



HBF REPORT

Increasing private housing supply



***HBF policy
recommendations***

**August
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SETTING THE SCENE

England has had a serious undersupply of housing for at least 25 years, with many adverse economic and social consequences: very stretched housing affordability (prices in relation to incomes) in many areas, falling home ownership, especially among the under 35s¹, restricted labour mobility, aggravated wealth inequality.



When state house building ceased in the early 1990s, our system of housing supply became largely reliant on market-based, private sector supply². To build homes, private home builders need access to land, labour, materials and capital and funded buyers (owner occupiers, investors, social housing providers).

Yet at the very time the private sector was required to meet the bulk of housing demand and need, increasing state intervention severely limited the market responsiveness of private supply: the plan-led system (1991) gave local authorities tight control of the location and quantity of permissioned land; local authorities exercised increasing control over land values and site viabilities as they ramped up their capture of land value (£106

¹ Home ownership in England fell from 71% in 2003 to 65% in 2011-13. Among households aged 16-35, home ownership fell from 60% in 1991 to 34% in 2012-13.

² The private sector accounted for 56% of England housing completions from 1954-90, but 84% from 1991-2014.

demands, including Affordable Housing, local standards³, more recently CIL); local building performance standards and mix and density policies influenced the products home builders could offer to meet local demand. There is a fundamental tension at the heart of our system of housing supply.

Local authorities are the principle gatekeepers to housing supply: control over the location and supply of permissioned land through the plan-led system; a statutory monopoly to grant residential planning permission. The 1947 Town and Country Planning Act addressed the undesirable pre-war land-use consequences of market provision (urban sprawl, ribbon development). However in the 1990s and 2000s, while housing provision was largely dependent on market-based private sector supply, planning increasingly replaced, and even worked against local land and housing markets. Not surprisingly, private-sector supply became very unresponsive to market demand.

With direct state house building unlikely to rise significantly, and housing subsidies under severe pressure, our system of housing supply will remain heavily reliant on the private sector for the foreseeable future.

So can the industry deliver? In a market-based economy, the answer must be yes, provided:

- ***External economic and market conditions are favourable;***
- ***Policy and regulatory conditions allow the industry to buy land and profitably produce the right number of homes, in the right locations, with the right products, to meet local market demand;***
- ***And the industry has sufficient time to raise production and build capacity.***

With high house prices in many areas and large deposits required, policies to boost effect demand and also add to supply (Help to Buy Equity Loan, Starter Homes) are allowing the industry to accelerate capacity building and housing production beyond what would be possible if we relied solely on unassisted market demand.

This paper addresses the question: ***What more can government do to help the private sector increase house building?***

³ Many local standards (energy, space, accessibility, etc) added to costs without generating a compensating increase in sales revenue, so that the additional cost had to be absorbed out of land values.

SUMMARY OF POLICY RECOMMENDATIONS

Bridging the affordability gap

Measures to increase effective demand directly linked to new supply are accelerating the home building recovery and capacity rebuilding:

- Government and industry must assess post-HtB1 long before 2020
- HBF is working with DCLG on Starter Homes initiative design

Local authority planning resources

Home builders regard lack of local planning resources as a major barrier to increasing supply:

- A range of possible solutions are set out in our background paper
- Government should form an expert stakeholder working group

Local plans

Up-to-date local plans are essential in our plan-led system; our largely market-based housing supply requires an adequate quantity and variety of viable, permissioned land, in the right locations, and the right products, to meet local market demand:

- All local plans to be adopted by March 2017 with sanctions for failure
- Plans declared sound only if complete and fully up-to-date
- Automatic plan review if delivery falls well short of provision within 2 years
- Standardised methodologies required for strategic housing market assessments (SHMAs) and calculation of five-year supplies
- Viability testing of plans to take full account of all local authority policies
- Local plans to include an additional 'implementation gap' + a 20% buffer
- Five-year land supplies automatically to contain a 20% buffer
- DCLG to undertake a study of the 'implementation gap'
- Local plans to provide the widest range of sites, by size and location
- Local standards, especially space, will reduce housing completions

Green Belts (GB)

GBs should be protected but should not block housing supply at all cost:

- A local authority should review its GB if it cannot meet its objectively assessed housing needs
- After 60 years of GBs, an independent enquiry would be valuable

Restoring private supply's responsiveness to market demand

Because local authorities control land supply (local plans, brownfield registers, Housing Zones), private supply has become very unresponsive to market demand:

- A presumption in favour of residential development for all brownfield land within settlement boundaries to tap the experience and skills of home builders

Local standards

Local standards add directly to costs and make home building less efficient and more costly overall. Space standards restrict the industry's ability to meet demand:

- If local authorities are to have local standards, local plan inquiries must fully examine their impact on viabilities and housing supply

End-to-end planning reforms

Development management is unnecessarily slow, costly and uncertain and a barrier to increasing supply:

