking it up. It is still slightly slow in some parts, but it is broadly very positive, so the extra funding is helpful.

Q29 **Stephen Hammond:** Mr Orr said earlier that the problem in the housing market was mainly the supply of land. Could we look at two or three of the Budget measures, in particular the £630 million to prepare small sites? Can you give a view on the impact of what that might deliver?



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**Brian Berry:** Again, the £630 million for remediation work would certainly help SMEs because, if they are tackling brownfield land, there is an extra cost there in terms of cleaning up the land. It seems quite a small amount for what is probably needed, but at least it is a step in the right direction and can only help the market. We would probably need more than £630 million, given the high cost of cleaning up brownfield land.

Q30 **Stephen Hammond:** What sum is needed?

**Brian Berry:** It is probably billions, I suspect, but we would need to come back to you if you wanted an actual figure on that.

Q31 **Stephen Hammond:** The other thing that was clearly in the Budget to help the development of supply of land was the strategic sites fund. Presumably that would mainly involve large housebuilders. What scope is there for small housebuilders to go into SPVs or do some joint ventures to develop land?

**Brian Berry:** Small micro housebuilders tend to be very independent and do not enter into arrangements. They tend to like to take control of their own business affairs, so that would be a change. If we could encourage joint ventures it would be very positive but, by their nature, they tend to be very independent and be their own contractors.

**Stephen Hammond:** There is no reason to assume that a new model might not develop where a large developer takes responsibility for the whole of the site, but a small developer goes in.

**Brian Berry:** Yes, that is possible. Anything that encourages SMEs to come back into the market we would welcome and support. It just needs to be practical.

Q32 **Stephen Hammond:** On the supply of land as well, and just following on from Mr Mann's questions, there has been a fairly heavy inconsistency in the way Section 106s are applied to sizes of sites. For instance, some sites with just one building attract a 106. Many have under 10. What would be the impact of having the consistency that there would be no Section 106 on sites of under 10 units?

**Brian Berry:** That would be highly favourable because, if an SME has to pay a Section 106 or make some of the housing affordable, then obviously that questions the viability of it. If we want to encourage a lot of smaller-scale development across the country, removing the Section 106 requirement would be a welcome boost.

Q33 **Stephen Hammond:** Finally, could we just have a look at what impact you maybe see at the moment from labour shortages or not, in terms of the impact on master builders?

**Brian Berry:** That is something we have not touched on and it is really a growing problem. There is a serious skills crisis in the building industry. We do a survey that shows that, at the moment, of our members 61%



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are reporting problems recruiting carpenters and joiners, and 49% site managers. We need to make sure that we are training up enough people, and that is going to take time, particularly if we want to develop quality apprenticeships. It raises the issue about the impact of Brexit on the supply of non-UK labour.

**Stephen Hammond:** There are a number of measures in the Budget that might impact upon that, but I might be treading on Mr Jack's toes, so I will leave those questions to him. Thank you.

**Chair:** We will come back to that in a moment. I am going to bring in Alison on stamp duty first.

Q34 **Alison McGovern:** To begin with, I would be interested in a brief view from each of you, or not if you do not have a view, on whether you think the housing crisis represents a worsening of intergenerational inequality. Is housing making the imbalance between the generations worse?

**David Orr:** Yes. That is a very broad question. We are in a position now where, for the first time in our history, we have more people who own houses outright than are buying homes with a mortgage. What we ought to have is a big group of people in the middle who are buying homes with a mortgage and a smaller group owning them outright and a smaller group renting and perhaps looking for owner-occupation. It is one of the most challenging identifications of the nature of a broken housing market. Almost all of that housing equity is owned by older people. This is not surprising, because they have had the mortgages. If you cannot get the mortgage, then you are going to be very old indeed before you are an outright owner. There are big challenges about housing fairness across the whole of the housing market.

There is another question that is becoming increasingly interesting. There is certainly anecdotal evidence that more and more people in their 20s and 30s are saying, "I don't really care about owning. What I want is a really high-quality home that I can afford. If I have to rent it that is fine." There is a mind-set change going on. Who would have thought, 10 years ago, that many of us would be renting our cars? That is what is happening now, because of the private leasing arrangements. You have it for a few years, hand it back and just carry on renting. You rent your phone in the same way. People do not have the same absolute attachment to owning things. What they have is an expectation that they will be able to do this for a while, then something will get better and they will be able to do something else.

This is pure speculation on my part, but my guess is that there may be a transfer of housing equity that skips a generation altogether and goes from grandparents to grandchildren. As people get older and live in their home until they are in their 80s or their 90s, their grandchildren will be the young people who are making their way in the world who will need that housing equity. There are some big societal challenges that are being developed as a result of our failure to invest in our housing.



**Brian Berry:** We know that most people want to own their home—84% of the British population. In fact, a lot of young people have almost given up any hope of owning their own property, particularly in London and the South East. The challenge of the housing crisis is to enable people who want to own their own home to be able to do so. What we have now is a “generation rent” who, not by choice often, are forced into that. Of course, we know there are lots of people in the private rented sector who are probably living in substandard accommodation, which is not acceptable in a more civilised society.

Also, in terms of our society we have an ageing population. Their needs, particularly if they are looking for a bungalow for example, are not being met at the moment. With the whole social care crisis, you are finding that old people are living in properties that are not suited to their needs, because they cannot leave them. If you couple that with the decline in spending on social care, you have a recipe for disaster.

