Building homes in a changing business environment:

An assessment of new and forthcoming additional costs of housing delivery

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HOME BUILDERS FEDERATION

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Part 1:
Principles, viability and the current outlook

Purpose of this paper

The post-pandemic world will represent a new era for policy, public finances and our national discourse. For housing supply the impact of this is expected to be significant. Even without the economic and social effects of the pandemic, the home building industry anticipated a period of considerable change through the course of the 2020s and geopolitical issues, along with the aftereffects of a once in a century global pandemic are expected to make this even more challenging. It is expected that the coming years will bring new and stronger headwinds, making housing delivery more challenging and considerably more costly.

An expected period of change ahead

Media and political attitudes to housing supply have shifted in very recent years. After a long battle to raise awareness of the effects low housing supply has had on housing affordability and economic productivity, opposition in principle to new homes being built had receded or was at least disguised. This has been reversed in recent years and following a decade or more of broadly positive approaches to house building from successive governments, current occupiers of relevant offices appear more sceptical of the benefits of more new homes and less focused on improving home ownership outcomes.

Second, the successful Help to Buy scheme which has unlocked considerable effective demand for new homes and afforded developers confidence to invest at record levels since 2013 closes down during the course of 2022. The original scheme which had been in place since 2013 came to a close in early 2021, replaced with a two year, more restrictive initiative with regional price caps that has made the scheme less viable in many parts of Northern England and the Midlands. The transition from the 2013-21 scheme to the 2021-23 iteration has been signalled for some time and no builders can claim to be caught unaware, but the withdrawal of a scheme that has supported a third of a million first-time buyers to purchase a new build home and contributed to the fastest increase in housing delivery ever cannot be ignored.

Thirdly, and the main purpose of this paper, is the influx of new taxes, levies, regulations and policies driven by Government departments and local authorities. Many of these have been signalled in advance, but others are relatively new additions to the policy and market outlook. All will have individual and incremental impacts on the industry and its ability to deliver on Government housing delivery aspirations.

HBF and its members support, in concept, many of the measures due to take effect in the coming months and years. HBF has taken an active role, for instance, in bringing parties together to tackle the practical challenges involved in making Net Zero new homes a reality. However, the cumulative impact of these measures at a time of economic uncertainty is a cause for concern. While the sector may have doubts about the method or speed of implementation or the detail of some of the items, this paper is not intended to present a case against any of the measures being implemented or considered. With this paper our intention is to draw attention to the cumulative impact of measures that are in train or currently being drawn up across Whitehall and beyond, each of which have been proposed by policymakers and have their own sound logic. At present there is little understanding of the interplay between the various items, the cumulative burden that they represent when taken together or the impacts that could be felt as a result, either for the speed and volume of housing supply or for the ongoing investment in public infrastructure and affordable housing.

Background

The past nine years have seen housing supply in England double as home builders responded to positive policy changes aimed at reversing several decades of undersupply with efforts made by policymakers to address the ever-unfolding housing affordability crisis.

The business environment for home builders has been broadly positive for most of the last decade. This is not to say that the situation has been universally positive. Many smaller home building companies have struggled and there is a general recognition that the planning process, on which all developers are reliant, is creaking as developers have pursued more planning permissions. For all builders this uncertainty and the delays that come with a struggling service create challenges, but for small firms the problem can be ruinous. Latterly, too, these problems have been exacerbated by a creeping activism by Government agencies aimed at, or resulting in, development being blocked. For instance, issues caused principally by agricultural practices and inadequate wastewater treatment has led to the delay of more than 100,000 new homes around England and Wales.

In the main, though, the past nine years saw positives outweigh the negatives for home builders. Planning reform in 2012 was successful in beginning to hold to account local planning authorities for the delivery of the housing needs of their communities even if it did come some decades after the theoretical creation of the plan-led, local system of housing delivery. Meanwhile, the hugely successful Help to Buy scheme, launched in 2013 will have seen close to 400,000 households use interest free Government equity loans to purchase new build homes, turning latent demand for housing into 'effective demand' for new homes.

As well as boosting home ownership (84% of purchasers have been First-Time Buyers) and supporting increased housing delivery, Help to Buy is also generating a cash return for taxpayers with the 70,000 redeemed loans to date netting the Exchequer a 9.4% uplift on the initial loan value (£313m total positive return up to March 2021).

The combination of these two interventions with 2012 planning reforms unlocking the supply-side constraints that existed since the early 1990s, supported by Help to Buy with both its clear demand-side benefits reinforced by the knock-on supply-side benefits, has seen net supply outturns reach and surpass the records seen during the 1950s and 1960s.

Key considerations

Home builders are constrained on both sides of the equation. On one hand, regulation, taxes, local policies and materials costs determine the cost of delivery. On the other side, the price homebuyers will pay is governed by the prevailing local market conditions. The residual land valuation of development sites can help to mediate this, securing an investment for the developer while keeping within the framework set by the local market. In general, the flexible components of the equation are therefore the landowner's receipt and planning obligations (affordable housing and Section 106 plus other contributions made by developers). Meanwhile, the 'policy costs' generally emanate from central government and are fixed either locally or, most commonly, nationally.

While some new policy and regulatory costs can often be met from, in turn, adjustments in land values and reduced developer contributions, there will be areas where viability is more constrained where this is simply not possible. In these instances, the outcome will be less investment and fewer new homes being built.

