

## **Independent Commission on Local Government Finance**

### **Submission of Evidence by Dr Tim Brown on behalf of the Centre for Comparative Housing Research, De Montfort University, Leicester**

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#### *Summary*

Our four key points are:

- The significance of good quality and affordable housing for addressing the challenges that are faced by the country in an era of lower levels of public expenditure.
- The housing supply crisis in England especially the lack of affordable housing, as well as an appreciation of the different features of the problem in different areas.
- The leadership role of local authorities in developing, delivering and testing innovative funding approaches for tackling the housing crisis.
- The importance of assessing and piloting additional sources of affordable housing investment such as conditional tax incentives.

#### *Introduction*

The Centre for Comparative Housing Research (CCHR) at De Montfort University is involved in research and consultancy projects for government departments, councils and housing associations on housing, regeneration and local economies. Current projects include advising Bristol City Council on implementing the Bristol Housing Commission Report and evaluating Melton Borough Council's project ('Me and My Learning') that is tackling worklessness and welfare changes.

We also have a well-established track record of work on investigating the potential of lesson learning from other countries. This has included projects on boosting affordable housing supply using conditional tax incentives, institutional investment in the private rented sector and tax increment

financing. More details of our activities can be found on our website at [www.dmu.ac.uk/cchr](http://www.dmu.ac.uk/cchr).

The focus of our evidence centres on how an improved local government finance system could help address the issue of 'ensuring sufficient housing is provided in every place in an era of financial austerity in the public sector'. We also argue that housing has a significant role in addressing the other four challenges that the Commission is exploring.

The next section, therefore, focuses on the interrelationship between housing and these other policy areas. This is followed by sections on the housing supply crisis, the role of councils and additional sources of investment for affordable housing.

### *The Significance of Housing*

We strongly believe that tackling the housing crisis in this country would contribute to addressing the other challenges that the Commission is exploring:

- Promoting economic growth and investment in infrastructure: The Bristol Housing Commission Report highlights that the relative economic success of the West of England City Region has helped to fuel the housing crisis. Furthermore, if the supply of homes is not increased significantly, this could affect long-term economic performance. The population of the city grew by nearly 11% in the first decade of this century and this rate of increase is projected to continue. Bristol is the eighth least affordable city in England.
- Integrating health and social care systems to promote independent living, including preventing unnecessary health interventions: The author of this paper is currently a member of a team undertaking a research project for the Department for Communities and Local Government on housing and older people. Our rapid evidence assessment of the costs and benefits of new forms of provision indicates that extra care housing can result in cost savings in health and social care compared with alternatives such as staying put and residential care.
- Achieving a welfare benefits system that promotes work and protects the vulnerable: Our initial research for Melton Borough Council indicates that good quality affordable housing is a pre-requisite for tackling worklessness. But there are fundamental challenges (especially for young people) in avoiding the revolving door of homelessness. More generally, our research for the Economic and Social Research Council (see below) has flagged up the 'benefits to bricks' issue. At present, the government spends approximately £25 billion per year on housing benefits and £2.5 billion per annum on capital expenditure on housing. A better balanced approach on housing expenditure is required that avoids housing benefits

'taking the strain' of dysfunctional housing markets leading to unfortunate attempts by the current government to curb benefits expenditure through, for example, the so-called 'bedroom tax'.

- Supporting families and developing young lives through early intervention: In our work for Hull City Council and its partners in 2010 on community budgets and families with multiple needs, the lack of satisfactory housing was a major issue<sup>1</sup>, as it resulted in frequent moves between areas and tenures leading, for example, to disruption in schooling for children.

We, therefore, strongly believe that addressing the housing crisis is not only important on its own terms, but also helps address other challenges.

### *Housing Supply Crisis*

Our starting point is that there is a housing supply crisis. In England, Holmans (2013) calculates that between 2011 and 2031, we need to build 240,000-245,000 units per year, 80,000+ of which should be affordable homes. We are currently building approximately 100,000 units per year of which between 25,000 and 35,000 are affordable.

