

CONSULTATION RESPONSE



PNCP Scrutiny Committee – HBF Response

8/3/2013

Thank you for taking the time to consult the HBF on these issues.

In terms of our organisation, the HBF is the voice of the home building industry in England and Wales and our members deliver around 80% of the new homes built each year.

HBF members range from household multinational names to smaller local businesses, and include RSL's, suppliers and companies who provide professional services to the home building industry.

With respect to our responses below, I realise that some are quite detailed and as such, please do not hesitate to contact me (via my contact details at the foot of this response), if you wish to discuss anything. In addition to this, I would be more than happy to meet with any members of the Committee to help clarify any points I have raised.

Please find below our response to the questions set by the Scrutiny Committee, as requested.

1. HBF's role in relation to the development of affordable housing policy (including land use planning policy); and

The HBF plays a key role in the development of all forms of policy. We work on a national, regional and local level to help devise policy that will be deliverable and workable for all parties concerned.

In terms of affordable housing policy, we work with both the Welsh Government and local authorities/national parks to ensure affordable housing policies deliver on the ground and also to ensure such policies do not have a negative impact on development viability. It is important to recognise that in order to deliver housing

(including affordable housing), developments must remain viable and we work extremely hard to ensure affordable housing policies achieve this aim.

2. HBF's experience of helping to contribute to the provision of affordable housing in National Parks; also

We were consulted on the affordable housing policy adopted in the LDP through the LDP examination process, and we issued significant objections to it. At the LDP affordable housing examination session, we voiced vociferous concerns that the affordable housing percentages being proposed were overly onerous and would result in an adverse impact on development viability. Our main concern was, coupled with the cumulative impact of the cost of separate legislation and policy requirements, the extremely high affordable housing policy targets would result in developers not being able to develop in the national park. This would mean that housing delivery would be compromised, as would the delivery of affordable housing, given that most of the affordable housing units would be provided by the private sector through the application of the affordable housing policy. We warned that setting high affordable housing policy targets would not deliver increased levels of affordable housing, because if any of the proposed housing schemes were not viable, they simply would not be built. We also stated that setting a policy of 50% affordable housing (for example) might look good on paper, however, if this target impacts negatively on development viability, it will not deliver any affordable units on the ground. In this respect, we reminded the NPA that 50% of 0 houses would equal 0 houses! We must point out that these concerns were shared by the majority of people that attended the Examination session, and not just by the home building industry.

In terms of the above discussion, the NPA were adamant that their percentage targets were viable. However, as you are probably aware, there has been very little (if any) affordable housing delivered in the National Park in recent years. At a recent meeting with the Housing Minister and Planning Minister (10th December 2012), Vicky Hurst, Head of Development at the Pembrokeshire Coast National Park Authority (PCNPA), openly admitted that the affordable housing targets were not being achieved. We stated that we warned of this before the targets were adopted, however, these warnings were ignored.

In short, we believe it was very short sighted of national park planners to attempt to set extremely high affordable housing targets, without giving proper consideration to how those targets would impact on development viability. We stated throughout the examination that ensuring affordable housing is delivered, is far more important than having a target that looks good on paper. We also warned at the session, that the affordable housing policy itself could be responsible for the lack of affordable housing delivered. Ironic though this sounds, this is exactly what is happening in the national park presently, and is also happening in many other local authorities in Wales.

We always make the point that people cannot live in 'affordable housing targets', they need bricks and mortar, and without a greater emphasis on deliverability and viability, we are extremely concerned that we will see far less delivery of housing and affordable housing in the many areas of Wales in the years to come.

3. What do you consider are the most significant challenges facing planning authorities, in particular National Park Authorities in Wales in helping to deliver affordable housing?

Development viability is without a doubt, the biggest issue to face the national park with respect to the delivery of affordable housing.

In terms of housing development, development viability can be a complex issue, but (hopefully) it can be explained in simple terms. In essence, the value of the land being sold for housing development must be sufficient to cover the costs of that development. In terms of the costs, these can be briefly described as:-

- Cost of actually developing the site (including developer costs and profit etc)
- Cost of local planning obligations
- Cost of national planning and other regulatory requirements
- The cost of the land, i.e. payment to the land owner

However, in terms of the above, we must remember that there are certain priorities that need to be considered within these costs. We take each in turn below:-

Cost of developing the site

In terms of developing the site, this is clearly a priority above all other development costs. Put simply, without allowing for the necessary costs to develop the site, the homes cannot physically be built. As such, any costs associated with this heading will need to be prioritised above the cost of providing affordable housing, or any other planning obligations. The cost of developing the site can comprise, (not exhaustively) the cost of preparing the site for development, sewerage infrastructure and other ground works, the raw materials to construct the homes, internal roads and pavements and things like overheads and developer profit. In terms of developer profit, this is guided by what banks and lending institutions require in order to lend the money to construct the development. Without demonstrating an appropriate profit level and security in the development, the money will not be loaned and the development will not go ahead. In this respect, when conducting the affordable housing viability assessment, the HBF and the NPA agreed on the profit levels to be assumed and these were set at the minimum level required by banks and lending institutions. As such, there could not be any false accusations of developers achieving unreasonable profits.