The most recent estimates for developer contributions through planning obligations put the total amount of Section 106 and Community Infrastructure Levy (CIL) payments made by private home builders at £7 billion per year and more than 30,000 affordable homes. As explained below, a conservative estimate puts the average developer contribution per completed private home at around £38,000 with considerable regional variation around that national average.

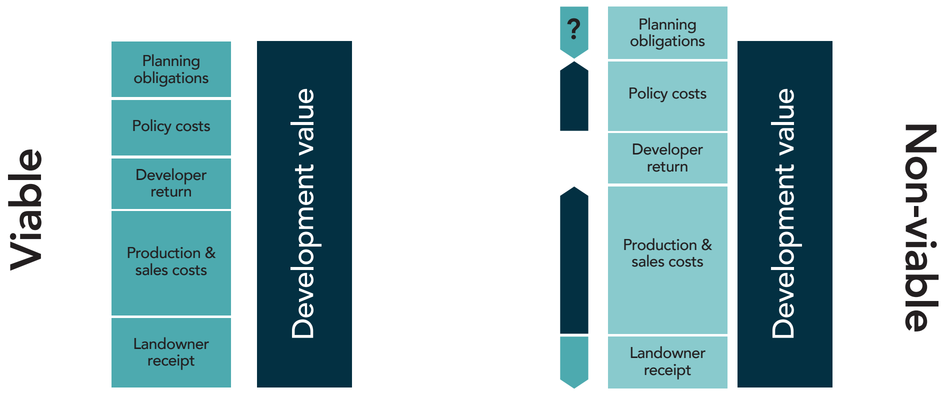
Policymakers and commentators can often be heard to say that additional costs can be passed onto landowners, allowing for greater development costs to be absorbed by private landowners accepting lower receipts for their land. While this is true up to a point, with the raft of additional costs and the changing business environment that we are currently facing into, these assumptions may not hold true for much longer. This could severely affect the amount of land available to home builders and requires attention.

This scene setting presupposes policymakers do not favour land nationalisation or enforced sale of private assets and thus private landowners will have the right to retain their asset until they are offered a price at which they are willing to sell.

The process of valuing sites and determining viability

Securing land for residential development is dependent on the ‘viability’ of a particular site and proposition. This viability is determined by a residual land valuation calculation. The valuation of the land, or its development potential is assessed by calculating the final development value minus total development costs. These costs include those relating to construction, regulation, taxes, marketing, affordable housing contributions, finance, interest as well as a necessary return on investment.

As is discussed later in this document the cumulative impact of the dozen changes to the regulatory and tax environment for home builders specifically amounts to the equivalent of around £22,000 per new home, more than half of the national average developer contribution value per plot seen in recent years. While land values may flex to absorb some of this, the impact will inevitably be seen in fewer resources being available to provide developer contributions, fewer homes built overall or a combination.



Without a sensible return, appetite for investment will be restricted and fewer sites will be completed. Residential development is inherently risky and features many complexities and uncertainties.

In certain markets, house price inflation can absorb some additional costs arising within the overall stack of considerations via an increase in the total development value of a site.

New home prices

Additional costs of housing delivery are not passed onto homebuyers unless driven by the wider local housing market. This is the case even in instances where extra costs create additional value for the homeowner. An example of this can be seen in previous and forthcoming changes to Building Regulations. While changes may result in lower long-term energy costs and come at additional costs to the developer, these are usually not factored into the valuations of property made by mortgage lenders and are not always easy to compare directly to other properties, for instance those that cost much more to heat.

In local housing markets, home builders are 'price takers' rather than 'price makers'. This is not to say that new homes are necessarily priced at exactly the same level as an equivalently sized second-hand property in the area. The two are largely not wholly comparable, but the second-hand market which accounts for 80-90% of sales will set the parameters for asking prices established by builders and for valuers working on behalf of mortgage lenders. What is often described as the 'new build premium' reflects the value of the new fixtures, fittings and appliances, the new home warranty as well as the convenience and saving related to having no maintenance required on the property.

This is how home builders can be seen to be constrained on both sides of the equation. On one hand, inputs are driven by regulation, taxes, local policies (policy costs)and materials costs (production and sales costs), while the output is heavily dictated by local housing market dynamics. The flexible components in the middle are land values (landowner receipts) and, to a degree, developer contributions (planning obligations).

Current outputs of residual land valuation process

Once costs and profits have been accounted for and viability has been determined the residual element will be available for community and economic contributions, primarily through Section 106 (S106) agreements and Community Infrastructure Levy payments. In 2018/19 this process generated:

- 30,224 new affordable home completions, of which:
    - 3,820 were for Social Rent
    - 14,922 were for Affordable Rent or London Affordable Rent
    - 1,070 were for Affordable Home Ownership
    - 9,356 were for Shared Ownership
    - 1,013 were for Intermediate Rent