Q35 **Alison McGovern:** I am going to leave the general problem to one side for a second. I want to come specifically to Help to Buy and then the stamp duty changes. The UK’s biggest housebuilders added £1 billion to their market value when the Government pledged more funding for Help to Buy, and there seems to be some connection between the Government’s announcements on Help to Buy and share prices of said organisations, so who do you think is really benefiting from Help to Buy?

**Nick Forbes:** The issue with both Help to Buy and stamp duty is that there is evidence from both that what they do is drive up property prices. The Government chose earlier this year to put an extra £10 billion into Help to Buy schemes over the coming years but only £2 billion into the affordable homes programme. Local government would argue that should have been the other way round because, if the broad agenda is to deliver more homes, putting more money into schemes that simply drive up house prices and help people who would have bought anyway does not do anything to tackle the lack of supply.

The LGA would argue, quite straightforwardly, that there is a political choice around stamp duty. The £3.2 billion that it will cost to raise the stamp duty threshold could have been deployed towards developing more units, but the Government have chosen not to do that.

Q36 **Alison McGovern:** Councillor, give me some of the background to this. Clearly the OBR gave us the evidence, in their commentary on this policy and what they thought it would do. We have been down this road with Help to Buy previously. All of the emphasis seems to be on stimulating demand and, while there has been a bit of action on supply, from what you have just said it seems like a bit but not enough. From an LGA point of view, what have your conversations with Government been like on this? I do not know, but I would imagine that colleagues right across local government have been making representations on switching from demand-side measures to supply for some time. What has the reaction been?



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**Nick Forbes:** I have not been directly involved myself, but I know the Chair of the LGA, Lord Porter, has, in recent months, been in a number of top-table meetings with the Prime Minister, Secretary of State and housebuilders. I am speaking for him, but the perception that he has relayed back is that there is an understanding that the way that things have worked in the past has not necessarily delivered what people expected they might deliver and, therefore, a change of direction is required.

The focus that we saw in the headline of the budget around housing targets of 300,000 a year starts to change the focus of the conversation. You are quite right that the issue has been that helping people on the purchase side does not necessarily deal with the supply side of the housing system. What we need as a country and what local government is absolutely committed to is a scaled-up approach to making sure we have the new housing numbers that we need. Many of the choices that are made look, with hindsight, to have been perverse, in that respect.

Q37 **Alison McGovern:** I have one more question to Mr Berry and then one for Mr Orr. From the point of view of the industry, would you agree with the OBR's conclusion that the main gainers from the stamp duty policy are people who already own properties, rather than first-time buyers?

**Brian Berry:** Anything that encourages young people to come into the housing market is welcome, and the evidence from our members has been positive. Help getting a deposit for a home—the extra £5,000 that could be made available to a young person—is favourable, but the problem is not the demand for new housing but the supply side, which needs to be tackled. We see the abolition of stamp duty for first-time buyers as a positive move to help more people come into the housing market, but the fundamental problem is increasing the supply. Otherwise, we are putting too much emphasis on the demand side, which is already there, and not enough on the supply side. Unless we have an increasing supply of housing, house prices will remain high now and in the foreseeable future.

Q38 **Alison McGovern:** Basically, I would conclude that there is broad agreement that, whether or not you think this stamp duty thing is a good idea, the issue is on the supply side. David, if I could come to you finally, what you were saying about the switch to renting was really interesting. Will that 84% figure fall away as more people have longer experience of renting? Will people think, "This is what my life is going to be like and I will try to build up some sort of an asset in another way"? One of the things that would mitigate that view would be the quality of rental accommodations. People often have a negative experience of private rented accommodation. Do you think that there is anything we can do about that, because this also represents itself in a regional imbalance question? In areas where there is more housing supply, often the problem is quality. Could you just say something finally on what you think the challenge is in terms of housing quality, particularly in the



rented sector?

**David Orr:** In the housing association and local authority sectors, the quality is generally pretty good. Obviously there are places where it is not great and we need to do more work, but overall the quality is pretty good. It is much more variable in the private rented sector. Government have a view that they would like to see more institutionally funded, institutionally delivered, high-quality market rent, and I think our economy desperately needs that. The pattern of the private rented sector being very small businesses helped buy to let typically. There are about 800,000 separate businesses, some of which have one, two, three or four. There are very few large-scale deliverers. This is absolutely key.

People in the private rented sector should be able to have clear tenancy agreements, where the rights and obligations on both sides are properly understood and the term of that tenancy agreement can be done by negotiation—one, three, five years. There is a role for housing associations here, because they have the knowledge and expertise in providing rented accommodation and have the potential to be the institutions that could raise that institutional finance.

That is beginning to happen. I would like to see it happening more. There are private providers of it too, but there is a real challenge to transform the private rented sector. There was a long-term focus on decency and a decent homes standard. We have absolutely taken our eye off that ball in the private rented sector. Some of the homes are great, but a lot of them are absolutely not fit for habitation.

Q39 **Chair:** I think you were talking before about security, where people perhaps understand they might rent rather than buy. Would you agree that the Chancellor's consultation on the security of long-term tenancies, where more could be done, is an important step forward?

**David Orr:** It is an important step forward. We have been in conversations with the Communities Secretary and others about this and how we might do it. Typically where housing associations are providing a market rent offer, they are offering three-year tenancy agreements—and tenants love it, because it gives them that degree of stability that they would not otherwise have in other parts of the private rented sector.

