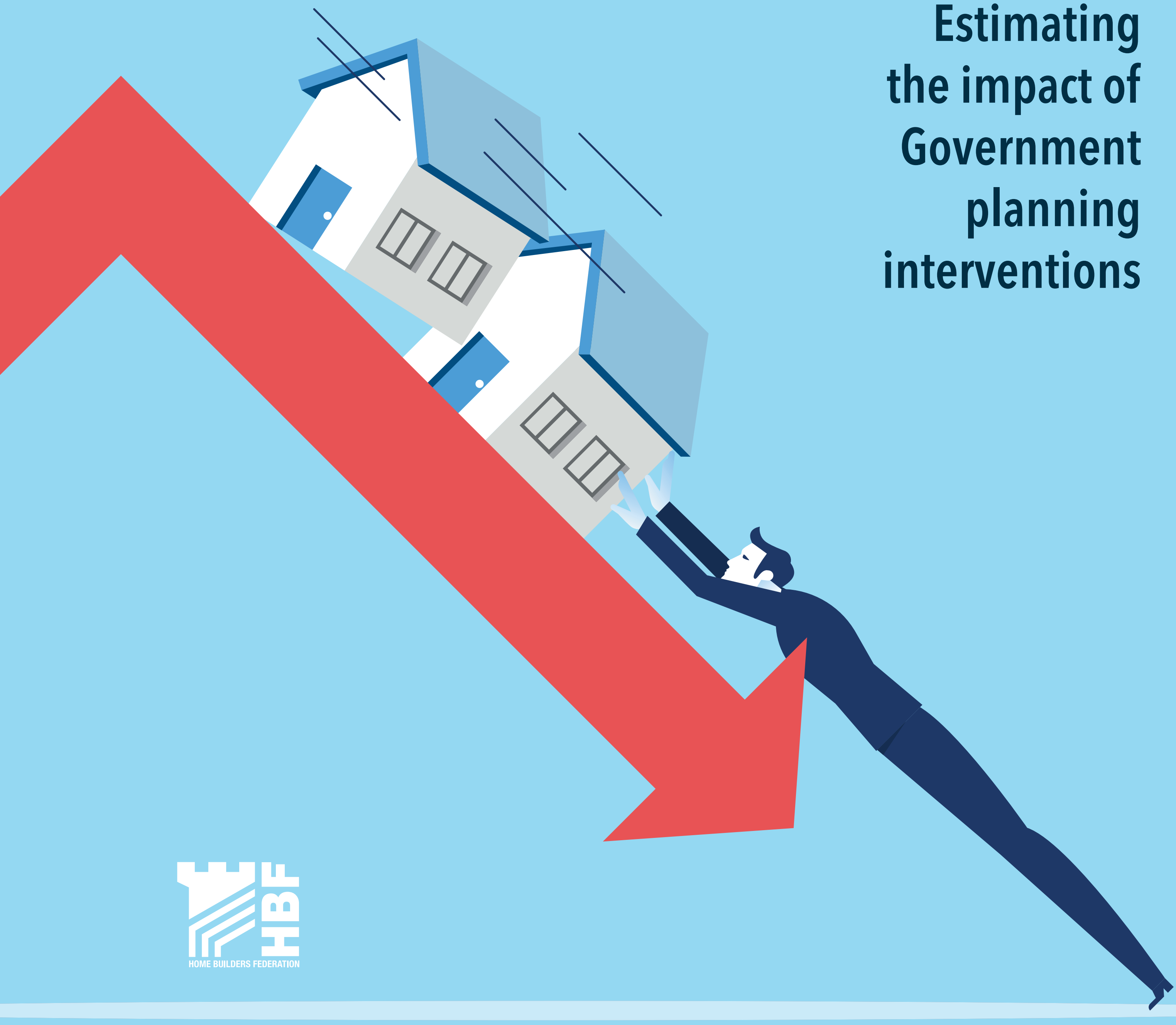
# PLANNING FOR ECONOMIC AND SOCIAL FAILURE:

