

Fixing the Roof: Ideas for tackling the Housing Affordability Crisis

A DISCUSSION DOCUMENT

BRISTOL LIBERAL DEMOCRATS

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EXECUTIVE SUMMARY

Like many parts of the UK, the Bristol and Bath sub-region faces a housing crisis. Soaring house prices have caused a decline in living standards for many: many are struggling with increasing rents, or large mortgage costs, but static wage levels.

Bristol is one of the most searched for locations on Rightmove. Whilst Bristol's popularity may be welcome to those looking to sell their house, for first time buyers and renters that popularity creates an additional challenge.

To avoid a lack of affordable housing causing economic anxiety and social resentment, we need to reform housing provision in the Bristol and Bath area. We need reforms which evolve from the values of Social Liberalism.

The housing crisis can only ultimately be solved by the introduction of new UK legislation, covering things like:

- **land value taxation,**
- **reforms to planning laws;** and
- **the removal of caps on local authority borrowing.**

To introduce these reforms, the powerful constituency of existing homeowners has to be convinced that the changes are in their long term interests. There is no absence of credible means of solving the housing crisis. What is lacking is a party having the political courage to advocate these workable solutions. We hope that the Liberal Democrats have the courage to jump into this space.

We can of course do a lot locally to alleviate this crisis. The West of England Combined Authority ("WECA"), and the Councils that make up WECA ("WECA Councils"), can take many steps to facilitate a supply of affordable housing, across all tenures.

These steps include:

- **greater use of the powers** granted to the Metro Mayor to enable **land assembly** and **strategic housing development;**
- **encouraging institutional investors into the build to rent residential sector,** and looking at ways the Councils' pension funds could invest in this asset class;
- **helping smaller developers return to the housing market** by ensuring that:
 - **the land market** is as **transparent** as possible;
 - **skills shortages** in the **building trade** are **addressed;** and
 - **planning departments** become more **efficient.**

INTRODUCTION

Access to housing – whether this is supported housing, private rented housing or home ownership – is fundamental to our liberties, opportunities and hopes for the future.

A lack of affordable housing has created a crisis:

- On average, house prices are now almost **seven times people's incomes**;
- Over **1.6 million people are on housing waiting lists in the UK**. This includes, **124 000 homeless children**;
- Between 2002 and 2015 **the rise in housing costs erased all gains in earnings for more than half of households** in Britain. For many living standards are actually falling when housing costs are thrown into the mix;
- In England, **an additional 300,000 homes** a year will need to be built to fix the housing crisis.

Housing is a key political issue at the moment.

The housing affordability crisis may help explain why: the Conservatives currently enjoy strong support from the over 50s (who are more likely to be homeowners with vast amounts of equity). Conversely, the Tories struggle for support amongst the under 50s. The under 50s tend to be saddled with large mortgages, or be paying ever spiralling rents

Whilst Labour and the Tories both look at ways of winning over voters worried by housing, both those parties have problems in the housing policy area. These problems make them unable to deliver effective reforms:

- the Tories are constrained by:
 - a reluctance to upset the **large land speculators** who have donated to them in the past; and
 - an ideological **aversion to land taxes**.
- Corbyn's Labour Party has an ideological aversion to joint ventures between Labour run councils and private developers. But these partnerships could alleviate the affordability crisis in some areas.

Amidst this, the Liberal Democrats, unrestrained by vested interest, or dogma, have an opportunity to craft a housing policy, which:

- is distinctive and reflects the key liberal value of **fair and efficient markets**;
- adopts a pragmatic "**what works approach**" when it comes to whether councils or the private sector provide housing (or do so jointly); and
- in the area of land taxation, and planning reforms, reflects **a desire to confront vested interests**.

This Paper sets out what we can do locally. It then looks at possible national solutions to the housing crisis.

Many of the suggestions in this Paper could, if introduced, upset existing homeowners. They will lead to a long overdue correction in house prices, so that houses and tenancies become affordable.

High house prices make victims of us all.

High house prices lead to:

- **boom and bust markets**, which endanger the wider economy
- **homeowners being unable to move up the property ladder** (because house price inflation has made the next rung unreachable);
- the absurdity of home owning parents, releasing equity from their homes so as to finance a deposit for their adult children; and
- those who get onto the ladder often having to take money away from investing in a diversified pension pot: instead they "*bet the farm*", their retirement, on one asset (their home) appreciating in value.

Despite all the evidence that high house prices are in few people's best interests, there are many who, currently, aren't prepared to vote for a party which threatens the substantial equity they have in their homes. The home owner community is more organised and politically active than their renting neighbours. Liberal Democrats must not be cowed by this political constituency: we need to be prepared to reassure this political constituency that making homes affordable (and taking the heat out of the housing market) is in everyone's interests.

