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| Thursday 01 October 2020 |

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|  | MHCLG consultation on Changes to the Current Planning System  |
|  | London Councils Consultation Response  |

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# Introduction

London Councils represents London’s 32 borough councils and the City of London Corporation. It is a cross party organisation that works on behalf of all its member authorities regardless of political persuasion. We welcome the opportunity to respond to MHCLG’s consultation on ‘Changes to the Current Planning System’.

The proposed changes to the standard method for assessing housing need risk creating unrealistic housing targets for London substantially above those in the London Plan. The proposals for ‘First Homes’ raise affordability concerns for this tenure in London and devoting the first 25% of the affordable housing component on sites to ‘First Homes’ would displace other affordable tenures better suited to tackling the housing crisis in London. The temporary increase in site thresholds for affordable housing being proposed to support SME builders is not justified with evidence and would curtail or severely reduce affordable housing delivery in London. This is of major concern given the acute need for permanent affordable homes to rehouse the 58,000 homeless households placed in temporary accommodation by London boroughs, which represents two-thirds of all such households in England. For these reasons, we call on the government to fundamentally rethink these proposals, particularly as they affect the capital, in consultation with London government.

# Key Messages

1. **The proposed changes to the standard method for assessing housing need risk generating unrealistic housing targets for London.**

The government’s proposals for changing the assessment of housing need introduce a two-step process which, under step 1, sets a baseline (based on the higher of population growth or 0.5% of existing stock) and then, under step 2, applies an affordability adjustment (based on relationship between house prices and incomes). There are concerns over the technicalities of this new formula, particularly the affordability assessment. However, the immediate primary concern arises from Lichfield’s calculation (based on the new standard method) of the targets for different parts of England in their study ‘How Many Homes? The New Standard Method’ (see link: <https://lichfields.uk/grow-renew-protect-planning-for-the-future/how-many-homes-the-new-standard-method/> ). The Lichfield’s analysis shows that in areas outside London and South East the new standard method produces targets below current levels of delivery, whilst increasing targets by 61% in South East areas (outside London) and by 161% in London. This equates to an annual target of 93,500 new homes in London, which is substantially higher than the new London Plan target of 52,000 homes (reduced from 65,000 following the Inspectors’ report). With long term delivery rates in London of 30,000 to 40,000 homes annually, the targets emerging from the proposed new standard method of housing need are unrealistic. Whilst London Councils strongly supports increased housing delivery, particularly of affordable housing, the targets set for boroughs need to be realistic, as described in our submissions to the London Plan Examination in Public.

1. **The government’s proposals for ‘First Homes’ raise important issues for London:**
2. **there is evidence to show that ‘First Homes’ at 30% discount are not affordable in London**
3. **the stipulation that ‘First Homes’ would take up the first 25% of the affordable housing requirement, displaces other more affordable tenures in London and restricts boroughs in deciding the affordable housing tenures which best match housing need in their areas.**
4. **discounts and eligibility criteria for ‘First Homes’ are best set locally by boroughs, together with the overall mix of affordable tenures in their areas.**

Whilst London Councils supports the ambition to expand home ownership in the capital, the gravest need in London is for sub-market rented homes. Therefore, ‘First Homes’ must be delivered in a way that does not displace the provision of other affordable tenures which are in much higher demand and should target those who otherwise would not be able to become homeowners.

Regarding the affordability of ‘First Homes’ in London, there is strong evidence which questions whether such homes would be affordable to local people. Research undertaken by Savills (using Land Registry, MHCLG, Nationwide and Newbury Building Society data) shows that the minimum income required for a ‘First Home’ with a 30% discount and a 5% deposit (£10,850) would be £51,538 per year (based on the average cost of a new home being £310,000 before the discount is applied). Consider now that an average nurse’s salary (a targeted key worker) is around £25k per year.[[1]](#footnote-2)

Now consider that the average house price in London is £475k (53% higher than the Savills example used),[[2]](#footnote-3) while the average wage is £38k (26% higher than the national average); a 30% ‘First Homes’ discount would make the total cost of an average home £333k. This means a 5% deposit would be £17k, and the income needed to purchase an average 30% discount ‘First Home’ in London would be nearly £80k per year.[[3]](#footnote-4) The corollary is that ‘First Homes’ would often remain unaffordable to those (a) on modest incomes like many key workers (b) without the ‘bank of mum and dad’. If these averages are broken down to borough level the mismatch becomes even starker. For example, the average house price in Kensington and Chelsea is over £1.3m, in Hammersmith and Fulham it’s £712k, and Islington is £651k. Clearly for ‘local people’ to purchase their first home in these areas they would need to be comparatively wealthy, even with higher discounts.