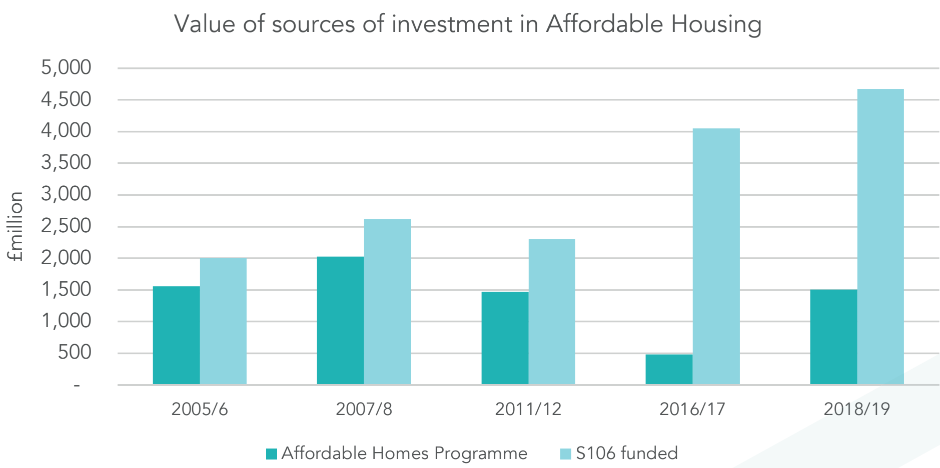
- £7 billion in developer contributions to local planning authorities, of which:
    - £1bn of Community Infrastructure Levy payments
    - £4.7bn in Affordable Housing
    - £1.3bn of other contributions, including:
        - £295m for transport and travel
        - £241m for education
        - £146m for community works
        - £115m for open space and environment

To provide the full context for these figures, during 2018/19, 249,000 new homes were added to the housing stock. From this total we should subtract the affordable homes that don't attract S106 contributions or are actually provided through S106. Therefore, on average, each private new build completion generated £37,500 of developer contribution in 2018/19 via the residual land valuation process. However, it should be noted that the regional average per new build completion varies considerably, likely from around £20,000 per plot in the North East and North West to around £70,000 in London.

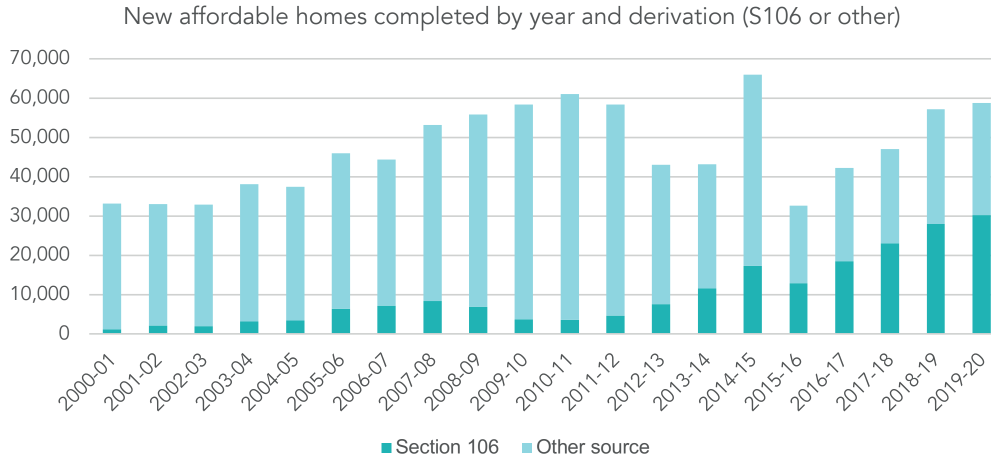
Impact of additional costs

Before considering individual items of additional expenditure that will fall upon private housing developers in the coming years, it is worth considering the impact on infrastructure and affordable housing provision. As noted above, developer contributions via CIL and S106 increased by more than 20% in real terms between 2006 and 2019. If these contributions see adjustments over time to accommodate the increased costs of housing delivery, consideration will need to be given to how this investment is replaced. Historically, this expenditure would have fallen to taxpayers in the days before planning obligations were used to capture land value in support of infrastructure delivery, education and health upgrades and provision of Affordable Housing. On the latter of these, prior to the early 2000s, the vast majority of all new homes for social rent or low cost home ownership were financed directly from the public purse without cross-subsidy from private development. As these cross-subsidies become more challenging to provide, it may be that ministers have an appetite to directly fund these policy objectives once again.

Within the total amounts contributed by developers there has been a significant change in recent years. For instance, within the total envelope of developer contributions in the 2000s, around half of all of the value went towards affordable housing. By 2016/17 and 2018/19, this had risen to more than two-thirds. In recent years, the value of investment in additional Affordable Housing from private sector cross-subsidy has greatly outstripped Exchequer funding for this priority. In 2018/19, for every £1 from the public purse, there was £3 from private cross-subsidy.



This change in emphasis within the Section 106 funding envelope and the shifting priorities of local authorities can be seen in the growth in the proportion of affordable housing that is developed via S106. By 2019/20, 51% of new affordable homes completed in England were delivered through S106 contributions. And, of the 257,000 new Affordable Homes completed in England in the five years up until March 2021, 124,000 were funded through Section 106 agreements between developers and local planning authorities.



This trend is even more pronounced when it comes to Social Rented affordable housing specifically. In every year since 2011/12, private contributions through Section 106 have supported the delivery of between 2,500 and 4,000 new Social Rented homes. During that period other sources of Social Rented home completions have fallen drastically meaning that in the past three years, S106 has accounted for around 60% of all new Social Rented completions.

