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# FOREWORD BY THE DEPUTY PRIME MINISTER AND CHANCELLOR OF THE EXCHEQUER

One of the key goals that this Government has set itself for the next Parliament is to build on our record of economic stability, to greatly extend the opportunities available to people to meet their aspirations and access a decent home at a price they can afford.

Greater economic stability, delivered by the Government's macroeconomic framework, has resulted in the lowest volatility and levels of unemployment for three decades, household incomes growing by over 20 per cent in real terms since 1997, and inflation and interest rates at historically low and stable levels.

Total interest payments are now 9 per cent of disposable income, compared to a high of 15 per cent in 1990, with mortgage rates at their lowest for forty years.

As a result of the economic stability and rising prosperity delivered by this Government, more and more people have had the confidence to become homeowners, leading to one million new homeowners since 1997.

To extend that number to 2 million in the next 5 years, ensuring that more people can benefit from the opportunities home ownership brings, this Government is committed to pressing ahead with its wide-ranging programme of investment and reform to housing and planning.

Our focus in publishing this document alongside our package of planning reforms today is to provide an overview of what we are doing to extend the opportunities for people to have a home that meets their aspirations. And equally, as we build the new houses for tomorrow, we must ensure we are building truly sustainable communities: well-designed, well-served places people are proud to live in and call their home.

This document builds on the detailed and comprehensive analysis set out by Kate Barker in her independent review of housing supply and progresses the Government's vision for more and better homes as set out in the Sustainable Communities Plan, Homes for All and Extending Home Ownership.

It sets out the choice now facing our country - either we build more houses, assisting us to extend the opportunities and benefits of home ownership to 1 million new homeowners in the next 5 years, or we accept the status quo of increasingly unaffordable housing constraining our social and economic ambitions.

This is a challenge that new generations of our young people expect us to address, and which this government is prepared to grasp.



**Rt Hon Gordon Brown MP**  
Chancellor of the Exchequer



**Rt Hon John Prescott MP**  
Deputy Prime Minister



# EXECUTIVE SUMMARY

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## 1. The Economics of housing markets

**E.1** The Government's objective for housing policy is both simple and fundamental - to ensure a decent home for every individual in the country. Yet housing policy decisions have the potential to impact on a vast array of broader economic and social policy objectives: delivering macroeconomic stability; helping households manage assets, savings and risk; meeting peoples' housing aspirations; creating sustainable mixed communities and enabling labour market flexibility.

**E.2** To be effective in delivering these objectives, policy-making needs to be rooted in a clear understanding of the distinct characteristics of houses and housing markets. First, houses perform dual functions: they are the source of essential housing services to be consumed by the occupant; and they can be considered as an asset, which can be bought and sold.

**E.3** Secondly, housing has a number of distinct properties. Housing is recognised as an entitlement of all citizens and has three special physical characteristics: durability, uniqueness and fixity of location. Together these unique characteristics of housing combine to give housing markets a number of distinctive features. Housing markets are highly decentralised, directly connected to financial markets, and prices tend to follow long protracted cycles over several years.

**E.4** These distinct characteristics present households with a complex set of choices, and carry powerful macroeconomic implications as well as posing significant microeconomic, social and distributional challenges. This in turn motivates a range of policy interventions by government on both the demand and the supply side to secure its key social and economic policy objectives.

**E.5** This document focuses both on the demand side and the supply side. In particular it sets out the government's strategy for tackling a longstanding area of concern – the UK's long-term lack of supply and responsiveness of housing. The theoretical framework set out illustrates the importance of getting this right. Durability, fixity and uniqueness all imply that achieving a more responsive long-term housing supply can play a major role in helping people meet their housing and asset-owning aspirations, as well as helping deliver macroeconomic stability and more flexible labour markets. In particular, the analysis illustrates the central importance of a well-functioning planning system.

## 2. Housing trends and challenges

**E.6** Chapter 2 examines the key social, economic and demographic trends influencing the housing market, and the consequences of these trends for people looking to buy a home. In particular it revisits the analysis underpinning Kate Barker's independent review of housing supply, published alongside Budget 2004, which set out clearly the threat posed to the UK's social and economic success by the long-term lack of supply and responsiveness of housing in the UK.

**E.7** Greater economic stability, delivered by the Government's macroeconomic framework, has resulted in the lowest volatility and levels of unemployment for three decades, household incomes growing by over 20 per cent in real terms since 1997, and inflation and interest rates at historically low and stable levels.

**E.8** Total interest payments are now 8.9 per cent of disposable income compared with a high of over 15 per cent in 1990, while repossessions are at a fraction of their peak in 1991 when over 70,000 properties were taken into possession. In addition mortgage rates have been at their lowest for forty years – average building society rates were 5.2 per cent in May, compared with 11 per cent between 1979 and 1997.

**E.9** As a result of the economic stability and rising prosperity delivered by this Government, more and more people have had the confidence to become homeowners, leading to one million new homeowners since 1997. Over the last 50 years the proportion of households that own their own home has increased substantially – to over 70 per cent in 2003. Even so, nine out of ten households would prefer to own their own home if they could. Action is needed if government is to give more people the opportunity to realise their aspirations for home ownership.

**E.10** Increased household formation stemming from changing family relationships and circumstances resulted in over one million more households being formed in England between 1996 and 2003, an increase of more than 5 per cent compared with a population rise of just 2 per cent. This trend is set to continue.

**E.11** Yet since the 1960s the total number of homes being built in the UK has been on a downward trend. Since 2001, house building has begun to recover, with housing completions in England up by almost 20 per cent in 2004, compared to 2001. However, new housebuilding is still not enough to meet demand, exacerbating upward price pressures.

**E.12** Higher house prices make it particularly difficult for younger, less well-off households to buy their own home. The ability of first time buyers to enter the housing market, based upon house price to income ratios, has worsened over the past thirty years.

**E.13** As house prices have risen, first time buyers have needed increasingly large deposits, because lenders usually tie mortgages to fixed income multiples or limit the loan to value ratio. As a result, first time buyers often find themselves relying on relatives for help: in London over a third of first time buyers between 1995 and 2001 relied to some extent on gifts, family loans, inheritance or windfall.

**E.14** As highlighted by Sir Digby Jones, the director-general of the CBI, and others, higher house prices affect recruitment and retention, and thus business location decisions, in the private sector. The Barker Review also highlighted evidence that large price differentials between regions can lead to segmentation in regional labour markets, leading to greater unemployment mismatch. Increasing housing supply would bring an indirect benefit to the economy by reducing constraints on the ability of the labour force, and hence industry, to locate where they are most productive. This productivity effect could increase the economy's potential growth rate and impact positively on the long-term unemployment rate.

**E.15** Higher house prices also mean significant numbers of key workers – such as teachers and nurses – are now unable to afford to purchase a home in an area reasonably close to where they work. This makes recruitment and retention more difficult in areas where house prices are highest, with knock-on impacts on public service delivery.

**E.16** Unresponsive housing supply has the potential to translate to instability in the wider economy. House price expectations are strongly influenced by the current rate of house price inflation. Since houses are highly durable, the total supply of housing is

dominated by the stock of existing housing, with net new supply accounting for no more than 1 per cent of the housing stock. The supply of housing is therefore unresponsive to short-term changes in demand. However, the historical upward trend in house prices implies that housing supply has also been unresponsive to changes in demand over the longer-term. By encouraging expectations of continually rising house prices, unresponsive housing supply can exacerbate housing market cycles.

**E.17** Houses are not just places to live – they are assets. Research has shown that access to financial assets can affect life chances. Similarly, homeowners – and their children – may enjoy a greater sense of security and opportunity, and be more willing to invest for the future. Holding housing assets can also have other benefits. For example, property can be used as collateral to secure loans. Owning your own home can also provide a financial hedge against future housing costs, and rent-free accommodation in retirement. Investing in the quality of a home can be a form of saving, by increasing its value.

**E.18** Over recent decades, housing has averaged around 35 per cent of total household sector wealth. In addition, the total stock of assets has risen significantly over the period, with the net wealth position improving by around 50 per cent since 1997. At a disaggregated level, this large stock of wealth is unevenly distributed. As a result of this uneven distribution, with rising real house prices there is a redistribution of wealth from non-homeowners to existing homeowners. For many people, particularly those who are young or highly mobile, renting rather than owning a property is appropriate for their particular circumstances. But without an increase in housing supply, households without housing assets risk being left behind, missing out on the choices and opportunities that owner-occupiers enjoy.

**E.19** The most visible aspect of an undersupply of housing is homelessness, although this results from a number of social as well as economic causes. Concerted action has succeeded in cutting the number of people sleeping rough by more than 70 per cent since 1998, to around 500 on a single night. Moreover, after rising in recent years, the number of people being accepted as homeless has begun to fall. Despite this, total numbers of people in temporary accommodation are rising. These increases are partly explained by changes the Government introduced to make more people eligible for help. Most of this accommodation is of reasonable quality, and over 80 per cent are self-contained homes. But the lack of certainty about the future and the disruption of frequent moves make it unsatisfactory for many people.

**E.20** Finally, in addressing the problem of weak and unresponsive housing supply, the Government will not lose sight of the challenges facing the existing stock, particularly the challenges posed by concentrations of deprivation and worklessness in some areas of the country, and of low demand and abandonment.

### 3 The Government's response so far

**E.21** The platform of economic stability created by this government has assisted it in bringing forward a wide-ranging programme of demand and supply side measures to improve affordability and access to housing throughout the country. Particularly significant were the *Sustainable Communities Plan* in 2003, and the ODPM five year plan for housing, *Homes for All*, which was published earlier this year.

**E.22** The *Sustainable Communities Plan*, launched by the Deputy Prime Minister in February 2003, sets out a long-term programme of action for delivering sustainable communities in both urban and rural areas. This £38 billion programme (from 2003-04

to 2007-08) is aimed at co-ordinating the efforts of all levels of government and external stakeholders in delivering development that meets the economic, social and environmental needs of current and future generations. In particular, it addressed the differing needs of areas of high and low demand through specific programmes for growth areas and housing market renewal pathfinders respectively.

**E.23** In January this year the Deputy Prime Minister published his Five Year Plan, *Homes for All*, which set out how everyone – owner-occupiers, key-workers and other first time buyers, social tenants, and those who rent privately – can be extended the opportunity of a decent home at a price they can afford. It set out how the Government is increasing the supply of housing in a responsible way, how it will offer hundreds of thousands of tenants the opportunity to buy a stake in their own home and how it will create sustainable, mixed communities

**E.24** *Homes for All* was followed by the publication of *Extending Home Ownership* in May, which set out the Government's programme of action for extending the number of new homeowners by a further million in the next 5 years and ensuring that more people can benefit from the advantages of homeownership. Together these policy statements help set out a clear strategy for how government will deliver housing opportunity and choice for all.

**E.25** Key policies include:

- providing support on the demand-side to help targeted groups of first time buyers through the Homebuy programme and via joint equity loans with mortgage lenders. These plans will assist at least 80,000 households into home ownership by 2010, as well as providing up to 300,000 social housing tenants with an opportunity to buy a stake in their home;
- continuing to tackle housing undersupply through measures to increase the amount of surplus public sector land being brought forward for development, and through reducing construction costs via the competition to construct homes for £60,000. English Partnerships has recently acquired a portfolio of 96 NHS sites that will contribute towards the provision of 15,000 new affordable homes for first time buyers nationally by 2010, while 10 sites have now been provided for the competition which are expected to deliver around 1,000 new homes;
- providing stamp duty help for home-buyers. As a result an extra 300,000 home buyers are exempt each year from stamp duty; and those benefiting from the Budget change are saving up to £1,200 on the cost of buying a house;
- increasing quality and choice for those who rent, by enabling local authorities and housing associations to invest around £42 billion on their existing stock by 2010, extending choice-based lettings to all social tenants, and consulting on the introduction of a UK-REIT;
- developing sustainable mixed-income communities, by investing over £2.4 billion since 1997 through programmes such as the New Deal for Communities and the National Strategy for Neighbourhood Renewal, and taking further steps through nine mixed communities demonstration projects; and

- continuing to provide support to those who are left homeless and vulnerable. Government has reduced the numbers that sleep rough by 70 per cent and has ended the use of long-term bed and breakfast accommodation for families with children.

## 4 Achieving a more responsive housing supply

**E.26** Earlier analysis set out a series of economic, social and demographic justifications for tackling the UK's long-term lack of supply and responsiveness of housing. Constrained housing supply leads to increasingly unaffordable housing, frustrating the home ownership aspirations of many individuals and families. It also leads to wealth redistribution from those outside the housing market to those inside it. Low housing supply reduces labour mobility, damaging the flexibility and performance of the UK economy and key public services, and can also translate into wider macroeconomic instability

**E.27** Building on the Sustainable Communities Plan, Kate Barker's independent review of housing supply set out clearly the threats that the UK's weak supply and responsiveness of housing poses to its future social and economic success. In its initial response at Budget 2004, the Government welcomed Kate Barker's review and accepted her headline conclusion that to improve affordability and increase access to housing, the UK needs to build more houses over time. The Government said it would respond to the review's recommendations in full by the end of 2005 and remains committed to meeting this timetable.

**E.28** Chapter 4 sets out the progress Government is making in responding to the Review's recommendations for achieving a more responsive supply of housing, paving the way for a full response by the end of the year. The key policy issues are grouped under two broad categories: reforming planning, and investing in housing and infrastructure.

**E.29** The analysis of the distinct characteristics of housing in chapter 1 identified the central importance of a well-functioning planning system for ensuring a responsive housing supply, while also promoting wider objectives, such as protection of the environment and the promotion of regeneration. Recent changes to the planning system will help make planning more robust and more responsive to developing policies and changing circumstances. However, Government recognises the need for further improvements to the planning system and will continue to implement far-reaching reforms to the planning system to make it quicker, more flexible and more responsive to the wider social and economic needs of the UK in the 21<sup>st</sup> century.

**E.30** In particular, the Government is committed to responding to the recommendations of the Barker Review, which concluded that a key constraint on delivering additional housing supply was an inadequate supply of developable land in plans. This was identified as a consequence of the fact that planning for housing currently takes insufficient account of housing market indicators, which can reveal important information about peoples' preferences and can be an important aid to decision-making.

**E.31** The Barker Review identified some significant concerns with the process by which the appropriate level of housebuilding is decided upon for the forthcoming plan period. Regional and local housing targets tend to have insufficient regard to housing demand, in both high and low demand areas, and tend to be unresponsive to changing housing market conditions over time. One consequence of this is that the UK's supply

of new housing responds relatively little, compared to other countries, to changes in house prices.

**E.32** To address these concerns the Barker review recommended that Government should set a long-term national goal for affordability in the housing market. The objective of this goal would be to increase the focus on the key outcome of improving access to market housing over the housing market cycle, by making the implicit trade-off between housing affordability and new supply more explicit in the debate about housing numbers, and by building in greater responsiveness to market conditions over the plan period.

**E.33** The Government agrees that to deliver its commitments to stability and affordability a significant increase in development over time is needed. The Government is continuing to consider the scale of such development and how it can be delivered both in high demand areas and in areas suffering from low demand. In considering by the end of the year the effectiveness of a national affordability goal in delivering Government's objectives, the Government will balance the economic and social case for housing development against its environmental and wider implications.

**E.34** One of the key constraints on housing delivery is land supply. The effective supply of land through the planning system is fundamental to the successful delivery of the Government's housing policies, as there is a positive relationship between the amount of land plans allocate for housing and the number of houses that are built. It is essential therefore that plans allocate adequate land for development, that identified sites are developable (i.e. free or readily freed from constraints), and that plans respond in a timely fashion to changing market circumstances. At present, the planning system needs reform in each of these areas.

**E.35** The Government's reforms are aimed at delivering a better balance between housing demand and supply and will come forward in two phases. In the first phase over the summer, the Government will consult on a new policy approach to land supply. ODPM's consultation paper *Planning for Housing Provision* sets out a proposed new approach for delivering a better supply of housing through the planning system. The key elements of the proposed new approach are:

- requiring greater reference to housing market information at the regional level in determining the level and distribution of housing provision within the region, and to tailor the delivery of housing to the circumstances of different markets;
- extending the local authority plan horizon from 10 years to 15 years to take a longer term view;
- requiring that local authorities ensure that the first 5 years of this land supply is allocated and developable;
- requiring that local authorities roll forward this 5 years supply as land is developed, and in the context of changing housing market conditions;
- introducing housing land availability assessments, to require local authorities to work with developers to identify land that is developable and offers the most sustainable option for development.

