

HBF Submission

October 2016

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Summary and key points

1. House building will have a crucial role to play over the next decade to ensure there are sufficient dwellings to meet the population's needs, and to support the UK economy and employment during our exit from the EU and beyond. We believe the measures below would avoid a post-Referendum downturn in private home building and, in the longer-term, would free up the private sector to fulfil the increased social and economic role it needs to play.

Progress to date

2. The Government should look proudly on its achievements in boosting supply over recent years. Measures to increase housing delivery have yielded significant success. Notably:
 - a. Reform of the planning system via the NPPF to bring about a major increase in the number of plots granted planning permission
 - b. Introducing the Help to Buy Equity Loan scheme which has outperformed any similar past initiative, created unprecedented additionality, led to a direct increase in supply and allowed tens of thousands of people to buy their first home
 - c. Granting of permitted development rights for certain office to residential conversions, boosting overall supply in the last two years
3. The industry has responded positively to these and other measures. In 2014/15, the most recent year for which we have figures, annual house building completions increased by 20%, contributing to an increase in net additional dwellings of 25% in a single year. In all, 2014/15 saw the supply of 181,000 new homes, of which 155,000 were new build housing completions.
4. We must now maintain and build on this growth if we are to support the Government's ambition to deliver one million homes over the course of the parliament, a target which we believe to be eminently achievable in the right economic circumstances and with some relatively minor improvements to the environment in which HBF's members operate.

Post-Referendum market conditions and impact of SDLT changes

5. Whilst the new build sector has, *so far*, maintained relatively strong demand, it is clear that a slowing second hand housing market in much of the country is making the outlook more uncertain and this is having a direct impact on some sectors of the new build market, including retirement housing. This trend began in advance of the referendum when the impact of the Stamp Duty changes of the past two years began to act as a drag on the market. To avoid house builders taking precautionary measures in anticipation of a sharp economic slowdown, and thus slowing housing starts and completions, we recommend a confidence-boosting package:
 - An immediate review of the impact that transaction taxes are having on the market, particularly at the price points where costs to purchasers have increased significantly compared with the previous regime. While these are by definition bought by wealthy purchasers, they do create a stimulus for the rest of the market, creating 'chains', more transactions and additional receipts for the Exchequer.
 - From a longer-term perspective, Treasury should reconsider the design and impact of the 3% SDLT surcharge for investors which can only damage new supply, and fails to incentivise large-scale investment in private rented sector homes which could make a significant contribution to housing supply for a market less exposed to cyclical variation.

Help to Buy

6. Demand for new build homes has been maintained over recent weeks and months due in no small part to the success of the Help to Buy Equity Loan scheme which continues to support first-time buyers achieve their home ownership aspirations while stimulating investment in land and labour by house builders around the country. To continue and build on these achievements we propose:
 - A review of the parameters of the overwhelmingly successful Help to Buy Equity Loan scheme to maintain over the next four years the positive impact it has had over the past four years. This should include an extension of the maximum period between exchange and completion which as it is currently set at six months is limiting the utility of the scheme in some markets
 - Giving early consideration to the future of the Help to Buy Equity Loan scheme, or an alternative, as the 2021 end date begins to be factored into house builder business planning

Industry structure and SMEs

7. The risk, cost and complexity associated with the planning system has, over the course of a generation, resulted in a stark decline in the number of small and medium-sized house builders producing new homes. SMEs are also disproportionately burdened by regulation imposed by agencies and utilities providers that, perhaps understandably, have no interest in housing supply or housing delivery. Overall, there are 80% fewer SMEs in the industry as compared with prior to the introduction of the plan-led planning system in the late 1980s. Contrary to the arguments put forward by those philosophically opposed to private sector house building, there is no upper limit to what the private sector can provide in the right circumstances, limited only by the upper limits imposed by Local Plans.

Tackling barriers to entry and allowing entrepreneurialism to thrive

8. Addressing the long-term structural decline of SMEs in the house building sector would play a major role in helping to go beyond the ambition of one million homes in the parliament. Over several decades the planning and construction process has become ever more complicated, risky and expensive. Because of their scale large house builders have been able to adapt, mitigate risk and delay on some sites as their investment is spread across many more sites and potentially many regions. For all but the very best resourced individuals and companies, and those with vast knowledge of the industry, home building has become an impenetrable sector to join.
9. **Land & Planning:** The overarching planning system and the process of obtaining planning permission works against the needs and interests of the smaller builders, particularly since the introduction of the plan-led system. The following measures would help transform residential land and housing supply and in particular improve the development environment for SMEs.
 - A presumption in favour of residential development for brownfield sites within settlement boundaries that are not included within local plan allocations;
 - Amend the NPPF to require local planning authorities to provide for “the widest possible variety of sites by size and location”;
 - Robust, transparent local 5-year trajectory planning;
 - Clarify planning status of back gardens to ensure that small-scale sustainable schemes can come forward in accordance with current policy and guidance.