In light of the burgeoning costs to be borne through new private sector housing delivery in the coming years, consideration needs to be given to from whom, how or where replacement investment in infrastructure and affordable housing can be sourced.

Regions most affected are likely to be in Northern England and the Midlands with significant challenges on brownfield sites in particular. This is expected to present a challenge for the industry in its clearly articulated efforts to support the Government's Levelling Up agenda.

Part 2: Context
New features of the sales market for home builders

Before exploring the new and emerging additional costs of development, the context in which developers will be building and selling homes over the next five to 10 years should be considered. As well as the general uncertainties that abound at any given time in the property and mortgage finance market and the continued pressure on build costs, there are a couple policy changes taking place over the next 12 months that will increase the average cost per transaction for home builders. Rather than a direct impact on input costs, these changes are likely to affect sales rates or increase sales risk.

1) Closure of Help to Buy and new industry-funded mortgage support schemes
Since its inception in 2013, Help to Buy has been the biggest contributing factor to the rapid and unprecedented growth in housing supply seen over the period. Home builders do not benefit directly from Help to Buy but the scheme does support first-time buyers to access mortgages that would be commonly accessible in the second-hand housing market. In this regard, it follows in the tradition of other, similar – albeit less impactful – initiatives such as the HomeBuy Direct, FirstBuy and NewBuy.

The scheme turns latent demand for housing into 'effective demand' for new homes and thus incentivises investment from home builders. This leads to the acquisition of more sites to build on and the additional investment in the home building workforce but can also be evidenced in faster build out rates.

Help to Buy will formally close for completions in early 2023. However, in practice because of the preponderance of off-plan new home sales, this means that from mid-2022, Help to Buy will be an ever-reducing factor in the sales market for home builders. Because of doubts over its administrative capacity, Homes England has also recently introduced a new 'reservation deadline' that will now effectively see the scheme close in October 2022.

It is unclear currently what the overall impact of the closure of Help to Buy will be for the industry and its buyers. Nationally, it is estimated that around one in five new build purchases is currently supported by Help to Buy with the figure rising to around 50% in London where affordability pressures are greatest. Very few high loan-to-value (LTV) mortgages of the type typically relied upon by first-time buyers are available for new build purchases so the sales market will undoubtedly be affected in some way through a combination of fewer sales and slower sales. To improve access to high LTV mortgages for new build homebuyers, HBF and 17 of its members launched the Deposit Unlock scheme in 2021. Deposit Unlock is a home building industry designed and industry funded mortgage indemnity scheme that gives buyers access to 95% LTV mortgages on new homes. However, for buyers, the product will not be as cheap as Help to Buy which is priced typically as a 75% LTV loan. And for builders, too, there is a fee to be paid for each of its buyers that make use of the scheme which will increase the average cost of sale. Deposit Unlock sees participating home builders purchasing an indemnity on behalf of the purchaser and their mortgage lender to insure against any potential loss for the lender. In addition, a participating builder will deposit a cash sum to further insure any lender losses with these funds at risk for up to eight years. For relevant transactions, it is likely that the average upfront cost to home builders will be in the region of £5,000 to £10,000 per sale depending on the sales price of the property, with up to half of that money reimbursed to the relevant builder after around seven years. This will be a direct cost of sale that has not been a common feature of the market since Help to Buy was introduced in 2013.

2) First Homes

The First Homes initiative will primarily be delivered via Section 106 agreements between local planning authorities and developers. In this respect, the introduction of First Homes may appear to offer little by way of significant change in the way builders do business. However, the main practical difference will be that in the sale of First Homes it is expected that home builders will take responsibility for marketing and selling the properties to a local authority approved list of interested households rather than selling in bulk to a Registered Provider of Affordable Housing or any similar organisation. In both marketing and sales administration, this will result in higher costs for home builders on a per transaction basis.

As touched on elsewhere, given the increase in costs of production, sales and policy and regulatory compliance, it is likely that the overall envelope for developer contributions through CIL, Section 106 and the putative Infrastructure Levy will be reduced in the years ahead. This may lead to greater direct public expenditure on local infrastructure and Affordable Housing if ministers are so minded.

Part 3:
Overview of new costs and estimated cumulative impact

We have identified 12 changes to the tax or regulatory environment for home builders that have taken effect since April 2022 or which are planned for implementation during the next three years. All are specific to home building as we have omitted taxes and other additional costs payable by businesses across the board such as the general increase in Corporation Tax.

Unsurprisingly, the Department for Levelling Up, Housing and Communities is responsible for the most additional burdens. In all, we view the origin of these as:

Department	Number of items	Estimated total cost per annum
DLUHC	5	£3.36bn
Defra	4	£640m
HMT	2	£290m
DfT	1	£210m
Total	12	£4.5bn

Part 4:

Breakdown of new costs and estimated cumulative impact

Future Homes Standard

The Future Homes Standard is currently scheduled for introduction in 2025 and, as yet, the precise specification remains unknown. It is likely that Government will consult on a further reduction in emissions of up to 75% in line with the ultimate objective being to achieve Net Zero housing delivery. To comply with the Standard Assessment Procedure (SAP) requirements, it is probable that in order to achieve such changes, electrification will be necessary meaning that gas connections for new homes will cease.