It is, however, vital to appreciate that the nature of the housing crisis differs by area. Reference has already been made to Bristol and the West of England Sub-Region. This can be contrasted with the North Yorkshire Moors National Park and Shropshire as examples of different rural housing issues:

- North Yorkshire Moors National Park: Housing affordability is a key issue. The ratio of average house prices to mean incomes is approximately 13:1 and well-over 5% of the stock is second homes. Tourism and recreation provide approximately 4,000 full time equivalent jobs. In terms of income, the area is a low wage economy. The socio-demographic profile continues to exhibit in-migration of older affluent households and the loss of young economically active households.
- Shropshire: Again, there is a housing affordability issue with the ratio of average house prices to mean incomes of 11:1 (which is three percentage points higher than for the West Midlands region as a whole). This is a rural and sparsely populated county with an ageing population – it is estimated that a third of the population will be over 65 by 2033. There is a net commuting outflow of over 12,000 people mainly to Telford and the West Midlands. The local economy can be characterized as being low wage (average earnings are 17% less than the UK average).

Current prospects are not promising especially in relation to affordable housing. For example, delivering affordable housing through the planning

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<sup>1</sup> Approximately 25% of households on the Governments troubled families programme have, for example, faced the threat of eviction over the last six months.

system is compromised. The Growth & Infrastructure Act, 2013, encourages housebuilders to appeal against previously approved planning agreements. In January, the Government and the Homes & Communities Agency announced a three-year funding programme from 2015-2018 for 165,000 affordable homes. But this equates to only 55,000 units per year. An Inside Housing survey (Youde, 2014) noted that the freedoms for councils using self-financing indicates that local authorities have plans to build over 15,000 houses, but over a timescale of up to the next 30 years. The relaxation of council borrowing requirements through the local growth by the Government could lead to the development of an extra 10,000 over the next few years. This would be a welcome initiative but it will not address the scale of the crisis.

### *The Role of Local Authorities*

We, therefore, need innovative solutions to tackle the housing supply crisis in the short term and in the medium / long term. One source is the role of local authorities. We have worked with many types of local authorities and their partners on affordable housing provision and there have been impressive initiatives. These include:

- Community asset trusts and community land trusts: We worked with North Shropshire District Council in the mid part of the last decade on a project that involved setting up a community asset trust utilising receipts from stock transfer and council land as a local delivery vehicle for new housing provision and community facilities<sup>2</sup>.
- Institutional investment in build to rent: CCHR undertook a research project for the Department for Communities and Local Government in 2010 on 'promoting investment in private rented housing supply – international policy comparisons'. As a result of this report, the author of this paper was appointed to the Government's Montague Review in 2012. This highlighted that a number of councils (including Birmingham, Hull, Manchester and the London Borough of Newham) were well in advance of government thinking on attracting institutional investment into private renting.
- Local housing councils: We have recently completed a paper on local housing companies. This highlighted that there are at least 15 schemes either in operation or at an advanced stage of development. They include
  - Red Door Ventures: This is a council owned company set up by the London Borough of Newham. It is proposed to build at least 3,000 new homes over 13 years as well as acquiring 500 existing properties. One-third of the homes will be for affordable rent, with two-thirds at market rent.
  - Matrix Homes: This is a joint venture company involving a partnership between Manchester City Council, the Greater

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<sup>2</sup> Unfortunately because of local government reorganisation, this initiative did not proceed.

Manchester Pension Fund and the Homes & Communities Agency. It also involves a contractor (Wates Living Space), a property manager (Places for People) and expert advisors. The initial pilot involves 5 sites that will provide 240 units. Half of these will be for market rent and the other half will be for sale.

- Reside: This is a company set up by the London Borough of Barking & Dagenham. It focuses on providing homes for local residents that are unable to access social housing and cannot afford the bottom rung of the owner occupation ladder. It is initially providing nearly 500 units at 80% of market rents with a five-year tenancy.

This list is illustrative of the opportunities and challenges for councils. There is an appetite for innovation to tackle the housing supply crisis. But it requires considerable resources in terms of building up staff skills and knowledge, brokering effective partnerships and buying in expertise on topics such as institutional investment and legal matters.