10. **Finance:** Although conditions have improved, development finance is still a major constraint on the activity of SMEs and a barrier to new entrants. The Government has a key role to play. Most banks will not lend on an outline planning consent and then only 60-65% of land and work in progress costs. A Government loan guarantee scheme to encourage lending at higher LTVs would allow SMEs to develop more sites and increase production. In reality this modest level is rarely achieved because of the repayment arrangements which usually ensures the lender recovers investment entirely before the developers' equity is repaid. This acts as a barrier to entry for start-ups and acts as a brake on growth for existing house builders.

Housing needs of older people

11. The current planning system creates many obstacles to the delivery of specialist retirement housing and this should be addressed. There are few references in the planning system to demographic change, and neither does the system account for this form of housing's unique nature and viability model, nor proactively encourage it across all tenures. We would like Government to consider our changing demographics and what this means for the housing market. Through some minor changes to the planning system and an exploration of financial incentives for downsizers, the Government could create conditions that would free up significant numbers of family-sized homes and promote appropriate housing options for older people with specific requirements or needs.

Introduction

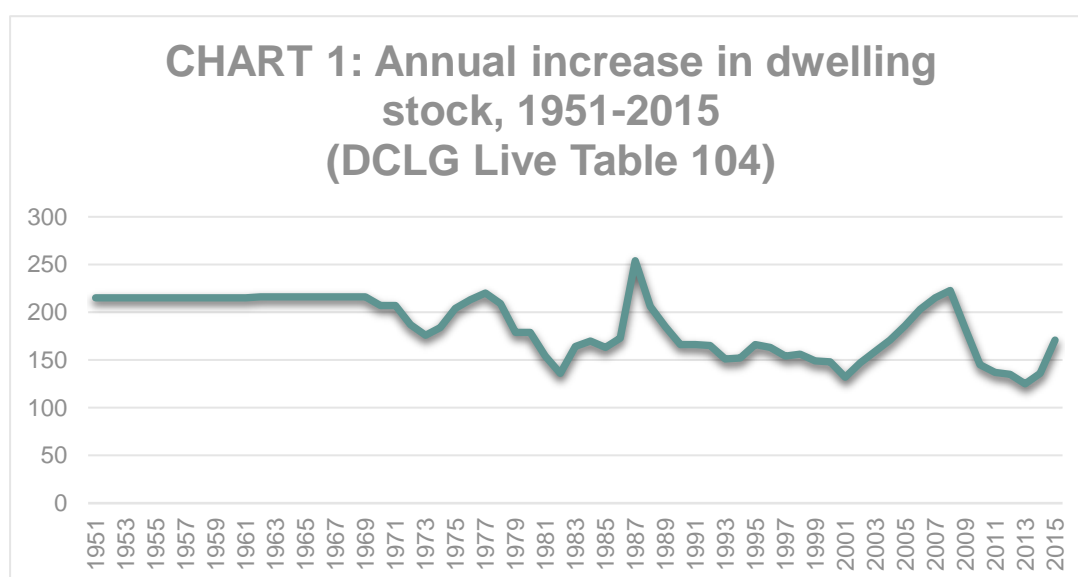
1. The Home Builders Federation is the principal trade association representing the interests of private home builders in England and Wales. Our membership, which includes companies ranging from major national firms, through regional companies to smaller local firms, is responsible for around 80% of the new homes built by the private sector in England and Wales.
2. This submission explores the environment required to allow the private sector to further increase housing delivery and, subject to the right economic conditions, maintain these much higher levels for many years. We address both the immediate post-Referendum state of private house building, as well as medium to long-term issues.

Background

3. The Government should look proudly on its achievements in boosting supply over recent years. Measures to increase housing delivery have yielded significant success. Notably:
 - a. Reform of the planning system via the NPPF to bring about a major increase in the number of plots granted planning permission
 - b. Introducing the Help to Buy Equity Loan scheme which has outperformed any similar past initiative, created unprecedented additionality, led to a direct increase in supply and allowed tens of thousands of people to buy their first home
 - c. Granting of permitted development rights for certain office to residential conversions, boosting overall supply in the last two years
4. The trajectory is positive. Few other industries could produce the year-on-year increases in output that house builders have achieved in recent years as a response to improving market conditions and positive Government measures. This is especially true for an industry so reliant on external forces such as planning, labour availability and the mortgage market. We must now maintain and build on this growth if we are to support the Government's ambition to deliver one million homes over the course of the parliament, a target which we believe to be eminently achievable in the right economic circumstances and with some relatively minor improvements to the environment in which HBF's members operate.
5. The Government's collection and publication of inaccurate statistics on housing supply creates a false perception of the progress made over the last five years and vastly underestimates the extent to which house builders are investing in land and labour to build tomorrow's housing. The Government's own, more robust statistics on Housing Supply, state that in the most recent year, the industry has increased new home completions by just under 20% in a single year, contributing to a year-on-year increase in net additions of 25% (Net Supply of Housing Statistics, DCLG). It is concerning then that for the same period the statistics termed 'House Building Statistics' not only report growth of only around half the likely true levels but also under-report actual delivery by around 30,000 new homes meaning that over the course of the parliament the Government's 'House Building Statistics' could be excluding the number of homes equivalent to a city the size of Nottingham or Newcastle.
6. We believe that alternative providers, such as local authorities and housing associations could have a greater role to play in helping to achieve the long-term step change in housing supply that is required to reverse decades of undersupply. However, we reject the hypothesis put forward by those opposed in principle to private house building that