- Principle of development to be established only once
- Reintroduction of redline permissions
- Planning performance agreements, when agreed by both parties, to be legally binding, with sanctions
- Joint commissioning of consultants' reports when both parties agree
- Address county council delays to planning permissions and S106 agreements
- S73 applications and appeals for specific issues not to open up wider principles of development

Infrastructure

Policies for infrastructure funding and provision are unsatisfactory:

- A thorough DCLG review of CIL and planning obligations (S106) is required
- A single, central, flexible government infrastructure fund is required, designed to fit the operational requirements of home builders

Industry capacity

The industry must build capacity to produce significantly more homes, but many policy areas could be better designed to support supply and capacity rebuilding:

- A fundamental reform of CITB's role in relation to home building should be considered to help the industry address skills shortages

- Many of our recommendations would benefit SMEs⁴, especially a brownfield presumption and redline permissions
- The Builders Finance Fund's fixed planning permission date will undermine the scheme's success with SMEs

Expanding the market for new homes

While site sales (and therefore production) are limited by a local housing market's absorption capacity, there are ways production could be increased:

- Local authorities should take explicit account of the housing requirements of older home owners in local plans
- CIL charges should exclude retirement housing unsaleable common areas
- Removing the 'in-perpetuity' requirement of Affordable Housing (AH), and local authorities adopting more creative and flexible AH demands, would open up opportunities for private-sector low-cost home ownership solutions
- More positive attitudes by local authorities could help expand PRS supply
- Custom build needs more lenders to offer suitable products

Public-sector land

The 2008 OFT study concluded between a quarter and a third of potential housing land was controlled by the public sector:

- HCA revisions to land disposal processes should reduce bidding costs and complexity and help boost housing supply
- 'Buy now pay later' and JVs between developers and public land owners help boost private housing supply
- Direct commissioning lessons must be made available to the private sector

Devolution/decentralisation within England

Devolution should increase housing supply where the links between economic growth and housing supply are recognised:

- Devolution proposals should demonstrate a proper assessment of the barriers to housing supply so funds and powers are used effectively
- Fragmentation and variable performance could increase development costs

⁴ We define an SME house builder, using NHBC statistics, as starting 100 or fewer units per year.

INTRODUCTION

1. This paper addresses the question: *what more can central and local government do to boost the supply of private housing?* HBF has also produced four supporting Background topic papers (referenced at the appropriate places below).



2. It takes as given that a serious, long-term undersupply of housing in England has had major economic and social consequences, and that the private sector will have to provide a large majority of the new homes of the future.
3. The paper follows a simple approach: *a policy issue is identified, solutions are recommended.* The undersupply crisis we face is very serious and its causes are deep rooted and extend back over nearly 25 years. Therefore we believe a range of policies is required. While individual recommendations are attached to particular problems, many would reinforce each other and achieve much more than the individual proposals in isolation.

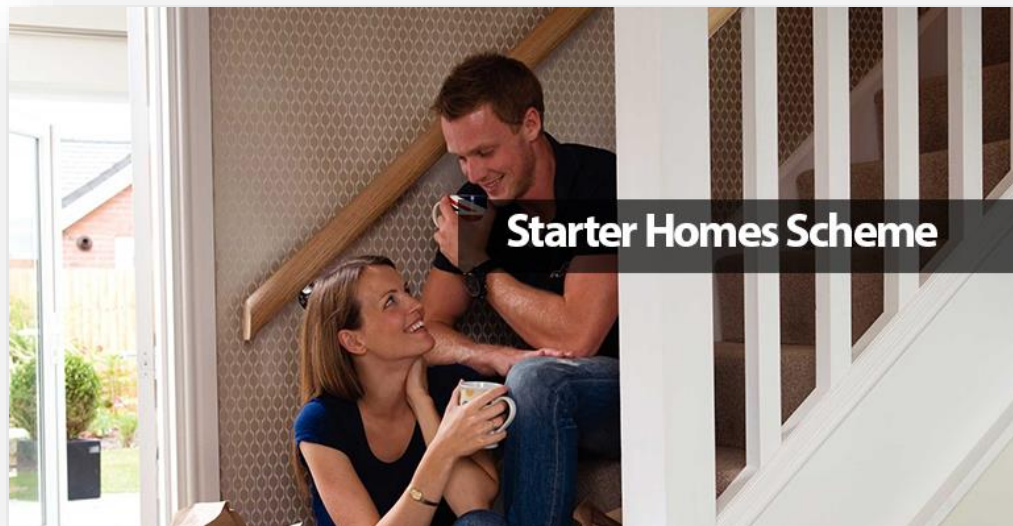
DEMAND POLICIES

Bridging the affordability gap

4. Because affordability – in terms of the relationship between house prices and incomes/earnings, and large deposit requirements – is so stretched in many areas, many potential buyers cannot buy unassisted. Help to Buy Equity Loan (HtB1) has significantly increased effective demand for new homes and, particularly since its extension to 2020, has facilitated a sizeable increase in supply. The Starter Homes initiative will also increase new home demand, although much important detail of the scheme has yet to be decided before we can determine the likely additional impact on private housing supply.

