

**Joint Submission by the Home Builders Federation (HBF) and the
Federation of Master Builders (FMB) to the Council for Economic Renewal
Meeting – 1st December 2010**

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Home Builders Federation Executive Summary and Key Recommendations

As an introductory point, we are deeply concerned with the way in which local and national policy is being proposed and implemented in Wales. At present, despite a recognition that there will need to be cuts in all sectors, the WAG and local authorities seem to be imposing more and more charges and regulations on the house building industry, in the expectation that these requirements can be funded by the industry and supported by land values. Now, more than ever, there seems to be an assumption that housing development can absorb all the costs that are levied on it, despite the challenging business climate the industry faces and the widespread recognition that everybody else needs to be realistic with their expectations.

In light of the above, we are concerned that unless WAG departments and local authorities are more realistic with their requirements, the provision of housing in Wales, including affordable housing, is likely to be seriously adversely affected, which will obviously have wider social impacts and also a negative impact on the economy and the way Wales is able to recover from the recession. As such we believe the WAG now needs to take positive action to ensure its departments recognise the impact their individual requirements will have on the viability of housing development. We also believe the WAG needs to take strong positive action to ensure local authorities are also realistic with their requirements, to ensure housebuilding is not put at risk by the adoption of unrealistic and unfeasible planning policies.

In terms of our specific issues outlined within the report, one of our major concerns with planning and housing policy in Wales is the lack of consideration with respect to the requirement for new housing. It is clear we have a housing crisis in Wales and as such, we believe this needs to be recognised within national guidance and a key commitment within national policy should therefore be to increase the supply of homes in Wales. We believe this commitment should extend beyond merely trying to increase the delivery affordable housing and should place the delivery of all types and tenures of homes on an equal footing. We also believe the WAG should send a clear mandate to local authorities that increasing the supply of homes should be a paramount objective of their LDP strategies, in order ensure national policy can be clearly translated at the frontline within each area of Wales.

With respect to our concerns with development viability and planning obligations outlined within the report, as we have touched on within our introductory point, despite widespread recognition of the problems we are all facing at present, the cost and regulation on housing development seems to be increasing, with a continued expectation that these costs can still be absorbed by land values. Within the main body of the report we expand on our concerns in detail, but a short summary is given here.

The recent recession has had a damaging effect not only on land values in Wales, where in many areas we have witnessed falls of up to 50% of their previous values, but has also had a marked impact on the availability of finance for house purchasers, particularly for first time buyers. The cumulative impact of these issues has had

a catastrophic effect on the housebuilding industry in Wales, with many housebuilding companies having to reduce in size dramatically and some unfortunately going into administration altogether. However, despite this, we are now witnessing a surge in planning obligations and other requirements from local authorities and the WAG, which we have not experienced in the past. For example, proposed change to building regulations on energy and carbon efficiency could potentially add nearly £700,000 to the cost of building the average housing development in Wales. This change is due to be implemented in 2013 and is badged by the Assembly Government as *striking the most environmentally progressive balance between reducing energy demand and maintaining a healthy housing market*. However, this claim has been made in spite of the fact that there has not been any consultation with the development industry in setting this target.

Another example of a recent surge in planning requirements is the affordable housing policy agenda. Affordable housing requirements are now rising to unprecedented levels and we are now witnessing policies being adopted requiring up to 70% affordable housing. This again is despite a recognition that such policies will have a detrimental impact on development viability and also despite a widespread recognition that social housing grant will not be available to support this provision.

These are merely two examples of how the requirements on development are being increased dramatically without any consideration to development viability. However, there will be many more planning obligations that will be required as a result of new development, in addition to the general costs associated with site remediation, building and construction. All of these requirements must be considered in terms of their impact on development viability, in order to ensure development is not put at risk.

At present there seems to be an attitude from those proposing new requirements that their particular requirement will not affect viability. A clear example of this can be seen from the proposal to introduce fire sprinklers in all new homes, where the WAG Scrutiny Committee concluded that this particular requirement would not in itself affect development viability. However, even though it might not be the case that one single policy has a negative effect on viability, the cumulative requirements of other planning obligations policies might be enough to render a development unviable unless a proper analysis of the impact of each policy is undertaken. Therefore, it is essential that WAG departments and local authorities are clear on their priorities and are fully aware of what their respective departments' requirements are, in order to ensure the cumulative requirements are realistic and deliverable and do not put housing delivery in Wales at risk.

Key Recommendations

- National and local government must recognise the effect the recession has had on the housebuilding industry and the private sector in Wales, which means being realistic with their requirements and expectations. This is particularly pertinent, if the private sector is expected to drive the economy forward in the face of unprecedented public sector cuts.

- National housing and planning policy must recognise the need to increase the provision of new homes in general. This needs to extend beyond targets to increase the provision of affordable housing and must ensure that the provision of new housing in general is given an equal footing on the policy agenda.
- National and local policy must recognise the benefits of new housing to the wider economy and social success of Wales, as well as perceiving it as a vehicle to provide infrastructure and community benefits.
- Housing delivery and development viability must be a key consideration in regulation and policy setting, with a recognition that the cumulative requirements of local and national government objectives must be considered in the whole and priorities clearly laid out when the full list of requirements cannot be supported by land values.

Conclusion and final recommendation

The full report, shown in Annex A, outlines our concerns expressed above in more detail and we believe there now needs to be decisive action taken in order to ensure we tackle these issues in a proactive way. We welcome the recommendation within the Economic Renewal Programme that planning policies must take account of their effect on economic development, however, we now believe this needs to be enforced more rigorously at a national and local level. We believe the importance of housebuilding to the wider economy of Wales must be recognised and planning policies must ensure they facilitate housing development, in addition to providing a vehicle to secure improvements such as community facilities and infrastructure.