housing need can only be met via a major intervention by the state directly building or commissioning homes, or exclusively through expansion in output from the housing association sector. This theory disregards the basic principles of economics and is often based on an over-simplified analysis of historic precedent, particularly in relation to the house building programme of the 1950s to 1970s when, indeed, the public sector did make a significant contribution. What is often excluded from this analysis is the more pertinent net additions to the housing stock.

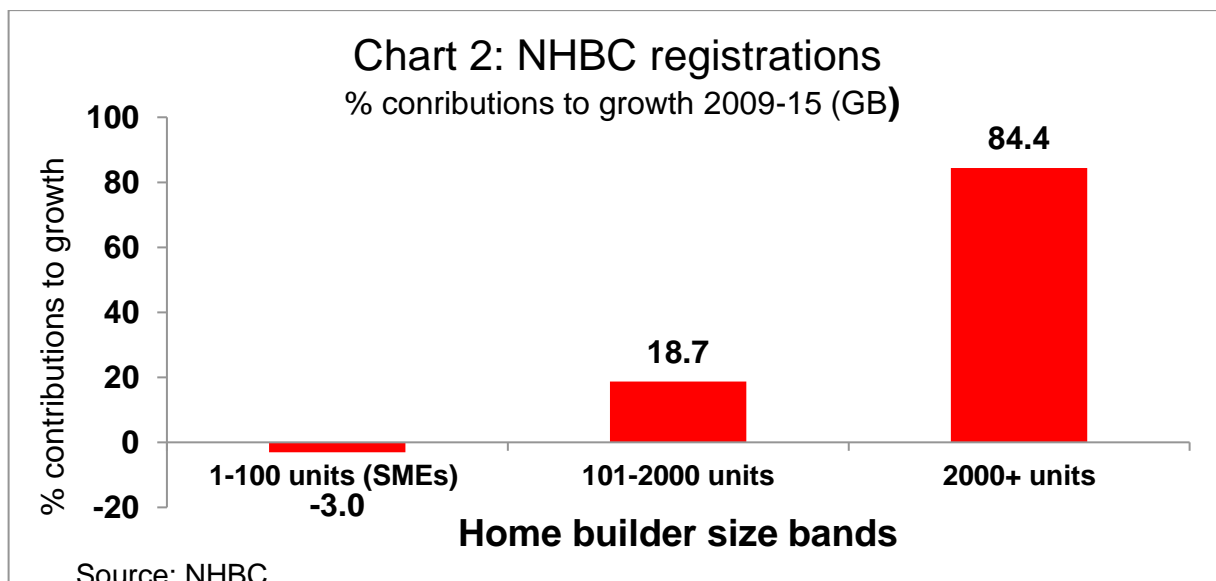
7. The Post-War rebuilding effort achieved huge levels of supply but more modest increases in the number of homes available as demolitions are estimated to have averaged just under 50,000 dwellings per year from 1955 right up until 1985. Allowing for demolitions, in terms of land use, the 'boom' led to net additional dwellings of, on average, 215,000 in the 1950s and 216,000 in the 1960s; not dissimilar to those seen in the decades after when public sector delivery had receded. Highlighting the importance of land availability, the downward trend in net additional dwellings began just prior to the introduction of the planned system of planning in 1991 which effectively set an upper limit on the number of homes that could be provided.



NB: Figures for 1951 to 1961 and 1961 to 1971 are based on average as data is only available for decades.

8. England has had a serious long-term undersupply of new homes for around 25 years. With a backlog of unmet need/demand, probably of more than one million, household numbers are projected to grow by 227,000 pa in the period 2014-24. Yet new build completions were 155,000 in 2014-15, with gross additions (new build + conversions + change of use) 181,000 and net additions 171,000 (gross additions less demolitions). Net additions were up 37% in the two years to 2014-15, but growth needs to continue for many more years if we are to resolve the undersupply crisis and meet the Government's target of 1m new homes over the course of this Parliament.
9. **Migration:** It is worth noting that exiting the EU, and tighter controls over inward migration, are unlikely to have an impact on the household projections for England, and therefore on future housing requirements and local plan housing targets, because the projections already assume a much lower long-term level of inward migration than we have experienced in recent years.