Q40 **Charlie Elphicke:** Mr Orr, you said people are now renting these days. They rent their cars; they ought to rent their homes. Is it not true that the Council of Mortgage Lenders carried out a poll with YouGov that found that eight out of 10 people have the aspiration of home ownership? They want to own their own home. Do you not think it is important for housing associations, councils, housebuilders and Government to start to deliver and help people on to the housing ladder?

**David Orr:** Yes, I do, and it is very important to understand aspiration. If you look at housing economies around the world—this is counter intuitive for most people—the least stable housing economies in the poorest countries are the ones that are most likely to have 100% owner-



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occupation. The most effective housing markets have a good balance between a good quality rented offer and a good quality offer for owner-occupation, and a much greater propensity for people to move between the two at different parts of their lives, as their circumstances change.

We have created a yawning chasm between renting on one hand and owner-occupation on the other, and have had 30 years of proposing that the reason to buy your home is not fundamentally about securing a decent home to live in; it is about making a long-term investment. That long-term investment only happens because you have an inherent under-supply in the market. If we want to continue buying homes because they will double in value every few years, you have to accept that the corollary of that is that people will be in acute housing need. If that is a deal that we want to do, fine.

My own view is that, after years of focusing on measures that are designed to help people into owner-occupation, we have levels of owner-occupation declining rapidly, not because we do not have opportunities for owner-occupation but because we have a broken housing market. The way to resolve that is to ensure: there is a high-quality rented offer for people on the very lowest incomes in housing need; there is a market rent offer for people who, at that stage in their lives, need a high-quality rented offer; and there is an opportunity to buy. We will not do that while prices continue to outstrip wage growth because we do not have a balanced housing market and because we have not paid enough attention to the economic importance of housing policy.

This is pretty fundamental. If your argument is that we want to encourage aspiration and to create the environment for more people to become owner-occupiers, Help to Buy is the wrong thing to do because, in the end, all it will do is put prices up. It will not stimulate the new demand and it will not ease pressure at other points further down the market that help to create the environment where people cannot afford to buy.

**Nick Forbes:** I would add that the ambition to encourage home ownership should not be done through an assault on local authority stock and housing association stock. There has been a blurring of the boundaries, in recent years, with the Right to Buy being introduced or proposed for housing associations, and that seems to me to be a bit of a red herring, with respect, in terms of increasing the numbers of affordable homes that people can purchase, because we will always need good quality, secure social housing. There will always be people in our communities who will want to rent, at affordable levels, for whatever circumstance. The concern that we have is that reducing the amount of provision in the social rented sector simply exacerbates other problems that we see in our communities, and we need a balanced approach here. The way to ensure that there is affordable housing for people to buy is not to take it out of the social rented sector.



**Q41 Charlie Elphicke:** I have one very brief question. You are a Labour leader of a Labour council; you are not going to be a fan of Right to Buy. No one is saying, "Let's get rid of social housing." What about innovation? Number one, should older people moving on and out of larger houses have a stamp duty incentive? That is one possibility. Secondly, say you go and buy a site. Wrap it up with planning permission: designate it for offtake for first-time buyers. Should we have this kind of innovation and start thinking in innovative ways about how we can promote home ownership to help young people on to the housing ladder?

**Nick Forbes:** One of the challenges with Right to Buy is that the money that it generates is not retained at a local level. Although there have been commitments that one lost under Right to Buy will be replaced on a like-for-like replacement, our assessment is that it takes nine Right to Buy sales to fund the development of one new property.

**Charlie Elphicke:** That is not my question. You are not answering the question that I posed.

**Nick Forbes:** One of the challenges that we face is a lack of specialist housing for older people, which is one of the things that are we starting to innovate as a sector in delivering. There is no reason why we should not look, for example, at retirement villages or complexes—new types of housing that people will find attractive and want to move into. The challenge there, though, is that people often do not want to move out of the area that they have lived in for a number of years. The challenge is how we bring those types of developments into existing communities, rather than being built on the periphery of our towns and cities. That takes us back to the issue about brownfield sites and the reuse of land in ways in which it generates good value for us.

**David Orr:** There has been some quite imaginative thinking about some of these things. There are some extra-care places that are offering shared ownership for people who are moving into that. If you are an asset-rich cash-poor owner, then to move into a high-quality extra-care flat where you are buying only a share means that you release a whole lot of trapped equity, but you still have an investment in the property that you live in. That seems very sensible to me, and in many cases it has been incredibly popular.

We have been exploring Rent to Buy and different ways of doing that. It needs more work, but we came up with a product that we call Buy as you Go, which would allow you to buy without ever having to have either a mortgage or a deposit, by paying a bit above the rent and building up a fund over a period of time, with the balance of how much you are buying and renting changing over time.

Shared ownership is a product that needs more investment, because it works for a lot of people in a lot of parts of the country. It is a real challenge for it to be properly affordable in zones 1 and 2 in London, but



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there are huge swathes of the country where shared ownership is an absolutely great mechanism, and I do not think we have invested enough in it.

The implicit suggestion that people who provide rented housing are not interested in the delivery of mechanisms for owner-occupation is unfair. We have tried very hard to be creative and imaginative about this. I was running a housing association in the 1980s that was doing shared ownership. We have been doing this for a long time.

**Chair:** We have to get everything built, so we are going to move back to skills and Alister is going to ask about how we get these things built.