Local planning obligations

In terms of local planning obligations, there are priorities that need to be managed here also. For instance, there are certain planning obligations that are required in order to physically deliver the site, such as the need to provide transport infrastructure and to pay for transport improvements in the vicinity of the site. As such, the cost of these works will need to be prioritised over the cost of providing affordable housing. There are also planning obligations that are deemed essential by local authorities, such as education provision, which again are likely to require prioritisation above affordable housing provision.

In terms of the remaining planning obligations, (open space, biodiversity requirements, community facilities etc) there is scope for movement to prioritise affordable housing above these requirements, however, many of these obligations are required in order to ensure a development is a safe and attractive place to live. In addition, given the national park's status, many would be seen as more of a priority than would be the case in a local authority. Furthermore, unfortunately, the financial capacity of these remaining planning obligations is usually rather limited and therefore, it is unlikely that willingness of the NPA to compromise on a piece of open

space (for example), would release the necessary capital in a development in order to ensure it remains viable. The 'Big Three' planning obligations e.g. education, transport and affordable housing, are the most capital intensive and provide the most scope to ensure development remains viable when negotiations take place; and unfortunately, in the majority of cases, it is affordable housing that draws the short straw, due to the inherent importance of the other two.

National planning and other regulatory requirements

With respect to national planning and other regulatory requirements, the Welsh Government has set a national minimum energy efficiency standard for all new homes in Wales. This is a national requirement on all developments and therefore cannot be ignored. As such, the cost of this **must** be considered before the cost of providing affordable housing.

Further to this, the Welsh Government is also consulting on changes to the current energy efficiency standard, which will add significant costs to development. These changes are due to be adopted in 2015 and will be brought in through building regulations. As such, they are required by law and therefore **must** take priority over affordable housing provision.

In addition to this, the Welsh Government is also considering the introduction of fire sprinklers in all new homes. Again, these will be required by law and therefore, **must** take priority over affordable housing provision.

The cost of these two new requirements would add over £7000 to the build cost of each new home, or nearly £250,000 to the overall build cost of the average housing development. As you might imagine, when the economy is struggling and housing delivery is already extremely difficult, this potential extra burden will have a dire impact on development viability and hence the delivery of affordable homes in all areas Wales, including the national park. Indeed, the potential impact on affordable housing is set out clearly in the Welsh Government's consultations on these issues, which states specifically that affordable housing delivery in many areas of Wales, will need to be reduced, in order to ensure these new requirements are delivered.

Land cost – payment to the land owner

Finally, in terms of the payment to the land owner, this is perhaps the most important aspect of the jigsaw. Without a willing vendor, there will be no homes built and therefore, it is extremely important to understand the market value of land and the amount at which the land owner is willing to negotiate, in light of the numerous costs that will be required to build the homes and bring them to market.

As you can see from the above, there are numerous significant costs to development that will need to be prioritised before the delivery of affordable housing can be considered. This was explained to the NPA at the affordable housing LDP session, however, the lack of understanding of this process from the NPA and the Inspector, has led to a situation whereby the affordable housing policies are not only failing to achieve their goals, but are also acting as a barrier to housing development in general in the national park. As such, it is extremely important that development viability and the impact of the cost of development on the value of land is fully understood when setting this, and indeed, any type of policy, as without this understanding, the policies created will simply not work when put into practice.

Community Infrastructure Levy

The national park will no doubt be familiar with the Community Infrastructure Levy, which will need to be adopted by the NPA in 2014. This will effectively combine most of the planning obligation costs described above (apart from national planning requirements and affordable housing), into one fixed payment.

The Community Infrastructure Levy (or CIL for short) is likely to throw up additional viability challenges for the NPA, particularly with respect to the delivery of affordable housing. It should be noted that affordable housing is not included in CIL and therefore, becomes one of the few planning obligations that would remain negotiable when developing housing sites. In terms of its operation, when the levy is set at a particular cost, this cost will need to be paid by the developer, despite the level of affordable housing required. If the proposed affordable housing contributions prevent the levy from being achieved, it will be the **affordable housing** contributions that are reduced and not the cost of the levy.

