



# ODPM Select Committee Inquiry – Housing Supply and Affordability

29th September 2006



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Presented to Parliament By  
the Secretary of State for Communities and Local Government  
by Command of Her Majesty  
29th September 2006

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## INTRODUCTION

The ODPM Housing, Planning, Local Government and the Regions Committee published its report on Affordability and the Supply of housing on 20 June 2006.

Government welcomes the report, which recognises the need to build more homes to meet the housing needs of current and future generations.

The affordability of housing in England has been a key concern for the Government over recent years. The Barker Review of Housing Supply, published in 2004, emphasised the need for more homes. In it, Kate Barker called for a step change in housing supply to meet rising demand, which has been fuelled by our growing and ageing population and a large increase in single person households.

Though supply has increased from a low of around 130,000 in 2001 to just under 170,000 in 2005, we still need to go further. The 2003-based Household Projections recently published by the Department indicate that 209,000 more households will form each year up to 2026. This gap is not sustainable.

To address this, Government's response to the Barker report, published last December, announced its ambition to increase housing supply in England to 200,000 per year by 2016.

The Select Committee report recognises the importance of providing more homes for shared equity and social rent, and the need to mitigate the environmental impact of new housing and ensure a high degree of energy efficiency. Government agrees with the Committee that these are critical considerations, and has set out its responses to the Committee's recommendations below.

Where appropriate, recommendations have been grouped together and a single response given.

## RECOMMENDATIONS AND RESPONSES

### Housing Supply and Household Growth

**Recommendation 1:** The projections suggest that, unless house-building rates increase, there will be significant housing shortages in the future across many parts of England.

**Recommendation 2:** With the emphasis now being placed on matching new housing requirements with household growth as a basis for policy decisions, it is important that the variations in factors affecting household growth projections are kept under review as policy is implemented.

**Recommendation 3:** It is important that information from the new integrated household survey is used to update household growth projections regularly.

**Recommendation 4:** The number of households is increasing faster than current house-building levels. There are many estimates of the precise number of homes required. Several factors are contributing to household growth, including increased life expectancy, migration, both internationally and between regions, the growth in single households particularly those comprising older people over 55 and the housing market. Each of these could affect future housing demand.

1. The 2003-based Household Projections recently published by The Department for Communities and Local Government show the effect of a continuation in past household formation trends and are an important indicator of future housing need. We agree with the Select Committee that current levels of house-building are not sufficient to meet a demand of this magnitude.
2. To ensure that policy is based on the most accurate data possible it is essential to keep the Household Projections updated with the latest population estimates available. We plan to update the household projections every two years (subject to budget constraints) linked to the publication of sub national population projections by the Office for National Statistics (ONS).
3. We agree that the integrated household survey could provide useful information on trends in household size and types, though this is dependent on ONS progress in this area.
4. We agree with the Select Committee that there are a number of factors contributing to growth in household numbers. As well as those mentioned by the Committee we would like to draw attention to some other factors critical to the reduction of household size such as divorce and separation.
5. Government is committed to ensuring that Household Projections are based on the best possible analysis, and will keep in mind the useful suggestions made by the Select Committee when preparing the next set.

**Recommendation 5: The Government's objective to raise the net number of additional homes by 200,000 by 2016 may not be sufficient to keep pace with the latest household growth projections. We recommend that it be reviewed and regularly revisited. As part of adopting any revised target, it is important that the Government sets out in some detail what it expects to achieve in terms of tenure by promoting that level of building.**

6. Household Projections were one of a number of factors the Government took into account when setting its ambition to increase the supply of new housing to 200,000 per year by 2016. However, as we made clear in the Barker Response, achieving the ambition is dependent on the provision of infrastructure necessary to support housing growth, reform of the mechanisms by which new housing and infrastructure are delivered, and a positive response from the housebuilding industry.
7. Actual housing numbers for delivery in each region are determined through statutory planning processes. In preparing Regional Spatial Strategies, Regional Assemblies take into account the Government's latest household projections, the needs of the regional economy, the capacity of urban areas to accommodate more housing and its environmental implications.
8. As draft PPS3 (December 05) states, the Government is committed to delivering a better balance between housing demand and supply as well as creating sustainable, inclusive, mixed communities in all areas. Forthcoming final PPS3 will set out how regions and local planning authorities should aim to meet these objectives in regional spatial strategies and local development frameworks.

**Recommendation 6: No uniform national strategy will meet the housing requirements of every area. Different strategies are needed to reflect the needs of different areas. By making the planning system more responsive to housing demand, the Government risks undermining the regeneration of those areas with surplus housing and low demand, and increasing the building on greenfield sites.**

9. We agree that no uniform national strategy will meet the housing requirements of every area. This is why, under the new system established by the Planning & Compulsory Purchase Act 2004, housing strategies are a key component of the regional and local level plans.
10. We do not accept that by making the planning system more responsive to demand that the Government risks undermining the regeneration of areas with surplus housing and low demand.
11. The planning system is an important tool for controlling the supply and location of housing and this is a key determinant in dealing with low demand issues.
12. Draft PPS 3 adopts a broad approach to ensuring sufficient housing is provided to meet the housing requirements of communities, whether this be in low or high demand areas. However, its policies are fully supportive of the low demand agenda in terms of:
  - requiring regional planning to have regard to the particular needs and circumstances of different areas, including low demand for housing;

- requiring local planning authorities to have regard to the RSS, RHS and other relevant regional and local strategies, including low demand;
  - ensuring close co-operation between housing and planning professionals at both the regional and local authority levels, thereby ensuring a consistent approach is taken to low demand in relevant areas;
  - encouraging more efficient use of land, which can make retail, transport and other public services viable in deprived areas. This will make such areas more sustainable as well as promoting social inclusion; and
  - promoting development upon brownfield land. Much of the development potential in low demand pathfinder areas will be on brownfield sites.
13. Draft PPS 3 reinforces the commitment to brownfield land, and there will still be a requirement to set regional and local targets. However, we recognise that, in order to meet the housing needs of our communities in the most sustainable way, some sustainable greenfield sites will need to be released where they are needed.

**Recommendation 7: There is a danger that if there is an increase in housing supply, a significant proportion of the extra homes in some parts of the country will be taken up by second homes. We recommend that the Government considers further proposals arising from the Rural Housing Commission to discourage the purchase of second homes and to ensure that the new homes are occupied by households as their primary residence.**

14. We endorse the Affordable Rural Housing Commission's finding that, although second homes have a significant impact in certain very localised areas, their impact is modest in rural areas at a national level. In some rural areas, second home owners bring considerable benefit to the local community. So, it would be inappropriate to use national policy levers to discourage second home ownership. We have already given local authorities the discretion to reduce the Council Tax discount available on second homes and we are pleased that billing authorities have responded to that flexibility. Nationally, 69% of authorities had reduced the discount by October 2005 and, in authorities where second homes represent more than 1% of total housing stock, that figure rises to well over 90%.
15. It is for Sir Michael Lyons to decide whether his Independent Inquiry into the funding of local government, in the context of its wider role and functions, looks specifically at the issue of second homes, as the Commission suggests. We look forward to receiving Sir Michael's report by the end of this year.

