Submission

Spring Budget 2017
HBF Budget Representations

The Home Builders Federation is the representative body for home builders in England and Wales. HBF's membership of more than 300 companies builds most of the market sale homes completed in England and Wales, and encompasses private developers and Registered Providers. The majority of private home builder members of the HBF are small or medium-sized companies.

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Home Builders Federation
HBF House, 27 Broadwall, London SE1 9PL
Tel: 0207 960 1600
Email: info@hbf.co.uk Website: www.hbf.co.uk Twitter: @HomeBuildersFed

Background

Progress to date

The Government should look proudly on its achievements in boosting supply over recent years. Measures to increase housing delivery have yielded significant success. Notably:

- Reform of the planning system via the NPPF to bring about a major increase in the number of plots granted planning permission
- Introducing the Help to Buy Equity Loan scheme which has outperformed any similar past initiative, created unprecedented additionality, led to a direct increase in supply and allowed tens of thousands of people to buy their first home
- Granting of permitted development rights for certain office to residential conversions, boosting overall supply in the last two years

The industry has responded positively to these and other measures. In 2015/16, annual housing supply surpassed 200,000 homes for the first time since before the financial crisis. Allowing for demolitions, **annual net supply was 189,650 homes in the year to March 2016,** of which 163,940 were new build completions. Furthermore, the trend towards building family homes means that the scale of the increase is even more impressive. Therefore, whilst the number of housing units built in 2006/7 was greater than in 2015/16, last year saw more *houses* built than in any of the last 10 years, resulting in more space and more bedrooms being built by house builders – an estimated 478,000 bedrooms in 2015/16.

More up-to-date measures of house building activity, including the number of Energy Performance Certificates issued for new build homes, indicates further expansion in the sector during the current year with strong numbers posted for the second and third quarters of 2016, i.e. the first half of 2016/17.

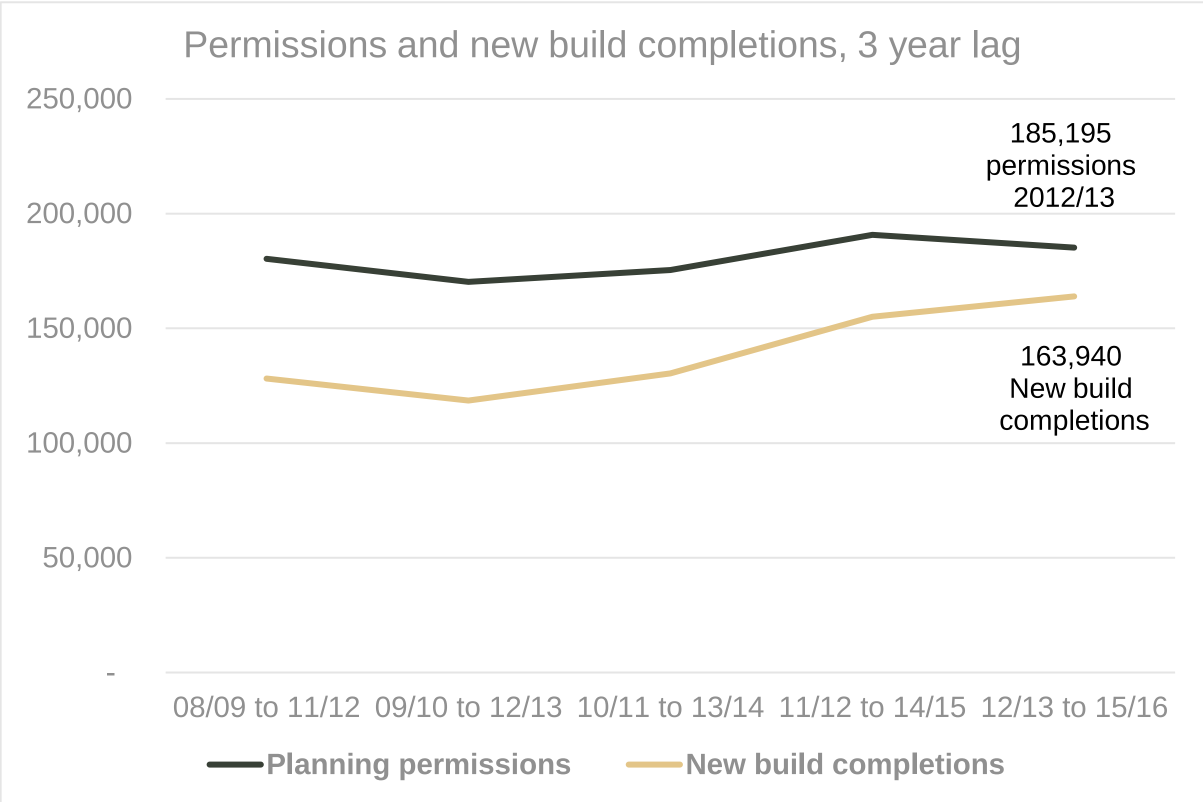
We must now maintain and build on this growth. Only through sustained levels of house building at this and higher levels will this delivery begin to have a positive impact on long-run housing affordability.