MARCH 2023

## Estimating the impact of Government planning interventions



HBF
HOME BUILDERS FEDERATION

## EXECUTIVE SUMMARY

After a decade of positive growth in housing supply figures, the forthcoming months and years look less positive for the homebuilding industry, due to a culmination of political and legislative decisions and interventions by Natural England. Housing supply could drop by up to 122,000 homes per year due to:

- Proposed changes to the NPPF – 77,000 homes a year
- Nutrient neutrality requirements – 37,000 to 41,000 homes a year
- Water neutrality – 1,500 to 1,900 homes a year
- Recreational Impact Zones – 1,200 to 2,100 homes a year

The problem goes deeper than just housing supply, due to the losses that communities will feel to the important social and economic contributions that the home building industry provides. The drop in housing supply will result in:

- 370,000 fewer jobs being supported, including 4,000 graduate and apprenticeship positions.
- Over £20 billion less economic activity being generated
- Over £3 billion less investment in affordable housing

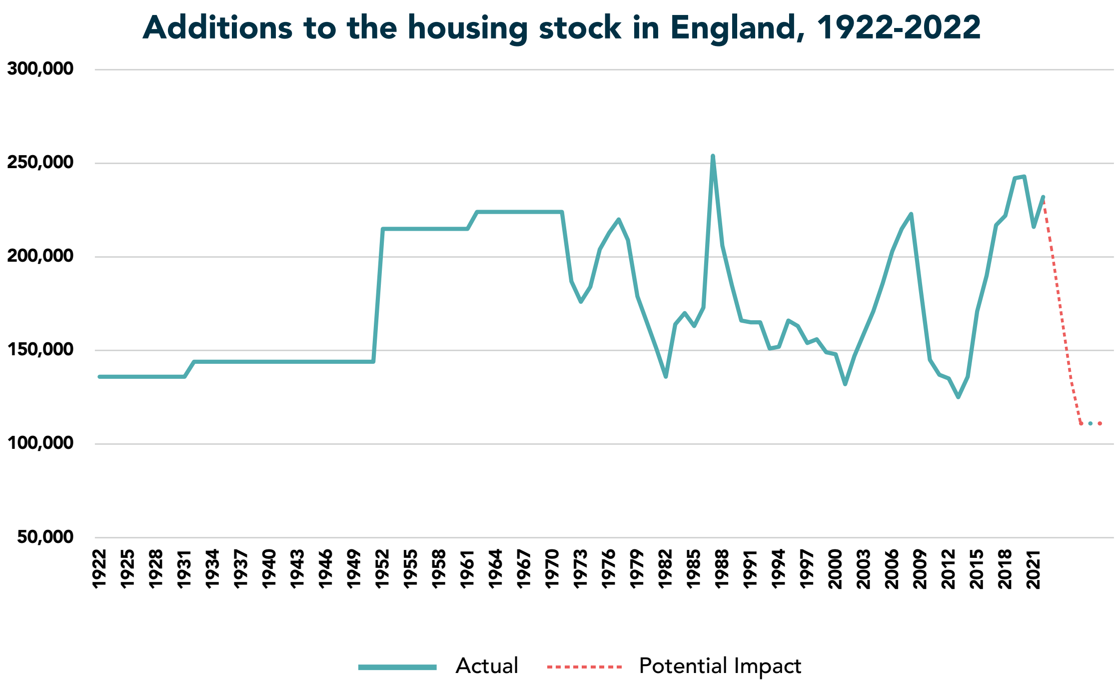
| | LOW IMPACT | HIGH IMPACT |
|---|---|---|
| **2021/22 NET SUPPLY** | **233,000** | |
| **Government planning policy changes impact*** | -77,000 | -77,000 |
| **Nutrient neutrality annual impact**** | -37,000 | -41,000 |
| **Water neutrality annual impact**** | -1,500 | -1,900 |
| **Recreational Impact Zones annual impact**** | -1,200 | -2,100 |
| **TOTAL ESTIMATED REDUCTION** | -116,700 | -122,000 |
| **POTENTIAL ANNUAL NET HOUSING SUPPLY OUTTURN** | **116,300** | **111,000** |

## BACKGROUND – HOUSING SUPPLY

While housing delivery has increased substantially with almost 1.2 million new homes built in the past five years, this progress came off the back of a prolonged period of under-delivery. In the years following the financial crisis, net additions to the housing stock fell to 124,000 new homes per annum.