10. **Wealth and inequality:** The very high price of housing in relation to incomes in many areas - at least in part a consequence of housing undersupply – widens the wealth divide between homeowners and others. The biggest impact is on young people and those on low to middle incomes who face the greatest difficulty in achieving home ownership. Around 3.3m 20-34 year olds now live at home with their parents – more than a quarter of this age group – following a rise of approximately 1m in the last 15 years. This has effectively become a fourth tenure after owner occupation and private and social renting.
11. **The economy:** The economic outlook following the EU Referendum is uncertain, with many experts predicting slower economic growth. It is going to take some time for the UK to negotiate the terms of its exit and for the UK economy to adjust accordingly. House building can play a central role in buoying domestic economic activity and jobs during this transition period, especially because of the minimal import leakage associated with house building. As the Bank of England has recognised, it is particularly important that we avoid companies – including house builders – adopting a much more cautious post-Referendum approach to growth, investment and employment in anticipation of a serious downturn in consumer spending and confidence, actions which would risk creating just such a downturn.
12. **Private house builders** account for a large majority of the new homes built annually in England (84% on average 1991-2015 England), whether for private sale or as Affordable Housing. Until the early 1990s, private house builders had considerable freedom in relation to residential land supply, and therefore housing numbers. As a consequence, private home building numbers and industry capacity were very responsive to market demand and the late 1980s saw a house building boom rivalled only by the post war rebuilding effort.
13. The inflexibility of the **plan-led system** introduced in 1991 put local planning authorities in unfettered control by giving them control over the location and, critically, the numbers of new homes being built. We believe that this is the primary cause of subsequent housing shortages since it has minimised land allocated and released for residential development. As a result, house building levels have been unable to respond to market demand, leading to housing delivery being artificially suppressed for 25 years. A direct consequence has been seen in the structure of the home building industry. By 2007 half of the top 30 companies in 1995 had disappeared, the largest have taken an increasing share of the market, while SME numbers have fallen by around 80% since 1988. This must change. If the private sector is to continue to provide the bulk of new homes, as seems highly likely for the foreseeable future, smaller companies must be freed to find land and build sufficient homes to meet market demand and Affordable Housing requirement. These dynamics were a feature of the market prior to the introduction of the rigid plan-led system when entrepreneurialism flourished and new entrants came into the industry in large numbers. However, since the early 1990s, the risk, cost and complexity associated with obtaining planning permission has proven to be a barrier to entry.
14. Looking at **house builders by size**, the national companies (approx. 15 companies, building 2000+ units per year) accounted for 84% of the increase in house building between the trough in 2009 and 2015 (Chart 2), and they will continue to build a very large share of future production, with most pursuing significant growth in the coming years. Medium-sized 'regional' companies (100-2000 units) contributed another 19%. By contrast, the output of SMEs (1-100 units) actually fell slightly, according to NHBC statistics. Therefore, while continuing to support activity by the Majors, we urgently need to boost the output of smaller regional companies, and especially SMEs.



Measures to Boost Private Home Building

15. We believe the measures below could help to give a post referendum boost to the private home building industry and free up builders to fulfil the increased long-term role it needs to play over the coming decade.

The immediate trading environment and impact of SDLT changes

16. HBF's survey data suggest the new build market may have held up better than the second hand market in recent weeks and months, primarily because of the Help to Buy Equity Loan. In the short-term this has maintained confidence and allowed builders to continue to train and employ staff, and plan new sites.
17. Evidence from the second-hand market shows the general housing market has experienced something of a slowdown in recent months. The referendum appears to have merely compounded the significant impact that the recent SDLT changes appear to have had on the housing market as a whole.
18. The London market and higher value areas, predominantly in the South East, have experienced the biggest slowdown. While the immediate effect on supply is likely to be minimal, a sustained period of decline in the secondary market will inevitably have an impact on confidence and investment feeding through to longer term consequences for delivery. It is clear that these markets were already weakened before the Referendum by the stamp duty reforms of December 2014 and the SDLT percentage point surcharge for investment buyers in April 2016.
19. While it could be argued that special measures should not be introduced to help these higher-priced markets, the danger is that their weakness will have knock-on effects on the wider housing market. In addition, house builders will be far more cautious about starting schemes in these markets, especially central London where the capital lock-up in high-rise apartment schemes can be very considerable necessitating forward sales.
20. To help developers continue to make positive decisions with regard to investment in land and labour, maintaining recent increases in output, we believe there is a strong case for measures to boost confidence among homebuyers.
21. A reduction in transaction taxes would create an incentive for prospective sellers and buyers to enter the market. An immediate review of the impact that transaction taxes are having on the market, particularly at the price points where costs to purchasers have increased significantly compared with the previous regime. While these are by definition bought by wealthy purchasers, they do create a stimulus for the rest of the market, creating 'chains', more transactions and additional receipts for the Exchequer. Specifically, many other sectors are heavily reliant on housing transactions and the construction of new homes, which thus generates vast receipts for the Exchequer. This includes, but is not limited to, VAT on professional services (sales agents, solicitors, surveyors et al, Corporation Tax from these companies and Income Tax from contractors who work on new build homes.
22. Treasury should reconsider the 3% SDLT surcharge for investors purchasing new build homes. We desperately need to encourage supply, whatever the ownership of dwellings. Indeed, in many areas additional rented homes would be beneficial to the overall housing market. For many years, policymakers have promoted greater institutional investment in

private rented sector housing but the current fiscal environment contradicts these sentiments. Encouraging large-scale, professional investment in the sector could help increase and accelerate output and help home builders plan for longer-term investment in new supply.