**E.36** In a second phase of planning reform in the autumn, the Government will consult on a new draft Planning Policy Statement on Planning for Housing (PPS3)

which will set out the broad national policy framework for planning for housing. The aim will be to ensure that the planning system is used to its maximum effect to ensure that everyone has the opportunity of a decent home, which they can afford, within a community which is sustainable and in which they want to live and work.

**E.37** The Barker Review also recommended reforms to the institutions that operate within the planning system. The Government broadly supports these proposals and set out options for reform in the ODPM consultation document *Housing and Planning in the Regions* last autumn. At Budget 2005 the Government committed to establish an independent advice unit to strengthen the evidence and analysis on improving housing market affordability available to regional planning bodies throughout the regional planning process. Merging Regional Housing Boards and Regional Planning Bodies, as recommended by Barker, will mean that regions are able to take a strategic view of their housing and infrastructure needs.

**E.38** The Government will come forward with firm proposals for a new national advice unit by the end of the year, in the context of its wider response to the Barker Review. The ODPM is currently exploring options for locating the proposed new body on a site shared with the Office of National Statistics' Demographic Centre. Working side-by-side, members of these two bodies could develop expertise on demographic and economic information. This would help the unit to strengthen the evidence base underpinning regional strategies, helping to bring greater transparency to the debate about housing numbers at the regional level.

**E.39** A growing and changing population needs to be provided with public services - schools, health centres, waste disposal, public transport and policing. Where new housing is required to accommodate this population, there is likely to be increasing water and energy demand, while flood defence and transport infrastructure may well be needed. In addition, wider policy objectives require that a proportion of overall housing growth be in the form of affordable housing.

**E.40** Ahead of its full response to the Barker review by the end of the year, Government is currently undertaking further analysis on the wider potential infrastructure implications of increased housing supply. Assessing the cost of the infrastructure required to support additional housing growth is a complex exercise, which involves significant uncertainties. In assessing potential additional costs the following need to be taken into account: spatial location; existing service capacity; ongoing household formation; the pattern of development; existing investment; and the scope for demand management. These considerations suggest that some of the figures currently being used in debates about housing growth should be treated with caution.

**E.41** A proportion of overall housing growth will need to be in the form of affordable housing (social and sub-market housing in various forms). This is being achieved through a turnaround in public investment in housing, which by 2007-08 will have reached £7.2 billion, over double what it was in 1997-98. The 2004 Spending Review provided £1.3 billion more for housing in 2007-08 compared to 2004-05, as well as realising extensive efficiency improvements. This will bring a 50 per cent increase in new social house building by 2007-08 compared to 2004-05 – an additional 10,000 homes a year.

**E.42** In addition to making a major contribution to increased social housing supply, the 2004 Spending Review will also help deliver increased private supply through funding the ODPM's Sustainable Communities Plan to support the delivery of 200,000 additional homes in the Thames Gateway and other growth areas by 2016. The

Spending Review also established a new Community Infrastructure Fund (as recommended by Kate Barker) of £200 million to finance transport projects that would bring forward new housing development in key areas of growth. Following detailed appraisal of initial bids over the summer, the Government will announce CIF funding allocations in the autumn.

**E.43** As part of its drive to devolve decision-making, the government is also taking steps to help regions influence more directly future public spending decisions on infrastructure priorities. Following consultation on regional funding allocations, the Government is publishing guidance inviting regions to give advice on future public spending decisions based on realistic funding assumptions for transport, housing and economic development. The guidance sets out, for the first time, regional transport funding allocations for three years up to and including 2007-08, in line with the regional housing and regional economic development allocations already published. The guidance also provides indicative longer term planning assumptions for regional allocations, beyond the three years of the current Spending Review, across the three funding streams.

**E.44** In addition to mainstream departmental funding it is also important to recognise the significant contribution that the system of (section 106) planning obligations can make to infrastructure delivery. Through planning obligations, developers make cash or in-kind contributions towards a range of infrastructure and services, including local roads and public transport schemes, public spaces, community facilities and affordable housing. However, the existing system of planning obligations has for a while been criticised for being complex, difficult to agree and responsible for delaying the planning process. As a result, Government has made clear on a number of occasions its intention to bring about much-needed reform to the system and is today pressing ahead with the publication of a new Circular on planning obligations to streamline the current arrangements for negotiated s106 agreements, ahead of any potential wider change.

**E.45** As further thinking on reforming s106 continues, the Government will proceed as set out at Budget 2004 by considering Kate Barker's recommendation for a Planning-gain Supplement (PGS) in its wider response to the Review by the end of the year. Kate Barker recommended that a Planning-gain Supplement be introduced to capture a portion of the uplift in value accruing to land during the development process to fund enhanced investment in social housing, housing-related infrastructure, and to provide incentives for local authorities to deliver housing growth. The views of stakeholders will be sought in this process.

**E.46** Finally, the Barker Review also laid down a series of challenges to the housebuilding industry to improve service quality and customer satisfaction ratings and to increase investment in skills and improved production techniques. The Government has been updated on the progress being made by the housebuilding sector in responding to these recommendations by the Home Builders Federation (HBF). The Government recognises the steps that the sector has taken to date and urges housebuilders and developers to take further significant strides in addressing these important recommendations as part of the wider response to the Barker review by the end of the year.

**E.47** Overall, successful implementation of the Review's recommendations remains essential to securing the economic and social benefits to the UK set out earlier and the Government remains on track for a full response to the Barker Review by the end of the year.

## 5 Enhancing the environment

**E.48** The Government is committed to increasing housing supply to deliver significant social and economic benefits. However, as set out in the Government's sustainable development strategy, *Securing the Future*, extending opportunities for people to have a home that meets their aspirations must go hand in hand with protecting and enhancing the environment, both for the enjoyment of people today and to ensure a strong legacy for future generations.

**E.49** Improving the environmental performance of buildings and developments during their planning, design, construction and in use; increasing their sensitivity to the needs of our historic towns and cities; and providing green space through strict controls on new buildings on undeveloped sites all contribute towards creating attractive sustainable communities where people want to live and work, now and in the future.

**E.50** The Government's commitment to achieving 60 per cent of new development on brownfield land, and more efficient use of land through higher densities (between 30 and 50 dwellings per hectare) will ensure that the land take and potentially adverse environmental impacts from new development are minimised. This has resulted in 67 per cent of new development in England being on brownfield land in 2003, up from 56 per cent in 1997.

**E.51** Meanwhile the density of new dwellings rose from an average of 25 dwellings per hectare in 1997 to 39 dwellings per hectare in 2004. The Government's policies on density and brownfield development are playing a major role in ensuring that housing development takes place where it can be adequately supported by key infrastructure and public services, such as transport.

**E.52** Together the results of these changes are striking. Government can deliver its goal of 1.1 million new homes in London and the South East by using less land than it would have taken to deliver the previous target of 900,000 homes. The 1.1 million proposed new homes will be built on about 5,000 hectares less greenfield land than the 900,000 homes previously planned with the 1997 densities and levels of brownfield land use. That is a saving of over a third compared with previous plans – an area of greenfield land larger than Oxford.

**E.53** A central aim of the Government's sustainable communities agenda is to create and maintain communities that people want to live in. An important part of this is provision of green space to support access, recreation and biodiversity in both rural and urban areas. Planning guidance seeks to ensure good provision of green space in new and existing communities.

**E.54** The Government is committed to maintaining and enhancing the Green Belt. In 2003, designated Green Belt land in England amounted to 1,672,000 hectares, about 13 per cent of the land area. This was 19,000 hectares more than in 1997, when the extent of Green Belt was last measured. A further 12,000 hectares of Green Belt have been earmarked in new local development plans awaiting approval.

**E.55** Government is today publishing a consultation paper on proposals for a new Green Belt Direction. This would require certain applications for inappropriate development in the green belt which local authorities are minded to approve to be referred to the Secretary of State. It will clarify the current arrangements for developers and local authorities alike and will help ensure a more consistent approach in the referral of applications.

**E.56** Sustainable communities also need their own identities. Good design contributes to this and can also result in reduced carbon emissions, through reduced construction waste and better use of materials, reduced energy consumption in use, and improved travel to work patterns. Good design also provides value for money, encourages community identity, improves the quality of local environments and improves the long-term durability of places.

**E.57** More sustainable buildings can make a major contribution to the UK's quality of life at all levels, from tackling climate change to environmental improvements in peoples' neighbourhoods. The Government is committed to ensuring that all newly developed communities such as the Thames Gateway Development are built to high environmental standards on issues such as energy efficiency and water use. It will work with industry on a voluntary basis to develop a new Code for Sustainable Buildings, which will be demonstrated in the Thames Gateway and a range of other areas from 2005, before nationwide roll out. A number of developers are already coming forward to volunteer pilot projects.

**E.58** Increasing housing supply will deliver significant social and economic benefits. However, extending opportunities for people to have a home that meets their aspirations must go hand in hand with protecting and enhancing the environment, both for the enjoyment of people today and to ensure a strong legacy for future generations.

# THE ECONOMICS OF HOUSING MARKETS

## INTRODUCTION

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**1.1** The Government's objective for housing policy is both simple and fundamental - to ensure a decent home for every individual in the country.<sup>1</sup> Yet housing policy decisions have the potential to impact on a vast array of broader economic and social policy objectives: delivering macroeconomic stability; helping households manage assets, savings and risk; meeting peoples' housing aspirations; creating sustainable mixed communities and enabling labour market flexibility.

**1.2** To be effective in delivering these objectives, policy-making needs to be rooted in a clear understanding of the distinct characteristics of houses<sup>2</sup> and housing markets. These characteristics present households with a complex set of choices and risks, and carry powerful macroeconomic implications as well as posing significant microeconomic, social and distributional challenges. This in turn motivates a range of policy interventions by government on both the demand and the supply side to secure its key social and economic policy objectives.

## WHY IS HOUSING DIFFERENT?

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**1.3** Buying and selling houses is often considered in much the same terms as buying or selling anything else. Yet houses are very different from other goods. Houses differ markedly from each other by type and location, transactions can be complex, and buyers and sellers can never make fully informed, risk-free decisions. In practice, households cannot buy a little more or a little less housing each day depending on relative prices. Instead people live in homes every day, but typically make very infrequent and long-lasting choices.

**1.4** There is a distinction between houses and housing services. Houses are the stock of buildings which, when combined with other inputs such as lighting and heating, provide a flow of housing services to households every day. The house itself is the most important input into generating housing services, and certainly accounts for almost all of the costs, but it is the flow of housing services in total which is essential for our safety and well-being. This distinction implies that houses perform two functions. Houses are the source of essential housing services to be consumed by the occupant, and can be considered as an asset, which can be bought and sold.

**1.5** These two properties come together when someone improves their home, for example through an extension. They immediately increase the value of the housing services they are consuming. And, when they come to sell the home, they will see a higher price for their asset.

**1.6** Housing market institutions and the market adjustment process are also very different from those markets for our day-to-day purchases. Housing markets are highly decentralised, meaning that they are traded in local areas and often through a few

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<sup>1</sup> This document is generally UK-wide in coverage, although it should be noted that many housing policies are devolved in Scotland and Wales, and in Northern Ireland when devolution returns. In these devolved areas it is for the devolved administrations to determine their own policies and how much funding they wish to allocate to them within their overall budgets. The Government works closely with the devolved administrations in taking forward policies which apply across the UK and in learning from each other in devolved areas of policy.

<sup>2</sup> Throughout this document 'house' should be taken to mean 'house, flat or other dwelling type'.

chosen agents, and directly connected to financial markets. House prices also tend to follow long protracted cycles.

**1.7** Almost all these distinct properties of housing markets, the distortions and inequalities and the motivation for government intervention, can be traced back to the distinct physical characteristics of housing. These comprise durability, uniqueness and fixity of location.<sup>3</sup> In addition, housing is also widely considered to be an entitlement of all citizens.

## Housing as an entitlement

**1.8** Housing is recognised as an entitlement of all citizens. It is an important part of the right to enjoy an adequate standard of living and is essential to our well-being by providing security and comfort. Government is committed to ensuring that everyone has the opportunity to access a decent home. This is not only for the direct benefit of households, but also for guaranteeing social cohesion and better employment prospects, improved health and education and greater economic inclusion.

**1.9** However, housing provision by the private sector alone is likely to be less than is socially optimal in delivering adequate numbers of houses, of an adequate minimum standard, where and when it is needed, at a price affordable to all. As a result there is a case for government intervention to ensure universal access to decent housing. Such interventions are crucial to the delivery of social and equity objectives.

**1.10** In addition, the cost of housing is usually the largest financial commitment in people's lives. Each household may decide to spend more or less on housing services, depending on their circumstances and preferences, but unlike general consumer goods and services, the option of opting-out of housing services is not feasible. This unavoidability and the sheer size of the total cost of housing over a person's lifetime make housing one of the most important financial decisions that people make.

## Durability

**1.11** Houses take time to build and can last for generations. Since houses do not deteriorate much in the short term, they can be bought and held for many years. As a result, there is a large existing stock of houses and a relatively small short-term flow of newly constructed houses. This has important implications for the market adjustment process both in terms of prices and, as was outlined by the Barker Review,<sup>4</sup> long-run supply. Durability also implies that a house can be owned for many years and then eventually sold at a profit or loss just like any other traded asset. So there are two overlapping markets; one for the flow of housing services and the second for trading houses as assets.

**1.12** It is these two overlapping markets which give individuals another investment option as well as investing money in financial assets or education. They can add to the quality of their home, and reap the rewards with a higher sale price. However, such investments are going to be highly illiquid, and may be far more difficult than savings or a pension to turn into a stream of income in retirement.

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<sup>3</sup> These physical characteristics are often listed in surveys of housing economics.

<sup>4</sup> *Review of Housing Supply: Securing our Future Housing Needs*, Interim Report – Analysis, Kate Barker, 2003; and *Review of Housing Supply: Delivering Stability – Securing our future housing needs*, Final Report – Recommendations, Kate Barker, 2004.

**1.13** Since the housing market is dominated by households acquiring their primary residence, the link between housing and financial markets may appear remote, given that most households invariably have relatively small holdings of other financial assets. However, the majority of households at least initially fund their house purchase with a mortgage, which makes this link more concrete. This connection with the cost of borrowing, which is variable, suggests that house prices will always be variable to some extent and that government policy must therefore promote opportunities for households to manage their resulting risks, as well as maintain macroeconomic stability to reduce risks originating from the economy.

### Fixity of location

**1.14** All houses are fixed to a specific location, which can be described in terms of its neighbours, proximity to employment and amenities as well as its geographic position. Such features are of great importance when assessing the desirability and value of a home. In practice the tenant or owner is choosing jointly the building and the neighbourhood in which they will reside. Yet the characteristics of the neighbourhood will evolve and, to a large degree, are beyond a household's control.

**1.15** The interdependence between household and neighbourhood can lead to undesirable outcomes. Inappropriate behaviour can arise in many forms, such as neighbours blocking access, or pollution from a local industry, which can significantly change the desirability of a community and adversely affect the value of a home. Conversely, homeowners can benefit from improvements in transport that will be reflected in higher house prices. In the absence of suitable regulation there can be a sub-optimal allocation of resources. This is an important rationale for many forms of government intervention, including planning regulations.

**1.16** The durability and fixity of houses mean that they make excellent security or collateral, which is why homeowners are able to achieve much lower interest rates than those undertaking unsecured lending. While it is possible to borrow funds against other assets such as cars or even financial assets, the size of the loans as a fraction of the asset value tend to be much lower. As explained in the EMU housing study<sup>5</sup>, there is some evidence that changes in house prices have in the past affected collateral values, leading to cycles in bank lending and thereby amplifying the broader economic cycle.

**1.17** Furthermore, as set out in the Barker Review, limited availability of land, together with planning regulations and shortages of skilled labour can act as significant constraints on housing supply. In the presence of these factors, house prices are likely to react swiftly to changes in housing demand, while housing supply adjusts much more gradually.

### Uniqueness

**1.18** Each house is also unique. Even apartments in the same block with identical floor plans can differ in price depending on such factors as floor level and decoration. With each house having slightly different characteristics, and usually different prices, it can be difficult to ascertain what an appropriate value might be. Since each house is in some way different, there are search costs to 'house hunting', either for renting, buying or applying for social housing. Once a suitable house is found, there are further transaction costs to completing the deal.