In the years that followed, against a positive policy and economic landscape, housing output had almost doubled by 2019 and developers have continued to demonstrate an appetite to invest and deliver more. The speed and scale of the housing output increases we have seen in the past nine years are unprecedented with supply doubling in very short order and being sustained at nearly a quarter of a million net additions for several years now, even through the pandemic.

In 2021/22, net housing supply stood at 233,000. In 2012/13, England saw the lowest peacetime level of housing supply ever recorded. A series of policies introduced by a Coalition Government with a desire to build more homes to address decades of undersupply and give a much-needed boost to the economy, led to a rapid increase in output such that by 2019, net supply in England surpassed the highs seen during the housing booms of the 1950s and 1960s.



The increases in housing supply can be attributed to a range of factors, including the introduction of the National Planning Policy Framework (NPPF) in 2012, the Help to Buy Equity Loan Scheme, as well as a general positive attitude towards development that positioned the UK as an attractive location for investment in future supply, which allowed homebuilding to flourish.

However, in recent months, a hostile political attitude towards building has driven a policy agenda that has, on the whole, sought to restrict housing delivery. In other areas, the creeping cumulative burden of a range of new taxes and levies has dampened investment appetite. However, it is the suite of planning-related interventions which will most significantly put an ever-lower cap on the number of homes the country can plan for.

The proposed changes to the planning system, and the free rein afforded to Natural England to impose new requirements on development are risking the progress in tackling the housing crisis made over the past decade. The combination of these factors has the potential to see net housing supply drop as low as 111,000 per year, around 10% lower than the previous the lowest ever annual net supply during peacetime.

## IMPACT OF THE CHANGES TO THE NPPF

Since its introduction in 2012, the NPPF has helped to drive up housing supply with a presumption in favour of development, measures to speed up decision making and encourage localism and ensures that local authorities have in place an up to date development plan, or Local Plan, for their area.

Policy uncertainty since 2020 has slowed plan making and reduced permissions, a problem that has worsened since the publication of the NPPF consultation just before Christmas. HBF's housing pipeline report, published in December 2022, finds that quarterly planning approvals are 25% below the levels seen in 2019, when housing supply was at its peak, with a general downwards trend starting to appear over the last couple of years.

The proposed NPPF changes, particularly those to plan making and housing land supply, will make this situation worse. Analysis from Lichfields produced for HBF and LPDF finds that the changes have the potential to suppress annual housing delivery, with a 77,000 drop in supply as compared to the most recent statistics on net additions to the housing stock.

## NUTRIENT NEUTRALITY

Since 2019, the building of an increasing number of homes has been delayed due to new rules on 'nutrient neutrality', following the European Court of Justice in 2018 known as 'Dutch N' which caused Natural England to revise its guidance to local authorities. The current advice is that local authorities should apply the 'precautionary principle', whereby it is necessary for all new development of any kind involving overnight stays (e.g. new housing and hotels) to be 'nutrient neutral', i.e., that the amount of nitrates entering the water system as a result of a new development must be offset by the removal of an equivalent amount of nitrates.

Currently, 74 local authorities have been told that that development in 'catchments' around some waterways cannot proceed unless developers are able to ensure their schemes are nutrient neutral. The requirements to achieve nutrient neutrality are exceptionally difficult for home builders to achieve. As a result, home building has been essentially completely halted in these areas and it is estimated that around 120,000 homes are currently held up in the planning system as a result.