Q42 **Mr Jack:** Mr Berry, compared with the rest of the construction industry, the recent output in the housebuilding industry appears to be high, according to the latest Purchasing Managers' Index. I just wondered why you thought that might be. The PMI is showing high output in housebuilding.

**Brian Berry:** The high output is in terms of delivery numbers, with the 217,000 that we built last year. The numbers have gone up year on year over the last 10 years. They are still below what we need, but we are seeing a positive increase in numbers, which is helping to alleviate the crisis. But we are still way below where we need to be.

Q43 **Mr Jack:** Do you think the recent increase in Bank of England interest rates will, in any way, dent confidence?

**Brian Berry:** It does not help if you are paying your mortgage, which may lessen demand from consumers.

Q44 **Mr Jack:** In your post-Budget statement, you highlighted the "chronic skills shortages" in the construction sector and you welcomed the Chancellor's announcement of new resources for training. My question to you is: do you think that £34 million of funding for training is enough to address the skills shortage?

**Brian Berry:** It is a question of funding and time, as well. To train an apprentice takes two to three years and, as I mentioned earlier, we have a chronic skills shortage across all the trades in the building industry, partly because we have allowed apprenticeships to decline over the last 20 years. We need to put more funding into quality apprenticeships of two to three years. We need to change the perception of the building industry because, in this country, the emphasis has been about going to university and not necessarily taking on an apprenticeship. There is a fundamental change there in the perception of the building industry as a rewarding career, not somewhere you end up by default because you do not go to university.

The industry itself has a task to talk to parents, schools and young people. It is not mud and boots; it has a whole variety of options. If you learn a trade, you can set up your own business and be your own boss.



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That is a very positive entrepreneurial message that, hopefully, will be very attractive to lots of young people in the Brexit world.

- Q45 **Mr Jack:** While we are in the pre-Brexit world, is there a sufficient domestic supply of workers to meet the industry's needs? I am guessing the answer is yes, but is there post-Brexit?

**Brian Berry:** No—we have been very heavily reliant on migrant workers. In London, up to 65% or 75% are non-UK.

- Q46 **Mr Jack:** There is not a sufficient domestic supply, is there?

**Brian Berry:** We need to try to encourage more people to switch options and come into the building industry. In the Brexit talks, we need to be very careful that, in the short term, we allow enough people to come into this country and the building industry, because it is an infrastructure priority, otherwise we will have enormous problems with building the number of homes that the Government have said they want to deliver. There has to be an emphasis on developing home-grown talent, which requires a seismic shift in terms of perceptions about apprenticeships and skilled trades and also having a transition period, so that we still allow migrant workers to come into the UK, otherwise the building industry will suffer.

- Q47 **Mr Jack:** What do you think needs to change in the education curriculum to bring more young school leavers into the construction industry?

**Brian Berry:** We see the introduction of the T-levels as a positive move. This is the equivalent of an A-level in a technical standard. I would like to see an emphasis on quality apprenticeships. The term "apprenticeship" is very wide-ranging. In the construction industry it should mean two to three years learning a trade, not six months learning just the basics. We need to put greater emphasis on that. SMEs train two-thirds of all apprentices so, if we want to boost that, it makes sense to make sure we create a business environment that suits SMEs, because they will be taking on local people and that money stays in the local area.

- Q48 **Mr Jack:** This could be a question to all of you, but the Chancellor set his target of 300,000 homes and we heard that 217,000 were built last year. Is the problem in reaching that aspiration capacity in the construction industry or is it, as my friend Mr Malthouse will come on to later, a planning issue? Is it about enough land with approval?

**Brian Berry:** It is a mixture because, from the SME perspective, it is about finding suitable sites, so it is a land issue. It is about finding the finance, which is still a problem because the banks are reluctant to lend. There are problems with the planning system, because of the complexity, cost and under-resourcing of planning departments, so you cannot just pin it on one thing. There are three major areas there. The fourth issue now is skills because, even if we have the first three correct, who is going to build if we do not have enough labour in this country to do it?



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**David Orr:** I do not think that the absence of labour and construction skills has stopped new developments. Those 217,000 are not all new build. Some of them are conversions of offices into residential, and we have found the labour to do it, but the level of latent defects on new build coming off as housing associations are picking them up is much greater than it has been in modern history. I am very anxious about ensuring that we embed quality into this.

You might argue that this is a market: if you expand the requirement, you will get people who say, "I can see an opportunity there," and will want to take part and see that as a potential career. The Government are right to think that the long-term solution to this, even the medium-term solution, is to have a huge increase in the number of factory-built houses rather than everything being constructed on site. We have been way behind the curve on this.

I know this sounds a bit gimmicky, but I cannot get my head around this. If you think about the way that we listened to music 30 years ago and the technological revolution there has been, or the way that we watch television and the technological revolution there has been, or the way that we drive cars and the technological revolution there has been, and the way that we build houses and the complete absence of any kind of technological revolution, we need to get to that point. In the long term, if you are an 18-year-old apprentice, would you rather be given an apprenticeship that involves you nailing planks on to a roof in February or work in a high-tech, high-spec engineering factory? This is absolutely critical.

**Nick Forbes:** I have a number of points. First, by nature, this is a very highly mobile workforce. One of the concerns more generally that we would all share is to make sure that this workforce is Brexit-proofed, and that means investing now in increasing the skills training around the country. One of the challenges in doing that is we have a very centralised skills planning system, which does not necessarily take into account local circumstances. Greater flexibility in how we plan the skills system is going to be really important.

