BRIEFING

Budget 2013 | 11 March 2013

INTRODUCTION

There are three pressing reasons why we need a significant and sustained increase in home building:

- To provide a short-term stimulus to GDP and jobs;
- To help “make the dream of home ownership a reality for more people” (Coalition *Mid-term Review*);
- To begin solving England’s chronic, long-term undersupply of housing.

The undersupply crisis is now so great that we need to use every possible demand and supply measure to improve supply - we cannot afford the luxury of unnecessary barriers or disincentives.

Since the early 1980s we have had a largely market-based system of housing supply – private organisations buying land in a competitive market, building homes for private buyers, and in the last 10-15 years building the majority of Affordable Housing. The Government cannot dictate output levels to private sector organisations. Its influence can only be exercised by removing barriers and disincentives, and by introducing positive incentives.

SUMMARY OF RECOMMENDATIONS

Demand measures

- Extend **NewBuy** to March 2018;
- Extend **FirstBuy 2** target to March 2015 plus further funding beyond March 2015 (**FirstBuy 3**);
- Extend **Funding for Lending Scheme (FLS)** beyond January 2014 and direct FLS funds into NewBuy;
- Raise **SDLT** threshold for first-time buyers to £200,000;

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- Explore a **FTB savings scheme** for new homes supported by home builders, lenders and Government.

Affordable Housing (AH)

- Certainty about **AH funding** to at least 2015-16;
- **HCA to operate a more flexible approach** to internal rules and procedures;
- Allow home builders to amend the mix of S106 tenures to **bring forward future AH** units.
- Allow **private rented units** to be classed as AH for e.g. 5 years;

Private Rented Sector (PRS)

- **PRS Taskforce** to consider how to aggregate portfolios from home builders;
- Allow residential investment in **SIPPS**;
- A revival of **Business Expansion Scheme (BES)** to attract new PRS investment from wealthier individuals.

Supply measures: development finance

- A less restricted **Get Britain Building** fund to unlock a wider range of stalled sites;
- Explore **SME development finance guarantee scheme** modeled on NewBuy;
- **Funding for Lending Scheme** (FLS) and Government business bank to permit funding for residential development; channel FLS money into SME residential development finance.

Supply measures: planning

- **NPPF** success requires full Government and PINS support and local authority production of deliverable Local Plans and sensible CILs;
- **Retirement housing** must be given full attention in implementation of NPPF;
- Review the slow and expensive **planning application process**;

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- Curb excessive numbers and unnecessary **planning conditions;**
- Review **guidance on preparing SHMAs** and **SHLAAs**
- We are most concerned about the operation of **CIL**, including loss of 15% or 25% of CIL infrastructure funds to local communities.

Supply measures: public land disposal

- Review progress to date, publish regular disposal statistics and review the costly and complex bidding and transactional processes.

Supply measures: regulatory burden

- Review **double taxation** of land sales (VAT on SDLT);
  Abolish **Carbon Reduction Commitment (CRC)**;
- A **moratorium on any new national policies or regulations** which increase home building costs, including Part L and Flood and Water Management Act;
- Urgently clarify 2013 and 2016 **Part L** and **Allowable Solutions**;
- Extend DCLG **Standards Review** to cover all relevant areas of policy, standards and regulations from central Government, local authorities, other public bodies and private utilities.

HBF Budget Submission 2013

DEMAND MEASURES

1. NewBuy and FirstBuy are very valuable schemes for the industry, with each allowing home builders to meet demand in different, and almost completely separate market segments. Without the benefit of these schemes over the last one to two years, new home sales and production would undoubtedly have been lower.

2. HBF and the home builders fully support an extension of **NewBuy** to March 2018. The lead-in times in home building are very long[1] – a useful analogy is turning an oil tanker. Company plans for 2013 are set, while those for 2014 will be fairly fixed. However knowing NewBuy will be available to 2018 would allow companies to build this into the economic assumptions underlying their longer-term business plans, influencing their projections for sales, home building and planning applications.

3. Recent reductions in NewBuy mortgage rates have given the scheme a significant boost. The most serious remaining restriction is larger house builders' access to the full range of lenders. While access is slowly improving, we are still well away from a situation in which the largest 15-20 home builders have access to five or six lenders. This has been a serious brake on sales and we would urge the Government to continue to press the lenders to open up to more home builders.

4. FirstBuy 1 was an enormous success - so much so that it became clear in spring 2012 companies would exhaust their allocations long before the official March 2013 end date. However the **FirstBuy 2** target for 2013-14 is extremely challenging. FirstBuy is an extremely valuable scheme and, for those offering the scheme, it will have boosted company sales and production. Rather than risk losing any allocations not used in 2013-14, we would urge Treasury to consider extending FirstBuy 2 for another year, to March 2015, to allow maximum take-up. We would also support further funding (**FirstBuy 3**) beyond March 2015 to give greater certainty to home builders' longer-term business and production planning and land buying.