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<sup>5</sup> *Housing, Consumption and EMU*, EMU Study, HM Treasury, 2003.

**1.19** Searching for suitable accommodation is very time consuming as each house is different. Buyers pay survey, legal and administrative fees and stamp duty, while sellers pay legal and estate agent fees.<sup>6</sup> Both buyers and renters face costs in terms of money, time and risk involved in this complex transaction, and the psychological costs of moving are likely to be high in terms of relationships with family, friends and neighbours.

## IMPLICATIONS FOR ACHIEVING POLICY OBJECTIVES

**1.20** These distinct characteristics of houses and housing markets present households with a complex set of choices and have powerful macroeconomic implications as well as posing significant microeconomic, social and distributional challenges. This in turn motivates a range of policy interventions by government on both the demand and the supply side to secure its key economic and social policy objectives:

### Delivering macroeconomic stability

**1.21** Housing markets affect the macroeconomy in several ways. First, the fact that houses can be traded as assets directly connects housing and financial markets through borrowing costs. Like all assets, the price may intermittently be influenced by factors far removed from the value of housing services – interest rates, inflation and overseas risks, for example. Furthermore, moving costs mean that people cannot quickly change their amount of housing consumption as rapidly as house prices change. This leads to largely demand driven and protracted house price cycles.

**1.22** The durability and fixity of houses and their role as assets mean that they make ideal collateral. However, having the value of collateral change depending on house price movements can lead to lending cycles that drive the macroeconomy. There is a broad consensus that so-called collateral effects were a source of instability in the late 1980s house price boom. Good financial oversight of the financial system is therefore critical to minimising this source of instability.

**1.23** The special characteristics of houses imply that the supply of new housing is unresponsive to short-term changes in demand, although longer-term impacts are significant. Since houses are durable, the total supply of housing is dominated by the stock of existing housing as net new supply accounts for no more than 1 per cent of the housing stock.

**1.24** However, as set out in the Barker Review, expectations of future house price movements help to determine the expected return from owner occupation and also play an important role. There is good evidence that these expectations are strongly influenced by the current rate of house price inflation<sup>7</sup>. Therefore, if policy changes alter perceptions about the future course of prices, then the impact on today's prices is potentially much larger. Government can therefore help promote stability by providing individuals with accurate price signals and by creating a more responsive supply of housing.

<sup>6</sup> Although buyers and sellers pay for different items, the incidence of these costs is shared by both parties as such charges are reflected in the house price.

<sup>7</sup> House price inflation exhibits serial correlation in a wide range of countries. Much of the explanatory power of most models of house prices is provided by the inclusion of lagged terms in the dependent variable.

## Helping households manage assets, savings and risk

**1.25** As well as being a potential source of macroeconomic instability, poorly functioning housing markets can amplify economic shocks. Since house prices will, to some extent, always fluctuate and economies will always face economic surprises, the key to successful economic management is the extent to which an economy can withstand these shocks. The degree of risk exposure is therefore important to whether an external shock is amplified through consumer behaviour and thus of greater consequence.

**1.26** Becoming a house owner often exposes young households to interest rate risk through taking out a mortgage and, of course, there is the risk of facing unemployment. Yet the new monetary and fiscal policy framework introduced by this Government has helped to reduce some of the risks of macroeconomic volatility and therefore fostered a more financially prudent approach to home ownership, as seen in mortgage to house price ratios. The low rate of unemployment, and shorter duration of unemployment, has reduced some of the risks inevitably associated with home ownership.

**1.27** Government can play a critical role in managing risk through the effective regulation of the financial system. Households can borrow to offset temporary shocks, thereby reducing the need to make a painful change in consumption behaviour. The extent to which this is possible depends, in part, on the quality and relationships with financial institutions. This is particularly important given the growing significance of housing assets.

**1.28** In addition to reforming the macroeconomic framework, the Government has reformed the regulatory framework for the financial services sector to enhance consumer protection and awareness. Extension of the Financial Services Authority's remit to cover residential mortgages, along with further Miles Review implementation<sup>8</sup>, will help individuals better manage a key element of their financial risk, mortgage borrowing.

## Meeting peoples' housing aspirations

**1.29** Fixity, durability and uniqueness have a number of implications for housing supply and for the ability of households to access home ownership. Durability means that total supply is dominated by existing stock, limiting short-term responsiveness to changes in demand, but leaving a significant role for long-run supply. The fixed location of houses means that families rent or buy a joint product: the actual housing service, or house; and the amenities and facilities in the local community. That the household does not have direct control over these facilities gives rise to several forms of potential market failure that government policy seeks to address.

**1.30** These features underpin the need for a planning system, to help ensure an adequate supply of appropriate housing in the appropriate place and at the appropriate time, although this can in turn lead to the risk of various forms of 'planning failure', such as over-restriction of supply as identified by the Barker Review. This key supply challenge is taken up in detail in the following chapters.

<sup>8</sup> *The UK Mortgage Market: Taking a Longer-Term View*, David Miles, 2004. The Miles Review, published in March 2004, made recommendations designed to make the UK mortgage market work better and increase the volume of longer-term fixed rate borrowing for house purchase. By taking out a long-term fixed rate mortgage, consumers protect themselves against the possible risks associated with future interest rate movements. Whilst a significant proportion of mortgages (40 per cent) are fixed for up to 2 years, Professor Miles was asked to look into why there are fewer longer-term fixed rate mortgages sold in the UK. The Government, FSA and industry have made good progress in taking forward work against the Miles recommendations.

## Creating sustainable mixed communities

**1.31** Market-driven trends towards social segregation and polarisation stemming from the fixity of location, can also be seen as a fundamental motivation for government intervention to create and maintain sustainable mixed communities. There will also be cases where intervention is justified by the delivery of social and equity objectives, such as the encouragement of jobs into deprived areas, the provision of affordable housing for poorer groups in high demand areas, or policies aimed at tackling concentrations of deprivation on large social housing estates. These interventions can arise from housing's status as an entitlement, can sometimes involve trade-offs with wider efficiency objectives, or may overlap with market failure arguments, particularly regarding externalities.<sup>9</sup>

**1.32** Regulation through the planning system can be complemented by tax policy, which can aid the development industry in providing incentives to encourage development and regeneration. Alongside promoting efficiencies, tax policy can also reduce externalities impacting on the environment. Incentives for building on brownfield sites, converting derelict buildings, decontaminating land and the use of energy efficient materials are examples of this.

## Enabling labour market flexibility

**1.33** Fixed location and search and transaction costs both have consequences for the mobility of labour. By promoting an appropriate supply of housing and ensuring access to a mix of housing tenures, government can improve labour market flexibility and relieve some of the distributional impacts that the Barker Review identified.

## CONCLUSION

**1.34** To deliver effectively against a broad array of economic and social policy objectives, housing policy-making needs to be rooted in a clear understanding of the distinct characteristics of houses and housing markets. These characteristics present households with a complex set of choices and risks, and carry powerful macroeconomic implications as well as posing significant microeconomic, social and distributional challenges. This in turn motivates a range of policy interventions by government on both the demand and the supply side.

**1.35** The following chapters focus on both the demand and supply side. In particular they set out government's strategy for tackling a longstanding area of concern – the UK's long-term lack of supply and responsiveness of housing. The theoretical framework set out above illustrates the importance of getting this right. Durability, fixity and uniqueness all imply that achieving a more responsive long-term housing supply can play a major role in helping people meet their housing and asset-owning aspirations, as well as helping deliver macroeconomic stability and more flexible labour markets. In particular, the analysis set out here illustrates the central importance of a well-functioning planning system. These points are developed further below.

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<sup>9</sup> Externalities occur when the social costs or benefits of particular activities are different to the private costs and benefits experienced by the producer.

# 2

## HOUSING TRENDS AND CHALLENGES

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### INTRODUCTION

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**2.1** Building on previous analysis, this chapter examines the key social, economic and demographic trends influencing the housing market, and the consequences of these trends for people looking to buy a home. In particular it revisits the analysis underpinning Kate Barker’s independent review of housing supply, published alongside Budget 2004, which set out clearly the threat posed to the UK’s social and economic success by the long-term lack of supply and responsiveness of housing in the UK.

*“Continuing at the current rate of housebuilding is not a realistic option, unless we are prepared to accept increasing problems of homelessness, declining affordability and social division, decline in standards of public service delivery and increasing costs of doing business in the UK – holding back our economic success”*

Kate Barker, independent housing supply reviewer

### WHAT ARE THE KEY TRENDS?

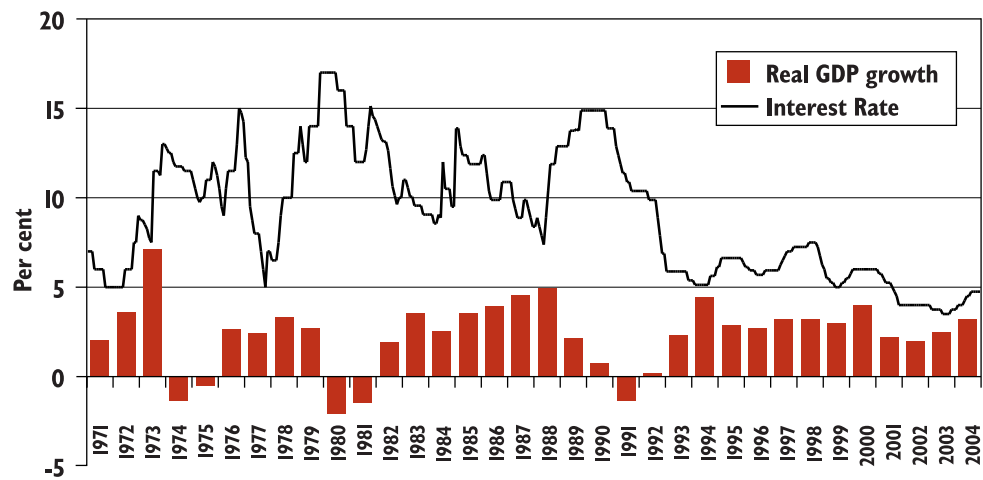
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#### **A strong, stable economy**

**2.2** Greater economic stability (Chart 2.1), delivered by the Government’s macroeconomic framework, has resulted in:

- the lowest volatility and levels of unemployment for three decades;
- household incomes growing by over 20 per cent in real terms since 1997; and
- inflation and interest rates at historically low and stable levels.

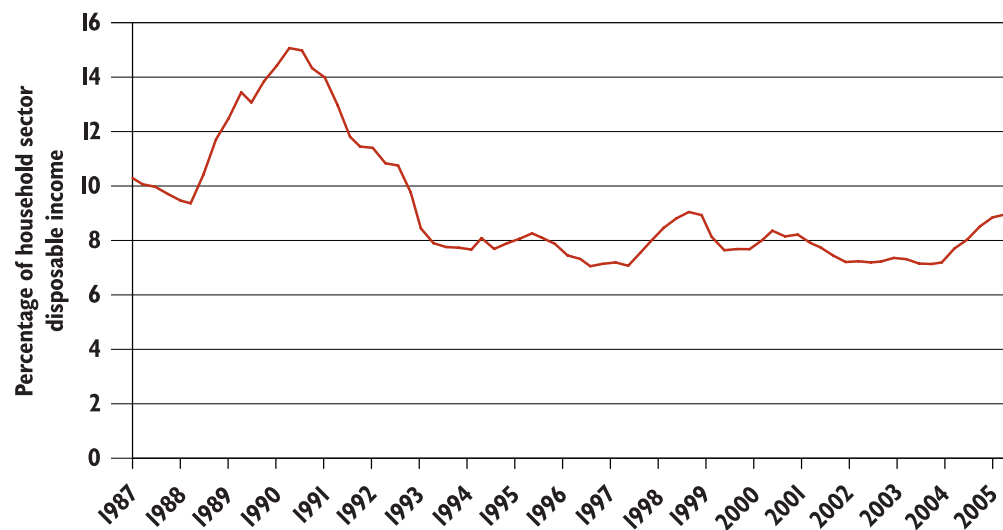
**Chart 2.1: Recent Economic Stability: Interest Rates and GDP Growth, 1971 to 2004**



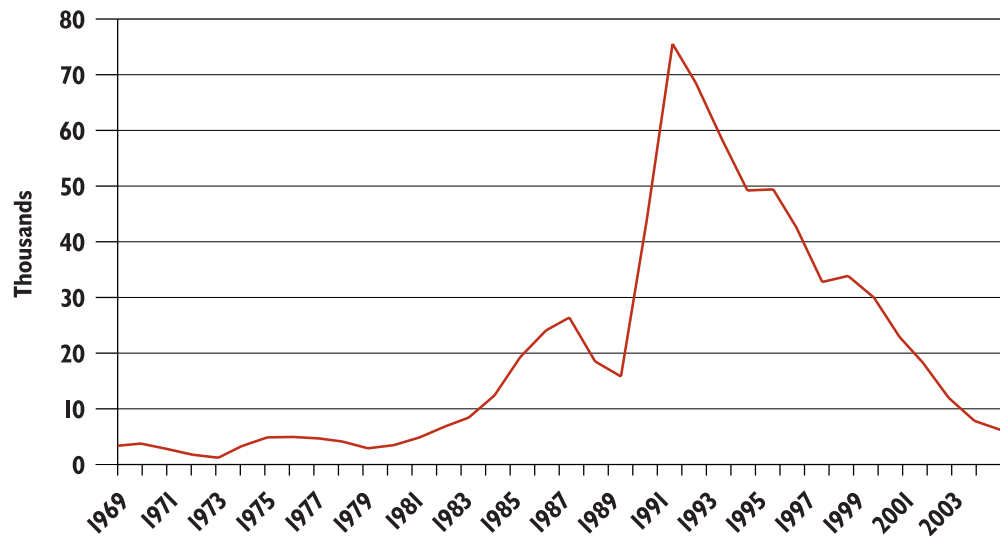
Source: ONS Blue Book and Bank of England

**2.3** Total interest payments are now 8.9 per cent of disposable income compared with a high of over 15 per cent in 1990 (Chart 2.2), while repossessions are at a fraction of their peak in 1991 when over 70,000 properties were taken into possession (Chart 2.3). In addition mortgage rates have been at their lowest for forty years – average building society rates were 5.2 per cent in May, compared with 11 per cent between 1979 and 1997.

**Chart 2.2: Household sector total interest payments**



Source: Survey of Mortgage Lenders

**Chart 2.3: Annual Possessions by UK Mortgage Lenders: 1969–2004**

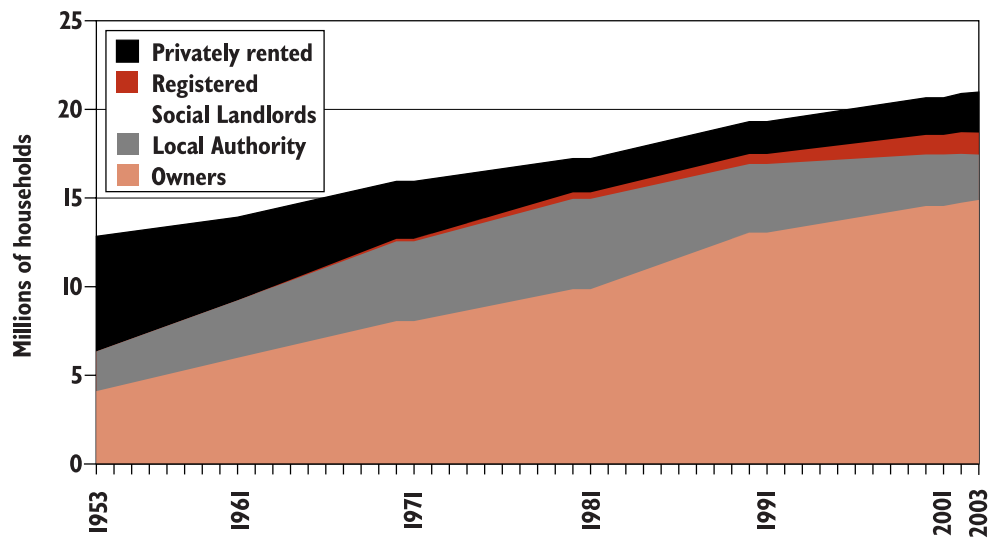
Source: Council of Mortgage Lenders: Includes voluntary surrenders

## Home ownership levels

**2.4** As a result of the economic stability and rising prosperity delivered by this Government, more and more people have had the confidence to become homeowners, leading to one million new homeowners since 1997. Over the last 50 years the proportion of households<sup>1</sup> that own their own home has increased substantially – to over 70 per cent in 2003 (Chart 2.4). Even so, nine out of ten households would prefer to own their own home if they could<sup>2</sup>. Action is needed if government is to give more people the opportunity to realise their aspirations for home ownership.

