



## SOCIAL HOUSING SUPPLY

### Introduction

The CLA is the membership organisation for owners of land, property and businesses in rural England and Wales. We help safeguard the interests of landowners and those with an economic, social and environmental interest in rural land and the rural economy. CLA Cymru has approximately 2,600 members in Wales who between them own and manage roughly half of the rural land in Wales. Our membership is engaged in all sectors of the rural economy and includes farmers, landowners and around 250 types of rural business.

### **The challenges faced by social landlords in increasing supply.**

Landowners play a critical role in making land available for the delivery of social housing, particularly in rural areas. While land prices may be one barrier to delivering social housing, it is also true that in rural areas the cost of building the houses themselves is higher. Sites tend to be smaller and therefore it is harder to achieve economies of scale, additionally social housing has a lower ongoing income, meaning the payback period of the development will be longer. The sunk costs of delivering a site of social housing in rural areas will be of a similar level regardless of how many homes are being delivered. For example, costs such as a planning application and associated surveys will cost a similar amount for two homes, as it will for ten.

One solution to addressing these financial barriers is to incentivise landowners to put forward land for development. One incentive which would encourage landowners and would also improve financial viability of sites is to remove capital gains tax liability on sites sold for social/affordable housing. The CLA modelled the cost to HM Treasury of removing the capital gains tax liability on land sold to registered providers; on a small site of 1-2 acres, the liability would be no more than £48,000, which, to the Treasury, is a minimal cost. However, £48,000 on a small site is nearly the same value as five more plots for affordable housing, which would improve viability on these small sites.

Another solution is to allow for a greater level of cross-subsidy on sites for social housing. Planning Policy Wales (PPW) allows sites for 100% affordable housing, defined as small sites, to be brought forward if they are located within, or adjoin, an existing settlement and would otherwise not be allocated in a development plan. These sites are known as Rural Exception Sites (RES). RTPI Cymru<sup>1</sup> acknowledges that there is no consensus on whether PPW should be amended to allow market-housing to cross-subsidise affordable housing on RES. Conversely, the National Planning Policy Framework in England allows local planning authorities to consider whether to allow some market housing on RES to facilitate the delivery of affordable housing to meet local needs. If an element of cross-subsidy was allowed, it would increase the income achieved on the site which would offset the higher cost of developing social homes in rural areas.

### Recommendations

- **Support the amendment of section 269 Taxation of Chargeable Gains Act so that all sales of land to registered providers is treated as made on a no gain, no loss basis, effectively providing relief from Capital Gains Tax on these disposals.**
- **Amend Planning Policy Wales to allow an element of cross-subsidy market housing on rural exception sites.**

## **How housing standards and decarbonisation affect the delivery of new social housing**

Housing standards are incredibly important, and the Welsh Development Quality Requirements 2021<sup>2</sup> are admirable in their aim. However, the requirements set a standard of EPC 'A' for all new build dwellings, which also must not have fossil fuel heating. While the CLA appreciates the need to decarbonise our housing stock, and that we should, wherever possible, be moving away from carbon intensive heating options, the reality is that, particularly in rural areas, the capacity of the electrical grid is not sufficient to install electric heating in all new build homes.

An inquiry into Grid Capacity in Wales<sup>3</sup> found that “delays and upfront costs [of increasing grid capacity] are often greater in rural areas, which lack existing grid infrastructure”. Additionally, the inquiry acknowledged that 25% of Wales is in a National Park or Areas of Outstanding Natural Beauty, and there was a strong presumption that cables for increasing capacity should be laid underground. Underground grid infrastructure is “expensive and hugely disruptive” and therefore it is likely that these protected landscapes will instead be avoided when upgrading grid connections. If these areas are left behind, they will remain isolated from low-carbon energy options, and it will be very difficult to install the infrastructure required to deliver net zero social housing. The result will be that social homes are not built in rural areas, because the cost of developing them to the new requirements are too high.

## **Recommendations**

- **Welsh government should consider flexibility on the Welsh Development Quality Standards for social housing in rural areas, particularly where grid connection costs to meet EPC 'A' and the requirement to install electric heating are prohibitive, and the homes would otherwise not be developed.**

## **How effectively the planning system is supporting social housebuilding**

The Rural Growth Cross-Party Group (CPG) held an inquiry into rural productivity in Wales<sup>4</sup>, where one topic of the inquiry was to explore housing and planning. It was clear from those who gave evidence at the inquiry that the planning system was impacting Wales's ability to deliver homes at a sufficient rate to meet housing need. It quoted that housebuilding in Wales has declined since 2015/2016, with only 5,785 completions in 2022/23. Some of the issues highlighted were the increase in fees charged for services against the level of services delivered; the speed in which planning applications are processed; the speed of external consultee responses to planning applications; and the level of training provided to planning committees.

Many of these issues could be solved and encourage great social/affordable housebuilding if two changes were implemented; firstly, the Welsh government could increase support for Rural Housing Enablers (RHEs). RHEs are independent from local authorities and can engage all parties involved in delivering affordable and social housing in rural areas, including communities, community councils, local planning authorities, and members of

planning committees. RHEs also have the important role of assessing housing need, and therefore the level of housing required in an area. Since a package of funding for RHEs in Wales in 2014, their coverage has declined. If Welsh government were to introduce a new package of funding for RHEs, the number of sites for social housing should increase, and the awareness of the importance of rural affordable housing should increase amongst local councils, including planning committees.

