

Paper 4

National Assembly for Wales

Communities, Equality and Local Government Committee

Inquiry into barriers to home building in Wales

Response from : The Home Builders Federation

## **1. National policy on house building**

We believe there is a specific challenge to solve the housing problems we face in Wales that have been exacerbated as a result of the recent recession. At our last estimation, there was a shortfall of nearly 60,000 homes in Wales and we are currently building fewer homes now than at any time since the Second World War. Therefore, if we are to begin to tackle the housing problems we experience in Wales, we believe national government policy needs to tackle the chronic under provision of homes we have experienced over the last few decades, and make a fresh commitment to deliver more new homes in the decades going forward.

The requirement to increase the total number of homes in Wales needs to be enshrined within national policy, which can then be enforced at a local authority level. National guidance needs to recognise the acute problems we face with housing provision in Wales and needs to make a firm commitment to increase the numbers of all types and tenures of homes. This, we believe, is the only way we will begin to tackle the housing shortage properly and start to deliver on the commitment to provide more homes, of the right type for everyone in Wales. Through the LDP system in Wales, we are already witnessing local authorities trying to allocate lower housing numbers than those predicted within the population and household projections and therefore at present, it seems the problem will only get worse. National Guidance therefore needs to take a strong leadership role and provide local authorities with robust guidance to state that increasing the number of homes we build in Wales is a national priority and should be reflected within each LDP strategy.

We believe this issue requires strong and positive intervention from the Welsh Government, in order to ensure the delivery of homes gets a priority place on the policy agenda.

## **2. Products to assist with mortgage availability**

There is a pent up demand for homes in Wales, which is being exacerbated by the lack of access to mortgages, particularly for first time buyers. Over the course of the recent recession, we have seen mortgage levels drop, as well as a drop in house building levels, however, the demand for homes remains as high as it was in pre recession times. In fact, given the lack of house building in Wales, it is highly likely that the demand for homes in all categories (starter homes, family homes etc) has increased in all areas of Wales.

In light of the above, we believe it is imperative that demand-side products to assist in mortgage availability are adopted by the Welsh Government as a matter of urgency. In this respect, we have met with the Housing Minister to discuss these issues and he shares our concerns, and is taking decisive action in this regard by considering the introduction of the Help to Buy Equity Loan Scheme in Wales. We remain fully committed to working with the Housing Minister and his colleagues to ensure we adopt this scheme at the earliest possible opportunity and we remain confident that with our joint efforts, we can tackle the lack of mortgage availability in Wales head-on.

## **3. Cumulative impact of regulation**

The lack of consideration for development viability when new planning and regulatory changes are proposed, often results in land values not being able to support the full range of requirements being sought. Even though it might not be the case that one single policy has a negative effect on viability, the accumulative requirements of planning and other regulations is often enough to render a development unviable unless a proper analysis of the impact of each policy is undertaken. It is this to which we refer, when we discuss the **cumulative impact of regulation**.

### 3.1 Proposed national policy and regulation changes

In terms of the changes to regulation proposed to National Policy, the sustainability agenda and regulations to require the introduction of fire sprinklers in all new homes are two major proposals that will impact on home building in Wales.

There are numerous issues with these two regulatory proposals that we believe require further work and analysis to ensure they are appropriate and fit for propose. However, the totality of these issues has been covered in depth by our written and oral responses to each agenda and therefore, for this consultation we will focus solely on reasons why these two regulatory changes will have a detrimental impact on the delivery of homes in Wales, i.e. their cumulative cost impact on development viability.

We have consistently voiced concerns with respect to the cost impact of these proposals at a national and local level. In short, there is a significant amount of evidence (collected by the Welsh Government) that these proposals, along with the cumulative impact of separate national and local legislation, will severely compromise development viability in Wales. This will in turn compromise the delivery of homes, including affordable homes, and stifle growth and investment in many areas throughout Wales.

In terms of the changes proposed to Part L of Building Regulations, the Welsh Government is proposing to introduce these changes in 2015. The regulations will require every home built to include a substantial amount of renewable energy technologies (solar panels etc) and will add £4200 to the build cost of each dwelling. In terms of fire sprinklers, the proposed change to regulations is planned for spring 2014 and (again according to the Welsh Government's evidence) will add £3075 to the build cost of dwelling. Cumulatively, this is a total cost of over £7200 to the build cost of each home in Wales, which will have a considerable impact on land values and development viability in all areas of Wales.

