



The Third Whitehall Lecture

**‘How will we house our children?
The Future for UK Housing Policy’**

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Cambridge University
Land Society

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The Cambridge University Land Society (CULS) through its Cambridge Whitehall Group forum, launched in 2013, this important series of lectures in recognition of the part its members play in contributing to public policy issues. Society members are mainly alumni of the Department of Land Economy, but also from many other academic disciplines in the University of Cambridge. Many play important, often distinguished, roles in many aspects of public policy that are covered by the work of the Department.

The Cambridge Whitehall Group is a member of CULS and is a high level influential policy discussion group of well-connected Cambridge alumni, who are mainly members of CULS. In addition to its member events it also runs this distinguished series of policy lecturers.

The lectures will discuss major aspects of public policy that in one way or another touch on the disciplines of policy, economics and the application of land use.

It is intended that the lectures are published as occasional papers.



WELCOME FROM THE VICE CHANCELLOR OF THE UNIVERSITY OF CAMBRIDGE

The Cambridge University Land Society is an exemplary society at Cambridge – for its longevity and for its level of engagement with a wide range of sectors and contemporary issues.



Over the last 50 years, the Society has built a membership base of nearly 1,000 alumni, spanning those who graduated from Cambridge in the 1950s who now hold senior positions in their fields, to current students and recent graduates of the Department of Land Economy.

The number of disciplines and interests represented in the Society's membership – as well as the broad range of issues discussed at business and social events held by the Society each year – highlight what Cambridge does so well. We recognise that the challenges we face today are increasingly complex, multi-faceted and global in nature, and that they cannot be overcome with the expertise of just one area. This is why it is so valuable that the Land Society continues to bring together fresh and diverse perspectives from those studying and working in economics, land, planning, governance, finance, environmental resources and beyond on critical public and private issues.

The Whitehall Lecture series represents a great opportunity to take this debate forward – and to build the Land Society's critical mass of expertise – and I wish it every success.

Professor Sir Leszek Borysiewicz, Vice-Chancellor, University of Cambridge.



WHITEHALL LECTURE SERIES, DOUGLAS BLAUSTEN, CHAIRMAN, CAMBRIDGE WHITEHALL GROUP

Douglas Blausten is Senior Partner of Cyril Leonard, Property Consultants, where he is responsible for Corporate Strategic Real Estate Consultancy Services, as well as for their offices in Munich and affiliate office in Paris. He is Vice Chairman of NHS Property Services Limited and Chairman of its Audit and Investment Committee, a Centre Fellow of the Cambridge Centre of Climate Change Mitigation Research and a member of the Cambridge Land Economy Advisory Board. He has held a number of executive and non-executive directorships in public and private companies.



Douglas is the Chairman and Trustee of a number of Charitable Trusts and Funds, including the Mental Health Foundation and is a Past President of the Cambridge University Land Society.



THE WHITEHALL LECTURER DAME KATE BARKER CBE

SENIOR VISITING FELLOW, DEPARTMENT OF LAND ECONOMY,
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Kate Barker is a Senior Adviser to Credit Suisse. She is also a non-executive director of Electra Private Equity plc, Taylor Wimpey plc and the Yorkshire Building Society. She has recently been appointed as chairman of trustees for the British Coal Staff Superannuation Fund, is chair of the Society of Business Economists and a non-executive board member at the Office for Budget Responsibility.

Kate was a member of the Bank of England's Monetary Policy Committee (MPC) from 2001 until May 2010. During this period, she led two major policy reviews for Government, on housing supply – published in 2004, and on land use planning, published in 2006. In 2014, she led a Quality Review of the National Accounts for the ONS, and also published a short book: 'Housing: Where's the Plan?'



INTRODUCTION BY DOUGLAS BLAUSTEN, CHAIRMAN, THE CAMBRIDGE WHITEHALL GROUP

Dame Kate Barker's lecture was delivered close to the eve of a keenly fought General Election and sought to address not only a major election issue but a long term problem of housing supply. UK Housing Policy is a problem that remains at the very centre of all the parties' policies and yet one that the politicians and the market offer no clear pathway to solving.