One of the concerns that we have in my part of the world, as has been referred to, is that 65% of the construction workers in some parts of the country are EU migrants. If a proportion of those come out of the system, it is entirely possible that we will start to see inter-country shifts—a "Auf Wiedersehen, Pet" effect of people moving around for jobs. We saw that in the 1980s. That would decimate the housebuilding industry in parts of the country where those sectors are not quite so strong.

On apprenticeships, one of the challenges, particularly if we are talking about stimulating more SME housebuilding, is how we have a more flexible apprenticeship system, so that people are not tied to one particular organisation to see it through, because that can be a limit in



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terms of numbers. A more flexible and more portable type of apprenticeship system would allow more people to take on apprenticeships within the industry by moving around between different providers.

**Mr Jack:** That answered it. No more questions, thank you.

**Q49 Wes Streeting:** I want to turn to the issue of affordable housing. It would be helpful to begin just by revisiting the idea of what we understand affordable housing to mean. David Orr, perhaps you are best placed to start with this. Affordable rent is rent of up to 80% of the local market rent, but the National Housing Federation said, in its submission on the recent Budget, that for large parts of the country, particularly thinking of my own city, London, affordable rents at 80% market value are not affordable. What can be done to ensure the housing that comes to the market is genuinely affordable?

**David Orr:** Subsidised housing needs subsidy. There is a complete central truth about that. If we want to have low rents in high-cost, high-value places, you need to provide subsidy to be able to do it. The Savills report from yesterday that I referred to earlier makes quite a strong case that, if you invest upfront in high-cost, high-value areas, over time the state saves considerably, because the amount that you have to pay on housing benefit, or universal credit in the future, is significantly reduced. They have numbers in that report, which I will ensure that you have access to.

**Chair:** If you send it in, I would be very grateful.

**David Orr:** It is well laid out and well argued. I also think people get tied up in knots over definitions of affordability, and they really should not. The OECD and others, for generations, have more or less agreed that, if you are paying more than between a quarter and a third of your disposable income on your housing costs—if you have no choice other than to pay more than that—you are getting into unaffordability. There are loads of people in private renting in London currently paying 60% or more of their disposable income because they have no other choice.

We have measures. We did some work two or three years ago with the Joseph Rowntree Foundation, which came up with the proposition of a living rent. There was a whole lot of thinking and modelling that went into this, but that living rent was at 28.5% of the disposable income of the second quartile in any economic or labour market area in the country. Again, a lot of thinking went into that and we can provide those details.

The thing about the affordable rent regime is that, in 2010, the Government decided that they were going to reduce the amount of investment in new affordable rent homes by two-thirds but wanted the same volume of output. The only way to do that was by charging much higher rents and therefore having much higher levels of private borrowing. For housing associations, that left us with a choice: to do



this, which meant at least that we were building new homes and making an offer that was useful for some people, or not. What we did was say, "Rather than doing nothing, we will do something. We will do this." Over time, the commercial approach has developed further and there is some social rent from market sales becoming the means of subsidising.

If we are to have significant growth in the number of new genuinely affordable rented homes, we need free land or upfront public investment or other forms of subsidy, otherwise we cannot do it at the volume that is necessary.

**Q50 Wes Streeting:** I want to pick up on this idea of subsidy and where we are spending money. I will come to you, Nick Forbes. I should probably just say for the record that I am still an elected member in the London Borough of Redbridge and a Vice-President of the Local Government Association. I am not paid for either role, but it is a relevant interest.

Nick, turning to you, the councils are spending around £2 million a day on temporary accommodation. That is about right, isn't it? I just wonder what you would like to say to the Chancellor. We are seeing the Chancellor soon; I wonder what you think we should say to the Chancellor about where Government are currently spending money, because it seems to me completely crazy that we are spending this amount of money on temporary accommodation, which is often substandard, inadequate, fails to meet family needs and is lining the pockets of landlords, rather than genuinely working in the public interest.

**Nick Forbes:** We were talking earlier on in this session about whether we have the right balance between demand and supply in the housing system. The general argument I would make is that we have not. We need more focus on the supply. A lot of the measures that have been taken over recent years have stacked the market in favour of the demand side of it: things like Help to Buy, stamp duty, etc.

Tackling homelessness and issues of temporary accommodation is very complex. They are driven by a whole range of factors. There is no doubt that some of the changes to welfare reform are driving some of those changes, but it cannot be fixed overnight. No local authority wants to use temporary accommodation for people, and yet we are finding that demands for temporary accommodation are going up, not down, and that is due to a whole range of issues—lack of affordability, people finding themselves in difficult circumstances and family breakups. The new Homelessness Reduction Act places duties on local authorities, but part of the challenge is that the homelessness funding streams support intervention at points of crisis, rather than supporting earlier intervention. That is still the case when we see the pilots that the Chancellor announced in the Budget.

I would argue that what we need is a much more upstream approach to homelessness prevention, trying to make sure that people are maintained in tenancies for as long as possible. One of the things that really



concerns me is that we are starting to hear examples from around the country of private sector landlords starting to stop taking tenants on universal credit or, in some cases—as I was hearing from Leeds yesterday—giving notice to quit to people who are on universal credit. We cannot have a situation where we have ghettoisation and apartheid in the housing system. We have to have affordable choices for all, certainly, but a system where people, because of their financial circumstances, are driven out of some communities is completely unacceptable.