The relationship of affordable housing to CIL is consistent with that which I have discussed above. That is, affordable housing delivery essentially sits at the lower end of the prioritisation list, with all other essential (and some non essential but

important) planning obligations featuring above it. This further demonstrates my point above, that prioritising affordable housing for delivery is in many cases simply not possible, as by default, there will be a plethora of other planning and regulatory requirements that will need to be given more weight and significance when considering the development of new homes.

4. What actions are needed to address or mitigate these challenges?

As described above, there needs to be a thorough understanding of development viability and how this can affect the delivery of affordable housing. **It is clear the current affordable housing policies are not working and therefore, we believe the percentage targets need to be revisited and reduced, taking into account all the potential costs on development as described above.**

In addition to the above, adopting a flexible approach when negotiating planning obligations is also helpful, particularly when land values are low and viability margins are tight. This can be the difference between delivering affordable housing and not delivering any homes at all. This is particularly concerning for the National Park, when you consider the neighboring authorities all have much lower affordable housing policy targets.

5. Have you any observations you may wish to make on the comparison between [PCNPA's policies](#) and other policies elsewhere in Wales in terms of effectiveness in meeting affordable housing needs?

As we have stated above, the surrounding local authorities all have much lower affordable housing policies than those adopted in the NPA. This will clearly be a disadvantage for the NPA, when trying to attract developers to the area, particularly when the current policies are simply not deliverable.

In terms of the affordable housing targets of other local authorities, we have raised similar concerns in many areas. One particular example is Caerphilly Council. Their 40% affordable housing target has been extremely problematic (this was openly admitted by their Planning Manager in a meeting we attended last week), and has been a direct result of a severe lack of home building in the area since the adoption of the LDP last year. It has simply made developing in the area not a viable option for developers and therefore, the LDP is seriously failing to deliver both market and affordable homes to the levels required. It is worth noting that Caerphilly is an

extremely important, investment attractive area of South East Wales, which lies in direct proximity to Cardiff. The fact that the affordable housing policy is having such a drastic affect here, we believe, demonstrates the potential impact a poorly thought out policy can have on housing delivery in any local authority.

- 6. The [Authority's supplementary planning guidance](#) sets out terms for the provision of low cost home ownership and rented properties by private developers which mirror the provisions in the social rented and the 'home buy' style schemes used by Registered Social Landlords. If the provisions were relaxed for private developers would this increase the provision of affordable housing in this National Park? Are there other options that could be considered?**

As we describe above, the whole issue of development viability needs to be understood, including the cumulative impact of all the costs on house building and their relationship to affordable housing delivery. This needs to be considered carefully when setting affordable housing policies, to ensure they can be implemented properly and that (importantly) they deliver units on the ground.

Also, again as we set out above, ensuring that LDP policies and NPA officers are flexible when it comes to negotiating planning obligations is very important. However, having this flexible approach only works if developers are willing to develop in the national park and enter into these negotiations in the first instance. If the affordable housing policy acts as a barrier to developers even considering building homes in the park (which presently appears to be the case, and is certainly the case in Caerphilly), the fact that the planning department is willing to negotiate on the proposed percentage becomes somewhat irrelevant. As such, it is imperative the park remains a viable and attractive place for investment in order to ensure the LDP delivers on its aims and objectives to deliver housing and affordable housing for the residents of the area.

- 7. Are you aware of any exemplar approaches to affordable housing delivery elsewhere (inside or outside Wales) that this Authority could learn from?**

Our members are probably best placed to answer this question, as they will have first-hand experience of negotiating affordable housing within each local authority. If

Members of the Committee wish, I will ask our members to respond and send you their thoughts as soon as possible.

If, having read your response, there are particular questions that the Members' have, I hope you would be willing for me to write to you with these.

As I have stated above, it would be my pleasure to answer any questions the Committee Members have, or meet with them to discuss any of our comments when convenient.

It is hoped that as a result the Committee will gain insight into how the process works from your point of view and therefore be in a better position to make a balanced recommendation on whether the policy is working, should remain as is, or needs some modification.

Noted.

Thank you once again for taking the time to consult the HBF and I look forward to working with you in the future.

Richard Price

Planning and Policy Advisor - Wales

The Home Builders Federation

Tel – 02920 751076

Mob – 07770 752884

E-mail – richard.price@hbf.co.uk