THE DYSFUNCTIONAL LAND MARKET

We are simply not building enough affordable houses.

That is often because the price of the land, on which those houses are built is, prohibitively expensive. All too often developers are not motivated to develop the land they control until they can attract a relatively high price for the homes they intend to build.

It is irrelevant that the alternative (non-housing use) value of the underlying land, on which housing estates are built, is stable. Suitable development land becomes so expensive because:

- not all land is suitable, and
- it takes an awful lot of time and money to get planning consents.

Once planning permission is obtained for that land, the original owner of the land *often* makes a fortune. As the old joke goes: *the most lucrative crop a farmer can grow is houses!*

We are in a bind:

- to pay the landowners the developers have to increase the price of the homes they sell, ***but***
- the higher price of homes makes the acquisition of future land more expensive (because the land which can be developed for housing is now considered to be even more valuable).

So the vicious cycle goes on.

Indeed, in an article for the New Statesman on 4 September 2017, Toby Lloyd, Head of housing development at Shelter, took the view that *some* house builders, rather than being victims of this vicious cycle, actively encourage it. ¹

Some claim: that large private developers **are not** making vast profits, and are taking significant risks; and also that the land market functions properly,

But, Lloyd Head also notes that, amidst a housing affordability crisis:

“perversely, the profits of the country’s top five house builders have soared by an astronomical 388 per cent, to a total of £3.3 billion in 2016. Dividends to shareholders in house building firms have jumped to nearly £1 billion a year –while senior executives have also pocketed eye-watering pay-outs”

Indeed, one CEO of a major house-builder pocketed a bonus of over £100 million in 2017)

One way that price of new homes remains high is through developer’s **land banks** (where the developer: acquires a contractual right to buy a tranche of land, obtains planning consents to develop the land, but chooses not to do either of these things until house prices rise). Currently around **600,000** plots are undeveloped in the UK.

CORRECTING THE DYSFUNCTIONAL LAND MARKET: LOCAL INTERVENTIONS

How do we tackle the problems created by the dysfunctional land market by using the levers we already have locally?

*We have **four** principal suggestions:*

Innovative approaches to land assembly

In a 2015 report, KPMG and Shelter advocated the use of what they called New Homes Zone. With this idea planning authorities would designate zones suitable for the development of significant numbers of housing, but short of major settlements.

New Homes Zones could offer a bold solution to our affordability problem in Bristol and Bath.

The planning system in England is **reactive**: local authorities identify their required five year land supply by issuing a call for sites from private and public sector land holders, and then plan on the basis of the sites brought forward. In many other countries, planning takes a much more **proactive** role in shaping the pattern of development. This proactive approach

¹ In that article, Lloyd Head said:

“Fundamentally, private house building is overly dependent on a handful of big developers whose business model is reliant on house prices remaining high. Why? Because they must compete with other developers to pay crazy sums for land to build on. In The Hunger Games of house building, the developer that offers the most to the landowner is the developer that makes the most ambitious claim about how much they can go on to sell the home for. Having done that and paid crazy sums of money for the land, their profit – and very existence – then depends on flogging the homes at the inflated price they factored into their land bid”

- get sites moving quickly in the right places, and
- makes best use of both the private and public sectors.

The Dutch government's VINEX programme, took an 'active land' approach to the development of urban extensions. It worked like this:

- Local authorities formed development corporations,
- these corporations took the lead on finding new sites,
- Central Government and a municipal bank provided funding to make land purchases and decontaminate brown field land,
- By acquiring land close to its existing use value (typically agricultural value) the development corporation could use the value uplift resulting from planning permission to fund the infrastructure the development needed.
- With VINEX, local authorities had the power to acquire land compulsorily. But, most of the land acquisition deals were made voluntarily. That's because the land owners knew that they were likely to achieve a higher price, rather than holding out and facing compulsory purchase.
- The development corporation would then prepare the master plan for the area before selling plots to custom builders. In doing that, the corporation seeks to harness competitive forces to deliver better quality and lower prices for consumers.

The advantages of the New Homes Zone concept are:

- It may **significantly dis-incentivise speculation** in the land market. Instead NHZ shifts the focus of market competition in the development process away from land acquisition and onto the construction phase;
- the project is **de-risked for private developers**. Because infrastructure is already installed and planning consent is obtained, prior to the developers' involvement.
- each phase is actively managed by the development corporation
- it can provide high quality, well serviced, mixed tenure developments, offering attractive homes affordable to the local community on all incomes.
- the core objectives of a more proactive approach to land assembly should be to **capture the gains from development for the benefit of the community** by acquiring land at close to existing use value, and to harness competitive forces to delivering better quality and lower prices for consumers
- landowners can invest their assets into the NHZ in exchange for shares in the partnership.
- Pension funds and local individuals, would be able to invest capital and take a long term return on their investment.