<sup>1</sup> A household is defined as one person living alone, or a group of people living at the same address with common housekeeping – that is, sharing either a living room or at least one meal a day.

<sup>2</sup> British Social Attitudes Survey, 2001-02, National Centre for Social Research.

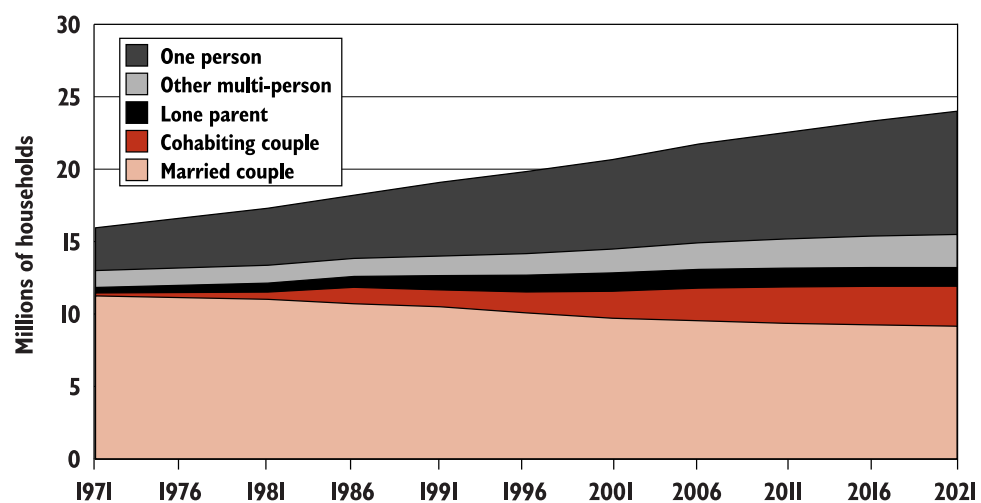
**Chart 2.4: Households in England by Tenure: 1953 to 2003**

Sources: "Housing Policy in Britain", Alan Holmans; Labour Force Survey Housing Trailer (DOE); Labour Force Survey (ONS)

## Growth in the number of households

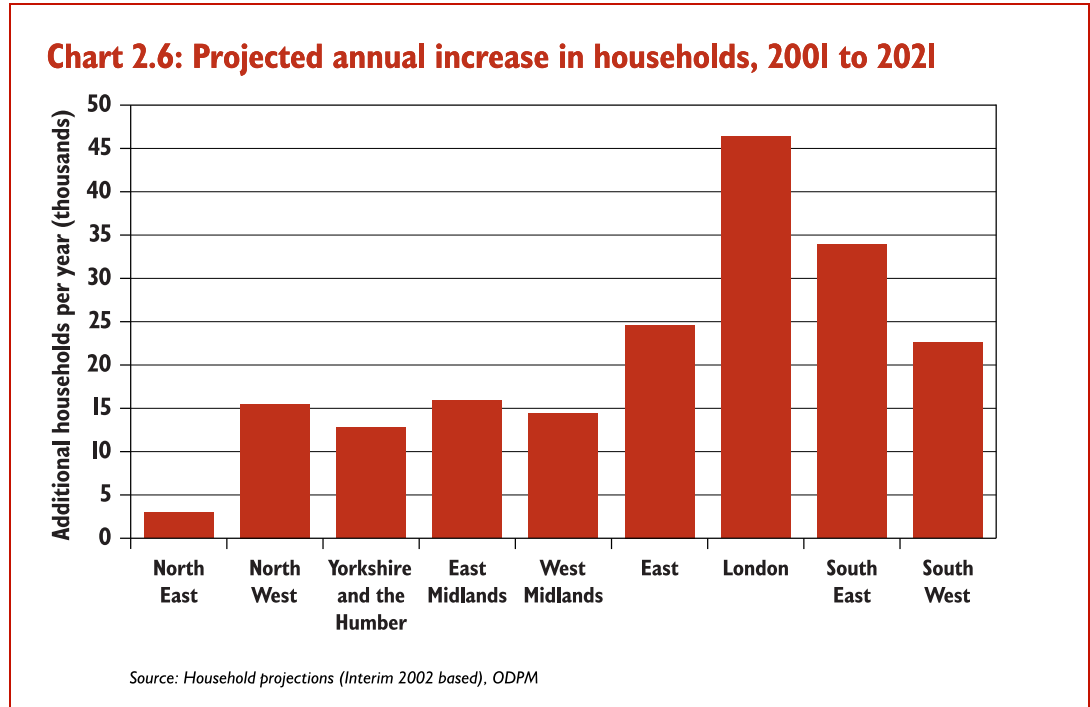
**2.5** Household formation is being increased by changing family relationships and circumstances, including increased wealth and longer lives. The number of single-person households, in particular, has grown substantially. Nevertheless, the lack of availability of housing that is affordable means that some household formation is being frustrated.

**2.6** Over one million more households were formed in England between 1996 and 2003, an increase of more than 5 per cent compared with a population rise of just 2 per cent. This trend is set to continue (Chart 2.5).

**Chart 2.5: Household Growth by Type, England**

Source: Household projections (1996 based), ODPM

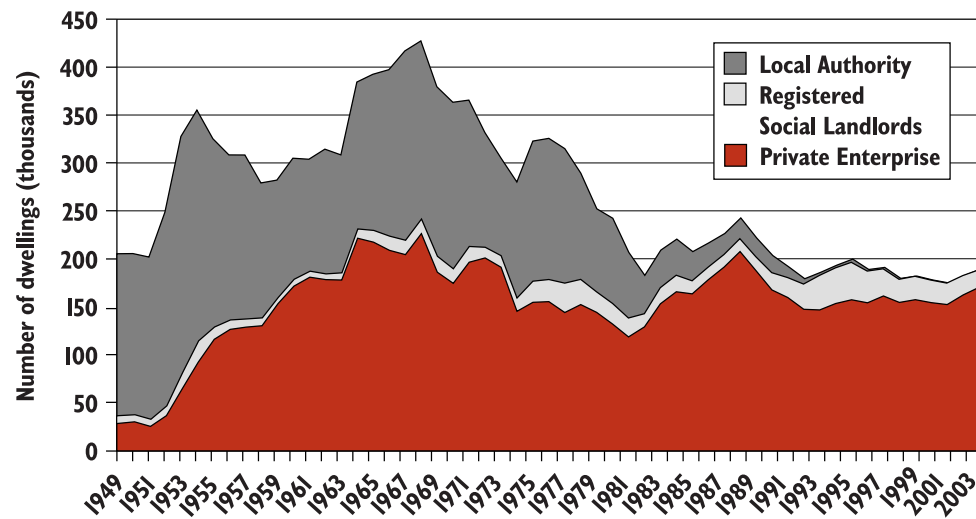
**2.7** This increase in households is expected to be concentrated in London and the South East (Chart 2.6), areas already experiencing the greatest demand for housing. London and the South East are expected to see 80,000 extra households each year to 2021.



## The number of houses being built

**2.8** Since the 1960s the total number of homes built in the UK has been on a downward trend (Chart 2.7). The Barker Review set out the principal causes for this, chiefly an inadequate supply of developable land coming through the planning system, combined with insufficient infrastructure provision to support new homes.

**Chart 2.7: Housebuilding: permanent dwellings completed, (by tenure, United Kingdom)**



Source: Housebuilding statistics, ODPM

**2.9** Since 2001, house building has begun to recover, with housing completions in England up by almost 20 per cent in 2004 compared to 2001. However, new housebuilding is still not enough to meet demand, exacerbating upward price pressures.

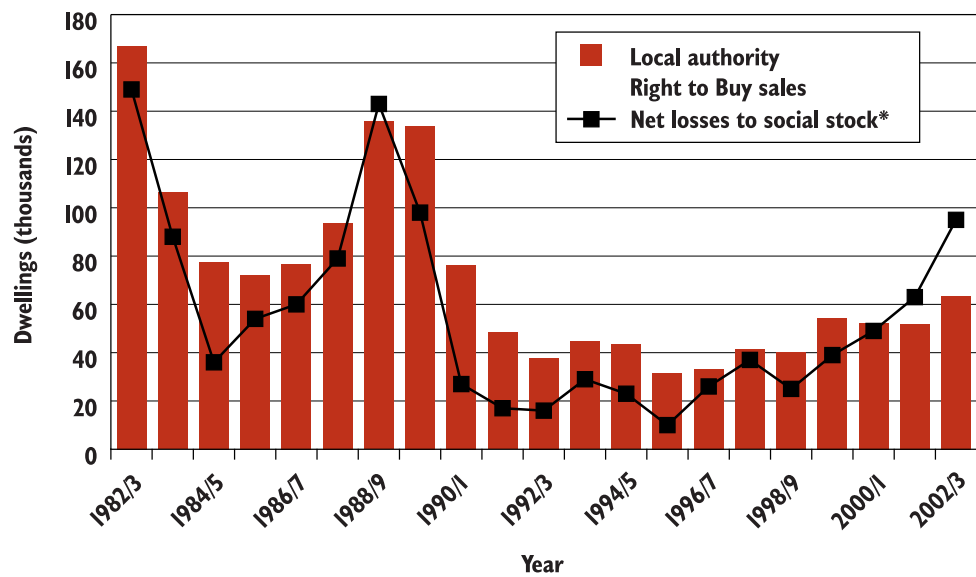
**2.10** More homes are being built in the South than in the North and Midlands, but rapid growth of households in the South means that there is still a shortage of homes. This results in overcrowding and people being unable to realise their aspirations to live independently. Separately, parts of the North and Midlands are experiencing problems of low housing demand, primarily related to economic concerns.

## The stock of social homes

**2.11** Under-investment in housing during the 1980s meant fewer social homes were being built and the quality of existing public stock fell. By 1997 there was a £19 billion backlog of repairs in local authority housing and some two million social homes failed to meet decency standards. More new social homes are now being built, but this is from a low baseline and sales of local authority and housing association properties mean the total stock of social housing is still falling<sup>3</sup> (Chart 2.8). Chapter 4 shows the significant impact now being made following the turnaround in public investment under this Government.

<sup>3</sup> Other factors contributing to the change in social stock include new build, demolitions and change of use.

**Chart 2.8: Net change (losses) to Social Housing Stock and local authority 'Right to Buy' Sales, 1983 to 2003**



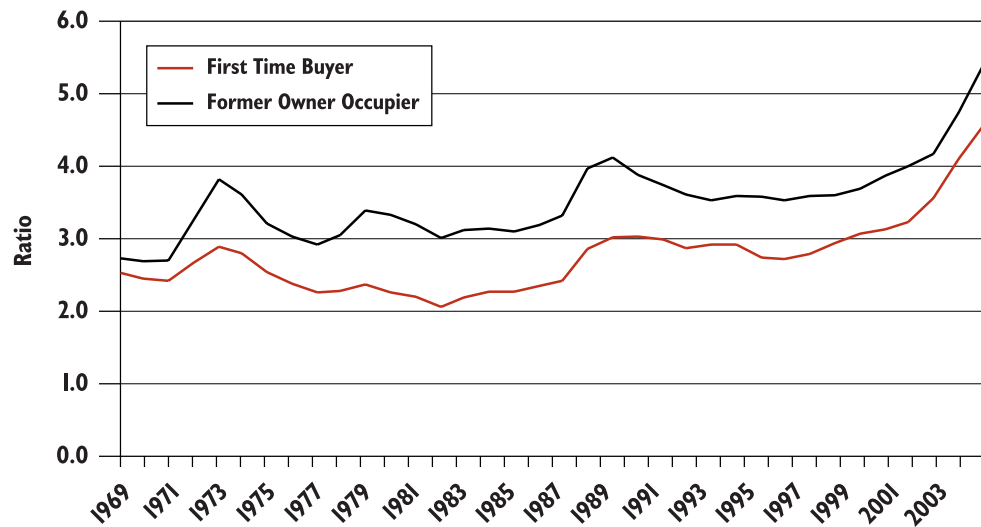
Source: Dwelling stock by tenure, ODPM  
\* Calendar year data until 1991

## WHAT IS THE IMPACT OF THESE TRENDS?

### Affordability of housing

**2.12** One of the costs of long-term under supply is higher house prices and a lack of market affordability. Higher prices can be good news for existing homeowners who expect to trade down in the future or who wish to borrow against the value of their home. However, households seeking to buy or trade up must choose whether to accept lower disposable incomes after housing costs or make more intensive use of housing by occupying a smaller dwelling, both of which result in a lower relative standard of living.

**2.13** Higher house prices make it particularly difficult for younger, less well-off households to buy their own home. The ability of first time buyers to enter the housing market, based upon house price to income ratios, has worsened over the past thirty years (Chart 2.9).

**Chart 2.9: Ratio of Average Dwelling Price to Average Income Ratio, UK**

Source: ODPM, Survey of Mortgage Lenders

**2.14** As house prices have risen, first time buyers have needed increasingly large deposits, because lenders usually tie mortgages to fixed income multiples or limit the loan to value ratio. As a result, first time buyers often find themselves relying on relatives for help: in London over a third of first time buyers between 1995 and 2001 relied to some extent on gifts, family loans, inheritance or windfall.<sup>4</sup>

**2.15** The EMU Housing Study and the Barker Report noted that the UK's experience is at odds with the trend in many European countries where the ratio of house prices to incomes is lower than it was 30 years ago<sup>5</sup>. The Barker Report concluded that the UK needs a step-change in housing supply if more people are to have the opportunity of homeownership in the future and their desire to establish independent households is not to be frustrated.

## Recruitment and retention of staff

**2.16** As highlighted by Sir Digby Jones<sup>6</sup>, the director-general of the CBI, and others, higher house prices affect recruitment and retention, and thus business location decisions, in the private sector. The Barker Review also highlighted evidence that large price differentials between regions can lead to segmentation in regional labour markets, leading to greater unemployment mismatch.<sup>7</sup> Increasing housing supply would bring an indirect benefit to the economy by reducing constraints on the ability of the labour force, and hence industry, to locate where they are most productive. This productivity effect could increase the economy's potential growth rate and impact positively on the long-term unemployment rate.<sup>8</sup>

<sup>4</sup> Kate Barker, 2003, Table 1.4, quoting research by Bramley.

<sup>5</sup> See for example Kate Barker, 2003, Paragraph 1.8

<sup>6</sup> Speech to CBI Public Services Industry Forum, June 2005.

<sup>7</sup> Kate Barker, 2003, Paragraph 1.37, quoting research by Cameron and Muellbauer, and The Housing Research Foundation.

<sup>8</sup> Kate Barker, 2003, Paragraph 1.25, quoting research by The Housing Research Foundation.

**2.17** Higher house prices also mean significant numbers of key workers – such as teachers and nurses – are now unable to afford to purchase a home in an area reasonably close to where they work. This makes recruitment and retention more difficult in areas where house prices are highest, with knock-on impacts on public service delivery.

## Impacts on the wider economy

**2.18** Unresponsive housing supply has the potential to translate to instability in the wider economy. Houses are highly durable, which implies that a house can be owned for many years and then eventually sold at a profit or loss just like any other traded asset. As housing acts as an asset in addition to a service we consume, expectations of future price changes have a strong bearing on the true cost of owner-occupancy and therefore demand. Households can justify paying high prices if future capital gains are expected to mitigate the extra initial outlay.

**2.19** House price expectations are strongly influenced by the current rate of house price inflation. Since houses are highly durable, the total supply of housing is dominated by the stock of existing housing, with net new supply accounting for no more than 1 per cent of the housing stock. The supply of housing is therefore unresponsive to short-term changes in demand. The result is that initial increases in demand tend to be reinforced through a rise in house price expectations as prices begin to pick up. This can generate overshooting of house prices beyond the price implied by the original shift in demand (e.g. due to a change in incomes or interest rates). A certain amount of house price volatility is therefore inevitable.