In the Foreword to her seminal report on "The Review of Housing Supply" published in 2004 Kate Barker wrote: 'A weak supply of housing contributes to macroeconomic instability and hinders labour market flexibility, constraining economic growth'. The disparity between the wealthy and the less wealthy continues to grow and productivity in the UK per capita is stubbornly poor compared to the rest of Europe. So, if her statement was true then, it unfortunately remains true today.

The statistics do tell us a great deal about why we have a pricing problem. In 2013 the average house price for London was £300,000 with average salaries standing at £24,600. So if you have no real access to capital – you cannot buy a house. The figures for renting present a similar scenario. It is an unbalanced market and a major contributor to this, according to a number of experts on housing, is the relationship of the buy to let policy and the Government's housing benefit policy which pays out something like £18 billion pounds a year. However, most of this goes to private sector owners in London and the South East of England thus supporting the whole skewed system.

The plain fact is that we are a very wealthy country with nearly 90% of our land mass undeveloped and yet we cannot do the decent thing and ensure that people have the universal opportunity to be housed properly. The knock on effects of this imperfect and skewed market, in terms of social welfare and mobility is huge. The official statistic is that our total housing stock, in the UK, stands at almost 28 million. In 2007 it was officially stated that we need to build 240,000 housing



units each year by 2016 in England alone. This target remains a forlorn hope and many believe we need to build more than this annually to meet the demand through to 2030.

A major contributor to releasing land for housing are Government Departments, as recognised by the last Coalition Government and also this Government. They can deliver a significant proportion of new stock of land and property for development without damaging their main purpose. Indeed, if HM Treasury would allow Government Departments through their own property companies to become developers, alone or in Joint Ventures without giving away control of the taxpayers asset value, they could indeed deliver much more of the right product to yield up a fairer supply and at the same time release revenue for those Departments to fund themselves. A win/win. Under Francis Maude's team at the Cabinet Office in the last Coalition Government it was recognised to some greater extent than before but the opportunity to deliver much more is there for the begging .

Kate Barker is the foremost authority on Housing Policy and the Barker Review of Housing Supply has been the benchmark for Government policy since 2004. In her book 'Housing: Where's the Plan?' published at the end of last year she sets out, as Martin Wolf of the Financial Times commented, "a clear analysis of the problem and sensible, albeit modest, reforms. These represent the very least that needs to be done". In the last few days before the General Election Dame Kate Barker challenged an incoming Government to answer the very simple but critical question "How will we house our Children?" and suggests some policy criteria. It remains to be seen if over the 5 years of the new government there will be a real move to meet the challenge. There is a new Housing Bill to come before Parliament. It is hoped that this will address many issues raised in her Lecture.

Douglas Blausten



THE WHITEHALL LECTURE GIVEN BY DAME KATE BARKER CBE

HOW WILL WE HOUSE OUR CHILDREN? UK HOUSING POLICY

Imagine the scene in April 2003, in a large panelled office at the Bank of England. It's a tranquil period for monetary policy, so I am enjoying a peaceful afternoon with the economic data when the phone rings. A senior Treasury official asks if I would lead a review of UK housing supply, as there are concerns that the volatile UK housing market is one of the impediments to our joining the euro. In a state of blissful ignorance both about planning and about working with government, I agree.

Three months later two pennies have dropped. The first is that this is a very complex and fraught problem. The second is that the Treasury are not just expecting me to support a set of pre-cooked policy recommendations: alarmingly, they are genuinely hoping for fresh ideas. Even then, it did not occur to me that 12 years later the topic of housing supply would remain so pressing, nor that I would still be obsessed by it. To declare my interests at the start, I am now on the boards of both a major homebuilder and of the second-biggest building society.

My starting point today is to point out that what 'good' might look like in the housing market is far from a settled question. And it's not discussed sufficiently. There are unresolved policy questions at the national level, while at the local level disputes about development play out in a context where opposition is often fostered by a lack of understanding about the overall housing market. Similarly, after the financial crisis, changes to mortgage regulation are deliberately making access to home-ownership harder for those just on the fringes of affordability – while governments annually announce yet another package to support first-time buyers. The next government needs to act more radically and more coherently. The party manifestos all speak warm words on housing – but demonstrate little appreciation of what underpinning policies would really measure up to the challenge we face.