Indicators of future supply

Encouraged by an improved planning framework, and a stronger housing market supported by the hugely successful Help to Buy Equity Loan scheme allied to the general availability of mortgages, house builders have increased investment in the land and labour required to build new homes. The result of the EU referendum in June 2016 had a brief impact on new home sales and, as a result, a very limited impact on investment decisions over a brief period. This has now readjusted with most companies continuing to plan for growth. Based on the stated growth plans of the largest companies, and assuming some degree of expansion from the rest of the industry, we would expect to see continued increases in housing supply during the rest of this decade subject to policy and economic stability.

The HBF's Housing Pipeline report, published in January 2017, recorded 289,000 homes were granted planning permission in the year to September 2016, the most in a 12 month period since the reporting began in 2006. However, these permissions are by no means all implementable. Most will have many pre-commencement planning conditions attached, further slowing down the process of turning these permissions into homes. In addition, the increasing propensity of local planning authorities to allocate very large sites for housing in local plans means that the average permissioned site size has increased significantly in recent years, with many schemes, therefore, requiring substantial upfront investment in time and resources to reach a point at which house building can commence. These factors have contributed to increase in the time taken to generate completions from planning permissions. Allowing for a three-year lag (probably conservative), the number of new build completions completed in 2015/16 broadly mirrors the number of permissions granted in 2012/13.

It should be noted that in some regions the role of EU workers in building new homes is significant. Priority should therefore be given to establish a process through which these skills are still accessible to the industry following the UK's withdrawal from the EU. Crucially, because of the dynamism of the workforce, this should extend to future migrants as well those already established in Britain.



Maintaining a housing market that encourages investment in new homes

The future of the Help to Buy Equity Loan scheme

Demand for new build homes has been maintained over recent weeks and months due in no small part to the success of the Help to Buy Equity Loan scheme which continues to support first-time buyers achieve their home ownership aspirations while stimulating investment in land and labour by house builders around the country. To continue and build on these achievements we propose giving early consideration to the future of the scheme as the 2021 end date begins to be factored into house builders' business planning. Early clarification of the scheme's future would help house builders plan their investment for future years. For companies investing in land acquisition, at the mercy of the often arduous planning process, 2021 does not seem a far off horizon. If the Government does not see a long-term future for the scheme beyond 2021, a tapered expiration in the years after 2020/21 would be sensible to avoid a 'cliff-edge' reduction in investment which would inevitably begin prior to 2021.

Stamp Duty

As the number of secondary housing transactions has remained stubbornly low since the recession, the private new build sector, aided by the Help to Buy scheme, has become proportionately more significant in the overall housing market and allowed house building increases to continue even as transactions in the second hand market have increased at a slower rate. However, it is evidently not possible for the new build and secondary market to become inherently disconnected. The three years to 2015/16 saw a 52% increase in the number of new homes provided while the total number of transactions in England increased by 43%. Although still too early to accurately ascertain what the long-term consequences are of the recent suite of Stamp Duty reforms, and noting that the total number of transactions in the 2016 calendar year to November were slightly up on the equivalent period for 2015, this was obfuscated by the extraordinary number of transactions completed in February and March. It remains to be seen where the long-term 'normal' rate of monthly transactions will settle but should it be deemed that the recent changes are supressing the fluidity of the market then HM Treasury should urgently review the SDLT thresholds and surcharges for investors in new private rented sector housing.