**Q51 Wes Streeting:** Do you think it should be made illegal?

**Nick Forbes:** I would like to see it made illegal. When people came to Britain in the 1960s, they were often faced with signs in windows saying “no blacks, no Irish”, and we now look at that with horror and think, “How on earth did anybody ever think that that was an appropriate thing to say?” yet I have seen signs in some parts of Newcastle saying, “no social”. It is completely unacceptable.

**Q52 Wes Streeting:** Do you think that it is reasonable for local authorities to deem intentionally homeless families who are effectively forced out of their homes because they are unable to pay their rising rents?

**Nick Forbes:** Newcastle has been the first whole-city pilot for universal credit. What we have seen as an impact of the universal credit pilot in Newcastle is a significant increase in rent arrears. When people are in the public sector, we can work with them to try to manage that. The concern is if people are in the private rented sector. If there are rent arrears stacking up in the public sector, they are almost certainly stacking up in the private rented sector as well. That is simply going to lead to more people having difficulty with their tenancies, and we could end up with ridiculous situations where people are, in effect, evicted from their private sector homes and then the local authority has a responsibility to pick up the pieces of this. It is one of the unintended consequences of the way that the welfare system is working. I would argue that it is far more effective to invest in support to help people maintain their tenancies and to avoid evictions and homelessness than it is to pick up the pieces afterwards.

**Q53 Wes Streeting:** That is especially the case if you think about how much the taxpayer will save from paying lower benefits, versus how much they will pay by putting someone in inappropriate accommodation. The numbers do not add up in the taxpayer’s favour. David Orr, in your 2017 Budget submission, you noted that 85% of all public spending on housing in the UK went into housing benefit and only 15% into building new homes. Those figures were in 2015. Have we seen a move in the right direction since and do you not think that one of the most effective ways we could bring down the benefit bill is by investing in housing supply now to bring that bill down in the long term?



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**David Orr:** We have seen a small movement in the right direction. Yes, the best way to bring the housing benefit bill down is by investing upfront and reducing rents for people who are on low incomes. There has been a debate about the relative merits of capital and revenue subsidy in housing for generations, and loads of people have done the work on this. If you assume that a house that is owned by a housing association will be accommodating someone who is in housing need, after 13 years, or thereabouts, it is more cost-effective to have had a capital subsidy that keeps rents down. If you think that people are going to be there for a short period of time and then the home will be occupied by someone who requires no public subsidy, the revenue subsidy is more cost-effective. But the truth is that our homes are occupied by people who are likely to require this kind of subsidy. If they are in that home for 30 years, the amount that the housing benefit is costing us is way higher than the amount of capital that would be invested upfront. It is not just socially sensible to have low rents that take people out of poverty but economically sensible too.

Q54 **Wes Streeting:** The Budget confirmed £2 billion of funding for affordable housing. That was announced back in October. Does any of you think that £2 billion for affordable housing was enough and, if not, what should it be?

**David Orr:** The Savills report that I referred to earlier reckons we need £7 billion a year. These are big sums, but the bottom line is there has been no public investment in social rent since 2010, so there is a big gap.

Q55 **Wes Streeting:** The reason I am returning to this is that we have builders, we have the National Housing Federation and we have local councils all represented here, but the message is that £2 billion for affordable housing is not enough. No one thinks that is true.

**David Orr:** £2 billion is a good start but, if anyone in Government thinks that that will end the housing crisis, they are clearly wrong. Fortunately, I do not think anyone in Government does think it will end the housing crisis. I said earlier that the way to regard it is as a down-payment. The responsibility is on us to spend that money quickly and wisely, and get new, good quality, genuinely affordable homes built. That would thereby make the case for that money to be replenished on a regular basis.

Q56 **Wes Streeting:** It is not the enthusiastic response to a so-called housing budget you would expect, so there is clearly more work to do on the part of Government. Finally, David, what do you expect will be the impact of losing access to European Investment Bank funding? You mentioned that, in the past, it has been "a significant provider of long-term competitively priced finance". We are off, I am afraid, sadly, but what do you think the impact is going to be and what can be done to mitigate some of that?

**David Orr:** I do not recall the European Investment Bank investment in housing associations being part of the referendum campaign, sadly. We



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have been able to use EIB funding more effectively than any other country in Europe. In broad terms, we have got out more than twice as much as we have put in, and the main reason for that is that we have had a financial intermediary that operates creating bond finance, borrows big sums and then distributes them to a range of housing associations in smaller sums, The Housing Finance Corporation.

EIB has invested in two or three very large individual projects, and has invested substantially through THFC. We will be able to replace the money, but we will not be able to replace the money at the price that has been able to be achieved from the EIB. Actually, there is nothing in the EIB's rules that stops it from investing in the UK after we leave, but I would not anticipate that there would be very much money coming our way. It may be that, if the Government were prepared to say we will underwrite EIB investment, it would give confidence to the EIB in this transition period. The practical cost to the Treasury would be zero, because of our no-default record, so that is something the Treasury might wish to consider.

**Wes Streeting:** Thank you for that very practical suggestion.

Q57 **Kit Malthouse:** Presumably our EIB receipts depend on us retaining our EIB shareholding. We own 17% of the EIB so, if we retain that, we can still retain access to the funding.