**Recommendation 8: It is important that the increased house-building programme is not rushed and that the opportunities to produce well designed new housing and to improve the environmental quality of urban areas are maximised. We recommend that the Government ensure that issues relating to the quality of development and infrastructure provision are fully addressed as part of the plans for stimulating significant growth in new house-building within the planned time-scales.**

16. The Government agrees with the Committee that quality of development and infrastructure provision are critical for sustainable housing growth. Our policies therefore recognise that the challenge is not only to build more housing, but to create truly sustainable communities that meet the diverse needs of existing and future residents, are sensitive to their environment, and contribute to a high quality of life.
17. The Government is committed to creating better, more liveable places through promoting better design, believing that it is the quality of design that makes the difference in creating places that will stand the test of time. This is why we have put in place a range of measures to promote quality from the outset in all areas of housing growth. For example:
  - Setting planning policy and guidance that prioritises good design, with clear requirements in Planning Policy Statement 1 and the new requirement for Design and Access Statements
  - Providing funding for the Commission for Architecture and the Built Environment (CABE) to support its work to transform neighbourhoods
  - Promoting understanding and take up of innovation, by providing tools such as Design Coding and demonstrating new approaches on the ground through the Design for Manufacture competition and Millennium Communities programme
  - Championing take up of good practice and improving skills, through the Academy for Sustainable Communities
18. Parks, green spaces and the quality of the local environment are also a vital element of sustainable communities. This is why the Government is investing in ensuring that new and existing communities in the Growth Areas have access to good quality green space networks, with 10% of Growth Area funding being dedicated to green space projects. CABE is providing advice and support on developing green space strategies and delivering projects in these areas and DCLG and Defra jointly published *Creating Sustainable Communities: Greening the Gateway* in January 2004, setting out the Government's vision for a network of functional green space in the Thames Gateway.
19. Through Regional Spatial Strategies (RSS) and Local Development Frameworks (LDF) new developments should be sited in the most sustainable locations possible, with due consideration being given to the sustainable management of water resources, accessibility to public transport, flood risk management, and the protection and enhancement of green space and biodiversity.
20. As part of the Government's response to Kate Barker's Review of Housing Supply in December 2005, the Government set out its commitment to ensuring that plans for a step-change in housing supply were supported by the necessary investment in social, transport and environmental infrastructure at the local, regional and national level.
21. In order to help finance the infrastructure needed to stimulate and service proposed growth, and ensure that local communities better share in the benefits that growth brings, the Government is looking at how a Planning-gain Supplement (PGS) might operate.

22. The Government recognises that a PGS alone cannot fund the infrastructure needed to support housing growth, so alongside dedicating PGS revenues to such infrastructure the Government announced, as part of its response to the Barker report, a cross-cutting review into supporting housing growth as part of the 2007 Comprehensive Spending Review. This review will explore the social, transport, and environmental infrastructure implications of housing growth in different spatial forms and locations, establish a framework for sustainable and cost effective patterns of growth and ensure that Departmental resources across Government are targeted appropriately to support future housing and population growth.

## Meeting Housing Needs and Aspirations

**Recommendation 9: We welcome the Government's commitment to boosting investment in social housing as part of the next Comprehensive Spending Review. Housing needs differ from area to area, and any approach will have to allow flexibility for projects to meet specific local requirements. The overwhelming need is for social rented housing to make up the shortfall in supply and to recoup the very significant losses in social housing that have occurred over the last 15 years.**

23. We have already increased the level of new social housing over the past 3 years. However, Government recognises that the provision of 30,000 new social rented homes a year does not meet all newly arising need. That is why the Chancellor has said that social housing supply will be a priority in CSR07.
24. The Government established Regional Housing Boards to ensure a more strategic and coherent cross-local authority approach to tackling housing problems. They have been responsible, in consultation with key stakeholders, for overseeing production of a regional housing strategy and advising Ministers on the allocation of resources for housing investment to address identified strategic priorities and to take account of local concerns.

**Recommendation 10: It is vital that social rented housing make up a significant proportion of the enlarged house-building programme proposed by the Government. We endorse Shelter's estimate that 20,000 homes are required above current proposals to achieve the Government's target to halve the number of homeless households in unsuitable temporary accommodation by 2010 and to meet newly arising housing needs.**

25. We recognise that the provision of social housing has an important role to play in the Government's proposed house-building programme and will contribute to its agenda to tackle and prevent homelessness.
26. Current levels of homelessness acceptances are at their lowest since 1985, although we acknowledge that there are too many households living in temporary accommodation. Although the majority of these households are in self-contained properties, their tenancies are insecure and the rents can be very high. This has a detrimental impact on families and vulnerable individuals and it is why we are committed to working with local authorities and other stakeholders to halve the number of households in temporary accommodation by 2010.

27. Additional funding in the Spending Review 2004 will deliver 75,000 social rented homes over the three years to 2008 – that is, an additional 10,000 social rented homes per year by 2007/08, which represents a 50% increase on 2004/05 delivery levels. New investment will be complemented by efficiencies and innovation in provision, as well as increased investment in homelessness prevention, providing support for vulnerable people, tackling the wider causes and symptoms of homelessness, and helping more people move away from rough sleeping. Plans for further increases in the number of social rented homes will be included in CSR 2007.
28. In addition, we are promoting a more efficient use of existing housing stock. In the private sector this includes “temporary to settled” housing schemes, and we will be launching an Extra Homes Pilot later this year to help more families move from expensive temporary accommodation into settled homes. In the social sector, we continue to work closely with the Housing Corporation and registered social landlords on making better use of their housing stock through improved housing management. We are also liaising with the Housing Corporation in support of their draft homelessness strategy, due for publication in the autumn.

**Recommendation 11: Low cost homeownership schemes can meet the housing requirement of specific groups which housing authorities wish to retain or attract to particular areas. Schemes which subsidise homeownership without increasing the supply of housing risk contributing to increasing house prices. The Government is introducing new shared ownership schemes. We recommend that the Government ensure that all low-cost home ownership schemes operate in such a way as to support increases in overall housing supply rather than intensifying pressure on the existing supply. The benefits arising from the public subsidy should be passed on to future purchasers.**

29. The Government supports provision of suitable low cost home ownership to meet the housing requirements of specific groups, such as key public sector workers. We agree there is a risk that low cost home ownership can contribute to house price inflation if it is not accompanied by an increase in new housing supply.
30. The Government’s HomeBuy programme will have only a marginal impact on inflation overall, as a large part will consist of new build homes. We estimate that, if we help an extra 100,000 people into home ownership by 2010, the overall inflationary impact of HomeBuy would be 0.04-0.06% per year. Helping key workers in this way is likely to have less inflationary impact than alternative forms of assistance. Government’s response to Kate Barker’s recommendations should also increase supply more generally, and therefore also improve affordability.
31. We agree that the benefits arising from public subsidy should normally be passed on to future purchasers. Under HomeBuy, either the home is made available for purchase by future eligible households through nomination arrangements, or the public subsidy gained from sale of the home must be reinvested to provide more affordable housing. This includes receipts from sales by local authorities under the Social HomeBuy scheme.

**Recommendation 12:** The increase in funding to the Housing Corporation over the last four years has, in the main, been used to support additional low-cost homeownership schemes. It is important that the Housing Corporation does not lose sight of its fundamental role as the main funder of new social rented housing. We recommend that a limit be set on the proportion of the Housing Corporation's funding that is allocated for low-cost homeownership schemes. The proportion spent on equity share and shared ownership will vary from one region to another depending on the nature of the priority needs. It is the responsibility of the Regional Housing Boards and Assemblies to identify priorities. The Chancellor's 2006 Budget statement gave prominence to expanding equity share schemes, but equal importance should be given to increasing the supply of social rented housing.

32. Funding for low cost home ownership products increased up to 2005/06 reflecting existing commitments, Regional Housing Board priorities and the introduction of Key Worker Living. The Housing Corporation's Affordable Housing Programme for 2006/08, reflecting Regional Housing Strategies, has altered the emphasis of funding for the provision of social rented homes, which is planned to increase to around 70% of provision in 2007/08 from 58% in 2005/06. In addition, the Government has said that social rented housing supply will be a priority in CSR07.
33. Future provision for low cost home ownership schemes will be based on Ministers' assessment of Regional Assemblies' recommendations. Priorities will, as now, vary from region to region and from year to year and it would therefore be inappropriate to set an overall limit at this point.

**Recommendation 13:** A simple supply and demand model cannot be applied uncritically to the behaviour of the housing market and house prices. The particular nature of the housing market makes it very difficult to be certain about the effect which a certain level of increase in supply will have on prices and thereby affordability.

34. Simple aggregate supply and demand models of the housing market do not take into account interactions between demographics, housing and labour markets. Neglecting these linkages may lead to misleading indications of the potential impact on prices and affordability following an increase in housing supply.
35. DCLG's Affordability Model, recognising these complexities, looks at the relationship between housing supply and affordability (measured as lower quartile house prices to lower quartile earnings) on a national and regional (GOR) basis. The model considers the interactions between demographics and housing and labour markets. It also considers both the stock and flow impacts of additional housing supply, over various time horizons. The model simulates the impact of additional housebuilding on house prices, and in turn affordability.
36. DCLG has commissioned further work to extend the existing Affordability Model in order to understand more fully the complex relationship between housing supply and affordability.

