



MAKING LOCALISM WORK FOR HOUSING DELIVERY

HBF THOUGHTS ON A POSSIBLE FUTURE FRAMEWORK FOR HOUSING AND PLANNING POLICY

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The next election will take place against the most difficult housing delivery conditions for decades.

There is a pressing need for more housing as the number of households expands rapidly. Yet the economy, having suffered the worst recession for nearly 80 years, is widely expected to recover only slowly. The supply of mortgage finance and mortgage terms, critical to the ability of young people to take their first step on the housing ladder, are likely to remain tight well into the future. The long-term undersupply of housing, which stretches back at least three decades, has worsened significantly because of the current steep fall in house building. The amount of land developed annually for housing has been in almost continuous decline since 1994, a sign that the planning system has not been able to provide sufficient permissioned land to meet housing need and demand.

The public finances are going to be under severe pressure over the next five to ten years, so that public funding for social housing and infrastructure investment will be very constrained. The cumulative cost impact of policy and regulation, both current and future, means many housing sites are not financially viable and are not likely to be for some years ahead. The steep fall in land values since 2007 means other sources of funding will have to be found for affordable housing, community infrastructure and the many other public policy objectives that would previously have been funded out of residential land values.

Therefore to meet the country's pressing housing needs, these very tough background conditions mean that central government, local authorities and housing developers are going to have to work together in close partnership to overcome the many barriers to housing delivery.

Against this background, the Conservative Party's recent "Control Shift" and "Strong Foundations" green papers have set out a radical agenda proposing an incentivised, bottom-up approach to housing provision with the welcome stated overall objective of achieving an improved supply of homes.

A number of key details about how such an approach would work in practice have not yet, however, been made clear but are central to its workability for house builders. The importance of getting such details right is reinforced by the wider delivery challenges the current economic and financial position has created.

Most immediately, house builders are concerned about how the process of transition to such a new regime could be managed smoothly without damaging legitimate business interests and in that respect have expressed the view that in the shorter term the proposals as they stand would increase business risk significantly, so undermining the objective of achieving an improved supply.

Longer term, house builders are also concerned that the existing Conservative Party proposals would create real uncertainty about whether housing development could be successfully progressed through the local planning system. Such uncertainty would risk choking off future investment in housing supply and infrastructure unless the powers that are devolved to local authorities are balanced by clear responsibilities and duties providing suitable assurance to developers about the operation of a reformed system.

This paper sets out HBF's thoughts on how the ideas proposed in the two green papers could be integrated with the best elements of current planning policy for housing and some further new ideas to establish locally-based arrangements that would successfully enable housing requirements to be met and encourage future investment.

Executive Summary

All housing providers, including house builders, currently face several significant policy and delivery challenges. Any locally-based planning system for housing provision must address and work through these if it is not to add to the risks to housing delivery.

The main challenges are that:

- There has been an under-supply of housing for many years, with serious social and economic consequences
- This problem has been exacerbated by the current economic recession in which housing output has fallen by up to 50%
- There has been an escalating reliance on contributions from residential land value for the financing of a growing list of public policy objectives
- This reliance on residential land value contributions had already become unsustainable by 2007, a problem which has again been exacerbated and highlighted by the recession
- At the same time, developers face unprecedented levels of red tape arising from the complex web of regulation affecting housing provision
- Local plan production has lagged far behind schedule and failed consistently to achieve the quality, certainty and clarity needed to promote housing supply
- The prospective squeeze on public expenditure after the end of the current CSR budgetary period is likely to impact on finance for housing delivery
- New means of raising necessary finance to meet housing-related policy objectives will be needed if supply under any future system is not to suffer.

Against this background, if proposals for a radical change to a locally-based approach to planning for housing are to avoid creating an additional area of significant potential risk to successful housing delivery, they must:

- Provide a clear and agreed transition plan ensuring that existing regional and local plans continue in existence until arrangements for an orderly transition to a new bottom-up system have been put in place
- Place legal duties on local authorities to provide sufficient housing to meet their

duly assessed housing requirements and to establish these requirements through a due process