The NHZ model:

- was extremely successful in the densely populated Netherlands. There It increased the housing stock by over 7%,
- is widely used in Germany,
- is (according to Shelter) the same “*model of house building used to deliver the Georgian New Towns of Edinburgh and Bath, the Edwardian Garden Cities and the post-war New Towns*”,
- is being used again in the UK: a New Homes Zones has now been introduced by the Mayor of London.

New Home Zones: WECA and the WECA Council’s powers

The UK Government granted powers to WECA, in the first tranche of devolution, which offers WECA the chance to create New Homes Zone.

The New Home Zone concept seems to look like a watered down version of the commitment (in the Mayoral Devolution Agreement) to creating:

“A strong partnership to support key large housing sites (1,500 homes +) and joint action to deliver early on starter homes. The government and associated agencies will work in partnership with the area’s local authorities to help resolve barriers with utility companies or government agencies, and invest in suitable land. The government and the West of England Combined Authority will continue discussions on the principle of securing longer term frameworks for funding of key sites.”

The Government were keen for the City Region devolution deals to, promote a housing and growth agenda. By cross-boundary strategic leadership the Government and the WECA Councils envisage WECA: “Undertaking land assembly **compulsory purchase (CPO)**; and forming joint ventures with landowners, developers and Registered Housing Providers”

The compulsory purchase experts at the law firm Burges Salmon, said in a blog post (22 September 2017), that new provisions put the way compensation is assessed for land taken by compulsory purchase on a statutory footing. These provisions provide clarity on the *no-scheme valuation* principle (that in determining compensation, the courts should disregard any increase or decrease in value caused by the scheme of acquisition). ²;

² *There is still some concern that, primary CPO legislation may need to be changed in order to ensure that the “hope value” associated with the land is disregarded in any valuation. If it isn’t disregarded, landowners could claim that, whilst, when assessing the compensation, the Court should disregard value relating to the specific housing scheme, which led to the CPO, any general uplift in value relating to the fact that the land could get planning for other different types of housing scheme should not be disregarded. Without this disregard, the acquiring authority may not be able to drive down the price of the land in such a way as to make more homes on the land acquired by compulsion more affordable. Labour seems to be edging towards changing the CPO rules so that land which has received planning consent for housing could be purchased at its pre planning consent value (a fraction of its true market value). That seems harsh, if the owner is not compensated for the considerable costs it spent on getting the consent, or does not receive at least a fair amount to partly, but by no means totally, cover their return on investment on the money spent getting the consent. It would be relatively easy for economists (using the models deployed by*

WECA is not the only local entity that can exercise compulsory purchase powers for housing: individual WECA Councils could create New Homes Zones ³

We recommend:

- the Lib Dems argue that WECA should establish a public/private development partnership for a New Homes Zone in the WECA sub-region.

Greater transparency in the land market:

As the supply of cheap land becomes plentiful, and the pool of potential builders becomes greater (so that the influence of the big house builders wanes) the price of new homes should fall.

The market for land becomes efficient and beneficial to the ultimate consumer (the new home buyers) if there is **greater transparency** about: the land that is available to build on, and the prices that developers have paid for land.

The specific benefits of transparency are it:

- assists in effective planning by: enabling local authorities to properly assess land availability and the record of landowners, agents and developers in bringing forward sites. Thus it helps local authorities and other developers in land assembly
- provides information to landowners on the sale price they can achieve
- it improves understanding of the viability of schemes. This assist in negotiations of planning obligations.
- it increases the chance of planning gain being financed by a landowner, rather than a developer ⁴
- it *nudges developers and the landowners they contract with*, away from practices that hinder the development of affordable housing.
- it lifts the lid on the sheer number of Bristol properties owned by off-shore registered companies, and Council owned property being leased to off shore companies.

regulators to set fairly pricing in monopoly markets (say energy) to develop a formula to create a fair return.

³ see blog post by the law firm, *Womble Bond Dickinson*, who said: “WECA may exercise in its area the compulsory purchase powers already available to the Homes and Communities Agency (the HCA), or WECA's Constituent Councils' planning and housing CPO powers. The expropriation powers are shared rather than given away – the HCA and the Constituent Councils can still exercise their respective compulsory purchase powers just as they could before WECA came into existence.[my emphasis]”

⁴ (House of Commons Research Paper: in the Tackling the under-supply of housing in England Published Thursday, January 19, 2017. The Institute of Public Policy research endorses the views in the House of Commons research paper.

