Spending Review 2015
Home Builders Federation (HBF) Submission

4 September 2015

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Introduction

1. HBF has recently submitted several key policy documents to the Government. In May, immediately following the election, we submitted *Maximising the private sector's contribution to solving our housing undersupply crisis*. In August we submitted a fuller paper, *Increasing private housing supply: HBF policy recommendations*. On 19th August we wrote to the Chief Secretary to the Treasury, following his roundtable on home ownership, outlining a number of proposals for improving the role of the Construction Industry Training Board (CITB) in relation to house building skills. We also have ongoing discussions with officials in a number of departments across a range of policy areas.

2. Our Spending Review submission is focused on measures to boost private house building, drawing heavily on the papers noted above.

The Economic Benefits of New Home Building

3. Private house building generates economic activity, and so contributes to GDP growth. It creates jobs across the country, both directly and down through the supply chain.

4. Many measures to boost private house building do not have any implications for public spending, particularly most of those related to planning which has a major impact on the supply of new homes. Public land disposals generate receipts that contribute towards reducing the deficit. House builders and new home buyers generate significant tax receipts for the Exchequer.

5. As well as the direct economic benefits of home building, an adequate supply of dwellings is an essential requirement for the smooth long-term functioning of the economy and the labour market. A significant and sustained increase in housing supply is also essential to restoring a much better balance between house prices and incomes, reducing house price volatility and helping to maintain financial stability.

6. In addition, private house building plays a crucial role in providing access to home ownership. The fall in home ownership, especially the steep reduction in ownership among younger people, can only be reversed if we ensure a much better long-term balance between housing demand and supply.

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Demand

Home Ownership

7. England faces a chicken and egg problem with housing supply:
    - A serious undersupply over the last 25+ years means house prices are very high in relation to incomes, so that many unassisted first-time buyers are unable to get a foot on the ladder and many existing home owners cannot afford to trade up to a more suitable home;
    - The affordability crisis has been aggravated since the credit crunch in 2008 because the limited availability of high LTV mortgages has meant buyers have had to fund sizeable deposits (20-25% without the aid of schemes such as Help to Buy);
    - The only long-term solution to high house prices is a much better balance between housing supply and demand/need, which means a sustained period of much higher levels of private home building;
    - But because private home building is sales led – i.e. house builders can only build if they have funded customers – the unaffordability of housing constrains the supply response, and so will make solving the undersupply crisis a very long, slow process without Government intervention.

8. Schemes such as Help to Buy Equity Loan and Starter Homes are critically important to solving the affordability and undersupply crises more quickly: they allow buyers to buy with a small deposit (usually 5%); they make house purchase much more affordable by keeping mortgages down to around 75% of the purchase/market price, and, crucially, they are targeted at new home purchase, and so accelerate the speed with which the industry can boost supply and bring supply and demand back into better balance and eventually solve the underlying crisis in affordability.

Help to Buy Equity Loan (HtB1)

9. HtB1 continues to boost private house building. Among the larger house builders it accounts for around 35-40% of reservations. The extension to 2020 has allowed home builders to project faster sales rates, and thus build-out rates, into land appraisals, and it has meant companies have been able to plan for faster growth and higher levels of sales.

10. In terms of additionality, while only a proportion of total HtB1 sales will be genuinely additional – i.e. no new home sale or production would have taken place if HtB1 had not existed – the scheme adds to new home building in a number of ways, all of which are difficult to quantify:
    - Additional new home sales and production where no home sale would otherwise have taken place;
    - Sales of new homes where the buyer would otherwise have bought a second-hand home (so “additional” in terms of new build);
    - Faster sales, along with the extension to 2020, have meant that land purchase viability assessments can build in the sales boost provided by

HtB1 until 2020, which has boosted confidence in forward land buying and supported more ambitious company growth plans;
- This in turn has enabled the industry as a whole to expand capacity more quickly than would otherwise have been possible.

11. Because land purchase and housing development is subject to such long leads and lags, to avoid a post-HtB1 hard landing in 2021 we will need to begin talking to Government about the run-up to 2020, and the situation post-2020, long before 2020.