WHAT WOULD 'GOOD' LOOK LIKE?

What do we want from the housing market? We could perhaps at least agree that all should have access to a decent home at a price they can afford. Beyond that there is much scope for argument. Here are a few considerations which the weary policy-makers and planners have to weigh up:

- How much space should a household have a basic entitlement to? The bedroom tax has brought this to the fore.
- How far should location preferences be accommodated? Just because you were brought up in a rural area should you be entitled to live there as an adult? Should social housing be discouraged in expensive parts of cities?
- Do we want to allow cities to grow because they bring benefits of a deep labour market and other agglomeration economies? Or are large cities messy, so we should build new towns that can be well-designed from the start?
- Where are the places we really don't want to build? Obviously national parks, AONBs and SSIs. But there is less agreement on all of the green belt, and on whether some towns and villages should be preserved as they are.
- Is having a high rate of homeownership important?

There are plenty more – and I'm not going to attempt tonight even to touch on most of them. In a glaring omission I am not going to discuss social housing at all. But at the start it's good to recall that real places lie below the abstraction of national supply targets, and to acknowledge that it is impossible for us all to get what we want. As technology, industries and indeed life style preferences change, the historic housing stock is never going to be of the right type and in the right place. New build, at less than 1% of the stock each year, can't possibly compensate.

But if we can't make the housing supply perfect, we can make it better. The EU suggests that households paying more than 40% of their disposable income on housing suffer from housing stress. In 2012 the UK had 7.4% of households in housing stress overall, rising to 23% among those in the Private Rented Sector. And of course those in housing stress tend to be among the poorest.

In this talk I plan to cover: what has changed since the housing supply review; what is the evidence today about the housing supply problem; and how far is this due to any problems with how we plan, especially at local level? Lastly, I will put forward a few policy proposals and make a few comments on the policies



emerging prior to the election. Frankly, some are too depressing to comment on. Just for clarity – the data and comment mainly relates only to England, as planning is a devolved matter.

DID THE HOUSING SUPPLY REVIEW CHANGE ANYTHING?

Recently, there have been frequent references to a housing crisis. This quote seems to sum up what is meant. ‘The high level of house prices means that the proportion of the population who can afford to buy out of income a house which is in good condition...is probably as low as at any period in Britain’s history.’

Some of you might rightly suspect that this is the old trick of quoting from a different period. And it is from ‘The Containment of Urban England’, one of Sir Peter Hall’s many great books, dating from 1973. There are two reasons for citing it – one is that it provides the opportunity for me to pay tribute to Peter, who sadly died last year, and who was an incredibly generous and wise adviser to the work I carried out on planning. The second is that this book set out 40 years ago most of the issues we are wrestling with today. We could see this as bad news; it suggests housing is an intractable problem. Or good news – in that while experts think the housing market has been failing for 40 years, the outcome is that the vast majority of people are decently housed today.

It’s frequently suggested that my supply review was a failure, since after the financial crisis new supply has consistently hovered around post-war lows. In fact the review did trigger some worthwhile policy changes, but these were undermined by the huge impacts of the crisis, sadly unforeseen. However, it is true that governments have not really grappled with the two big questions posed back to it by the review – about environmental impacts and about regional economic balance.

It did however contribute to a change in the public discourse about housing supply – now it’s much more a commonplace to say that we don’t build enough houses. That shift in public opinion enabled the Labour Government to introduce changes in the mid 2000s which aimed to ensure planning was more sensitive to market demand. Also funding for housing-related infrastructure and for building new social homes was increased – in the years following the publication of the



review, the rate of new build social rent supply in England increased by more than 10,000 homes a year.

Under the coalition, planning was reformed again with the introduction of the National Planning Policy Framework. Apart from the greater weight this places on allowing development which could be regarded as sustainable (an over-used word whose precise meaning is by no means clear) this puts more pressure on planning authorities to have up-to-date plans. Importantly the NPPF also aimed at a simpler planning environment, sweeping away unnecessarily prescriptive national policies.