- Require local authorities to concentrate on providing clear, concise and manageable local plans that focus primarily on a strategic vision for their area as a means of providing effective and timely planning for the future
- Require authorities to conduct evidence-based Strategic Housing Market Assessments (SHMAs) to determine housing requirements across the local market, and Strategic Housing Land Availability Assessments (SHLAAs) to ensure a minimum of 5 years developable land supply to deliver the identified housing requirements
- Ensure local authorities and national government monitor performance against SHMAs and SHLAAs and agreed indicators of local housing demand and act together quickly to meet any identified problems in provision
- Tackle the unsustainable level of dependence on residential land value contributions to fund a range of public policy objectives and, allied to this, undertake a root and branch assessment of housing-related policy objectives and the means of financing these – including consideration of the case for setting a simple development charge consistent with development viability, such as the Community Infrastructure Levy (CIL), as an alternative to the current extensive and ill-defined use of Section 106
- Consideration is also given to ways in which local authorities could themselves prudently raise additional financial resources against their assets and income streams to help finance housing objectives
- There should be a new policy approach to affordable housing under which planning policy and finance issues are separated from each other and the focus shifts to promoting a diverse, innovative and flexible range of solutions for the provision of homes that are affordable, rather than the current narrow focus on subsidised, sub-market housing
- To provide the necessary national level support and investment for a locally-based system to work, and to ensure public sector land is brought forward for development, the Homes and Communities Agency should be retained as an effective delivery agency
- A body with much of the expertise, knowledge and responsibilities of the existing National Housing and Planning Advice Unit (NHPAU) should also be retained to compile and monitor the data needed to inform local plans

- Beyond this, there is a strong case for reducing the large number of other national bodies and quangos impacting on housing delivery
- The related bureaucratic burdens on developers arising from the complexity of the current regulatory regime for housing must be reduced
- National guidance should ensure that local planning policy does not seek to provide for the achievement of objectives that are better and more appropriately met via other policy or regulatory routes

1. Introduction

There are three fundamental considerations that should inform the development of ideas for a possible future, locally-based system for meeting housing requirements and delivering more housing overall:

- Spatial planning over a long-term horizon
- Power with responsibilities
- Devolution at the right level

First, it is important to have in mind the reasons why we have a spatial planning system.

Spatial planning is required to balance the many conflicting social, economic and environmental demands of a modern society in determining the use of land, and to allow long-term planning for public and private infrastructure (transport, health, education, utilities, etc). Requirements for housing, commercial, industrial and infrastructure development underpin economic growth and social welfare and need to be provided for on a clear long-term basis because they require major, long-term investment decisions. These requirements also, however, have to be balanced against the need for agriculture, open space, urban and rural landscape amenity and, increasingly, the need to mitigate and adapt to the effects of climate change. Only a system that produces long-term plans, setting out clear policies for determining the use of land for these potentially competing purposes, can ensure balanced outcomes acceptable to

communities and society.

Second, any system of devolved powers must be accompanied by a set of agreed responsibilities for those using these powers. The interests of local communities themselves and business will require such safeguards. In addition, since the plans and policies of any single local area inevitably affect the interests of other areas these responsibilities – and the consequent need for structures or processes through which they are exercised – cannot be confined to the immediate local community.

Third, powers should not be devolved below the District level. If the regional planning level is to be abolished, it should be borne in mind that the result of various local government reorganisations is an inconsistent pattern of county/unitary/district and parish councils. So patterns of devolved responsibilities are likely to be different across different areas. As a general rule, however, we do not think it is practical to devolve any housing or forward planning functions to the parish level. If the local policy approach then demands greater involvement of parish councils, we believe this could be dealt with through the existing District consultation arrangements with parish councils.

2. Key requirements for success

Taking these three fundamental considerations into account, there are a number of attributes that any framework for successful housing delivery – whether locally-based or not - must meet:

- The availability of realistic figures on the scale of existing and long-term future housing requirements to ensure that overall adequate national provision can be gauged
- Provide processes and tools that assist local politicians in engaging the local political pressures arising from proposed development
- An authoritative and properly determined evidence base – all parties need recourse to this if they are to be able to make sound, balanced and consistent decisions, whether this relates to local policy or commercial issues

- A clear understanding of what can and should be achieved via planning policy, and what should be dealt with via other policies or mechanisms
- Structures and rules of engagement that enable effective dialogue between local authorities, developers, infrastructure providers and other parties at local level – progressively building trust and co-operation
- Alignment of incentives and public financial resources with the outcomes of the planning process
- Transparency and accountability of policy and process enabling the involvement of all key parties and subject to necessary minimum requirements set at a national level
- Means of ensuring that local decisions are based on an understanding of trends and needs that are national or sub-regional in nature and so do not create unintended strains and tensions elsewhere – including means of delivering nationally important infrastructure
- Clarity and certainty for landowners and developers over a reasonable period of time so that investment in site promotion and development can be committed and funded
- A shared understanding of development economics and recognition that a range of finance as well as policy mechanisms is likely to be needed to deliver the full range of housing-related policy objectives.
- Need for co-ordination between authorities/areas to deal with cross boundary issues. (A particular example would be the inter-relationships between the unitary authorities in the Bristol sub region)

This paper seeks to give substance to how these key requirements could be realised in a future locally-based system by considering and answering a series of relevant questions.