Policy recommendations

5. Because land purchase and housing development is subject to such long leads and lags, to avoid a post-HtB1 hard landing in 2021 we will need to begin talking to Government about the run-up to 2020, and the situation post-2020, long before 2020.
6. HBF is working closely with DCLG to assist with the design of Starter Homes and HBF has formed a multi-disciplinary expert member group to guide our thinking. Our objectives are a scheme that works efficiently and effectively, and that allows the industry to increase supply without damaging current sales and production.



PLANNING, PERMISSIONED LAND AND INFRASTRUCTURE

Planning: resources and skills

(For more detail, see the HBF background paper: *Resources for local authority planning departments, August 2015*)

7. Local authorities are gatekeepers to housing supply: they have control of permissioned land supply under our plan-led system; and each has a statutory monopoly to grant planning permission. House builders now regard lack of local authority planning and legal resources⁵ as a major barrier to private housing supply⁶. The Government's response, that local authorities do have the resources and that performance is related to leadership, culture and the status of planners, as well as funding and processes, is partly true, but this does not help house builders in their day-to-day dealings with under-resourced local authority planning departments.

Policy recommendations

8. There is a range of potential solutions to local authority planning resources: higher planning fees, *but only if firmly linked to service efficiency* (e.g. fees paid in processing stages dependent on performance); ring fencing planning funds; incentivising local authorities through service-related carrots and sticks; simplifying and streamlining the end-to-end application process; simplifying local plans; outsourcing; boosting the status of planners; better training for local councillors; improved leadership and culture; establishing central trouble-shooting teams to assist local authorities with exceptionally large and/or difficult applications; etc.
9. However HBF and other key stakeholders (e.g. LGA, RTPI, POS, etc) cannot solve this very difficult issue in isolation. Because achievement of a Government policy priority – boosting housing supply - is being held back by lack of local authority resources, we would urge the Government to convene an expert working group to devise effective solutions and seek the support of key stakeholders.

⁵ According to the Institute for Fiscal Studies (IFS), from 2009-10 to 2014-15 "some of the [local authority] service areas that saw the largest cuts to net spending were planning and development (which was cut to less than half its original level)". (IFS Press Release. *Sharpest cuts to local government spending in poorer areas; some areas likely to lose most in next few years*. 6 March 2015). The National Audit Office (*Local Government New Burdens*. June 2015) also concluded that planning and development spending had suffered significant cuts within local government spending.

⁶ A recent survey of house builders by Knight Frank concluded: "The biggest policy change that would help boost development volumes would be recruiting more people to Local Authority planning departments, according to respondents." (*Gaining Ground. Housebuilding Report 2015*)

Planning: NPPF reforms are working, but we need to go further

10. The planning reforms set out in the NPPF are very well designed to support growth and increase housing supply, and the planning inspectorate, as an agent of the Secretary of State, has played a crucial role in enforcing the requirements of the NPPF. At the coalface, house builders report that the new system is working well. However, while the industry has significantly boosted private housing supply since the NPPF and HtB1 were introduced, we need to keep up the momentum, especially if we are to hit 200,000+ completions within the next 3-5 years. The proposals set out below are all designed to achieve this objective.

Planning: local plans essential to supply in plan-led system

11. Deliverable and up-to-date local plans are essential to housing supply under the plan-led system. Yet throughout the 24 years of the plan-led system, large numbers of local authorities have not had up-to-date adopted plans: 'a plan-led system without plans'.

Policy recommendations

12. All local authorities should have an up to date adopted local plan. While we welcomed the recent written ministerial statement on local plans we do not believe that it is strong enough, nor goes far enough, in ensuring that those authorities without an up to date plan will respond in a positive way.
13. The deadline of early 2017 for local plans to be produced should be the cut-off date for a plan to be adopted. We appreciate that there may be some practical problems with such adoption but by merely allowing plans to be "produced" there is no incentive for plans to ever be formally adopted beyond this deadline.
14. We are also concerned that the Government has encouraged local authorities to put off making difficult decisions and planning positively for meeting their housing needs by suggesting that plans can be found sound if there is a commitment to an "early review". Local plans should be declared sound only if they are complete and fully up to date. Adopting a policy of early review will mean that many local authorities do not adopt new, up-to-date, information as part of their emerging plans, preferring instead to commit to such an early review at an unspecified time in the future. Our experience of similar commitments to early reviews of plans is that such review rarely takes place quickly, or that authorities find themselves in exactly the same position when seeking to review their plan of not wishing to face up to difficult decisions, meaning that up-to-date information is never properly included within their plans, with the early review plan itself also subject to early review