While the home building industry is supportive of the need to protect water habitats, developers are being disproportionately impacted by the mitigation measures introduced by Natural England, despite the sector's contribution to the issue being marginal in comparison to that of agriculture. Although agriculture is responsible for the vast majority of the pollution, and poultry farming with its intensive production of phosphates, is a particularly sizeable contributor, Natural England has not intervened in the planning process to prevent any new poultry sheds from being developed. In one local authority area alone, applications for several new intensive poultry farms are currently under consideration by councils. Just one of these will involve the expansion from 32,000 battery hens to almost 100,000, trebling the amount of phosphorous being emitted.

The 74 affected authorities deliver an average of 51,000 new homes every year. Using an assumption that development in these areas will drop by 80%, based on an assessment of the area covered by the neutrality rules, the current approach will see an average of 41,000 fewer homes built annually.

## WATER NEUTRALITY

In the autumn of 2021, Natural England imposed further restrictions on development in the Arun Valley area, with the building of new homes blocked because of the perceived impact of new homes on water use and, potentially, the habitats for an aquatic snail. While presently confined to a small geographic area, the restrictions have a worrying potential to spread further around the country and block housing delivery further.

No strategic offsetting scheme has been created to address water neutrality issues. Instead, developers are required to create their own offsetting schemes to show local authorities that water usage in the water catchment area has been reduced by the relevant amount, at their own cost, throwing budgets and timelines completely off course.

The affected catchments deliver an annual average of 2,100 new homes. On top of the 3,000 homes currently held up in the planning system, we estimate that the water neutrality restrictions will see a further drop of up to 1,900 homes per annum.

## RECREATIONAL IMPACT ZONES

Following a recent analysis undertaken by a consultant on behalf of Natural England, development has been halted around a number of national parks and other important ecological areas, due to a concern that planned increases in housing in these areas will result in a marked increase in the use of sites and exacerbate recreational impacts.

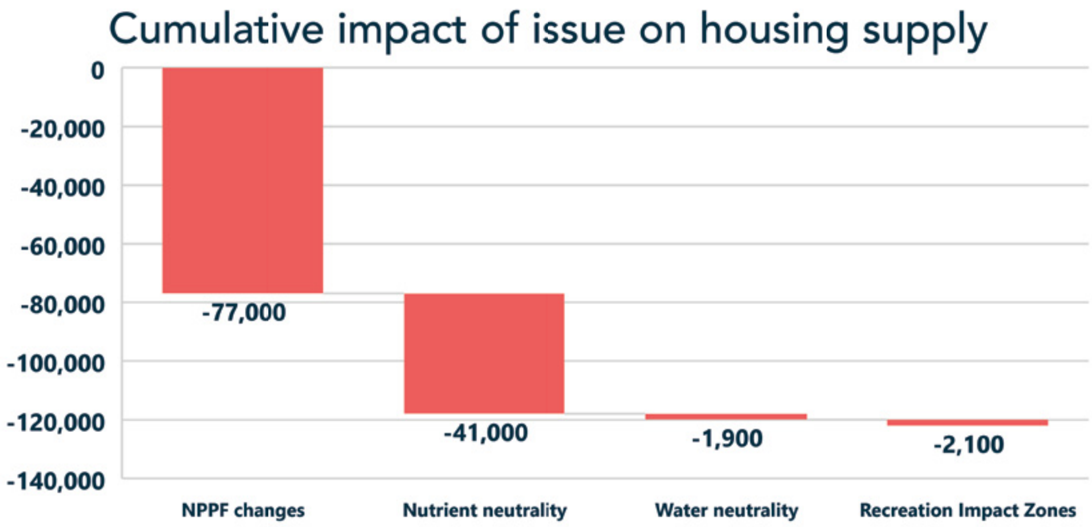
It is expected that mitigation measures will be required to resolve perceived issues presented by housing growth in the area, but this will require a 'strategic, proportionate, and co-ordinated approach, [through] partnership working across a range of local authorities and stakeholders'.

There is currently no long-term solution in place. While in some areas, developers are able to proceed if they make a financial contribution to the local authority, most affected areas have no mitigation approaches agreed and there is therefore no opportunity for development to proceed.

The affected local authorities provide over 21,000 homes a year. While the delays to development as a result of the recreational impact zones are less severe than other interventions, the ongoing restrictions still have the potential to further cut housing supply by 10%, around 2,100 homes a year.