- Above all, **it allows smaller players to enter the market**. Major house builders have deeper pockets and can pay for surveyors and lawyers to garner information about land ownership. Thus they have a great advantage over the small builder, who lacks those resources and thus a full knowledge about what land they can develop.

The Government is concerned that the land market is still not fully transparent.⁵

By February 2017 only 83% of land in the UK was registered. Even that **registration was not comprehensive enough** to include including the registration of **options to purchase and registering beneficial ownership**. The Government now wishes to include this information on the register.

Despite all these Government promises, organisations like Shared Access, who champion land reform, feel that the Government has not gone far enough to help land based businesses.

Some may seem transparency of land ownership as a marginal issue.

But it

- is self evidently **crucial in the functioning of any healthy market**.
- ensures **fairness in the distribution** of the ultimate **shared asset**, land.
- It looks like a very liberal thing to be championing.

Part of creating greater transparency may involve primary legislation (to ensure certain information is disclosed by land registry searches). But a great deal can be done with existing data.

We recommend:

WECA champions this move to transparency, by:

- employing researchers to **interrogate** and **demystify** existing land registry and local authority information etc. ⁶
- setting up Apps showing the results of its research, with information shown in a format that could **easily** be used by non-experts.
- launching a competition for the best use of published land and housing market data to improve the effectiveness of the private land market. .

Making more public land available:

Successive Governments have tried to change the dynamics of housing development by building on public sector land. They were right to try and do so. But, there are many knotty problems which have emerged that (unless tackled) can prevent this land being used for housing.

⁵ So they introduced measures to tackle the problem in Housing White paper of 7th February 2017

- ⁶ The initiative will also use any commercial and corporate ownership and overseas ownership data sets released as part of the Government's drive towards land transparency.

This explains why not enough houses have been built on what is a fairly large mass of unused NHS, MOD, Network Rail and local authority owned land.

We recommend:

To ensure economies of scale, a consistent, strategic approach, and the development of expertise:

WECA, should on behalf of the 3 WECA Councils:

- **identify**, and **coordinate** the management and **promotion**, of all redundant land owned by the WECA Councils
- **sort out glitches on this land** (for example with restrictive covenants access rights, etc) which create issues for developers. These issues may be easier for councils to fix before the land is marketed. And fixing them first would help de-risk projects for developers ⁷ ; and
- find ways of providing these land promotion and “glitch fixing services” to the NHS, MOD and other public sector organisations, who own redundant land in the WECA area, which could be used for housing.

Leasing land to developers:

There is another major issue with using redundant WECA Council’s land for housing.

Under statute, local authorities are required to get full market value for any land they sell. By increasing the price the developer has to buy for LA land, this statutory obligation can: affect the viability of an affordable housing scheme. So, the developer has to “sell” plots, rather than rent homes out on affordable rents).

To counter this problem, **we recommend WECA Councils**

- lease their redundant land to developers over, say a 30 year period, and
- impose covenants requiring the developer to only build homes to lease at a certain rent or sale at a particular price.

This would mean:

- Local Authorities can still ensure that the developer can viably build affordable homes; and
- (because of the covenants) the developers, with deeper pockets, who rely on plot sales for their revenue, would be less interested in competing for, and increasing the price of, this land.⁸

⁷ WECA is probably obliged to do some of this work under the Devolution agreement anyway.

⁸ This Lease idea was discussed on Page 35 of the House of Commons Research Paper: (Tackling the under-supply of Housing in England):

“Leasing the land would mean that authorities could receive a share of any rental income: Capital Economics modelling shows that such a model could be set up which requires no upfront grant funding to build the affordable homes and returns between 15% and 30% of

Community land auction idea.

Tim Leunig, Centre Forum's chief economist, wrote a piece for the Local Government Chronicle on the benefits that could be gained from the introduction of "Community Land Auctions". This policy idea:

- is a **piecemeal version** of the New Homes Zone idea,
- **doesn't use the threat of compulsory purchase to reduce sale price** the landowner's wants; and
- involves the council largely crafting a **housing policy around the land that is offered by the landowners**. Rather than **seeking the land which is most suitable** from a population, infrastructure and environmental point of view.

The idea works like this.