3. Transition

The success of a new, locally-based system for both local communities and housing providers will, in the first instance, depend on establishing a clear and robust plan for transition from the current system.

Given the fall of up to 50% in housing output during the recession this is a particularly challenging period for all housing providers – RSLs as well as private house builders. Introducing major change to the planning system against this background is therefore something that would need to be implemented with great care.

It is especially important to avoid a hiatus in the system which could encourage drift and a lack of focus on positive planning for housing delivery at local level. Such drift would compound the loss of output resulting from the recession and frustrate investment in rebuilding capacity across the housing sector.

At the moment, the policy proposals published by the Conservative Party have not made provision for a transition plan to manage the shift from the current system to a new, locally-based one.

If the Regional Spatial Strategies, their housing targets and related local plans and targets were abolished immediately, however, local authorities could then pursue different policies if they wished without any safeguards with regard to the status of existing plans. This would create significant risks for developers that projects which were allocated in local plans, and had been progressed over many years at very substantial cost, but which did not yet have full planning permission, might not be able to proceed when they would otherwise reasonably have expected to do so, this destroying the developer's investment to date.

Since it would also take some time for a new system to produce its own local plans there could be a fairly lengthy hiatus – in all probability many years, based on

experience over the last two decades – before duly adopted new local plans were in place as a basis for future housing delivery.

Such a hiatus could be extremely damaging to effective housing delivery over several years given the time required to take individual sites – especially more strategic sites and large regeneration projects – through the planning system.

We believe therefore that clear rules and timetables should be established for the transition to a new, locally-based system to preclude any unhelpful or unreasonable additional risk to housing delivery and investment – including to the development of sites that currently have clear expectations of proceeding.

The simplest and most effective way of providing for such assurance would be to provide that the existing Regional Spatial Strategies, their housing targets and related local plans continued in force until the new system was operational and new, duly adopted, local plans were in place.

4. How should local requirements for housing be established and delivered and the necessary quantity of land delivered?

The processes for determining local housing requirements and providing a developable and viable land supply for delivering these need to be clear to local communities, developers and public and private infrastructure providers, and result in an agreed long-term basis for provision. For housing to be delivered successfully, the results of the duly conducted processes must be incorporated in a local development plan that makes provision for at least the next ten years, backed by a strategy for at least fifteen years. Any shorter period would not give sufficient certainty for developers to invest in major, long-term strategic and regeneration sites, or infrastructure providers to invest in new roads, hospitals, schools, reservoirs, electricity transmission, gas supply, etc.

One of the responsibilities of local authorities under any devolution of powers to the local level must therefore be to adopt a suitable local development plan in a timely manner. Experience since 1970 has shown the majority of Councils struggle with this

requirement. For example, while the 2004 Planning Act required all local authorities to have a Local Development Framework in place by 2007, to date less than 15% of authorities in England have an adopted, sound Core Strategy. Measures will be needed to encourage efficient production of suitable local plans. The local authority will also have responsibilities to the community, developers and infrastructure providers in delivering the requirements in the plan. The key consideration here is what constitutes a suitable local development plan. In establishing a locally-based system, we consider the the most appropriate practical level for a suitable local development plan which will establish housing requirements is the District level.

However, there are a number of qualifications to the implementation of such an approach. Firstly, it has to be correlated against some higher level assessment of overall housing needs. Secondly, this is another instance where local government reorganisation has created complexity. There are single tier authorities above the District level, which may need to be addressed through some sub-division. Thirdly, whilst the document could be a development plan document, it could also be a District wide Strategic Housing Market Assessment (SHMA) and Strategic Housing Land Availability Assessment (SHLAA) – which would require a review of existing SHMAs where they currently cut across local authority and county boundaries. However the SHMA/SHLAAs would then need to be given more statutory weight, for example by subjecting them to some sort of public examination and SHLAAs would also need to be subject to due Strategic Environmental Assessment (SEA). (See Section 4.2 below on the role of SHMAs and SHLAAs.)

This set of issues would collectively require a review of the local plan system. Such a review would have to be undertaken before the current system is abolished.

4.1 Establishing Housing Numbers

In order to successfully provide for sufficient housing we believe it would be essential to:

- Establish a duty for local authorities to provide sufficient housing to meet their duly assessed requirements across all parts of the market over the next fifteen years.
- A second duty would require authorities to assess local requirements for housing and land through a due process, taking realistic account of locally-generated

demand as well as the impacts of inward and outward migration. The process should involve developers, RSLs and others in determining housing market requirements and the identification of a suitable and sufficient supply of developable land for building these.