37. However, DCLG recognises that the Affordability Model, like all models, has its limitations. It is based on a set of assumptions and relationships that proxy the real world rather copying it exactly. The model cannot give exact predictions of what will happen to house prices, but it can provide a good indication of the magnitude of change we can expect to see in order better to inform policy.

**Recommendation 14: It is unclear what impact the Government's objective to increase house building to 200,000 by 2016 would have on affordability. It is likely that a very large number of new homes would be required annually to have a significant impact on affordability. There is no clear reason why house-builders would be committed to increasing housing supply to such an extent as to compromise their profit margins.**

38. The Government's aim is to address long term affordability concerns and make home ownership more accessible to all. Research commissioned by the Department supports Kate Barker's analysis, which demonstrated that in order to achieve an improvement in housing affordability, there would need to be a step change in housing supply. Our ambition to increase the level of housing provision to 200,000 per year over the next decade balances concerns surrounding affordability against wider environmental and deliverability issues.

39. The housebuilding industry has been broadly supportive of the announcement of Government's ambition to increase housing supply in its response to the Barker Review. DCLG officials have been working with representatives of the Housebuilding Industry to identify barriers to development with a view to increasing housing supply and market capacity.

**Recommendation 15: There are many factors, other than supply, which affect the affordability of housing. The Government needs to examine a range of strategies which might influence demand such as interest rates, the availability of credit and taxation, as possible approaches to stemming price rises and improving affordability.**

40. Homeownership brings important benefits to society in the form of financial security, greater choice, and better outcomes in later life. Rather than seeking to restrict demand, we aim to continue to create a genuine equality of opportunity for all by enabling more people to take advantage of the benefits of homeownership.

41. Government policy relating to homeownership was set out in 2005 in *Sustainable Communities: Homes for All*, which underlined our intention that as many people as possible should have the opportunity to own their own home, should they be capable of meeting the commitment this entails.

**Recommendation 17: Some households have accumulated high levels of debt from buying their homes and borrowing for other purchases, making them vulnerable to interest rate rises and economic downturn. The high levels of consumer debt make households more vulnerable to losing their homes. The Government should investigate the effect of easy access to consumer credit and its connection to home repossessions and take appropriate action. It should also look at offering opportunities through the Housing Corporation for homeowners to reduce the equity they own in their homes to avoid them losing their homes.**

42. The sustainable home-ownership initiative (SUSHO) aims to produce an enhanced safety-net for home buyers that results in fewer households getting into arrears and losing their homes. The SUSHO initiative was launched by the Council of Mortgage Lenders (CML) in 1997 in partnership with the Association of British Insurers (ABI) and Government.
43. Since its launch, the SUSHO initiative has achieved significant success through increasing take-up of mortgage payment protection insurance (MPPI). Around £300 million per annum is flowing to borrowers in difficulty via MPPI alone, with over 85% of claims being paid. In addition to the work on the MPPI, the initiative has also:
- published the advisory leaflet ‘Take Cover for a Rainy Day’, resulting in the distribution of over one million copies and a sample risk assessment for use by lenders and borrowers;
  - ensured all lenders ask borrowers in financial difficulties whether they have an insurance policy – many borrowers fail to remember policies they have taken out;
  - published the Repossession Risk Review, a half yearly report which examines trends in relevant indicators;
  - worked with the DWP to amend the standard rate for Income Support Mortgage Interest (ISMI) to make it more representative of the interest rates charged by mortgage lenders;
  - produced guidance for lenders from the DWP to improve the way in which ISMI is paid for home improvement loans;
  - worked with the FSA to publish a risk factsheet (as part of its consumer education programme) and to include a specific risk question on the key facts illustration given to all mortgage applicants under the mortgage regulation framework;
  - via the ABI, published consistent interpretations for use in insurance policies, to provide greater transparency for policy holders;
  - via the ABI, worked on improved claims handling procedures; and
  - established a Home-Ownership Task Force under the relevant Minister at the DWP, which meets quarterly to review both the work of the initiative and the Government.
44. The initiative has set a new target to reduce the number of possessions over the economic cycle. It has now finalised a range of measurable indicators that can be drawn together to provide a quantitative and qualitative framework that can demonstrate whether the objective is being met – this is known as the Repossession Risk Review and is produced twice a year.
45. Research undertaken on behalf of the initiative has concluded that policymakers and the industry should endeavour to:
- simplify the current system;
  - increase borrowers’ knowledge of risks and safety-net options;
  - better protect borrowers in the deferral period of any insurance and the ISMI wait periods;
  - reduce the risk of arrears for those in receipt of ISMI;

- design safety nets that can cover presently uncovered risks;
- reduce the cost of present insurance options;
- address structural inequalities which will increase access to some safety nets; and
- incentivise the take-up of insurance, savings and flexible mortgage overpayments.

46. The SUSHO initiative is taking forward this work on developing a comprehensive safety-net for home-owners in co-operation with other initiatives aimed at improving financial decision making among consumers.

**Recommendation 18: Existing house-building targets are not yet being achieved. There are a large number of sites which have been allocated for housing, some with outline planning permission. There is potential to increase the take up of these sites. Local authorities need to investigate any housing sites not being developed in their areas and identify the reasons for the delay; where infrastructure problems or other reasons are holding it up, Councils should be encouraged to work with the Regional Development Agencies and English Partnerships to unlock the development potential.**

47. We are promoting a key role for monitoring in the new planning system. The responsibility of the Local Planning Authority (LPA) does not stop at the grant of permission. LPAs are statutorily required to provide information on the monitoring of housing supply in statutory Annual Monitoring Reports (AMRs). Current guidance firmly recommends that LPAs produce a housing trajectory which sets out the past rates of completions in the area and the expected future rates against the target for the district. Ideally this trajectory will be site based and data underlying it will indicate not only when but where housing completions will be expected. To compile this information LPAs will need to be in consultation with developers so as to ascertain current prospects for all identified sites – both those in plans and those with permission.

48. The purpose of the AMR is not only to gather information but to act as a prompt to corrective action should this be needed. If it appears from discussions with developers and other evidence that the future flow of completions will not be sufficient to maintain the housing supply, the LPA should identify the blockages and work with stakeholders to remove them. Government Offices have already been firmly encouraging authorities in areas of high demand and low housing completions to undertake this work. We will be setting out in forthcoming PPS3 how we expect local authorities to pro-actively manage housing supply to ensure an appropriate supply of land for housing and maintain the effective use of brownfield land. However the effectiveness of local authorities in this regard will be influenced by the availability of funds for necessary infrastructure.

**Recommendation 19: If house-builders are holding on to sites which are ready for development, Councils should be encouraged as a last resort to use their compulsory purchase order powers and to find an alternative developer.**

49. Current planning for housing policy (PPG 3) says that local authorities should take a pro-active approach to facilitating site assembly. They should work with

landowners in order that suitable sites are brought forward for development. However, in some instances, they may need to purchase land in order to facilitate redevelopment. Wherever possible this should be done by negotiated agreement but may involve the use of compulsory purchase powers.

50. Draft PPS 3 re-inforces this. It says that local authorities should make full use of their compulsory purchase powers and work with key stakeholders to bring forward brownfield sites for development.
51. Circular 06/2004 “Compulsory Purchase and the Criche Down Rules” is also relevant here. It encourages acquiring authorities to use the compulsory purchase powers in a pro-active way, where appropriate, to assemble the land needed to help deliver social and economic change.
52. However, CPOs should not be used in advance of considering other options and, in the case of local authorities requiring land held by house builders, this would only be justified (as for all CPOs) where there is a compelling case in the public interest to do so.
53. Paragraphs 16-19 of the circular deal with the justification for making a CPO. The end of paragraph 19 says “Parliament has always taken the view that land should only be taken compulsorily where there is clear evidence that the public benefit will outweigh the private loss. The Human Rights Act reinforces that basic requirement.”

**Recommendation 20: Higher density development does not have to comprise smaller units or a preponderance of flats. To create sustainable areas, a range of unit sizes which caters for a range of needs is required. Funding priorities and local authority policies need to be sufficiently flexible to enable the new housing supply to reflect the range of needs and household sizes in their particular areas.**

54. We agree that building at higher densities does not have to mean a lot of smaller units. We believe that a broad range of housing can be provided for at densities above 30 dwellings per hectare, including family housing with gardens.
55. This is why draft PPS 3 reinforces the government’s objective to make the most efficient use of land. We want to see well planned and designed developments that make the most effective use of land, that meet the needs of local communities, are attractive, have their own distinctive identity and positively improve local character.
56. Local authorities have flexibility in identifying sources of funding to support delivery of affordable housing, e.g. developer contributions via planning obligations (“section 106 agreements”) or funding from the Housing Corporation. Contributions from the Housing Corporation are determined on the advice of regional bodies and to support priorities identified in regional housing strategies.