Alongside these significant steps forwards, there have also been less eye-catching improvements in detailed administration, following reviews of the planning process and of non-planning consents. The recent move towards deemed consents for some conditions is a further positive. It's clearly a good thing to enable developers to get on sites more quickly. If there is less wasteful administration and more certainty about timing, the cost of development falls and there should (at least in theory) be more funds available to support related local infrastructure.

But while these moves to less regulation are helpful, they should not be mistaken for solutions. Faster planning and faster building techniques would just bring forward, at best, may be half a year's supply. But without a much greater flow of permissions, the rate of supply would then revert to its previous level.

THE FINANCIAL CRISIS AND THE HOUSING MARKET

Despite these policy changes, the financial crisis hit housing supply hard. The sharp cutback in bank lending and rising unemployment brought about a fall in effective demand and a decline in house prices. Developers were forced to write down their landbanks, and many smaller firms were swept out of business for lack of finance. Both Labour and the coalition took steps to support supply, the most successful perhaps being the new build Help to Buy introduced in the 2013 Budget.

As yet, in part due to the shrinkage of the industry, the rate of new supply has not recovered much. Since 2008, annual completions in England, using the most usually-cited data source, have been around 120,000 a year, down from 150,000 in the previous decade. ONS projections for the number of new households wishing to form each year, based on prior trends, have been persistently above 200,000. On



the face of it this suggests that in the past six years we've undersupplied by over half a million dwellings, and even before the crisis many argued that there had been an extended period of undersupply. Yet we don't see obvious evidence of widespread homelessness. Nor have social housing waiting lists risen notably. Why?

There are explanations for how much of this 90,000 annual shortfall has been accommodated. First, there is an alternative series for completions data which is believed to be more accurate, but is published with a lag. On this basis about 20,000 more dwellings are built each year. There's been success in reducing the number of long-term empty homes, down about 20,000 a year. In addition, household formation is clearly endogenous; households don't form if there's nowhere to do it. So there are an estimated 90,000 more young people each year living at home. Maybe they'd have otherwise shared in threes – so that's 30,000 households not appearing. This doesn't quite fill the 90,000 gap – but it does suggest how families adapt.

An economist would be expected to point out that demand for housing reflects not just how many people there are, but also how much income they have. Looking at recent trends in the market, house prices picked up in the second half of 2013 as the mortgage market eased due to the Funding for Lending scheme and Help to Buy. But during 2014 the pace of house price inflation reduced, and the volume of transactions declined a little. This suggests a release of pent-up demand, which then petered out quite quickly. Part of the reason will be the tightening of credit availability following the introduction of the mortgage market review in April 2014, and the subsequent modest restrictions on lending criteria announced by the Financial Policy Committee.

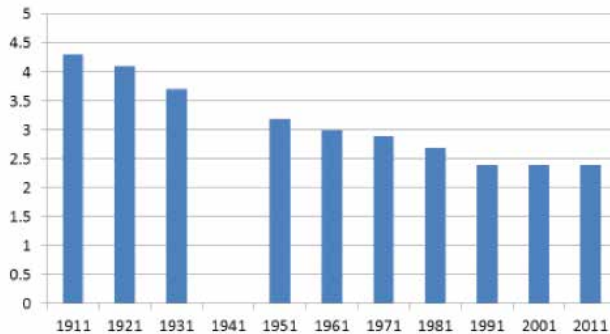
But a far bigger part of the story will reflect the persistent weakness of incomes in the wake of the financial crisis. In 2007, on the basis of prior trends, we expected GDP per head now to be around 15% higher than it has turned out. That is a massive change, which will also have affected the ability of households to form.

WHAT RATE OF SUPPLY IS NEEDED IN THE FUTURE?

Does this mean we shouldn't worry about pushing supply up? Well, fewer empty homes are welcome, but it would be better if young people were more able to move to seek work. And surely we don't want to run a Stalinist system where we try to fit just some right number of people into the right number of houses.