- The conduct and outcome of both duties should be subject to scrutiny by the planning inspectorate who could require their re-running where process had not been properly followed.
- The discharge of such duties would also logically include requirements for local authorities to:
 - monitor a range of “housing stress” indicators (local prices to incomes, waiting lists, vacancy rates, homelessness, etc.)
 - establish a forward trajectory derived from Strategic Housing Land Availability Assessments (see Section 4.2 below) for delivering identified housing requirements from suitable, developable sites
 - report regularly, annually or two yearly, to their local communities, on housing provision in their area, housing stress indicators, and what they are doing to ensure there is sufficient housing in the district, and explaining the consequences of their policies and the outcomes. That is, make the whole process of policy setting and, above all, its consequences, transparent to the local electorate.
 - Act on the basis of a presumption in favour of development where proposals were consistent with the duly established requirements for an allocated site in the local plan
 - Be accountable to landowners and developers – including through a requirement to provide compensation for the expenses incurred and investment undertaken in promoting those sites included in the local plan against the risk of any possible future de-allocation.

To be effective, these requirements should be implemented as a coherent package.

It is also vital that the local plan is adopted in a suitable form, in a timely fashion.

In our view these two requirements are closely related. Problems with the timely adoption of local plans under the current system stem in many cases from the tendency of authorities to elaborate very detailed policies on a very wide range of issues. This becomes a barrier both to plan-making and to the plan’s intelligibility to the community, developers and third parties. In turn that adds to the difficulty of considering planning applications for individual developments.

There is nothing in the current planning system that requires such an approach to local plan-making. Local plans would be more effective means of promoting sensible consideration of development proposals if they concentrated on delivering a clear, concise and coherent strategic vision for the spatial development of their area. That would open the door to a more, effective dialogue at the crucial pre-application stage

with developers and make it easier for communities to understand the vision for their community.

A move to a locally-based planning system would provide an opportunity to encourage and support local authorities in moving to a better form of local plan and would not require any change in legislation or regulation. The national government could play an important role in this context by assuring local authorities that focusing on a more strategic vision in local plans was a proper and adequate discharge of their responsibilities.

4.2 Delivering Sufficient Land

Such an approach should incorporate and, where necessary, improve the most effective elements of current national planning policy for housing (PPS3) – for example, requirements to conduct properly evidence-based Strategic Housing Market Assessments (SHMAs) of housing requirements and Strategic Housing Land Availability Assessments (SHLAAs) to ensure there was a minimum of a 5 year deliverable supply of developable land to provide identified requirements. Procedures should also continue to ensure that local communities, house builders, infrastructure providers and other key parties are fully and appropriately involved in conducting local SHMAs and SHLAAs.

In line with the comments made in the introduction to Section 4 above, it would also be necessary to agree a clear position on whether SHMAs and SHLAAs should be drawn up primarily at District level, or at a higher, cross-boundary level, as part of a development plan system review.

Based on these robust and evidence-based processes for establishing housing requirements, the land allocation and policy proposals for delivering them locally should be set out in a clear and succinct local development plan. Given the shortcomings of many current Local Development Frameworks, early attention should be given to ensuring that due process also includes safeguards to ensure new local plans are of suitable quality – providing clarity and certainty to local authorities themselves and public bodies, communities, infrastructure providers and developers and are adopted in a timely manner. Such quality and timeliness will be essential in order to fulfil the need for transparency and accountability, including the reporting of progress in delivering the plan to the local community and other stakeholders.

Timeliness in adopting local plans could be achieved by including as part of the duty to provide housing a requirement that where such plans are needed or are for any reason to be revised they should be adopted within two years. Failure to carry out due process should carry a financial penalty for a local authority or should lead to loss of decision-making powers or direct intervention.

Ensuring the general robustness of local plans should be a matter for the planning inspectorate. The inspectorate should have scrutiny of the discharge of the duty in the sense of being able to consider whether the local plan satisfactorily translates the implementation of the duty to provide adequate new housing land into an effective local plan.

5. How can sub-regional, regional and national requirements be adequately met via a locally-based system?

No locally-based system for determining and delivering housing requirements within a particular locality can in itself be sufficient to ensure that requirements for housing and infrastructure at a sub-regional or national level are satisfied.

The initiative for identifying and meeting such non-local requirements can come in part from the local level, but it is unlikely to be practical for local authorities alone to successfully manage, fund and deliver them.