**2.20** However, the historical upward trend in house prices implies that housing supply has also been unresponsive to changes in demand over the longer-term. By encouraging expectations of continually rising house prices, unresponsive housing supply can exacerbate housing market cycles. This has the potential to translate to wider macroeconomic instability through the impact house price changes may have on household spending decisions.

## Distribution of housing assets

**2.21** Houses are not just places to live – they are assets. Research has shown that access to financial assets can affect life chances.<sup>9</sup> Similarly, homeowners – and their children – may enjoy a greater sense of security and opportunity, and be more willing to invest for the future. Holding housing assets can also have other benefits. For example, property can be used as collateral to secure loans. Owning your own home can also provide a financial hedge against future housing costs, and rent-free accommodation in retirement. Investing in the quality of a home can be a form of saving, by increasing its value.

**2.22** Over recent decades, housing has averaged around 35 per cent of total household sector wealth. In addition, the total stock of assets has risen significantly over the period, with the net wealth position improving by around 50 per cent since 1997. At a disaggregated level, this large stock of wealth is unevenly distributed (and homeownership is correlated with other forms of wealth holdings).<sup>10</sup>

<sup>9</sup> For example *Wealth and Welfare: the role of assets over the life cycle*, IPPR, 2001, based on analysis of the National Child Development Study, 1958. Those who own or have access to financial assets in their twenties have better outcomes later in life - they spend less time unemployed, enjoy better health, and are less likely to get divorced.

<sup>10</sup> *Wealth Distribution – the Evidence*, IPPR, 2002; *Pensions Challenges and Choices*, Pensions Commission, 2004.

**2.23** As a result of this uneven distribution, with rising real house prices there is a redistribution of wealth from non-homeowners to existing homeowners. This is primarily an intergenerational redistribution of wealth. Younger households who are first time buyers or trading up must provide larger deposits (as seen above), while older households are able to realise their wealth gains by withdrawing equity or trading down. There are also implications for the social redistribution of wealth. Younger households whose parents are homeowners may benefit from wealth transfers in the form of inheritance or parental assistance, but those whose families are not homeowners do not have that opportunity.

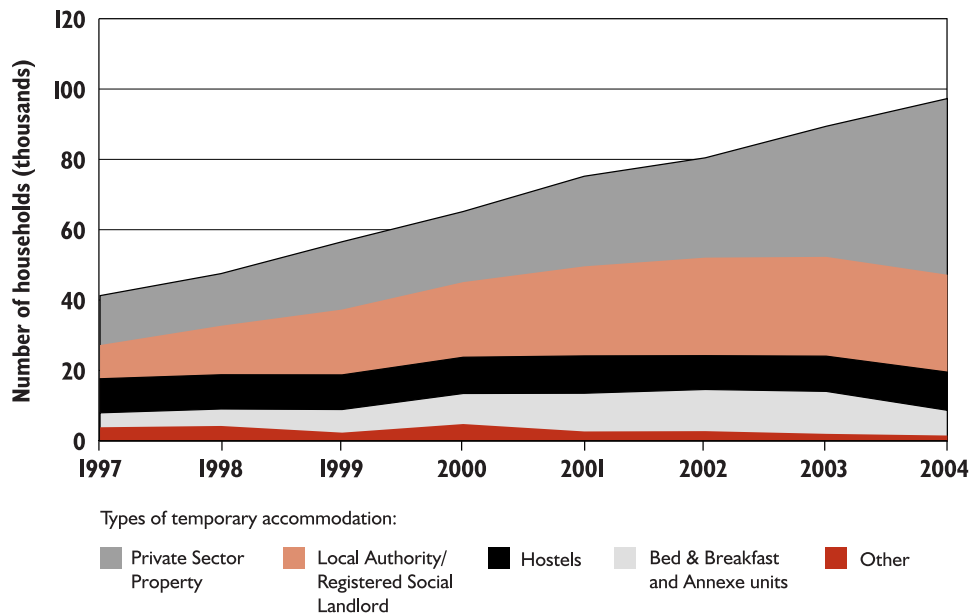
**2.24** For many people, particularly those who are young or highly mobile, renting rather than owning a property is appropriate for their particular circumstances. But without an increase in housing supply, households without housing assets risk being left behind, missing out on the choices and opportunities that owner-occupiers enjoy.

### **People living in temporary accommodation**

**2.25** The most visible aspect of an undersupply of housing is homelessness, although this results from a number of social as well as economic causes. Concerted action has succeeded in cutting the number of people sleeping rough by more than 70 per cent since 1998, to around 500 on a single night. Moreover, after rising in recent years, the number of people being accepted as homeless has begun to fall.

**2.26** Despite this, total numbers of people in temporary accommodation are rising (Chart 2.10). These increases are partly explained by changes the Government introduced to make more people eligible for help. They are also partly a result of the trends described in this chapter: in changing family size and relationships, house prices and availability of social tenancies. As a result, local authorities have been housing more people in temporary accommodation, and people are staying in temporary accommodation for longer periods. Most of this accommodation is of reasonable quality, and over 80 per cent are self-contained homes. But the lack of certainty about the future and the disruption of frequent moves make it unsatisfactory for many people.

**Chart 2.10: Homeless households placed in temporary accommodation by local authorities, 1997 to 2004**



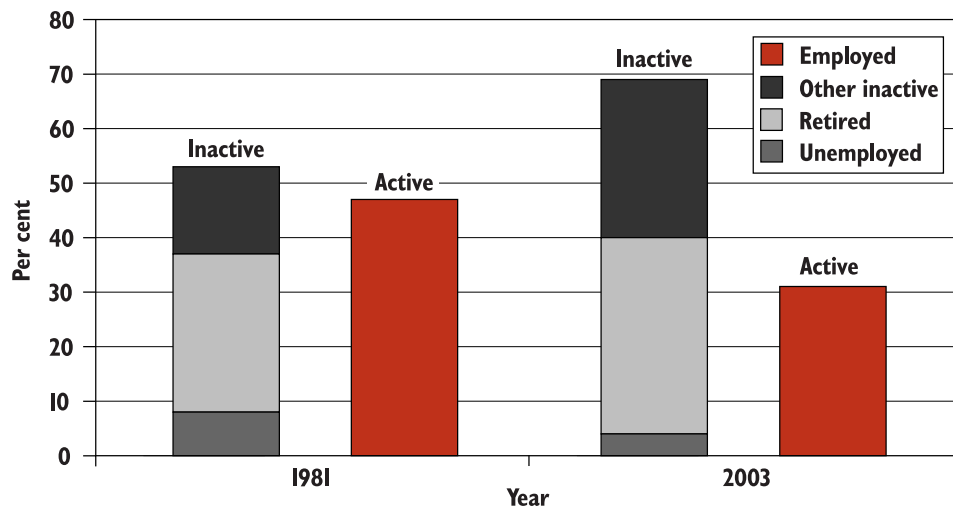
Source: Statutory homelessness statistics, ODPM

## Concentrations of deprivation and areas of low demand

**2.27** In addressing the problem of weak and unresponsive housing supply, the Government will not lose sight of the challenges facing the existing stock, particularly the challenges posed by concentrations of deprivation and worklessness in some areas of the country, and of low demand and abandonment.

**2.28** Underinvestment in housing during the 1980s has led to a fall in the stock of social housing. As the number of social homes has fallen, local authorities and housing associations have rightly targeted help to those in greatest need. One side effect of this has been the increasing domination of social housing by those who are not in work, which has resulted in greater concentrations of poverty and deprivation in some housing estates (Chart 2.11).

**Chart 2.II: Residualisation of Social Housing – employment status of social tenants in 1981 and 2003**



Source: 1981 Labour Force Survey Housing Trailer. 2003-04 Survey of English Housing

**2.29** In some parts of the country, the housing stock does not meet modern aspirations. In such areas, demand is often low and prices can be weak compared to regional averages. Falling populations in some towns and cities exacerbate the problem. These housing market problems are usually related to economic ones and are particularly acute in some parts of the North and Midlands.

**2.30** In 2004, up to 850,000 homes were in low demand areas in the North and Midlands - an improvement on 2002 where the figure was around one million. Seven out of ten low demand houses are in the private sector – but social homes are still twice as likely to suffer low demand as private homes.

**2.31** Around one in 50 private homes in the North and Midlands are vacant for more than six months, twice the number for the Southern regions. At the local level, some areas suffer from severe low demand, with hundreds of homes abandoned, which can lead to problems such as anti-social behaviour and arson. The people who remain in places with severe low demand tend to be those who cannot afford to get out, which can increase concentrations of deprivation and worklessness. In focusing on the challenge of increasing housing supply, government will not lose sight of these important wider housing policy challenges.

## CONCLUSION

**2.32** Since 1997, the long-term decisions that this Government has taken have created a strong platform of economic stability. In this environment, more and more people have had the confidence to become homeowners, leading to one million new homeowners since 1997. However, action is now needed if more people are to have the opportunity to realise their aspirations for home ownership.

**2.33** In particular, action is required to tackle the long-term lack of supply and responsiveness of housing in the UK. Constrained housing supply leads to increasingly unaffordable housing, frustrating the home ownership aspirations of many individuals and families. It also leads to wealth redistribution from those outside the housing

market to those inside it. Low housing supply reduces labour mobility, damaging the flexibility and performance of the UK economy and key public services, and can also translate into wider macroeconomic instability.

**2.34** Chapter 4 sets out the Government's programme for tackling the long-term lack of supply and responsiveness of housing in the UK. First, however, this response is set within the wider context of the Government's key housing initiatives to date.



### INTRODUCTION

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**3.1** The platform of economic stability that this government has created has assisted it in bringing forward a wide-ranging programme of demand and supply side measures to improve affordability and access to housing throughout the country. Particularly significant were the Sustainable Communities Plan in 2003<sup>1</sup>, and the ODPM five year plan for housing, *Homes for All*, which was published earlier this year<sup>2</sup>.

**3.2** This chapter updates on the progress made by government so far in achieving the vision set out in the Sustainable Communities Plan and in *Homes for all*. This provides the necessary wider context for Chapter 4, which sets out the Government's programme for tackling the long-term lack of supply and responsiveness of housing in the UK, as it continues to respond to the recommendations of the Barker Review of Housing Supply.

### THE SUSTAINABLE COMMUNITIES PLAN

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**3.3** The Sustainable Communities Plan, launched by the Deputy Prime Minister in February 2003, sets out a long-term programme of action for delivering sustainable communities in both urban and rural areas (see Box 3.1). This £38 billion programme (from 2003-04 to 2007-08) is aimed at co-ordinating the efforts of all levels of government and external stakeholders in delivering development that meets the economic, social and environmental needs of current and future generations. In particular it addresses the differing needs of areas of high and low demand through specific programmes for growth areas and housing market renewal pathfinders respectively.

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<sup>1</sup> *Sustainable Communities: building for the future*, ODPM, 2003.

<sup>2</sup> *Sustainable Communities: Homes for All – A Five Year Plan from the ODPM*, ODPM, January 2005.

**Box 3.1: The Sustainable Communities Plan**

The Sustainable Communities Plan consists of several key elements:

- addressing the housing shortages afflicting some parts of the country through a step-change in housing supply, principally through focusing development in the four growth areas (Thames Gateway, London-Stansted-Cambridge corridor, Ashford, and Milton Keynes-South Midlands) and through increasing resources on affordable housing and tackling homelessness;
- addressing low demand and abandonment through establishing a series of pathfinder schemes in those areas of the North and Midlands worst affected;
- improving housing conditions through an action programme to bring all social housing up to a decent standard by 2010, alongside targeted action to improve conditions for vulnerable people in private housing;
- intensifying efforts to improve 'liveability' in local communities, including cleaner streets, improved parks and enhanced public spaces; and
- protecting the countryside by using land more effectively through specific targets on density, the use of brownfield land and the proportion of land designated as greenbelt.

## Growth areas

**3.4** Government is committed to meeting local housing needs across the country, but, in the South East, strong economic growth is creating extra pressures. The Sustainable Communities Plan responded to this by focusing growth in four areas in the wider South East (Thames Gateway, London-Stansted-Cambridge corridor, Ashford, and Milton Keynes-South Midlands). By doing so growth can be accommodated in those areas with the capacity to sustain it, building on existing regional plans and proposed infrastructure. These four areas plus London have the potential to deliver an extra 200,000 homes above existing plans. And growth is not just about homes - these areas also have the potential for over 300,000 jobs by 2016, alongside the new housing.

## Housing market renewal pathfinders

**3.5** The Sustainable Communities Plan established nine market renewal pathfinders in the areas most acutely affected by low demand and abandonment, tailoring solutions to the needs of the area. These can include a mix of renewal, regeneration and some demolition of the housing stock in order to bring the local housing market into a better and more sustainable balance. These pathfinders cover around half of the housing stock affected by low demand and the 2004 Spending Review has provided the resources to continue and expand this approach in the North and Midlands with a trebling in investment to over £450 million a year by 2007-08 compared to £150 million in 2004-05.

## HOMES FOR ALL & EXTENDING HOME OWNERSHIP

**3.6** In January this year the Deputy Prime Minister published his Five Year Plan, *Homes for All*, which set out how everyone – owner-occupiers, key-workers and other first time buyers, social tenants, and those who rent privately – can be extended the opportunity of a decent home at a price they can afford (see Box 3.2). It set out how the Government is increasing the supply of housing in a responsible way, how it will offer hundreds of thousands of tenants the opportunity to buy a stake in their own home and how it will create sustainable, mixed communities.<sup>3</sup>

### Box 3.2: Homes for All

*Homes for All* presented the next phase of delivering the Sustainable Communities Plan. It set out the Government's aims to:

- make sure that there are enough high quality homes across the whole spectrum of housing – owner-occupied, social rented and private rented;
- help more people to own their home;
- make sure that all social tenants, and at least seven out of ten vulnerable people in the private sector, have a decent home;
- create sustainable, mixed communities in both rural and urban areas, with the jobs, services and infrastructure they need to thrive;
- provide for those who need more support to meet their housing needs and aspirations, including halving numbers in temporary accommodation;
- provide for those who choose alternative types of accommodation, such as Gypsies and Travellers, but crack down on unauthorised development; and
- protect and enhance the environment, our historic towns and cities, and the countryside.

**3.7** *Homes for All* was followed by the publication of *Extending Home Ownership*<sup>4</sup> in May, which set out the Government's programme of action for extending the number of new homeowners by a further million in the next 5 years and ensuring that more people can benefit from the advantages of homeownership. Together these policy statements help set out a clear strategy for how government will deliver housing opportunity and choice for all. The key policies are covered in turn below.

## Improving access to homeownership

**3.8** In *Homes for All* the Deputy Prime Minister set out the Government's intention to provide support on the demand-side to help targeted groups of first time buyers. He announced plans to assist at least 80,000 households into home ownership by 2010, as well as providing up to 300,000 social housing tenants with an opportunity to buy a stake in their home. The Government is currently engaging with various public and private sector partners to further develop these pioneering equity share schemes.

<sup>3</sup> *Homes for All* was accompanied by a sister document, *Sustainable Communities: People, Places and Prosperity*, which set out what Government is doing to help the most deprived neighbourhoods, by tackling poverty, poor health, crime and worklessness together.

<sup>4</sup> *Extending Home Ownership*, HM Treasury & ODPM, May 2005.

**Homebuy 3.9** The Government recently completed consultation on its document *Homebuy - expanding the opportunity to own*<sup>5</sup> which was published in April and set out three Homebuy 'offers' for people seeking to enter homeownership, depending on whether the homes to be purchased are existing market housing, existing social housing, or new-build housing.

**3.10** A key design element in all three schemes is that the householder initially purchases an equity stake which could be as little as 50 per cent and then, in most cases, 'staircases up' to 100 per cent ownership as their circumstances improve. When the householder chooses to sell the home, they receive a share of the sales proceeds proportionate to the size of their own equity stake. The Government is considering whether or not there should be an annual charge on some, or the entire share, of the home it funds.

**3.11** The sale of existing social housing to tenants in this scheme will realise receipts that will be reinvested into new social housing, increasing the number of available social tenancies and so helping to reduce the numbers currently being housed in unsuitable temporary accommodation.