Average household size



Source: ONS, Census data for England and Wales

So let's distinguish housing 'need' from housing 'demand'. Housing need should be reserved for households who can't afford to meet the cost of shelter. Housing demand is different – it's also driven by incomes (as we get richer, we want more space) and importantly by expectations of future house prices. There is a belief in England that house prices will continue to rise faster than incomes due to undersupply. So those who can afford it, for the young nowadays those fortunate enough to have help from parents, have an incentive to buy as much space as possible. As a result, there are worries about housing supply, while the 2011 Census suggested that over 8 million households in England and Wales, around one in three, had 2 or more spare bedrooms.

At the other end of the scale, there are 1.1 million households who are overcrowded, generally in the rented sector. Undersupply of property works in the interest of those who own it. It will always leave a group who are struggling – prior to the financial crisis this was often households in the early years of their mortgage. Now that the Mortgage Market Review has tightened affordability criteria for borrowers, the pain is felt more by those left in private renting. Some of the cost also falls on taxpayers as £20 billion plus housing benefit will inevitably rise. Our present housing market thus underscores inequality, and will inevitably year by year increase the cost of housing poorer people decently.



FUNDAMENTAL QUESTIONS LEFT UNANSWERED

If we increased supply dramatically, these issues would be largely resolved. Yet one of the issues raised in the 2004 review was that policymakers needed to weigh up the trade-off between more home building and the environmental costs. Some work to consider the question of the environmental costs of higher levels of further development in the South-East was then carried out on the Government's behalf, but I've never found any subsequent reference to it.

This study tackled just the right question, which is: what are the costs of housing a growing population more generously? Population growth itself seems to be little affected by inadequate housing supply. To put this another way, population growth in an area of strong demand may not depend just on new supply. If there is no new supply, the outcome is likely to be a combination of splitting the existing stock into smaller units and a larger average household size – ie the stock will be used more intensively.

If the concern is about pressure on public services – health, education and transport – then what matters most is not the number of housing units, but the number of people. It's not houses that go to school or catch buses – infrastructure spend needs to respond to people, not houses. There are costs involved in expanding the housing stock and the space within it relative to a given population: loss of green space and agricultural land; damage to biodiversity; the use of the building materials; and some increase in energy, water and waste per head. These costs matter, but the general conclusion of the environmental study was that they are not large. The main concern was the potential for stress on water resources in the south-east, already one of the most densely-populated regions in the EU.

The latest UK ONS population projections are for growth of 0.6% a year over the next 25 years. This cumulates to a more scary-sounding 16% over the period for England, and even more for faster-growing regions: 20% over the 25 years in the East of England. This growth rate is only slightly faster than that experienced in the UK between 1981 and 2011. But in numbers of people, the gap is bigger. 6.8 million more for the UK over the thirty years to 2011, 9.6 million more for the 25 years to 2037. If you will allow me a Nigel Farage moment, 4.2 million of the latter is expected to come from net migration. For England alone over the next ten years the projection is 3.8 million – or (here I sound like the CPRE) more than three Birminghams. These numbers will surely affect how parts of England





feel and look. We cannot however simply wish the people away. It's often argued that there is too much stress on over-crowding, given that only 10.6% of England is currently built-up (and that includes gardens and parks). Largely I agree with this – but we also need to consider the social costs around congestion and a loss of a sense of tranquillity.

One response might be to really invest in regional rebalancing, despite the history of failed attempts to achieve this. This would tackle worries about an unbearably crowded south-east and enable more use of brownfield land and so lower the environmental costs. Before rushing to this conclusion, it is worth noting that the North-West is also quite densely populated, and anyone who believes there is no congestion in 'the North' hasn't spent as much time on the M62 as I have. In addition, the cost of public subsidy (better known as higher taxes) and possibly lower economic growth would also need to be considered. And to re-iterate in a slightly different form a point I have already made – if the southeast nevertheless continued to be more economically vibrant – the outcome of not building houses there would simply be an increased density of population in the same housing stock. For a policy aimed at redistributing economic activity around England to succeed, far more than housing would have to change. It won't flow just simply from HS2 or renaming Manchester as an economic powerhouse.