The government’s short term proposals for securing ‘First Homes’ until the transition to a new system, stipulate that the first 25% of the affordable housing requirement on a site would be set aside for ‘First Homes’, sold at a discount to first time buyers through developer contributions. This nationally set requirement would fetter boroughs whose need for affordable housing requires other tenure types, for example affordable rented housing to meet demand from homeless households in temporary accommodation, rough sleepers or other low- income groups unable to purchase. This is of particular concern in London, which accounts for two thirds of England’s homeless households in temporary accommodation.

Against this background, we consider that in London the ‘First Homes’ discount and eligibility criteria would be best set by boroughs, so they are appropriate to the local area. Similarly, boroughs are best placed through their local plans to set the affordable tenures to suit community needs.

1. **The proposal to temporarily increase the site threshold for affordable housing from 10 units to 40 or 50 units is likely to curtail or severely reduce the delivery of affordable housing in London.**

The government’s proposals to increase the small sites threshold (below which developers do not need to contribute to affordable housing) from 10 units to up to 40 or 50 units, in order to support SME builders is of major concern. In London, a significant proportion of affordable homes are delivered on sites with less than 40 or 50 units. If the supply of new affordable homes in London is curtailed or severely restricted, this will exacerbate the housing crisis in the capital. This is of particular concern at a time when covid-19 appears likely to increase homelessness. Access to new affordable rented housing forms an important element of the permanent lettings available to London boroughs seeking to rehouse the 58,000 homeless households they currently have placed in temporary accommodation. Also, boroughs are already reporting that this proposal is having an impact on local land values, with the risk that the resultant increase in land values will carry forward, making affordable housing undeliverable even after the proposed temporary arrangement ends.

1. **Evidence to justify the introduction of a temporary increase in site thresholds for affordable housing is not provided and** **the criteria for assessing whether the economy has recovered sufficiently to end these temporary arrangements are not identified.**

The government’s proposals for a temporary increase in site thresholds for affordable housing are justified on the basis they will support SME builders as the economy recovers from the impact of covid-19. However, the proposals do not provide any evidence of the need for this change nor of its likely effectiveness. This is pertinent as there are a number of contrary arguments:

* Boroughs report there are schemes with 10-50 units currently being progressed by SME builders with an affordable housing component, which has been subject to viability testing.
* Boroughs report that it is not just SME builders who develop small sites, but also major national developers.
* The implied assumption that affordable housing is necessarily an impediment to development is open to question. For example, the negotiated purchase of the affordable housing component by a housing association or local authority could substantially improve the viability and deliverability of a small scheme.

The government’s proposals do not identify criteria for assessing whether the economy has recovered sufficiently to end these temporary arrangements, with the risk they would drift on with no clear trigger point or mechanism for reinstating the current 10 unit threshold.

# Responses to Consultation Questions

**Question 1: Do you agree that planning practice guidance should be amended to specify that the appropriate baseline for the standard method is *whichever is the higher of* the level of 0.5% of housing stock in each local authority area OR the latest household projections averaged over a 10-year period?**

**Response to Question 1:**

Our primary concern with the proposed changes to the standard method for assessing housing need (‘standard method’) is whether the housing targets they would generate are realistic and sustainable. We are concerned to note Lichfield’s calculation (based on the new standard method) of the targets for different parts of England in their study ‘How Many Homes? The New Standard Method’ (see link: <https://lichfields.uk/grow-renew-protect-planning-for-the-future/how-many-homes-the-new-standard-method/> ). The Lichfield’s analysis shows that in areas outside London and South East the new standard method produces targets below current levels of delivery, whilst increasing targets by 61% in South East areas (outside London) and by 161% in London. This equates to an annual target of 93,500 new homes in London, which is substantially higher than the new London Plan target of 52,000 homes (reduced from 65,000 following the Inspectors’ report). With long term delivery rates in London of 30,000 to 40,000 homes annually, the targets emerging from the proposed new standard method of housing need are unrealistic. Whilst London Councils strongly supports increased housing delivery, particularly of affordable housing, the targets set for boroughs need to be realistic, as described in our submissions to the London Plan Examination in Public.

