

# **HBF SUBMISSION TO THE BARKER REVIEW**

**“The Will to Succeed  
Constructing Policies to Meet Housing Need”**

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## **EXECUTIVE SUMMARY**

### **OVERVIEW**

The Government and the house building industry share the objectives of increasing housing completions and creating sustainable communities. There is a strong commercial driver for the industry both to build more and to build developments that people want to live in.

To meet the need created simply by the growth in the number of households, house building in England needs to expand by approximately 55,000 dwellings per year to around 190,000 per year, or 215,000 new homes per year in Great Britain. However, to raise the extremely low rate at which obsolete and unfit housing is replaced and to regenerate areas of low demand, house building numbers need to rise even more.

The private sector will continue to produce the vast majority of new housing in Britain, most of which will be sold to private homeowners. Within its total output the private sector can also provide a range of affordable housing solutions. The long-term solution on affordability is, however, to make housing generally affordable by ensuring housing supply is adequate to meet demand.

The industry can deliver a significantly greater housing supply. There is no intrinsic constraint on its capacity. Its output has been constrained by a number of factors set out in this submission – not by its structure, practices, financing or capabilities. The most important single constraint on the industry's output has been the operation of the planning system.

There is a critical need for a clear understanding on how the public and private sector can best work together to realise the shared objective of increasing housing output. Each has an important part to play. The key requirement for the public sector is that its policies and practices are geared to enabling and empowering output growth, innovation, flexibility, quality and imaginative partnership.

The private industry is competitive in structure and risk-taking by nature. It places a premium on efficiency. Applying its strengths to the right roadmap for collaboration with the public sector will deliver more houses and enable available public money to be spread further in meeting housing need.

Continued central Government leadership is essential to achieve sustainable long-term solutions. With such commitment the industry for its part will recruit and train the necessary labour and expertise and invest in new construction techniques and good design.

## **SUMMARY RECOMMENDATIONS**

### **Leadership required to change attitudes**

The social and economic case for more housing needs to be at the centre of Government policy. More and better housing is a prerequisite for achieving many key domestic policy objectives. This case must continue to be made and the Government show leadership that drives commitment at all levels. Long-term support for policies that facilitate development and underpin higher output will encourage industry investment in the workforce, new building techniques and design.

### **Recognising that we are providing for a customer market**

The rationale of private and public sector providers of housing alike is to meet the needs of customers. The policies and practices of all actors, including Government, need therefore to promote choice for customers and be fully market-informed. A light regulatory touch is required. Local authorities should not be burdened with more responsibilities than they can discharge.

### **Defining and rationalising the roles of public sector agents**

Public sector agents have a key enabling role in facilitating all housing provision. Roles and objectives need to be clearly defined for each agent. It should be clearly established where the public sector can best add value. The Government should actively review the roles and numbers of public sector agents to remove any duplication that may detract from a focus on delivery. It should also be recognised that the industry's contribution to building sustainable communities depends on adequate Government funding of physical and social infrastructure.

### **Planning policy: diversity, choice and the regional dimension**

Sustainable communities require a balance of house types, tenures, occupations and income groups. Communities have very different needs and housing requirements differ between and within regions. Planning policies need to respond to the desire for diversity and choice and avoid prescriptive one-size-fits-all solutions.

### **Performance of planning authorities**

The planning system has failed to deliver. Housing numbers are inadequate, too few local plans are up to date and development control performance is poor. To improve performance, the Government has set targets and threatened intervention. For the future, the best approach would be to build in positive incentives to ensure housing need is met and effective sanctions on authorities, which do not meet their housing obligations. The right measures and signals are needed to free up resource for the successful delivery of housing development under the planning system.

### **Making housing affordable**

Pending an improved longer-term housing supply that makes all housing more affordable, a practical affordable housing policy is needed. This should encourage innovation and effective partnership between private and public providers. Full flexibility is needed in the realisation of developments and partnerships in order to increase provision of a range of affordable housing as part of a growing overall housing output.

## **RECOMMENDATIONS ON THE PLANNING SYSTEM**

## **PLANNING POLICY**

### **Policies to increase residential planning permissions**

There is no shortage of land in the UK, merely a shortage of residential planning permissions. We recommend building the following measures into the planning system to increase permissions:

- A presumption in favour of residential development for all previously developed (i.e. “brownfield”) urban land;
- Replacement of urban capacity studies with two- and five-year housing land availability studies;
- Much tighter rules governing application of the sequential approach and land release phasing, so making it possible to bring forward adequate greenfield land to ensure housing supply meets need;
- Early review of the PPG3 one-size-fits-all density and parking requirements designed for the South East but applied across England;
- Sanctions against planning committees which refuse permission without adequate planning justification and against officer recommendation;
- ‘Prematurity’ no longer grounds for a planning refusal by local authorities or the ODPM;
- New ODPM guidance strictly controlling local authority use – and misuse – of supplementary planning guidance (SPG).
- Make plans effective from the date of adoption;
- Retain ‘twin tracking’ and outline planning permissions on a long-term basis;
- Applicants to have a right of appeal to contest the grounds for a local authority deciding not to determine a repeat planning application;
- Local authorities should have adequate land release phasing policies to avoid the use of moratoriums on new residential development;
- An improved policy framework for planning obligations (see below);
- A practical, non-prescriptive and market-friendly policy on the provision of affordable housing solutions;
- Local authorities should have a general policy of encouraging the more efficient use of already developed land.

### **Planning obligations (S106 agreements)**

Current arrangements for considering planning obligations create significant uncertainty and delays for developers. We recommend that:

- The link between the development and the planning obligation should be maintained;
- Clearer guidance should be provided on what obligations it is reasonable for planning authorities to seek in particular cases;
- Planning authorities should set out their plans for infrastructure improvement on an annual basis consistent with this revised guidance;

- Developers should be able to submit unilateral undertakings at the time of the planning application;
- Local authorities should produce standard clauses for legal agreements;
- Funding for registered social landlords (RSLs) must be adequate to support affordable housing requirements.

### **Planning and Compulsory Purchase Bill**

Provisions relating to a number of the policy recommendations above are the subject of discussion on the Planning and Compulsory Purchase Bill currently before Parliament. The Government should give urgent consideration to how such issues – and any others that may be within the scope of the Bill – can be picked up prior to its enactment.

## **PLANNING PROCESS**

### **Setting adequate housing targets**

Once local housing targets are set, local authorities must accept and be incentivised to deliver their responsibility to meet housing need.

### **Avoiding a planning reform hiatus**

Government must require planning authorities to operate an effective planning system in the transition to the new arrangements proposed under the Planning Bill to avoid a further decline in housing completions.

### **ODPM performance on call ins and appeals**

ODPM and Government regional office processing of appeals and called-in applications must be urgently speeded up and a more selective approach adopted to call ins. Processing of appeals also needs to be speeded up and we recommend a graded system of appeals. These two measures could produce an early and significant increase in housing completions.

### **Local authority resources and training**

Limited local authority staff and financial resources need to be re-focused on front-line processing of planning applications and meeting housing need. Development plans should be simpler and based on delivery and objectives rather than detailed prescription. Local councillors and public officials need training in how markets work, how the development industry operates and how the planning system works in practice.

## MAIN REPORT

### 1. INTRODUCTION

The House Builders Federation (HBF) is the trade association representing the interests of private house builders in England and Wales. HBF members are responsible for more than 80% of the new homes built every year.

The Federation welcomes Kate Barker's Review of constraints on housing supply. It offers an excellent opportunity to step back and consider why housing supply has been so unresponsive to demand over the last decade. While the following paper considers the causes of housing under-supply, the main focus is on solutions.

The Review remit is "to conduct a review of issues underlying the lack of and responsiveness of housing in the UK, in particular:

- the role of competition, capacity, technology and finance of the house-building industry
- the interaction of these factors with the planning system and sustainable development objectives.

To consult with key stakeholders to establish views and inform analysis.

If appropriate, identify options for Government action, including the use of fiscal instruments.

To deliver an interim report to the Chancellor and DPM by autumn 2003."

## 2. HOUSING SUPPLY & DEMAND

There is some uncertainty about the current number of households in England. According to pre-Census estimates, there were 20.97 million households in England in 2000. According to the 2001 Census, however, there were in fact 20.45 million households. Yet the ODPM's post-Census estimate showed 20.71 million households in 2001. With an estimated housing stock of 21.14 million, the crude housing surplus is either 3.4% (Census household estimate), a little below the vacancy rate (3.6%), or only 1.9% (ODPM household estimate), well below the vacancy rate. And if the Census undercounted the population in 2001, as some believe, then the crude housing surplus is even smaller.

But whatever the true position in 2001, it is clear that annual housing supply is well below the levels required to meet projected household growth. (See also the more detailed analysis in Appendix 2.)

- Provisional estimates by Professor Dave King using results from the 2001 Census, suggest England's households will grow by around 150,000 per year from 2001-2021. This is almost exactly in line with the 1996-based projections upon which all current regional planning guidance is based. Yet the housing stock in England – new build plus conversions less demolitions – expanded by only 125,000 per year in the last two years. This suggests new housing completions and conversions need to be raised by around 25,000 per year to keep pace with household growth. An additional 25,000 new homes per year in England represents a 20% increase to 160,000 completions, or 185,000 in Great Britain.
- However there are strong grounds for believing that 25,000 per year represent a sizeable under-estimate due to higher than anticipated net migration into the UK. Sensitivity tests for the 1996-based household projections showed that the additional migration gains experienced over the last four years, projected forward to 2021, would add around 30,000 households per year to the 2001-based projections. If accurate, the shortfall between recent stock growth and future need would therefore be around 55,000 per year. If met entirely by additional new homes, this would require house building in England to expand by around 40% to 190,000, or 215,000 in Great Britain.
- There is also a significant issue in terms of replacement and improvement of the existing housing stock. At recent demolition rates, today's new homes will statistically have to last some 1500 years before it is their turn for demolition. In addition, according to the 1996 English House Condition Survey, 7.5% of dwellings in England were "unfit" and 14.2% were in "poor condition". When the problems associated with areas of low demand are also taken into account it is clear that there is likely to be a need to increase housing completions in England by more than 55,000 a year in order to meet Government objectives.

As well as the obvious social consequences of long-term housing under-provision, the damaging economic consequences, discussed in detail in HBF's publication *Building a Crisis*, are now fully appreciated by the Treasury. The current housing affordability crisis in southern England, a consequence of housing under-supply over two decades, is having an impact on areas such as health, education, transport, etc which face serious difficulties recruiting key workers who are unable to afford the high cost of housing.