**Recommendation 21: The buy-to-let market is attracting additional investment and new opportunities for private renting in many town and city centres. In some areas, however, the transient population living in the private rented housing adds to the instability of the area; the activities of investment funds can skew, albeit**

**temporarily, any indicators of affordability as the house prices reflect the expected financial return rather than what the local population can afford. The local population is thus excluded from homeownership.**

57. The Buy-to-Let (BTL) market is part of the Private Rented Sector (PRS). Following a period of decline in the 1980s, the PRS has grown from 9.7% in 1989 to 10.3% in 2004. The BTL market has expanded from approximately 5% of the PRS in 2000 to 20% in 2004, with associated increases in the number and value of BTL mortgages. This increase can be explained, on the demand-side, partly by the increase in demand for private rented accommodation, and also a change in the composition of demand with BTL properties becoming a closer substitute for owner-occupation. On the supply-side, rising house prices and low interest rates combined with falling returns on equities and poor performance of pensions has made BTL an attractive form of investment.
58. The BTL market is part of the PRS, and although the BTL market has expanded considerably, the PRS as a whole has grown to a much lesser extent. The recent increase in demand in BTL has therefore delivered a re-balancing of supply within the PRS.
59. Local house prices are determined by the supply and demand for houses, whether this demand comes from the local area or comes from people moving into the area. House prices are affected by a wide range of variables, from level of interest rates, to level of household income, to flexibility of the credit market. As such, rising house prices in a local area can be the result of a number of factors, of which increased demand for BTL properties will be one.
60. It is also important to point out that prices are not the only factor affecting affordability – income also plays a large role. For example, an increase in prices will not automatically result in the worsening of affordability because if incomes have increased at the same rate, the result would be no change in affordability.

**Recommendation 22: Local authorities should be encouraged to take account of the potential impact of housing developments being used as buy-to-let schemes when giving planning approval. If necessary, the Government should consider whether local authorities need additional powers to ensure a broad range of family housing units are available in inner cities.**

61. Draft PPS 3 is already strong on the provision of affordable housing. It enables local planning authorities to determine the range of household types in need of affordable housing and translate this into a profile of housing size and type needed.
62. With respect to market housing, draft PPS 3 enables local authorities, on the basis of their evidence base on housing need and demand, to set out the broad balance of households likely to need housing. Whilst we are not proposing that local authorities translate this into a profile of size and type (as with affordable housing), we do want them to consider it when developments come forward in planning applications.
63. There is a balance to be struck between the ambitions of local authorities and developers. We want local authorities to be aware of the market housing needs in their area, but without the need to prescribe size and type of open market

units. But on affordable housing both authorities and developers will benefit from some certainty about what is required.

**Recommendation 23: With the Government's emphasis on promoting home-ownership, there is a danger that the needs of disabled and older people, and those with other special housing needs are neglected. It is important that the housing, in both the private and social rented sectors, is built to a standard which can be easily adapted to meet the lifetime needs of their occupants. We recommend that the Code for Sustainable Homes be amended to give greater priority to ensuring homes are built to lifetime home standards. We further recommend that the Government ensure that housing for disabled people is provided on sites with easy access to essential services.**

64. We are proposing to incorporate lifetime homes standards into the Code for Sustainable Homes. This is an improvement on the current version of Ecohomes, upon which the Code is based. Ecohomes does not currently include such standards. Additionally we shall monitor the take-up of the Code to ascertain where points are being obtained, to gauge how many homes are being built to lifetime homes standards. Depending on these results we will then consider whether to regulate for lifetime homes in the future.

**Recommendation 24: Many older people are occupying homes which are too big for them. We recommend that the Government work with the Housing Corporation, housebuilders and local authorities to increase the provision of smaller homes suitable for older people.**

65. Through its planning policies for housing, Government seeks to encourage the building of communities which cater for different aspirations and conditions including those of older people, not just the right number of homes in the right place. Draft PPS3 also requires regions and local authorities to undertake sub-regional market assessments to identify the particular accommodation needs and demands of older people and make provision for them in Local Development Plans.

66. In addition, the Government is building the Lifetime Homes Standard into the Code for Sustainable Homes to increase the supply of flexible and appropriate new housing for older people. The Government will be looking at these issues in more detail and is committed to publishing its findings and an action plan as part of a National Strategy for Housing and Older People in 2007. The Housing Corporation also funds the provision of sheltered social rented homes suitable for older people. It spent £109m for this purpose in 2004-06, and expects to spend around £159m in 2006-08.

**Recommendation 25: Many equity release schemes offer poor terms. We believe that the Government should work with financial services providers to develop more appropriate schemes which enable older people to realise some of the capital tied up in their homes.**

67. A range of equity release products are currently available. However, these are complex financial products and are not suitable for everyone. They can have significant implications for taxation, benefits, inheritance and long-term

financial planning, all of which need careful consideration. The Government's approach to equity release schemes is to ensure that all people, including older people, are able to make informed choices when purchasing these products, to offer appropriate consumer protection and to ensure that there is a level regulatory playing field in the equity release market.

68. There are two main types of equity release schemes: lifetime mortgages and home reversion plans. The Financial Services Authority (FSA) regulates the sale and administration of first charge mortgages on primary residences, including lifetime mortgages. Following extensive consultation, a decision was taken to subject home reversion plans to regulation. The Regulation of Financial Services (Land Transactions) Act gained Royal Assent on 19th December 2005, bringing home reversion plans within the scope of regulation. HM Treasury and the FSA published consultation documents on the detail of the changes earlier this year. In the light of the responses received, the Government will bring forward secondary legislation in due course.

**Recommendation 26: The higher level of house-building being promoted by the Government should be delivered in a way that ensures the overall tenure mix is appropriate to an area. Local authorities need to develop evidence-based approaches which ensure that new housing development provides for the full range of needs of local residents, especially families, the elderly and disabled people. We recommend that Government guidance also encourages the provision of private housing to meet the aspirations of all those living and working in the area.**

69. We agree with the approach outlined here. This is why draft PPS3 requires regions and local planning authorities to create communities that are sustainable, mixed and inclusive. It requires authorities to plan for mixed communities on the basis of household type. In particular, they should plan for market housing on the basis of the range of households requiring housing.
70. In terms of affordable housing, draft PPS3:
- requires regions and local authorities to set overall affordable housing targets where necessary. Separate targets for social and intermediate housing can be set where appropriate.
  - sets an indicative national minimum threshold of 15 dwellings, above which affordable housing can be sought. Authorities can set a different threshold, or series of thresholds, providing they can be justified.
  - retains the presumption that affordable housing should be provided on site. Off-site provision or financial contributions are only acceptable where they contribute to the objective of creating mixed communities and avoid creating concentrations of deprivation.
71. In terms of market housing, draft PPS3 requires local planning authorities to set out the overall balance of household types (both current and future) requiring housing in their plan policies. Estimates of the overall balance will be provided by housing market assessments. Applicants, when bringing forward planning applications, are then expected to show how they have had regard to the overall balance when determining the size and type of market housing proposed.

72. Linked to above, draft PPS3 encourages early discussions between authorities and applicants to work together to establish the appropriate housing mix.

## **Housing Growth and Urban Regeneration**

**Recommendation 27: The planning system has traditionally played a key role in mediating different pressures on the physical environment. With current proposals, it is expected to give particular weight to market considerations and as a result there is a risk that environmental and social issues may be overlooked. We recommend that PPS3 ensure that economic, environmental and social issues are given equal weight when housing sites are first considered.**

73. Planning Policy Statement 1 (Delivering Sustainable Development) sets out the overall approach to the planning system. This says that sustainable development is the core principle underpinning planning. This encompasses social progress, effective protection of the environment, the prudent use of natural resources and the maintenance of high and stable levels of economic growth. As such, PPS 1 provides the framework for all other PPGs and PPSs, including PPS3.
74. Sustainable Development is also central to the reform of the planning system. The purpose of sustainability appraisal (SA) is to promote sustainable development through the integration of social, environmental and economic issues into the preparation of revisions of Regional Spatial Strategies (RSSs) and for new or revised Development Plan Documents (DPDs) and Supplementary Planning Documents (SPDs).
75. It is the responsibility of the Regional Planning Body or Local Planning Authority to make sure that SA is carried out.