Of particular interest are:

- The impact that stagnation in the market at higher price points is having on the rest of the market as a result of fewer housing market chains being formed
- Suppression of investment in new build private rented housing delivery

Another effective way of lubricating the housing market to stimulate additional supply would be to incentivise downsizing, freeing up family sized housing for second steppers. This is discussed in more detail below.

Building homes more quickly

Tackling the proliferation of inappropriate pre-commencement conditions

A recent survey of HBF's members found that many local authorities are imposing conditions which unnecessarily prevent housebuilders from commencing construction on new residential sites. The proliferation in number of pre-commencement conditions as well as the spuriousness of conditions has become a source of frustration for house builders, particularly as the headline rate of outline planning permissions continues to increase. A growing proportion of recent planning permissions are therefore not implementable. This approach from some planning authorities may be related to a lack of resources (discussed below) or simply intransigence, seeking to delay development indirectly.

Conditions that would more appropriately be imposed pre-occupation are instead, as a matter of course in many areas, being issued as pre-commencement conditions. A pre-occupation timeframe provides just as powerful an incentive for the developer to ensure the condition is met before homes can be completed and sold but allows the scheme to proceed more quickly, an outcome which should be in the interests of all parties. Examples provided by HBF member companies include:

- A public art statement including 'a brief explaining how artists are to be involved describing the potential recruitment process' and 'the process for community liaison and engagement' in relation to the art installations
- Intricate details at 1:200 scale showing locations of all play equipment and picnic tables
- Installation of superfast broadband infrastructure potentially months before the homes are to be occupied
- Tree planting
- Exact details of all lighting on the development, including lux levels, siting and design

Other common pre-commencement conditions cited involved approval of all materials prior to construction beginning preventing developers from initiating groundworks, sewerage and foundations until the authority had rubber stamped the roof tiles. Many of these conditions, and the slew of additional requirements highlighted by builders are well-intentioned and entirely understandable but serve no purpose as a *pre-commencement* condition other than gratuitously slowing down the building of new homes. If we are to effectively address the long-term undersupply of housing we must move beyond a position where starting construction of new homes is delayed by wrangling over precise locations of picnic benches, tree planting or plans for engaging local artists. Priority should be given to swift and efficient housing delivery with developers complying with proportionate conditions in a suitable manner.

Addressing the under-resourcing of local planning authorities

Local authorities have suffered enormous cuts in spending power, with planning and development spending suffering proportionally the greatest cuts within their reduced budgets. In addition, local authorities have a local monopoly to grant residential planning permissions, with little incentive to operate an efficient, responsive development management service. The introduction of competition into Building Control in the mid-1980s transformed a previously inefficient and cumbersome local authority service.

According to NLP, between 2009 and 2016 planning departments experienced a 55% real terms reduction in funding, as the impact of cuts fell predominantly on discretionary departments as a means of protecting services such as social care. The lack of suitable sites and the paucity of resources within planning departments to process applications and discharge conditions is a recurring frustration for the small housebuilding companies. To address this cause of delay in the system we propose:

- **Central Government seeks ways to reverse local authority cuts in planning and legal resources** which are causing major delays in the processing of residential applications, particularly from an outline consent to the point at which the permission is implementable**.** Many local authorities do not see the planning process as central to their delivery plans for local prosperity. Setting minimum standards of provision for planning departments (maximum caseloads for officers, mandatory Councillor training, etc) would ensure that planning for future development is prioritised by local authorities at a corporate level.
- **Link planning fees to measurable planning performance benchmarks.** Planning application fees should be directly linked to the Local Planning Authorities (LPAs) performance on each application. This would ensure that each applicant pays only for the service they receive (rather than rewarding future applicants with reduced fees for poor performance on previous applications). Payment of planning fees at various stages of the development process would allow performance to be measured at each stage of decision-making and discharging of conditions etc. 'Full cost recovery', often demanded by local authorities, would reward inefficiency as it would allow authorities to recover any level of costs, however inefficient the service. Serious consideration should be given to ring fencing planning fees and to applying penalties where local authorities take excessive time to register an application.