It is probable that such electrification will lean heavily on the introduction of heat pump technology for the heating of new homes as well as larger cavity wall construction. The future costs of connecting new homes to the electricity network remain unknown but are likely to increase. It is expected that, because of the additional drain on the Grid, network providers will likely seek contributions to infrastructure upgrades. Today, a typical domestic load of a new property would range from 3-4Kva. With the introduction of the Future Homes Standard in combination with the expected widespread takeup of electric vehicle charging points, this is expected to increase, perhaps to 15-16Kva per property.

As well as the additional build costs and land requirements that will be necessitated by the Future Homes Standard, it is also worth pointing out that as well as being generally preferred by consumers, installation of gas in new homes can also result in 'gas rebates' for developers of up to £150 per plot which will no longer be a feature of development once gas connections have been eliminated from new build properties later this decade, so as well as the additional cost, there will also be a small potential income opportunity lost on some plots.

Total cost: Up to £1.9bn per year

Energy conservation: Part L of Building Regulations

Building on the Future Homes Standard consultation, the Ministry of Housing, Communities and Local Government also consulted on proposed changes to Part L (Conservation of fuel and power) and Part F (ventilation) of the Building Regulations. Following the consultation process, the Government confirmed that Policy Option 2, which will see a 31% reduction in CO2 from new dwellings compared to the current standards, was its preferred option and was implemented in June 2022.

As set out in the Impact Assessment, the new regulations will have a direct financial impact of £750m for businesses and the burden of the initial capital costs will be borne by developers. The analysis in the IA forecasts that the changes will add £4,850 to the build-cost of a new home in terms of fabric improvements and retaining gas boilers.

While the IA also sets out less costly ways to meet the new standards, such as putting in low carbon heating now, costing exercises undertaken by our members finds that these costs are unsubstantiated and potentially lower than the reality. Our findings suggest that the costs are likely to be 10-15% above Government estimates, with the new regulations actually adding around £5,335 - £5,580 to the cost of a new build home. The IA also omits research into the logistical challenges around low carbon heating including supply chains, skills capacity and consumer perception of low cost heating.

A further cost over and above those listed previously and likely to be felt by housebuilders and developers is the introduction of the heat metering regulation, as set out in a separate consultation by the Department for Business, Energy and Industrial Strategy. These new regulations, which go in line with the new Part L regulations, have the propensity to add an additional £400 - £800 per plot, meaning the total cost per new home for the package of changes to underpin the reformed Part L amount to between £5,700 and £6,400 per new home. Our assessment is therefore that the overall cost of implementing the new Part L changes will be around £1.1bn per year in the short-term.

Total cost: £750m (based on Government estimate)

Future Buildings Standards

Early in 2021, Government consulted on the second part of its proposed changes to two areas of Building Regulations. DLUHC's proposals for a 'Future Buildings Standard' specifically seeks to alter Part L (Conservation of fuel and power) and Part F (ventilation) (see above). The Future Buildings Standard 'builds on the Future Homes Standard consultation by setting out energy and ventilation standards'.

In a multi-faceted consultation covering both domestic and non-domestic buildings, in its consultation on Future Buildings Standards, Government has reconsulted on changes to Fabric Energy Efficiency Standards (FEES). Two options were considered: (i) a 'full FEES' approach, and (ii) 'Full FEES minus 15%'.

Government's Impact Assessment estimated that the costs to industry would be around £100 million per year. As with other items set out in this paper, home builders strongly believe this to be an underestimate of the likely costs that will come from the fabric construction costs and the costs of space and water heating. More specifically, it is likely that the estimates from DLUHC:

- Underestimate specific itemised costs for PV specification
- Fail to factor in gas asset value 'rebates' and probable increases in electricity connection costs
- Make no allowances for Air Source Heat Pump pre-plumber cylinder costs and expensive 'buffer vessels' that ensure a minimum water volume
- Assume major reductions in future Air Source Heat Pump costs. However, although small (around 30,000 per year), the wider market – linked to air conditioning unit costs – is relatively mature so scope for significantly driving down costs may be limited

Estimated total industry cost: At least £100m per year

Biodiversity Net Gain

As announced in the 2019 Spring Statement by then Chancellor Philip Hammond, the Environment Bill will introduce a mandatory requirement for all development in England to demonstrate a 10% increase in biodiversity on or near development sites. Developers have already been encouraged to incorporate biodiversity net gain through the National Planning Policy Framework but there is insufficient evidence to suggest the current approach will deliver net gain at a national level. The mandatory net gain is likely to come into law by 2023.

An Economic Impact Assessment conducted by Defra and published in October 2019, estimated the ongoing annual costs of biodiversity net gain at around £200m per year in 2017 prices (around £220m per year in today's prices).

It is likely that the Impact Assessment published by Defra underestimates costs to developers. It assumes that full mitigation and enhancement to achieve 10% net gain will occur on-site 75% of the time. Meanwhile, on 25% of occasions it is assumed this will not be possible but that the developer is able to secure local compensatory uplifts to achieve the requirements. However, while a cost is assigned, Defra noted that 'this scenario is not modelled explicitly, as this would require making assumptions for what an individual development, which are subject to site specific and spatial variation, might look like'. Using this logic, the Impact Assessment considered the cost per new home across all English regions with central estimates for greenfield development ranging from £467 in London to £1,212 in Yorkshire and Humber, with the national average at £995 per new home (2017 prices) for greenfield development. Blended with the average for brownfield development and assuming that the roughly 50:50 split between these two development types continues, provides a per unit figure of £613 for each new home in 2017 prices and approximately £675 per new home today.