**David Orr:** In theory that is the case, yes.

Q58 **Kit Malthouse:** I just wanted to ask you a bit more about the planning system, because a lot of people get the sense that we do not really have a housebuilding industry in this country. We have a land speculation industry that occasionally builds houses. How much of that is driven by the fact that the planning system has become a high-stakes game of poker between the local authority and the developer, with the threat of PINS hanging around in the background?

**David Orr:** Who wants to answer that first?

**Nick Forbes:** In my experience, local government goes out of its way to make sure that the planning system works in favour of developing new housing. We have an assumption of growth in the National Planning Policy Framework and all but 27 local authorities have local plans in place to deliver that. Where I have seen delays in the system has been in arguments between private developers over particular pieces of land, access rights and so on. I can give you evidence of how that has held up delivery, but I do not see that the planning system is the barrier here, in terms of delivering the new homes that we want.

**Brian Berry:** I mentioned this earlier but, in terms of accessing small sites, that has been a barrier to SME housebuilders, because local authorities have tended to allocate larger strategic sites, which have been more favourable to large housebuilders. It is easier for the local authority to deal with one major contractor. If we want to get the SMEs



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back in, local authorities will need to allocate smaller sites, which are more attractive to local housebuilders. There is the problem there about land, but there are also costs as well, because the underfunding of planning departments has meant that costs have gone up to such a point that my members are saying they would be willing to pay additional money for planning applications to speed up the process, because it is taking too long.

**David Orr:** The thing at the centre of your question is that the business model is to buy land and, at some point in the future, to sell that land at a profit. Very often, the means of generating the profit is by building homes on it, but the reason that there is so much of an uplift in the value of land is because of the gift of residential planning consent. To a significant degree, that is what drives the business model of the bigger developer. Therefore, it is always a game—a bit of a negotiation about where that value goes, who gets to hold on to it and how you capture that value. Viability assessments at the moment basically embed that developers are entitled to a 20% profit margin, and I cannot see that anywhere else in the economy.

Q59 **Kit Malthouse:** I was going to come on to the viability test in a minute. In areas of high demand like the south-east of England, where we obviously need more houses, if local authorities were able to provide absolute certainty about where development was going to be allowed and where it was not going to be allowed, basically if there was a local plan in place and even a neighbourhood plan in place, and therefore the planning inspector was out of the frame, so there was no space for the Gladmans of this world to come along and try their arm with other sites—there was absolute certainty—would that not speed up development? We would not have all this faffing around for years trying to develop sites and bring sites forward that nobody really wanted, and community outrage about putting 70 houses in this village rather than 120 in the other village. If there was absolute local control—"Sorry, Persimmon, you cannot build there; you can build here; now just get on with it"—would that not make life quicker and easier?

**Nick Forbes:** What about Members of Parliament? One of the issues that local authorities face is Members of Parliament objecting to agreed local plans and asking the Secretary of State to call them in. There are three or four examples of those across the country where the interventions of Members of Parliament have held up the system, rather than the local plan being determined and agreed at a local level.

Q60 **Kit Malthouse:** That is up to them. I have to confess, having been a local councillor myself, I stay out of planning completely. That is somebody else's job. Somebody else is elected to deal with that. Essentially, you are saying that outside influence over the local democratic decision slows, delays and provides uncertainty, and that might delay the system, whether it is PINS, a Member of Parliament or whatever.



**Nick Forbes:** It is fair to say that there are a number of ways in which the processes of planning can be stalled and halted, in ways that are not helpful to achieving the targets that the Chancellor has set out in the Budget.

Q61 **Kit Malthouse:** If you gave local councillors the absolute decision about the planning, and effectively they live or die by the decisions they make every four years—people can decide whether they are happy or not—that would speed things up.

**David Orr:** It would potentially, but there is another consideration. I said this to Lord Porter in the past and I know he profoundly disagrees with me. It seems to me that the key important job of the locally elected representatives is to set the plan and, once the plan has been set, I cannot understand why councillors are then involved in implementing it. If you have planning officers who are implementing the plan that has been set by the councillors, why does that require another level of democratic intervention? Frankly, that is another of the places where delay comes in. There is a proposition that is consistent with the plan, but a group of activists who do not want it lobby their local councillor. That goes to the planning committee. It is all consistent with the plan. The planning committee turns it down; it goes to the inspector and the inspector says, "Yes, crack on."

**Stephen Hammond:** The answer to your question, Mr Orr, is the inconsistency with which planning officers apply the rules. I can show you any number of examples of that.

**David Orr:** If that is indeed the case, the challenge is about the quality of the planning officers and ensuring that they do their job properly. As Brian was saying, planning departments are under-resourced. They do not have enough money. It would be sensible to charge more for planning applications, although, if it was up to me, I would have some guidance in that that says if you are paying more for the planning application, you can be assured that your planning application will be turned round within a given period of time.

Q62 **Kit Malthouse:** I am just conscious of the time. You mentioned the viability test. My perception is that, in areas of high demand where the viability test sits at the base of the thing, effectively developers are incentivised to overpay for land.

**David Orr:** That is correct—absolutely right.

Q63 **Kit Malthouse:** That drives up the value of the land. What if we got rid of the viability test? No one ever says to a developer in a local authority, "Sorry, boys and girls; you are going to lose money on this one." It never happens, because the viability test means more storeys, more density—more whatever it might be to make the thing work.