The Treasury's recent euro assessment concluded that inadequate housing supply raises real house prices in the long term and adds to housing market volatility.

Inadequate housing provision also has an impact on productivity, not least through its adverse impact on internal migration (see the 2002 Budget).

Two factors explain today's affordability crisis, a crisis that is all the more remarkable with interest rates at their lowest for half a century.

First, housing demand received a short-term boost in 2001 and 2002 from exceptionally rapid real income growth, extremely low interest rates and historically high levels of employment. The sharp rise in demand in turn fuelled a period of rapid house price inflation, which pushed prices well beyond the incomes of many middle and lower income households, including many key workers in the public sector.

Second, as discussed by the Treasury in the recent euro assessment reports, inadequate housing supply has pushed up real house prices in the long term.

So the adverse impact of a long-term problem was aggravated by short-term macro-economic influences.

A related issue is whether the industry should be providing more one and two bedroom units to meet the demand generated by demographic trends. Links between the changing composition of households and house building are complex. The share of one-person households has been increasing for at least a century, so the projected growth in one-person households does not represent a new trend.

Mavis McDonald, permanent secretary at the ODPM, recently commented on these issues while giving evidence to the Select Committee:

"The issues about household formation have been constant now for quite a while in terms of small households. There is very little evidence that that means less demand or, indeed, that there is a great desire for smaller units for single person households." (1 July 2003).

In general, households will buy the housing they can afford. As living standards rise, so the demand for home ownership will rise, as will the demand for space and for better environments and neighbourhoods. The demand for small dwellings will generally be restricted to those on low incomes, including many first-time buyers taking their first step onto the housing ladder, and the elderly trading down from a family home. Because smaller units tend to be attractive to first-time buyers, the turnover of smaller dwellings tends to be much higher than for larger homes, so that there is a larger supply in the second-hand market.

In many of the older industrial cities of the Midlands and north, there is a surplus of smaller Victorian and inter-war housing. Here the need is often for better quality, larger homes to attract and retain the more skilled labour force needed to help regenerate the depressed local economy.

### **3. PROFILE OF THE HOUSE BUILDING INDUSTRY**

It is important to understand how new housing is delivered before attempting to explain why house building is too low and how it might be increased.

#### **Stages of development**

In the private sector there is a series of basic steps to housing development:

- Identifying suitable land, in some cases assembling a complex package of sites with many different owners, “suitable” referring to whether there is a profitable market for new homes on the site;
- Designing a housing layout with house types suitable to meet local demand; costing the scheme; deciding on likely market prices and sales rate for the homes well in advance (possibly years) of actual sale; assessing whether the scheme can be developed and sold profitably; modifying the design, mix, prices, etc. in order eventually to achieve a profitable scheme;
- Buying the site;
- Obtaining the necessary planning and other regulatory permissions, if necessary revising the scheme – possibly several times;
- Building the scheme;
- Marketing the homes, adjusting prices during the sales life of the site to reflect changes in market trends and, quite often, re-planning phases of larger schemes to meet changing market conditions, or in response to initial misjudgements of local market demand.

#### **House builders compared with contractors**

Developers tend to carry out most or all of these stages, and therefore take all of the risks, both cyclical and scheme related (see Section 4.8 below). The apparently high profit margins sought by developers, especially relative to contractors, are a reflection of this level of risk. Several factors are involved: the high levels of capital locked up in land and work in progress, the relatively slow turnover of capital, and the high level of risk in judging the market for housing development. The cyclical risks faced by the industry are reflected in the City’s rating of house builders, with the house building sector p/e ratio in the range 6-12 over the last six years, against 18-28 for companies in the FTSE All-Share Index over this same period.

Another facet of risk is that house builders in Britain are largely price takers. Because new homes currently represent less than 10% of total housing market sales, prices are largely set by second-hand transactions. This has important consequences for assessing the potential impact of Government policies. Any additional costs imposed on the industry, or taxes on sales, cannot simply be recouped through higher sale prices. Initially they would come out of profits, but in the longer term they have to come out of land prices.

### **House builders compared with land owners**

As will be clear from the above discussion, it is most important to distinguish landowners from house builders. House building companies rarely buy land without residential planning permission on an unconditional basis. Most land for housing development is either optioned or bought with at least an outline residential consent. (An option is an agreement with a landowner to progress a site through planning and pay a market-related price - e.g. 90% of residential value - if permission is obtained.) Therefore broadly speaking, house builders pay the market price for residential land to land owners. The distinction between landowners and house builders is important when considering the likely impact of Government policies on land values, landowners and housing developers.

One especially important difference is that many landowners do not have to sell, whereas housing developers are obliged to keep buying land in order to replace sites already developed and sold if they are to remain in business. Experience in severe downturns, such as 1990-92, or with various post-war attempts at land taxation, suggests landowners will respond to falling prices or high taxation by keeping land off the market until better times return or the tax is removed. The same argument applies to planning obligations and affordable housing demands. While house builders may accede to these demands, however reluctantly, if the impact on land values is judged excessive by landowners, land will be kept off the market.

### **Role of private capital**

Similarly, the owners of capital, whether private individuals or financial institutions, will only invest in residential development if they expect to earn a return which is comparable with alternative investment opportunities and which adequately reflects the risks. If these risks are increased by Government policies, investors will require a higher return. If the risks are increased, while at the same time Government policies attempt to reduce development returns, then investors will move their funds out of residential development into other investments. If housing output is severely constrained, the industry will suffer disinvestment and shrink. Alternatively, if adequate returns are available commensurate with the risks, and if constraints on output are relaxed, then additional capital will flow into the industry to allow it to expand.

### **Structure of the house building industry**

NHBC registration statistics reveal that between 1977 (the earliest available data) and the early 1990s, larger house builders lost market share during a market upturn but gained share in a downturn. However this pattern was broken during the 1990s (see table below).

HOUSE BUILDING INDUSTRY STRUCTURE							
House builder size categories: by number of dwellings registered							
	1-10	11-30	31-100	101-500	501-2000	2000+	Total
Number of dwellings							
1979	20,090	17,220	17,220	28,700	25,830	34,440	143,500
1988	29,016	24,552	31,248	40,176	40,176	60,264	225,432
1992	15,120	11,340	16,380	26,460	22,680	32,760	124,740
2002	12,952	11,333	12,952	22,666	22,666	77,712	160,281
% change							
1988-2002	-55.4	-53.8	-58.6	-43.6	-43.6	29.0	-28.9
1992-2002	-14.3	-0.1	-20.9	-14.3	-0.1	137.2	28.5
Number of active registered house builders							
1979	7,266	1,013	362	144	33	6	8,824
1988	10,112	1,500	603	215	46	13	12,489
1992	6,257	696	329	128	22	10	7,442
2002	4,343	640	250	114	20	13	5,380
% change							
1988-2002	-57.1	-57.3	-58.5	-47.0	-56.5	0.0	-56.9
1992-2002	-30.6	-8.0	-24.0	-10.9	-9.1	30.0	-27.7

Source: *NHBC New House-Building Statistics (1988 Q4 and 2002 Q4)*

After rising fairly steadily during the 1990s, the share of the top 25 house builders remained stable at 57-58% in the five years from 1998 to 2002.

The growing importance of larger companies has been at the expense of all other size categories. The dwelling registration shares of companies in the size bands 1-10 units per year, 11-30, 31-100 and 101-500 declined significantly in the 25 years from 1977 to 2002, while companies registering 501-2000 units per year maintained a broadly constant share from 1977-2001 before dropping to the equal lowest on record in 2002.

The declining share of smaller and medium-sized house builders has been accompanied by large reductions in the numbers of companies registered with NHBC (Table 1).

On notable change in the industry over the last 15 years has been the shift to specialist house building companies. In the 1980s, quite a number of the larger firms were contractors with house building operations and some companies were owned by non-house builders. During the 1990s, the larger firms have increasingly become pure house builders.

### Barriers to entry

It is clear from the available statistics that something changed in the early 1990s, which led to a significant rise in the market share and output of the largest companies. Barriers to entry appear to have risen significantly, so that the long upturn beginning in 1993 did not lead to an influx of smaller firms.

There are several possible explanations for this structural change.

The plan-led system introduced in England in 1991 effectively put a ceiling on the availability of plots receiving planning permission for residential development. With private housing completions broadly static between 1993 and 2002, the larger firms could only expand their output and market share at the expense of middle and smaller sized companies. (Individual companies grew organically, by acquisition, or by a combination of the two.)

During the 1990s housing development became far more complex across a range of areas: land finding and acquisition, processing sites through planning, estate and dwelling design, construction, technical and health and safety requirements, marketing.

More recently, pressure to build at higher densities on urban brownfield land has increased the capital requirements of many housing developments, thus favouring larger companies.

The benefits of size from planning and regulatory policy changes were reinforced by City attitudes. Large specialist firms are more attractive to institutional investors than smaller firms, or those with diversified activities (e.g. contracting and house building).

Despite this structural change, and whatever its causes, the industry remains highly competitive with all companies striving hard to achieve and maintain competitive advantage both in the acquisition of land and market share.

## **4. LAYING THE FOUNDATIONS**

Before assessing the obstacles to increased housing supply and making recommendations, some general background issues are addressed.

### **4.1 The Government's economic and housing objectives**

The Government's primary housing objective is "the opportunity of a decent home for all". As household growth is largely independent of housing supply and house prices, achieving the Government's objective implies ensuring expansion of the housing stock – new housing plus conversions less demolitions – keeps pace with household growth.

Housing also has a major impact on the economy, as shown in the Treasury's recent euro assessments. Housing supply affects labour mobility, productivity, inflation, delivery of public services and macro-economic stability.

### **4.2 Regional perspectives**

The most acute housing shortages are in Southern England. Although shortages may be less acute in the Midlands, North, Scotland and Wales, new housing is needed to support physical and economic regeneration, to help revive collapsing housing markets and to replace obsolete and poor quality second-hand stock. There are also housing market hot spots within these regions and countries, which face the same shortages and house price pressures as Southern England.

For many years, housing policies were based on the premise that suppressing housing provision in the South would help support regeneration efforts in the Midlands and North. The Government has now accepted that the main result of these policies was to create acute shortages in high-demand areas, with little or no knock-on benefits to other areas. The new policy framework, outlined in the Communities Strategy, is to seek solutions to shortages in the South and, separately, to tackle market collapse and regeneration in the Midlands and North.

