

Levelling Up and Regeneration Bill: Second Reading

The Government has introduced the Levelling Up and Regeneration Bill, which represents an opportunity to deliver on the needs of communities across England by reforming the rules around land and planning to build social rent housing.

An affordable and secure home is a fundamental human need, but one in three of us don't have a safe place to call home. With housing waiting lists sitting at 1.2 million and over 120,000 children living in temporary accommodation, Shelter are campaigning to ensure that the Bill enables the delivery of more social rent homes than the current housing system.

Our housing system is broken. The cost of land makes building social housing unaffordable for the Government and councils alike. Meanwhile, the current planning system prioritises maximum delivery of unaffordable homes that can be sold to the highest bidder, instead of well-planned developments with homes that people can genuinely afford.

To meet the promises made to communities across the country, the Levelling Up Bill must be amended to:

1. Reform the 1961 Land Compensation Act to remove 'hope value' for housing schemes that deliver social rent housing to meet local authority need.
2. Ensure that the Infrastructure Levy delivers more social rent homes by a) redefining 'affordable housing' to mean social rent and b) making social rent housing an onsite requirement of new housing developments.

The need for more social housing

We cannot level up the country without building more social housing. It is the only tenure that remains affordable over time because rents are linked to local incomes.

An affordable and secure home is a fundamental human need, but one in three of us don't have a safe place to call home. **Housing waiting lists currently sit at 1.2 million, over 120,000 children are living in temporary accommodation, and this is only set to get worse now that the cost of living crisis is impacting households.**

A safe and affordable home underpins our access to education, our employment prospects, our health and wellbeing, our ability to manage our finances. This is why social housing is fundamental for communities to thrive and must be a central component of levelling up and the proposed changes to the planning system.

The Levelling Up Bill represents a huge opportunity to change the rules around land and planning to enable local authorities to deliver the social rent homes their communities need.

Since 1991, there has been an average net loss of 21,000 social homes per year. To reverse this decline, we must take the opportunity to remove the barriers that have made it impossible for councils to deliver, even if they are committed to building social housing. The Levelling Up Bill can address two of the key barriers to building the homes communities need: the cost of land and the planning system.



Reforming 'hope value' to build social housing

At present, the cost of land in England makes building social housing unaffordable for councils and developers alike. If we are to get serious about delivering for communities and tackling the housing emergency, we must address how high land values create significant barriers for housing developments to deliver social housing.

Land is the single biggest cost in building homes. It makes up to 70% of the cost of a new private home and was responsible for 74% of the increase in UK house prices between 1950 and 2012.¹ When it comes to building more social housing, if we can address the cost of land, we can make development cheaper and build many more, better quality social homes, along with the facilities that communities need.

Currently, the 1961 Land Compensation Act enshrines in law the requirement for local authorities to pay a 'hope value' premium when making a compulsory purchase. This is where 'hope value' is calculated by estimating the potential value of the land, if planning permission was granted to build a luxury development, rather than a fair price for its actual intended use. For example, if a local authority wanted to purchase land to build social housing to meet housing need, they would still have to pay a price equal to the land being used for a luxury development.

In this way, 'hope value' inflates the cost of land and puts pressure on development budgets, effectively pricing out social housing from developments. As land prices have spiralled upwards, the only route to getting social homes built has been to compromise – on design, on quality, quantity and in some cases – even safety.

Work by Civitas has estimated reforming the Land Compensation Act could slash 38% off the total development costs of a new scaled up programme of social housebuilding across England.² **This could reduce the total cost of a building a new social rent home by up to £136,000³.**

By reforming hope value, landowners will still be able to make a healthy profit, but they won't take the lion's share of a development's budget. This will allow councils to finally pay a fair price for land and get many more social homes built.

The need to bring down land values is at the heart of Shelter's vision for how to build a new generation of social housing. And it's why organisations as varied as [Onward](#), [Civitas](#), the [Centre for Progressive Policy](#), Policy Exchange, Adam Smith Institute, the CPRE, the [Institute for Public Policy Research](#) and the [New Economics Foundation](#) have joined the call for reform.

The Levelling Up Bill is a big opportunity to **Reform the 1961 Land Compensation Act to remove 'hope value' for designated housing schemes that deliver social rent housing to meet local authority need, so we can deliver the homes the country needs.**

¹ K. Knoll, M. Schularick, T. Steger, "No price like home: global house prices, 1870–2012", *The American Economic Review*, 107.2, 2017, pp. 331– 353.

² D. Bentley, "Reform of the land compensation rules: How much could it save on the cost of a public-sector housebuilding programme?", Civitas, 2018. civitas.org.uk/content/files/reformofthelandcompensationrules.pdf

³ Ibid.



Reforming the planning system to build more social housing

The current planning system is not delivering the social rent homes and accompanying infrastructure that communities across England are in desperate need of. Successive governments have focused on the flawed idea that building 300,000 market homes will somehow lower rising rents and improve standards, which hasn't helped to give people an affordable and secure place to call home.

To tackle the housing emergency, we need a housing system that focuses on delivering the social homes communities are in desperate need of. This must be the focus of any reforms to the planning system.

The proposed 'Infrastructure Levy' within the Levelling Up Bill has a welcome aim of holding developers to their community obligations but it is still far from guaranteeing that more social housing will be built by the planning system.

In the current system, Section 106 (s106) of the Town and Country Planning Act sets the process for planning obligations between developers and local authorities. Through these obligations, s106 attempts to ensure that new developments don't just work for developer's profit margins, but also for communities by providing social rent homes, schools, GP surgeries, etc.

But all too often, we see developers underdeliver on obligations because the planning system is not tough enough to allow local authorities to hold developers to account. S106 doesn't truly incentivise the delivery of genuinely affordable homes and the right infrastructure for local people. The result is that delivering on community needs isn't taken seriously by developers, when it should be the first priority of any new development. **Last year, s106 only delivered 2,829 social rent homes, when the current council housing waiting list sits at 1.2 million households.**⁴

The Levelling Up Bill has committed to improving the planning system by replacing s106 with the 'Infrastructure Levy', which would set a flat tax on any new development.

While a flat tax would ensure that developers will pay their fair share financially to local authorities, the Levy still does not guarantee that the needs of communities will be met onsite on new developments. We will still risk running into the same problem of delivering the wrong type of housing (unaffordable to local people) without the sufficient infrastructure.

The 'Infrastructure Levy' must focus on ensuring the delivery of social housing, alongside the infrastructure needed, if it is to truly deliver for communities and tackle the housing emergency. The Levy must aim to deliver more social housing than the current system and this can be done by a) redefining 'affordable housing' to mean social rent and b) making social rent housing an onsite requirement of new housing developments.

⁴ DLUHC, [Live tables on affordable housing supply](#), Live Table 1011C