To demonstrate this impact, Appendix 1 below shows what happens to land values in various local authorities in Wales, when the cumulative impact of proposed and current regulation is taken into account. In terms of the graphs provided, it is clear to see that when every requirement is taken into account, the vast majority of land values fall into negative territory. This would effectively mean that not only has the land lost its value, but a land owner would have to **pay** a developer to develop the land to cover the cost of the development and also to cover the cost of the required legislation. In short, this means that land will not be brought forward for development in these areas, as land values are cannot support the requirements levied from national and local policy and regulation.

In terms of our work on development viability, this has been fully supported by the Welsh Government. In this respect, the issue of development viability with respect to proposed regulation changes was discussed at length at the recent meeting with the Welsh Government's consultant's AECOM on the 1<sup>st</sup> May 2013. At this meeting, the stakeholders were presented with a set of residual land values that were achieved as part of the viability testing undertaken by the consultancy on behalf of the WG to inform the WG's proposed regulation changes. In terms of this viability work, within the three areas tested (Cardiff, RCT and Conwy), the vast majority of the residual land values achieved were negative, proving again that the cumulative impact of current and proposed legislation would indeed have a significant detrimental impact on development viability in Wales. Further to this, one important issue to note about this test of viability is that the assumption was made to reduce affordable housing requirements to zero. As such, even without any affordable housing being proposed, the viability of development was significantly affected in all areas tested.

In terms of the above, it is telling that even with affordable housing is removed from the equation, the impact on development viability is still devastating, even in higher land value areas such as Cardiff. However, at the meeting AECOM also commented on our viability appraisals (as in Appendix 1) and confirmed that they corroborated their own findings on development viability. In this respect, in one sense we were satisfied by the fact that our research was considered to be sound, yet on the other hand we were extremely concerned by what this (and the Welsh Government's) research was telling us with respect to the future of development viability in Wales.

Further to the above, the fact that these proposals are being brought in through building regulations is an additional point of concern. This effectively means that they will be required by law and will therefore not be 'negotiable', as is the case with many other pieces of regulation (particularly planning regulation). Therefore, the cost of these proposed regulations will be required irrespective of the separate priorities of the Welsh Government or local authorities. The cost of the regulations will also be indiscriminate, meaning that will affect development in all areas of Wales, whether land values are low or high.

In addition to the above, we must also consider the fact that the new proposed regulations on fire sprinklers and part L of building regulations are not being proposed in England. In this respect, we already have higher build costs than England as a result of our Sustainable Buildings Policy (Tan 22), resulting in an additional build cost of roughly £3500 per dwelling. However, when the proposed changes to building regulations and fire sprinklers are introduced (adding a further £7,200), the potential cost difference between building a home in England and Wales could be as much as £10,700 per dwelling. As you might imagine, this could act as an incentive to divert development out of Wales, particular for home building companies who operate across the UK. Indeed, these concerns have been echoed by individual companies in recent months, including Welsh home-builder Redrow.

In light of the above, we extremely concerned with the potential impact of proposed and current legislation on land values in Wales. Given our high level testing of development viability also accords with the results of the Welsh Government's viability tests, it would seem that this will be a significant barrier to building homes in Wales in the future.

## **4. Planning issues**

### **4.1 Community Infrastructure Levy**

We are currently witnessing a number of local authorities in Wales starting to develop their proposals for the Community Infrastructure Levy. In this respect, Rhondda Cynon Taff and Caerphilly have progressed furthest with the process, having virtually completed their Draft Charging Schedules.

In terms of CIL, we are again extremely concerned with its potential impact on development viability. RCT and Caerphilly have essentially refused to accept many of the issues we raise above with the cumulative impact of regulation and are proposing to introduce CIL tariffs that our evidence suggests will impact negatively on development viability. Clearly with CIL it is extremely important to ensure the viability testing process is correct from the outset, as when the tariff is finally adopted, there is **no opportunity for negotiation**. In this respect, when the tariff is set, if land values cannot support the tariff, it cannot be reduced in order to ensure a development remains viable. This means that development will not go ahead and there is no opportunity to ensure it can do so. This we believe is another example of how the lack of understanding of development viability can compromise the delivery of homes in Wales.

### **4.2 The need for more housing land**

There is a significant shortage of land available for development in Wales, particularly in the areas that need it most. For instance, the land supply situation in Cardiff is a clear example of this, where there is a huge shortage of land for family homes and the council has less than half the land supply required in order to comply with national guidance. Clearly a shortage of land such as this in an area as critical as Cardiff is extremely problematic, however, such shortages exist in all areas

of Wales. This is compounded by the fact that the LDP system is failing to deliver plans in a timely manner, but is also exacerbated by the fact that incentives to ensure land supplies are increased have been compromised by recent changes to national guidance i.e. the Joint Housing Land Availability process under TAN 1 (more on this below).