- the council first asks all landowners to name the price at which they are willing to sell their land. By naming a price, the landowner gives the authority the right to buy the land for 18 months at that price.
- The council then writes a development plan. In writing that plan they take into account the suitability of the land offered for development, but will also consider:
 - the price of the land, and
 - the likely financial return to the council.
- The council's land assembly team then gets planning consent from their Planning Department..⁹
- the council then auctions the land with consent to developers. But keeps the difference between the price named by the original landowner, and that paid by the developer

Leunig says "*it is rather like buying a car. You know your preferences, and can choose the most suitable car. But you might buy a different one if it is much cheaper. That possibility*

rental income to the local authority dependent on location. The downside to local authorities would simply be the opportunity cost of not selling the land to a developer for full market value at that point (although freehold ownership would be retained). The Lords Select Committee on Economic Affairs expressed support for these types of initiative and referred to calls from Orbit Group, a large housing association, for the identification and release of government owned land specifically for the building of rented properties. Orbit's suggested model would involve deferring the land costs for a period, e.g. 30 years, in order to ensure rents charged are affordable"

⁹ *On this point, we had feedback to the effect that a Council cannot grant planning consent to itself. However: "Local authorities gained the right to apply for planning permission by regulations in 1976. Those regulations were updated in 1992. Previously, local authorities had been selling land without planning permission to developers who often then applied for planning permission and made a considerable financial gain through increasing the price of the land" (House of Commons Library Standard Note: SN/SC/1195*

means whoever makes the best car for you have to offer you a good price. It is how well-functioning markets work”.

The advantages of the idea are:

- There is no risk to the council – if no developer wants the land, there is no sale and the original landowner retains the land.
- the planning gain should be captured by the council or the local community not the developer, with
- the gain can then be used locally to, say, improve broadband etc.
- It should create a greater supply of land, thus reducing land prices, and the cost of the houses built on them.

However:

- this idea may be too good to be true, and
- a council may not be able to use this approach without additional powers (relating to how it deals in land).¹⁰.

OTHER WAYS WECA AND WECA COUNCILS COULD REFORM HOUSING DELIVERY

More help for small and medium sized builders

As mentioned, in order to create a competitive housing market, we must move the market away from domination by the big name house builders¹¹. It can cost millions of pounds in professional fees to secure planning consents, and negotiate the associated agreements.

So it is obvious why those builders with the shallowest pockets can be disadvantaged

Apart from greater transparency in the land market (which will help small builders) we should:

- create a Forum for small builders to address the barriers they face in acquiring suitable land;
- actively looking at ways of streamlining and de-mystifying those planning processes the WECA Councils control

¹⁰ That said it's possible to structure these transactions so the council never actually owns the land but instead controls it, via a contract, which allows them to transfer it to the ultimate purchaser. This may overcome any barriers imposed by statute

¹¹ Without competitive pressure the “big beasts” can “minimise build costs and maximise sale prices by building at a rate that is not related to demand for homes, but demand for homes at certain prices” House of Commons Research Paper: in the “Tackling the under-supply of housing in England” Published, January 19, 2017.

Creating an institutional asset class

The Lib Dems have called for government investment in a new generation of quality homes for rent, which are affordable for those on low and middle incomes.¹²

As part of this, WECA and the WECA Councils need to encourage long term institutional investment into the build to rent sector. That is because institutional investors will:

- (*compared to individual buy-to-let landlords*) be more likely to comply with best practice in letting homes (e.g. it will be less likely they will refuse to replace a broken boiler)
- grant **longer, secure**, and more **family friendly tenancies**. Tenants of institutional landlords will worry less about the prospect of their child having to move schools because their landlord wants to impose a rent increase that they cannot afford.

Some property and financial professionals have looked at how you create an asset class in the Build to rent sector (i.e. how you get the Prudential etc. to invest in it, in the same way they invest in Shopping Centres and offices).¹³

The problem here is one of financial viability: the price of land (and the cost of debt to buy it) is such that developers often need immediate payback in the form of the money from house sales (rather than by granting tenancies) to make development viable.

The 'European' model of offset financing of site and build by long term rental agreements is less sales-date focused more robust. It is the UK, almost alone, that has a housing cycle that most of the time is not working well.

One concept that could work in WECA is a joint venture developments where:

- WECA Councils put in either:
 - existing public sector land or
 - land acquired by compulsion (perhaps by using the lease structure discussed above) **AND**
- housing associations¹⁴ or other investors provide finance.

¹² (Lord John Shipley Five foundations for the Housing White Paper (lib Dem Voice)

¹³ see for instance the Investment Property Forum's Mind the Viability Gap Paper (September 2015)

¹⁴ Housing associations may run into their own loan covenants when borrowing to build homes on leased land. To avoid this constraint, joint ventures could attract private investment – especially from long term institutional investors such as pension funds. Legal & General are developing a model which could work well with this particular sort of joint venture, which involves funding the construction of homes and then leasing them to a housing association or council to manage

- This joint venture approach:
 - tackles both: the cost of land problem and debt constraints on the public purse.
 - has been used successfully already. *For example:*
 - A mixed tenure housing scheme led by Grainger PLC was completed in Kensington and Chelsea; &
 - **Birmingham Municipal Housing Trust adopts a similar approach with a range of developers.** In Birmingham, the trust owns the plot of land for development and it remains under the ownership of the trust until after the sale of the home is complete. ¹⁵
 - Manchester City Council's Pension Fund has invested in Build to Rent schemes in the City.