We are concerned to note from the Lichfields study that the percentage increases in the targets for some individual London boroughs are even greater than the 161% increase for London as a whole.

We are concerned that the emphasis in this consultation is on the technical aspects of the formula. We would welcome greater input to setting the national policy objectives which sit behind the new standard method and establishing consensus on how future targets could best be determined through transparent communication with local government and other stakeholders.

**Question 2: In the stock element of the baseline, do you agree that 0.5% of existing stock for the standard method is appropriate? If not, please explain why.**

**Response to Question 2:**

As stated in response to question 1, our primary concern is the housing targets which the proposed changes would generate. As it stands, Lichfield’s calculations based on the new standard method show a target of 93,500 homes for London which represents a 161% increase. A target at this level is unrealistic and considerably in excess of the 52,000 homes target which emerged from the recent London Plan Examination in Public.

**Question 2(a): If no, why not?**

***[Don’t know how to / It takes too long / It’s too complicated / I don’t care / Other – please specify]***

**Response to Question 2(a):**

See our response to question 2.

**Question 3: Do you agree that using the workplace-based median house price to median earnings ratio from the most recent year for which data is available to adjust the standard method’s baseline is appropriate? If not, please explain why.**

**Response to Question 3:**

The housing targets which would be generated by the proposed changes to the standard method are our primary concern, as described above. We note that in their analysis of the targets generated by the new standard method, Lichfields comment on the new standard method as follows: “It also creates higher numbers across the south compared with the current method, but this will always be the case for a method with such a significant emphasis on affordability”. Therefore, on this basis, the affordability component specifically requires review.

**Question 4: Do you agree that incorporating an adjustment for the change of affordability over 10 years is a positive way to look at whether affordability has improved? If not, please explain why.**

**Response to Question 4:**

The housing targets which would be generated by the proposed changes to the standard method are our primary concern, as described above.

**Question 5: Do you agree that affordability is given an appropriate weighting within the standard method? If not, please explain why.**

**Response to Question 5:**

The housing targets which would be generated by the proposed changes to the standard method are our primary concern, as described above.

**Questions 6 and 7: Do you agree that authorities should be planning having regard to their revised standard method need figure, from the publication date of the revised guidance, with the exception of:**

**Q6: Authorities which are already at the second stage of the strategic plan consultation process (Regulation 19), which should be given 6 months to submit their plan to the Planning Inspectorate for examination?**

**Q7: Authorities close to publishing their second stage consultation (Regulation 19), which should be given 3 months from the publication date of the revised guidance to publish their Regulation 19 plan, and a further 6 months to submit their plan to the Planning Inspectorate?**

**If not, please explain why. Are there particular circumstances which need to be catered for?**

**Response to Questions 6 and 7:**

We do not support the proposed new standard method and would only support the introduction of changes which generate realistic, sustainable housing targets.

**Question 8: The Government is proposing policy compliant planning applications will deliver a minimum of 25% of onsite affordable housing as First Homes, and a minimum of 25% of offsite contributions towards First Homes where appropriate. Which do you think is the most appropriate option for the remaining 75% of affordable housing secured through developer contributions? Please provide reasons and / or evidence for your views (if possible):**

1. **Prioritising the replacement of affordable home ownership tenures, and delivering rental tenures in the ratio set out in the local plan policy.**
2. **Negotiation between a local authority and developer.**
3. **Other (please specify)**

**Response to Question 8:**

Whilst London Councils supports the ambition to expand home ownership in the capital, the gravest need in London is for sub-market rented homes. Therefore, ‘First Homes’ must be delivered in a way that does not displace the provision of other affordable tenures which are in much higher demand and should target those who otherwise would not be able to become homeowners

Regarding the affordability of ‘First Homes’ in London, there is strong evidence which questions whether such homes would be affordable to local people. Research undertaken by Savills (using Land Registry, MHCLG, Nationwide and Newbury Building Society data) shows that the minimum income required for a ‘First Home’ with a 30% discount and a 5% deposit (£10,850) would be £51,538 per year (based on the average cost of a new home being £310,000 before the discount is applied). Consider now that an average nurse’s salary (a targeted key worker) is around £25k per year.[[4]](#footnote-5)