## TOTAL IMPACT ON HOUSING SUPPLY

The cumulative impact of these delays will see a significant drop in annual housing supply, potentially dropping to between 111,000 and 116,300 – well below the previous peacetime low of 124,000 in 2012/13.




In a minority of cases, there is a chance that some of the affected areas will fall under more than one of these interventions from Natural England or the NPPF changes. The additionality is hard to estimate, but allowing for an overestimate as to which areas will have multiple issues playing out, housing supply will still see a fall of between 116,700 and 122,000 per year.

## ECONOMIC AND SOCIAL IMPACT OF REDUCTIONS IN HOUSING DELIVERY

The economic footprint of the home building industry is vast due to its significant contributions to GDP, employment, and important developer contributions through Section 106 and Community Infrastructure Levy agreements.

A drop in housing delivery of 122,000 will result in:

- 378,000 fewer jobs being supported, including over 4,000 graduate and apprenticeship positions.
- Over £20 billion less economic activity being generated
- Over £3 billion less investment in affordable housing
- £3 billion less spending in local shops
- £1.5 billion less in tax receipts for the Exchequer
- £135 million less council tax
- £100 million less spending on new and improved schools
- Over £35 million less investment in local spaces.

## AIR QUALITY

In early 2023, a new threat to housing supply and economic growth has emerged from Natural England. The agency, working on behalf of the Government has appointed consultants to identify opportunities to impose sanctions on developments, this time citing air quality impacts. Again, the issue is not with the building of new homes or even the dwellings themselves but the perceived 'danger' that residents of new homes will use roads and create pollution. Since 2022, all new homes have been built with electric vehicle charging points but this is unlikely to be enough in terms of mitigation to satisfy Natural England. While other mitigation may be possible, involving centrally-imposed traffic measures, there is also a concern among home builders that this further intervention from Natural England will hold up the construction of even more homes.

While the exact conclusions of Natural England's investigation into this issue are still to be finalised, it is likely that new restrictions will lead hold up home building across large swathes of country located 10km from any of England's 338 Natura 2000 sites, covering more than 2 million hectares of the country.

Home builders are supportive of measures to protect the environment and to mitigate air pollution. However, the continued ability of Natural England to completely shut down the industry in substantial areas of the country is having stark consequences for the industry and wider economy. The current approach is not only impacting jobs and economic activity, but also the ability of investors to have confidence in the future of housing supply in this country and the existence of many SME home builders, who do not have the financial stockpiles or economies of scale to continuously withstand hold ups.

## METHODOLOGY

The drop in housing supply due to changes to the NPPF has been calculated by Lichfields. The estimated 77,000 fall in output is a result of various elements of the reforms, including the reduction in five year land supply obligations and sanctions if homes are not provided, the changes for LPAs which have historically overdelivered housing and a system which encourages local planning authorities to set lower housing targets.

For the issues as a result of Natural England interventions, we have used historic data on housing supply in the affected authorities and applied a conservative assumption as to how much housing could drop in these areas based on how much of each area falls under the new requirements. The small range of estimates reflects the confidence over these assumptions. Proportionally there is highest uncertainty, and more potential for deadlocks to be broken, around the recreational mitigation zones because options are emerging in more places for developers to 'offset' impacts.

Some of these impacts may overlap each other, for instance in areas where nutrients has blocked existing developments and local authorities have subsequently stalled local plan development owing to the NPPF proposals. In these scenarios it is impossible to estimate the actual combined impact and the interrelation between these different barriers to home building.

A fresh analysis will be required as and when Natural England on behalf of Government imposes similar restrictions around air quality.

The methodology and these estimates do not consider in wider market factors such as mortgage availability or consumer confidence.

**FOR FURTHER INFORMATION PLEASE CONTACT:**

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**ABOUT HBF**

HBF is the representative body of the home building industry in England and Wales. Our members are responsible for providing around 80% of all new private homes built in England and Wales and most of our members are small or medium-sized enterprises.


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