**Joint equity loans with mortgage lenders 3.12** The Government has been in discussion with the Council of Mortgage Lenders, HBOS, Nationwide and other lenders, together representing some 40 per cent of the total mortgage market, looking at ways in which government can work with private lenders to increase the number of people helped into home ownership through joint public/private funding of equity loans, using a similar model to that of the 'open market' Homebuy scheme.

**3.13** In the model, the borrower would:

- take out a conventional mortgage to pay for a proportion of a property's value, e.g. 75 per cent;
- government, probably through a Registered Social Landlord, would provide an equity loan for 12.5 per cent (instead of 25 per cent as with the normal Homebuy scheme); and
- the mortgage provider would also provide an equity loan for the remaining 12.5 per cent of the property's value.

**3.14** When a property is sold at the prevailing market rate and prices have risen, the outstanding value of the standard mortgage is repaid and both equity loans are repaid in line with their original proportions, e.g. 12.5 per cent and 12.5 per cent.

**3.15** If a property is sold at below the original purchase price, the full outstanding value of the standard mortgage is paid back. This is followed by the full outstanding value of the mortgage provider's equity loan. A proportion of the government's equity loan is paid back only if there is a surplus after these first and second charges are met. Sharing the equity stake with lenders will allow government to assist more households in relation to the same level of funding.

**3.16** By halving the size of the government contribution this could, in time, enable double the number of households to be helped in this way. Negotiations have been promising and government and lenders hope it may be possible for the first joint-equity products to be rolled out from April 2006. If negotiations are successful, this could

<sup>5</sup> *Homebuy – expanding the opportunity to own*, Consultation Paper, ODPM, April 2005.

enable government to assist up to 30,000 more households into homeownership over the next five years, on top of the 80,000 already planned.

### Tackling housing under-supply

**3.17** The Government's wider programme for addressing the under-supply of housing to ensure that housing becomes more affordable to all in the long-term is covered in detail in the following chapter. However, *Homes for All* introduced two important initiatives to address supply concerns, which are covered here.

#### Surplus public sector land

**3.18** The Government has introduced a comprehensive suite of measures and incentives that should see a significant increase in the amount of surplus public sector land being brought forward for new housing development.

**3.19** In particular, English Partnerships (EP) has created and maintains a register of surplus public sector land currently detailing over 700 sites of just under 3,600 hectares from 35 Government bodies, including the Ministry of Defence, Highways Agency, Department of Health and the Department for the Environment, Food, and Rural Affairs.

**3.20** Departments, agencies and sponsored bodies are also being required to record details of their land and property holdings on an electronic Property Information Mapping System (e-PIMS) run by the Office of Government Commerce (OGC). Meanwhile Sir Michael Lyons' review of public sector assets<sup>6</sup> is requiring departments and other bodies to regularly review the size and appropriateness of their assets, including freehold land and property portfolios, in order to identify assets that are no longer required.

**3.21** EP has recently acquired a portfolio of 96 NHS sites that will contribute towards the provision of 15,000 new affordable homes for first time buyers nationally by 2010. Following the acquisition of the former RAF Staff College site in Bracknell from Defence Estates in February 2004, EP is now negotiating the acquisition of further major MOD sites and has developed a framework agreement with Defence Estates that should enable enhanced joint working on the development of other surplus MOD property.

#### Reducing construction costs

**3.22** As part of the drive to improve opportunities for first time buyers through increasing efficiency of housing supply, the Deputy Prime Minister launched a competition on 1 April 2005 challenging the housebuilding industry to come forward with proposals for constructing homes for £60,000 on public sector land. Ten sites have now been provided for the competition and are expected to deliver around 1,000 new homes. Thirty three organisations have been selected to go through to the second stage and develop firm proposals. Winners of the competition will be announced early in 2006. Building is expected to start on some sites in Spring 2006 with the first residents occupying their new homes later that year.

### Providing Stamp Duty help for home-buyers

**3.23** In common with many countries, the UK levies stamp duty land tax on the buying and selling of houses. To reduce the number of first-time and low-income house buyers paying stamp duty and to improve the efficiency of the housing market, Budget 2005 doubled the starting threshold for residential property transactions to £120,000.

<sup>6</sup> *Towards Better Management of Public sector Assets – A report to the Chancellor of the Exchequer*, Sir Michael Lyons, December 2004.

**3.24** As a result:

- an extra 300,000 home-buyers are exempt each year from stamp duty; and
- those benefiting from the Budget change are saving up to £1,200 on the cost of buying a house.

**3.25** To increase home ownership in deprived areas, the threshold in the 2,000 Enterprise Areas remains at the higher level of £150,000. In total, about 650,000 residential property transactions are exempt from stamp duty each year.

**3.26** As a result of the Budget decision, over 45 per cent of all home-buyers, and over 50 per cent of first-time buyers, do not pay stamp duty.

### **Increasing quality and choice for those who rent**

**3.27** In 1997 the social housing stock was depleted and suffering from chronic under-investment. Social tenants had little choice over where they lived, and local authorities were sidelined and starved of cash. Many of those in private rented accommodation suffered both from poor quality accommodation and poor service from their landlords.

**3.28** Since 1997 this Government has already reduced the number of non-decent homes in the social sector by one million, and it will go further – improving existing social homes and investing in new stock; extending choice-based lettings to all social tenants; and revitalising the private rented sector. The Government has also been consulting on the introduction of a Real Estate Investment Trust (REIT) for the UK to facilitate increased institutional involvement in the private rented sector. Subject to finding a workable solution to the issues identified in the Budget 2005 discussion paper, the Government will aim to legislate for a UK-REIT in 2006.

**3.29** In improving existing social homes, significant challenges remain ahead. In 2003, 1.4 million social tenants and 1.1 million vulnerable homeowners and private tenants still lived in homes that did not meet decency standards. The Government has made significant progress towards achieving its decent homes target. It remains committed to ensuring all social tenants have a decent home and increasing the number of vulnerable households in the private sector who live in homes that are in a decent condition.

**3.30** In addition, the Government will support the expansion of choice-based lettings with the aim of achieving nationwide coverage by 2010 so as to give tenants the maximum possible choice over where they live. However, to have real choice, people need jobs as well as homes. So Government will launch moveUK – an online service that brings together information about jobs and housing nationwide, giving people the chance of a fresh start with a better quality of life in a new area.

**3.31** Government is also tackling rogue landlords so that people who rent privately can expect high standards of safety and quality. The 2004 Housing Act will improve housing conditions by introducing the mandatory licensing of larger houses in multiple occupation (bed-sits), which account for some of the very worst properties in the private rented sector, and by giving local authorities new powers to selectively licence private landlords. The Act also contains clauses that will safeguard tenant deposits from the activities of unscrupulous landlords.

**3.32** In the past, local authorities were mainly concerned with managing their housing stock, and responding to applications from developers. Government is offering

local authorities a new strategic role in housing. Local authorities will need to build strong working relationships with house builders, infrastructure providers and regeneration agencies to assess the need for housing and to develop effective spatial strategies. They will also need to involve and engage the local community in plans for new development. They will use their own resources and lever in others to deliver infrastructure and services alongside housing.

**3.33** There are now three ways in which local authorities can be involved in building new social housing: the expanded housing Private Finance Initiative; funding building by housing associations; and bidding in partnership with private developers for funding from the Housing Corporation. Government expects the first of these to produce at least 6,000 new homes by 2008, worth around £500 million.

### **Developing sustainable mixed-income communities**

**3.34** Over recent decades, as owner occupation has increased, social housing stock has declined in quantity and quality, and priority has been given to housing the most vulnerable. As a result, some social housing estates have become concentrations of severe poverty, multiple deprivation and social exclusion. Whilst elsewhere the benefits of sustained increases in GDP and declining unemployment are being felt, these places today have become detached from the economic mainstream.

**3.35** In these areas employment rates can be as low as 30 or 40 per cent compared to 75 per cent nationally, house prices are no longer responsive to market forces, and health, education and crime outcomes for residents are worsened by the 'area effects' of living in concentrated poverty.

**3.36** Since 1997 the Government has invested over £2.4 billion, through programmes such as the New Deal for Communities and National Strategy for Neighbourhood Renewal, towards reversing the cycle of decline in some of the country's poorest neighbourhoods. However, for some of those estates facing the most severe challenge, it may be the case that a more radical approach is required to regenerate the area, improve outcomes for residents and reconnect it to the wider economy.

**3.37** In the US, strategies to break up concentrations of poverty in public-sector housing have been a central feature of housing policy. For example, the HOPE VI programme has, since 1992, replaced severely distressed public housing estates, occupied exclusively by poor tenants and with poor quality housing and high levels of crime and disorder, with redesigned mixed-income housing attracting people with a range of incomes and backgrounds into both homeownership and rental units alongside social housing.

**3.38** In the UK nine mixed communities demonstration projects will follow similar principles, remodelling selected social housing estates through tenure diversification plus improved public services and local environments. Starting in Manchester, Leeds and Newham in east London, these mixed communities projects will tackle problematic concentrations of deprivation to create neighbourhoods of choice and connection in struggling social housing estates across the country.

### **Providing support for those who need it**

**3.39** Too many people have been left homeless or vulnerable. Government will help people to live independently in their own home, and will tackle homelessness, aiming to cut the use of temporary accommodation by half.

**3.40** The Government has made good progress in tackling homelessness. It has reduced the numbers that sleep rough by 70 per cent and ended the use of long-term bed and breakfast accommodation for families with children. The number of households accepted by local authorities as homeless during 2004-05 was 11 per cent lower than in 2003-04, representing the first yearly reduction in acceptances since 1997-98. Now government is focusing on temporary accommodation, aiming to cut its use by half by 2010. Local authorities have been given the power to bring empty homes back into use.

**3.41** Government will invest over £5 billion in housing related support over three years, helping 1.2 million people, many of them older or disabled people, to live independently in their homes.

## **CONCLUSION**

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**3.42** Having set out the Government's programme so far for extending to all the opportunity and choice of a decent home at a price they can afford, the following chapter now focuses on what government is doing to press ahead with its important commitment to tackle the UK's long-standing problem of weak housing supply and responsiveness. Without a successful supply response, these wider policies are unlikely to prove effective in the longer term, frustrating the home ownership aspirations of a generation.

# 4

## ACHIEVING A MORE RESPONSIVE HOUSING SUPPLY

### INTRODUCTION

**4.1** Chapters 1 and 2 set out clear economic, social and demographic justifications for tackling the UK's long-term lack of supply and responsiveness of housing. Constrained housing supply leads to increasingly unaffordable housing, frustrating the home ownership aspirations of many individuals and families. It also leads to wealth redistribution from those outside the housing market to those inside it. Low housing supply reduces labour mobility, damaging the flexibility and performance of the UK economy and key public services, and can also translate into wider macroeconomic instability.

**4.2** Building on the *Sustainable Communities Plan*, Kate Barker's independent review of housing supply set out clearly the threat that the UK's weak supply and responsiveness of housing poses to its future social and economic success. It explained how the UK housing market fails to respond to prices and demand in the way that other markets do. In normal competitive markets, if demand rises, and prices rise, supply increases in response. In the housing market, over the last 30 years demand has increased due to demographic change, real prices have increased by on average 2.4 per cent a year and new housing supply has seen a 30 per cent drop. People find themselves priced out of the market.

**4.3** Public services are affected too. If nurses, teachers and other key workers cannot find affordable homes near their place of work, then the public services that depend on their recruitment will suffer too. And if we don't have enough homes, it is the vulnerable who will suffer most. Lack of housing pushes up rents in the private sector, as well as increasing pressure on social housing and homelessness.

**4.4** Addressing these concerns, the Barker Report recommended a series of wide-ranging reforms (see Box 4.1) to help deliver a housing market in which:

- trend real house price growth is lower, leading to greater market affordability, reducing regional house price differentials;
- greater stability of house prices is maintained, with fewer 'bubbles' based around expectations of weak supply, promoting macro stability;
- decent housing is available to those who cannot afford market housing;
- the location of housing supply supports patterns of economic development; and
- negative impacts are minimized by ensuring that the most valuable land is preserved and housing growth contributes to sustainable communities.

**4.5** In its initial response at Budget 2004, the Government welcomed Kate Barker's review and accepted her headline conclusion that to improve affordability and increase access to housing, the UK needs to build more houses over time. The Government has said it would respond to the review's recommendations in full by the end of 2005 and remains committed to meeting this timetable.

**4.6** This chapter paves the way for a full response by the end of the year by setting out the progress Government is making in responding to the Review's

recommendations for achieving a more responsive supply of housing. The key policy issues are grouped under two broad categories: reforming planning, and investing in housing and infrastructure.

#### **Box 4.1: The Barker Review of housing supply**

The Barker Review set out the long-term upward trend in real house prices experienced in the UK – an average 2.4 per cent per annum over the last 30 years – and how house building had fallen to its lowest level since the Second World War. Forty years ago 400,000 homes a year were being built in the UK, but from the early 1990s this number had decreased to around 200,000 homes a year. Simultaneously the social housing stock had also been in decline. The Review concluded that a more responsive housing supply and a lower trend in house prices would be desirable to deliver greater macroeconomic stability and greater affordability.

The Review set out a number of recommendations for improving the functioning of the housing market:

- a long-term goal for improved market affordability should be set;
- investment in social housing should be increased over time, to deliver at least 17,000 more social houses a year in the medium term;
- Regional Planning Bodies and Regional Housing Boards should be merged to create a single body responsible for managing regional housing markets, supported by independent advice on the steps required to achieve affordability goals;
- reforms should be made to planning at the regional and local level to ensure that the planning system make better use of housing market information;
- a Planning-gain Supplement should be introduced to capture some of the development gains that landowners benefit from, and as a fair means of releasing resources to increase housing supply;
- a Community Infrastructure Fund should be established to help to unlock some of the barriers to development; and
- local authorities should be incentivised to deliver growth and new housing development.

The Government's initial response was set out at Budget 2004: *"The Government agrees that to deliver its commitment to stability and affordability a significant increase in development over time is needed... The Barker review sets out challenging reform proposals to deliver increased supply.... The Government accepts the need for reform and intends to implement a programme of change as recommended in the Review... The Government will review progress against these objectives by the end of 2005."*

## **REFORMING PLANNING**

**4.7** The analysis of the distinct characteristics of housing in chapter 1 identified the central importance of a well-functioning planning system for ensuring a responsive housing supply, while also promoting wider objectives, such as protection of the environment and the promotion of regeneration.

**4.8** Government's commitment to improve the delivery of housing through the planning system was articulated clearly in 2003 by the then Planning Minister, Keith Hill. He committed government "to remove barriers to the delivery of housing needed

in our communities and ensure the planning system is not a brake on an adequate and continuing supply of sites for housing in sustainable locations”.<sup>1</sup>

**4.9** Recent changes to the planning system will help make planning more robust and more responsive to developing policies and changing circumstances. The new system for plan-making introduced by the 2004 Planning & Compulsory Purchase Act removed a tier from the system by taking out county structure plans, and created new regional spatial strategies and local development frameworks better suited for planning at the regional and local level. More effective community involvement has been promoted, while efforts have been made to speed up the system as a whole, with more resources for local authorities linked to targets (see Box 4.2) and greater use of the benefits that e-planning can bring.

**Box 4.2: Making planning more effective and efficient at the local level**

*Increased resources and incentives through the Planning Delivery Grant (PDG).*

£170 million has been allocated in 2005-06 and a further £135 million and £120 million in 2006-07 and 2007-08 to speed up planning processes. £33 million from this grant was awarded for strong performance in processing major applications in 2005-06, more than double the £15 million in 2004-05.

*Targets for planning authorities to speed up development control.*

While there remains considerable room for improvement, planning applications are being processed faster now than at any time during the last decade. There has been a 12 per cent improvement in performance on planning decisions since 2002. The Government will ensure all authorities process 60 per cent of major applications within 13 weeks and 65 per cent of minor and 80 per cent of other applications within 8 weeks by March 2007. While some councils consistently achieve all these targets, some only process as few as 20 per cent of major applications within the statutory 13 week period.

**4.10** However, Government recognises the need for further improvements to the planning system and will continue to implement far-reaching reforms to the planning system to make it quicker, more flexible and more responsive to the wider social and economic needs of the UK in the 21st Century.

**4.11** In particular, the Government is committed to responding to the recommendations of the Barker Review, which concluded that a key constraint on delivering additional housing supply was an inadequate supply of developable land in plans. This was identified as a consequence of the fact that planning for housing currently takes insufficient account of information from the housing market.