In terms of the land supply within new development plans, where LDP's are being adopted, there is a growing tendency for local authorities to adopt sites that are laden with constraints or are situated in areas that have difficulty in attracting development. In this respect, whilst we agree that such a strategy can be useful in promoting regeneration, it needs to be balanced and supported by an overall strategy to direct growth and investment to areas that are capable of sustaining it. We believe it is important to remember that you cannot 'force' growth and development into areas that do not have the capacity to support it. Similarly, an LDP cannot 'require' the redevelopment of constrained sites, where it is simply not viable to do so. As such, we believe it is important for local authorities to have a development strategy that concentrates on the successful areas of their authority, whilst providing opportunities to help growth and investment radiate out into the less successful areas and begin to take hold. This means allocating land for housing (and other forms of development) that is not constrained and is situated in the 'right' areas, to ensure growth and investment continues to flourish in all areas of Wales, whilst allowing sufficient time for regeneration and investment to take hold in the more challenging areas of the country.

In light of the above, we believe there should be a public land release programme, on a national and local level in Wales, in order to ensure we can continue to deliver more homes in the right areas. We believe such a programme would (for example) help to deliver more challenging sites, help to bring forward sites in less investment-attractive areas, or perhaps deliver more affordable housing in the face of viability issues, as there would be more scope to convert 'best value' into tangible community benefits, rather than monetary receipts. However, it is essential such programmes are targeted at the whole of the market and not just at the delivery of 'affordable housing', which has largely been the case in the past. We understand that there is a specific need for more subsidised housing, however, this is very much a short-term solution to a more significant long-term problem. In its basic sense, we need to increase housing supply in general in Wales, in order to ensure everyone in the market has the chance to live in a suitable home. This is the only way we will tackle the housing crisis from its roots, and to hopefully reduce our reliance on subsidised housing in the years ahead.

Delivering more homes in general is a key priority for the Housing Minister and we will continue to support his efforts to ensure this priority is achieved.

### **4.3 Land availability issues – the Joint Housing Land Availability Process**

In Wales national policy (under the auspices of TAN 1) aims to ensure local authorities have a 5-year supply of land at all times in Wales. This system is extremely important, particularly when a local authority does not have a development plan in place, as it monitors the land they have currently available to ensure it is ready and fit for development. The system serves as an important back-stop to ensure local authorities continue to play their part in providing people with access to housing. Where a local authority does not have a 5 year supply, they must take steps to tackle the issue, by either progressing more quickly with their development plans, or by granting planning permission for housing development, when speculative applications are received.

However, the system in Wales has recently undergone some major changes, which have essentially watered down the process and severely compromised its effectiveness and integrity. In this respect, now that many UDP's are becoming time-expired and LDPs have not taken up the void, local authorities are being allowed to calculate their land supplies based on past build rates. That is, instead of relying on their own evidence on future housing need and demand, or national household projections, to inform future housing requirements, the local authority can simply rely on what they have built in the past, to inform what needs to be built in the future. This creates a significant problem. As that build rates have reduced in recent years in all parts of Wales, relying on previous build rates to inform what you need to build in the future, artificially suppresses the level of future house building that is actually required (when evidence on housing need and demand is considered). As a result of this, because it now seems local authorities have fewer

homes to build, they suddenly experience a theoretical increase in land supply, without actually releasing more land for development. This consequently causes an every decreasing spiral, with fewer and fewer sites being granted permission and house building rates continuing to decline in the years ahead.

A key example of this can be seen with the Vale of Glamorgan, where in the period up to 2011 (the expiry date of the UDP) their land supply was slowly decreasing below 4 years, however, in 2012 when they were allowed to calculate the land supply based on past build rates rather than the UDP requirement, their land supply suddenly shot up to 7 years, without any **actual** increase in land supply on the ground. These anomalies in the land supply calculation process needs to be addressed as a matter of urgency, as they are already acting as a significant barrier to housing development in Wales.

We are working closely with Welsh Government officials to resolve these issues, however, we must ensure that such important sections of our national planning guidance are prevented from being diluted in this way in the future.