Starter Homes

12. HBF has formed a multi-disciplinary expert working group to examine Starter Homes. HBF is represented on DCLG's Technical Working Group. We have also had discussions with officials from across Government.

13. Because our ideas are still evolving, we do not yet have a firm set of proposals. However the industry is keen to make the scheme work and we will continue to work closely with officials to this end. Our objectives are a scheme that works efficiently and effectively, and that allows the industry to increase supply without damaging current sales and production.

14. The scheme does not have any direct implications for public spending.

Help to Buy Mortgage Guarantee (HtB2)

15. To avoid disruption to the housing market, HtB2 should only be withdrawn if the Treasury is confident high loan-to-value mortgages (especially 95%) will be provided by the market without Government support. The Mortgage Guarantee scheme has brought modest direct benefits to home building in terms of new home buyers, but it has also helped indirectly by making it easier for housing chains to be formed below new home buyers.

Rental Tenures

Affordable Housing

16. House builders' main involvement in Affordable Housing is via planning obligations, secured through S106 agreements. Most of these units are nil-grant, with the subsidy funded by reductions in the land value.

17. A number of Government policies have created considerable uncertainty about the future of Affordable Housing.

18. The social rent cuts required for the four years 2016-17 to 2019-20 are likely to mean that housing associations will pay less to house builders for the Affordable Housing units under planning obligations (S106 agreements). HBF is currently carrying out a survey of members to ascertain the impact of the social rent cuts, via housing association behaviour, on private house building. We will be reporting the results of the survey to Government within the next few weeks.

19. The Starter Homes initiative would appear to have major implications for Affordable Housing, taken alongside the Government's focus on home ownership and on low-cost-home ownership products for Affordable Housing. For exception sites, there will be an exemption from Affordable Housing. However, following the extension of the initiative to all reasonably sized sites, it is not clear whether Starter Homes will be required in addition to Affordable Housing, or whether Starter Homes will become part of Affordable Housing (which would require a change in the definition of Affordable Housing). If the latter, will Starter Homes become an additional tenure option alongside social rent, affordable rent, shared ownership, discounted market sale and shared ownership? Or will Starter Homes largely replace rented Affordable Housing tenures, and if so, will it sit alongside other low-cost home ownership tenures, like shared ownership, or will it become the dominant Affordable Housing tenure? It is also unclear how, and by whom, the proportion of Starter Homes on any reasonably sized site will be determined.

20. HBF has long argued that a more flexible approach to Affordable Housing, especially a change to the definition to remove the in-perpetuity principle, would open up opportunities for private Affordable Housing supply – primarily low-cost home ownership products - and increase numbers compared with those achievable from social or affordable rent which require a heavy land-value subsidy per unit.

21. However if the definition is changed to include Starter Homes, and if Starter Homes become the dominant tenure within Affordable Housing requirements, the Government will need to ensure local authorities adopt this new approach. Many will continue to seek high levels of social and/or affordable rent from planning obligations agreements, and some will no doubt be opposed to the use of Starter Homes.

22. We understand that significant institutional funds could be available for Affordable Housing supply following removal of the in-perpetuity restriction. While house builders will be able to provide Starter Homes using their own resources, if the definition of Affordable Housing is changed we will need to look more closely at the financial and tenure requirements of institutional investors to see whether other low-cost home ownership tenure options – alongside Starter Homes - could be introduced within Affordable Housing obligations.

Private Rented Sector (PRS)

23. Most home builders will not become direct investors. The cost of capital for a developer is too high, and the returns from PRS housing too low; house builders are experts at developing, not managing housing; and by locking up capital in long-term PRS investments they would reduce housing development, the opposite of what we want to achieve. To date, most PRS investment in new build has been through sales of newly built units to small-scale buy-to-let investors.

24. It is very difficult for private house builders, buying land competitively in the open market, to make supply for institutional investors in the private rented sector (PRS) work financially. The problem is generating (a) a residual land value that is competitive with the development value generated by the development of a site for market housing, (b) an adequate developer's margin, and (c) an adequate institutional yield.