### **Recognising diversity between and within regions**

However, a potentially very worrying recent development has been to apply the former approach to regional policy between North and South to northern cities. Because new housing on the outskirts of urban areas is thought to have played a part in fuelling population flight out of these inner cities, new regional planning guidance in the North East and North West will cut the provision of housing outside the inner areas. While there may be some truth in the claim that new housing has played a part in urban flight, the new policies are high risk and rest on some very heroic assumptions.

First, there is a timing problem. Restraint policies will begin to have an immediate impact on housing supply, whereas inner city regeneration and the establishment of housing markets in these areas will take time. Even if regeneration is eventually successful, there could be a long period of housing shortages.

Second, will investment be sufficient to fund regeneration, and will the new markets created in these areas meet the needs of households who would have left for lower-density suburban and semi-rural living?

There must be a real risk that the new regional planning guidance will create growing housing shortages and do enormous economic damage. The simple question must be, can these regions afford to adopt such high-risk policies?

More generally, in focusing on the four growth areas in the South East and nine Pathfinder areas, the Government must not ignore the wider housing needs of the country. Households in Hampshire or Dorset or Devon will not have their housing needs met by regeneration of the Thames Gateway or expansion of Ashford. Similarly, households unable to afford a home in Harrogate, Cheshire or Cumbria will find little comfort in knowing failing housing markets in East Manchester, Stoke on Trent or North West Birmingham are receiving additional funding for regeneration. ***We need an approach that will work for all regions and the diverse requirements that exist between and within them.***

#### **4.3 There is no shortage of land**

***The proportion of Britain's population living in urban areas (89%) is the second highest in Europe and the sixth highest in the world (excluding a number of island and city states), according to UN statistics. The extremely high level of urbanisation goes a long way towards explaining the search for lower-density, less congested suburban living, a powerful force in British society since the industrial revolution.***

A study in 1995 for the Department of the Environment, well before the higher housing density targets set by PPG3, estimated that accommodating future household growth would raise England's urban area from 10.6% of the total land area in 1991 to 11.9% by 2016. ***So urban expansion takes 0.05% of England's land area each year, or an additional 1% every 20 years.***

By comparison, large areas of England are protected from development: 16% Areas of Outstanding Natural Beauty, 12% Green Belt, 8% National Parks.

***Well over half (58%) of all newly built homes in England from 1998-2002 were on previously developed ("brownfield") land and half of the land used for new housing is already developed. Loss of rural land to new housing amounts to an additional 0.02% of England's total land area each year, or 1% every 50 years.***

So there is no shortage of land in England. However there is a shortage of planning permissions for residential development, leading to an under-supply of new housing. In other words, housing shortages are the result of human actions, not natural barriers, and can therefore be solved.

The industry welcomes Government efforts to bring forward surplus public sector land. Our only reservation is that this is sometimes restricted to Registered Social Landlord (RSL) development. The private house building industry has nothing to fear from competition on a level playing field. However, allocating sites solely to RSLs restricts the industry's ability to deliver the required increase in housing output. Also, it must be questionable whether RSLs as a general rule have the expertise and financial resources to produce sustainable, mixed communities without the involvement of the private sector.

#### 4.4 The decline in house building

There are two important aspects to today's low levels of house building.

First, the public sector has ceased house building, while RSLs have not had the funding to make more than a modest contribution. **Total social housing completions peaked at 204,000 in 1967. In 2002, RSLs built 20,000 units and the public sector a few hundred.** The sharp reduction in social house building has had an especially big impact on key workers and low-income workers generally, many of whom would have relied on this tenure in the past. This position has been exacerbated by the sale of council houses.

Second, private sector house building failed to respond to the long economic upswing beginning in 1993. **During the 1980s, private completions rose from a trough of 115,000 in 1981 to just short of 200,000 in 1988.** By contrast, during the 1990s private completions rose from a trough of 141,000 in 1993 to only 152,800 in 1997 and then hovered in the range 140-150,000 for the next five years.

House builders would attribute most of this private sector performance to restrictions on residential planning permissions. Analysis of house building on greenfield and brownfield land appears to support this explanation.

Greenfield housing completions fell 30% between 1994 (73,300) and 2002 (51,400). By contrast, brownfield completions have remained broadly stable. In the years from 1993 to 2002, brownfield completions were between 80,000 and 87,000 per year. The relatively small size of the social sector, and its traditional focus on smaller urban sites, suggests most of the decline in greenfield completions has been in the private sector.

The Government's revised planning policy guidance for housing (PPG3), introduced in 2000, gave local authorities in England new powers to restrict greenfield development. Because PPG3 took precedence over previous practice, many greenfield sites already identified in emerging or adopted local plans were de-allocated. Some house builders lost a large amount of money as a result, further exacerbating the effect of the loss of sites on subsequent housing output. In addition, urban capacity studies and application of the sequential test gave a high priority to brownfield land and discouraged greenfield development.

It seems likely greenfield completions will fall even further as developers use up their stocks of pre-PPG3 greenfield land with planning permission.

The Government's objective to ensure a decent home for all, alongside the greenfield restrictions imposed by PPG3, mean PPG3 implicitly assumes there is a large untapped supply of brownfield land available for housing waiting to be developed which greenfield restrictions will force onto the market. But if there were such an untapped reservoir or at least sufficient brownfield land that could readily be developed for housing under the planning system, the industry would have already identified and brought forward many of these sites for development. According to results from the HBF Monthly Survey in March 2003, however, 58% of house builders regard land availability as a major constraint on production.

However the analysis above of greenfield and brownfield completions suggests PPG3 policies reinforced trends, which had emerged much earlier. **It seems likely**

***that the plan-led system, introduced in 1991, was a major reason for the decline in greenfield building. If this explanation is correct, the low elasticity of supply of private housing – i.e. the low responsiveness of house building to demand – must be primarily caused by planning policies and practices.***

Other indirect evidence supports the importance of planning in explaining the low levels of house building activity in the 1990s.

If factors internal to the industry were significant, then supply elasticity's should be similar across the English regions, Wales and Scotland because the house building industry operates in very similar ways across the different regions. The major home builders operate across large areas of the country, and many medium sized firms cover several regions.

Although academic research has found supply elasticity's are quite low across the country, they are especially low in the South. Clearly some other influence is at work outside the industry.

The low responsiveness of private housing supply in the South can also be seen in the South's share of national private house building activity. During the 1960s, 1970s and 1980s, the South East's share of GB private starts tended to rise during a market upturn to around 30% and decline sharply to around 20% in each downturn, . (References here are to the old standard South East region, not the more recent government office region.) This reflects the region's lead position in the housing market cycle and its more volatile market.

In 1990 the South East's share fell to 18.7%. However, unlike previous upturns, this share edged up to a peak of only 21.7% in 1995 and then hovered in the range 19-21% for the next seven years. Yet the period from 1995-2002 was one of strong housing demand in the South East and, during the latter years, rapid house price growth.

#### **4.5 Planning failure**

The Government recently introduced a target for England that 60% of 'major' (10+ units) residential applications should be decided within 13 weeks. In the final quarter of 2002, 16% of such schemes were decided within eight weeks, the equal lowest figure for at least a decade, and 36% were decided within 13 weeks. Both percentages have fallen steadily over the last decade (the period for which statistics are available) and neither shows any sign of improvement. ***It is not uncommon for fairly straight forward planning applications to take a year in addition to any pre-planning application discussions with local authorities.***

The situation in relation to plan preparation is no better. When the plan-led system was introduced in 1991, all local planning authorities in England were required to have a local development plan by 1995. Six years after this date in its December 2001 planning green paper, *Planning: delivering a fundamental change*, the Government announced that 13% of local authorities still did not have their first plan in place and 214 current plans were out of date.

#### **4.6 Leadership and incentives**

***The industry believes that whatever policies and structures are in place, little will happen unless there is the will to make things happen and the positive***

**case for development has been made.** NIMBY, anti-development attitudes are widespread and have a powerful influence on local councillors. The will to achieve and the social economic case for development must come first and foremost from central Government. However it must also be shared by regional and local stakeholders and by the multitude of other public, semi-public and private bodies, which influence housing development.

Attitudes become most critical at local authority level because it is here that individual schemes require a legally binding planning permission before a brick can be laid. If a local authority planning committee wishes to obstruct or delay development, whether for legitimate planning reasons or for purely political reasons, it can make life very difficult for a developer seeking a planning permission. Alternatively, if the local authority is keen to see development and accepts the principle of residential development for a site, then negotiations can focus on matters of detail.

In the 1970s in England, negotiations between planning authorities and developers were about the detail of development. Both sides had a positive attitude towards house building and therefore were keen to achieve a mutually advantageous final scheme. To some extent this situation still exists in Wales and Scotland. Today in England, however, negotiations are too often about the very principle of development itself, so that negotiations are adversarial – “them against us”. Public hostility to development has grown over the years, fuelled in part by misinformation from other lobbies. **To overcome these negative attitudes, there must be leadership and firm resolve by Government bodies at all levels if the required increase in house building is to be achieved.**

#### **4.7 Making things happen – carrots and sticks**

A will to succeed is necessary, but not sufficient, especially at local authority level. There must also be mechanisms to ensure delivery.

The Government has threatened that local planning authority failure to deliver could bring central Government intervention. It has also set a range of targets. As discussed later, both approaches have their limitations.

A much better approach would be to build in automatic incentives, both positive and negative, to help ensure the Government’s objectives are met. In our recommendations below we propose a number of such carrots and sticks.

#### **4.8 Defining private and public sector roles**

**Between 1993 and 2002, 92-95% of all housing completions were private sector, with most of these built by private house builders.** Owner occupation in 2001 was 69.2% in Great Britain and 70.1% in England. Surveys by the Council of Mortgage Lenders have consistently shown that around eight out of ten households aspire to home ownership.

Given this position, it seems very likely that the bulk of new housing will continue to be:

- built by the private sector,

- on land purchased in the highly competitive land market, primarily from private owners, or from public sector owners acting like private owners in seeking to achieve the highest price,
- for private home owners buying in the housing market.

It is the house building industry, which will have to deliver the desired increase in house building, assuming the system allows it to deliver.

Therefore policies to increase the supply of new housing must be geared to meet market wishes and to provide choice to customers - and assist the private sector to increase housing output. Policies, which ignore the housing and land markets, personal aspirations or the way the private development industry operates and its need for adequate returns, will not be successful.

The industry firmly believes it can deliver, provided the myriad of public, semi-public and private bodies, which influence housing supply, are clearly focused on facilitating output. These bodies include central government, regional assemblies, regional development agencies, regional housing boards, local authorities, a range of regeneration agencies, the Environment Agency, the Highways Agency, CABI, the gas, water and electricity utilities.