Using spring 2022 inflation calculators and GDP deflators issued by HM Treasury, we can assume that the costs modelled in 2018, using 2017 prices will be more than 16% higher when BNG is fully implemented in 2023. The table below gives an indication, albeit a conservative one, as to what the costs my look like on a regional basis.

	£ per plot (estimated 2023 prices)	
	Greenfield	Brownfield
East	1,185	283
East Midlands	1,177	334
London	544	109
North East	1,349	271
North West	1,324	282
South East	1,104	241
South West	1,162	314
West Midlands	1,168	312
Yorkshire and Humber	1,411	269

It should be recognised that the costs of developing brownfield sites are generally greater and the number of available brownfield sites is limited with often very constrained capacity. In the latest year for which official figures are available (2017-18), 54% of new addresses were on previously developed (brownfield) land.

Estimated total industry cost: £256m per year with considerable regional variation

Electric vehicle charging requirements

To increase the take-up and use of electric vehicles and to support Government's Net Zero ambitions, the Department for Transport has introduced a new requirement to install electric vehicle charging connections with all new homes from June 2022.

The impact assessment conducted by the Department for Transport on electrical vehicle charging in residential dwellings estimated the net cost of installing charge points at required dwellings during construction be £206.2m per year for businesses. However, this impact assessment is likely to have underestimated the costs. Firstly, it assumes the cost of installation at all multi-occupancy developments based on the price of 100-installation units. Many new build developments, particularly those developed by SME builders, will have far fewer than 100 units and will not benefit from the same economy of scale savings that the IA has assumed. We are also yet to see any data to suggest a cost reduction linked to economies of scale.

The cost of infrastructure reinforcement and additional sub stations has also not been considered. These costs can be substantial and can drastically affect the viability of developments. The introduction of electric vehicles along with other increased uses of electricity in the home is already leading to problems with capacity, not only in the grid but inside the dwelling as well. None of these costs appear to have been factored into the consultation. Additionally, as the electric vehicle market is a relatively new one, continual advances in technological solutions are likely to add further costs over the coming years.

The current costs associated with the introduction of new building regulation Approved Document Part S are likely to be approximately £3,500 to £5,000 per dwelling for a 7kw active charging point. This is likely to include the cost of the charge point itself, metering, sub-metering (internal distribution) as well as increases to numbers of substations required on site. Dealt with in isolation these costs are realistic, but combined with the increased loading and demand brought by the Future Homes Standard, it is realistic to assume that these costs are likely to be optimistic.

Estimated total industry cost: £202.6m per year

Residential Property Developer Tax

In February 2021, the Housing Secretary announced that the Government would introduce a Residential Property Developer Tax (RPDT) to raise £2 billion over the course of a decade. The Government has since confirmed that the Corporation Tax surcharge will be levied on developers with profits over £25 million at a rate of four percentage points, meaning that the 30 or so companies that are now paying this industry surcharge will be paying Corporation Tax at a rate of 29% from 2023, an increase of 10 points in just two years.

Receipts are forecast to be £200m in the first year of collection (2022/23), rising to £250m per year by 2026/27. Official estimates see RPDT raise £2bn over 10 years but analysis suggests it is likely to be closer to £3bn, with receipts totalling £300m per year within the first few years.

Estimates vary but it is expected that the tax will be paid by around 30 companies with many others required to undertake additional financial reporting to evidence that they fall outside of the scope of RPDT in any given year. The developers definitely or very likely to be within scope of RPDT are responsible for half of all new private homes built. While the tax is intended to be a temporary measure, in place for ten years, the Government has noted that it will keep it in place if necessary to continue to raise funds for building safety works.

Estimated total industry cost: £250m per year (central estimate)

Building Safety Levy

Between 2019 and 2021, Government made multiple announcements about new taxes to contribute towards the Exchequer's building safety costs. Alongside the RPDT and Building Safety Pledge, the 'Gateway 2 Levy', was being positioned to collect an additional sum from developers of high rise developments which would support the work of the Building Safety Regulator. When the Building Safety Bill was published in summer 2021, this was the intended purpose and scope of the Levy. However, following Government's revisiting of its approach to building safety in early 2022, the Secretary of State has announced proposals for the Building Safety Levy to be a much larger and broader-based tax on the home building industry. It is now expected that when the Levy is consulted on shortly, it will be proposed that all new developments and all new homes are subject to the Building Safety Levy.

Government has estimated that £3bn is the amount required to remediate what it considers to be "orphan buildings" between 11 metres and 18 metres. These are buildings built by foreign developers, companies that no longer exist or much older buildings which have been refurbished using materials that are not compliant with current building regulations. In contrast to the existing RPDT contribution being made from April 2022 (at least £2.5bn) and the commitments made by UK house builders through the Building Safety Pledge (at least £2bn), ministers have been unable to extract any contribution to the remediation efforts from product manufacturers, overseas developers or any other party.

Considerable detail is still yet to be determined, including at what level the Levy will be set, what, if any, exemptions or reduced rates will apply, and when it will be introduced. As with all other additional cost burdens on development, any additional foresight is very useful in helping to spread the cost between developer and landowner.