**4.12** Housing market indicators can reveal important information about peoples’ preferences and can be an important aid to decision-making. In particular, prices can reveal information about the costs and benefits of housing, can provide incentives for development, and can be used to allocate land. To address this issue the Review recommended a series of reforms to planning at the regional and local level. The following paragraphs set out what the Government is doing in response.

<sup>1</sup> Planning for Housing Statement, July 2003.

## Improving affordability

**4.13** As highlighted in chapter 2, one of the consequences of a long-term undersupply of housing has been worsening affordability for households, particularly for first-time buyers. The Government remains concerned about the impact of diminished housing affordability on the opportunities available for young people and others and is committed to addressing it.

**4.14** The Barker Review identified some significant concerns with the process by which the appropriate level of housebuilding is decided upon for the forthcoming plan period. Regional and local housing targets tend to have insufficient regard to housing demand, in both high and low demand areas, and tend to be unresponsive to changing housing market conditions over time. One consequence of this is that the UK's supply of new housing responds relatively little, compared to other countries, to changes in house prices.

**4.15** To address these concerns, the Barker review recommended that Government should set a long-term national goal for affordability in the housing market. The objective of this goal would be to increase the focus on the key outcome of improving access to market housing over the housing market cycle, by making the implicit trade-off between housing affordability and new supply more explicit in the debate about housing numbers, and by building in greater responsiveness to market conditions over the plan period.

**4.16** The Government agrees that to deliver its commitments to stability and affordability a significant increase in development over time is needed. The Government is continuing to consider the scale of such development and how it can be delivered both in high demand areas and in areas suffering from low demand. In considering by the end of the year the effectiveness of a national affordability goal in delivering Government's objectives, the Government will balance the economic and social case for housing development against its environmental and wider implications.

**4.17** The Government's response will be informed by the findings of two major ongoing research projects into the affordability and sustainability implications of increased supply. The first of these, being carried out by an expert academic consortium led by Professor Geoff Meen of the University of Reading, is looking into the relationship between changes in housing supply and affordability. The sustainability project, run by a consortium led by Entec, is examining the potential economic, social, environmental and fiscal implications of additional housing supply. The final reports of both projects will be published later in the year.

**4.18** As an initial measure, the objective of improving affordability in the housing market was incorporated into ODPM's Public Service Agreement (PSA) 5 (balancing housing markets) during the 2004 Spending Review<sup>2</sup>. This uses long-term trends in the ratio of lower quartile house prices to lower quartile earnings as a headline indicator.

## Reforming Planning Policy Guidance for Housing (PPG3)

**4.19** One of the key constraints on housing delivery is land supply. The effective supply of land through the planning system is fundamental to the successful delivery of the Government's housing policies, as there is a positive relationship between the

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<sup>2</sup> ODPM PSA5: "Achieve a better balance between housing availability and the demand for housing, including improving affordability, in all English regions while protecting valuable countryside around our towns, cities and in the green belt and the sustainability of towns and cities".

amount of land plans allocate for housing and the number of houses that are built. It is essential therefore that plans allocate adequate land for development, that identified sites are developable (i.e. free or readily freed from constraints), and that plans respond in a timely fashion to changing market circumstances. At present, the planning system needs reform in each of these areas.

**4.20** The Government's reforms are aimed at delivering a better balance between housing demand and supply and will come forward in two phases. In the first phase over the summer, the Government will consult on a new policy approach to land supply. In the second phase in the autumn the Government will set this approach in a wider context by consulting on detailed changes to overall planning policy guidance for housing. Further detail on these two phases of planning reform follows below:

**A new approach on housing land supply**

**4.21** ODPM's consultation paper *Planning for Housing Provision* sets out a proposed new approach for delivering a better supply of housing through the planning system.<sup>3</sup> It proposes a new approach to making land available for development, and maintaining an adequate supply, within the overall objective of planning to contribute to sustainable development. The aim is to ensure that plans and plan policies deliver sufficient land, in the appropriate places, and at the appropriate times to meet future housing requirement. Plans should do this in a way which takes better account of the housing market, is more responsive to changing circumstances, and can move quickly to adjust land supply where necessary.

**4.22** The key elements of the proposed new approach are:

- requiring greater reference to housing market information at the regional level in determining the level and distribution of housing provision within the region, and to tailor the delivery of housing to the circumstances of different markets;
- extending the local authority plan horizon from 10 years to 15 years to take a longer term view;
- requiring that local authorities ensure that the first 5 years of this land supply is allocated and developable;
- requiring that local authorities roll forward this 5 years supply as land is developed, and in the context of changing housing market conditions;
- introducing housing land availability assessments, to require local authorities to work with developers to identify land that is developable and offers the most sustainable option for development.

**4.23** The consultation paper is concerned with how planning delivers housing at the local level, and the new mechanisms involved. It does not address issues concerned with the overall level of housing growth and how it is determined. Government will address these broader issues as part of its overall response to the Barker Review by the end of the year.

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<sup>3</sup> *Planning for Housing Provision*, Consultation Paper, ODPM, July 2005.

**A new  
Planning  
Policy  
Statement for  
housing  
(PPS3)**

**4.24** In a second phase of planning reform in the autumn, government will consult on a new draft Planning Policy Statement on Planning for Housing (PPS3) to replace the current PPG3. This will draw on both the *Planning for Housing Provision* consultation paper as well as the earlier *Planning for Mixed Communities* consultation, which set out a proposed new approach to creating sustainable communities that offer a well-integrated mix of decent housing of different types and tenures to support a wide range of households of different sizes, ages and incomes.<sup>4</sup>

**4.25** The new PPS3 will set out the broad national policy framework for planning for housing. The aim will be to ensure that the planning system is used to its maximum effect to ensure that everyone has the opportunity of a decent home, which they can afford, within a community which is sustainable and in which they want to live and work.

### Reforming planning institutions

**4.26** The Barker Review also recommended reforms to the institutions that operate within the planning system. It recommended that Regional Planning Bodies (RPBs) and Regional Housing Boards (RHBs) be merged to create single bodies responsible for managing regional housing markets, and that that these new bodies be supported by strong and independent Regional Planning Executives in each region to provide expert analytical support.

**4.27** The Government broadly supports these proposals and set out options for reform in the ODPM consultation document *Housing and Planning in the Regions* last autumn.<sup>5</sup> At Budget 2005, the Government committed to establish an independent advice unit to strengthen the evidence and analysis on improving housing market affordability available to regional planning bodies throughout the regional planning process. Merging Regional Housing Boards and Regional Planning Bodies, as recommended by Barker, will mean that regions are able to take a strategic view of meeting housing and infrastructure needs.

**4.28** The Government will come forward with firm proposals for a new national advice unit by the end of the year, in the context of its wider response to the Barker Review. The ODPM is currently exploring options for locating the proposed new body on a site shared with the Office of National Statistics' Demographic Centre. Working side-by-side, members of these two bodies could develop expertise on demographic and economic information. This would help the unit to strengthen the evidence base underpinning regional strategies, helping to bring greater transparency to the debate about housing numbers at the regional level.

### INVESTING IN HOUSING AND INFRASTRUCTURE

**4.29** A growing and changing population needs to be provided with public services - schools, health centres, waste disposal, public transport and policing. Where new housing is required to accommodate this population, there is likely to be increasing water and energy demand, while flood defence and transport infrastructure may well be needed. In addition, wider policy objectives require that a proportion of overall housing growth be in the form of affordable housing (social and sub-market housing in various forms).

<sup>4</sup> *Planning for Mixed Communities*, Consultation Paper, ODPM, January 2005.

<sup>5</sup> *Housing and Planning in the Regions*, Consultation Paper, ODPM, September 2004.

**4.30** Ahead of its full response to the Barker review by the end of the year, Government is currently undertaking further analysis on the wider potential infrastructure implications of increased housing supply. Box 4.3 below illustrates some of the factors that need to be considered in coming to an informed judgement on this issue.

**Box 4.3: assessing the infrastructure costs of additional housing supply**

Assessing the cost of the infrastructure required to support additional housing growth is a complex exercise, which involves significant uncertainties. In assessing potential costs the following points should be taken into account:

- It is particularly difficult to quantify the costs of infrastructure to support housing in general, not least because the magnitude of the costs tends to be so location-specific. The ability of existing services, or of any given spatial location, to absorb additional households can vary hugely.
- Much of the new housing needed will be catering for new household formation, rather than population growth. While some infrastructure costs may increase, others may be offset by reductions elsewhere. For example, new housing may not necessarily increase congestion, if it enables people to live nearer to their work or in less congested areas.
- Costs are likely to vary significantly according to the pattern of development, for example development in urban infill is significantly different to urban extensions, or new settlements.
- All of this is against a backdrop of significant investment in infrastructure. For example, identifiable public expenditure in the south-east region rose from £28 billion in 1998-99 to £38 billion in 2002-03, a real terms increase of 17 per cent.
- Any future investment strategy would also need to look at the scope for demand management, the effects of which could be significant.

These considerations suggest that the various figures currently being used in debates about housing growth should be treated with some caution. Government will be undertaking further work and analysis on these issues over the coming months.

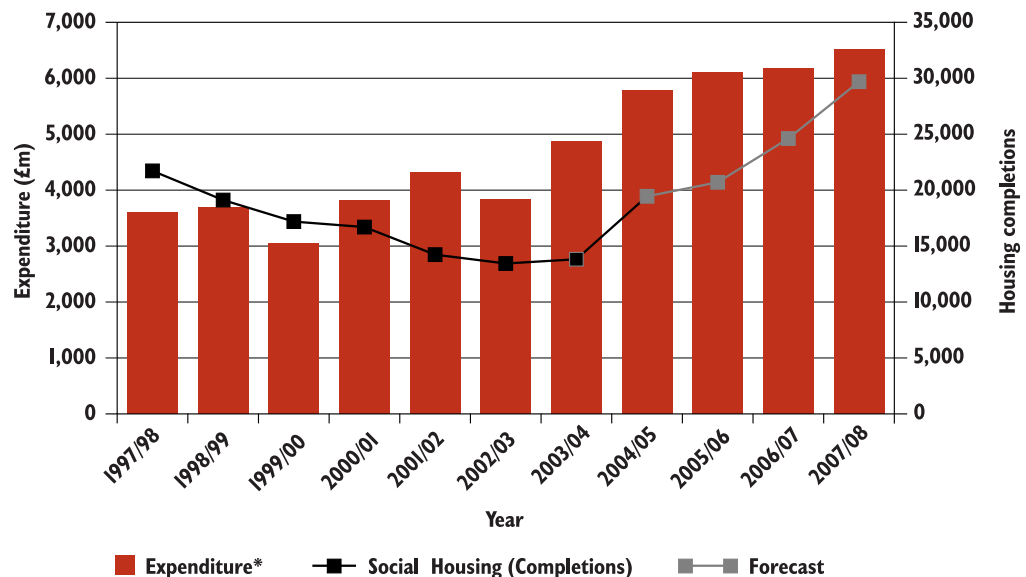
**4.31** The efficient delivery of additional housing, supported by timely provision of the infrastructure needed to sustain it, requires effective partnership and co-operation between a variety of public bodies and service providers. The following pages set out the steps government is taking to encourage a more effective and co-ordinated approach to delivering and supporting housing growth. Measures aimed specifically at mitigating environmental impacts are covered in more detail in chapter 5.

**Investing in housing** **4.32** A proportion of overall housing growth will need to be in the form of affordable housing (social and sub-market housing in various forms). This is being achieved through a turnaround in public investment in housing, which by 2007-08 will have reached £7.2 billion, over double what it was in 1997-98. The 2004 Spending Review provided £1.3 billion more for housing in 2007-08 compared to 2004-05, as well as realising extensive efficiency improvements.

**4.33** Chart 4.1 shows the impact that this turnaround in public investment is beginning to have on social housing outputs, despite now being targeted on those areas facing the greatest homelessness pressures and often the highest land prices. The measures announced at the 2004 Spending Review make a substantial contribution to

meeting the increase in subsidised housing provision called for by the Barker Review, bringing a 50 per cent increase in new social house building by 2007-08 compared to 2004-05 – an additional 10,000 homes a year.

**Chart 4.1: Total expenditure and new house builds (completions)  
– England 1997 to 2008**



Source: ODPM and HMT  
\* Expenditure is represented in real terms

### Investing in infrastructure

**4.34** In addition to making a major contribution to increased social housing supply, the 2004 Spending Review will also help deliver increased private supply through funding the ODPM's Sustainable Communities Plan to support the delivery of 200,000 additional homes in the Thames Gateway and other growth areas by 2016. The Spending Review also established a new Community Infrastructure Fund (as recommended by Kate Barker) of £200 million to help unlock additional housing supply in key growth areas.

**4.35** There is a complex interplay between housing, infrastructure and economic outcomes that is likely to vary in different circumstances. In areas of major growth, where large-scale new developments are contemplated, there is a consequent need for larger scale infrastructure schemes and investments - to help bring brownfield land back into use, to provide flood protection, land drainage, or new transport infrastructure. Such schemes are likely to be of sub-regional or possibly regional significance and probably beyond the scope of any single local authority to handle.

**4.36** Additional government support is being provided through the new £200 million Community Infrastructure Fund (CIF). This is targeted at financing transport projects that would bring forward new housing development in key areas of growth. Following detailed appraisal of initial bids over the summer, the Government will announce CIF funding allocations in the autumn. Shortlisted projects cover both provision of direct access to a new housing development from the existing road and public transport network, and also upgrades to the existing road and public transport network to facilitate development and regeneration across a wider area.

**4.37** Requirements for additional infrastructure implications are not, however, unique to only major development. Even moderately sized housing development can create additional need for basic services such as health, education and policing. Throughout government, key spending departments have put arrangements in place to take account of housing growth in their allocations process.

**Regional Funding Allocations** **4.38** As part of its drive to devolve decision-making, the government is also taking steps to help regions influence more directly future public spending decisions on infrastructure priorities. The 2004 Spending Review announced that the Government would examine new ways to integrate transport, economic and spatial development strategies. In December 2004, the Government launched a consultation, alongside the 2004 Pre-Budget Report, on how it proposed to implement regional funding allocations (RFAs).<sup>6</sup>

**4.39** Building on this consultation, the Government is publishing guidance inviting regions to give advice on future public spending decisions based on realistic funding assumptions for transport, housing and economic development. The guidance sets out, for the first time, regional transport funding allocations for three years up to and including 2007-08, in line with the regional housing and regional economic development allocations already published. The guidance also provides indicative longer-term planning assumptions for regional allocations, beyond the three years of the current Spending Review, across the three funding streams.

**4.40** Decisions on regeneration, transport, housing supply and economic development often entail investment for a number of years, and decisions in one policy area will have implications for the others. Having clearer planning assumptions on future funding should allow effort to be better focused, and allow more realistic and deliverable strategies to be developed.

**Investment through planning obligations** **4.41** In addition to mainstream departmental funding it is also important to recognise the significant contribution that the system of planning obligations can make to infrastructure delivery. Planning obligations (commonly known as section 106 agreements)<sup>7</sup> are agreements between local authorities and developers, typically negotiated in the context of granting planning consent, and intended to address planning concerns in order to allow development to proceed. Through planning obligations, developers make cash or in-kind contributions towards a range of infrastructure and services, including local roads and public transport schemes, public spaces, community facilities and affordable housing.

**4.42** However, the existing system of planning obligations has for a while now been criticised for being "*complex, difficult to agree and [responsible] for delaying the planning process*"<sup>8</sup>. As a result, government has made clear on a number of occasions its intention to bring about much-needed reform to the system.

**4.43** As further thinking on reforming s 106 continues, the Government will proceed as set out at Budget 2004 by considering Kate Barker's recommendation for a Planning-gain Supplement (PGS) in its wider response to the Review by the end of the year. Kate Barker recommended that a Planning-gain Supplement be introduced to capture a

<sup>6</sup> *Devolving decision making: a consultation on regional funding allocations*, HM Treasury, Department for Transport, Office of Deputy Prime Minister, Department of Trade and Industry, December 2004.

<sup>7</sup> As established by section 106 of the Town and Country Planning Act 1990 (as amended by the 1991 Planning and Compensation Act) and Department of the Environment Circular 1/97.