Housing that meets customer needs and creates sustainable communities can best be provided by entities whose success is dependent on their understanding of the market. Outside the comparatively small annual contribution RSLs make to housing completions (around 20,000 pa), and the initial intervention needed to correct market failure the public sector should therefore play primarily an enabling role.

There has always been an inherent conflict between plan-led planning system, working to 10-15 year time horizons, and a delivery system, which relies largely on the private sector operating in cyclical, competitive markets with a high degree of risk. One of the industry's greatest skills is identifying potential residential sites and assessing their financial viability. This requires creativity and flexibility – responding to changing demand opportunities and constantly seeking out supply opportunities. By contrast, the plan-led system is slow, unresponsive and fails to encourage a creative approach to land-use. Ways must be found to ensure the planning system liberates the creative forces, which must be tapped if Britain is to meet its housing needs.

The need to define the roles of the private and public sectors more clearly also relates to efficiency. The private house building industry in the UK is very good at managing the risky business of housing development, from initial site identification through to final sales of homes. House builders understand demand, pricing and the market or they would not survive. Speculative development, in which buyers are not known in advance, inevitably relies heavily on judgement, experience and efficiency.

By contrast, most public sector agencies are unlikely to have expertise in any of the steps involved in housing development and they will usually have only a limited understanding of how markets operate, of the risks inherent in development, or of the time and cost pressures faced by developers.

The Government should be putting in place policies and structures, which harness the different skills of the private and public sectors to achieve a mutually beneficial outcome.

There are clear enabling roles for the public sector in large development areas, whether greenfield sites or inner city regeneration schemes, public funding is required for most of the basic physical and social infrastructure. Where land values are negative, public sector finance may be needed to kick start development. Sites in multiple ownership may require public sector intervention, including the use of CPO powers. And of course local authorities must represent the interests of existing residents in areas where development is proposed.

In large development areas, especially regeneration schemes in areas of very low or even negative land values, where major investment in physical and social infrastructure is required right from the start, the challenge is to unlock future land values. Once a viable housing market begins to develop, land values will rise and, eventually, make further development self-funding. In order to bridge the initial period of negative cash flow, the best solution is likely to come from some form of partnership between the private development industry and the public sector. Up-front public infrastructure funding can be repaid in practice by offsets through partnership returns. The private sector can use its skills to best effect, while the total cost to the public sector over the life of the development will be minimised. Indeed, there may over time be significant gains to the public purse.

A guiding principle must be that the public sector should not attempt to do what the private sector can do better.

#### **4.9 Local authority planning**

Local planning authorities over applications have enormous power. Yet failure to use this power correctly has few adverse consequences for the planning authority. By contrast, developers submitting schemes are operating in a highly competitive business environment in which delay or failure is expensive. The current system provides too few effective sanctions against local authority obstruction and delay, and the rules governing planning decisions are often too vague, so that different local authorities interpret them in different ways to suit themselves.

#### **4.10 Will the Government's planning reforms deliver?**

The incentive grant scheme and threat of intervention may improve local authority development control performance. However, as argued elsewhere, a much better approach would be to build performance incentives and sanctions into the system related to the adoption and implementation of plans and housing allocations and to divert scarce planning resources away from activities which do not produce any additional housing (e.g. urban capacity studies) and into front-line processing of planning applications.

The Government argues the system of strategic planning has been simplified, including the abolition of one tier of planning (country structure plans). Yet the new system will in fact have more plans, counties still have a rather ill-defined role, there is potential for enormous conflict as regional planning bodies try to allocate housing requirements among large numbers of local authorities and ***there is a very real risk of a planning hiatus for many years as the new system beds down.***

The industry is concerned that the tight timescales for preparation of the new plans will not be met, so that the new system will prove ineffective. This concern is understandable, given the reluctance of successive Governments to intervene over the last decade, despite widespread failure to meet the plan-preparation timescales laid down when the plan-led system was introduced in 1991.

#### **4.11 The costs of regulation, delay, inefficiency and uncertainty**

The burden of regulation, whether building regulations or planning controls, steadily increases and the costs mount. In a period of rising house prices, the industry and land prices are more able to bear these additional costs. However if, as many believe, we are entering a period of relative price stability, it will be more difficult for the industry to absorb the additional costs imposed by regulation.

The following list sets out broad figures cost estimates for some recent changes to building regulations, drawing on the Government's own figures:

- Part E (Sound Insulation): Additional Cost: £750 per dwelling (note that this ranges between £0 and £3500) (2003 review);
- Part L (Thermal Insulation): Additional Cost: £650 per dwelling (range £500-£800) - 2002 review (2005 review is about to commence);
- Part Q (Broadband): Additional Cost: £400 per dwelling (range £325 - £460) (2003 review);
- Part M (Disabled Access): Additional Cost: £600 per dwelling (range £150 - £2500) (1999).

A typical flat/apartment will incur additional costs in the range £4500-£7000 per dwelling just on the basis of recent/proposed changes to these four parts of the building regulations.

Apart from building regulations, the Environment Agency (contaminated land, waste, flood risk, etc.), utilities (gas, water, electricity, telecom) and other technical and regulatory costs have also added to costs and/or difficulties in developing sites in recent years.

In addition to these direct and sometimes measurable costs, regulation, uncertainty and delay impose substantial hidden costs. As a result, the industry is forced to use capital less efficiently, which in turn then has an impact on its performance.

Since 1996, the speed of processing residential planning applications has deteriorated substantially. In particular, planning gain (S106) negotiations tend to take an excessive length of time. Also, planning decisions have become more politically sensitive locally and therefore less predictable. Instead of introducing positive measures to increase the flow of residential permissions, PPG3 gave local authorities more scope to restrict housing development and more excuses for delay.

According to the March 2003 HBF Monthly Survey, 81% of house builders regarded planning delays as a 'major constraint' on production. Regional percentages in March 2003 varied from 71% in the West Midlands to 92% in the South West.

Because of increased delays and uncertainty, companies have had to increase their land holdings to achieve any given level of output. For example, whereas a company might have aimed for ten live sites to meet a target of 500 sales per year four or five years ago, now it might have to purchase 12 sites to ensure it achieves 500 sales on the assumption that 20% of its sites will be delayed in planning. This has two consequences.

Each company will have to tie up more capital in holding land simply as a cushion against the impact of delays and planning outcome uncertainties.

And if each company bids for more sites than would have been necessary in the past, this must have a one-off upward impact on land prices.

***So there is a double whammy: not only must each company lock up more capital to secure more sites, but the price of these sites will also be higher than it would otherwise be.*** Multiplied across the industry, the land-holding costs generated by delay and uncertainty must be very substantial. And of course this means less efficient use of capital, funds which could, under a better system, be used to increase housing output. The situation is further aggravated by the increased capital lock-up in PPG3 schemes which are at relatively high densities and on brownfield sites which are often more costly to develop. Flats always have higher lock-up costs than houses because they must all be completed before individual units can be sold whereas houses can be sold individually as they are built. Delay and uncertainty also have a substantial opportunity cost in terms of the management time and financial resources, which must be diverted into coping with the system.

All of these costs, some direct and some indirect, constrain the level of output achieved by the industry.

## 5. CONSTRAINTS ON HOUSING SUPPLY

### 5.1 Competition

The review has been asked to comment in particular on these issues.

***As discussed above, according to NHBC statistics, the top 25 house builders account for around 58% of industry output, a figure that has remained almost unchanged for the last four years. Although the industry became more concentrated during the early-mid 1990s, no company accounts for more than 10% of new home sales.***

In a report for the former DTLR in October 1999 (*A Structure Conduct and Performance Assessment of the UK Housebuilding Industry*) consultants Maxwell Stamp concluded that, at the national level, ***“the degree of concentration in the housebuilding industry indicates that the industry is highly competitive”***.

In England and Wales, new home sales in 2002 accounted for 9% of total housing market sales, with regional shares ranging from 6.2% in London to 11.4% in the East Midlands. So from a regional and national perspective, competition comes primarily from the second-hand market. On average, home buyers have nine second-hand properties available for every one new home and it is the second-hand market that determines prices of new build.

### 5.2 Land banking

Two related issues are accusations of land hoarding and whether options are sometimes used to restrict competition.

Given the long time lags involved in development, suitable land banks are essential to ensure a stable flow of future output.

Research published by FPD Savills in October 2001 showed that although the larger house builders report substantial land holdings to the City, most of this land is only under option. Savills reported that only 15% of the land banks declared by house builders in financial year 2000, amounting to 298,478 plots, had planning permission. “On average the private sector has built about 127,000 dwellings per year over the last 12 years. At normal rates of completion therefore, these land banks represent about 2 years supply of land.

More recent work by Savills shows a 32% decline in the number of developable plots held by the larger house builders between 1999 and 2001.

Even if a large company wished to maintain a long bank of plots owned outright with planning permission, City financial demands would make this very difficult because it would reduce the company’s return on capital relative to other companies in the sector and damage the company’s share price.

It has been suggested that house builders may sometimes option more than one site in an area in order to restrict competition. There are two reasons why this is highly unlikely. First, option agreements usually contain a “best endeavours” or “reasonable endeavours” clause requiring the developer to progress the site through planning as quickly as possible. Contracts also usually contain an anti-competition clause to ensure house builders do not buy other competing sites. Failure to progress the site

through planning, or buying a competing site, would breach the terms of the contract. None of those consulted during the preparation of this submission knew of cases where options had been used to restrict competition.

### **5.3 Capacity and technology**

If the Government were to free up the planning system so that house builders were able to achieve a sustained increase in residential planning permissions, would the industry be able to deliver?

At present, house builders report that shortages of labour are a constraint on production. ***However if the industry knew with confidence that it could achieve a sustained increase in output over the next 5-10 years, then it would make a sustained effort to increase the level of recruitment and training.***

The industry is working closely with CITB, the industry training body, to improve recruitment and training, to raise awareness of employment opportunities in the industry and to raise the image of the industry among potential new recruits. HBF, on behalf of the industry, is also working with schools and universities to increase awareness of careers in house building.

Most of the major home builders have graduate recruitment programmes and many have significant apprentice programmes at the craft level. One major home builder recently opened its own white-collar staff training college. The industry has a site managed accreditation programme, supported by NHBC and the CITB. There is now an NVQ for sales staff.

House builders have been criticised for failing to adopt new construction methods and new technologies quickly enough.