## **5. General Planning Issues**

### **5.1 The LDP system**

The LDP system in Wales is a major source of concern for us. The process of front-loading evidence to arrive at a Deposit Plan that is meant to be 'sound', offers little scope for significant changes to the plan when it comes to the Examination. In our view, the system needs to be changed in order to provide more opportunities to independently scrutinise the plan, before the final decisions need to be made e.g. a mock examination.

Indeed, despite the LDP the process having a binding Inspector's report, the Inspector has very little leeway to make significant changes to a development plan. Therefore, if significant changes are required to the strategy or policies following the examination, these changes will need to be made by the Council and sanctioned by Council Members. However, if the changes required are a significant departure from the wishes of Council Members, it is highly unlikely they will agree to them, which means the LDP will left in a stalemate position without any course of action available to redress the situation. This is clearly causing major delays to the process and there no penalties for local authorities or Council Members delaying the production of LDPs, or creating strategies and policies based on their political viewpoint rather than evidence

Furthermore, the Examination process is far from transparent. It would seem that an Inspector has carte-blanche to decide on a course of action or make a decision, irrespective of the evidence before them, even when they openly agree with evidence that warrants a different decision. There is very little understanding from an Inspector's report as to why certain decisions have (or have not) been taken, and stakeholders are, in the main, expected to merely 'accept' the decision the Inspector makes, despite the existence of evidence to demonstrate the contrary. It would seem that when significant changes are required to a plan, Inspectors' favour the 'easy option' of making minimal changes and relying on the review process to assess the situation further down the line. This, we believe, partly stems from the Welsh Government's overwhelming desire to 'get the plan adopted at all costs', as it is believe by some that having an 'unsound' plan adopted is better than have no plan adopted at all. We do not believe this is appropriate and will only cause further delays to the planning system when decisions need to be taken in line with the adopted development plan.

### **5.2 Pace of the planning system**

Our members have become increasingly concerned with the pace of the planning process in Wales. Constant battles over Section 106 and viability are causing a break in the system, essentially due to the fact that policies (both national and local) are being created and adopted without due consideration to their impact on development viability.

Through various consultations in the past, we canvassed our members for 'quick wins' to speed up the process. Aside from the key issues mentioned above, one clear response was to allow a

situation whereby a re-plan of a development site, particularly for something as simple as a house type change, does not require the resubmission of the whole application. Where a new application is required to be submitted, it can cause significant delays to the planning process and can also cause major issues with development viability, particularly where there has been a considerable change in local planning policy. Therefore, we believe guidance should be released to instruct local authorities not to require new planning applications for simple application re-plans. This could be done without any changes to legislation or organisational structures.

In addition to the above, we believe the reintroduction of a simple outline permission could also help to speed up the process. We believe the amount of information required with the submission of an outline application renders it virtually obsolete in terms of being a useful tool to secure the principle of residential development. As such, we believe the requirements on outline applications should be slimmed down, in order for permission to be granted on land where the principle of residential development would be acceptable to the local authority. This would not only help to speed up the delivery of the planning application process, but would also help to facilitate the timely identification of land for development in areas where the local authority does not have a development plan in place or has a land supply below 5 years.

We have raised issues with the planning process through our various responses to the Planning Bill. In this respect, we are extremely encouraged by the fact that the Welsh Government is creating a new Planning Bill for Wales. We believe this represents a significant opportunity to address many of the issues we (and others) have with the current process and we very much look forward to working with the WG on the formulation of the Planning Bill to tackle these problems.