Now consider that the average house price in London is £475k (53% higher than the Savills example used),[[5]](#footnote-6) while the average wage is £38k (26% higher than the national average); a 30% ‘First Homes’ discount would make the total cost of an average home £333k. This means a 5% deposit would be £17k, and the income needed to purchase an average 30% discount ‘First Home’ in London would be nearly £80k per year.[[6]](#footnote-7) The corollary is that ‘First Homes’ would often remain unaffordable to those (a) on modest incomes like many key workers (b) without the ‘bank of mum and dad’. If these averages are broken down to borough level the mismatch becomes even starker. For example, the average house price in Kensington and Chelsea is over £1.3m, in Hammersmith and Fulham it’s £712k, and Islington is £651k. Clearly for ‘local people’ to purchase their first home in these areas they would need to be comparatively wealthy, even with higher discounts.

The government’s short term proposals for securing ‘First Homes’ until the transition to a new system, stipulate that the first 25% of the affordable housing requirement on a site would be set aside for ‘First Homes’, sold at a discount to first time buyers through developer contributions. This nationally set requirement would fetter boroughs whose need for affordable housing requires other tenure types, for example affordable rented housing to meet demand from homeless households in temporary accommodation, rough sleepers or other low- income groups unable to purchase. This is of particular concern in London, which accounts for two thirds of England’s homeless households in temporary accommodation.

Against this background, we consider that in London the ‘First Homes’ discount and eligibility criteria would be best set by boroughs, so they are appropriate to the local area. Similarly, boroughs are best placed through their local plans to set the affordable tenures to suit community needs.

**Questions 9, 10 and 11:** **With regards to current exemptions from delivery of affordable home ownership products:**

**Q9: Should the existing exemptions from the requirement for affordable home ownership products (e.g. for build to rent) also apply to apply to this First Homes requirement?**

**Q10: Are any existing exemptions not required? If not, please set out which exemptions and why.**

**Q11: Are any other exemptions needed? If so, please provide reasons and /or evidence for your views.**

**Response to Questions 9,10 and 11:**

Given the acute need for affordable housing in London, we do not support any exemptions from affordable housing, including the exemption which currently applies to Permitted Development Rights. As regards, First Homes, we consider that councils should be free to decide whether to include this tenure within their local affordable housing requirements.

**Question 12: Do you agree with the proposed approach to transitional arrangements set out above?**

**Response to Question 12:**

We do not support the proposed arrangements for the introduction of ‘First Homes’ as councils should be able to decide whether ‘First Homes’ is the most suitable affordable housing tenure to meet housing need in their area.

**Question 13: Do you agree with the proposed approach to different levels of discount?**

**Response to Question 13:**

We consider that councils who wish to introduce ‘First Homes’ should be able to set the levels of discount which best apply in their area. If a council decides that a discount level above 30% is appropriate, they should be able to reduce the overall number of ‘First Homes’ delivered accordingly, in order to flexibly manage affordable housing contributions.

**Question 14: Do you agree with the approach of allowing a small proportion of market housing on First Homes exception sites, in order to ensure site viability?**

**Response to Question 14:**

We do not support the proposed arrangements for the introduction of ‘First Homes’ as councils should be able to decide whether ‘First Homes’ is the most suitable affordable housing tenure to meet housing need in their area.

**Question 15: Do you agree with the removal of the site size threshold set out in the National Planning Policy Framework?**

**Response to Question 15:**

We do not support the proposed arrangements for the introduction of ‘First Homes’ as councils should be able to decide whether ‘First Homes’ is the most suitable affordable housing tenure to meet housing need in their area.

**Question 16: Do you agree that the First Homes exception sites policy should not apply in designated rural areas?**

**Response to Question 16:**

Other stakeholders are better placed to comment.

