



**Government Response to
the Communities and Local
Government Committee's
Report on the Department
for Communities and Local
Government Housing and the
Credit Crunch: follow up
September 2009**

*Presented to Parliament
by the Secretary of State for Communities and Local Government,
by Command of Her Majesty
September 2009*

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Government Response to the Communities and Local Government Committee's Report on the Department for Communities and Local Government Housing and the Credit Crunch: follow up

September 2009

Introduction

The Government welcomes the follow up report from the Select Committee on the Housing and Credit Crunch. In particular, we welcome the Committee's support for the action we have taken in response to the challenging circumstances, and for our recent Kickstart programme to tackle stalled projects which will create more jobs in the building industry. We have considered the Committee's comments carefully and we set out our responses to each of their recommendations and conclusions below.

The Government's housing targets

1. We concluded in our previous report that the credit crunch does not reduce levels of need for new housing, nor does it obviate the necessity of addressing years of undersupply of new housing stock. The results of the National Housing and Planning Advice Unit's most recent research show that that conclusion remains valid. We therefore continue strongly to support the Government's house building targets. The latest figures confirm, however, that the previous steady progress towards achieving the target of 240,000 new homes per year has been dramatically reversed. There seems to be a general acceptance that the Government has done a lot to try to arrest and ameliorate the fall-off in housebuilding, but the availability of public funding is simply not enough to overcome the impact of the credit crunch on the industry. The severe downturn in private housebuilding has in turn had a major impact on the provision of affordable homes due to the loss of cross-subsidy. We are impressed by the flexible approach being taken by the Government and the HCA to work with the industry to unblock frozen sites and bring forward as many schemes as possible in the short term, but this is simply not enough to fill the gap created by the recession. (Paragraph 18)

We welcome the Select Committee's continued support for the Government's long-term housing supply delivery ambition. For decades, there has been a mismatch between supply and demand. As the report identifies, the affordability problem and the long-term need for housing have not disappeared with the credit crunch and recession, something which is reinforced by the latest National Housing and Planning Advice Unit (NHPAU) advice on regional housing numbers, published on 30 July. We therefore remain committed

to achieving a step change in housing supply. The Government has taken extensive action to maintain momentum and preserve capacity in the housebuilding sector, and has complemented this by taking timely action to ensure we achieve a quick and sustainable recovery.

We have worked with the Homes and Communities Agency (HCA) to allow limited flexibility to increase grant levels to achieve continued delivery of affordable housing, despite the challenges presented by the credit crunch. The Government and the HCA have introduced innovative approaches to help support the affordable housing sector, including through the Rent to HomeBuy scheme which allows registered social landlords (RSLs) to make some of their low cost home ownership (LCHO) stock available for intermediate rent for up to five years, providing them with an ongoing rental stream in the short term with a view to a capital receipt later. This provides some flexible options for RSLs.

We have now, following the *Building Britain's Future*; Housing Pledge announcement, committed to investing £7.5bn over two years to deliver up to 112,000 affordable homes, and around 15,000 private homes, which will create and maintain an estimated 160,000 jobs in the construction and related industries, as well as more jobs in the wider supply chain.

2. There are two further imperatives for Government action. First, it must take all steps possible to retain capacity in the housebuilding sector, to avoid storing up problems for the future. The Government should monitor the situation closely and assess whether the steps it has already taken are sufficient to maintain that capacity. Second, and most crucially, steps must be taken to enable house builders to sell the homes they build and to allow housing need to be expressed as economic demand. (Paragraph 19)

The Government recognises the importance of capacity retention in the housebuilding industry. Our recent commitment to invest £7.5bn, which will deliver up to 112,000 affordable homes and around 15,000 private homes over two years, will create and maintain an estimated 160,000 jobs in the construction and related industries, as well as more jobs in the wider supply chain. In addition, last year, through the HCA we allocated £350m to buy unsold developer stock from housebuilders for affordable homes. This funding will deliver 9,600 affordable homes of which the majority are for social rent. The HCA, through their Affordable Housing Programme are continuing to provide funds to RSLs, to purchase unsold stock from developers where these represent value for money and fit with local and regional priorities.

In addition, we are also working with the Department for Business, Innovation and Skills (BIS) to use public procurement to boost construction training and apprenticeship places. In the November Pre-Budget Report, a commitment was made that Government Departments and Agencies should, when they let a new construction contract, consider making it a requirement that the successful contractors have apprentices as a proportion of the project workforce.

It is also vital to ensure we keep track of jobs we have created so that we have the right number in place when the upturn comes. We are currently working with BIS to see how we can engage with the housebuilding industry and the skills sector to identify practical approaches to monitor capacity in the housebuilding industry. In the meantime, the HCA is undertaking work to identify the baseline for what is currently being achieved, to set realistic targets for future funding and to monitor and measure improvement over time.

To support housebuilders to sell the houses they build, CLG is working with the Treasury to make lending available to the construction industry as well as the wider economy. In addition, we developed the HomeBuy Direct scheme which became available in March 2009. The scheme assists housebuilders to sell their stock to first time buyers by providing an equity loan of up to 30 per cent to enable the participants to buy an eligible property direct from the developer. The HCA have allocated in excess of £300m and over 10,000 HomeBuy Direct properties are now available to purchasers. Homebuy Direct will benefit from additional funding through kickstart programme.