15. We believe that all plans should be formally reviewed at least every 5 years. This would mean that “early review” would never take longer than 5 years (but could be quicker) and would allow plans to be kept up to date rather than authorities continuing to rely on old plans or plans not incorporating the latest information or policy requirements.
16. Failure to meet housing requirements in the first two years of a plan should trigger an immediate review of the housing policies of the plan to ensure that they remain responsive to meeting housing needs.
17. We support standardised methodologies for local plan housing assessments and calculation of five-year supplies. We would be happy to work with Government and other parties to develop and test such methodologies.
18. Viability testing of local plans should be thoroughly examined at EIP, taking into account the full range of local authority policies, including Affordable Housing (AH) demands, planning obligations requirements, CIL and local building performance standards (e.g. space standards).
19. To ensure local plan requirements are treated as a minimum, not a maximum, and that the required housing numbers are met, local plan housing requirement figures should include a mandatory 20% buffer as required by the NPPF. This could be for a temporary period to increase housing delivery in the short term.
20. Five-year supplies of housing land should also contain a non-implementation gap to allow for the fact that, inevitably, some sites will not be developed within the expected time period assessed. We have urged DCLG to undertake a study of the implementation gap. At present it cannot be accurately quantified and the reasons for non-implementation of permissions are poorly understood. (The limited available evidence shows it is largely non-developers who ‘land bank’ permissioned land.) Yet understanding this gap is critical to determining the scale of permissions needed to deliver any particular level of output. (E.g. to ensure we can deliver 200,000 homes per year, do we need 250,000 permissioned plots, or more, or less?)
21. Neighbourhood plans must be in conformity with, and therefore follow, the local plan. If NPs are produced in advance of a local plan then they must be subject to the same tests and public examination of a local plan. We are concerned at the relatively weak testing required for NPs generally but particularly when they are produced in advance of a local plan, and the Housing Bill proposal that “neighbourhood planning will be streamlined and sped up” could further weaken NP testing and robustness and, where such plans are used to dictate to local plans, could seriously threaten housing delivery in our areas of greatest housing need.

Green Belts must not block housing supply at all cost

22. We acknowledge that Green Belts must be protected, having successfully achieved their original objectives.
23. However there is growing unease across a very wide range of organisations and experts that taking an absolutely rigid attitude to existing Green Belt boundaries, allowing no change, regardless of the consequences, is neither realistic nor consistent with the over-arching planning objective of sustainable development. Green Belt accounts for 13% of England's land area, whereas only 9% is developed. (Protected land, allowing for overlaps, accounts for 40% of England's land area⁷.)

Policy recommendations

24. Local authorities affected by a Green Belt should identify and quantify capacity from sustainable brownfield and non-Green Belt sites. If housing needs over the local plan period cannot be met outside Green Belt there should be a Green Belt review. This should identify sites for release in the plan period, plus safeguard land for development beyond the plan period.
25. However we must not end up with a sequential approach to land release. Brownfield and greenfield sites, and any Green Belt sites, should be available in parallel so as to avoid the mix and undersupply problems which flowed from PPG3, such as a local authority finding new, but undeliverable brownfield sites to justify a moratorium on greenfield sites. Any review should be in line with the requirements of section 9 (Protecting Green Belt land) of the NPPF.
26. Because Green Belt is such an emotive and politically sensitive issue, one potentially valuable option would be for the Government to commission an independent review or Royal Commission of Green Belt principles and consequences, surely justified nearly 70 years after the first Green Belts were introduced. There may also be lessons from the Scottish experience with Green Belts.

⁷ Green Belt plus other environmentally protected designations such as National Parks, Areas of Outstanding Natural Beauty and Sites of Special Scientific Interest. From DCLG *Land use Change Statistics in England, 2011*

Planning: land supply to maximise housing supply

(See HBF background paper: *Responding to market demand; understanding private housing supply. August 2015*)

27. Private house building is 'sales led': i.e. house builders can only build homes if they have funded buyers. Under any given set of external influences, sales per month or year on a site will be linked to the capacity of the local market to absorb new homes at prevailing local market prices.
28. Therefore increasing supply, all else being equal, requires more sales outlets, which broadly speaking means more housing sites (although large sites may have a number of sales outlets). Because of local market absorption capacities, we would normally expect a higher rate of sales – and therefore production – over any given period from 20 sites of 50 units than from 10 sites of 100 units or one site of 1,000 units.
29. In addition, the range of products a house builder can provide on a site, and therefore the range of market demand it can meet, will be linked to the nature size and location of a site and its relationship with the local market. Broadly speaking, the more sites on which companies are selling, by size and location, the wider the range of products and brands the industry can offer, and therefore the greater the aggregate rates of sale and production in an area.
30. Finally, the range of available sites, by size and location, will determine the breadth of suppliers and brands able to acquire suitable sites. The plan-led system has tended to result in some local authorities concentrating development on a few large sites and severely restricting development elsewhere. As well as restricting the rates of sales and production, and restricting the range of products house builders can offer and the range of market needs they can meet, this also restricts the supply of smaller sites which are the lifeblood of SME house builders.

