

Briefing

Memorandum to the ODPM select committee inquiry into affordable housing

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Shelter

Shelter is a national campaigning charity that provides practical support and innovative services to over 100,000 homeless and badly housed people every year. We submitted written and oral evidence to the inquiry into affordable housing held by the Urban Affairs sub-committee earlier this year. We welcome the opportunity to submit evidence to this inquiry and, in particular, its focus on whether the resources delivered in the Government's recent Spending Review. This submission primarily focuses on this issue.

The Spending Review

Shelter welcomes the new resources for housing announced in the Spending Review and recent statements from ministers indicating that housing, and in particular increasing the supply of affordable housing, is now a key priority for the Government. We strongly support the Deputy Prime Minister's call for a 'step change' in housing policy and hope that this inquiry will help generate consensus around how many affordable homes are needed and the policies required to deliver them.

In our previous submission, we set out a detailed estimate of the need for affordable housing. This was based on extensive research carried out for Shelter by the Centre for Housing and Planning Research at the University of Cambridge. This research found that an estimated 83,000 - 99,000 new affordable homes are required each year to meet current and future need. We estimated that this would require additional capital investment of £1.7 billion per year over and above the £1.4 billion set out for 2003/04 in Spending Review 2000 (SR 2000).

Based on the plans set out in SR 2000, our previous submission estimated that output from all sources would increase to 46,000 in 2003/04.¹ This figure will remain more or less unchanged following Lord Rooker's recent announcement concerning the level of funding that will be provided through the Approved Development Programme (ADP) for 2003/04.

This year's Spending Review (SR 2002) set out an increase in capital investment for housing of £1.4 billion by 2005/06. It is not possible to produce reliable estimates for output beyond 2003/04 as the detail of how these additional resources will be allocated has not yet been announced. In addition to providing new affordable housing, they will be used to fund a Housing Market Renewal Fund to tackle low demand in areas of the North and Midlands and to finance arms length management companies (ALMOs) to assist local authorities in meeting the Government's target that all social housing should be of a decent standard by 2010.

To provide a purely indicative estimate of output in 2005/06, we have speculated that around £900 million of these new resources will be available for the provision of new affordable housing. This is based on speculative estimates that, for example, £300 million will be earmarked for housing market renewal and £200 million for ALMOs.

The new resources will be divided between the ADP and the Starter Homes Initiative (SHI). Using the £900 million figure, and based on a speculative split of £700 million for the ADP and £200 million for SHI, this could provide around 16,000² additional affordable homes in 2005/06 bringing total output up to around 62,000.³ These projections are summarised in the table below.

	ADP	SHI	Other	Total output
2003/04	25,300	3,200	17,400	45,900
2005/06	31,756	12,778	17,400	61,934

Based on this indicative estimate, there would be an estimated shortfall of 21,000 - 37,000 units against the 83,000 - 99,000 affordable homes we estimate are required each year to meet need. Although it is not possible to provide a more reliable estimate until the detail of how the new resources will be allocated, these estimates at least give some indication of the likely extent of the continuing shortfall in the provision of affordable homes, despite a significant and very welcome injection of public funding.

Shelter supports the Government's proposals for maximising the supply of affordable housing by improving the planning system (see below), promoting innovative construction techniques and making institutional changes. These measures could help to reduce the shortfall without recourse to public funds. However, if the shortfall is to be met fully, and if the 'step change' called for by the Deputy Prime Minister is to be delivered, additional policy reforms must also be made.

In addition to reforming the planning framework, there are two policy areas in particular where Shelter believes a real difference could be made without significantly increasing public expenditure: the private rented sector and the Right to Buy.

The private rented sector

If any area of housing policy in need of a 'step change' it is the private rented sector (PRS). Currently, around 500,000 people in housing need are accommodated in the PRS. Our research indicates that around 10,000 potentially 'affordable' homes are in effect being lost due to the failure of the sector to cater effectively for those in need, primarily as a result of the inefficiency of the Housing Benefit system. Shelter believes that policy changes could enable the PRS to play a significantly enhanced role, both in providing housing for those in need and for so-called 'key' workers.

In our submission to the Urban Affairs sub-committee earlier this year, we highlighted the report of a commission established by Shelter with the support of the Joseph Rowntree Foundation.⁴ The commission included representatives from landlords and tenants organisations, as well as a range of other interests. It reached a high degree of consensus

about the measures needed to improve standards and supply in the PRS and recommended that the Government develops a new strategy to modernise the sector.

The commission recommended a package of proposals designed to promote a more modern, consumerist approach to the PRS including:

- A new tax transparent vehicle to encourage institutional investment in the sector.
- Tax credits to encourage landlords to provide accommodation at sub-market rents for defined period.⁵

Shelter believes that, between them, these two measures would open up a significant new source of supply of intermediate market housing, suitable for key workers and others on moderate incomes who are unable to afford owner-occupation.