Increasing capacity in the sector to build more homes

The risk, cost and complexity associated with the planning system has, over the course of a generation, resulted in a stark decline in the number of small and medium-sized house builders producing new homes. SMEs are also disproportionately burdened by regulation imposed by agencies and utilities providers that, perhaps understandably, have no interest in housing supply or housing delivery. Overall, there are 80% fewer SMEs in the industry as compared with prior to the introduction of the plan-led planning system in the early 1990s. Contrary to the arguments put forward by those philosophically opposed to private sector house building, there is no upper limit to what the private sector can provide in the right circumstances, with numbers limited only by the upper limits imposed by Local Plans.

HBF has recently published a wide-ranging and comprehensive report on the barriers to SME expansion in the housebuilding sector. Fundamentally, three broad areas were identified in the extensive discussions with small housebuilders and start-ups who contributed to the analysis and recommendations of the report, *Reversing the Decline of Small Housebuilders*. The three areas of (i) finance, (ii) planning, and (iii) red tape are, in many ways, interrelated and whilst in some cases affect the entire industry, the barriers to entry and growth these present for small and emerging firms can prove insurmountable.

Development finance

Availability and terms of financing for residential development have become extremely challenging for small housebuilding companies over the past decade or so. Lenders have drastically changed their attitudes to the sector since the Global Financial Crisis. Of course, lenders' risk appetite correlates to the risk and uncertainty inherent in the planning process on which all developers are reliant.

Most SMEs building fewer than 100-150 homes per year are now reliant on project finance agreed on a site-by-site basis, in itself inefficient for both lender and borrower, with significant additional fees for entry, exit and legal agreements which turns the headline interest rate of perhaps 6% into something more like 7-8% or higher.

Furthermore, the inability of builders to access any returns on the development until the very end of the building and selling process means that the recycling of equity is extremely challenging for most small developers. This has major consequences for their capacity to grow.

The Home Building Fund, administered by the Homes and Communities Agency is beginning to support some SMEs but these are seemingly at the larger end of the SME spectrum rather than very small firms and start-ups.

In addition to Government influence over lenders to take the sector more seriously, we have proposed a 'Help to Build' guarantee scheme which would allow Government, probably through the HCA, to support even more small builders than is possible through a direct loan to the builder. Indicative modelling of such a scheme conducted for the recent HBF report showed that more gradual input of equity by builders followed by gradual withdrawal (on a stylised 12 month build and sales project returns began in Month 8 rather than Month 10) would allow for nominal Loan to Cost percentages to actually be met, smoother cashflow for the developer and future development sites to be started (and completed) earlier thus having the potential to generate a material increase in the number of new homes available.

Mitigate unintended consequences of Finance Bill 2017

We are concerned about the potential impact that unintended consequences arising from Schedule 13 of the Finance Bill 2017 may have on the ability of small house builders to access development finance.

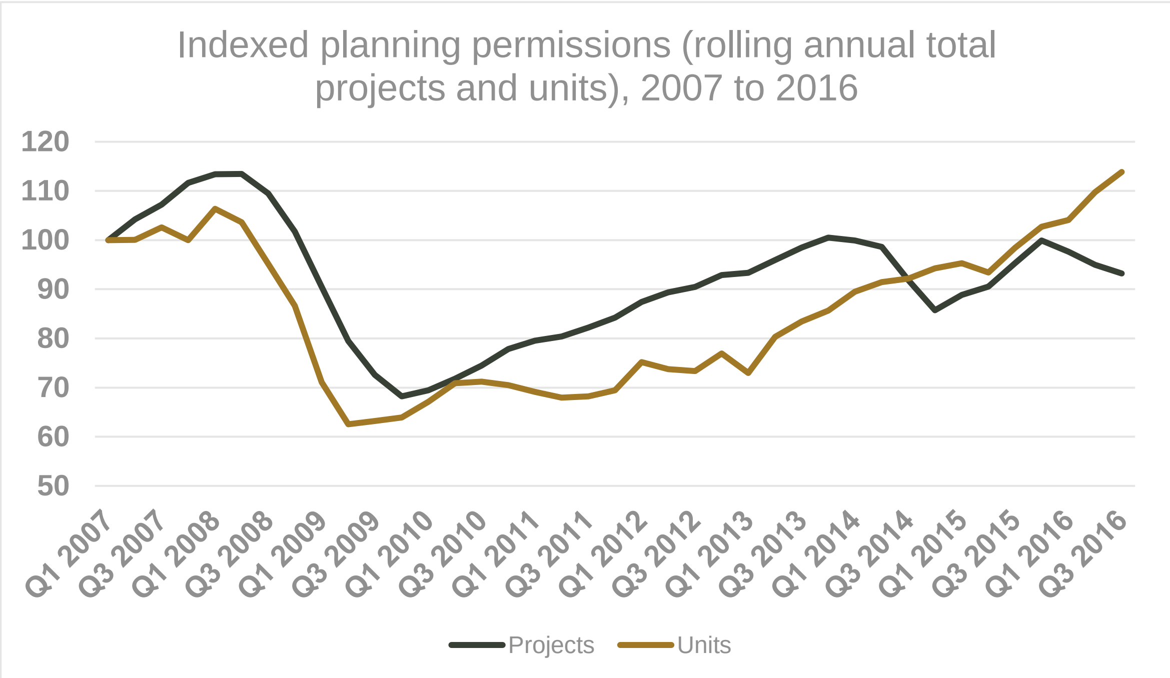
Schedule 13 introduces a new Schedule to the Inheritance Tax Act 1984 which could result in a charge to Inheritance Tax for individuals who own shares in close foreign registered trading companies that undertake residential development in the UK or close foreign companies that simply provide finance to UK residential developers. The likely impact would be to limit the amount of finance available for residential development in the UK, particularly for SMEs without access to capital markets which we do not believe is the Government's intention at a time of severe housing shortages.