25. Some house builders have taken advantage of the Government's Build to Rent fund and the PRS guarantee scheme. It is early days, and it seems fair to say the provision of newly built PRS housing is still at an experimental stage. However it does seem clear that there is no single, easily-adoptable model for building private rented housing for long-term institutional investors. It is also apparent that many of the schemes that have been built have been made financially viable via some special measure, such as having no Affordable Housing requirement or the landowner has invested the land as a joint-venture partner in the scheme, rather than selling the land at the outset for a residential market value.

26. However there may be opportunities for institutional investment in the PRS where house builders bring forward a later phase of a large site or in large regeneration schemes.

27. Local planning authorities could help increase opportunities for new PRS housing by taking a more pro-active and supportive approach to supply for the PRS. However we do not support a special PRS planning use class. Rather, local authorities should look at the planning and financial requirements of PRS schemes to assess whether they may require, for example, an exemption from Affordable Housing requirements to be viable.

Supply

Industry skills

28. Skills shortages are currently the biggest constraint on increasing home building. They apply across the development process, from site trades and management, through professional occupations to commercial management roles. This is an obstacle the industry must primarily seek to overcome itself and a great deal of work is already going on. However the Government does also have a role.

29. The construction industry has had a statutory training levy for over 50 years, with responsibility for administering the use of these funds vested with the Construction Industry Training Board (CITB). House builders have expressed a great deal of dissatisfaction with CITB's performance over many years. The CITB should operate to serve the needs of the industry, yet too often it is insensitive to the needs and operational requirements of private sector companies. There is dissatisfaction with the red-tape, complexity and unnecessary restrictions CITB imposes on its spending.

30. We understand the house building industry pays around £20m per year to the CITB, but it appears to receive back only a proportion of these funds (thought to be around 45%, which we understand is considerably less than the average recovery of CITB levy across the construction sector as a whole).

31. We believe Treasury could play an important role in persuading and encouraging the CITB rapidly to improve its efforts in relation to home building. To achieve the increase in new home building the Government wants to see, the industry urgently needs to improve the availability of skills, and it seems only right that its £20m annual levy contribution to CITB is used to maximum effect.

32. Assuming the construction industry levy remains in place and CITB continues to administer these funds, in our letter to the Chief Secretary we suggested the following early measures:

    - CITB identify the annual value of the levy from home building;
    - A CITB commitment to ensuring this money is fully spent, after deduction of a fair proportion for CITB costs, to fund training across all home building skills;
    - The use of this money should be primarily driven by the private sector and the needs of private sector companies, subject to overall scrutiny by CITB;
    - The CITB's whole approach needs to change from what is essentially a public-sector, systems-focused, bureaucratic mentality to one in which it is totally focused on the actual needs of private sector companies;
    - CITB should start by using money already raised from home builders to fund an urgent study of existing training and educational provision for house building (within the industry, FE colleges, universities, professional qualifications, NHBC, etc), across all house building skills, the suitability of all existing provision, and identify areas needing improvement and gaps in provision.

33. There is a valuable parallel with the Homes and Communities Agency (HCA) which is focused on delivery and has worked closely with HBF and house builders over the last seven years to ensure the programmes it oversees operate as successfully as possible. The same approach should characterise the CITB's management of the industry's levy funds. In fact there is an even more pressing case for such an approach. The HCA is charged with administering a Government scheme. The CITB is in effect managing the industry's own money.

34. With the introduction of the Government's proposed apprenticeship levy, we must avoid having two separate levies imposed on the construction industry, including home building.

35. In offering the suggestions above, we have assumed the statutory construction industry training levy will remain in place and the funds will continue to be administered by the CITB, but the current consultation on the apprenticeship levy does pose the question as to whether that need be the case. The alternative could be to abolish the CITB and its levy and employ the funding that is currently generated by its statutory levy in some new way that is directly informed and moulded by the industry, perhaps complementary to the proposed apprenticeship levy. However this would require primary legislation, it would almost certainly require putting in place a new infrastructure to administer the funds, and it would inevitably take time, whereas the industry needs action now. While we are willing to consider this very radical solution, it should be explored alongside seeing how the CITB's current highly unsatisfactory approach can be radically reformed.