We recommend that:

WECA and WECA Councils

- talk to the large financial institutions to encourage them to invest in affordable housing, including in Rent to Buy (which was a flagship policy in the Lib Dem 2015 GE Manifesto, and which offered the chance of home ownership without the need for large deposits, and large mortgage costs)
- explore joint ventures where the WECA Councils provide cheap land; and institutions provide finance
- explore ways that pension funds controlled by WECA Councils invest in the Build to Rent sector.

Building up in cities, in a safe way

The Government plans to make it easier to add extra storeys to increase density in urban areas. This is a sustainable approach.

As part of the overall housing mix, we should encourage developers to build aesthetically pleasing, Chelsea Mansion style blocks of **modest height**, in City Centres.

Encouraging downsizing

If there's a decent supply of decent new retirement villages in the WECA area, we could potentially free up parts of the housing stock. This released housing could be used by younger families.

Proper resourcing of Planning Departments

WECA is expected to develop “*proposals for ambitious reforms in the way that planning services are delivered, and which could enable greater flexibility in the way that fees are set, with a particular focus on proposals which can streamline the process for applicants and accelerate decision making*”.

With three planning departments in the WECA area, there is scope:

- for taking advantage of **economies of scale**,
- pooling of **knowledge**

thus leading to:

- better IT and practices and
- planning departments, which have the resources, ability and software to rebut any unsubstantiated claims by developers that sub market rentals will affect developers’ profits margins (developers often avoid building social rent units, by making these claims)

Stuck sites team-

Bristol City Council has a team that focuses on why development sites have stalled (it’s usually to do with problems with associated infrastructure).

WECA could:

- **beef up these teams** across the entire WECA area. Thus ensuring the constituent Councils get even more adept at “unblocking stuck sites”
- **Stuck sites could be publicised in a more widespread way.** This may nudge anyone who is unreasonably holding up a development to stop doing so.

Dealing with the effect of BREXIT on the Building Trade

BREXIT may increase house building costs significantly because

- of the rising cost of imported materials, and
- it will be harder to recruit vital workers from Europe who are needed in some parts of the UK
- it creates uncertainty for investors.

The WECA Mayor’s adult skills responsibilities could be relevant here. Skills shortages should be addressed with new apprenticeships (for workers of all ages).

WECA Councils could help charities, like the Restore Trust, who work with ex-Offenders, to expand. This would create a dual benefit by:

- alleviating skill shortages in the house building sector, and
- boosting ex-offenders long term employment prospects.

The interconnection of transport and housing

The Rapid Transit Network (RTN) is an ambitious infrastructure programme that connects central urban districts to peripheral zones through a combination of rail, bus, and bicycle networks.

RTNs need to be developed at the same time as the Councils work with service providers to enhance digital connectivity, particularly for 5G, in peripheral areas.

The development of RTNs and high speed digital connectivity can expand the geographical dimensions of housing policy. All the various transport projects mooted in Bristol, like reopening the Henbury loop, segregated cycle ways, or a new tram system should have a secondary benefit of making it easier and more attractive to revive housing stock in peripheral areas of the City, and to develop underused land in those areas. In doing so, RTNs and ultra high speed connectivity, allow us to move away from the often soulless housing estates of the recent past, where it is often essential to own a car.

Digital connectivity and RTNs would also help bring businesses into peripheral areas thus creating vibrant, Mixed Use developments, and creating employment opportunities in disadvantaged communities.

Minimum Standards-and building with community cohesion in mind

England has some of smallest homes in developed world.

Even if there are no national minimum standards on room size, WECA and the Councils could recommended

- dimensions for room sizes
- monitor whether house builders in the Area are meeting those recommended sizes.

Housing developments are often not planned:

- in a way which makes them Child friendly, or
- with the elderly in mind.

There might be the odd Children's play area thrown into the mix but the views of all the types of people who might live in a scheme to be considered.

Ensuring a role for everyone in the design process of new developments reflects a very liberal desire to encourage empowerment. This contrasts to what is often a: "*we know what's best for our voters*" approach from Labour, and a "*let the developer build whatever makes them the most money*" approach from the Conservatives.

Encouraging developments with a diverse range of housing units is also important: apartments, family homes, and bungalows should feature in the mix.