The need for wider than local area requirements to be considered will at least arise in the following areas:

- 1 Housing markets that do not readily coincide with individual local authority boundaries, and where there is significant inward and/or outward movement from neighbouring markets (e.g. in those immediately around London), and so that needs may not be met by local authorities acting individually
- 2 Housing market needs that are being under-supplied across sub-regional or wider areas when the results of local plans do not, for whatever reason, collectively meet them (evidence for this would probably need to come from data trends assembled and monitoring undertaken at national level) or when under or over supply in another part of the country would affect the local picture
- 3 Requirements for sub-regional infrastructure – roads, power stations, water provision, rail links, incinerators etc
- 4 Requirements for infrastructure of national importance

A locally-based system should provide for appropriate groups of local authorities to take the initiative in acting together to meet such requirements, but there would need to be an effective check and safeguard to ensure that where that did not happen – or the results were ineffective - national government would be able to take the initiative to prevent properly established housing requirements remaining unmet and infrastructure provision being inadequate.

In terms of local initiatives to meet such requirements, we envisage that a duty for local authorities to provide sufficient housing would as a minimum need to include requirements to:

- o Justify to central government, say annually or perhaps every two years, what they were doing to:
 - alleviate identified housing stress indicators and
 - establish forward trajectory plans for housing delivery derived from their SHLAAs
 - meet resultant requirements, with the government monitoring outcomes and
 - identify any emerging gaps in supply that are evident when looking at the overall picture that builds up among authorities.
- o Discuss with other authorities and national government ways of meeting any requirements for housing or infrastructure that they alone could not meet or which national monitoring established were falling through the cracks between individual authorities' delivery. Either national or local government could take the lead in initiating such discussions.

An early warning system would be established by Government publishing indicative housing requirements for each local authority based on the local authority's plans and relevant sub-regional, regional or national data. Where local authorities' decision on local housing requirements differed by more than, say, 5% or 10% above or below this figure, dialogue with the Government would be triggered. This would also help provide a national comparator against which Government could ensure the national housing requirement was not being underprovided. As demonstrated over recent years, catching up with years of underprovision attracts more criticism and objection from local communities rather than realistic year-on-year provision.

Due process would also need to specify that local authorities should have regard to appropriate, consistent and comprehensive national data in establishing their housing requirements. Local assessments could not be relied upon as robust without taking such higher-level data into account. The national data to be taken into account should include household projections, net inward and outward migration to the UK as well as movements between and within regions. The national infrastructure for providing such data must therefore be maintained and improved as necessary in order to support local authorities in discharging their duty to provide sufficient housing.

National and regional projections would still have an essential role in a locally-based system. It has been clearly established that under or over supply of housing in particular regions or sub-regions affects the level of provision required in adjoining or other regions (e.g. in London and the South East). Under a locally-based system, however, the primary responsibility for interpreting the data will be in the hands of the local authorities who will be preparing the plans rather than a divorced regional organisation. However, in a locally based system, it is even more important that all housing targets (however derived) should be subject to annual review in monitoring reports to assess progress and ensure these targets are being met.

Strategic level planning is not just about setting housing numbers. The RSS process has identified some strong functional relationships between neighbouring towns. For instance, in the South West the Roger Tym 'Functional Analysis of Settlements' (April 2005) paper identified that there are close links between a large number of towns across the South West in social, economic/regeneration and environmental terms. Setting housing targets at a district level alone may not deliver the overall vision across a wider area to assist these towns, which particularly in a regeneration context could prove damaging.

Wherever the initiative for action to meet such requirements originates, solutions would need to be progressed through dialogue and co-operation between local authorities, national government, other relevant bodies and commercial parties.

Such co-operation would necessarily depend on a clear, authoritative and consistent evidence base provided by national government statistics and the monitoring of delivery by local authorities as well as national government. Major infrastructure requirements would also need to be established with reference to relevant national strategies and plans.

6. How can housing delivery be incentivised and the full range of housing-related requirements and objectives be financed?

A future system for housing provision will need to address a major emerging set of issues relating to the incentives for successful delivery and the financing of the policy objectives that communities have identified for housing, or that have been identified as important by central government (most notably zero carbon).

In this context, the history of the housing market over the last 15 years can be characterised as one in which an increasing range and volume of requirements has in practice been financed from land values by developers and landowners on the assumption that the uplift in land values resulting from development could accommodate these demands. Drivers for a growing reliance on this approach to financing housing objectives have included the long bull-run in house prices, sharply higher densities, the progressive reduction in housing grant levels for the provision of social homes and the general squeeze on local authority finances. The result has nevertheless been a form of creeping development tax.

6.1 S106 Agreements

Over this same period the growing use of Section 106 agreements to seek contributions to a lengthening list of local social and physical infrastructure needs has strained significantly the original purpose of this system of planning contributions – which was designed to mitigate and provide for the immediate impacts of and requirements for new development.

The driver for local authorities to want to seek a significant revenue stream from Section 106 is understandable given the legal and political constraints on their other possible sources of revenue. This has, however, by default created a pattern of dependence on developer contributions over the last decade in particular.