36. We are also looking beyond the work of the CITB in order to plan and provide for future industry skills and training requirements.

37. In particular, we are developing a proposal for an industry-led Homebuilding Sector Strategic Partnership (HSSP) for skills and training. The aim of this would be to encourage and drive collaborative action over the next few years to meet future skills requirements and, through partnership, maximise the investment of industry, CITB, UK Government and European schemes in recruiting, training, developing and retaining a qualified home building workforce.

38. We are very clear a HSSP should be led by senior industry figures, but critical to its success will be the commitment of CITB, Government departments and relevant public agencies to proactively working with the industry to put in place and co-fund, as appropriate, specific schemes and initiatives to meet identified skills and training needs for the future. We would therefore seek the Government's support for our proposed Strategic Partnership and an early indication of its willingness to work with us in developing and implementing initiatives through this.

Local authority planning and legal resources

39. Discussions with house builders, and a recent Knight Frank survey[1] of the industry, show that lack of local authority planning and legal resources is probably the second-most serious constraint on private house building, after industry skills. There appear to be general shortages of planners and legal staff, as well as shortages of particular skills. Because local planning authorities have a statutory monopoly to grant planning permission, house builders have no option but to deal with local authorities, however good or bad their planning service.

[1] "The biggest policy change that would help boost development volumes would be recruiting more people to Local Authority planning departments, according to respondents." (Knight Frank. *Gaining Ground. Housebuilding Report 2015*)

40. Analysis by the National Audit Office (NAO)[2] and Institute for Fiscal Studies (IFS)[3] has shown that within local government spending cuts, planning and development spending has suffered the worst cuts. However it is worth noting that house builders' dissatisfaction with the service offered by local planning departments long pre-dates the credit crunch and public spending cuts. So, as we note below, poor service is not just a question of money, though cuts since 2008, and further cuts expected over the next four years, have aggravated an already serious situation.

41. We appreciate the government is not sympathetic to local authority complaints about spending cuts and their impact on local planning department resources. In his *Sunday Times* interview (16th August), Housing and Planning Minister, Brandon Lewis, is reported to have said:

> "I've got no sympathy with local councils whingeing about this." Good planning fuels job growth and housing, he adds. "If a council is focused on its community, it should see planning as its most important part. They should be investing in it."

42. This may well be true. However it does not help house builders in their day-to-day dealings with under-resourced planning and legal departments, and house builders, on their own, cannot resolve this problem.

43. We believe there should be two approaches to solving the problem.

44. Local planning processes should be made simpler, more streamlined and more efficient, without any detriment to the democratic decision-making requirements of planning, thereby allowing existing scarce resources to go further. Our own proposals (July 2014) for reforms to the end-to-end planning application process would, we believe, significantly improve efficiency and reduce some of the workload on planning and legal departments; in addition, Government proposals in the *Productivity Plan* to simplify and streamline the local plan preparation process should further reduce the workload of local planning staff. In our August paper, *Increasing private housing supply*, we listed a number of measures to improve the situation:

> Incentivising local authorities through service-related financial carrots and sticks; simplifying and streamlining the end-to-end application process; simplifying local plans; outsourcing; boosting the status of planners; better

[2] The National Audit Office (*Local Government New Burdens*. June 2015) concluded that planning and development spending had suffered significant cuts within local government spending.

[3] According to the Institute for Fiscal Studies (IFS), from 2009-10 to 2014-15 "some of the [local authority] service areas that saw the largest cuts to net spending were planning and development (which was cut to less than half its original level)". (IFS Press Release. *Sharpest cuts to local government spending in poorer areas; some areas likely to lose most in next few years.* 6 March 2015).

training for local councillors; improved leadership and culture; establishing central trouble-shooting teams to assist local authorities with exceptionally large and/or difficult applications.