**David Orr:** The viability tests are not transparent, they are not consistent and they are not challengeable. All of this is absurd. There is



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a genuine perverse incentive for developers that do not wish to provide affordable housing to drive up the price of the land, so they can say, "Because the price of the land went up, I cannot do affordable housing now."

**Q64 Kit Malthouse:** Presumably in urban areas, they say, "I tell you what: we have paid so much for the land, we need another 12 storeys to pay for the social housing."

**Nick Forbes:** This is one of the things that local authorities will often find. Developers will come back once the scheme has been agreed and say, "We are really sorry, but the viability has changed. Therefore, we cannot deliver the affordable units that we promised we would deliver."

**Q65 Kit Malthouse:** A developer will rarely buy a site. They will option a site, go for all the permission on the land, and then buy it. In between that, which might be a series of years, the viability will have changed and the Red Book value of the land may have gone up quite significantly, in which case the whole thing then becomes a different development from the one that was initially proposed. Do you think there is a case for dumping the viability test?

**David Orr:** Yes, and there is a case for being more explicit in planning departments about saying, "If there are going to be 100 homes here, 35 of them have to be affordable." That then conditions the price that can be paid for the land. I also think that there should be a public register of optioned land, because that is a much greater problem than consented but not built-out land.

**Q66 Kit Malthouse:** I was about to come on to that, because in the Budget there was this central register of consents. Fine but, in truth, if you look at the big housebuilders, the bulk of their holding will be held on option. It will not be held on cash paid and permission, so they will have a backlog of sites that they are developing and promoting, which are held on option, which avoids any of this stuff altogether.

**David Orr:** Yes, and it takes that land out of circulation for anyone else, like a housing association, which might be able and willing to buy it and build on it.

**Q67 Kit Malthouse:** Exactly right, and so those two things combine: the option process and the viability test. The delay and the lack of certainty are effectively inflating land values and, therefore, housing.

**David Orr:** I believe that to be case.

**Q68 Kit Malthouse:** The second thing I just want to ask you about and the last area to explore is innovation, which you have talked about. Of the industries you mentioned that have innovation, they all largely have one of two characteristics: either they are highly competitive or they have recently been deregulated. The deregulation of telecoms put a mobile phone in all our hands in the space of 10 years. It strikes me that the



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housing industry is incredibly highly regulated. It is probably one of our most regulated industries, and there are large numbers of imposts, taxes effectively, put upon the value chain, which effectively are paid by the homeowner, particularly in areas of high demand. Do you think there is a case to review the collective? You end up with a Budget like this, which is announcing yet more regulation on layers of years and years of regulation already, and yet we never look back to a time when we had previously delivered the volume of housing need and say, "Actually, it was relatively deregulated then." Back when we build 300,000 in the 1930s, we did not have a planning system.

**Brian Berry:** No, but then you had ribbon developments occurring, so it depends what society wants.

**Kit Malthouse:** Of course, a lot of that ribbon development is now the most desirable housing you can buy, certainly in the South East.

**David Orr:** There is no case for reducing regulation on matters of safety and quality. We have to regulate for quality. There is a strong case for simplifying a whole lot of the bureaucracy that is attendant on a whole lot of these processes and, to be honest, a lot of that could be dealt with by planning authorities being much clearer in saying and having the power to say, "We need that piece of land, so we are going to compulsorily purchase it, and on that piece of land there are going to be 100 homes, of which at least 40 are going to be affordable. Now, let us find a developer that can make that work."

It is this thing about the negotiation over the capture of the value that comes with the residential planning consent, which has led to all of this, allied to the amount of land that we take out of the system altogether. We have not spoken about green belt, about which our nation has become completely disproportionately obsessed. We need tiny bits of the green belt to be able to build vast numbers of new homes.

In all of the conversation that we have had today, we have been picking holes in what the Government have proposed in the Budget. My criticism is that all of the direction of travel is right, but none of it is bold enough. None of it has enough muscle behind it to make the kind of difference that we need.

Q69 **Kit Malthouse:** It strikes me your argument is that it is fine but, because it is building upon decades of effective rules and regulations, it has built up such a level of scar tissue that it is now blocking any blood flowing in the system. Effectively, we need to rethink some of the basic tenets of what we are doing.

**Nick Forbes:** I have a slightly different take. There is a lot of talk about innovation, but one of the consequences of innovation is designed obsolescence. You cannot do that in housing. It is not like an iPhone where, if version X does not work, you can replace it with a different



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version and everybody understands it. That is the nature of development.

**Kit Malthouse:** As somebody who represents a town with a huge amount of 1960s housing, we definitely designed obsolescence in the 1960s and 1970s.

**Nick Forbes:** It was not deliberate. We talked earlier about modular construction as one of the potential innovations. One of the challenges with that would be, if there was a design flaw that then came to light at a later date, it has been scaled up. That makes it much more difficult to address. One of the issues with the new towns that we have around the country is that they were all built using concrete, which is now all starting to perish at the same time, and so we have a huge problem with the condition of many of the new-town buildings, all at once. The reason we have a regulated framework is to protect people for the long term. Innovation is fine, as long as it is properly thought through and genuinely leads to improvements, rather than simply a free-for-all.

**Chair:** That is a good place to leave it. Thank you very much indeed for coming in today. You have given us much food for thought, and we take on board your final comment particularly, Mr Orr, that the direction of travel is right but there is a need for bolder thinking. Thank you very much for sharing your thoughts with us and being with us this morning.