The Government's Housing Policy on the brink of collapse

In this article John Harvey asks: *Is the Government's housing policy built on a house of cards that will collapse now that the private sector underpinning has been removed?*

After years of research by Treasury economists and Kate Barker's enquiry[1] into the relationships between land supply and housing delivery the Government announced its new housing policy with great fanfare and high ambition in its "*Delivering Affordable Housing"* policy statement in November 2006 and its Housing Green Paper "*Homes for the future: more affordable, more sustainable"* published in July 2007.

In these documents the Government set out its housing targets and its chosen means of delivering them: the Government set an overall target of producing 3 million new homes by 2020, of which some 2 million would be delivered by 2016. The Green Paper announced an £8 billion investment in affordable housing over three years, an increase of 50% on previously planned levels. It also set out a new target of 70,000 affordable homes a year by 2010–11, including at least 45,000 social homes for rent.

Under the policies set out in the Housing Green Paper the 2 million new homes to be delivered by 2016 would be delivered through the following mix of plans and initiatives:

- **1.6 million homes through existing Regional Spatial Strategies (RSS) and plans already in place including around 650,000 homes in growth areas** with support from the 2003 Sustainable Communities Plan (such as Thames Gateway and Milton Keynes/South Midlands);

- **150,000–200,000 additional homes in the new round of RSS and plans now under consideration,** including many smaller sites and urban area schemes, together with **further partial RSS reviews** where they are needed;

- **100,000 extra homes in 45 towns and cities** that make up the **29 new growth points**. Those towns will be eligible for additional support and growth funding – comparable to support which growth areas receive, including access to a £300 million community infrastructure fund for growth areas, new growth points and eco-towns;

[1] A review commissioned by the Government in April 2003 to look at the lack of supply and responsiveness of the UK housing sector. The review was conducted by Kate Barker supported by a team of economists and researchers who published their final report in March 2004. It put forward many recommendations that have been taken up in developing the Government's housing and planning policies.

- **An additional round of new growth points** including for the first time the North which would deliver around **50,000 new homes**. The final number will depend on the strength, costs and sustainability of bids coming forward;

- **5 new eco-town schemes** – subsequently expanded to 15 short-listed sites ranging from Yorkshire to West Sussex (CLG consultation paper "Eco Towns: living a greener future" April 2008) – with the entire community designed to be able to reach zero carbon standards. Each scheme could provide between 5,000 and 20,000 new homes giving a total of some **25–100,000 homes**. Final decisions will depend on the strength, costs and sustainability of the bids received.

The problem is that all these carefully formulated and crafted policies depend on a single delivery mechanism: namely the production of market housing by private developers who are required to build a specified number of "affordable" units as a condition for getting planning permission (with such deals usually set out in section 106 agreements.[2])

Instead of having a mix of delivery mechanisms the Government has put all its eggs in the one basket. The Government has deliberately chosen to work through market mechanisms (which effectively pushes the cost of new affordable housing on to private home buyers) rather than rely upon the more traditional direct forms of subsidy[3] to produce specified numbers of affordable housing at specified standards of design and built quality.

Now that the private housing industry is facing a severe slow down the units of affordable housing which were intended to ride on the back of such schemes are no longer capable of being developed.

The hiatus in the building of new housing means that it is now virtually impossible for the Government's declared new housing targets to be met – unless it introduces a bricks and mortar subsidy very quickly.

It is ironic that this undoing of the Government's housing policy is due to the very market mechanisms and economic factors that the economists who framed the policy failed to take into account!

John Harvey is Managing Director of IRIS Consulting

[2] The *Delivering Affordable Homes* policy statement set out the following general policy aims as regards the type and delivery mechanisms for such housing: "The Government strongly encourages the **best possible use of planning obligations' (** planning obligations are negotiated under section 106 of the *Town and Country Planning Act 1990*, as substituted by section 12 of the Planning and Compensation Act 1991) '**and other tools** to improve delivery, and would like to see all local authorities meet the standards of the best performers".

[3] In the past in order to help those households who cannot afford the market cost of housing that meets their needs successive governments have provided financial assistance. This financial assistance has typically taken two main forms:

1. Subsidies to housing providers (local authorities and housing associations) to help meet some of the costs of their rented housing so that they can charge lower rents to recoup their outlays (often termed 'bricks and mortar' subsidies)
2. Subsidies paid to poorer households and individuals to help them meet the costs of paying their rent or mortgage. These types of subsidy nowadays take the form of housing benefit, which is administered by local authorities on behalf of the Department for Work and Pensions. This type of subsidy is often described as 'income subsidy'.