5. The **Funding for Lending Scheme (FLS)** has successfully brought down mortgage rates, including for NewBuy mortgages, although it is disappointing that it has not yet led to any increase in net lending. However we are concerned that mortgage rates will begin to rise again in the final quarter of this year as the

[1] To illustrate the long lead-in times, in its year-end presentation for 2012, Taylor Wimpey land statistics showed that just over half (52%) of the land consumed in 2012 was pre-2009. Of the 48% post-2009, this split half strategic and half short-term (i.e. bought with a residential planning permission). In other words, only 24% of land consumed in 2012 was short-term land bought in 2009 or later.

scheme approaches its end date. We would urge the Treasury and Bank to consider extending the scheme beyond January 2014. We would again urge Treasury to consider directing some FLS funds directly into NewBuy.

6. The **SDLT** threshold for first-time buyers should be lifted to £200,000. It cannot be logical for Government to support first-time buyers through FirstBuy, only to levy a transaction tax on almost all such buyers. With the average FirstBuy price around £158,000, the average FirstBuy buyer is paying £1,580 in SDLT. These are, by definition, households on extremely tight budgets and relatively low incomes.

7. One of the Government's policy objectives is "to make the dream of home ownership a reality for more people" (Coalition Mid-term Review). It seems reasonable to assume the ready availability of affordable high-LTV mortgages is not going to return soon, if at all. Therefore first-time buyers are going to need larger % deposits than in the past, and so will need to save significantly more money than in the decades prior to 2007. This will require a savings culture, something that we believe needs encouraging.

8. To this end, HBF would like to explore with HM Treasury a **FTB savings scheme** for new homes, supported by home builders, lenders and Government. We have discussed the idea with two major lenders and two of the largest home builders, all of whom strongly support of the idea.

9. The basic principle would be to require a potential FTB to save a specified amount, over (at least) a specified time. We envisage lenders would offer some form of financial incentive to qualifying borrowers who meet the savings conditions, should they eventually decide to buy a new home, and home builders in the scheme would offer a special incentive. The Government would also offer an incentive, such as making the savings tax free (perhaps a special ISA, on top of current ISA allowance). We understand Nationwide's Save-to-Buy scheme has been a big success. We also understand several major home builders have tried to set up savings schemes on their own. However it is clear, talking to the lenders and home builders, that a successful scheme will require scale, covering a range of lenders and range of home builders, and hopefully Government.

AFFORDABLE HOUSING (AH)

10. The absence of information about **AH policy and funding beyond the *Spending Review*** is restricting private sector AH supply. Housing associations urgently need certainty about at least 2015-16.

11. We believe AH supply could be increased if the HCA took a more flexible approach to its internal rules and procedures. For example, it is very difficult to get agreement to shift allocations to different geographic areas; and potential S106

AH schemes that do not meet the HCA's standards (e.g. Code 3) are almost always ruled out, even though they could contribute to AH supply.

12. In 2012 we produced two papers looking at the possibility of having a moratorium on S106 AH demands for, say, two years. While there was support for the proposal, members were very aware of the practical difficulties. However we believe there is an alternative approach to **bringing forward AH units on future phases of large existing sites or new sites**. S106 units are nil grant, and therefore there are no financial implications for Government.

13. Most local authority S106 AH demands will require Affordable Rent and some element of Social Rent. As long as S106 requirements are known in advance of land purchase, the cost of meeting these demands can be built into the land price – in effect there is a private land value subsidy.

14. We suggest one effective way to bring forward AH supply would be to allow home builders to change their S106 AH requirements to more market-based solutions (e.g. shared equity, FirstBuy, discounted market sale), but to restrict this to a fixed period (say three years). Because market-based products are less costly in subsidy terms, this would provide a strong financial incentive for home builders to bring forward AH production from new sites or later phases of large sites. At the end of the three-year period, any S106 AH requirements not completed would revert to their original form.

15. We also suggest that private rented sector units, perhaps subject to a price cap, should be included within the definition of AH for a limited period (say 5 years). This would help kick-start investment in the PRS, in the process creating economic activity and jobs..

PRIVATE RENTED SECTOR (PRS)

16. We welcome the Government's announcements on the PRS**.** Many home builders are actively looking at financial models and no doubt many will have submitted bids for the Build-to-Rent Prospectus. As suggested in our Autumn Statement Submission, the **PRS Taskforce** should consider initiatives to aggregate portfolios from across a number of home builder suppliers. From discussions with a range of home builders, it seems clear progress with the PRS is going to require positive commitments from local authorities, and partnership working between developers, local authorities, housing associations and funders. However we remain cautious about the volume of product likely to be provided through institutional investment in the sector. By contrast, allowing residential investment in **SIPPS** would bring an immediate new source of funded demand for homes at no cost to Treasury. Treasury should also consider a revival of the successful **Business Expansion**

Scheme (BES) to attract new PRS investment from wealthier individuals, although designed to incur a lower cost per unit than the previous scheme.

SUPPLY MEASURES: DEVELOPMENT FINANCE

17. While **Get Britain Building** will unlock sites stalled because of lack of development finance, a less restricted scheme could unlock a wider range of stalled sites - e.g. gap funding for regeneration sites, infrastructure funding for large sites.