So in the short-term we probably still need to build a lot in the south, and this is going to generate local opposition. How much should we aim at? The latest ONS trend projections of household formation over the next 25 years is 210,000 a year in England, by the way already more than 40,000 a year lower than the high water mark of these projections just ahead of the crisis. These projections



assume household size falls from 2.36 to 2.21 persons. This would be a change of trend – as household size, which fell steadily from 4.3 in 1911 to 2.4 in 1991, has thereafter been little changed (see chart on p.14). If we assumed an unchanged household size, this would require just 140,000 dwellings a year in England.

But I doubt this would be enough. The income elastic demand pressures would not be met, and so all the inequalities and tensions already apparent in the housing market would worsen. Economic projections need to be factored in. The UK is still experiencing unusually slow productivity growth, and it remains uncertain whether the post-war trend of around 2% a year per employed person is going to reassert itself. I hope we will move back to that. In that case, house prices in England would probably only be kept in line with the likely annual increase of about 4% in incomes if the rate of new supply averages rather more than the 210,000 household projection. This is a big challenge. In the past 20 years, a 210,000 increase in the housing stock (completions plus conversions) has been achieved in just two years – 2007 and 2008.

LOCAL PLANS AND LOCAL VIEWS

It seems increasingly unrealistic that the 200,000 plus new supply can be tackled by relying on what is decided at local level. Under the Labour government, regional bodies established the housing numbers required – a lengthy process marked by the production of many long consultants' documents. These numbers were then dispersed among the local authorities. A major advantage of this system was that it enabled spatial planning over an area large enough to consider infrastructure provision and biodiversity worries properly. It would also, had any of the regional bodies been brave enough to tackle this question, have supported the development of large new settlements. A major disadvantage was the resentment of local areas for the numbers handed down to them.

The coalition government's move to localism was justified as part of 'a substantial and lasting shift in power away from central government and towards local people'. However, hard on the heels of the Localism Act, came the National Planning Policy Framework making it very evident that local decisions would be taken within a structure that effectively limited the freedom of local areas to push down their housing numbers. Planning inspectors now review the methodology of local plans and throw them back if the housing numbers are judged too low.



Meanwhile, developers are using the opportunity to bring land forward where there is no up-to-date plan in the absence of the ability to demonstrate, on an annual basis, a deliverable five year land supply. Many communities feel that the words in the Localism act ring pretty hollow.

FORECASTING LOCAL HOUSING DEMAND

I would contend that the new development landscape is also made to seem foolish by the pretty silly idea that housing requirements could sensibly be forecast on a local authority basis. Recent official guidance seeks to keep some realism about what should be attempted here, and specifically discourages the use of primary research such as surveys of the community. It's suggested this is because of disproportionate cost – although the more compelling argument is surely that they are unlikely to be of any value. The guidance suggests the use of the household projections produced by CLG, adjusted, if a case can be made, by an allowance for past underprovision or recent large scale provision or by economic projections for income and employment.

This apparently simple approach has not unfortunately prevented the production of many quite substantial documents. These convey the impression that local authorities believe their plans will only be taken seriously if they weigh a great deal. I am not arguing for a casual approach which fails to look for appropriate evidence, but against an approach which pretends to spurious accuracy – as the opening sentence of the CLG guidance says: 'Establishing future need for housing is not an exact science'. That would be a perfect sentence if only it referred to demand and not need.



Planning decisions place weight on how far a local area is keeping supply in line with the housing numbers in the plan. Yet it's reasonable to ask why these supply projections should play such a significant role. It is understandable that a local area, either a housing market area or a wider spatial span, should have some idea of the future population



change, and roughly where they will best go, in order to plan the provision of infrastructure and public services. But if there are landowners willing to sell more land than this plan implies, developers wanting to build the sites out, and no compelling reasons why the sites brought forward are in some sense unsustainable – why do we think we should not respond to this demand?

There are very good reasons why some places are judged unsuitable for housing: especially the key environmental and landscape designations. There is a presumption in favour of open country which rules against development of isolated dwellings. But beyond this it is harder to understand why the housing numbers in plans are more often more seen as a ceiling than as a floor.