Policy recommendations

31. To maximise supply from local housing markets, local plans should be required to provide the widest possible range of sites, by size and location, so that house builders can offer the widest possible range of products and brands to meet the full range of demand, and so that suppliers of all sizes, including SMEs, can find suitable sites.
32. To achieve this we recommend amendments to paragraphs 47 and 50 of the NPPF to include the words "size of site" as one of the key criteria of site identification through the local plan.

Planning: restoring supply's responsiveness to market demand

(For more detail, see the HBF background paper, *The case for a presumption in favour of residential development of brownfield land*, August 2015)

33. The 1980s was the last period in which private housing supply was strongly responsive to market demand: from 1981-88 private housing completions (GB) rose by 74% (+85,000), SME house builder numbers expanded by 52% and their starts grew by 85%. By contrast, from 1993-2007 private completions rose by 32% (+44,000), SME house builders contracted by 26% and their starts fell by 10%. (SME numbers fell by 80% between their peak in 1988 and 2014.)
34. There is a critical difference between these two periods: the presumption in favour of development in the 1980s - local authorities had to have a good reason to refuse permission - encouraged house builders to bring forward sites for planning in response to rising market demand and encouraged new entrants and existing SMEs to expand; the presumption in favour of the local plan (the plan-led system) from 1991, which gave control of the quantity and location of residential land supply to local authorities, discourages house builders from bringing forward land that is not already allocated in the local plan, and so severely curbs the market responsiveness of land and new housing supply. The broad principle is that once the plan is fixed, land (and therefore housing) supply is fixed.
35. The plan-led system requires local authorities to lead the process of site identification (overall quantity and location), as do Housing Zones and Brownfield Registers. In addition, local authority attempts to maximise their capture of land value (S106 demands including Affordable Housing, CIL, local standards) has given them a heavy influence over land values and site viabilities; and local building performance standards, and local mix and density policies, influence the products house builders can offer⁸.
36. In effect, market responsiveness (land supply and location, land values and site viabilities, products) has been replaced by local authorities trying to second-guess, ignore or even over-ride the local market and micro-manage housing supply. Given our housing supply system's heavy reliance on market-based private supply since the late 1980s, it should be no surprise that industry output has been severely constrained since the early 1990s.

⁸ The previous government's local standards review streamlined the chaos of local standards, but local authorities can still adopt additional local space, security, water and accessibility standards.

Policy recommendations

37. We recommend the introduction of a new presumption in favour of residential development for all brownfield sites within the settlement boundary (i.e. covering villages, towns and cities). Local authorities would have to have a good reason to refuse permission – valid reasons would have to be well defined by DCLG. This would boost supply by encouraging house builders to use their experience and expertise to identify available, suitable and viable sites, of all sizes, in all market locations, in response to market demand, and bring them forward for planning.
38. It would also help to ensure the industry is able to maximise brownfield opportunities – nearly three quarters of new homes are already built on brownfield land - and support SME house builders. The presumption would complement the work of local authorities in preparing local plan allocations, Housing Zones and Brownfield Registers.
39. We recognise a brownfield presumption would have implications for the windfall allowances in local plans. This would have to be addressed.

Local standards reduce private housing supply

40. The plethora of local building performance standards that emerged during the early 2000s, with minimal justification required, damaged housing supply. Many were not valued by home buyers, so that the standards added to costs without any compensating increase in sales values. Also, because each local authority had its own list of standards, and because each could devise its own standard (e.g. for energy or space), home building costs were generally higher because it was much more difficult for the industry to achieve design and building standardisation, a key requirement for production efficiency. Ultimately local standards consumed scarce land value, with little or no benefit.
41. Space standards are particularly problematic. By cutting out the smallest and most affordable dwellings within any house type (e.g. two bed flat or three bed house), they exclude some buyers from being able to buy a new home which they could have afforded and would have been perfectly happy to own. This reduces supply by removing house builders' ability to meet this segment of demand.
42. The Coalition Government's rationalisation and streamlining of local standards will help reverse these very damaging trends. However, although local authorities are required to justify the adoption of any of the new standards through the local plan process, in practice local plan examinations are not suited to in-depth investigation of local standards. We expect many local authorities will adopt most of the local standards, and these policies will usually be waived through with minimal examination.

Policy recommendation

43. If local standards are to be allowed, their impact on viabilities and housing supply must be properly examined at local plan enquiries.