Government's estimates for the total quantum required have been subjected to very little scrutiny and no impact assessment for this additional £3bn which is expected to be collected over 10 years has been offered to date. It is expected that, based on these assumptions, the average per plot cost associated with the Building Safety Levy will be in the range of £2,000 to £3,000.

Estimated total industry cost: £300m per year

Nitrate and phosphate mitigation

Following a decision made by the Court of Justice of the European Union, Natural England initially wrote to some twenty local planning authorities warning them about the risks to wetland habitats from the release of nutrients (phosphorous and nitrogen) from new development into waterways. Recent action has now brought over 70 local authorities into the scope of the nutrient neutrality requirements.

Local authorities have been advised to refuse planning permission for new residential development unless development proposals can demonstrate that they are able to achieve nutrient neutrality. We estimate that over 100,000 new homes are currently delayed by nutrient related issues.

It is difficult to model the costs per home of providing mitigation. This is because the cost of mitigation depends upon several variables including: a) site-specific circumstances; and b) whether a scheme of mitigation is available (the availability of land for nature-based projects inevitably drives cost. If there are few schemes providing nature-based projects in a sub-catchment area, then the cost of purchasing credits will be higher).

All figures exclude administration and legal fees. Estimated costs for legal and administration is between £2,500-4,500 per transaction.

The recent action taken by Natural England over phosphate mitigation has seen 3,811 homes delayed in South Somerset alone. Using the nutrient load calculator prepared by the Somerset local authorities, which is based on EnTrade's (a commercial subsidiary of Wessex Water) emerging catchment market scheme, the costs for mitigation are set out below. As these costs are based on levels in one local authority, they are likely to vary for other locations because the permit levels at wastewater treatment works (WwTW) are higher meaning more phosphate has to be mitigated. Although these are notional calculations. We consider they provide a reasonable reflection of the potential range of costs:

- Lowest – £ 2,484 per home
- Middle – £ 5,049 per home
- Highest – £15,094 per home
- Average cost per home across all 3,811 homes delayed – £4,610.

These costs are based upon an estimate of cost of credit to offset one kilogram of phosphate as £25,000.

Nitrate mitigation tends to be less expensive than phosphate, but still has considerable costs attached to it. In the Solent / Hampshire area, there are seven schemes operational currently providing nature-based solutions. Within these schemes, the cost of purchasing a credit for one kilogram of nitrogen can range from £2,500 to £4,000 per home.

Although some organisations have begun to provide nature-based solutions, these require huge amounts of land that is unlikely to come forward in time and at a reasonable price to provide effective projects that will satisfy local government and break the planning deadlock. These projects are also expected to be operational before planning permission can be granted, but they take huge amounts of time to implement, leading to further delays to housing and subsequent expenses.

Recreation Mitigation Zones

Following a recent analysis undertaken by an ecological consultant on behalf of Natural England, it has been determined that planned increases in housing around the New Forest designated sites will result in a marked increase in use of the sites and exacerbate recreational impacts. It found that the majority of visitors to the New Forest designated sites on short visits/day trips from home originated from within a 13.8km radius of the site.

In some cases, this zone of mitigation has already expanded following Natural England's consultants finding that visitors from further afield also enjoy visiting the New Forest National Park and thus will be considered likely to contribute to recreational impacts on the sites in combination with other development coming forward across the area.

Following the emergence of this issue in the New Forest, the same moratorium on development has also been imposed by Natural England in Buckinghamshire. Again, Natural England has cited research from its consultant which found that new homes in several local authority areas may lead to 'recreational pressure' on local woodlands. Builders in the area await a 'cross-council solution' which will inevitably involve a tariff or levy of some kind.

It is expected that mitigation measures will be required to resolve perceived issues presented by housing growth in the area, but this will require a 'strategic, proportionate, and co-ordinated approach, [through] partnership working across a range of local authorities and stakeholders'. Natural England are committed to working with affected local authorities to develop a strategic approach to addressing recreational impacts from new development on the New Forest designated sites.

While a strategic and longer-term approach is developed, developers are now learning that the likely short-term mitigation will require a financial contribution, based on a robust and agreed methodology, directed towards the New Forest National Park Authority's Habitat Mitigation Scheme. Natural England are requesting that developers pay a contribution of £3,512 per dwelling. However, the tariffs elsewhere vary from £1,500 in Test Valley to a more intricate sliding scale in the New Forest District Council (NFDC) which sees a three-bed house on a small site of fewer than 50 units attracting a cost of £5,904 per new home for offsite recreational mitigation plus monitoring fees and 'access management'. In NFDC the schedule of mitigation charges explicitly rises in line with CPI inflation each April so, at present, will be increasing at around 10% per annum.

Several other local authorities around the New Forest and the Beechwoods have yet to agree mitigation approaches with Natural England and therefore no opportunity is available for developers to proceed with planning on sites within the catchment. In correspondence between Fareham Borough Council and Natural England during October 2021, Natural England informed the local authority that it was unable to offer a timeframe in which a mitigation tariff would be available for the area. As such, at least in one case and based on evidence produced by a developer in relation to one specific site, Fareham has agreed a unilateral approach to seek around £350 per home for mitigation purposes although this has not officially been endorsed by Natural England.

It is unknown whether Natural England will pursue similar interventions and new levies for other developments in different parts of the country which are within 15km or so of a National Park but this is a very real possibility, which will not only increase house building delays but also involve yet more additional cost.