#### *Additional Sources of Investment in Affordable Housing*

In the current climate of financial austerity in the public sector, there appears to be little political will to change public sector borrowing conventions on the lines of those adopted by some Scandinavian countries<sup>3</sup>. There also seems to be no consensus among the main political parties to fundamentally alter the prudential borrowing regime or make significant changes to the borrowing powers under the reformed housing revenue account (HRA) system. Interesting policy ideas such as the 'benefits to bricks' proposal that has recently been highlighted by the Institute for Public Policy Research (IPPR) are generating considerable discussion. But these frequently face major implementation hurdles. There is, thus, a need to develop and deliver additional funding initiatives that are local authority-led and work within the opportunities of the existing political climate.

As has already been pointed out, a current area of research for CCHR is on boosting affordable housing supply using conditional tax incentives. This work is being carried out in collaboration with Places for People and was initially funded by the Economic and Social Research Council. We have been researching policies in France and the USA that have been in operation for over 25 years and have used conditional tax incentives to boost affordable housing supply. It is based on governments providing tax incentives for developers who in return provide housing at less than market rents and which are targeted at low income households for a set period of time. In the USA, this was originally for 15 years and is now more commonly for 30 years.

Output has been impressive. In France, between 1995 and 2004, it accounted on average for over a third of private sector production (30,000+ units per

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<sup>3</sup> In both Denmark and Sweden, borrowing by for example local municipal housing companies does not count as part of public expenditure.

year). In 2009/10, it amounted to over 50% of private sector production (60,000+ units). This system in France is based on attracting individual investors.

In the USA, conditional tax incentives have helped to build, renovate or conserve more than 2.5 million affordable housing units since 1986. Of particular interest is the state and municipal influence over the programme. The Federal Government allocates tax incentives or tax credits on a dollar per person rate, which is annually upgraded, to each state within overall conditions on targeting low income households. Each state in collaboration with local government produces an allocation plan based on local requirements. This might prioritise refurbishment rather than new build or urban rather than rural communities. It might also set stronger targets in terms of housing low income households. This is localism in action and, thus, the programme has support across the political spectrum from 'tea party' republicans to left of centre democrats as well as from local communities. In the USA, the tax credits are provided to the successful public, private or third sector developers who sell them on to institutional investors. The tax credits last for ten years and are tradable. More details of the schemes in France and the USA can be found on our research project website at <http://housingsupply.our.dmu.ac.uk/>. A useful summary can be found in Brown (2014).

But can these policies be transferred to this country? The straightforward answer is 'no'. Simplistic transfer of strategies is problematic because of the different economic, political and social systems in countries. For example, America has a federal system of government compared to our unitary top-down approach. Nevertheless, this is not the end of the story. Lesson learning from France and the USA provides the opportunity to develop new innovative policies that address affordable housing supply while, at the same time, taking account of the economic and political framework in England. During autumn 2013, CCHR and Places for People held a number of seminars with, for example, representatives of large housing associations, professional bodies, think tanks and civil servants. No one categorically ruled out a conditional tax incentive approach and the vast majority considered that new approaches such as this are badly needed. We are now in the process of working with a number of organisations on developing a detailed model so that the costs and benefits can be assessed at a national scale as well as by public, private and third sector organisations at the local level.

Government already operates a range of tax incentives for social and enterprise investment recognising the need to boost private investment in these areas, and the public good that comes from such increased investment. These incentives are generally focused on sectors that are not attracting sufficient private investment because of the risks involved. Extending tax relief to affordable housing is a natural extension of these policies and while it can result in lost revenues to the Exchequer it can also create significant growth given the known multiplier effects associated with new housing.

There is, thus, a growing interest in conditional tax incentives. Our work on conditional tax incentives has been welcomed by a number of inquiries and commissions. The Royal Society of Arts City Growth Commission, for example, held a workshop that included discussion on new funding for models for housing in May 2014. As well as our research, the Chartered Institute of Housing has supported a project on low income housing tax credits and the Bristol Housing Commission has identified this type of approach as one that ought to be piloted in the city.

#### *References*

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