Planning: 'end-to-end' process delays are holding back supply

44. Local planning authorities have a statutory monopoly to grant planning permission for residential development. To stay in business developing housing, house builders have no option but to deal with these local monopolies. There is enormous frustration within the industry at the slow, costly, inefficient and under-resourced service operated by many authorities.
45. In July 2014 HBF proposed a set of reforms to the end-to-end planning application process: only having to establish the principle of development once; outsourcing the technical requirements of planning applications once the democratic decision has been made; the re-introduction of redline permissions; addressing delays caused by statutory consultees, especially county councils; joint commissioning of consultants; a simpler arbitration process than full appeal for more minor issues (e.g. S106 agreements). All would help boost private housing supply. The previous Government took up a number of our recommendations, although full implementation is taking time.
46. Only having to establish the principle of development once and redline applications would especially benefit SME house builders. At present, the excessive cost of submitting an outline application, and uncertainty about the planning committee's decision, deter SMEs from submitting applications, especially as all the application costs must be borne by the SME because banks and the HCA (Builders Finance Fund) will not lend without at least an outline permission.

Policy recommendations

47. We welcome the Government's acceptance of our proposal that the principle of development should only have to be established once. This now needs to be implemented.
48. We strongly urge the re-introduction of redline applications. By establishing the principle of development for a site without excessive cost and risk, house builders, and especially SMEs, would be able to secure development finance and they would be willing to make the significant investment in the supporting studies, etc required to obtain a full permission.

49. When both parties agree to a planning performance agreement, it should be legally binding, with the planning fee returned to the applicant if the PPA terms are not met by the local authority.
50. At present, a house builder will submit a consultant's report as part of the planning application (e.g. ecology) and the local authority will then commission another consultant to scrutinise the first consultant's report. The house builder must pay for both. Where both parties agree, there should be joint commissioning of such reports from an agreed consultant. But joint commissioning must be voluntary.
51. County councils cause significant delays in processing planning applications and in agreeing S106 agreements, partly because they do not have the required resources and skills and partly because there is no incentive to engage quickly and efficiently, and there are no consequences if they do not. There should be carrots and sticks to ensure county councils engage fully and do not hold up processing of applications and S106 agreements (which ultimately delays work starting on site).
52. At present, if a house builders makes a S73 appeal for a specific issue, such as a single planning condition, the principle of development is open to reconsideration, particularly at appeals. This is disproportionate and deters house builders from resolving relatively minor issues. S73 appeals should be changed so that a specific issue can be re-considered and appealed as a separate issue from the principle of the whole development.
53. The work done on planning conditions by the last Government relies very heavily on good practice rather than legislation and regulation. We have worked with PAS and others to produce a good practice guide to using conditions which complements government planning guidance. While we are keen for such good practice to be implemented we will be keeping a close watch on this situation, particularly with regard to the unnecessary use of conditions, discussions with applicants regarding proposed conditions and the timely discharge of conditions.

Infrastructure: crucial to housing delivery and local acceptability

(For more detail, see the HBF background paper, *Community Infrastructure Levy: the future*, August 2015)

54. At present, most necessary on-site infrastructure is provided by the developer, while contributions via S106 agreements provide funding for Affordable Housing and have, until recently, provided contributions towards off-site mitigation. The Community Infrastructure Levy (CIL) was introduced to replace S106 agreements to fund off-site and strategic infrastructure. However, as implemented, the CIL has achieved too few of its objectives and we now have a highly unsatisfactory combination of an unsatisfactory CIL, S106 agreements and several special

infrastructure funds. In addition, forward funding of infrastructure for large and/or difficult sites has never been satisfactorily resolved, with funds available from one of several Government schemes which have fixed bidding dates and set criteria which tend to make them incompatible with the operational needs of private sector developers. There have also been cases where a local authority has taken responsibility for providing infrastructure, but has been unable to bid directly for funds from a Government scheme.

Policy recommendations

55. There must be a thorough, early review of the Community Infrastructure Levy (CIL), the remaining S106 agreements and infrastructure funding, including a full assessment of CIL's operation, fitness for purpose, impact on output, how levy receipts are spent and how and when infrastructure is provided. In addition, the unintended consequences of the April 2015 deadline for introducing local authority CIL charging schedules warrant urgent priority attention. Our background paper puts forward some possible solutions, but a wider debate is needed.
56. There should be a single, central, flexible central government infrastructure funding source, perhaps administered by the HCA and involving LEPs, with no fixed bidding dates and flexible criteria which fit with the operational needs of the private sector, and therefore achieve the fund's full potential to boost supply. Where a public-sector body has responsibility for infrastructure provision, it may be appropriate for it to be able to bid for funds.