There are two generally advanced rationales. One is concern about further depopulation of some of the older industrial areas – but that would be better met by positive policies towards those areas, as already hinted. The other is that in the growth areas the change in population would be too rapid for the infrastructure. But again, if we do not build more homes in the growth areas, one outcome may simply be that the housing stock which is already there becomes more densely-populated, and pressure on public services increase. This change would of course be ‘unplanned’. It should not be surprising (except perhaps to some planners) to find that people do not always live where they have been directed.

HOW CAN WE PUSH SUPPLY UP?

All the three major parties talk about housing a lot in their manifestos. The Conservatives do not commit themselves to any particular target, but Labour aim for 200,000 a year by 2020 and the LibDems for 300,000 at I think an unspecified date. But none suggest convincing mechanisms for reaching higher output targets. Indeed, the manifestos and later policy proposals are littered with suggestions at best marginal. The ‘use it or lose it’ approach to planning permissions from Labour will have a small effect at best, and may make matters worse if developers are more cautious about seeking permissions for large sites. Meanwhile the Conservatives proposal, for 40,000 starter homes each year on brownfield sites which would otherwise be used for commercial development, depends both on identifying enough such sites, and is financed by releasing developers from infrastructure contributions – when this infrastructure is badly needed.

Local opposition is the Achilles heel of the ‘new garden cities’ which float around in the political discourse. The opposition to Labour’s eco-towns is a clear warning



of what to expect when actual locations are identified. Local authorities are only likely to support them if the quid pro quo is a lower housing target for the rest of the area – which will reduce the scope of new towns to be additional to present plans. It is also pretty unlikely that they will attain much scale in five years – even if work to find sites starts the day after the election it would be surprising if building began for another three years at an optimistic best. Further, the build rate for Milton Keynes averaged just 2,500 a year. Even if that were doubled, there would need to be ten locations to get 50,000 dwellings each year.

New towns also require radical action on land to acquire at prices low enough to fund infrastructure. But there is other land where prices could be lowered. There could be a much more aggressive attitude to developing surplus public sector land. Use of this land, defined broadly across all parts of the sector, is a policy which is frequently announced but the outcomes so far seems to have been lacklustre, though good data here is very hard to find.



There are reasons for this. Treasury rules on value for money, and on how far departments can retain proceeds, don't encourage the release of surplus land. Public sector organisations are always concerned that at some future time more space will be needed, and will then be hard to finance. In other words, the public sector often behaves very much like a

private landowner. Some wider considerations of the social and economic value of releasing this land more quickly, not least the effect on other landowners of seeing more active competition, should relax the focus on cash receipts. These sites are much more promising for short-term supply – filling a gap until the new towns get underway.

More willing land sales however need to be coupled with more willing planning permissions. There's a huge temptation to say planning should be moved away from local authorities for large sites. In the past I've resisted that. But now I do consider that there should be a return to sub-regional planning, designed around functional housing markets, rather than all decisions being pushed down to individual local authorities. This would allow better debates about infrastructure, new settlements, and environmental considerations – such as flooding risk and biodiversity. And this tier could consider large sites, recognising that local authorities



may be the wrong spatial level to take these decisions. It is familiar to argue that the costs of new housing are short term and local – while the benefits are wider spread and long-term – even the New Homes Bonus for local authorities has not been sufficient to get the incentives right.

In addition, there should be a move further away from household projections and more towards looking at land and house prices, and local economies, in taking decisions on how much development to allow. There is a fundamental conflict between the notion of planning and the reality of an uncertain future of economic and social changes. Today planning is struggling to cope with the rapid changes in the way we shop. We need to allow plans to be responsive, and to be conditional on events – so that they can flex when their assumptions about the future seem to be going awry – another point made 40 years ago by Peter Hall.

ALTERNATIVE POLICIES

The history of policy failure suggests that even quite big reforms may struggle to get new supply to an adequate level. The alternative way to try to tackle the inequalities of housing would be to limit demand, by seeking to tax the unearned gains from house prices more effectively. House price rises (and falls) in large part reflect the amenity value of the land, including local economic conditions. Notoriously, the householder does little to earn increased prices – yet of all the aspects of our lives it is the one which politicians are most anxious not to tax. All parties are reluctant to revalue property for council tax, and the Conservatives are proposing special exemption for homes from inheritance tax. These policies serve to increase the investment motive for owning extra housing space, and the desire to prevent nearby development which might reduce house values.