23. The previous Chancellor, for understandable reasons, sought to discourage individuals from investing in buy-to-let property. However, the Bank of England and the Prudential Regulation Authority's new rules on buy-to-let lending to introduce a higher test for affordability and more stringent underwriting rules, represent a more effective approach to limiting overexposure and levelling the playing field between investors and owner-occupiers.
24. Enhancements and tweaks to the enormously successful Help to Buy Equity Loan scheme could engender a boost to the market in more vulnerable markets with no additional burden on the Exchequer:
 - a. Review the current parameters of the scheme, including the national price cap of £600,000. Help to Buy was introduced in 2013 and is to remain in place until 2021 so 2017, as a midpoint in the scheme's operation, would be a sensible interval at which to ensure it is capable of delivering the levels of success seen since April 2013. While a very low proportion of sales have been close to the £600,000 and with an average around £220,000, take up in London and the South East has been relatively low. A gradual increase in price caps with a commensurate decrease in the size of equity loans could be an option for further exploration.
 - b. Administrative improvements to enable buyers to purchase further in advance and for builders to have greater certainty over future sales would help to increase take up of the scheme in London where forward sales are often required to help finance development. A maximum period of six months between exchange and completion limits the positive impact of the Help to Buy scheme, especially in areas where forward sales are necessary to support delivery.
25. Although 2021 is still some way off, in business planning terms for house builders it is now firmly on the horizon and we must begin considering future support measures. This is discussed below.

Industry action to build capacity

Industry Skills

26. The skills lost over 25 years of artificially suppressed house building, exacerbated by the industry's contraction following the 2007-08 crash, will take a long time to rebuild and replace. Success lies largely in the industry's own hands.

Brexit and skilled labour supply

- The agreement with the EU, and any new UK policy on EU inward migration, must allow for sufficient construction labour from the EU or elsewhere. EU labour played an essential role up to 2007, and has again in the current recovery, especially in London and the South East.

The industry helping itself

- To oversee our extensive work in this area and develop other collaborative schemes for the industry, HBF has secured a large CITB grant to set up a major new Home Building Skills Partnership. The Partnership will support over 3,500 construction

businesses and, by 2019, train 45,000 new entrants and 1,000 experienced workers with the new homebuilding training qualifications.

- Home builders and their supply chains have recruited tens of thousands of staff since 2010. Within this, home builders have very significantly stepped up their engagement of apprentices. The largest HBF members have doubled their annual apprenticeship intake over the last three years. Between them they currently engage about 2,000 apprentices.
- A special £1m fund with CITB to encourage additional training for non-construction roles including sales and marketing
- Working with its members, HBF has launched a major new house building careers website to promote career opportunities in the industry and to assist the industry in engaging with schools and further and higher education institutions.
- HBF has run a pilot project with its members to explore means to recruit experienced workers looking for new careers - including military leavers, the unemployed and those with transferable skills working in other sectors of the economy.
- HBF has commissioned an important new piece of research to analyse the issues affecting investment in training and skills in the home building sub-contractor supply chain.

New Home Quality

27. We are confident that the industry's ambitious plans for growth can be met without compromising on the quality of new build properties. HBF is working with member companies on a range of initiatives aimed at building on recent progress to drive up build quality and customer service standards still further.

- **Customer Satisfaction Survey and HBF Star Ratings**
The industry undertakes what is believed to be the largest annual consumer survey of its type to monitor customer satisfaction with new build homes. Since the survey was launched in 2005, in response to the Barker Review, huge progress has been made. The survey has helped to drive improvements in build quality and customer service by providing a consistent barometer of company performance. HBF is currently undertaking a review of the survey with external experts to ensure it remains an independent and robust.
- **Consumer Code for Home Builders**
The Code provides a facility for buyers of new homes to obtain independent guidance and resolution of problems with their new homes and customer service. The independent Code is currently undergoing a review to ensure it is addressing the evolving needs of new home purchasers.