The limits of this approach in delivering housing objectives were already being reached at the height of the market in 2006 and 2007 when developers were reporting that even greenfield sites were becoming marginal in terms of their viability. The subsequent sharp downturn in the housing market has led to corresponding drops in house prices and proportionately greater reductions in land values since late 2007. This has necessarily significantly exacerbated the problem to the extent that many sites are currently unviable to develop on the basis of 2007 level contributions to Section 106 and other requirements.

There are particular challenges in this respect in seeking to develop previously used brownfield land. During the past ten years the majority of new development has taken place on sites that have been subject to previous use. A large percentage of these land holdings have a high existing use value – that is, an alternative use to residential development. In a rising market, however, the market value differential between a new planning consent and existing use has been successfully exploited by planning authorities through social housing provision and S106 contributions.

Substantial reductions in the price of properties over the past two years has resulted in land values falling. As a result of these valuation changes the difference between existing use and the value with a new planning consent has changed and will no longer support the levels attained in a more buoyant market. Looking ahead there is likely to be pay restraint, higher levels of taxation, increased interest rates and comparatively tight mortgage conditions. If these economic conditions continue for some time property price rises may well be muted.

Government therefore needs to be aware of the economic viability of development and have a clear understanding of the contribution levels that projects can sustain to enable them to proceed. (Further analysis of this issue can be found in the Annex to this paper.)

The increased cost of meeting building regulation changes both in terms of additional construction costs and reductions in densities achievable also needs to be taken into account.

On the ground this challenging situation is beginning to result in local authorities recognising the need to renegotiate Section 106 agreements – classically for the provision of affordable housing. The implications of the finance squeeze are, however, likely to extend much more widely over time. The bull market of 2006 and 2007 is on the one hand unlikely to return quickly, and on the other hand a more prudent regulatory regime for mortgage lenders will tend to dampen house price inflation and so the rebuilding of real land values. In all probability therefore land values will have less capacity in future to finance housing-related policy objectives - which have nevertheless increased.

In summary, Section 106 has in fact become a general tax on development - pushed recently to the margins of development viability - rather than a measured and proportionate means of providing direct mitigation of development impacts. As a result it has also ceased to be “visible” to the communities it is supposed to serve.

The consequence of this evolution of the Section 106 system is that while local authorities have in practice come to rely on it more and more as a source of finance for general purposes, it has not provided an effective incentive for local communities to accept development.

6.2 Community Infrastructure Levy

The role of Section 106 is currently under consideration in relation to discussions on the introduction of the Community Infrastructure Levy (CIL). In the context of CIL, we would want to see a reduction in the scope of the matters covered via Section 106 as a corollary to CIL’s introduction. However, there are also issues relating to CIL itself that require further consideration.

While CIL is designed to provide a transparent means of establishing infrastructure requirements needed to support new development and a basis for determining developer contributions towards the cost of these, it will prospectively entail an elaborate process that may not be easy for local communities to understand. There is also a clear risk that CIL may be set too high for many development sites given the likely desire of local authorities to generate significant revenues due to the financial pressures they will face - notwithstanding the difficulty of setting a level of charge consistent with site viability across an entire local authority area.

We believe therefore that there is a strong case for setting CIL as a simple development charge at a level that would be generally compatible with maintaining a sufficient supply of viable, developable land for housing.

In order to facilitate decision-making and housing delivery it is proposed that in setting such a local charge attention should be focused on determining a level of charge that is sustainable and compatible with a sufficient supply of developable land rather than on meeting a particular policy agenda. Local authorities would then

have freedom to decide their own priorities for the use of the proceeds that could reasonably be borne.

Such a local development charge could provide a foundation element of local financial resource alongside incentives related to housing delivery and an enhanced ability for authorities to raise finance.

6.3 Future Housing Finance and Incentives

Alongside the need to reconsider the extent of past dependence on developer contributions, the medium term at least will see a significant squeeze on national and local government expenditure given the need to reduce government debt. One result is likely to be to restrict the amount the government can provide in social housing grant and public investment in regeneration.

Given this assessment, a major challenge for future housing delivery is how key public policy objectives for housing can be financed without undermining the viability of the land supply needed to build the required number of homes if central government funding is constrained.