INDUSTRY CAPACITY

Industry skills: industry to solve but with support from Government

57. Industry skills are regarded by home builders as perhaps the biggest obstacle to expanding output. This applies to all types of skills: site trades, site managers, professionals such as engineers and QSs, management. The industry has already significantly increased its investment in training and skills and HBF has taken new initiatives to help the industry attract and recruit new workers. In addition, skills shortages should lead companies to seek less labour-intensive methods of construction, including offsite manufacturing, labour from other EU countries has boosted labour supply in some areas, and labour rates and wages have adjusted to reflect the increase in skills requirements. Given time the industry will be able to make significant progress in addressing skills shortages.

58. The industry is already subject to a training levy, with the funds administered by the Construction Industry Training Board (CITB). There has been long-standing concern among home builders that the CITB has not served the industry well.



Policy recommendations

59. While the industry must do everything possible to solve its skills shortages itself, HBF seeks to work with Government and other bodies, particularly CITB, to develop a joint investment strategy for skills in house building. In concluding CITB's triennial review and the current strategic review of its funding support, full attention needs to be paid to meeting identified house building needs. We believe this is an ideal time to consider fundamental reform to CITB's role in relation to home building. HBF is preparing a wider investment case for house building skills and would wish to discuss a collaborative approach to implementing this with Government. We await details of how the new apprenticeship levy will apply to construction and home building, given the existing levy and role of CITB.

SMEs: reversing the collapse crucial to boosting supply

60. As already noted, the number of SME house builders has fallen by 80% since 1988. Because the fall has been so dramatic, and over such a long period, it has clearly been driven by long-term structural factors, and not just short-term cyclical influences such as development finance (only a significant constraint since 2008 and now eased considerably).

Policy recommendations

61. Many of the policy recommendations in this paper would bring a significant improvement in conditions for SMEs: increased effective demand from HtB1 and Starter Homes; improved local authority planning resources; improvements to local plans, especially maximising the range of sites by size and location; a brownfield presumption; our end-to-end proposals, most notably re-introducing redline permissions and only having to establish the principle of development once.
62. The recently announced Housing Growth Partnership, a joint Lloyds/HCA equity scheme, is welcome. We are also pleased that the Builders Finance Fund is being reformulated to make it more flexible, and therefore more responsive, to the needs of SMEs. The only major flaw in the most recent proposal is the requirement for a site to have planning permission by September 2015. This will act as a severe constraint on the scheme's success and seems entirely unnecessary.



EXPANDING THE MARKET FOR NEW HOMES

63. We have already set out a number of strong proposals to increase the number and range (size and location) of housing sites available to house builders so that they can offer the widest possible range of products to meet all segments of housing demand, and provide land for the full range of housing suppliers, and therefore help boost overall housing supply.
64. While it is generally accepted that we need to build around 240,000 new homes per year in England to meet anticipated household growth, it would help the Government in formulating housing and planning policies, and the industry in assessing future demand, if we had research into the likely composition of this aggregate number: e.g. unassisted market sale, assisted market sale and products like shared-equity, private rented sector, affordable housing, homes for older people, etc.

Expanding the owner-occupier market for new homes

65. Within the owner-occupier market, a number of companies are looking at the potential for new homes to offer downsizing opportunities for the rapidly rising numbers of older home owners. The market for private sector specialist retirement housing, established in the late 1970s, may offer opportunities for house builders not already offering products for this market. In addition, more mainstream trade-down products could open up a new market for house builders.

Policy recommendations

66. Local plans and strategic housing market assessments should pay explicit attention to the housing requirements of older home owners.
67. CIL charging calculations should exclude unsaleable common floorspace in retirement schemes, such as a resident's lounge or manager's apartment. CIL charges on these areas put schemes at a financial disadvantage compared with mainstream housing.

Expanding Affordable Housing supply

68. Affordable Housing (AH) is in a state of flux, with cuts to social housing rents, right to acquire and other welfare reforms affecting housing association finances, and the Starter Homes initiative possibly offering a new form of AH if the definition is amended. Now would seem an ideal time to consider more radical ways to increase AH supply, particularly intermediate private-sector home ownership tenures that generally do not require state subsidy.

Policy recommendations

69. HBF has long argued that a more flexible approach to AH, especially a change to the definition to remove the in-perpetuity principle, would open up opportunities for private AH supply and increase AH numbers compared with those achievable from social or affordable rented units which require a heavy land-value subsidy per unit.
70. As well as changing the definition, more creative and flexible local authority S106 Affordable Housing expectations could boost nil-grant private supply by allowing more dwellings per £ of land value subsidy, and help encourage private sector low-cost home ownership solutions such as shared equity, shared ownership and Starter Homes.
71. Significant institutional funds would be available for AH supply following removal of the in-perpetuity restriction. If the definition is changed, we will need to look more closely at the financial and tenure requirements of institutional investors.

Supply opportunities in the private rented sector (PRS)

72. Most home builders will not become direct investors. The cost of capital for a developer is too high, and the returns from PRS housing too low; house builders are experts at developing, not managing housing; and by locking up capital in long-term PRS investments they would reduce housing development, the opposite of what we want to achieve.
73. It is very difficult for private house builders, buying land competitively, to make supply for institutional investors in the private rented sector (PRS) work financially. However there may be opportunities for institutional investors in the PRS to bring forward later phases of large sites or on large regeneration sites.