Around 15 local authority areas are currently affected with total output in these council areas typically contributing around 5% of England's overall supply. We have therefore based our estimated costings on this volume of activity and with a per dwelling cost of £3,500.

Housing output in affected local authority areas, most recent three years

	2018-19	2019-20	2020-21
New Forest	6,681	4,788	5,638
Chilterns Beechwoods	5,726	5,455	5,382
Total	12,407	10,243	11,020
Estimated % England	5.1%	4.2%	5.1%

Estimated total industry cost: £42m per year

Water neutrality

Since the summer of 2021, issues surrounding water neutrality have been of increasing concern. Although still confined to a relatively tight geographical catchment area, currently only affecting parts of Sussex, Natural England's interventions to prevent new homes being built because of the perceived impact of new homes on water use and, potentially, the habitats for an aquatic snail, have worrying potential to spread to other parts of the country.

The issue is one of a water shortage in the Arun Valley. Natural England have a statutory duty to protect species and Southern Water have a statutory duty to provide water supply to support growth in line with local plans. However, it appears that there is a current shortage that is potentially causing issues for a protected species of snail. In response, Natural England have issued advice that that planning consents for all new development within the Arun Valley should be withheld until either suitable mitigation measures are provided by Natural England, which they expect to be in place not before 2030, or that any new development should be submitted with a water neutrality strategy that would introduce measures to reduce water consumption down to a maximum of 85 litres per person per day. As a benchmark, the industry is currently being incentivised to try to achieve 105 litres per person per day and such drastic changes significantly impact development plans, throwing budgets and timelines off course. Currently there are up to 3,000 new homes being held up in the planning system due to the requirement for a habitats regulation assessment.

Estimated cost to industry: £5m per year

Accessibility

Following its consultation on options to adapt the housing stock to deal with an ageing and disabled population, the Government confirmed in July 2022 that it will mandate the current M4(2) (Category 2: Accessible and adaptable dwellings) requirement in Building Regulations as a minimum standard for all new homes. The less prescriptive M4(1) will apply by exception only, in instances where M4(2) is impractical and unachievable.

The Government states that the early results of impact assessment work suggest that the net cost (costs minus benefits) to business for mandating M4(2) is £265m per year (2019 prices). The costs included in this figure are those of transitioning to the higher standard and the capital costs of constructing M4(2) dwellings, relative to constructing M4(1) dwellings. DLUHC says that the benefits included in this figure are those that developers recover from increased sales prices, based on its assumption that M4(2) homes are typically larger and have other features consumers will pay a higher price for.

However, if these benefits are excluded, net costs increase to £661m per year.
The Government's original impact assessment estimated the cost at £311m per annum, an additional cost of approximately £1,400 per new dwelling.

However, as with other items included in this analysis, there is a good reason to consider the Government's Impact Assessment to be optimistic given DLUHC's assumptions regarding the proportion of new housing delivery which would, even without the changes to regulations, adopt enhanced accessibility standards. We would consider that an additional 10-15% on top of this estimate of £1,400 would likely result in a projection closer to reality in the short-term, but for the purposes of this analysis have stuck to the Government's estimates and assessments.

Estimated total industry cost: £265m per year

Red Diesel

At Budget 2020 the Government announced the 'Reform of red diesel and other rebated fuels entitlement' which removes the entitlement to use red diesel and rebated biodiesel from the construction sector from April 2022. The stated aim of this measure was to support climate change and air quality targets.

Currently on-site vehicles and machinery that uses red diesel benefits from rebates on fuel duty. 'White diesel' has a fuel duty rate of 57.95 pence per litre. Red diesel users are entitled to a rebate of 46.81 pence per litre, giving an effective duty rate of 11.14 pence per litre. This means that the construction sector, including home builders and contractors working on behalf of home builders will experience a five-fold increase in the effective fuel duty rate from April 2022.

Estimated total industry cost: £42m per year

Total

In total, across all of the 12 areas of additional cost identified in this paper, we can estimate an additional cost to the industry of just under £4.5bn per year. While the impact of this additional burden falls asymmetrically across the industry based on regionality, size of company and type of housing delivery, it is instructive to express this, where possible as a per dwelling amount. To do so requires an estimate of likely output over the period and so cannot be wholly accurate. However, based on recent housing delivery and likely trends, we can estimate that the average cost per plot of the measures outlined in this report will be within a range of £19,000 to £23,000 per plot.

Appendix – summary table

Department	Date	Estimated additional annual cost (£million)
Department for Levelling Up, Housing & Communties		3,315.0
Energy conservation: Part L	2022	750.0
Accessibility: Part M	2023	265.0
Future Homes Standard	2025	1,900.0
Future Buildings Standard	2023	100.0
Building Safety Levy	2023	300.0
HM Treasury		292.0
Residential Property Developer Tax	2022	250.0
Red diesel rebate removal	2022	42.0
Defra		640.5
Biodiversity Net Gain	2023	256.0
Nutrient Neutrality	2022	337.5
Water Neutrality	2022	5.0
Recreation mitigation	2022	42.0
Department for Transport		206.2
Electric Vehicle charging: Part S	2022	206.2
TOTAL		4,453.7

HBF House
27 Broadwall
London SE1 9PL

e: info@hbf.co.uk
t: 020 7960 1600
www.hbf.co.uk

@HomeBuildersFed
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