3. We welcome the announcement in the *Building Britain's Future* package of further public funding for the housing sector. This new funding may go a considerable way towards addressing the concerns about the provision of affordable homes and about retaining capacity in the house building sector which have arisen from our oral evidence. The Government will, however, need to go further. We support the Government's decision not to abandon its long term targets for new housebuilding – because these targets reflect known demands and needs – but the longer the recession goes on, and the deeper it is, the harder it will be to get back on track. Following the announcement of new funding, the Government needs to plan a new trajectory for housebuilding which aims to get provision back on track as the recession eases, and to consider the range of policies that might be needed to achieve the targets. This plan should consider both the needs of the private housebuilding industry and the measures needed to deliver the targets for social rented and other affordable homes. (Paragraph 20)

At Budget 2009, we made a commitment to report back at the time of the Pre-Budget Report in Autumn on the progress and strategy for putting in place the conditions for a rapid and sustainable recovery. The key measures include ensuring there is sufficient land for development; creating a responsive and efficient planning system; promoting a strong and diverse housebuilding sector; continuing to ensure the increased long-term supply of social and affordable housing and ensuring a proportionate approach to land-value capture and cumulative regulation. Work is already underway in taking forward these measures and we will continue to consider other mechanisms that could help promote a sustainable recovery strategy.

The flow of mortgage finance

4. All our witnesses were agreed that the flow of mortgage funding was a prerequisite for the revival of the housing market, which in turn is a prerequisite for the achievement of the Government's housing targets. According to the evidence we have received, the Asset-backed Securities Guarantee Scheme, one of the most important of the weapons in the Government's armoury for tackling the effects of the credit crunch on its housing policy, is not working. The design and operation of this scheme is the responsibility of the Treasury, rather than CLG: we have not, therefore, considered it in detail. Its successful operation, however – and indeed the availability of mortgage funding generally – are crucial to the achievement of CLG's policy goals. CLG – at both official and ministerial level – must continue to work closely with the Treasury and keep up the pressure to ensure that mortgage funding flows more easily and to more mortgage providers. (Paragraph 28)

The Government recognises the importance of mortgage funding availability and its impact on the recovery of the housing market. That is why the Treasury Asset-Backed Securities guarantee scheme was made available at Budget for banks and building societies to use alongside other funding sources, including the Government's Credit Guarantee Scheme.

The scheme is part of a package of measures announced earlier this year to stabilise financial markets and support lending to the economy. On 19 January, the Government announced measures to reinforce stability of the financial system, increase confidence and capacity to lend, and support the recovery of the economy. As a condition of accessing the Asset Protection Scheme, lending commitments on commercial terms have been agreed with RBS and Lloyds Banking Group for the 12 months from March 2009.

Other banks have also signalled their intention to increase lending. For example, HSBC has announced it will lend up to £15bn to homeowners in 2009, and Barclays has announced it will lend an additional £11bn to households and businesses in 2009.

The Bank of England's latest Credit Conditions Survey suggests a net balance of lenders reported an increase in the availability of secured credit to households in the three-months to mid-June 2009, the first positive net balance since September 2007. This resulted primarily from an improvement in the cost and availability of funds to lenders. A net balance of lenders was expecting a further increase in the availability of secured credit to households over the next three months.

We continue to work with the Treasury to ensure mortgage lending is available to consumers.

The balance of housing tenure

5. As we reported a year ago, for thirty years Government policy has been focussed on promoting home ownership, with insufficient attention given to the rented sectors. Current economic circumstances, however, demonstrate that there is no immutable law that owner occupation should increase. The tenure is not appropriate for a significant proportion of the population who need homes, and much more attention needs to be paid to developing the roles of both the private and social rented sectors. We therefore add our voice to those arguing that the Government needs to debate and decide on its medium- to long-term policy with regard to the balance of tenure. (Paragraph 33)

We note the Committee's support for a review of the balance of tenure. However it remains the aspiration of the majority of people in this country to own their own home and the Government continues to support homeownership where it is affordable and sustainable. We also need to ensure that we strike the right balance in providing protections and support for homeowners facing difficulties with their mortgage payments.

Nonetheless we recognise that homeownership is not suitable for everyone and it is important for a range of tenure to be available. We have already increased our focus on the private rented sector (PRS) through the commissioning of the independent Rugg Review of the PRS and in its response to that Review (consultation closed on 7 August). In addition, the Government has invested significant funding, £9.5bn over the last five years in social rented and affordable housing to help meet newly arising need and tackle existing demand.

And at the end of June, as part of the Housing Pledge, a further £1.5bn was committed to build an extra 20,000 new energy efficient social and affordable homes. This takes the total that the Government has now committed to invest over the next two years to £7.5bn which will deliver up to 112,000 affordable homes.

We have also taken steps to increase confidence that social housing will be allocated fairly. New draft guidance to local authorities was published for consultation on 31 July. The draft guidance makes clear that first priority for housing must be given to those in greatest housing need. But it also strengthens the freedoms councils have to prioritise needs specific to their local area.

Conclusion

6. While we recognise the need for changes to ministerial posts, it is vital that CLG has continuity in its housing policy: regular changes in the responsible minister do not further that aim. (Paragraph 34)

Ministerial appointments are a matter for the Prime Minister.



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