Allow small builders to access incentives available to other small businesses

Initiatives such as the Enterprise Investment Scheme (EIS) explicitly preclude SME housebuilders from access to investment incentives. EIS provides individual investors in smaller enterprises with significant capital gains and income tax benefits. With traditional development finance more difficult to obtain and secondary lending only available on expensive terms, private investment could prove to be a useful source of capital to support growth of the SME sector and build more homes. Government should review these specific exclusions for private housebuilding to access these incentives.

A greater mix of sites to help meet local housing requirements

The 289,000 new homes permissioned in the year to September 2016 clearly demonstrate the success of Government policy in encouraging private investment in house building. However, the NPPF, while successful in bringing land forward for many more permissioned homes, has led to a greater number of large sites gaining outline planning permission. Indexed at 2006/07 levels, last year saw 14% more homes permissioned in England compared with the but on 7% fewer sites. Indeed, the number of sites granted planning permission last year was nearly identical to that of the fallow period of 2012. Excluding sites of 1 or 2 units which will often be built by individuals or one-off developers, the average permissioned site has increased in size by more than 20% since 2007.



While this may make political and financial sense to councils, local plans that allocate many sites of differing sizes across the local authority area will generally deliver more homes, at a faster rate. Nominally satisfying five year land supply requirements with one or several very large housing allocations may be successful in ticking a box but it creates additional risks around actual delivery. Whilst large sites are extremely efficient in their delivery in strong market areas, small sites are consistently efficient across all areas. But pressures on local Government finance and the political rationale employed by councils when establishing its five-year land supply mean that a growing number of housing allocations are for very large sites out of the reach of local companies.

Industry skills capacity and the future role of the CITB

Ensuring we have the right industry skills capacity, both in terms of recruiting and retaining sufficient people in the home building workforce and in terms of their skills and knowledge meeting modern requirements, is critical to a sustained increase in good quality housing supply.

HBF and the industry has recognised this through the major initiative it has taken – supported by a substantive initial investment from the Construction Industry Training Board (CITB) - to set up the Home Building Skills Partnership (HBSP). The HBSP is a mechanism for the industry to work fully collaboratively for the first time to attract more good recruits, develop and procure the training it identifies it requires for today's needs and to develop its supply chain skills capacity. The Partnership also represents a significant new development in the way that the home building industry is seeking to work with the CITB – by properly working out its own needs and then seeking CITB's support as an enabler and facilitator where necessary to deliver the desired results.

In order for the HBSP's work to be fully successful we also need Government to help us in two key respects, by ensuring that:

- The skills requirements and standards for home building developed by the HBSP feed through into changes in education and skills provision where government policy is driving change or underpins the existing regime. This will be particularly important currently in relation to the development of Trailblazer Apprenticeship standards and in the development of the construction route for 16 to 18 year old vocational education under the Skills Plan reforms.
- The outcome of the current Government review of the CITB results in arrangements that provide long-term enabling support to the implementation of the HBSP's work and proposals for future skills provision in home building. As part of this, future CITB grant support must also be fully responsive to the skills investment requirements identified by the HBSP.