**Question 17: Do you agree with the proposed approach to raise the small sites threshold for a time-limited period?**

**Response to Question 17:**

No. The government’s proposals to increase the small sites threshold (below which developers do not need to contribute to affordable housing) from 10 units to up to 40 or 50 units, in order to support SME builders is of major concern. In London, a significant proportion of affordable homes are delivered on sites with less than 40 or 50 units. If the supply of new affordable homes in London is curtailed or severely restricted, this will exacerbate the housing crisis in the capital. This is of particular concern at a time when covid-19 appears likely to increase homelessness. Access to new affordable rented housing forms an important element of the permanent lettings available to London boroughs seeking to rehouse the 58,000 homeless households they currently have placed in temporary accommodation. Also, boroughs are already reporting that this proposal is having an impact on local land values, with the risk that the resultant increase in land values will carry forward, making affordable housing undeliverable even after the proposed temporary arrangement ends.

The government’s proposals for a temporary increase in site thresholds for affordable housing are justified on the basis they will support SME builders as the economy recovers from the impact of covid-19. However, the proposals do not provide any evidence of the need for this change nor of its likely effectiveness. This is pertinent as there are a number of contrary arguments:

* Boroughs report there are schemes with 10-50 units currently being progressed by SME builders with an affordable housing component, which has been subject to viability testing.
* Boroughs report that it is not just SME builders who develop small sites, but also major national developers.
* The implied assumption that affordable housing is necessarily an impediment to development is open to question. For example, the negotiated purchase of the affordable housing component by a housing association or local authority could substantially improve the viability and deliverability of a small scheme.

The government’s proposals do not identify criteria for assessing whether the economy has recovered sufficiently to end these temporary arrangements, with the risk they would drift on with no clear trigger point or mechanism for reinstating the current 10 unit threshold.

**Question 18: What is the appropriate level of small sites threshold?**

**i) Up to 40 homes ii) Up to 50 homes iii) Other (please specify)**

**Response to Question 18:**

We do not support the proposal and would therefore wish to see the existing 10 unit threshold retained.

**Question 19: Do you agree with the proposed approach to the site size threshold?**

**Response to Question 19:**

No. We are strongly opposed to raising the small sites threshold for the reasons given in our response to question 17.

**Question 20: Do you agree with linking the time-limited period to economic recovery and raising the threshold for an initial period of 18 months?**

**Response to Question 20:**

We are strongly opposed to raising the small sites threshold for the reasons given in our response to question 17.

As regards, linking the time-limited period to economic recovery, clear criteria for assessing whether the economy has recovered sufficiently to end these temporary arrangements would need to be identified, otherwise there is a clear risk they would drift on with no trigger point or mechanism for reinstating the current 10 unit threshold. A clear time-limited period with a fixed end date not exceeding 18 months would be preferable.

**Question 21: Do you agree with the proposed approach to minimising threshold effects?**

**Response to Question 21:**

We are strongly opposed to raising the small sites threshold for the reasons given in our response to question 17.

**Question 22: Do you agree with the Government’s proposed approach to setting thresholds in rural areas?**

**Response to Question 22:**

Other stakeholders are better placed to comment.

**Question 23: Are there any other ways in which the Government can support SME builders to deliver new homes during the economic recovery period?**

**Response to Question 23:**

By providing additional funding to councils for affordable housing, so they could better support SME builders by arranging to develop or acquire the affordable element of new developments and/or smaller schemes below 10 units in their entirety.

**Question 24: Do you agree that the new Permission in Principle should remove the restriction on major development?**

**Response to Question 24:**

We have a number of reservations about this proposal as follows:

* Boroughs would be required to quickly assess major development proposals (which are often more complex, controversial with local communities and pose greater risks) at a time of limited resources.
* The public consultation periods proposed are very short, particularly given the potential scale of development and should be extended.
* Major developments will often involve schemes which include taller buildings and a height parameter of 18 metres to coincide with fire safety regulation should be applied.
* Boroughs would need easier/more timely access to the data/information required to assess such applications, for example, in respect of infrastructure capacity and constraints.
* The fee structure should mirror the fees for a full application given the need to deal with complex issues at pace.

**Question 25: Should the new Permission in Principle for major development set any limit on the amount of commercial development (providing housing still occupies the majority of the floorspace of the overall scheme)? Please provide any comments in support of your views.**

**Response to Question 25:**

Our comments on the new Permission in Principle are summarised in our response to question 24.

**Question 26: Do you agree with our proposal that information requirements for Permission in Principle by application for major development should broadly remain unchanged? If you disagree, what changes would you suggest and why?**

**Response to Question 26:**

Our comments on the new Permission in Principle are summarised in our response to question 24.