This challenge requires a national government commitment to establish or facilitate new and alternative financing mechanisms for delivering public policy objectives related to housing, including the provision of affordable housing and infrastructure. Such new mechanisms will be essential to ensure consistent and effective delivery of housing in line with duly established requirements. As part of this:

- National government should undertake a root and branch assessment of current national and local policy objectives and possible alternative financing mechanisms for these
- There should be a particular focus on looking at possibilities for local authorities themselves to be able to raise more finance for necessary investments on a prudent basis – through ideas such as reform to housing revenue account receipts retention and reinvestment, prudential borrowing, the ability to provide mortgages, as well as the “Control Shift and “Strong Foundations” ideas for local authority bonds (reference also the current interest in Tax Increment Financing). Empowering local authorities to raise and invest finance in suitable ways that do not put the interests of their communities at risk would augment the resources otherwise available.
- Enabling local authorities to act in this way to raise finance and use their own assets (including their own land) to support local objectives would also help create a better alignment of interests between all parties involved in housing delivery. In this connection we support the proposal in the "Control Shift" and "Strong Foundations" green papers for a new incentive to reward local authorities for the provision of new housing, but - welcome though this is - we doubt it will be significant enough in itself to lead to a true breakthrough in local attitudes to

development. Empowering local authorities in addition to raise finance by other means against their assets and future revenue streams, however, would we believe help transform attitudes and provide opportunities that would incentivise local authorities to want to show positive leadership in delivering new development for their communities and to work in partnership with developers to achieve this.

- After the initial outcome of the assessment of national and local policy objectives, local authorities should continue to report annually to Government any regulations/policies with an impact of land values and viability. Central government should continue to monitor, transparently, the cumulative impact of policy and regulation nationally and take action accordingly to ensure residential land viability.
- Some local authorities are trialing a system whereby they are allowed to borrow money against the income from future development. The business example is known as ADP, and the residential one TIF. If successful, these schemes could be introduced nationally.
- There should be a reduction in the number of (national) quangos with their own regulation-setting powers or with a significant influence over house building.

In establishing a new and robust framework of financing for the delivery of housing objectives another area that should be explored in depth is the potential to secure a consistent and significant flow of institutional investment into housing supply. If successful, this would augment current business finance and help provide greater long-term consistency and stability in the marketplace and finance supply. To deliver this objective it would be desirable to:

- Establish a government task force involving house builders, institutions and others to consider the necessary conditions and regulatory, fiscal and other changes required to promote a flow of institutional investment into housing provision.
- In particular, consider the merits of removing tenure specification as a matter for planning policy to facilitate investment flows into a full and diverse range of housing provision.

In setting financial incentives there has to be recognition that local authorities can struggle to balance the perceived political cost of allowing new development against the receipt of additional funding. The existence of financial incentives will need to be very transparent as local objectors to development may accuse local authorities of overlooking their concerns in order to secure money from the incentives. However, if local plans set out clear and easily understood strategic objectives – as we advocate elsewhere in this paper – it should be possible for local authorities to demonstrate effectively that they have acted fairly and reasonably.

7. How can requirements for social housing and a sufficient supply of housing that is affordable be achieved?

Policy relating to the provision of what is usually termed "affordable housing" needs fundamental reform.

While all agree that there will always be a requirement to provide a sufficient volume of housing for social rent for those unable to afford home ownership or open-market rents, the great majority of the population continue to aspire to own their own home. The problem facing those who wish and can reasonably aspire to own their home is not a lack of "affordable housing" but a lack of housing that is affordable for them. The reason in turn that housing is not affordable for people is that there has over a long period (30 or more years) been a lack of sufficient supply.

Had there been a sufficient supply of non social rent homes, house builders would have been able to tailor their market offer to their customers to meet their circumstances. Because supply has been insufficient, however, local authorities have increasingly sought to meet the requirements of those who do not qualify for social rent by adopting policies requiring developers to provide other forms of subsidised housing or cross-subsidies towards this and socially rented homes. The inevitable result has been to reduce land values and so place further pressure on future developable land supply and exacerbate the lack of homes that are affordable for those who do not qualify for any form of subsidised housing but still want to buy. This vicious circle of unintended consequences has progressively created one of the most significant barriers to meeting housing requirements across the country.

We propose therefore that a new policy approach should be adopted under which planning and finance issues are separated from each other.

The term "affordable housing" has itself become unhelpful and should be dropped. We should instead focus on providing social homes for those who genuinely need them, and promoting greater housing affordability beyond this. The existing – unduly prescriptive – definition of "affordable housing" in PPS3 should accordingly be removed. This would give greater encouragement to developers introducing market solutions which the current narrow planning definition discourages.

In future planning policy should promote a diverse, innovative and flexible range of solutions for the provision of homes that are affordable. The context, land supply and factors that relate to possible solutions should be considered as part of the robust process proposed for determining local housing requirements. The possibilities that a flexible policy approach can achieve, for both market and subsidised housing solutions, should constitute a major focus for discussion in drawing up Strategic Housing Market Assessments (SHMAs).

Such an approach would enable the private sector to deploy a wider range of approaches for delivering an affordable product rather than seeking to specify

particular percentages of development conforming to particular tenures. The results of the assessment of alternative financing mechanisms could also be used to reinforce an innovative and diverse range of solutions.