**Richard Price**

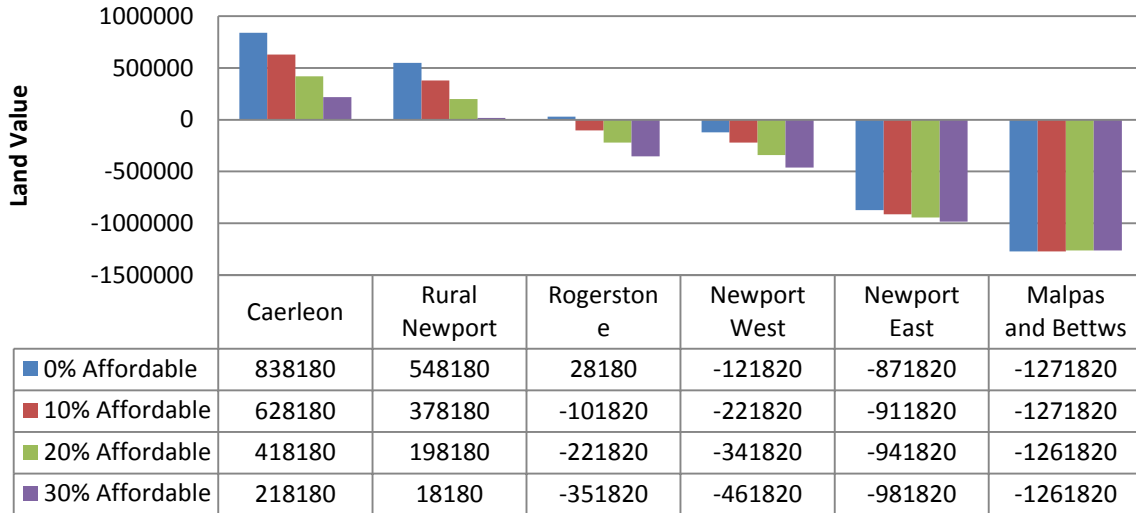
**Planning and Policy Advisor - Wales**

**The Home Builders Federation**

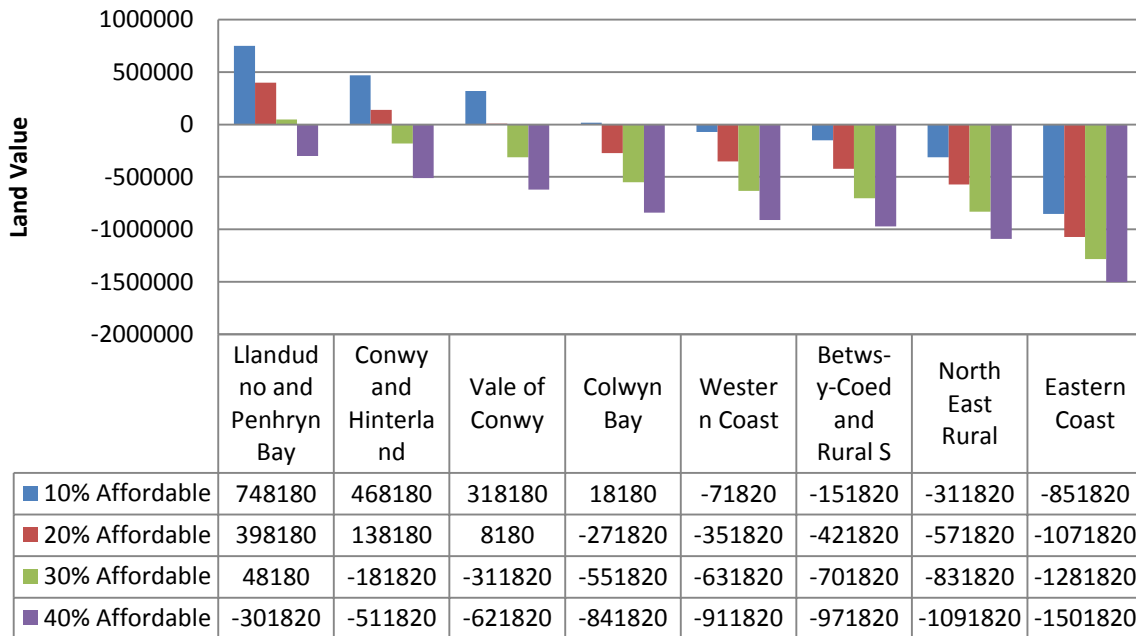
**APPENDIX 1**

Residual land values in various local authorities following the introduction of changes proposed to Building Regulations and Fire Sprinklers

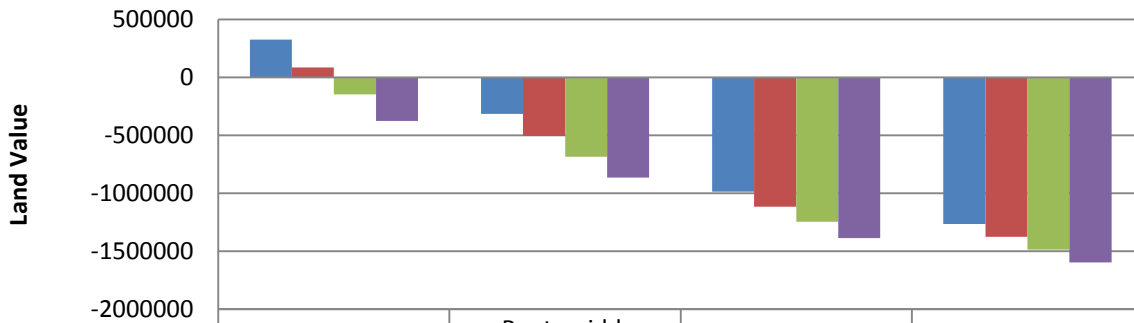
**Newport residual values with Part L plus sprinklers**