First, it must be stressed that construction methods are not a solution to today's low levels of house building. If the whole industry were to go over to new construction methods overnight, today's inadequate level of housing completions might be produced more quickly. However the total number of completions would remain unchanged because these are limited by land and planning constraints.

A reduction in the industry's costs, producing a general rise in land prices (see below), might persuade some additional land owners to sell, thus raising the quantity of land on the market. However this would only lead to an increase in the level of new house building if planning authorities granted additional planning permissions.

Second new construction methods will not lower the price of housing. In the construction industry, a reduction in building costs will reduce the cost of non-residential buildings for clients. However this does not happen in house building because of the way land is valued as a residual after costs and profit.

If an individual house builder were able to cut building costs by using some new method, the company could either increase its profit margin, or it could put the cost saving into its land bids and thus gain a competitive advantage in the land market. If the whole industry were to adopt new cost-saving techniques, the result would simply be an increase in the price of land, and possibly some modest rise in average margins. This would have no impact on the price at which homes were sold. As noted above, new home prices are largely set by prices in the second-hand market.

Given the intense level of competition in the land market, and the City's financial demands of house builders, there is clearly considerable pressure on house builders to adopt new technologies, which offer cost savings.

If new technologies are to be adopted, it must be done with great caution. Britain's experience with system building in the 1960s and 1970s, and more recent building failures in British Columbia and New Zealand, warn against rushing into untried methods. Homes need to have a very long life. It may be many years before faults are discovered and they can be very expensive to remedy. It should also not be forgotten that house builders sell into a very traditional and conservative market and that it may be difficult to secure mortgage finance for untried technology.

Despite these caveats, many companies in the house building industry are actively examining new methods of construction and a number already have well established programmes. If the industry is sure it can achieve a sustained, long-term increase in housing output, if new technologies are financially viable, and provided there is no risk of major failures, house builders will adopt the new methods and suppliers will invest in new production. Certainty and the scope to harvest economics of scale are key to making progress.

To summarise, if the industry could be assured that planning permissions will be increased so as to ensure a sustained, long-term increase in house building, it will invest in the recruitment, training and new technologies deemed necessary to achieve this increase cost effectively. While they are important issues for the industry, they do not present insurmountable obstacles to higher output.

#### **5.4 Finance**

As with skills and new technologies, the industry believes finance is not an obstacle to increasing output.

According to analysis by Credit Lyonnais Securities (Private Housebuilding Annual 2002), capital employed by the quoted house building companies more than doubled in the five years 1997-2002, from £4.6 billion to an estimated £10.2 billion, an increase of £5.6 billion. "The most substantial contribution to the increased capital has come from retained profits; retentions have increased from around 70% of available profits in 1997 to an estimates 78% this year [2002], totalling £3.7 billion over the period."

The analysis also found that "net debt had increased from £357 million in 1997 to an estimated £2.6 billion this year [2002]." The report described gearing as "still modest by the standards of many unquoted companies", despite this sharp increase.

Most of the larger house builders have unused bank borrowing facilities and relatively low gearing. In the longer-term, expansion could also be funded by rights issues, which have been rare in recent years, due to the poor stock exchange rating enjoyed by the sector.

However there is one crucial condition attached to this optimistic assessment. The industry, its bankers, the City and investors in residential development must be convinced the industry will be able to achieve a sustained increase in output. As the planning system and infrastructure funding are the main brakes on house building, it

is therefore essential that the Government introduce policies, which will successfully enable the private sector to deliver the increased output. Suitable profit margins and returns on capital must also be maintained. ***The low p/e ratios attached to house builders, despite a decade of rising profits, suggest the City still needs convincing that the industry has an assured stream of output well into the future.***

### **5.5 External constraints**

The remit of the Barker Review asks how the above issues – competition, capacity, technology, finance – interact with the planning system and sustainable development objectives.

The planning system is discussed in Section 4 above and in the recommendations, which follow (Section 6). There is one over-riding message to emerge from the discussion:

***IF THE GOVERNMENT CAN DELIVER AN INCREASE IN RESIDENTIAL PLANNING PERMISSIONS THROUGH A MORE MARKET-RESPONSIVE PLANNING SYSTEM, AND IF THE INDUSTRY IS ALLOWED TO EARN ADEQUATE RETURNS, HOUSE BUILDERS WILL DELIVER THE REQUIRED INCREASE IN HOUSE BUILDING.***

Opinions in the industry may differ as to the relative importance of different constraints on production, but there is unanimous agreement that, given the right conditions, the industry can deliver.

## 6. RECOMMENDATIONS

### 6.1 Basic principles

The recommendations in this section are based on two fundamental principles.

#### **Policies that provide for a customer market.**

Because the private sector will continue to deliver the vast majority of new housing for private homeowners, policies and practices must provide choice and enable the industry to respond to market signals if Government policy objectives are to be achieved.

Policies must be market-informed. Those designing and implementing policy at all levels must understand markets. They must also accept that sufficient private capital will only be available to allow the industry to expand if investors believe they will be able to earn adequate returns and the industry will be able to move to a permanently higher level of output.

Public and quasi-public sector bodies need to have clearly defined enabling roles, facilitating the private sector development that builds sustainable communities. Their role is not to try to do what the private sector can do better through its knowledge of and base in the market.

If adequate land with planning permission is available in housing markets where there are profitable demand opportunities, and if Government policies are more market-informed, the industry will deliver sufficient new homes to meet need. It will raise the required finance, use its capital efficiently, increase recruitment and training of skilled staff, adopt pre-fabrication construction methods and other innovations if they are economically justified, **and all with little need for Government subsidy or tax breaks.**

**Indeed, house building generates substantial public revenue.** New homes expand the local government tax base. Residential land development generates considerable tax revenue (income, VAT, capital gains, corporate, stamp duty). **And local authorities benefit from the large flow of revenue and assets generated by planning gain agreements with private developers.**

#### **Leadership required to change attitudes**

As already noted above, whatever policies and structures are put in place, little will happen unless there is a will to make things happen at all levels. That in turn requires the social and economic case in favour of development to be made strongly and consistently.

Public hostility to development which influences planning decisions is arguably the single most important constraint on new house building, although serious inefficiencies in the planning system also contribute to the low level of housing supply and its unresponsiveness to demand. Local councillors on planning committees, the front line of the planning system nationally, reflect this hostility in their day-to-day decisions on individual planning submissions and in their attitudes to house building in the preparation of local, structure and regional plans. Unless attitudes can be changed towards new homes and the economic and social benefits of house building, many planning reforms will still face a major uphill battle to succeed.

**House builders warmly welcome the Government's recent acknowledgement that England faces a housing supply crisis and its commitment to achieving an increase in supply.** The industry itself must and can play its part as well, for example, through demonstrating its commitment to good design and community building. However, if public hostility to development is to be reduced, central Government must continue to show leadership to support development. The public, local councillors and public officials across a range of organisations must come to realise that house building is not just necessary, but is beneficial for communities and the economy and that an increase in house building could help improve housing affordability and neighbourhoods. It will be a long process and will sometimes be politically unpopular. **But unless there are fundamental changes in attitudes at all levels, the required increase in house building will not be achieved.**

The industry has made considerable progress in recent years with better designs and greater community consultation. However, like the Government, the industry will have to sustain its efforts over the long term. Initiatives such as Building for Life, a co-operative venture between the HBF, CABE and the Civic Trust must continue to be supported by the industry.

## **6.2 Government policies for delivery**

Government regulations, guidance and decisions are an extremely important influence on housing supply. If there is to be a sustained increase in house building, we believe a new approach is required from the Office of the Deputy Prime Minister:

### **Listening to stakeholders**

We recommend that more attention is given to the legitimate concerns and well-informed suggestions of key stakeholders, including the house building industry. The ODPM has recently established good dialogue with the industry on several issues. However, because so many of the main policies and reforms are already in place, much of this consultation tends to be about the detail of changes rather than about whether the changes themselves are sensible and workable in the round and will deliver the Government's objectives. **An improved and continuing dialogue about the bigger picture is needed.**

### **Need for market-informed guidance focused on outcomes**

**We recommend a fundamentally new approach to planning policy guidance in future.**

The public sector should stop trying to micro manage detailed aspects of housing supply and accept the need for market-informed approaches. **The key to a successful long-term planning policy is to work with the information provided by markets offering customer choice, not trying to second guess or over-ride them.** The Government accepts there is too much planning guidance and is undertaking a review of all guidance circulars, so this is an ideal time to adopt this new approach.

For ten years the Government has taken an increasingly interventionist approach to planning and housing supply. The result has been serious housing shortages. The answer to the failures of the planning system is therefore to step back and adopt a

lighter touch policy approach setting out objectives and desirable outcomes without trying to specify or micro-manage every aspect of how they are achieved.

One of the dangers of having a vast volume of guidance is that different local authorities interpret guidance in different ways, including using it to block legitimate and desirable development in response to local political pressures. ***Overall we strongly believe that less will be more.***

A new market-informed approach, focused on key objectives and outcomes rather than micro-management must be introduced at all levels of the planning system – regional, sub-regional and local. Among other things this requires the proper involvement of the private sector in bodies like the new regional housing boards.

### **Matching housing, jobs, infrastructure and economic change**

There must be greater co-ordination between economic and housing strategies, whether at the regional or local level. Too often in the past, local authorities and regional bodies have been keen to promote employment growth but reluctant to accept the implications of their policies for housing provision. Similarly, infrastructure funding needs to be realistically assessed and the consequences of likely funding built into forward planning for housing. Housing provision should not be based on vague hopes for the supporting infrastructure.

### **Setting adequate housing targets**

***One of the most difficult issues facing the new regional planning bodies will be cascading down regional housing requirements to individual local authorities. Effective mechanisms for doing so are essential.*** Once these local targets are set, they should also be mandatory on local authorities. Under the plan-led system, the debate about overall numbers was supposed to be resolved at the plan preparation stage. Too often now it is left unresolved, however, or is open to constant question.

### **The risks of perpetual revolution**

We recommend that the impact of proposed Government policies on house building activity, including during the transition period for their implementation, should be very carefully assessed and discussed with planners and the house building industry before being introduced.

At present the industry is most concerned that the range of the Government's recent reforms, however successful they may be in the long term, may create enormous delays and problems as they bed down. ***Past experience, especially the introduction of PPG3 in 2000, shows that reforms produce conflicts between existing and new policies.***

Existing policies are overturned, so that planning authorities and developers have to start from scratch again, wasting time and resources and holding up production of new homes. Changes to such a complex system inevitably produce uncertainty and unexpected effects for developers and local planning authorities, leading to delay and inconsistent application of policies between authorities. Change can be especially helpful to local authorities facing strong pressures hostile to new housing and seeking ways to block development.