In both respects, it is of great importance that initiatives the industry wants to take, and its resultant confidence to invest in future recruitment and skills development, are not in any way unintentionally undermined by the outcome of wider public policy developments. We would wish to continue to work with Government to ensure that we achieve the best outcomes possible on industry skills.

Incentives for land remediation

Government should build on existing measures aimed at encouraging development on previously developed sites and consider new incentives. We would propose:

- The introduction of a pre-tax credit for qualifying remediation costs to operate in a similar way to the Research & Development Expenditure Credit (RDEC). The intention would be for the credit to have the same value as the Land Remediation tax relief (equal to 10% (net) of qualifying costs) after the deduction of corporation tax. This would allow the current tax relief benefit to be shown as income and therefore increase the likelihood of the benefit featuring in and influencing the decision to invest. RDEC currently allows large companies to claim a pre-tax credit equal to 11% (8.8% net) of the qualifying R&D spend which is then discharged against Corporation tax liabilities.
- To increase the value of the tax relief from 150% to 175%. This would have the effect of restoring the tax relief to the same level of cash contribution when the tax relief was first introduced when Corporation Tax rates were 30%.

- To bring forward the date used to determine entitlement to Derelict Land Relief from 1998 to 2008. Sites currently have to be unused from 1998 (a date set in 2009) to qualify for the relief and now very few sites qualify meaning it is not having its desired effect.
- To reintroduce tax relief for flood prevention measures. This is a hugely topical issue and would send clear messages to the industry that proper flood prevention or mitigation measures should be incorporated into the development of new homes, also encouraging much needed R&D into mitigation technologies.
- For small sites of fewer than 25 units the relief would be further enhanced to 200% provided the development is completed within 24 months of an implementable planning permission being granted. This would again send a clear message of intent to deliver on the 90% target.

Addressing the housing needs of older people

An increasingly important issue is addressing the housing needs of older people which is often overlooked in housing and planning policy. As noted above, households aged 65 and over will account for 74% of total household growth in England to 2039. Better housing in later life helps maintain independence, keeps people happier and healthier for longer, and out of care, provides much-needed new housing and at the same time frees-up under-occupied homes for use by younger people.

Although millions of older people, often under-occupying large family homes, want to move, the UK has one of the lowest downsizing rates of any developed nation, and one of the main reasons is the high cost of moving. The market has stagnated at the top of the ladder. A stamp duty exemption for those downsizing could be a highly effective incentive in stimulating the entire market, helping tens of thousands of older people move and providing a much-needed stimulus to the wider housing market by freeing up large family homes for those lower down the chain. Around £1.3 trillion is held in housing equity among the over 65s, of which £400 billion is held by those over 65s who want to downsize. In addition to the obvious benefits to the housing market, research has shown that older individuals in housing designed and built for their needs can maintain independent living for longer, have fewer visits to health professionals and return home more quickly after hospital treatment creating significant financial benefits for the NHS and social care providers.

Helping this group move by providing more and better housing would help increase overall housing mobility**.** Knight Frank and Savills have both stated that this part of the market could grow from around 5,500 units a year to 20-30,000 a year. This would also free up billions of pounds of under-occupied housing stock that younger people could move into.

The current planning system creates many obstacles to the delivery of specialist retirement housing and this should be addressed. There are few references in the planning system to demographic change, and neither does the system account for this form of housing's unique nature and viability model, nor proactively encourage it across all tenures.

We would like Government to consider our changing demographics and what this means for the housing market. The following changes would help achieve a marked improvement in the speed and certainty of the delivery of housing for older people, and would be consistent with the Government's identification of specialist elderly accommodation as the only "critical" housing need in the NPPG.

- Strengthen national planning policy via the NPPF and its references to the need to plan for housing for older people. We would also like to see a national strategy published that addresses the housing and care needs of older people and promotes the exciting range of housing options that could be made available to this age group.

- Strengthen the statutory duty on local planning decision makers to accord special attention to the need to plan for housing for older people in their local plans and housing needs assessments.

- Explore financial incentives for older people when moving into more appropriately designed and sized housing