Government Policy Support

Demand Measures

Help to Buy Equity Loan

28. This scheme has been a major success, both in sales terms and because it directly links the boost to demand with increased supply. Between a third and nearly half of the larger house builders' sales have been coming through this scheme. The new London 40% scheme has been a success though limited by the scheme's price caps. By announcing that the scheme would run to 2021, the Government gave confidence to house builders to invest in land and plan for faster growth than would be possible without the scheme. DCLG research suggests over 40% of HtB Equity Loan sales are truly additional.
29. The performance of the scheme would be improved through a minor administrative change to allow for a longer maximum period between exchange and completion on a Help to Buy purchase. This could provide greater forward view of sales to support further investment by home builders and help to promote the scheme on developments where take up has been relatively low, i.e. high rise builds where forward sales can be essential to finance construction. In addition, a wider review to consider the full parameters of the scheme and eligibility may be useful at this midway point in the operation of the initiative.
30. Although still some years away, we must begin to think through the mechanics and implications of the scheme's withdrawal. In business-planning terms, 2021 is not far off for companies operating in an industry in which returns on investment can take many years. First-time buyers have for several decades required assistance to get on the housing ladder in the form of favourable tax treatment or specific help with purchasing.

Help to Buy Mortgage Guarantee

31. The Help to Buy Mortgage Guarantee scheme is due to come to an end late this year. Although it has had minimal direct impact on new build supply, at a time when the second hand market is slowing, we believe the effect of its withdrawal in December should be monitored very closely.

Help to Buy Shared Ownership

32. The Government has allocated £4.1bn, targeting 135,000 sales over the next five years. Shared Ownership could play a major role in making home ownership accessible for households on average or below average incomes.
33. We understand the original intention was to encourage the private sector to become involved in shared ownership. However, discussions with key members and with officials from the HCA and DCLG have shown that the scheme, as currently designed, will not be taken up by house builders outside S106 planning obligations agreements. The limited funding available per unit from Government means housing associations can only acquire units from house builders at a significant discount to market value. But house builders cannot afford to provide shared-ownership units on this basis outside a S106 agreement¹. However, if a larger subsidy were available, so that housing associations were able to pay

¹ House builders would want to sell shared ownership units to housing associations because they would not want to lock up their own capital in the share not purchased, and they have no expertise to take on the management requirements of shared ownership dwellings (rent collection, staircasing, etc).

closer to the market value for the dwellings, then some house builders would consider building shared ownership units to expand their normal, open-market housing offer.

Supply Measures

Land and Planning

34. House builders are experts at identifying suitable sites, negotiating with landowners, designing schemes that are best suited to meet local market demand, building homes and selling them. Local authorities do not have, and should not be expected to have, any of these commercial skills.
35. Therefore putting the private sector back in the driving seat means allowing house builders to identify the right sites, of the right sizes, in the right locations, to design the right schemes to meet all segments of local market demand, and to achieve planning permission quickly and efficiently so that these sites can be brought into production as soon as possible.
36. The key to increased private-sector production is the number of sales outlets, which in turn is dependent on (a) the number of planning permissions for single-outlet sites, and (b) the number permissions on large, multi-outlet sites. Outlets are critical because:
 - There are sales and production limits to any single outlet/site in, for example, a year;
 - Maximising sales (and therefore production) in a market area requires the widest possible range of sites, by size and location, so that house builders can meet all segments of market demand by offering the widest possible variety of products, locations, brands, scheme sizes, etc.

Creating conditions for SMEs to thrive

37. The following measures would, we believe, help transform residential land and housing supply. They would put house builders, who have the necessary expertise and financial incentives, back in the driving seat. And crucially, they would significantly improve the development environment for SMEs.
 - **A presumption in favour of residential development for brownfield sites within settlement boundaries:** Entrepreneurial house builders and new entrants should be encouraged to bring forward as many suitable sites as possible, and local authorities should have to identify a very strong reason to refuse to grant permission on previously developed land within a settlement boundary. This should be in addition to sites allocated in local plans and not provide a reason for planning authorities to allocate fewer sites in plans. Prior to the introduction of the plan-led system, small house building companies were incentivised to identify sites and bring them forward to provide new homes.

We acknowledge that Paragraph 14 of the NPPF contains a presumption in favour of sustainable development and, where the development plan is out of date, this balance between benefits and harm is clearly stated. However, we consider that this should be emphasised very specifically in relation to previously developed land - in effect, a double presumption in favour of previously developed land. This double presumption would result in both an increase in housing delivery and it would encourage the redevelopment and efficient use of such land.

- Amend the NPPF to require local planning authorities to provide for “the widest possible variety of sites by size and location”**

Too often, local plans allocate only a few large sites, with restrictions on most other land, which inevitably means that housing delivery in the area is restricted. Only a limited number of companies are capable of developing these large sites and it is very difficult for SMEs to find smaller sites. A wider choice of sites would lead to wider opportunities for different sizes and types of developers and it would allow the industry to provide the widest possible range of products to meet all segments of market demand.
- Robust, transparent local 5-year trajectory planning with full participation by all key stakeholders**

A clear assessment of the delivery rate of each site assumed to meet the five-year supply of land for housing is essential to ensure that enough sites are allocated and granted planning permission to meet housing needs. Over-optimistic assumptions that do not take account of development programmes or market absorption rates inevitably result in under delivery of dwellings against requirements.
- Clarify planning status of back gardens**

Redeveloping existing residential land where the current dwelling(s) makes very inefficient use of scarce land has always made a sizeable contribution to housing supply and was, until back gardens were reclassified as greenfield in 2010, a major source of sites for SMEs. Many LPAs consider that, because garden land is not defined as previously developed, they can no longer grant planning permission for its redevelopment in spite of an individual application’s credentials and its ability to meet the requirements for sustainable development. This policy misconception should be addressed.