**Recommendation 28: We welcome the Government's commitment in draft PPS3 to promote housebuilding on brownfield sites but we do not consider that as currently drafted it gives Local Authorities the tools necessary to implement this commitment. The sequential approach to prioritising brownfield sites in PPG3 has contributed to the revitalisation of many urban sites, increasing the proportion of housing developments on them. We are very disappointed, despite assurances from the Deputy Prime Minister, that the draft PPS3 appears to abolish this approach. We recommend that draft PPS3 be revised to provide for the retention of the sequential approach.**

76. Draft PPS3 is aiming to facilitate provision of land, taking account of market demand/need, so that we can deliver a step change in housing - both market and affordable housing.
77. Although in draft PPS3 we are no longer proposing a search sequence (the sequential approach) in identifying sites to be allocated for housing, the Government remains committed to prioritising brownfield land for housing development and draft PPS3 retains the requirement that regions and local planning authorities should set brownfield targets and develop local strategies that contribute to achieving the national target of 60% of new housing development on brownfield land.

**Recommendation 29:** We accept that Local Authorities should ensure an adequate land supply to meet their housing targets: proposals in draft PPS3 to restrict their ability to phase the release of sites could undermine their ability to prioritise brownfield urban sites and allow developers to cherry pick the easier sites. These sites may be on the edge of towns and cities, so promoting urban sprawl and encouraging flight from urban centres. We recommend that draft PPS3 be revised to provide Local Authorities with the power to manage effectively the release of sites.

78. In finalising PPS3 we are building on the approach set out in draft PPS3 to ensure that the proposed role of Local Planning Authorities (LPAs) in proactively managing development in their area is clear. LPAs will have a key role to play, working with stakeholders, in identifying specific sites that are suitable for housing development, within the context of the vision for their areas as set out in the regional spatial strategy and in relevant local development plan documents. The assessment of suitability of the proposed sites will be subject to an appraisal of their sustainability, community views gathered through consultation and an independent examination carried out by the Planning Inspectorate. LPAs will also have an important role in setting local targets e.g. housing, use of brownfield and regularly monitoring and managing delivery of outcomes against those targets.

**Recommendation 30:** The Government's proposals to boost house-building in areas with high housing demand could undermine attempts to regenerate nearby areas with low demand, particularly in the Midlands and the North. Many of these areas include underutilised housing, which, with some improvement, could make a significant contribution to meeting housing demand and to reducing the pressure on those nearby areas with high demand. The evidence of growing demand in the Midlands and the North points to the need for strategic planning to ensure meeting housing demand is managed in such a way as to utilise the spare housing capacity in nearby low demand areas.

79. The Government agrees with the Committee that it is important to make best use of existing housing stock. In some urban areas of the North and West Midlands markets are particularly weak and extra resources are needed through the housing market renewal (HMR) programme to make them attractive enough to retain their existing communities and appeal to potential new residents. Via HMR pathfinders the Government is investing £1.2 billion in the five years up to March 2008 to deliver stronger markets in these areas. The pathfinders have already been successful in engendering much better understanding of the dynamics of their local sub-regional housing markets and, as a result, there have been considerable improvements in strategic planning of the kind the Committee suggests.

80. The Government is using other approaches to enable housing markets to operate as effectively and efficiently as possible and so stabilise areas of persistently high or low demand. This is why we have consulted on a new draft planning policy statement for housing (PPS3), which is designed to make planning more co-ordinated in its response to housing need and demand and to improve affordability where necessary. We intend to publish the final document later in the year.

81. Draft PPS3 aims to help regional and local authorities to better understand their housing markets and to improve the balance between housing supply and demand. To do this it establishes a new approach to setting housing numbers that uses sub-regional housing market areas, rather than local administrative boundaries, as the basis for planning new housing. Under PPS3 regional and local planning authorities will need to take greater account of affordability and other factors such as infrastructure and environmental sustainability within their sub-regional housing market when drawing up plans.

**Recommendation 31: If new house-building is concentrated in areas of high housing demand on the edges of towns and cities, there is a danger that commuting times will be increased and quality of life will suffer. It is vital that urban sprawl is avoided and, where possible, the new housing is concentrated in existing urban centres offering employment opportunities nearby.**

82. We want land to be brought forward for housing where it is needed and appropriate. This is why draft PPS 3 requires a sustainable approach to plan making and the determination of planning applications, taking into account infrastructure (including transport) and employment opportunities. In high growth areas, local planning authorities should explore a wide range of options for delivering housing numbers in the most sustainable way. In urban areas, the priority should be to focus upon developable brownfield land. Where authorities are unable to meet housing demand by doing this, only then should they start to explore major urban extensions and (on a sub-regional basis) new freestanding settlements.

**Recommendation 32: The Government's target to reduce the number of long-term empty private properties by 25,000 by 2010 is insufficient. We recommend that it should set a more ambitious target of a 50% reduction in the number of homes empty for more than 6 months by 2010.**

83. The 25,000 target, set in the Government's 5 year Housing Plan, *Homes for All*, reflects our estimate of potential for local authorities to bring additional numbers of long-term empty private sector homes back into use as a result of the new powers relating to Empty Dwelling Management Orders (EDMOs). We believe most of these gains will result from agreement with owners and the number of interim EDMOs that may need to be made will be less than 1,000 per year. However, this particular target does not present a complete picture. As part of our plan to eradicate the problems caused by low demand by 2020, *Homes for All* also commits us to close by a third the gap between the level of vacancies in Housing Market Renewal pathfinder areas compared to the region in which the pathfinder is situated by 2010. The national vacancy rate for England is 3.1%. This compares with 4.2% in the North West, 3.6% in Yorkshire and Humber and 3.4% in the North East. The Pathfinders are broadly on course to deliver this target which will have a significant impact on overall vacancy rates in low demand areas.

84. The percentage of private sector homes empty for more than six months (which are defined as long term vacancies) varies significantly from region to regions. As would be expected, the percentages are highest in those regions most affected by low demand. The North West is highest, at 2.6%., while the South East is

lowest, at 1.1%. The Government believes that setting a national target in line with the recommendation would be meaningless unless it properly reflected what can realistically be achieved in each region.

85. Regional empty homes targets would better reflect local housing market conditions and local housing priorities. Regional Housing Strategies have a crucial role to play in setting these. The Delivery Plan for the London Housing Strategy is a good example. It has a specific aim to reduce the number empty homes in the Capital and in particular the number of long-term private sector vacancies. The aim is to reduce the overall vacancy rate from 3.1% to 2.5% of housing stock by 2016 (from 99,000 in 2004 to 88,000 by 2010) and to reduce the number of long-term private vacancies from 1.6% to at most 1% of private sector stock by 2016 (i.e. from 36,600 in 2004 to 23,600 by 2016, at current stock levels).

**Recommendation 33: The Government has gone some way to reduce the VAT on refurbishment and renovation to promote the reuse of empty homes and to redress the preference given to new housing. It should now consider reducing the VAT on all empty properties to five per cent.**

86. Existing VAT reliefs for construction and conversion of residential accommodation, including the zero rate for new homes are important in making affordable housing available. To date the Government has been sparing in its use of reduced rates and has only introduced them where there is strong evidence that they offer the best targeted, most efficient support for our social objectives and where the benefits are proportionate to the costs. We have therefore introduced housing reduced rates to target relief at areas of specific need, such as certain residential conversions which create new homes through better use of the existing housing stock, and the renovation of housing that has been empty for more than three years, helping to bring vacant homes back into use and working to tackle the physical regeneration of towns and cities.