**Question 27: Should there be an additional height parameter for Permission in Principle? Please provide comments in support of your views.**

**Response to Question 27:**

We consider that a height parameter of 18 metres should be set to coincide with building safety regulations.

**Question 28: Do you agree that publicity arrangements for Permission in Principle by application should be extended for large developments? If so, should local planning authorities be:**

**i) required to publish a notice in a local newspaper? ii) subject to a general requirement to publicise the application or iii) both? iv) disagree**

**If you disagree, please state your reasons.**

**Response to Question 28:**

We suggest that the publicity arrangements should mirror those for a full application.

**Question 29: Do you agree with our proposal for a banded fee structure based on a flat fee per hectarage, with a maximum fee cap?**

**Response to Question 29:**

Our comments on the new Permission in Principle are summarised in our response to question 24.

**Question 30: What level of flat fee do you consider appropriate, and why?**

**Response to Question 30:**

Our comments on the new Permission in Principle are summarised in our response to question 24.

**Question 31: Do you agree that any brownfield site that is granted Permission in Principle through the application process should be included in Part 2 of the Brownfield Land Register? If you disagree, please state why.**

**Response to Question 31:**

Our comments on the new Permission in Principle are summarised in our response to question 24.

**Question 32: What guidance would help support applicants and local planning authorities to make decisions about Permission in Principle? Where possible, please set out any areas of guidance you consider are currently lacking and would assist stakeholders.**

**Response to Question 32:**

Our comments on the new Permission in Principle are summarised in our response to question 24.

**Question 33: What costs and benefits do you envisage the proposed scheme would cause? Where you have identified drawbacks, how might these be overcome?**

**Response to Question 33:**

Our comments on the new Permission in Principle are summarised in our response to question 24.

**Question 34: To what extent do you consider landowners and developers are likely to use the proposed measure? Please provide evidence where possible.**

**Response to Question 34:**

Our comments on the new Permission in Principle are summarised in our response to question 24.

**Question 35: In light of the proposals set out in this consultation, are there any direct or indirect impacts in terms of eliminating unlawful discrimination, advancing equality of opportunity and fostering good relations on people who share characteristics protected under the Public Sector Equality Duty?**

**If so, please specify the proposal and explain the impact. If there is an impact – are there any actions which the department could take to mitigate that impact?**

**Response to Question 35:**

We are concerned that proposals in this consultation will significantly reduce the delivery of affordable housing, in particular sub-market rented housing, with a negative impact on the disadvantaged groups who disproportionately require such accommodation. The over-representation of disadvantaged groups amongst homeless people and other lower income households is well established. Therefore, an Equalities Impact Assessment which compares the impact of the government’s ‘First Homes’ and small sites threshold proposals with a ‘no change’ option would be appropriate. We suggest that BAME households, people with disabilities and other groups are likely to be significantly disadvantaged by these proposals.

**Conclusions**

From our review of the proposals in this consultation we have reached the following conclusions:

* The proposed changes to the standard method for assessing housing need, risk creating unrealistic housing targets for London, substantially above those now set in the London Plan.
* The proposals for ‘First Homes’ raise affordability concerns for this tenure in London and devoting the first 25% of the affordable housing component on sites to ‘First Homes’ would displace other affordable tenures better suited to tackling the housing crisis in London.
* The temporary increase in site thresholds for affordable housing being proposed to support SME builders is not justified with evidence and would curtail or severely reduce affordable housing delivery in London.
* For these reasons, we call on the government to fundamentally rethink these proposals, particularly as they affect the capital, in consultation with London government.
1. Royal College of Nursing Survey IES report 2017. [↑](#footnote-ref-2)
2. <https://www.gov.uk/government/news/uk-house-price-index-for-september-2019> [↑](#footnote-ref-3)
3. Based on calculations of an average home in London, a 5% deposit, and a mortgage 4 times that of income. [↑](#footnote-ref-4)
4. Royal College of Nursing Survey IES report 2017. [↑](#footnote-ref-5)
5. <https://www.gov.uk/government/news/uk-house-price-index-for-september-2019> [↑](#footnote-ref-6)
6. Based on calculations of an average home in London, a 5% deposit, and a mortgage 4 times that of income. [↑](#footnote-ref-7)