45. However even with these reforms there are still likely to be staff and skills shortages, and HBF and other key stakeholders (e.g. LGA, RTPI, POS, etc) cannot solve this very difficult issue individually, nor indeed collectively. Because achievement of a Government policy priority – boosting housing supply - is being held back by lack of local authority resources, we would urge the Government to convene an expert working group to devise effective solutions and seek the support of key stakeholders, especially local authorities, in introducing effective solutions.

46. One solution that is often proposed is “higher planning fees”, including allowing local planning authorities to set their own fee levels. We are strongly opposed to this proposal. Payment of a fee means an applicant should expect a good level of service for the money. Therefore higher fees could only be justified if inextricably linked to higher levels of service provision, with proper measurement and monitoring of service levels, including benchmarking across local authorities, and penalties for poor service.

47. Fees have increased over many years, yet we have seen no improvement in service levels - indeed, house builders would argue quite the opposite. Because planning fees are not ring fenced, there is at present no guarantee higher fee income would be used to fund increased planning resources. When house builders pay an additional fee, for example to facilitate processing of an application for a large, complex site, this additional money often does not go towards the acquisition of *additional* planning resources. Instead existing staff re allocated to the large project, thereby further reducing the resources available to service other applications.

48. Local fee setting is definitely not the answer, even if it is capped to “full cost recovery”. This would allow local authorities to recover their planning costs however inefficient and inadequate their planning and related legal services.

49. Previous examinations of locally set fees have sought to “reward” those authorities performing well to set their own fees, yet they are the very local planning authorities who are already providing a good service under the existing fee regime. Similarly, previous suggestions for local fee setting have relied on monitoring over the previous year to inform fees set for the coming year. This is inherently unfair as the beneficiary of lower fees would not be those who had received the poor service. We believe that a more progressive fee mechanism, taking account of the whole development process before, during and after the application stage of a development, with stage payments based on performance, would be more responsive and would encourage positive planning at all stages and on all sides of the development process..

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Planning reform and land supply

50. In July 2014 HBF put forward a number of reform proposals for the end-to-end planning application process. We believe these reforms would help alleviate local authority planning and legal resource constraints, open up opportunities for SME house builders and boost private housing supply more generally.

51. In *Increasing private housing supply: HBF policy recommendations* (August 2015) we put forward proposals for revisions to the National Planning Policy Framework (NPPF) and strategic planning to increase the supply of permissioned land, open up more opportunities for SME house builders, and therefore help house builders boost housing supply. We very much welcome the proposals set out in the *Productivity Plan*.

52. However we were particularly worried by the recent court judgement on the exemption from Affordable Housing for sites of 10 or fewer units and the loss of the vacant building credit against other affordable housing contributions. Not only are the direct implications of this judgment a concern for the industry (and particularly SMEs and specialist developers focussed mainly on development of small sites), but it seemed to question the Government's ability to require local planning authorities to introduce new central Government policy initiatives, such as Starter Homes. We hope this uncertainty can be resolved as soon as possible.

Infrastructure funding and provision

(For more detail, see the HBF background paper, *Community Infrastructure Levy: the future,* August 2015)

53. At present, most necessary on-site infrastructure is provided by the developer, while contributions via S106 agreements provide funding for Affordable Housing and have, until recently, provided contributions towards off-site mitigation. The Community Infrastructure Levy (CIL) was introduced to replace S106 agreements to fund off-site and strategic infrastructure. However, as implemented, the CIL has achieved too few of its objectives and we now have a highly unsatisfactory combination of an unsatisfactory CIL, S106 agreements and several special infrastructure funds. In addition, forward funding of infrastructure for large and/or difficult sites has never been satisfactorily resolved, with funds available from one of several Government schemes which have fixed bidding dates and set criteria which tend to make them incompatible with the operational needs of private sector developers. There have also been cases where a local authority has taken responsibility for providing infrastructure, but has been unable to bid directly for funds from a Government scheme.