87. As with all taxes, the Government keeps VAT under review.

**Recommendation 34: The level of demand for private housing in some rural areas fuelled by migration from elsewhere in the UK and the desire for second homes exceeds the potential supply to the extent that any increase in house-building would be unlikely to affect affordability. The provision of social rented and affordable housing is therefore particularly important in these areas. We recommend that the Government increases its allocation to the Housing Corporation for rural areas.**

88. Since 1997 we have invested £7.5 billion in affordable housing through the Housing Corporation's Approved Development Programme, with a further £3.9 billion being invested over the next two years 2006-08. How these resources are split between urban and rural areas has since 2003 been determined on the advice of the Regional Housing Boards. The Government believes those in the regions are best placed to advise on what is best for their regions, and how investment can be targeted to meet both regional and national priorities based on up-to-date assessments of need. Government has impressed upon the Boards the need to consider the particular needs of rural communities. Although the

Boards help set the strategic framework for investment, final investment is dependent on suitable bids coming forward.

89. The Affordable Housing Programme has now been agreed for 2006-08, with predominantly rural *districts* receiving over 21% of all affordable housing allocations. This compares favourably with their overall share of the population (23%). However closer analysis shows that specifically rural *settlements* (ie those with fewer than 10,000 people) will receive only 10% of the programme although they represent 19% of the population. This draws to attention to the fact that it is not just the level of funding directed at rural communities, but also the way that funding is spent within the district, within the framework set by the local planning authority.

**Recommendation 35: Government housing and planning policies must be flexible enough to allow new housing to take place in smaller settlements to support their regeneration and to enable them to support a wider range of services. We endorse the objectives of the report by the Government's Rural Housing Commission and urge the Government to consider its recommendations seriously.**

90. The Government supports the Affordable Rural Housing Commission's view that rural communities must be sustained and allowed to grow.<sup>1</sup> The Government's objective for planning for housing is to ensure a wide choice of housing is available, for affordable and market housing, to deliver a better balance between housing supply and demand in every housing market, to create sustainable mixed communities.
91. Planning for housing policy is clear that the majority of residential growth should be located in areas with good access to jobs, key services and infrastructure, so that rural communities are sustained.
92. Draft PPS3 proposes a flexible national policy package, which will allow local planning authorities to deliver both market and affordable housing in all locations, including rural areas. Draft PPS3 also proposes policies to allow 100% affordable housing on small sites in small rural communities as well as larger service villages and market towns.

**Recommendation 36: The experience of previous house-building programmes using prefabrication demonstrates the potential problems of poor design and the major maintenance problems which can arise. We agree that MMC has some benefits, but it is important that design considerations are not again compromised. We recommend that the Commission for Architecture and the Built Environment monitor closely the design quality of homes emerging under the Housing Corporation's new programme.**

93. The Government believes that modern methods of construction (MMC) have an important role to play in delivering more, better quality houses in less time. This view was borne out in an evaluation of MMC by the National Audit Office in October 2005.<sup>2</sup>

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<sup>1</sup>Affordable Rural Housing Commission Final report, May 2006  
<http://www.defra.gov.uk/rural/housing/commission/default.htm>

<sup>2</sup>Using Modern Methods of Construction to Build Homes More Quickly and Effectively, NAO, Nov 2005

94. The Government is keen to encourage the use of such innovative approaches and products and we are clear that their use can be fully consistent with our aim to create and maintain quality places through good design. We agree that design should be a key consideration in house building programmes and believe that this applies regardless of the method of construction used.
95. As the Government's advisor on architecture, urban design and public space, the Commission for Architecture and the Built Environment (CABE) works closely with, and in a complementary role to, national agencies such as English Partnerships, the Housing Corporation and English Heritage, to ensure that design quality is embedded in their programmes and strategy. CABE has already undertaken a programme of research funded by the Housing Corporation to investigate the qualitative implications of MMC on the design quality of social housing schemes. This research concluded that there are no reasons why good design cannot result from the use of MMC.<sup>3</sup>
96. CABE has a range of programmes and activities aimed at fostering better building design, irrespective of construction method. CABE is particularly focused on improving the quality of England's new housing, with homes and neighbourhoods forming a key theme of its corporate strategy. CABE's principal programmes for monitoring design quality are Enabling and Design Review, which offer free advice to building clients (public and private sector) at different stages of the design process.
97. The Housing Corporation has a target that at least 25% of approvals for new homes in its Affordable Housing Programme should make use of MMC and estimates that it will achieve 50%. It is also working with the National House Building Council, Building Research Establishment, Council of Mortgage Lenders and others to ensure that the house building sector is fully briefed on the measures and standards that need to be met when considering the use of MMC. A new website has been delivered specifically for this purpose.<sup>4</sup>

**Recommendation 37: It is important that both house buyers and house builders are confident that their new homes are mortgageable. We recommend that the Government make the building standard LPS 2020 a requirement for all homes built using off-site manufacturing.**

98. We are aware of the important work BRE has done in devising its proprietary LPS 2020 Standard for Assessment of Innovative Building systems etc.
99. However, we already have national Building Regulations which set minimum technical standards and the key challenge is to ensure that all new homes, including those utilising offsite manufacturing, are compliant with these; and that they take full account of the approach in the Code for Sustainable Homes.

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<sup>3</sup>*Design and Modern Methods of Construction*, CABE, June 2004

<sup>4</sup><http://www.homein.org/index.jsp>

100. We recognise that new construction methods may involve different technical challenges and therefore DCLG has commenced a scoping study into Innovative Construction Products and Technologies: how they react in a fire, their impact on structural integrity and of long-term sustainability issues, particularly with respect to maintenance, repair and extensions. This should give us a better understanding of the range of issues associated with these products and enable us to determine priorities for further work.
101. The study is being undertaken in consultation with key stakeholders including regulators, enforcers (including Building Control and the Fire and Rescue Service), house builders, the insurance industry, the Council of Mortgage Lenders and product suppliers. Its findings should be available in early 2007.
102. Whether or not a property is mortgageable is ultimately a matter for lenders to determine.

### **Increasing the House-building Programme**

**Recommendation 38: We believe that the Government must accept that, as development proposals are brought forward, an appropriate mix of revenue and capital funding mechanisms need to be identified to meet the requirements of different kinds of infrastructure.**

103. As we stated in our response to Kate Barker's Review of Housing Supply, we will ensure that adequate funding is available at the right timescale to support housing growth. We recognise that additional revenues are needed to fund the infrastructure needed to support new housing. So, alongside proposals for a Planning-gain Supplement to provide additional funds to support local and regional infrastructure, we have begun a policy review into supporting housing growth as part of the 2007 Comprehensive Spending Review. The review will ensure that decisions about housing growth are taken in conjunction with specific mechanisms to deliver the infrastructure required. The review is examining the use of targeted investment such as the Community Infrastructure Fund and Growth Area Fund as mechanisms to provide the funding needed to support fast growing areas.

**Recommendation 39: We recognise that the timely provision of infrastructure is essential for successful and sustainable development and acknowledge the Government's commitment to finding an appropriate funding mechanism. We are examining the Government's proposals for a planning gain supplement through a separate inquiry.**

104. The Government looks forward to receiving the Select Committee's report on its inquiry into the Planning-gain Supplement. We will make further announcements on PGS by the end of the year.

**Recommendation 40: There has been progress in identifying additional funds for infrastructure in areas where there are major house-building programmes. However, the current funding for infrastructure to support the house-building programme is insufficient. The formula-based funding mechanisms for revenue services are inadequate. Some Government Departments have made revisions to cope with the increased number of households in some areas. Nevertheless, we**

recommend that the Government conduct a comprehensive review to identify how it can better ensure the provision of adequate infrastructure to support its ambitious house-building programme both in the South East and nationally. The Cross-Cutting Review, which is part of the 2007 Comprehensive Spending Review, offers an important opportunity to make a clear assessment of the costs and to identify funds. It is vital that all Government Departments are committed to it.

105. We are committed across Government to meeting the infrastructure needed to support housing growth and create sustainable communities. A cross government policy review is underway to assess the infrastructure needed to support housing growth. The review is currently engaging with a range of stakeholders and will make recommendations to inform the 2007 Comprehensive Spending Review.

106. The aim of the review is to consider the social, transport and environmental infrastructure that is necessary to support housing growth and to establish a framework for sustainable and cost-effective patterns of growth. The review will make recommendations to ensure departmental resources are better targeted across Government to provide the national, regional and local infrastructure to support future housing and population growth.