We support the complementary ideas in the “Strong Foundations” green paper for promoting ownership stakes and social mobility for social tenants. Such ideas would help ensure a more holistic and flexible approach to meeting housing requirements for people of all incomes without rigid tenure specifications. They would, however, require flexibility of tenure within housing units that should not be controlled through planning policy.

8. What public bodies are needed to underpin a locally-based system for housing provision?

It follows from our analysis and proposals that a need for certain national bodies and agencies will remain under a locally-based system. Information, funding and advice critical to successful local delivery will need to come from the national level.

We would particularly see a need for the retention of the Homes and Communities Agency given the need for national financing of social housing, major regeneration schemes, the re-use of public land and a number of other major policy goals. We support the proposal that the retention of regional development agencies should be a decision for local authorities.

A body with many of the responsibilities of the existing National Housing and Planning Advice Unit (NHPAU) should also be retained. This will be essential to compile and monitor key data needed to help inform the determination and delivery of local housing requirements. Such a body would need to be empowered to raise issues about local housing delivery if it had evidence-based grounds for believing that requirements were remaining unmet as a result of provision falling between the cracks of individual districts’ provision.

Beyond this, there is a strong case for a radical review of existing national bodies with policy and regulatory responsibilities relating to housing and housing-related objectives to prevent and reverse the regulatory creep and complexity which is itself becoming a barrier to delivery. There should be an in depth assessment of which policy and regulatory objectives related to housing are critical with a view to cutting unnecessary regulatory requirements and streamlining the number of bodies responsible for – or seeking to – achieve them.

The scale and range of overlapping – and often conflicting – regulatory requirements affecting housing providers is enormous and, quite apart from the cost impact, has become a substantial administrative burden for the industry. Smaller companies in

particular are finding this administrative burden a major problem and have consistently expressed the view that it has become a material barrier to market entry.

The abolition or scaling back of any national bodies should not, however, be undermined in any way by allowing a growth of more local equivalents. Rather Government should pursue the clear objective of determining what are and are not legitimate policy and regulatory objectives for housing and deciding the simplest, least bureaucratic means of pursuing these on a consistent basis across the country as a whole.

A national and local understanding on such matters should form part of a new concordat on housing delivery involving national and local government and developers.

9. What should the role of planning be in other policy and regulatory mechanisms?

Local authorities have increasingly sought to achieve a lengthening list of social, economic and environmental objectives through planning policy related to new development.

The result has ultimately been to create barriers to development.

On the one hand a growing list of policy requirements and assessments has added to the burdens on developers and officials in considering planning applications. Process has slowed and costs have burgeoned.

On the other hand there has been a tendency for each local authority to want to create its own standards and requirements on a range of issues.

The result from the house builder's perspective is the creation of a multiplicity of policy and regulatory requirements that differ from area to area. Such diversity necessarily creates a non-business friendly climate since it introduces enormous

resource demands and barriers to achieving economies of scale that add to costs and slow delivery. It also works against standardisation of building products and processes and efficiency, and so increases building costs.

There is therefore a very strong case for ensuring that planning policy does not seek to provide for the achievement of objectives that are better and more appropriately met via other policy or regulatory routes. For example, local planning policy should not seek to establish local regulations or other requirements that would materially affect the physical construction of homes and which are already covered by national Building Regulations. Any such policies can only inhibit the scope for the industry to achieve efficiency and innovate in a cost-effective way.

Similarly, a locally-based system should fully embrace and implement the recommendations of the recent Killian-Pretty Review of the planning application process. This review has made a series of practical recommendations on how the planning process could be made quicker and more efficient while serving the fundamental needs of local communities. In particular, its emphasis on the positive use of pre-application discussions to explore and resolve issues and the avoidance and reduction of policy complexity generally would provide real benefits for all parties in reaching and implementing decisions about development.

ANNEX

ECONOMIC VIABILITY OF DEVELOPMENT IN DIFFERENT AREAS

The housing market in the UK is not homogeneous. Four broad categories have been created.

1. Greenfield New Development

These schemes should remain viable provided there are not onerous infrastructure requirements. social housing and S106 agreements will need to be established at an appropriate level.

2. London and the Home Counties

Prices in most areas will in most cases support new development provided social housing and S106 agreements are set at a sustainable level.

3. Inner City Regeneration (Outside London and Home Counties)

In most areas projects will not support redevelopment without subsidy.

4. Brownfield Redevelopment (Outside London and Home Counties)

High value areas are likely to support new development so as to establish a higher value than existing use. Low value areas will require careful analysis and may not support any social housing or S106 contributions.