For the future we must be fully aware of the risks of a state of perpetual revolution developing in which uncertainty, conflict and delay ratchet up change and aggravate the already low levels of house building activity. ***We should instead aim to establish a clear understanding at a high level of what needs to be done now to free up planning consents and then establish a long-term commitment to making the resultant structure work.***

#### **Appeals and call-ins performance**

***We strongly recommend that ODPM and Government Regional Office processing of appeals and called-in applications is urgently speeded up and a more selective approach adopted to call ins.***

The industry believes that in total, construction of many thousands of dwellings are held up in Government Regional Offices or the ODPM, many completely unnecessarily. ***Unblocking this backlog is probably the single most effective measure that could be taken to achieve a short-term increase in housing completions.***

The industry is frustrated not only by the extensive delays created by call ins, but by the way some sites are called in without adequate justification and by subsequent ODPM decisions. Schemes may be called in even when they are supported by the local planning authority and are generally in line with PPG3 policies. Schemes agreed at the local level, and required to meet housing need, are then turned down by the ODPM, which can adopt an excessively inflexible interpretation of Government policy guidance. It sometimes appears the Government's objective is to enforce the rules per se, rather than to use the rules flexibly as a means to achieve wider benefits.

***The Government must bring forward strict rules on call ins, so that sites are not unnecessarily delayed, and the ODPM should publish quarterly performance statistics showing numbers of sites and units called in, numbers being processed, decision times and the nature of decisions.***

***The appeal process also needs to be speeded up.*** While the situation has improved, there are still considerable delays. In addition, inspectors, like the OPDM, sometimes apply an unnecessarily rigid interpretation of planning policy guidance.

***We would also recommend a system of graded appeal decisions:*** for example, establishing categories of appeal decisions such as granted; granted subject to some modifications; the principle of development accepted, but major changes to the proposed scheme required.

#### **Delivering more homes, not more housing bodies**

***We recommend a moratorium on the creation of new public or quasi-public housing bodies and an early review of the multitude of existing bodies*** with an influence on housing delivery, including the large numbers of bodies involved in promoting urban regeneration.

The overlapping and sometimes ill-defined responsibilities of existing bodies create confusion and delay, can waste large amounts of public money, lead to competition between the bodies to establish primacy of position and end up blocking the efforts of private sector housing suppliers. ***Consistent with our recommendation that***

***there should be a clear definition of where public bodies can add value, the Government should actively review how the roles and numbers of public agents might be rationalised in order to achieve a more effective focus on delivery.***

### **Funding infrastructure**

***Adequate and timely Government infrastructure funding is also critical to increase housing supply and creating sustainable communities.*** This need is especially important in the four southern growth areas and major regeneration schemes. The market for new housing in these areas will not be improved without adequate infrastructure provision, and without such provision housing built may not realise communities that are properly sustainable. Large amounts of additional public funding are needed. The initial funds allocated to the Thames Gateway, the other three southern growth areas and the nine Pathfinder areas, are clearly inadequate for the long-term needs of these areas.

### **6.3 Review of key PPG3 policies**

We recommend that the Government carries out an early review of a number of key PPG3 policies, which are having a detrimental impact on housing supply.

Consumer research by the House Builders Federation and Halifax has found considerable resistance among home buyers and local residents to many of the key objectives of the guidance:

- one-size-fits-all higher densities across England
- unacceptably low levels of parking provision, including some schemes with no parking
- some of the design features required to make PPG3 densities work (e.g. three storey housing, pavement front doors, divorced parking and garaging or no parking)
- mixing social and owner-occupied housing
- the ways of mixing housing with non-residential land uses.

***The result is that the industry is forced to provide housing that, in some cases, is very difficult to sell.*** In southern England, these problems have been disguised by the strength of the market. However, a policy which relies for its success on severe housing shortages and rapid house price inflation rather than providing market-informed choice and flexibility within the policy framework will not create sustainable communities for the longer term.

### **Density**

***We recommend the one-size-fits-all density and parking requirements of PPG3 are revised to allow local planning authorities to respond to local needs and, above all, to allow house builders to meet local market demand.*** At present PPG3 densities are rigidly enforced in London and the South East through the density direction, but there is considerable uncertainty elsewhere as to how rigidly the guidance should be applied. Given the enormous diversity of needs across the country, and the variety of local housing markets, it cannot be appropriate for central Government to impose a rigid policy, designed primarily to deal with problems in the South East, on the whole of England.

One simple, but all-important question that does not seem to have been asked is whether there is sufficient demand for PPG3 density homes across England to achieve the desired overall increase in house building. While the industry has found markets in some locations for this type of higher-density housing, there are many markets where it is not appropriate. If there is not sufficient aggregate demand in England for PPG3-style housing, then the industry will find it impossible to deliver the required total increase in house building.

### **Parking**

The parking provisions stipulated in PPG3 – one and a half spaces per plot on average per site – must be reviewed for a number of reasons. PPG3 confuses discouraging car usage, a highly desirable environmental objective, with discouraging car ownership. House builders offering inadequate parking provision will not discourage people from owning cars. Many potential buyers will go elsewhere, while the long-term result on such sites – once the homes have eventually been sold - will be parking chaos. As well as the adverse visual impact created by inadequate parking provision, disputes over parking can be a major source of friction between neighbours. ***Providing adequate parking, and recognising the desire of most households to own at least one car, is an essential element in creating sustainable communities.***

### **Site provision**

One of the most important consequences of PPG3 has been to reinforce an already steep decline in greenfield house building without providing policies to promote a compensating increase in brownfield permissions. Greenfield housing is politically difficult. However, in areas where there is a very limited supply of brownfield land, or where the housing market is not sufficiently strong to support large-scale brownfield development, the common interpretation of PPG3 policy being a presumption against greenfield development risks leading to even more severe housing shortages.

***We recommend that PPG3 is revised to encourage local planning authorities to take a more realistic approach to the likely contribution of greenfield and brownfield land to housing development. As discussed in more detail below, we recommend that:***

- specific brownfield targets are abandoned in favour of a more general requirement to promote the efficient use of already-developed urban land;
- two- and five-year housing land availability studies are re-introduced, and urban capacity studies abandoned, to stop local authorities using theoretical sites, or sites which have little chance of coming forward for development, as an excuse to refuse permission on greenfield or brownfield sites not already identified in a local plan (assuming there is a plan);
- guidance on use of the sequential approach is tightened to stop local authorities using it as a device simply to delay decisions on politically difficult sites.

PPG3, and in particular urban capacity studies and the sequential test have provided a particularly effective means of stopping long-term strategic sites from being brought forward. Because these sites require large infrastructure investment and

have a long development time horizon, they cannot be turned on and off in the same way as smaller sites.

#### **6.4 Focusing local authority resources on achieving key objectives**

One worrying feature of planning changes over the last three years is that they have been introduced without considering the adequacy of local authority staff and financial resources, the primary objectives of planning or the efficiency of the system. The Government recognises that shortages of planners and inadequate funding have put local authority planning departments under enormous pressure. Local plan preparation has been woefully inadequate and development control performance very poor. Despite these failures and staff pressures, PPG3 gave local authorities additional responsibilities, and the most recent set of reforms will place even greater burdens and responsibilities on local planning authorities.

The recent incentive grant scheme and the work of the Egan review may help. However, rather than pour extra money into a system, which has clearly failed to deliver, ***there should be a more fundamental review of local planning objectives, responsibilities and workload. Resources should be focused on setting and achieving realistic targets for house building.*** This would mean producing simple, objective led development plans, diverting more resources into front-line processing of planning applications, and adopting a more creative approach to development opportunities in co-operation with the private sector, with less time and resources devoted to preparing over elaborate plans and theoretical urban capacity studies.

#### **Training for a change of attitude**

There is an urgent need across many parts of the public sector, including central Government staff, for a much better understanding of how markets work, how the development industry operates and how the planning system affects the industry in practice. The Egan review will rightly be addressing these issues. Without a proper understanding of how private companies operate in competitive markets involving substantial risks, and the need to earn additional returns for shareholders policies devised in Whitehall will not achieve the Government's desired objectives and be affectively implemented locally.

***If Government policies are to be implemented effectively, staff in the many bodies involved in housing and planning must have training to understand how housing delivery works in a market context.*** Such bodies include Government Regional Offices, regional assemblies, regional development agencies, regional housing bodies, English Partnerships, the Environment Agency and CABE as well as local planning authorities,

#### **Cross-boundary cooperation**

HBF hopes that the new system of regional and sub-regional planning will overcome situations in which a local authority is unable to meet housing need in the district because its boundary is tightly drawn around the existing settlement, but an adjoining more rural district is unwilling to provide land to meet this need. Administrative boundaries should not be allowed to jeopardise meeting the housing and economic needs of a region.

## **Curbing the misuse of supplementary planning guidance**

***We recommend that the ODPM issue guidance strictly controlling local authority use of supplementary planning guidance (SPG).***

Under the plan-led system, local development plan policies have to be in line with Government guidance and tested at a public enquiry. However local authorities are increasingly resorting to the use of SPG to short-circuit these rules. SPG is not subject to the same rules, nor is the guidance tested at an inquiry. For example, many local authorities issue SPG rules on affordable housing, even though these should be included within an adopted local plan. Authorities also use SPG to impose requirements, which would lie outside the development plan, such as requiring a certain proportion of the units on sites to be one and two bedroom dwellings.

There are two possible reasons for this trend. Many local authorities do not have an up-to-date local plan, so they have to find some other mechanism to introduce policies. There is also a possibility that SPG is used for policies that would not be accepted if tested at a public inquiry.

***The use of SPG is therefore undermining the intended operation of the planning system and of Government guidance.*** The fact that local authorities have been able to use SPG in this way has also acted as a perverse incentive to avoid having an up-to-date adopted plan. If the Government issued strict guidelines on the use of SPG, including setting out policies, which could not be put through in SPG, then practices that are frustrating housing development would be reduced or prevented and the industry would be able to challenge attempts to introduce such policies.

## **6.5 Policies to increase residential planning permissions**

### **Overview**

As stated at the outset, the problem in England is not a shortage of land, but a shortage of residential planning permissions. Therefore policies are needed which encourage the private sector to seek out residential development opportunities and encourage local authorities to grant planning permission. At present, too much of the industry's energy goes into fighting obstruction and delay. Instead, its creative energies should be released to achieve much more positive, productive results.