**Recommendation 41: Much of the scepticism towards the Government's house-building programme arises from concerns about the provision of essential services. We recommend that the Government demonstrate that services in existing housing areas will not suffer because funding and local services are diverted to the new developments or additional demands are to be placed on existing services. This may require a reassessment of local government finance formulae and a revision of funding formulae used by central government departments when distributing funds to local service providers.**

107. Formula grant distribution to local authorities in England has in the past been determined on an annual basis, which would not have given councils any security about their future funding. The Government agrees with Kate Barker's recommendation in her Review of Housing Supply<sup>5</sup> that the formula grant system should be made more forward looking. We have now established a pattern of multi year funding settlements for local government.

108. In December 2005, the Government announced allocations of formula grant to all English local authorities for 2006/07 and 2007/08 (the 2007/08 settlement is subject to approval of Parliament in early 2007). From 2008/09, the Government will announce three year allocations of formula grant to match the Spending Review cycle.

109. Allocations will be based on projected population and council tax base figures. These are projected forward from past trends by the Office of the National Statistics (population) and DCLG (tax base), so that they reflect the demographic trends seen in each area. Allocations to individual councils will

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<sup>5</sup>Barker Review of Housing Supply – Final Report – Recommendations, TSO 2004, p. 136 (rec 17)

also be subject to a minimum guaranteed grant increase from one year to the next, known as the grant floor. Councils will therefore know their grant settlements for up to three years ahead. Local government support this move which gives them greatly enhanced ability to plan ahead for service delivery and work with partners.

110. The Government is also consulting on a proposal for a grant to provide additional resources to local authorities that deliver new housing. The grant proposes to provide additional funding to help meet the transitional costs associated with new housing for a local authority.

**Recommendation 42: The Government needs to adopt a more strategic approach to the provision of infrastructure; one which takes full account of differing local circumstances, requirement and aspirations. The existing availability of services should be a factor in determining the location of new house-building. By encouraging new housebuilding in existing urban areas, the need for new infrastructure is reduced, and, where it is required, it can be provided more easily. The provision of infrastructure should be used to open up areas which have surplus housing or potential sites and thus disperse demand to a range of urban areas.**

111. The Government is committed to ensuring that infrastructure, including public services, is provided in step with growth, as plans for individual growth locations are developed. The main elements of this approach are; ensuring that mainstream funding reflects the needs of growth, maximising the potential for private sector contributions and making available selective additional grant funding, such as the Community Infrastructure Fund, to unlock major growth schemes and locations.
112. Much of the Government's planning for housing growth, in particular the Growth Areas, is focused on the development of existing urban areas, which will maximise the capacity of existing infrastructure.
113. The Government is also looking at future need and is currently undertaking a cross-cutting review to look at the infrastructure investment required to support additional housing, as part of the 2007 Comprehensive Spending Review.

**Recommendation 43: The Government's new programme to fund 'growth points', with its emphasis on improving infrastructure provision in smaller urban areas, although initially very small, is welcome. The programme needs to be expanded to encompass not only areas with excessive housing demand but also those areas where new housing can be more easily accommodated but demand needs to be stimulated.**

114. The Government's New Growth Points initiative recognises that housing pressures and affordability problems extend further than just London and the wider South East. Our announcement of 20 June demonstrated the wide spread and size of locations with which we are working on growth proposals: from the core cities to smaller market towns across the East and West Midlands, the South West, the South East and the East of England. Through this initiative Government is responding positively to places that are keen to pursue growth.

We recognise that many communities across these regions have similar growth aspirations and face similar issues to the existing growth areas, including the desire to develop more complex brownfield sites and to tackle local infrastructure problems, and they need Government support to plan ahead for long term delivery.

115. Through New Growth Points Government is not imposing growth but asking for proposals from towns and cities across the five regions above who are keen to pursue sustainable growth, linked to their wider strategies for local economic growth, balancing jobs and new homes and creating more attractive, sustainable places in which to live. The proposals have to be well planned, acceptable environmentally and realistic in terms of infrastructure, particularly transport. When considering locations for additional housing growth it is important to ensure supply is balanced with demand in order to avoid encouraging areas of future housing market failure.

## **Managing the Environmental Impact**

**Recommendation 44: Housing makes a very significant contribution to climate change. The DCLG has important responsibilities alongside other Government departments for tackling climate change. It should consider signing up to the Climate Change PSA and identify how the planning system can contribute to tackling climate change.**

116. The Government agrees with the Committee that DCLG has an important role to play in reducing carbon emissions and more widely improving the environmental performance of what we build. DCLG will review its PSAs across the board to ensure that it focuses appropriately on key Government priorities; this will be done within the context of the forthcoming Comprehensive Spending Review 2007.
117. The Government has put in place a number of provisions within existing planning policy which have as their purpose tackling both the causes and effects of climate change. In particular, Planning Policy Statement 1 (PPS1) sets out some overarching principles on climate change, stating that regional planning bodies and local planning authorities should ensure that development plans address the causes and potential impacts of climate change, through policies which reduce energy use and carbon emissions (for example reducing the need to travel), promote the development of renewable energy resources, and take climate change impacts into account in the location and design of development.
118. This overarching policy is further complemented by planning policy on, for example, flood risk (PPG/PPS25) and promoting the development of renewable energy (PPS22). The positive approach to renewables set out in PPS22 was recently strengthened through a written ministerial statement in which Yvette Cooper, Minister for Housing and Planning, made clear the Government's expectation that all planning authorities should include policies in their development plans that require a percentage of the energy in new developments to come from on-site renewables, where it is viable. We also want to promote the take-up of microrenewables by making them permitted development wherever possible.

119. In addition to existing planning policy on climate change, the Government has made clear its intention to develop a PPS on climate change, providing an opportunity to consider further how the planning process can help combat climate change. The new PPS will set out how the Government expects participants in the planning process to work towards the reduction of carbon emissions in the location, siting and design of new development. It will make clear that the location of new development should support the reduction of carbon emissions. The PPS will also show how the planning process can be used to deliver renewable, and more sustainable, forms of energy, encouraging more fuel-efficient technologies such as combined heat and power as well as microgeneration. A draft of the PPS is due to be published for consultation later this year.

**Recommendation 45: The scale of house-building proposed by the Government could have a major impact on the natural environment, particularly in terms of affecting biodiversity and generating increased car use. The Government is encouraging the use of masterplans and design codes to ensure high quality development and that the impact on the environment is minimised. It is set to publish guidance on the use of these planning documents. We recommend that this guidance require planning authorities to consider the impact of housing development on the physical and natural environment, resource efficiency and the promotion of sustainable lifestyles. Landscape character assessments should also become standard on major schemes.**

120. The Government is committed to improving the quality of development and to create sustainable places to live which reduce the need to travel. High quality design is central to the delivery of more housing and is indivisible from good planning. Government policy in PPS1 makes it clear that new development which is inappropriate in its context, or which fails to take the opportunities available for improving the character and quality of an area and the way it functions, should not be accepted.

121. The protection and enhancement of the quality of the natural environment in both urban and rural areas is an important part of designing for quality development. The Government's planning policies seek to ensure that local decisions about the development and use of land integrate biodiversity and geological diversity with other considerations. PPS1, together with *Planning Policy Statement 9: Biodiversity* (PPS9), already make it clear that it is important that planning protects and improves the quality, character and amenity value of the countryside and urban areas as a whole and that a high level of protection should be given to most valued landscapes, wildlife habitats and natural resources. The enhancement of biodiversity in green spaces and among developments is a key aspect of this. The Government's policies also make clear that where adequate mitigation measures in response to any impacts are not possible, compensatory measures may be needed.

122. The policies in draft PPS3 are seeking to ensure that new housing development is based on thorough landscape and ecological survey and appraisal and that local planning authorities encourage sustainable and high quality design and construction of new developments.

123. Design and Access Statements are a key tool available to local authorities and communities to test whether new development is of appropriate design quality. From August 2006, most types of planning applications have to be accompanied by a design and access statement which will require applicants to explain how high quality design and disabled access issues, including landscape and natural environment considerations, have been addressed in proposals. These statements will help local authorities ensure that new developments are of high quality and give local communities a better understanding of what is being proposed. *Planning Policy Statement 7: Sustainable Development in Rural Areas* (PPS7) recognises that landscape character assessments are important tools to assist local authorities in preparing policies and guidance that encourage good quality design. However the Government does not consider that such assessments should be a requirement. It is for local authorities to consider how to make best use of the tools which are available to them.
124. Masterplans and design codes can play a key role in planning for quality developments whilst giving developers greater certainty when coming forward with development proposals, particularly in the context of larger sites. Our practice guidance on how design codes should be prepared and how they relate to masterplans, which we will be bringing forward later this year, will be considering how wider sustainability considerations can be considered in the design coding process.