There are two main plausible candidates for tax reform. One way in which this could be done would be a more effective council tax- more frequent revaluations, no single person discount, and higher bands to tax expensive homes more appropriately. Objections here include the administrative costs of frequent revaluation, and also to work well for this purpose, council tax would need to be less tied to local services. The changes would bear heavily on those with low incomes and expensive houses – much the objection now being made to the mansion tax. But if we really want to use housing space more effectively, why do the cliché of ‘little old ladies rattling around in big houses’ have more right to this space than young families? It might be better to support their moving to homes



more suited to older people – though I want to stress I’m not a fan of ghettos of the elderly.

Or capital gains tax on principal residences – rolled up through a lifetime and charged at the point of final sale. Unless it is rolled up, capital gains tax has the disadvantage of penalising mobility. But this is complex, wouldn’t encourage those in large houses to downsize, and would have to start from today’s prices to avoid triggering a house price fall which would be very damaging for lenders.

So tax is also not an easy way forward. The way in which taxes become capitalised into prices probably requires more analysis than I have given it. However, it is surely truly bizarre that gains on business assets are taxed more than those on housing, and that there is a light tax regime for something that the planning system implies is regarded as environmentally damaging.

CONCLUSIONS

In conclusion, I have sought to argue that we are not building enough homes, and that this bears heavily on an increasingly large proportion of households.

An active programme of new towns and large urban extensions is needed – and the recent Wolfson prize essays on this topic set out a rich set of ideas for how this could be done. In addition there is much scope for better use of public land.

Recent planning reforms are welcome, but need further development to move to a sub-regional rather than local level, and there should be less obsession with attempts at precise forecasting. Planning should judge itself by wider outcomes than the delivery of its own plan. However, it is unfortunately true that the costs and benefits of planning decisions, in economic and social terms, are often very hard to discern.

Perhaps surprisingly, one issue I have raised this evening is whether some of the bigger numbers set out as targets for housebuilding are appropriate. It could be argued that they are not, if we are really troubled by the environmental implications and prepared to see future generations living, on average, in less space per person than we have today. However, it is equally clear that without tax reform this smaller space would be shared more and more unequally – if we decide to huddle up rather than build more it should not be the less well-off who do all the huddling. So I would like tax reform – but it is political fantasy.



Development is necessarily political. But sadly the policy proposals put forward to aid the housing crisis too often seem to ignore the economics of the market. Housing policy also struggles from a lack of coherence across the public sector – the aims of CLG, Treasury, DWP and the Financial Policy Committee at the Bank of England can seem at odds with each other. The worst aspect of politicians’ pronouncements however is that they are rarely prepared to admit that for housing there are no effective solutions that are also easy and populist.

Over the decade since the housing supply review, there have been many changes in planning regulations and administration. These were mostly positive and are now helping to support some recovery in new supply from its lows after the financial crisis. But there has been a significant step backwards with an effective retreat in much of the country from planning at a scale wider than an individual local authority.

The main political parties all talk of more housing supply in their manifestos, but none are fully convincing. Those advocating new towns and settlements fight shy of identifying locations as these would immediately carry political risk. At the local level, planning outcomes are working too much against the market. The Conservatives are seeking to tackle this by managing down price for their Starter Homes initiative, and Labour have suggested using rent controls. These measures attempt to counteract the outcomes of the planning system by further market intervention. They are not without merit, but are far better at winning today’s headlines than at tackling the fundamental problem.

The housing system today is unfairly weighted towards those already owning a home, or lucky enough to inherit funds from property ownership. The next Government needs to act radically and coherently. Either there must be a determined effort to bring more land into development (both by using public land in the wider public interest and by tackling local opposition where it has no real substance), or there should be higher taxation on the rising property prices which benefit home-owners but are of course unearned. In practice both of these may be needed, but both will be highly unpopular.

Existing home-owners should recognise the stark truth that if they insist on keeping new development away from them, and on keeping all the profits from higher prices, we will not be able to house our children in a fair manner, and in some cases perhaps they will not be housed at all.

Dame Kate Barker





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