18. We would like to explore with Government the idea of an **SME development finance guarantee scheme**, modeled on NewBuy, in which the Government offered some form of guarantee to lenders. For example, the guarantee might be used to support an increase in the maximum loan-to-value, which we understand is currently around 60-65% of the gross development value of a site, to say 85%.

19. The **Funding for Lending Scheme** (FLS) and the proposed Government business bank should permit funding for residential development. Indeed we would like to see FLS money channelled directly into SME residential development finance.

SUPPLY MEASURES: PLANNING

20. The **NPPF**, which is a very positive document, will work well as long as (a) Planning Inspectorate decisions continue to support the key requirements of the NPPF, (b) the Government continues to support PINS and makes clear to local authorities its commitment to the pro-growth emphasis of the NPPF and the need to produce robust Local Plans , and (c) local authorities actually do produce robust, deliverable Local Plans and sensible CIL schedules.

21. There is a national need to provide more private sector **retirement housing** – which would also deliver much wider benefits in terms of reduced government expenditure on health and social welfare. It is important that full attention is given to the proper implementation of the NPPF in this regard.

22. The Government should review the slow and expensive **planning application process** in full. There is no justification for unnecessary delay, red tape or other bureaucracy in operating an important public service.

23. There is widespread industry concern about the number of **planning conditions**, and in particular the unrealistic and often unnecessary number of 'pre commencement' conditions. HBF members report that these are probably now the most important short-term factor delaying site starts, a situation that must be

addressed. (We wrote to the Housing Minister, Grant Shapps, on 1st May 2012 setting out our concerns. As far as we are aware, despite his initial reply, no action has been taken in response to our letter.)

24. DCLG should review current **guidance on preparing SHMAs** and **SHLAAs** as these are critical to the success of the NPPF. We are disappointed the Harman Review's ***Viability Testing Local Plans*** did not receive full Ministerial endorsement. such government endorsement would still be appropriate and would undoubtedly facilitate housing delivery. The advice should become established practice for local authorities and we understand it is already accepted by PINS as a valuable guide. The Government should consider simplifying **Local Plans** to a single document. We are concerned that implementation of the objectives of a Local Plan could be delayed by the production of second tier or sub-district plans, such as Neighbourhood Plans or Allocation Plans.

25. We are most concerned about the operation of **CIL**. The Guidance had to be rewritten as some local authorities were interpreting CIL as a levy on top of, rather than largely in place of S106 agreements, contrary to the industry's and Government's original intentions for CIL. The regulations also have to be revised because of a range of problems. We understand the proposed changes will go out to consultation very shortly, but will not be introduced until October. In addition, we are most concerned about the Government's most recent proposal that 15 or 25% of CIL funds should go to local communities. The whole point of CIL was that it would fund the infrastructure arising from development. It was never intended to fund buying off local opposition to new housing. If 15 or 25% is siphoned off for other purposes, then clearly there will be an infrastructure funding shortfall for the local authority, which undermines the purpose of CIL. Also, we understand the regulations to implement this very important change will not go out to consultation which we regard as very unsatisfactory.

SUPPLY MEASURES: PUBLIC LAND DISPOSAL

26. Members report that public land disposal seems to be making slow progress. We fully support a **wider HCA role** in public land disposal, and we are very pleased with the additional money and responsibilities announced in the Autumn Statement. In our Autumn Statement Submission we suggested a review of progress to date, publication of regular land disposal data (a glaring omission), and a review of the costly and complex bidding and transactional processes.

SUPPLY MEASURES: REGULATORY BURDEN

27. HM Treasury should look at **double taxation** of land sales - when SDLT is levied on the land value including VAT.

28. Reporting on the **Carbon Reduction Commitment (CRC)** is unfit for purpose in its current guise and has offered little useful information that can be used for an equal and fair comparison. We believe it is time for its abolition.

29. At **central government** level, despite the One In, Two Out Rule and *Spending Review* commitment to reduce the regulatory burden on home builders, regulatory costs will actually increase as things stand: the proposal for zero carbon 2016[2] and the Flood & Water Management Act[3] alone will cost £573-667,000 per hectare of residential land, or £14-17,000 per plot at an average 40 dwellings per hectare. We have previously suggested a **moratorium on any new national policies or regulations** which increase home building costs, including Part L and the Flood and Water Management Act, until the market shows a sustained and significant recovery. Meanwhile the failure to confirm a decision either way about the 2013 requirements of Part L, or to clarify the role and cost of **'Allowable Solutions',** has created enormous uncertainty and is damaging housing delivery, made worse as many local authorities begin to define their own often totally unrealistic versions of allowable solution.

30. While HBF supports the broad principles behind the DCLG **Standards Review**, we do not believe it goes nearly far enough. It should be extended to cover all relevant areas of policy, standards and regulations from central Government, local authorities, other public bodies and private utilities, all of whom impose unnecessary regulations and standards on home builders which damage efficiency, restrict scale economies, increase costs and reduce home building levels, with especially damaging impacts on SME house builders. We believe any justifiable standards should be implemented through national regulations, including Building Regulations. The proliferation of local and other sub-national standards is unjustified and should not be allowed.

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[2] Using Zero-carbon Hub estimates, May 2011
[3] HBF estimates based on information provided by Defra in late 2011