The Government's threat to intervene in local authorities, which fail to meet their obligations, is welcome. However, Ministers are understandably very reluctant to instigate such draconian action. Over the last decade, Ministers have in practice failed to intervene, despite widespread local authority failure to maintain up-to-date local plans and despite steadily worsening development control performance.

Apart from the threat of intervention, the Government relies on targets to ensure local authorities perform. Although targets have their place, there are dangers. The most obvious is that they distort priorities and that considerable effort goes into finding ways to achieve the targets instead of achieving the Government's overall objectives.

For example, for a local authority to achieve 60% of 'major' (i.e. 10+ units) residential planning decisions within 13 weeks, simple responses are to delay pre-application negotiations before the clock starts ticking and then refuse applications, which have

not been processed by the thirteenth week. No housing gets built, but the target is met. The list of creative devices used by authorities to delay processing applications is very long. Such devices are of course of product of the anti-development pressures discussed already.

A much better approach would in our view be to build carrots and sticks into the planning process itself. In this way, the system would tend to be self-policing, thus avoiding the pitfalls of a simple target meeting approach and reducing the need for intervention. The Federation recommends a number of measures:

### **Presumption in favour of residential development for brownfield sites**

One of the most effective mechanisms *to increase the flow of planning permissions*, and to introduce a more market-informed approach at the local authority level, would be to introduce a *presumption in favour of residential development for all previously developed (i.e. “brownfield”) urban land*.

This would replace the current presumption against development of any site, which is not already identified in a local plan. Local authorities would still have the final say, and permissions would need to meet certain criteria. However these criteria should be carefully defined, strictly limited and properly justified so that they do not become simply a mechanism for blocking development. Instead of developers often having to argue the case for development against the opposition of a local planning authority, the presumption would instead require a local authority to demonstrate why a scheme should not be approved.

The recent statement by the Minister for Housing and Planning moves in the direction of our proposal, but the details of this thinking need to be further developed.

***The great benefit of a presumption in favour of residential development is that it would unfetter the creative skills and resources of the private sector to seek out land for redevelopment, one of the house building industry’s greatest strengths.***

It would also encourage more efficient use of already-developed land. Even where land has a current use, developers would have a strong incentive to assess whether re-development for housing would generate greater value for the owner(s). If the risk of a planning refusal could be reduced, the industry would be more willing to invest money in site assembly. At present, the high risk of failure on sites not already identified in a local plan, or of refusal on grounds of ‘prematurity’ when there is no up-to-date plan, must discourage land assembly.

### **Sites availability**

The current public-sector approach to identifying land is bureaucratic and ineffective. Local authorities must carry out theoretical urban capacity studies, identifying specific sites with development potential as well as making assumptions about other sources of land (e.g. the potential for redevelopment of residential back gardens, or the likely flow of windfall sites in the future).

The limitation of this approach is that it is largely independent of factors such as land ownership, location, market demand, market capacity or financial viability. Resources would be better deployed in considering actual schemes brought to planners by developers.

In other words, ***let the policy framework allow developers do what they are expert at – finding development sites – and local authorities concentrate on meeting housing need and ensuring development is high quality.***

***Therefore we believe a second effective mechanism would be to abandon urban capacity studies and return to the earlier system of housing land availability studies.***

These were practical, realistic exercises requiring local authorities, in co-operation with the private sector, to identify land without obstacles and with planning permission sufficient to meet a two-year housing requirement, plus land identified in the local plan and/or with outline consent sufficient to cover the following three years. Because such studies assess the availability of actual sites, taking account of constraints arising from ownership, contamination, current use, etc. they would highlight land shortages and trigger corrective action.

***Land availability studies were formerly part of the English planning system and remain central to effective planning in Wales and Scotland.*** Such studies should be updated frequently so as to inform the local authorities' land release policies.

### **Sequential approach**

The rules governing application of the ***sequential approach*** and land release phasing must be clarified further in order to ensure that they are applied in a way consistent with ensuring that housing requirements are met.

At present, these rules are too often being used, along with theoretical "capacity" identified in urban capacity studies, simply to block land from being developed. In particular, the sequential approach tends to put large strategic sites on hold indefinitely on the grounds that short-term opportunities are either already available, or are likely to become available.

### **Planning refusals**

Local planning committees should be required to give a ***full and proper justification for a planning refusal and there should be sanctions against planning committees, which refuse permission without adequate planning justification***, especially when they go against the recommendation of officers.

Too often, councillors refuse permission simply for local political considerations, regardless of the planning merits of a scheme. If sanctions existed, they would only rarely have to be used because planning committees would observe proper procedures.

### **Prematurity**

The Government should no longer allow local planning authorities to use '***prematurity***' as grounds for a planning refusal, nor should it refuse call-ins or appeals on this basis.

Prematurity is when a planning application is refused on the grounds that the site is not in the local plan and that approval would pre-determine or prejudge decisions to be made on an emerging plan. Under the plan-led system, introduced in 1991, all

planning authorities were required to have an adopted plan by 1995. In 2002, 40 authorities still did not have an adopted plan and most of the remaining plans were out of date.

The prematurity principle introduces a perverse incentive because local authorities wanting to obstruct development merely have to delay preparing their plan. If, by contrast, prematurity was not grounds for refusal, it would act as a positive incentive to speed up plan preparation.

### **Effective date of plans**

A related recommendation would be ***to make plans effective only from the date of adoption***, as in Scotland rather than placing weight on emerging policy when making decisions. This would act as a further incentive to local authorities to ensure they had an up-to-date adopted plan.

### **Planning and Compulsory Purchase Bill**

There are a number of proposed provisions in the current Planning and Compulsory Purchase Bill that cause developers concern because they have potential to adversely affect their ability to obtain planning consents and secure funding.

#### **(a) Twin tracking**

So-called ***'twin tracking'***, in which a developer submits two identical planning applications and appeals one application after the statutory eight weeks, should be retained. While the industry understands that, to an outsider, this may seem an abuse of the system, it is the only effective sanction developers have against any local authority determined to delay and obstruct development. In the discussions on the Bill, the Government has said it will not immediately introduce a ban on twin tracking. However, the Bill will give Government the power to introduce such a ban at some future date. This constitutes an unwelcome additional uncertainty hanging over the industry and we would wish to see the Bill amended to remove this uncertainty

#### **(b) Outline planning permission**

Similarly the threat to the continued long-term availability of ***outline planning permissions*** in the Bill is very worrying for the industry. Such permissions provide an essential legal guarantee for investors in residential development. The possibility for the Government to withdraw outline permissions in the future under its proposed powers in the Bill adds another element of uncertainty to the long-term investment climate. Outline permissions must therefore be maintained as part of a strategy for improving housing supply.

#### **(c) Repeat applications**

When an initial planning application has been refused either by a local authority, or at appeal or call-in, developers often submit an amended repeat application. Under current arrangements, however, local authorities can refuse to determine such a repeat application for two years if they deem it to be not materially different from the initial application. This local authority power is not matched by a right for applicants to appeal the authority's ruling on the repeat application. There is therefore potential for local authorities to use their rights to block progress on applications for up to two years if they wish. ***We consider the law does not provide a level playing field in this respect and propose that it should be amended to enable applicants to***

***appeal a local authority's decision not to determine a repeat application. It would be timely for such a provision to be included in the Bill.***

### **Avoiding moratoriums on development**

Local authorities should have adequate land release phasing policies so as to avoid the use of moratoriums on residential development for several years. A number of authorities in the North West have introduced moratoriums on all further residential planning permissions because their target housing numbers have been met early following cuts in RPG housing numbers. It is very disruptive for the industry, especially for smaller local companies, if all development has to cease for several years. Skills and expertise are lost and cannot easily be turned on once development commences again.

### **Efficient land use**

To reinforce the presumption in favour of residential development of urban brownfield land and the requirements of two- and five-year land availability studies (see above), ***the Government should require local authorities to have a general policy of encouraging more efficient use of already developed land.*** This would be a much more effective approach than the current policy of setting necessarily arbitrary brownfield targets. The danger in focusing on such a target was highlighted in the Government's recent announcement that it had achieved its 60% national brownfield target in 2001, seven years early. What it did not say was that this had been achieved only because greenfield housing numbers had fallen, and aggregate housing numbers were well short of need.

If local plan policies made explicit the need to increase the efficiency with which developed land was used, the private sector would be encouraged to seek out inefficient or uneconomic current uses and bring them forward for residential development. Every effort needs to be made to encourage the continued flow of windfall sites for residential development.

## **6.6 Planning obligations demands (S106 agreements)**

In recent years, local authorities have sought to extract ever increasing contributions from planning obligations agreements, especially for affordable housing. Although Circular 1/97 makes it quite clear that planning obligation must be directly related to a particular site, this principle is widely ignored by local planning authorities.

### **Importance of the direct link to the site**

A fundamental problem with planning obligations, if the direct link to a site is weakened or broken, is that they are no longer related to the site's land value. On greenfield sites with a high land value and relatively low development costs, this may not be a problem. Substantial planning obligation demands may still leave sufficient land value to persuade an owner to sell a site for residential development.

However, on brownfield sites with high development costs, such demands may mean a site is no longer financially viable, or they may reduce the land value to a level at which the owner is not prepared to sell.

On sites with an active current use, it may be possible for the user to relocate to a new, more suitable site out of the proceeds of selling the land for residential development. However planning gain demands could easily render such a relocation

uneconomic. In this example, the land value calculation is clearly very different from that involved in a greenfield site.

Strong housing demand and rising prices, combined with worsening land shortages in high-demand areas, have meant house builders have often been “willing” to accede to local authority demands, however unreasonable, in order to ensure a supply of land for future production. However, if we are entering a period of more subdued house price growth, then developers will increasingly resist such demands. The danger is that local authorities, still expecting rising contributions, will stifle development opportunities and cut the supply of new housing even further. It is critical to understand that land values do not offer a bottomless pool of funds to be tapped.

### **Shortening the process**

S106 negotiations are the most important source of planning delay and therefore result in significant additional costs for the industry simply in terms of the often protracted process involved. Too often local authorities will not allow negotiations to begin until the principle of permission is agreed, thus significantly delaying commencement of work on site.

***We would recommend one very practical solution to this problem: to require local planning authorities to negotiate S106 agreements in tandem with processing the planning application.***

### **Open book accounting**

One idea that has been proposed for improving Section 106 negotiations is the use of open book accounting.