The report also included proposals to:

- Improve the Housing Benefit system by improving administration, simplifying the system of non-dependant deductions, reforming the current system of rent restrictions and moving away from the current verification framework to focus on large scale fraud.
- Introduce a new concept of 'fit and proper' landlords backed up by a statutory code of practice with tenants, as consumers, in a position to challenge poor standards.⁶

As well as helping to increase supply, we believe these measures would mark an important break with the sector's image of poor physical and management standards.

The Right to Buy

When we presented oral evidence to the Urban Affairs sub committee earlier in the year, a significant proportion of our session was spent discussing the impact of the Right to Buy on the supply of affordable housing. Since then, we have published a new report which sets out what we believe is a compelling case for reforming the scheme:⁷

- It is exacerbating the shortage of affordable housing
- The high public expenditure costs associated with the scheme are an inefficient use of public funds
- It is increasingly concentrating the lowest income households in the least popular housing, undermining the Government's social inclusion, opportunity and neighbourhood renewal agendas
- As has been widely reported in the media, there is growing evidence that the scheme is being unacceptably exploited

Twenty years ago, a parliamentary select committee concluded that 'the effect of council house sales on the numbers of new lettings and transfers available in the local authority sector will be substantial'.⁸ As the Committee correctly predicted, the cumulative impact of the scheme on the supply of lettings has indeed been significant. Our report estimates that, as a result of sales under the Right to Buy, by 2005/06 around 4,000 fewer lettings per year will be made by local authorities in London and the South East alone than is the case currently.⁹ The cumulative loss of lettings in these areas over the period up to 2005/06 can be estimated at more than 13,000 and the cost of building new affordable housing to compensate for this at over £1 billion.

Although reforming the Right to Buy would not, on its own, be enough to tackle the shortfall in the supply of affordable housing, it could have a significant impact on the supply of lettings, particularly in areas where shortages are most severe. We believe it must therefore be part of the equation for increasing the supply of affordable homes and delivering the 'step change' called for by the Deputy Prime Minister. We recommend the following:

- Temporary withdrawal of the discounts available under the scheme in London and the South East and other areas of severe shortage, with an option for individual authorities to apply for the discounts to be withdrawn in their areas.
- A comprehensive policy review with the aim of identifying the most effective way of enabling tenants to accumulate assets without reducing the supply of affordable housing.
- Specific measure to stop the scheme being abused.

Whether the funds in the Comprehensive Spending Review will achieve the Government's target of a decent home for everyone by 2010.

Shelter is aware of concerns raised about whether the Government's target that all social housing should be of a decent standard by 2010 will be met. The research carried out for us by the University of Cambridge indicated that the target was on course to be met provided that transfers continued at a rate of 200,000 per annum. Since then, a number of high profile rejections of large scale voluntary transfers have taken place. Shelter supports the extension of the availability of ALMOs to more local authorities and the proposed relaxation of the local authority borrowing regime. Beyond that, we are not in a position to comment in detail on whether the target will be met.

How spending of the new resources should be balanced between social housing and options for owner occupation for those who cannot afford to buy (including shared ownership) and the mechanisms to be used for their distribution.

As we have already set out, despite a significant injection of resources in SR 2002, Government spending plans are likely to fall some way short of meeting need. It is therefore vital that these resources are effectively targeted.

A great deal of attention has recently been focused on the shortage of affordable accommodation for owner occupation by 'key' workers. Whilst Shelter supports efforts to assist this group, this must not be at the expense of those most in need. There are currently more than 80,000 homeless households living in temporary accommodation - a record. At the same time, there are over 1 million households on council waiting lists and in excess of half a million households who are officially overcrowded. To achieve the 'step change' called for by the Deputy Prime Minister and to meet the Government's objective that everyone should have the opportunity of a decent home, the allocation of resources must prioritise those most in need.

We are not aware of any research that attempts to match the income of people who are homeless or in housing need and the relative costs of affordable rents and, low cost home ownership, and 'starter homes' programmes. Of course the vast majority of homeless households need homes at affordable rents. We recommend that work is undertaken into this issue. In the meantime we recommend that the Housing Corporation programme should achieve an 80% / 20% split in outputs between rent and low cost home ownership.

The role of planning obligations in providing affordable housing

The Deputy Prime Minister's announcement following the recent consultation on planning obligations made it clear that the proposed 'tariff' scheme is not being taken forward. This leaves the onus on the policy framework set out PPG³ (Housing) and section 106 agreements to deliver additional affordable housing.

Shelter believes that the primary objective of the planning system should be to promote sustainable development. The supply of affordable housing is central to this and the planning framework should therefore incorporate a clear emphasis on maximising the provision of affordable homes.