**Recommendation 46:** We support the Government's objective to increase the environmental performance of new housing but the proposals in the Draft Code for Sustainable Homes are not sufficiently ambitious. We are disappointed that the basic level proposed in the Code does not exceed current Building Regulations. We welcome the Government's commitment to revise the Code in the light of the consultation. We believe it to be vital that the Code delivers an improvement in environmental performance by being aspirational and including a basic level which is higher than the Building Regulations.

**Recommendation 47:** There is no certainty that the Code will be applied by the private sector if it remains voluntary. This is a significant weakness. We recommend that the Government set a timetable for the incorporation of the Code for Sustainable Homes into Building Regulations. The requirements taken forward from the Code and incorporated into the Building Regulations in this manner should be sufficiently challenging to deliver a major improvement in the environmental performance of new homes.

125. Government announced proposals to strengthen the Code in March 2006. We propose to make Code Level 1 higher than that for Building Regulations in the areas of energy and water efficiency, and to fix standards for water and energy efficiency at all levels of the Code.
126. We are finalising the approach to the Code and will bear the Committee's views in mind before we make an announcement later in the year. We agree that the Code should set out the next steps for Building Regulations and are looking at the mandatory approach.

**Recommendation 48:** Water consumption can be reduced through improved standards of efficiency in new and existing housing. However, new water and

sewage facilities will be required to meet the demand from the new homes. Water infrastructure is a precondition of growth yet spare capacity in water and sewage facilities in the wider South East is extremely limited. There is a long lead-in time for the provision of water facilities such as reservoirs and sewage treatment works. We recommend that the Government strengthens the measures to ensure that adequate water and sewage facilities are planned as part of the infrastructure to support housing growth. We recommend that sustainable urban drainage systems become a standard requirement in all new housing developments.

127. The commitment to ensure that housing growth is supported by the provision of necessary infrastructure, in the right place, at the right time, is at the heart of the Sustainable Communities Plan and the Government's response to the Barker Report. This includes vital environmental infrastructure for water supply, sewerage, waste treatment and disposal, flood management, provision of green space, and public transport systems.
128. The Government is committed to the 'twin track' approach of managing demand for water and developing sustainable water resources where they are needed. It is precisely because of the long planning horizons for new water infrastructure such as reservoirs that the Government has put in place measures to ensure that water companies plan for the long term. Since 1999 water companies have had 25 year water resource management plans, which we will be putting on a statutory basis in April 2007.
129. These 25 year infrastructure plans are a critical tool which helps guide water companies future investment and plan responses for future water demand. Reservoirs are not the only option for increasing supply, but do take the most time to plan and construct. Other options, which can be delivered much more rapidly include bulk transfers of water between companies, new groundwater or river abstractions and desalination. Each option will need careful examination of the environmental, social, and economic impacts. Each individual water company's plans include a selection of these options with these plans being reviewed annually by the Environment Agency.
130. The Government is actively pursuing opportunities to reduce unnecessary consumption of water through the launch of a new draft Code for Sustainable Homes covering energy, water, materials and liveability, and a commitment to regulate to achieve water efficiency savings.
131. DCLG and Defra are currently consulting to explore the options available for better regulation, and are considering the mechanisms required to improve the efficiency of water use in new-build housing and to tackle water efficiency in existing housing stock via changes to water fittings regulations, introduction of new technology, and raising public awareness.
132. In addition, a Concordat was agreed between DCLG and the Environment Agency, in August 2005, to act as an early warning system in flagging up areas of concern for Ministers and officials.
133. Through regular liaison meetings between the Environment Agency, DCLG, and more recently Defra and Natural England, discussions are set at a national

strategic level so as to ensure that environmental impacts are properly managed and mitigated at an early stage of the process rather than at the last minute. In particular this forum identifies, as early as possible, any pressures that new build housing places on water supply, sewerage and waste water facilities in particular sites.

134. The Government is already urgently considering ways to remove barriers to the wider use and adoption of sustainable drainage systems. Part H of Building Regulations (Drainage and Waste Disposal) were amended in 2002 to provide a hierarchy for the disposal of rainwater from new development. Discharge by natural means such as infiltration into the ground, such as occurs with Sustainable Drainage Systems (SUDS), is the preferred option.
135. Local planning authorities (LPAs) should ensure that their policies and decisions on applications complement Building Regulations on sustainable rainwater drainage which give priority to the use of infiltration drainage systems over watercourses and then sewers.
136. Planning Policy Guidance 1 states that Regional Planning Bodies and local authorities should promote the use of SUDS for the management of run-off. We intend that the planning system should further a strategic approach to SUDS by incorporating favourable policies within Regional Spatial Strategies and adopting policies for incorporating SUDS requirements in Local Development Documents.
137. DCLG is progressing the issuing of the new Planning Policy Statement 25, Development and Flood Risk (PPS25) to strengthen and clarify guidance to Planning Authorities already contained in Planning Policy Guidance Note (PPG) 25 that they should promote sustainable drainage schemes in new development proposals.
138. A Practice Guide accompanying PPS25 will give more guidance on how planners should encourage the use of sustainable drainage schemes and is planned to be introduced in the autumn as a 'Living Draft' to accompany the publication of the new PPS25. DCLG is working closely with Defra and the Environment Agency on this document and the final version is intended to be published after a six month informal consultation period in 2007.

**Recommendation 49: New homes add only 1% to the housing stock each year. There is huge potential to improve the environmental efficiency of existing homes. If housing growth is well planned and high environmental standards are achieved there are real benefits in reducing running costs to individual homeowners. The Government should consider introducing incentives to reduce the water use and energy consumption of existing homes. It should consider offering additional incentives for the installation of microgeneration.**

139. Government is looking at what measures could be introduced to improve the sustainability of existing buildings, both domestic and commercial. Feasibility of technical solutions, including microgeneration, is being assessed along with policy options to reduce energy and water demand.

**Recommendation 50: We endorse the recommendations in the Report by the Environmental, Food and Rural Affairs Committee into the Environment Agency which welcomes the proposals to make the Environment Agency a statutory consultee on all planning applications in flood risk areas. We support the Committee's call for additional resources being allocated to the Agency to fulfil this role. We also support its call that developers and investors should be given more information about the risks posed by building in flood plains.**

140. The Government is proposing to bring forward an amendment to the Town and Country Planning (General Development Procedure) Order 1995 ("the 1995 GDPO") which will make the Environment Agency a statutory consultee for all non-householder development in flood risk areas.
141. This proposal would catch all development except (i) that incidental to the enjoyment of a dwelling house, (ii) extensions of less than 250 square metres to any non-domestic building and (iii) alterations to any building that does not increase the size of a building. It is also proposed to expand the provisions of article 10 (p) of the 1995 GDPO, which covers development in the bed of, or on the banks of, a river or stream, details of which a planning authority has to notify to the Environment Agency before granting planning permission.
142. The Government also proposes to make a Flooding Direction, which will act as a safeguard where planning authorities are minded to grant planning permission for major development in flood risk areas against a sustained objection from the Environment Agency. Major residential development is likely to mean more than 10 dwellings or where the site area is equal to or greater than 0.5 hectare. Major non-residential development is likely to mean new ground level floorspace equal to or greater than 1000 square metres, or where the site area is equal to or greater than 1.0 hectare.
143. The Direction would provide the Secretary of State with an opportunity to check general compliance with the guidance in Planning Policy Statement 25 "Development and Flood Risk", (to be published shortly), and to consider whether it would be appropriate to call in the application for her consideration. In line with current policy, the Secretary of State will continue to be selective about calling in planning applications.
144. We note that Government's response to recommendation 19 of the Environmental, Food and Rural Affairs Committee report on the Environment Agency, which called for additional resources to be allocated to the Agency to fulfil its role as a statutory consultee on all planning applications in flood risk areas, stated:
145. *'Funding of the Agency for this activity will be considered further in the 2007 Comprehensive Spending Review (CSR07). Developers do bear the costs of carrying out flood risk assessments in support of planning applications.'*



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