Secondly, social housing delivery would be improved by introducing a bespoke Permission in Principle route for Rural Exception Sites. The CLA has co-developed the Planning Passport, a new mechanism for delivering Rural Exception Sites which aims to speed up the implementation of existing RES policy. It splits the planning process into two distinct stages, the requirements of which reduce risk and increase certainty, leading to more delivery of affordable housing in small rural communities. The Planning Passport lowers upfront costs at stage 1, and clearly defines what reports and information will be required at stage 2. Achieving permission in principle at stage 1 gives greater certainty to those delivery affordable housing. The Planning Passport also strengthens officer, elected member and community support for a scheme by requiring the tenure mix to be a part of the application. Upfront community engagement ensures transparency throughout the process.

A significant barrier to all housebuilding, including social housebuilding, is the planning moratorium on development in Special Areas of Conservation (SAC) due to phosphate loading. No applications can be approved in these areas unless it can be demonstrated that they will not add phosphates to the water in the area. It is unclear how this can be demonstrated which has led to a backlog of applications. Until clearing this backlog is prioritised, and a solution agreed, social housebuilding in SACs will remain a near impossibility.

## **Recommendations**

- **Provide additional funding for an extra two planning officers in all 25 local planning authorities in Wales.**
- **Ensure that all local authorities have up-to-date local development plans that accord with Planning Policy Wales and *Future Wales: the national plan 2040*.**
- **Create a route of Permission in Principle specific to Rural Exception Sites to encourage their greater use, the Planning Passport.**
- **Increase the urgency of the actions stemming from the *Relieving pressure on Special Areas of Conservation (SAC) river catchments to support delivery of affordable housing programme* and provide additional funding to do so.**

## **How to improve the strategic management of public and private land for social housebuilding, including compulsory purchase**

Allowing local authorities to force landowners to sell their land for social housebuilding via compulsory purchase would be very damaging. Farmers are already hard-pressed and forcibly taking land from them risks upsetting the profitability of their business. Many CLA members would willingly put forward land for development. Engaging positively and encouraging them to sell land, rather than forcing their hand through a compulsory purchase process, will result in better and more sustainable housing development. Engaging positively will mean that land, which is best suited for housing development, as well as reducing any severe impact on a farm's profitability, will be put forward for development. The issue is not that landowners do not want to provide land for social housebuilding, it is that the planning system at a national and local level has not been operating effectively – compulsory purchasing land will not solve this problem.

We would however support the prioritisation of public buildings and land being sold for affordable or social housing development. This would be of particular value for community groups looking to deliver housing. In 2010 there was funding available for communities to purchase publicly owned land and buildings in Wales through the Welsh Government's Community Asset Transfer Fund. However, this did not fund projects which were solely for housing. As of 2022 there were no homes completed by Community Land Trusts in Wales<sup>5</sup>. By encouraging Community Land Trusts and easing their ability to purchase publicly owned land and buildings, this should increase the amount of affordable housing built in Wales, using community engagement rather than forcefully purchasing land from landowners.

## **Recommendations**

- **Explore options for enabling community groups to purchase public buildings and land to be developed for affordable housing.**

## **The potential for increasing income from land value capture mechanisms to invest in social housing**

The rise in the value of land that is generated by the grant of planning permission, known as uplift, is undoubtedly significant, particularly in certain areas of the country. The proportion of this value, however, which is then taken by Government, at a local and national level (Land Value Capture (LVC)) and the amount that the landowner receives, is much less clear. Understanding what proportion of uplift Government is currently capturing from developments is important, before exploring the potential for more to be taken.

In 2019 the CLA surveyed members across England and Wales about planning permissions obtained on their land since 2011 and asked them to provide financial details of the development. Our survey was to understand what value of land is captured already; to calculate the LVC on these developments we included the cost of Section 106 agreements which included affordable housing contributions, and also included any Community Infrastructure Levy payments and taxation. These were included as the residual land value method is used by most developers and registered housing providers, with any contributions called 'developer contributions' being simply subtracted from the land value, and therefore ultimately lowering the price the landowner receives. Our analysis showed that 57% of the uplift after planning permission was captured by Government, whereas the landowner retained an average of 43% of the uplift. S106 contributions made up on average 81% of the value captured by government.

Our LVC survey demonstrated that the land value captured is already significant. While increasing the income received from land value capture may be assumed to increase funding available to invest in social housing and deliver more homes, in fact the opposite may be true. By reducing the amount the landowner receives, it could disincentivise them putting forward land for development, resulting in less social housing being built.

The Home Builders Federation in 2023 published a report<sup>6</sup> exploring unspent developer contributions in England and Wales, it found that the 14 Welsh Councils which responded to an FOI request, had a combined £71,405,329 of S106 contributions which were unspent. Welsh government should first encourage local authorities to spend these developer contributions, before exploring how to capture more land value.

## **Recommendations**

- **Encourage local authorities to allocate unspent developer S106 contributions, which in Wales amounts to over £71 million.**