The current framework does have the potential to deliver significantly more in this respect. However, recent research carried out by Cambridge and Sheffield Universities reveals that many local authorities are struggling to maximise the benefits it provides and that, in many instances, the system is not delivering any additional affordable housing at all. All too often, capital subsidy (in the form of Social Housing Grant) is simply being diverted from one site to another. For example, subsidy is often removed from sites where exclusively social housing was to be built and instead spent on sites where a section 106 agreement is in place, with the result that there is no increase in the number or quality of homes provided.

As we set out above, in light of the continuing shortfall in the number of affordable homes, we believe it is essential that policy reforms are made to boost supply. To maximise the contribution of the planning system, we recommend the following:

Firstly, the ODPM's policy statements, contained in PPG3 and Circular 06/98, should be amended as follows:

- They should distinguish much more clearly between Government policy and good practice.
- There should be no prescription of the size of development below which a contribution of affordable housing should not be sought.
- Local authorities should be able to specify that housing is either (i) for rent or a form of low cost home ownership provided by a registered social landlord; or (ii) available at a discount against market prices with a mechanism to ensure that the discount will remain in place for future occupiers of the property.

Secondly, planners should be encouraged to determine the contribution to be secured for affordable housing from individual sites according to:

- An assessment of local housing needs.
- A financial appraisal of the site, taking specific account of (i) the difference in the value of the land before and after development; (ii) the costs of developing the site; and (iii) the costs of other planning gain that is being sought from the site.

This contribution will be expressed in terms of its financial value. Planners should then secure the affordable housing in the form of actual units on the site in question (this should be the preferred option), or in the form of a financial contribution towards development elsewhere (this may be more appropriate for smaller sites).

This approach requires that planners develop a better understanding of the development process and, in particular, development finance. They will need to be trained accordingly. We welcome the announcement in the Spending Review of additional resources for the planning system and recommend that some of these resources are used in this way. We also recommend that planners work more closely with colleagues within local authority estates management and valuation departments, or call on private sector expertise.

Finally, in order to boost understanding and support for the system of planning gain, we recommend that local authorities should put in place robust systems that record:

- All planning obligations secured 'on paper' during the process of negotiation for planning permission.

- A yearly update of the actual delivery of these obligations.
- In the case of financial contributions, exactly how the money was spent.

A separate submission to the inquiry on behalf of the Chartered Institute of Housing, the National Housing Federation, the Local Government Association, the Royal Town Planning Institute and Shelter on the specific issue of planning obligations expands on these points.

The effectiveness of the Housing Market Renewal Fund in tackling housing needs in areas with low demand

Shelter is aware of growing concern about the problems associated with low demand for housing, particularly in some areas of the North and Midlands. We agree that these problems can have a very severe impact on individuals and communities and it is important that they are addressed. Along with many other organisations, we have long argued that housing policy should be flexible enough to address the very different housing problems that exist in different parts of the country. Clearly, in London and much of southern England, the priority is to increase the supply of affordable housing. In many parts of the North and Midlands, the priority is to regenerate areas suffering from low demand.

It is important that efforts to tackle low demand do so in a sustainable way. Building new housing may not, on its own, be the solution and there have been too many examples in the past of new developments being built only to then also lie largely empty. Equally, the impact of measures to demolish abandoned or poor quality property in one area will be affected by planning decisions to approve new development elsewhere.

There is much still to be learnt about the nature of housing markets and the links with other interventions such as land use planning, neighbourhood management and economic regeneration. We therefore recommend investing in a better understanding of these issues, to inform the investment in regeneration of housing markets.

How the quality of new affordable housing can be ensured and the poor design of previous house building programmes avoided.

Good design is imperative in building homes that people want to live in and in creating sustainable communities. There is no reason why social housing should not be built to a high standard and, indeed, there are numerous examples of where this has been achieved.

End Notes:

- 1 It is estimated that resources provided through the ADP, the Starter Homes Initiative and the Safer Communities Supported Housing Fund will provide an output of 29,500 units. An estimated 16,400 units will be provided via grants from local authorities, by registered social landlords without subsidy and through the planning system.
- 2 This additional provision assumes an 80/20 split in ADP funding for housing for rent and sale and uses average unit costs of £71,930 for rent and £36,391 for sale for an area which includes London and the South East, the South West, the East of England and the West and East Midlands. This also includes an estimated inflation rate of 2.25 per cent per annum for three years.
- 3 This figure assumes that the number of units provided through other mechanisms, namely those other than ADP and SHI programmes, remains constant.
- 4 Private renting: A new settlement, Shelter, May 2002
- 5 A recent report published by the ODPM Fiscal policy options to promote affordable housing makes a similar recommendation and argues that, if linked to measures to increase land supply, this could significantly increase the supply of affordable housing.
- 6 This proposal is compatible with the proposals set out to reform landlord and tenant law in the recent consultation by the Law Commission Renting Homes 1: Status and Security
- 7 Time for a change: Reforming the Right to Buy, Shelter, September 2002
- 8 Second report from the Environment Committee 1980/81: Council House Sales
- 9 This calculation is based on current rates of sale and turnover of stock