54. There must be a thorough, early review of the Community Infrastructure Levy (CIL), the remaining S106 agreements and infrastructure funding, including a full assessment of CIL's operation, fitness for purpose, impact on output, how levy receipts are spent and how and when infrastructure is provided. In addition, the unintended consequences of the April 2015 deadline for introducing local authority

CIL charging schedules warrant urgent priority attention. Our background paper puts forward some possible solutions, but a wider debate is needed.

55. There should be a single, central, flexible central government infrastructure funding source, perhaps administered by the HCA and involving LEPs, with no fixed bidding dates and flexible criteria which fit with the operational needs of the private sector, and therefore achieve the fund’s full potential to boost supply. Where a public-sector body has responsibility for infrastructure provision, it may be appropriate for it to be able to bid for funds.

Permitted development: change of use from office to residential

56. One issue that is currently a concern to house builder SMEs is the permitted development right to convert redundant offices to residential use. This prior-approval process was granted on a time-limited basis until May 2016. However, given that the building work must be completed, rather than merely started, before that deadline the scheme has, effectively, already ended since developers are worried that they will not be able to implement the new use prior to the cut-off date, meaning they would not be able to complete the project.

57. Despite an assurance by the Minster that an announcement would be made clarifying the long-term approach to this potentially important source of additional dwellings, no such announcement has been made. This has created great uncertainty within the industry and has stopped many SMEs making investment decisions to bring forward such developments. A clear position on this issue is, therefore, essential.

Regulatory burdens on house builders

58. We welcome the Government’s renewed commitment in the *Productivity Plan* to tackling the regulatory burdens that impede housing delivery.

59. Initial discussions have recently been held with officials, HBF and industry practitioners to identify burdens that have not otherwise been tackled which are adversely affecting house builders’ ability to build more – either because of resultant time delays, additional costs or both. We understand that the results of the current discussions and evidence gathering will be reported to the Housing Implementation Taskforce with a view to developing an action programme for scrapping or reducing unnecessary and unjustified burdens identified.

60. We fully support this process and would encourage the Government to maintain a clear and strong focus on tackling any regulatory issues that are undermining housing delivery.

Public asset disposals: public land

61. The 2008 OFT study of the housebuilding industry concluded that between a quarter and third of potential residential land is controlled by the public sector. Therefore the release of surplus public-sector land should offer a significant source of land for the industry.

62. HBF and its members worked closely with the HCA earlier this year to feed practical ideas and experience into the HCA's review of its disposal processes. We very much hope the revised approach that emerged out of this review, along with the HCA's new responsibility for disposing of all central government departmental land (except MOD sites), will lead to a greater flow of public land onto the market, using processes that are speedier and less complex and costly for the industry. Now that the NPPF has brought an increase in the supply of residential land, public sector sites must compete with private sector sites. The more complex and costly the disposal process, the less competitive public-sector sites will be against private-sector land sales, and the lower the capital receipts for the public sector.

63. 'Buy now pay later' disposals could be particularly valuable in boosting supply and would especially encourage SMEs to be more involved in public-sector land development.

64. Also, joint ventures with public-sector land owners, by reducing the upfront capital requirements and changing the return on capital calculation, could allow companies to expand supply beyond what they would be prepared to consider under the normal business model in which land is acquired upfront.

65. Disposals of small sites suitable for SMEs need to be as straight forward as possible and avoid excessive bidding complexity and costs.

66. Direct commissioning should add to what the private sector can do, not duplicate. The current pilot at Northstowe must be based on realistic parameters (e.g. land value, profit margin, sales values) and lessons from the current York University study and the Northstowe pilot should be made available to the private sector.

Public asset disposals: HomeBuy Direct (HBD) and FirstBuy loan books

67. The Government and many house builders hold a sizeable second-charge loan book from the two schemes.

68. Given the emphasis on disposing of public-sector asset sales, with record sales expected this financial year, we would be interested to know whether the Treasury would wish to explore opportunities for the disposal of its HBD and FirstBuy loan books together with the loan books of house builders. Some house builders have already disposed of their second-charge back books, but many still hold them.