Aside from simply meeting housing needs, Councils should at least try and nudge developers to design estates so that intergenerational interaction is encouraged: the epidemic of loneliness amongst the elderly can be partly countered by ensuring that housing for seniors is close to family homes. Similarly having developments where not everyone is out at work all day (because they are retired, or working from home) can go a long way to counter the isolation often felt by very new parents.

Moreover, building in such a way as to encourage community interaction can – together with longer tenancies and home ownership- go some way to counter “housing chauvinism” by creating stable communities between residents and newcomers.

NATIONAL INTERVENTIONS

Land Value Tax (“LVT”)

This is the biggest nettle we need to grasp. LVT is a very charged issue.

The fact that Council Tax bands haven’t been updated since 1991 shows how reluctant MPs are to upset the home owning constituency. Homeowners unease shouldn’t blind us to the benefits of LVT, which are:

- LVT allows everyone in a community to gain from, say, the effect of new transport infrastructure on land prices: rather than just the lucky few.
- A LVT of 5% would raise £92 billion (3 times council tax)¹⁶ Most of that could be used to support local authorities in leading housing projects.
- LVT stops property speculation.
- LVT looks at value of land under building, not units in building per se. Because land is a fixed immobile asset, land taxation cannot create a decline in supply of land.
- Land under utilisation is a barrier to house production. If we tax empty, undeveloped land, you break the incentive to land bank.
- Many mainstream economists back LVT, because it creates economic efficiency. Many countries (including Australia) are embracing it
- The UK Government could give cities (like Bristol) powers to introduce and set its own LVT; this is what happens with US cities.

So, the barriers to introducing LVT are not technical; they are about political will

The introduction of LVT can be made more palatable by:

- by abolishing council tax and Stamp Duty. Unlike LVT, Council Tax is regressive.
- deducting LVT from income tax
- piling it on second homes and vacant property;
- deferring LVT liability to death or sale where people are asset rich, but cash poor
- using a glide path: introducing LVT over 5 to 10 years.

You can stop middle class voters from being “clobbered” if LVT is properly structured.

¹⁶ Home Truths: A Progressive Vision of Housing Policy in the 21st Century (Institute for Global Change)

Greenbelt Policy Reform

There is a case for developing Greenbelt sites, which are of poor quality.

The Government has ducked this challenge because it fears losing votes¹⁷

Greenbelt covers 150% more land in England and Wales than all towns and cities put together.

A great deal of it needs to be protected.

But if political parties simply talk about making use of brown field land and densification, without looking at greenbelt, we may exacerbate the housing crisis.

With re-zoning laws we could:

- reclassify green belt according to its quality and ability to support housing production.
- swap low quality green belt land with more attractive brownfield land

With those new rules in place, the Campaign for Preservation of Rural England would probably be satisfied that any development on existing green belt is not the “thin end of the wedge”.

Other tax changes

Taxing Capital gains on the primary residence, would probably have a positive effect on tackling the affordability crisis¹⁸

These changes would require primary legislation changes. And it’s difficult to see them being proposed by any party worried by its electoral prospects any time soon!

Former Chancellor, George Osborne, should be commended for snubbing part of his party’s natural constituency by:

- increasing Stamp Duty Land Tax on second Homes, and
- changing the income tax treatment of rental income.

These changes:

- make it less attractive to invest in standard “buy to let”, and
- means homes that were once rented out are more likely to come on to the market, and be bought by first time buyers¹⁹.

In the longer term, these changes may also facilitate a shift to institutional investors being involved in the rental market. As we have said, we should welcome this shift.

Lib Dem Activist, and Housing Lawyer, Louise Coyle, has suggested ways we can build on

¹⁷ (see New Statesman <http://www.newstatesman.com/2017/02/housing-white-paper-damp-squib-because-government-afraid-middle-england>).

¹⁸ see Dame Kate Barker comments to the Economic Affairs Committee (1st December 2015)), and House of Commons Library paper “Tackling the under supply of Housing in England (19th January 2017).

¹⁹ They previously lost out to the “buy to letters” whose equity often meant they could more easily access mortgage finance.

Osborne's changes. For example she has suggested tax breaks for Landlords who grant longer tenancies: longer tenancies encourage community formation by enabling social contact between neighbours. She has also suggested of introducing a new higher tax on the capital gain from the grant of a planning consent, and scrapping all mortgage interest tax relief to be scrapped. These proposals make sense.

Sharing borrowing caps amongst WECA Councils

Local authorities are the major group of housing developers to have fallen out of England's supply system over the past few decades. Social housing as a percentage of total housing stock has fallen from over 30% in 198 to 75 in 2015

To increase housing supply in a balanced way, we must increase the borrowing capacity of local authorities. Local councils have planning powers and often own significant land assets with which they could build new homes: the missing element is finance.²⁰

But different Councils have different appetites for development and borrowing.