Promoting brownfield development

- A presumption in favour of residential development for brownfield sites within settlement boundaries**

As discussed above, this would mean a return to something like the conditions prior to 1991 when private home building, and the capacity of the industry, was very responsive to market demand (see Chart 1 above). Back then, the presumption meant:

‘applications for development should be allowed, having regard to the development plan and all material considerations, unless the proposed development would cause demonstrable harm to interests of acknowledged importance.’
- Fairer water connection charges for developers**

Ofwat’s recent consultation on charging for new connections to water and sewerage systems not only represented an abdication of any responsibility to regulate the market for customers and could potentially lead to huge hikes in charges for house builders, it was also a missed opportunity to promote brownfield development. A fair charging regime should provide scope for lower costs on brownfield sites, a fact wholly ignored by Ofwat in an effort to meet a self-imposed deadline and satisfy water companies.

- **Incentives for land remediation**

Government should build on existing measures aimed at encouraging development on previously developed sites and consider new incentives. We would propose:

- i. The introduction of a pre-tax credit for qualifying remediation costs to operate in a similar way to the Research & Development Expenditure Credit (RDEC). The intention would be for the credit to have the same value as the Land Remediation tax relief (equal to 10% (net) of qualifying costs) after the deduction of corporation tax. This would allow the current tax relief benefit to be shown as income and therefore increase the likelihood of the benefit featuring in and influencing the decision to invest. RDEC currently allows large companies to claim a pre-tax credit equal to 11% (8.8% net) of the qualifying R&D spend which is then discharged against Corporation tax liabilities.
- ii. To increase the value of the tax relief from 150% to 175%. This would have the effect of restoring the tax relief to the same level of cash contribution when the tax relief was first introduced when Corporation Tax rates were 30%.
- iii. To bring forward the date used to determine entitlement to Derelict Land Relief from 1998 to 2008. Sites currently have to be unused from 1998 (a date set in 2009) to qualify for the relief and now very few sites qualify meaning it is not having its desired effect.
- iv. To reintroduce tax relief for flood prevention measures. This is a hugely topical issue and would send clear messages to the industry that proper flood prevention or mitigation measures should be incorporated into the development of new homes, also encouraging much needed R&D into mitigation technologies.
- v. For small sites of fewer than 25 units the relief would be further enhanced to 200% provided the development is completed within 24 months of an implementable planning permission being granted. This would again send a clear message of intent to deliver on the 90% target.

Development Management: Faster and More Efficient

38. Local authorities have suffered enormous cuts in spending power, with planning and development spending suffering proportionally the greatest cuts within their reduced budgets. In addition, local authorities have a local monopoly to grant residential planning permissions, with little incentive to operate an efficient, responsive development management service. The introduction of competition into Building Control in the mid-1980s transformed a previously inefficient and cumbersome local authority service. To improve efficiency, make limited resources go further and increase resources, we recommend:

- **Central Government should seek ways to reverse local authority cuts in planning and legal resources** which are causing major delays in the processing of residential applications. Many local authorities do not see the planning process as central to their delivery plans for local prosperity. Setting minimum standards of provision for planning departments (maximum caseloads for officers, mandatory Councillor training, etc) would ensure that planning for future development is prioritised by local authorities at a corporate level.
- **Simplify the planning application process** – e.g. our proposal for a brownfield presumption (see above), greater use of Local Development Orders, increasing permitted development rights without the need for prior approval, etc, would allow LPAs to focus on priority planning issues and so speed up the application process and allow home builders to get on site more quickly.

- **Link planning fees to measurable planning performance benchmarks.** Planning application fees should be directly linked to the LPAs performance on each application. This would ensure that each applicant pays only for the service they receive (rather than rewarding future applicants with reduced fees for poor performance on previous applications). Payment of planning fees at various stages of the development process would allow performance to be measured at each stage payment. 'Full cost recovery', often demanded by local authorities, would reward inefficiency as it would allow authorities to recover any level of costs, however inefficient the service. Serious consideration should be given to ring fencing planning fees and to applying penalties where local authorities take excessive time to register an application.
- **Encourage outsourcing** of the non-political elements of application processing
- **Introduce competition into development management** - We are very supportive of the government's proposed pilots as set out in the Housing and Planning Act 2016.
- **Significantly reduce the number of planning conditions, especially pre-commencement, and improve discharge processes** to reduce planning delays and enable house builders to get on site more quickly. While we acknowledge that this issue is fundamentally one of good practice, we believe that changes to Sections 73 and 96A of the Town and Country Planning Act could assist applicants who have not agreed for conditions to be discharged pre-commencement or consider the condition appropriate.