<sup>8</sup> *Planning: delivering a fundamental change*, DTLR, 2001.

portion of the uplift in value accruing to land during the development process to fund enhanced investment in social housing, housing-related infrastructure, and to provide incentives for local authorities to deliver housing growth. The views of stakeholders will be sought in this process.

**4.44** In his statement of 17 June 2004, the then Minister for Housing and Planning committed to press ahead with some interim reforms to streamline the current arrangements for negotiated s106 agreements, ahead of any potential wider change. The Government is today delivering on that commitment with the publication of a new Circular on planning obligations (see Box 4.5).

**Box 4.5: Publication of a new Circular on planning obligations**

The new Circular makes a number of beneficial changes to the current arrangements for negotiated s106 agreements:

- retention of the Secretary of State’s policy tests from the previous Circular (DoE 1/97), but making the “necessary” part “necessary in planning terms”, to emphasise the link to the planning requirements of the site;
- clarification of the place of affordable housing contributions in s106;
- greater emphasis on inclusion of policies in Local Development Frameworks (LDFs) and “joining up” between different statutory bodies in formulating those policies. The use of LDFs in Growth Areas for example allows for strategic contributions relating to above average growth to be sought as well as site-specific ones;
- encouragement of the use of standard charges and formulae by Local Planning Authorities (LPAs) in order to allow developers to estimate likely contributions;
- encouragement of the pooling of obligations within and between LPAs; and
- a range of process measures, for example use of standard legal agreement documents, use of mediation, better monitoring of planning obligation implementation.

**4.45** In any scenario, local authorities, through their planning and development control function, will remain crucial in any strategy for increasing housing supply. Recognising their importance, the Barker Review made two recommendations for improving the incentives for local authorities to deliver housing growth. The first was that central government funding settlements should be made more forward-looking, while the second was that government should consider ways of incentivising local authorities to meet housing growth targets.

**4.46** The 2005-06 local government finance settlement helped address these issues by lifting the grant ceiling (a maximum limit on the percentage grant increase from one year to the next received by any authority) with the result that fast-growing areas such as Milton Keynes, Cambridge and Peterborough will benefit by more than 10 per cent. Ahead of its full response to Barker at the end of the year, government will continue to consider further options for supporting housing growth at the local authority level as part of its wider thinking on policy towards planning obligations.

**4.47** More broadly, recognising the need for sustainable, accountable and fair local government finances, the government has asked Sir Michael Lyons to consider, in the light of the report by the Balance of Funding review, the detailed case for changes to the

present system of local government funding. Sir Michael is continuing to undertake consultation and to receive representations from stakeholders and interested parties.

## THE INDUSTRY'S RESPONSE

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**4.48** Finally, the Barker Review also laid down a series of challenges to the housebuilding industry to improve service quality and customer satisfaction ratings and to increase investment in skills and improved production techniques. At Budget 2004, Government announced that it would consider the progress made by the sector by summer 2005.

**4.49** The Government has been updated on the progress being made by the housebuilding sector in responding to these recommendations by the Home Builders Federation (HBF), the principal trade federation for private sector housebuilders and voice of the house building industry in England and Wales. The Government recognises the steps that the sector has taken to date and urges housebuilders and developers to take further significant strides in addressing these important recommendations as part of the wider response to the Barker review by the end of the year.

## CONCLUSION

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**4.50** This chapter has set out the progress being made by government in responding to the Barker Review's recommendations for achieving a more responsive supply of housing. Successful implementation of the Review's recommendations remains essential to securing the economic and social benefits to the UK set out in chapter 2 and the Government remains on track for a full response to the Barker Review by the end of the year.



# 5

## ENHANCING THE ENVIRONMENT

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### INTRODUCTION

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**5.1** Previous chapters have set out the Government's commitment to increasing housing supply to deliver significant social and economic benefits. However, as set out in the Government's sustainable development strategy *Securing the Future*,<sup>1</sup> extending opportunities for people to have a home that meets their aspirations must go hand in hand with protecting and enhancing the environment, both for the enjoyment of people today and to ensure a strong legacy for future generations.

**5.2** Improving the environmental performance of buildings and developments during their planning, design, construction and in use; increasing their sensitivity to the needs of our historic towns and cities; and providing green space through strict controls on new buildings on undeveloped sites all contribute towards creating attractive sustainable communities where people want to live and work, now and in the future.

**5.3** The Government has already legislated to put the achievement of sustainable development at the heart of the planning system.<sup>2</sup> It also issued updated guidance – Planning Policy Statement 1 (PPS1) – earlier this year, setting out what this will mean for local authorities in preparing development plans and determining planning applications (see Box 5.1).

#### **Box 5.1: PPS1 – planning for sustainable development**

Planning Policy Statement 1: Delivering Sustainable Development (PPS1) emphasises that planning should facilitate and promote sustainable and inclusive patterns of urban and rural development. This means ensuring an integrated approach is taken to sustainable development when preparing regional and local plans, and ensuring that the inter-relationships between social inclusion, protection and enhancement of the environment, the prudent use of natural resources and economic development are properly considered. Economic development, if properly planned for, can bring social and environmental benefits, rather than negative impacts.

### MAKING BEST USE OF LAND

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**5.4** The Government's commitment to achieving 60 per cent of new development on brownfield land, and more efficient use of land through higher densities (generally between 30 and 50 dwellings per hectare) will ensure that the land take and potentially adverse environmental impacts from new development are minimised. This has resulted in 67 per cent of new development in England being on brownfield land in 2003, up from 56 per cent in 1997 (Chart 5.1).

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<sup>1</sup> *Securing the Future – delivering UK sustainable development strategy*, CM6476, March 2005.

<sup>2</sup> Planning and Compulsory Purchase Act 2004



## Using land efficiently

**5.6** Together the results of these changes are striking. Government can deliver its goal of 1.1 million new homes in London and the South East by using less land than it would have taken to deliver the previous target of 900,000 homes. The 1.1 million proposed new homes will be built on about 5,000 hectares less greenfield land than the 900,000 homes previously planned with the 1997 densities and levels of brownfield land use. That is a saving of over a third compared with previous plans – an area of greenfield land greater than the size of Norwich.

**5.7** The increase in densities has been achieved by the introduction of a clear policy framework in PPG3<sup>3</sup>, and more recently has been underpinned by the Density Direction, which makes sure that the Secretary of State is notified of proposals for low density developments on large sites in London and the South East. This enables the Secretary of State to call them in for his own determination. Government recently extended the Density Direction to cover other areas of high housing demand in the east and south-west, including all the Growth Areas.<sup>4</sup>

**5.8** To monitor progress against its brownfield target, government set up a national database, launched in 1998, which brings together details of previously developed land across England. Government's proposals to reform planning guidance on land supply also play an important role. By encouraging stronger partnership between local authorities and developers in identifying the viability of brownfield land for development, the expertise and resources of key bodies such as English Partnerships can be brought into the process at an earlier stage.

**5.9** Economic incentives can also help brownfield development. The introduction of the Contaminated Land Tax Credit (CLTC) in 2001 provided an enhanced tax credit to assist developers in meeting the cost of remediating contaminated land. The Barker Review recommended that consideration be given to extending it to include long-term derelict land, if this could be done in such a way that new money levered into the market resulted in genuine new investment in brownfield remediation. The Government is continuing to evaluate the Contaminated Land Tax Credit and examine options to develop a well-targeted extension taking into account the Barker recommendation and the emerging effectiveness of CLTC to bring more derelict land into use.

## Protecting open space

**5.10** A central aim of the Government's sustainable communities agenda is to create and maintain communities that people want to live in. An important part of this is provision of green space to support access, recreation and biodiversity in both rural and urban areas. Planning guidance seeks to ensure good provision of green space in new and existing communities.

**5.11** The Government is committed to maintaining and enhancing the Green Belt. In 2003, designated Green Belt land in England amounted to 1,672,000 hectares, about 13 per cent of the land area. This was 19,000 hectares more than in 1997, when the extent

<sup>3</sup> *Planning Policy Guidance Note 3: Housing*, DETR, 2000.

<sup>4</sup> *ODPM Circular 1/2005 The Town and Country Planning (Residential Density) (London, South East, South West, East of England and Northamptonshire) Direction 2005*, ODPM, January 2005.

of Green Belt was last measured. A further 12,000 hectares of Green Belt have been earmarked in new local development plans awaiting approval.<sup>5</sup>

**5.12** Government is today publishing a consultation paper on proposals for a new Green Belt Direction. This would require certain applications for inappropriate development in the green belt which local authorities are minded to approve to be referred to the Secretary of State. It will clarify the current arrangements for developers and local authorities alike and will help ensure a more consistent approach in the referral of applications.

### **Effective management of flood risk**

**5.13** It is essential to take flood risk into consideration at all stages of the planning and development process. Current planning policy guidance on development and flood risk<sup>6</sup>, introduced in 2001, has succeeded in raising the profile of flooding in the planning process. The number of all applications permitted by local planning authorities contrary to Environment Agency advice has, as a percentage of applications where the Agency made sustained objections, almost halved since PPG25 was introduced.

**5.14** However, PPG25 needs to be clarified and strengthened in some respects. To this end Government plans to consult in the autumn on a revision of PPG25 focussed on core policies that are clearer and easier to understand, with strengthened guidance on the need to include Flood Risk Assessments at all levels of the planning process.

## **SUSTAINABLE, HIGH QUALITY DESIGN AND CONSTRUCTION**

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**5.15** Sustainable communities need their own identities. Good design contributes to this and can also result in reduced carbon emissions, through reduced construction waste and better use of materials, reduced energy consumption in use, and improved travel to work patterns. Good design also provides value for money, encourages community identity, improves the quality of local environments and improves the long-term durability of places.

### **Excellent design**

**5.16** The Government will raise standards of design through its support for the Commission for Architecture and the Built Environment (CABE). Over the next five years, Government will aim for a hundred more new developments gaining a Building for Life Award for their high quality.

**5.17** Government is committed to completing the evaluation of its pilot programme for Urban Design Coding, a set of rules that guides the physical development of a place. Seven pilots are testing the use of design coding in different contexts within England to see how codes can provide greater certainty, speed and high quality development. With a local development order, local authorities will be able to grant permission for the type of development specified in advance, with no need for a planning application. This greater clarity should speed up the delivery of high quality, sustainable development through the planning system, and if the pilots are successful they will be rolled out across the country.

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<sup>5</sup> National Land Use Database, ODP. Figures are for England.

<sup>6</sup> *Planning Policy Guidance Note 25: Development and Flood Risk*, DTLR, July 2001.

**5.18** Government will ensure that all of its national agencies and three-quarters of local authorities will have a design champion in place, raising the standards to which new homes are built – for example through higher standards of accessible design. It will also promote high standards of design through the take-up of modern methods of construction, including completing about 1,000 new homes through the Deputy Prime Minister’s Design for Manufacture competition to construct a new home for £60,000 (see also chapter 3).

## Sustainable construction

**5.19** Each year the construction industry produces three times as much waste as all UK households combined, of which 13 million tonnes is made up of material that is delivered to sites but never used. It is estimated that the construction industry could reduce the volume of waste by nearly a third through greater efficiency, recycling and better design.

**5.20** Sustainable construction offers benefits for business as well as significant environmental and social improvements. Some developers are already showing what can be done: Greenwich Millennium Village has successfully reduced on site construction waste by around 50 per cent, benefiting the environment, and saving the business over £130,000. Government now looks to all developers to reach the standards of the best.

## SUSTAINABLE BUILDINGS AND PLACES

**5.21** More sustainable buildings can make a major contribution to the UK’s quality of life at all levels, from tackling climate change to environmental improvements in peoples’ neighbourhoods. Similarly, the Government’s commitment to create cleaner, safer, greener communities offers environmental as well as social benefits to the areas we live.

## Improving existing homes

**5.22** Domestic households are responsible for around 30 per cent of UK energy use, some 27 per cent of UK carbon dioxide emissions, and around 24 per cent of greenhouse gas emissions<sup>7</sup>. It is vital that the energy standards of these homes are improved if the UK is to make a substantial impact on overall household energy use.

**5.23** As part of its efforts to achieve its Decent Homes target, Government is improving heating and insulation in social homes to make them more comfortable and energy efficient, and to reduce fuel poverty. Around 480,000 council homes have already benefited from improvements to their heating and insulation since April 2001. Government will improve the energy efficiency of over 1.3 million social homes from 2001 levels by 2010.

**5.24** Government will also improve energy efficiency in private homes, both through ODPM’s Decent Homes programme and through Defra’s Warm Front programme, helping to make the homes of an estimated 50,000 vulnerable households in the private sector decent and more energy efficient each year.

**5.25** For some people, renting rather than owning a property is appropriate for their particular circumstances, and the Government is committed to ensuring that the

<sup>7</sup> Source, Department of Trade and Industry, 2004.

private rented sector (PRS) provides its occupants with good quality and energy efficient accommodation. In 2004, the Landlords Energy Saving Allowance (LESA) was introduced to incentivise PRS landlords to install cavity wall and loft insulation in their properties. This was extended to solid wall insulation in 2005. The Government is also considering the introduction of a Green Landlord Scheme, and informal discussions about this proposal are planned to take place with stakeholders over the summer.

**5.26** More broadly, the Government introduced a reduced VAT rate for professionally-installed energy-saving materials in 1998 for vulnerable households. This reduced rate was extended to all households in 2000, and since then has widened to cover some micro-renewable technologies.

**5.27** In future, all homes will need an energy certificate when they are built, sold or rented. This certificate will form part of the home condition report, which will need to be provided under the Housing Act 2004 when a property is put up for sale. The certificate will provide information on the energy efficiency rating of the property and will detail the most cost-effective measures for improving the rating.

### **New homes with better environmental performance**

**5.28** The Government is committed to ensuring that all newly developed communities such as the Thames Gateway Development are built to high environmental standards on issues such as energy efficiency and water use, and to developing a clear plan to minimise the impact of new communities on the environment. By 2010 there will be over 6,000 exemplar homes across all seven Millennium Communities – demonstrating new approaches to achieving higher environmental and design standards in a way that will be possible for others to follow.

**5.29** As part of its approach, Government is committed to raising the average energy efficiency of new homes and has set tough minimum standards for environmental performance to achieve this. Tightening of Building Regulations will save 2.5 million tonnes of carbon per annum by 2010.

**5.30** Households use 56 per cent of all water supplied in the UK, and parts of England, most notably the South East, have experienced a rapid growth in demand for water over the past few decades. It is, therefore, essential for service providers and consumers to work together to conserve resources and maximise efficiency, and to ensure that decisions on new housing continue to take water availability into account.

**5.31** The Government will work with industry on a voluntary basis to develop a new Code for Sustainable Buildings, establishing excellence for energy and water efficiency, waste and use of materials that goes beyond the minimum standards in building regulations. In addition, Government will continue to set high standards for all publicly funded homes and has committed that "*from April 2006 all new homes receiving government funding will meet the new Code for Sustainable Buildings*"<sup>8</sup>. The Code will be demonstrated in the Thames Gateway and a range of other areas from 2005, before nationwide roll out. A number of developers are already coming forward to volunteer pilot projects.

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<sup>8</sup> The Labour Party Manifesto, 2005.

## Cleaner, safer, greener communities

**5.32** People care about the places where they live and work – their streets, town centres, and green spaces. When people choose where to live, they don't just choose a home, they also choose a neighbourhood.

**5.33** The Government is committed to making communities cleaner, safer and greener, improving quality of life. Its work to promote excellent design, described above, makes a major contribution to this, by creating well-designed places where people feel safe and secure and where crime doesn't undermine quality of life. The ODPM's five year plan *Sustainable Communities: People, Places and Prosperity* set out the Government's detailed strategy for improving places. It showed how government is giving people more say, and local authorities, neighbourhood managers and housing managers more power to sort out the problems that blight neighbourhoods, such as anti-social behaviour.

## CONCLUSION

**5.34** Increasing housing supply will deliver significant social and economic benefits. However, extending opportunities for people to have a home that meets their aspirations must go hand in hand with protecting and enhancing the environment, both for the enjoyment of people today and to ensure a strong legacy for future generations.

**5.35** Improving the environmental performance of buildings and developments during their planning, design, construction and in use; increasing their sensitivity to the needs of our historic towns and cities; and providing green space through strict controls on new buildings on undeveloped sites will all contribute towards creating attractive sustainable communities where people want to live and work, now and in the future.