In 2012²¹, tight artificial borrowing caps for local authorities were set which allow a certain amount of headroom for authorities to borrow and invest should they wish, but not to their full prudential limits. This headroom is unevenly distributed between local authorities, with some having almost no scope to expand borrowing.

The solution: allow local authorities to 'pool' their headroom, thus freeing up borrowing capacity within current caps. .

Having three Councils working together, in the WECA area, means that they can trade the caps they have on borrowing so that the Council best placed to build houses for social rent can borrow the most. The Council "gifting" borrowing capacity could realise a reciprocal benefit from the recipient. This is an example of how the Metro Mayor concept creates a really practical advantage.

A Housing Investment Bank

It's vital that the Liberal Democrats continue to push for: developing a Housing Investment Bank

The housing sector is crying out for capital.

A Housing Investment Bank would create:

- the much-needed investor scale and confidence to draw in private capital,
- provide long-term public capital for major new developments,
- provide better access to finance for small and medium sized construction businesses, and
- a forward-looking, long-term approach to solving the housing crisis and investing in the future.

²⁰ Indeed there are strange anomalies where Councils can borrow (at low rates) to speculate in the commercial property market, but not to invest in housing projects.

CONCLUSION

- The solution to the housing crisis will not just “*be a technical, targeted fix. It will be a political negotiation that requires bold leadership*”²². **The crisis won’t be fixed until a powerful constituency of home owners voters, are persuaded that it’s in their interests that homes become affordable.**
- We are not building enough homes of all types and tenures. One reason for that is the market for land, which is not working efficiently. The market is too driven by land speculators, rather than the need to build good houses, at affordable prices.

WECA and the WECA Councils could intervene into this market locally, by:

- **using their compulsory purchase powers:** to assemble sites for housing in a strategic way, and so de-risk the scheme for developers.
- **championing moves to make local land ownership fully transparent,** by, for example: launching a competition for the best use of published land and housing market data to improve the economic efficiency of the private land market. Transparency makes it easier for smaller builders to compete against large land speculators for sites.
- **effectively promoting all redundant land owned by the WECA Councils** and other public sector organisations. Sorting out glitches on this land which create issues for developers.
- **leasing their redundant land to developers** and impose covenants requiring the developer to only build homes to lease or sell at affordable prices
- **consider using the Community Land Auction idea.** This is where the council first asks all landowners to name the price at which they are willing to sell their land. The council’s land assembly team then gets planning consent from their Planning Department and auctions the land with consent to developers. But, crucially, the Council keeps the “Planning Gain”: difference between the price named by the original landowner, and that paid by the developer

Other things WECA and WECA Councils could do to ensure housing delivery:

- **Build to Rent sector:** encourage the growth of build to rent sector by institutional investors in WECA. Encourage Councils’ Pension fund to invest in this sector.
- **Diversify the land market by helping small builders:** actively look at ways of streamlining and de-mystifying those planning processes the WECA Councils control
- **Building up in cities, in a safe way** As part of the overall housing mix, encourage developers to build aesthetically pleasing, style blocks of modest height, in City Centres.
- **Encourage downsizing by ensuring there’s enough high quality retirement villages**
- **Ensure planning departments across WECA achieve economies of scale:** by working collaboratively, using the most and effective efficient technology.
- **Deal with skills shortages caused by BREXIT** by using WECA’s adult skills responsibilities
- **Ensure there’s a role for everyone (especially children and the elderly) in the design process of new developments.** Try to increase room sizes by recommending developers build them at minimum dimensions

²² Home Truths:A Progressive Vision of Housing Policy in the 21st Century (Institute for Global Change)

- **Improve digital communications and transport in areas of WECA with lowest** land values, so that they become more attractive to house builders & businesses

Nationally, the Lib Dems should

- have a grown up **conversation with voters about**
 - **land value tax** as a key means of correcting problems in the housing market.
 - **Green belt** so as to ensure the Greenbelt policy is not blocking tasteful development on land which isn't particularly useful or beautiful.
- Continue to back legislative reforms to **create a fully transparent system of land ownership**
- Back proposal for tax **incentives for Buy to Let landlords who offer longer tenancies; and abolishing all mortgage tax relief.**
- Continue to press for an **increase in the borrowing capacity of local authorities** and the introduction of **a Housing Investment Bank**

But we return to our over-arching point. The Housing Affordability crisis will ultimately be solved by placating a class of home owning winners, who resist housing policy reform. In that sense, the solution to this crisis is less about policy; it's more about politics.