Development Finance

39. Along with planning and access to suitable sites, development finance has been a major constraint on the completions of SMEs since the crash of 2008. The situation has improved, but the Government still has a key role to play.

- **The new Home Building Fund**
HBF supports efforts, through this new fund, to make access to finance from HCA more flexible and dynamic. In the long run we hope that schemes successfully completed with support from the HB Fund will give greater confidence to traditional lenders when weighing up applications for finance from small house builders.
- **Help to Build Guarantee Scheme**
In recent years, banks and other private sector lenders have only been prepared to offer restricted (usually up to 60-65%) loan-to-value rates for residential development at an affordable cost. In reality this modest level is rarely achieved because of the repayment arrangements which usually ensures the lender recovers investment entirely before the developers' equity is repaid. This acts as a barrier to entry for start-ups and acts as a brake on growth for existing house builders. A Government loan guarantee scheme to allow lenders to lend at higher LTVs, much like the Help to Buy Mortgage Guarantee scheme allowed lenders to grant mortgages up to 95% LTV, would improve the funding available to SMEs, allow their equity to go further, and so allow smaller house builders to develop more sites and increase production.

Red Tape

40. House building is restricted by a number of monopolies which lack any incentive to offer an efficient, speedy, cost-effective service and whose objectives are not aligned with

those of house builders or the Government. We have discussed monopoly local planning authorities above. Counties in dual-tier authorities are a serious source of delay and additional cost, whether as signatories to S106 agreements (usually the main beneficiaries), or as Highways Departments approving house builders' highways proposals within residential planning applications.

41. As well as some of the measures outlined in earlier sections above, such as cutting pre-commencement planning conditions, the key Red Tape challenges to help increase home building are:

- **Implement the recommendations of the 'Cutting Red Tape Review' undertaken in 2015-16 to which the industry provided significant evidence of delays and barriers caused by bureaucracy**
- **Speeding up and simplifying Statutory Consultee processes** - Natural England, Highways, Water. Ensuring the SCs have duties to be proactive in finding solutions that facilitate development as well as meeting other requirements.
- **Making all these processes proportionate to the situation**
- **Blocking the introduction of proposed new charging rules for water and sewerage connections that could add thousands of pounds to the build cost for a new home**
- **Ensuring that utilities providers are planning effectively for growth.** An often underestimated piece of the puzzle, without the necessary utilities or infrastructure being provided on time and at reasonable costs, housing developments can be stalled or delayed. In many cases, utilities – either at a global level or on an individual company perspective – are failing to plan for the future needs of communities which stifles the ability of house builders to deliver homes on time.
- **Preventing abuse of monopoly positions against the interests of developers** (and allowing developers scope to use their own service providers as an alternative) – especially so with Water companies whose local monopoly allows them to hold up development, impose excessive charges and fees on house builders and provide a poor service; and Highways Authorities which are also in a local monopoly position and can delay sorting out a S278 agreement – and so start on site – by many months.
- **Consistency of standards, requirements and practice across these bodies** – e.g. need for a single set of national highways standards and radical improvements to the approval processes operated by Highways Authorities
- **Improving the implementation of the Birds and Habitats Directives** to make them less disruptive to development while protecting the environment – Brexit will allow an objective review of how they have been implemented, their operation and their impact on home builders and home building.

Housing Needs of Older People

42. An increasingly important issue is addressing the housing needs of older people which is often overlooked in housing and planning policy. As noted above, households aged 65 and over will account for 74% of total household growth in England to 2039.
43. Those aged 85 or over in the UK are expected to more than double between 2014 and 2039, and those aged 60 and over are expected to increase by nearly 50%. One quarter of UK homeowners aged 60 and over also express an interest in buying a specialist retirement property, a total of 3.5 million people, but this level of demand far exceeds the estimated 141,000 units of owner-occupied retirement housing built in the UK to date.
44. Helping this group move by providing more and better housing would help increase overall housing supply. Knight Frank and Savills have both stated that this part of the market could grow from around 5,500 units a year to 20-30,000 a year. This would also free up billions of pounds of under-occupied housing stock that younger people could move into.
45. The current planning system creates many obstacles to the delivery of specialist retirement housing and this should be addressed. There are few references in the planning system to demographic change, and neither does the system account for this form of housing's unique nature and viability model, nor proactively encourage it across all tenures.
46. We would like Government to consider our changing demographics and what this means for the housing market. The following changes would help achieve a marked improvement in the speed and certainty of the delivery of housing for older people, and would be consistent with the Government's identification of specialist elderly accommodation as the only "critical" housing need in the NPPG.
 - Strengthen national planning policy via the NPPF and its references to the need to plan for housing for older people. We would also like to see a national strategy published that addresses the housing and care needs of older people and promotes the exciting range of housing options that could be made available to this age group.
 - Strengthen the statutory duty on local planning decision makers to accord special attention to the need to plan for housing for older people in their local plans and housing needs assessments.
 - Explore financial incentives for older people when moving into more appropriately designed and sized housing