**Conwy residual values with Part L plus sprinklers**

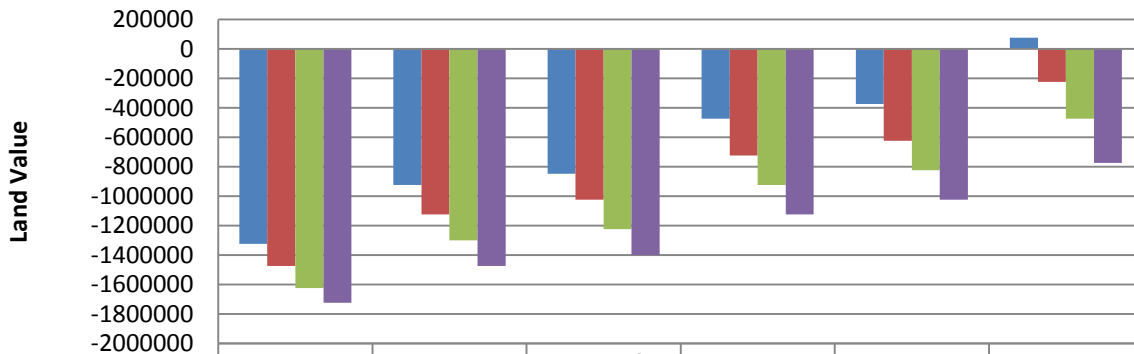


## RCT residual values with Part L plus sprinklers



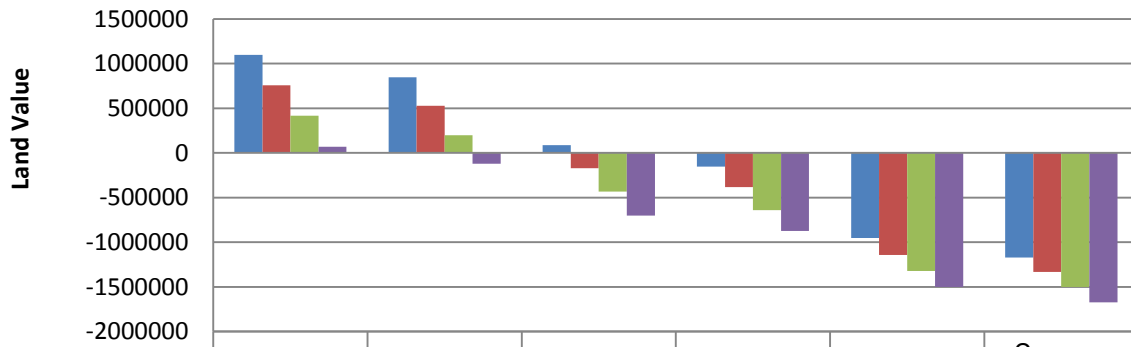
	RCT South	Pontypridd, Porth and Taff Valley	RCT North East	Rhondda Valley
■ 0% Affordable	324260	-315740	-985740	-1265740
■ 10% Affordable	84260	-505740	-1115740	-1375740
■ 20% Affordable	-145740	-685740	-1245740	-1485740
■ 30% Affordable	-375740	-865740	-1385740	-1595740

## Caerphilly residual values with Part L plus sprinklers



	Rymney	Newbridge	Rest of Caerphilly	Blackwood	Ystrad Mynach	Caerphilly
■ 10% Affordable	-1323780	-923780	-848780	-473780	-373780	76220
■ 20% Affordable	-1473780	-1123780	-1023780	-723780	-623780	-223780
■ 30% Affordable	-1623780	-1298780	-1223780	-923780	-823780	-473780
■ 40% Affordable	-1723780	-1473780	-1398780	-1123780	-1023780	-773780

## Bridgend residual values with Part L plus sprinklers



	Porthcawl	Rural	Pencoed and Hinterland	Bridgend	Western Valleys	Ogmore, Garw & U Llynfi Valley
■ 0% Affordable	1098180	848180	88180	-151820	-951820	-1171820
■ 10% Affordable	758180	528180	-171820	-381820	-1141820	-1331820
■ 20% Affordable	418180	198180	-431820	-641820	-1321820	-1501820
■ 30% Affordable	68180	-121820	-701820	-871820	-1501820	-1671820