69. Given the scale of the combined book, this could be attractive to an external investor. We appreciate this would mean a lower value than might be achieved through redemptions over the full life of the two schemes. However an early sale could either release funds to reduce public sector debt, or the money could be recycled into new low-cost home ownership products.

70. We are particularly concerned about one aspect of the design of both schemes which acts as a disincentive to house builders to seek early redemption by borrowers.

71. The scheme requires any redemption to be on an equal basis for the two second-charge loans. We also understand the Government requires the full value of the loan at redemption. No discount can be provided for early redemption.

72. A house builder seeking to encourage a borrower to redeem early, for example by re-mortgaging, may offer a discount on the current value as an incentive. So in the case of a borrower with a second-charge loan currently valued at £30,000 (shared £15,000/£15,000 between the house builder and Government), the house builder may be prepared to allow its £15,000 loan to be redeemed for, say, £12,000. To make the offer attractive, a comparable discount on the Government's loan is likely to be required.

73. However because the two loans must be redeemed equally, and because the Government will not allow a discount on its loan, the house builder has two options. Either he can offer a comparable discount on both loans and then effectively fund both discounts (i.e. in effect top up the discount on the Government's loan so that the Government gets the full value). So in practice the house builder only gets £9,000 for its £15,000 loan, while the Government gets £15,000. As might be expected, this is a disincentive to the house builder to offer any discount to a borrower for early redemption.

74. Or the builder can split the discount – in this case £1,500 for each loan - and again effectively funds both discounts, but this time to a total value of £3,000. However, this smaller discount may not be sufficient to persuade the borrower to redeem early.

75. The easiest solution would be for the Government and house builder to offer a prior-agreed equal discount on each loan. However we would be happy to discuss alternative solutions.

Development finance

76. The availability of development finance for smaller house builders has eased since 2008. In our most recent survey of house builders (June 2015), 8% of all respondents (and a quarter of smaller house builders) regarded the availability of development finance as a "major constraint" on supply. In the fourth quarter of 2008, by contrast, 57% of respondents regarded development finance as a major constraint.

77. Among our end-to-end planning reform proposals, re-introducing redline permissions and only having to establish the principle of development once would significantly benefit SME house builders. It would give them certainty that a site would receive detailed planning for residential development, which in turn would allow them to secure development finance and give them sufficient certainty to spend the considerable amount of money required to submit a full planning application.

78. The recently announced Housing Growth Partnership, a joint Lloyds/HCA equity scheme, is welcome. We are also pleased that the Builders Finance Fund (BFF) has been reformulated to make it more flexible, and therefore more responsive, to the needs of SMEs. However a limitation of these initiatives is that they will usually only apply to existing companies with a track record. In order to encourage new start-ups, and so reverse the continuing decline in SME house builders, we need either the BFF to be modified, or a new scheme to be devised.

Devolution/decentralisation

79. Devolution within England should lead to increased housing supply where a combined authority is committed to boosting economic growth and recognises the link between growth and housing supply. Combined authorities should also overcome some of the current limitations of the duty to cooperate. Therefore devolution is to be welcomed.

80. However we do have concerns about how robustly devolved authorities will assess local barriers to housing delivery, and with the potential for fragmentation and variable performance with programmes such as funding for SMEs or public land disposal.

81. Proposals to establish combined authorities should be required to demonstrate that current barriers to housing supply in the area have been thoroughly assessed and prioritised, so that funds devolved from central Government, and the combined authority's efforts to boost supply, are employed to maximum effect. For example, allocating funds to a devolved authority for a particular purpose, simply because funds are available, is not the best route to overcoming the barriers to housing delivery.

82. We are also concerned that fragmentation and variable performance could increase development costs and slow down housing delivery. Recent streamlining of the HCA's public land disposal processes and the requirements of the Builders Finance Fund will help improve take-up and so add to housing supply. The danger from devolution is that each combined authority will seek to establish its own procedures, so that in time house builders could be faced with a multitude of different qualifying criteria for BFF-type schemes or public land disposal processes and requirements, adding to costs and reducing the success of such initiatives. The proliferation of local authority building performance standards during the 2000s graphically illustrated these dangers.

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