Policy recommendation

74. Local planning authorities could help increase opportunities for new PRS housing by taking a more pro-active and supportive approach to supply for the PRS. However we do not support a special PRS planning use class. Rather, local authorities should look at the planning and financial requirements of PRS schemes which may require, for example, an exemption from AH requirements to be viable.

Custom Build will add to supply

75. Custom build offers opportunities to expand housing supply, although we need to be realistic about the scale of any likely increase. In particular, it offers business opportunities for SMEs home builders.

Policy recommendations

76. The HCA's valuable work in this area needs to continue, although pioneer house builders have found the processes rather too time consuming and complex.
77. We also need to encourage more lenders to offer mortgage products for the custom-build sector. The stage payments needed to fund construction of the dwellings are a particular problem. We understand the CML is currently looking at this issue.

Boosting delivery rates on large sites

78. House builders frequently boost the build-out rate of large sites by opening more than one sales outlet, or by selling phases of the site to other developers who then open additional sales outlets. A site of 1,000 units with, say, three sales outlets will achieve significantly more sales per month or year than a single sales outlet.
79. There may be other opportunities to increase delivery rates on large sites without damaging the main developer's financial interests. It may be possible to sell a later phase to an SME who may offer a product that larger developers may not offer, such as custom build. Private AH and more flexible local authority AH demands could boost the number and rate of delivery of AH on large sites. Similarly, as noted above, it may be possible for later phases of a large site, or a large regeneration site, to offer opportunities for institutional investors in the PRS.



LAND OPPORTUNITIES TO BOOST SUPPLY

Public-sector land: major opportunity to expand supply

80. A 2008 OFT study of the home building industry⁹ concluded:

“There are few centralised reliable data sources that can be used to address the question of how much public sector land is suitable for residential development. Although, the three databases we have used suggest that the public sector accounts for between a quarter and a third of all land currently deemed suitable for residential development.”

81. Recent efforts by central Government and the HCA to establish accurate audits of public-sector land should have overcome some of the data problems identified by the OFT. However public sector bodies outside central Government, such as local authorities and NHS Trusts, are also understood to own significant surplus land.

Policy recommendations

82. Revised HCA public-sector land disposal processes will, we hope, reduce bidding costs and complexity. Increased land supply following reforms to the NPPF mean public-sector site disposals must compete against private sector site sales.

83. ‘Buy now pay later’ disposals could be particularly valuable in boosting supply. Joint ventures with public-sector land owners, by reducing the upfront capital requirements and changing the return on capital calculation, could allow companies to expand supply. Disposals of small sites suitable for SMEs need to be as straight forward and as possible, avoiding excessive bidding costs.

84. Direct commissioning should add to what the private sector can do, not duplicate. The current pilot at Northstowe must be based on realistic parameters (e.g. land value, profit margin, sales values) and lessons from the current York University study and the Northstowe pilot should be made available to the private sector.

⁹ OFT Homebuilding *in the UK; a market study*. September 2008

DECENTRALISATION OPPORTUNITIES & POSSIBLE PITFALLS

85. Devolution/decentralisation within England should increase housing supply where a combined authority is committed to boosting economic growth and recognises the link between growth and housing supply. Combined authorities should also overcome some of the current limitations of the duty to cooperate. However we do have concerns about how robustly devolved authorities will assess local barriers to housing delivery, and with the potential for fragmentation and variable performance with programmes such as funding for SMEs or public land disposal.

Policy recommendations

86. Proposals to establish combined authorities should be required to demonstrate that current barriers to housing supply in the area have been properly assessed, so that funds devolved from central Government, and the new combined authority's efforts to boost supply, are employed to maximum effect. For example, allocating funds to a devolved authority for a particular purpose, simply because funds are available, is not the best route to overcoming the barriers to housing delivery.
87. We are also concerned that fragmentation and variable performance could increase development costs and slow down housing delivery. Recently streamlined processes for the HCA's public land disposal and for the Builders Finance Fund will help improve take-up and so add to housing supply. The danger from devolution is that each combined authority will seek to establish its own procedures, so that in time house builders could be faced with a multitude of different qualifying criteria for BFF-type schemes or public land disposal processes and requirements, adding to costs and reducing the success of such initiatives. The proliferation of local authority building performance standards during the 2000s graphically illustrated these dangers.



About HBF

The Home Builders Federation (HBF) is the representative body of the home building industry in England and Wales. The HBF's members account for around 80% of all new homes built in England and Wales in any one year, and include companies of all sizes, ranging from multi-national, household names through regionally based businesses to small local companies.

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*"The voice of the
home building
industry"*