This is an issue of very great concern to the industry. The use of such an approach potentially arises when a developer is negotiating with a local authority over a planning obligation agreement to secure a planning permission and the local authority asks to see the house builder’s financial appraisal for the site. While open book accounting is appropriate for true partnership agreements, it is not an appropriate requirement for obtaining planning permission.

Most house builders are seeking to develop a number of sites, each with a different profit margin and each on land bought under different conditions. Some sites will be more profitable than others, and land will have been bought at different prices at different times. Also, the initial site financial appraisal is highly provisional. By the time a site is actually developed, many of the initial assumptions about costs, prices, sales rate, etc. will have turned out rather differently.

For all these reasons, it is quite unacceptable to have a local authority without the commercial experience or understanding of the developer’s position determining the profit margin and land price on the site at the time of Section 106 negotiations. If local authorities were to insist on this approach, many companies would simply walk away from sites and the volume of housing output would fall.

## **A new approach**

In order to deliver more housing on a consistent long-term basis, we believe that a significant revision of policy and practice in the operation of Section 106 procedures is required.

Specifically, we recommend that:

- The link between the development and the planning obligation should be maintained;
- Clearer guidance should be provided on what obligations it is reasonable for planning authorities to seek in particular cases;
- Planning authorities should set out their plans for infrastructure improvement on an annual basis consistent with this revised guidance;
- Developers should be able to submit unilateral undertakings at the time of the planning application;
- Local authorities should produce standard clauses for legal agreements;

The collective result of these proposals would be both to provide greater certainty for planning authorities and developers over what they might reasonably expect and to significantly speed up the time required to complete planning obligation negotiations.

We also strongly believe that it is right to retain a negotiation-based arrangement for planning obligation. Given variations between sites, localities and the economics of individual developments it is necessary that agreements should be case specific, informed by a suitably enabling set of framework rules.

## **6.7 Affordable Housing**

### **Overview and long-term solution**

We recognise the Government's objective of increasing the supply of affordable housing within a suitable overall mix of housing provision that respects the desire of individuals for choice.

Developers are increasingly exploring and implementing innovative ways of providing a range of affordable housing solutions as part of their developments – both in association with partners such as RSLs and independently.

In effect, however, current Section 106 agreements relating to affordable housing requirements have shifted the provision of subsidised housing for households on low incomes from the state to private land owners.

We are concerned that obliging house builders to build more affordable housing on what, in many cases, is a subsidised basis, will ultimately be self-defeating unless the total quantity of housing – which effectively means the number of residential planning permissions – is increased.

If overall supply is well below need, then seeking to reserve an increasing share of this inadequate supply for those lucky enough to qualify for subsidised “affordable” housing units – with the subsidy coming from land owners and, in the case of social housing, also central government – merely reduces the supply of units onto the market without subsidy. As this number is reduced, non-subsidised house prices will be forced up still further, thus worsening the affordability problems of households without access to the subsidised “affordable” housing. This in turn would fuel a requirement for even more affordable housing.

***The only realistic long-term solution to today’s affordability problems, therefore, is to make housing more affordable, not to provide more affordable housing. This can only be done by increasing the overall supply of housing over the longer term.***

If the supply of residential planning permissions were to increase, the industry would be able to supply a wider range of market demand as part of viable developments, including lower priced units which would be more affordable for middle and lower income households.

There will always be households whose income excludes them from market housing, whatever the level of house prices and interest rates. The issue is where in the distribution of incomes the cut-off occurs between those who can house themselves without subsidy and those who require assistance. Today it is a long way up the income distribution. If housing supply was allowed to respond to rising demand, house prices would come down in relation to incomes and many more households would be able to afford unsubsidised housing.

### **Meeting shorter term needs**

We accept that this set of problems cannot be fully resolved in the short term. Pending a longer term market solution stemming from higher overall output, therefore, we recommend that the Government gives serious attention to how planning policy can best promote an effective and increased supply of affordable housing. More planning consents will certainly help, but we also recommend that a more flexible approach to the provision of affordable housing is needed to increase shorter term supply.

***In particular, we recommend that the Government’s policy should be to avoid prescriptive approaches and instead provide for full flexibility in the ways affordable housing is delivered in terms of:***

- ***Tenure;***
- ***Partnership arrangements;***
- ***Site allocation;***
- ***Development mix.***

***All agreements relating to the provision of affordable housing should also be rooted in properly conducted housing needs surveys taking account of all local requirements within the development plan.***

If such an approach is adopted, for example, as a result of the review of Circular 6/98 currently under way, we believe it will assist the viability of developments involving affordable housing and so increase the total volume of affordable housing

provided. ***An additional benefit will be that in ensuring the most competitive partnership arrangements are entered into the public money available for such schemes can be spread much further than would otherwise be the case. This will help the private sector and the RSLs together to deliver greater volumes.***

Success will also depend, however, on there being sufficient public money available over a sufficient forward period to underpin contributions from RSLs to partnerships with the private sector and for the developer to be able to provide “subsidised” units. In this respect we believe that current funding arrangements via the Housing Corporation are both too uncertain and too short term in nature. There is an urgent need to review these if performance is to improve.

## **6.8 Maximising the return to public investment**

The industry believes it can raise most of the capital required to finance an expansion of housing output to achieve the Government’s housing and regeneration objectives. However public sector finance must be forthcoming to fund the basic physical and social infrastructure needed to allow the house building industry to make its important contribution to establishing sustainable communities.

In cases where large-scale regeneration is required, site values will initially be low or even negative, and existing house prices in the area are likely to be low. By the end of the development, when communities have been established and a healthy housing market is functioning, house prices will have been boosted substantially and land values will have risen accordingly.

The trick is to bring forward some of this future uplift in land values to fund sufficient physical and social infrastructure to get the scheme started. Once a housing market begins to develop, land values will begin to rise and infrastructure can be increasingly financed out of current land values.

On greenfield sites, land values will be unlocked more quickly, especially in the south. The timing problem can be more easily overcome than on regeneration sites.

The industry believes the key to unlocking this value is partnership between the public and private sectors. If future increases in land values are shared between the public and private sectors, then the initial public sector investment required to kick-start such schemes will be recouped as the development progresses and land values rise.

In major growth areas, large regeneration schemes and areas of low housing demand, the public sector must provide initial finance for the social and physical infrastructure, which is essential to establishing a new sustainable community. In regeneration schemes, the public sector may be required to assemble land in multiple ownership. Gap funding will also be required to kick-start a scheme if land values are negative.

In time, new settlements and regenerated communities will not only pay back the initial public investment, but they will generate a flow of funds into local authority and central government coffers.

But public bodies should be wary of trying to do the developer's job – i.e. it is the industry that has the skills and knowledge needed for planning and phasing the development, and designing and building the homes, in a way that is most likely to establish a viable housing market, with rising land values, at the earliest possible stage.

## **6.9 Redeveloping outdated housing**

The industry believes their needs to be a long-term assessment of the adequacy of the existing housing stock and the opportunities for redeveloping this. Demolition rates have been extremely low for several decades, so that obsolete and poor quality stock, often in areas of weak or even failing markets, remains in use or lies derelict. Yet these areas offer enormous opportunities for long-term clearance and redevelopment, often at higher densities, and creating more sustainable patterns of development.

Large-scale voluntary transfers of local authority stock to social landlords are hugely expensive. It must be questionable whether the enormous sums put into refurbishing unpopular housing are justified, and whether in fact the money could be used more effectively to demolish much of the housing and redevelop the land with high quality dwellings built to up-to-date standards and meeting current household needs.

## **APPENDIX 1**

### **HBF BARKER REVIEW STEERING COMMITTEE**

HBF is very grateful to the many people in the industry who offered comments and suggestions, and especially to those who served on the steering committee set up to guide preparation of this report. Members of the steering committee were from the following companies:

Barratt  
Bellway  
Cala  
Crest  
David Wilson  
Fairclough  
Redrow  
Westbury

## APPENDIX 2

### HOUSEHOLD GROWTH AND THE HOUSING STOCK

- Provisional estimates by Professor Dave King, who produced the last set of official household projections, using results from the 2001 Census, suggest England's households will grow by around 150,000 per year from 2001-2021, or three million in total. This is almost exactly in line with the 1996-based projections upon which all current regional planning guidance is based. Yet the housing stock in England – new build plus conversions less demolitions – expanded by only 125,000 per year in the last two years. This mismatch between stock expansion and projected household growth suggests new housing completions and conversions need to be raised by around 25,000 per year to keep pace with household growth. Total new housing completions in England over the last four years averaged 136,000, falling to just below 130,000 in 2001/02. An additional 25,000 new homes per year in England represents a 20% increase to 160,000, or 185,000 in Great Britain.
- However there are strong grounds for believing that 25,000 per year represent a sizeable under-estimate. The provisional 2001-based population projections for England for 2001-21 assumed International migration gains of 97,000 per year. Final revised estimates show international migration gains in England & Wales rising from 146,000 in 1998 to 177,400 in 2001 and averaging 162,200 from 1998-2001. If these high migration gains are maintained, Professor King's preliminary household projections will be an under-estimate of future growth. Sensitivity tests for the 1996-based household projections showed that the additional migration gains experienced over the last four years, projected forward to 2021, would add around 30,000 households per year to the 2001-based projections. If accurate, the shortfall between recent stock growth and future need would be around 55,000 per year. If met entirely by additional new homes, this would require house building in England to expand by around 40% to 190,000, or 215,000 in Great Britain.
- Household growth is heavily concentrated in southern England. Just under half (47%) the projected growth in England from 2001-2021 is likely to be in London and the South East, According to Professor King's estimates, and three quarters in these two regions plus the East and South West.
- Professor King's preliminary projections show household growth in London and the South East averaging just under 71,000 per year from 2001-2021. Yet in the five years 1997-2002, the housing stock in these two regions expanded by only 39,000 per year. In the four southern regions, household growth is expected to average around 112,000 per year, whereas housing stock expansion has averaged only 76,000 per year over the last five years.
- New housing completions in Great Britain in 2001 were the lowest since 1946. Excluding the war years 1940-1946, they were the lowest since 1924. Private sector completions fell to 140,000 in 2001, the lowest since 1982. As recently as 1988 the industry completed 200,000 homes in a single year.

- New homes add only 0.7-0.8% to the housing stock of England each year.
- At recent demolition rates, today's new homes will have to last some 1500 years before it is their turn for demolition.
- According to the 1996 English House Condition Survey, 7.5% of dwellings in England were "unfit" and 14.2% were in "poor condition".