The HBF has requested on a number of occasions that a forum be created in order to allow these issues to be discussed with the Welsh Assembly Government. Following on from the previous Economic Summit meetings, at which it was agreed there should be more in-depth discussions with HBF and the industry via a focussed working group on housing delivery, we believe it is now imperative that such a group is set up to oversee action across the range of relevant WAG programmes and responsibilities. The need for such a forum is echoed by the wider business community and Business Wales has also called for a working group to be created in order to specifically consider housing issues and to pull cross-departmental work on those issues together. Our view overall is therefore that we need both to identify with the WAG how we can increase the provision of homes in Wales amidst the threats still posed by the recent recession and also consider how public policy objectives can be achieved taking into account longer-term issues concerning development viability.

Given that both the short-term and the longer-term issues are extensive with implications that run well beyond housing itself, we believe they do require a dedicated working group involving the housebuilding industry as well as other stakeholders and we very much hope a forum can now be established that can deal with these issues in a proactive and forthright manner.

Federation of Master Builders - Tackling the existing housing stock

Executive summary

The paper, shown in Annex B, asks the Welsh Assembly Government to look closely at how we can provide a sustainable supply of affordable homes over the next 40 years whilst contributing to carbon reduction targets and the eradication of fuel poverty. 85% of the homes that will be in use in 2050 have already been built. Therefore, there is no doubt decision makers must find innovative ways to tackle this challenge. The paper presents a number of proposals, additional metrics and robust arguments.

Bringing back empty properties into effective and sustainable use must be part of the solution to the housing crisis. Additionally, the sustainable refurbishment of existing homes is essential to for tackling the dual challenge of climate change and rising fuel bills. Research by Oxford University calculates that there is a new market in the UK worth between £3.5 and £6.5 billion per annum to refurbish our existing homes. Kick-starting the retrofit market would provide jobs and growth in Wales. In these times of economic hardship and the particular travails of the construction industry, financial incentives to stimulate the retrofit market, such as a reduction in Council Tax and a cut in VAT, would indicate a genuine commitment to sustainable growth and decent homes. Cutting the VAT on housing repair, maintenance and home improvement work would benefit millions of households, and the Welsh Assembly Government should bring as much influence to bear, in partnership with other devolved nations, on Westminster as is possible.

Finally, in order to facilitate this transition to the low carbon built environment initiative large-scale training initiatives will be needed as the current capacity within the industry is not sufficient to cope with the challenge ahead. At a time when unemployment figures are at their highest for well over a decade, this would provide much needed stimulus for the labour market. The Green economy must encompass a suitable skills framework, financial incentives and sustainable expertise. The housing crisis presents a unique opportunity to help build Wales out of recession and deliver the homes that are needed, and help to ensure Wales is leading the 2050 carbon reduction challenge.

Richard Jenkins

Federation of Master Builders

November 2010

ANNEX A

Introduction

This is a joint paper prepared by the Home Builders Federation, the Federation of Master Builders and the Confederation of British Industry's. The paper discusses the various problems and issues experienced by these organisations that arise as a result of the policy approaches currently adopted by national and local government and also as a result of the current economic climate. The paper also provides a number of potential solutions to those problems and areas where more work and collaboration are essential.

Firstly, the paper sets out an introductory point of concern, then describes the HBF's specific concerns and then goes on explain the FMB's specific concerns. The paper is supported in full by the CBI.

As a final introductory point, we would like to stress our willingness to work with the Assembly Government on all the issues described below, in order to ensure national and local policy sets the right conditions for the private sector to operate within Wales and to ensure Wales makes a full and swift recovery from the recession.

Introductory point of concern

At present, despite a recognition that there will need to be cuts in all sectors, the WAG and local authorities seem to be imposing more and more charges and regulations on the house building industry, in the expectation that financing the achievement of objectives affected by the cuts in public sector budgets, such as SHG and the requirements of the WAG's aspirations, can simply be borne by the industry.

As far as we are aware, the UK Government's aim is that the private sector should grow to help the UK economy deal with the cuts the public sector will experience and in the process contribute to a wider rebalancing of economic activity. However, in Wales local authorities and the WAG seem to be making it more difficult for the private sector, particularly house builders, to operate and invest, which clearly will not provide the best conditions for the private sector to help drive the economy forward. This is also contradicts the vision and objectives set out within the Economic Renewal Programme.

In terms of the above, a particular example is the proposed change to building regulations on energy and carbon efficiency by the WAG in 2013, which could potentially add nearly £700,000 to the cost of building the average housing development in Wales (explained in more detail below). This has the potential to wipe out the positive land values needed to undertake development in many areas of Wales, particularly those areas that require regeneration and wider investment. In this context, it also important to note that such a requirement within such a short timescale is not proposed for England and could therefore put investment in housebuilding in Wales at a clear competitive disadvantage.

Another outstanding example of the barriers to the private sector being able to invest more in housing is the affordable housing policy agenda. Affordable housing requirements are now rising to unprecedented levels. For example, Pembrokeshire Coast National Park has recently adopted a 50%-70% affordable housing target within their new LDP, despite the Inspector recognising that it is not justified in terms of its impact on development

viability. The Park has also recently released an SPG requiring a commuted sum of approximately £30,000 per plot for single and smaller developments. Caerphilly Council has just adopted a 40% affordable housing target in the southern part of Caerphilly, which is higher than anything we have witnessed in the past. This requirement is in addition to a strategy that requires development on brownfield land only and significant contributions to other planning obligations such as highways infrastructure. Conwy Council has adopted a minimum 50% affordable housing target within their Affordable Housing Delivery Statement, despite clearly admitting that it cannot be justified on viability grounds.

In addition to the above, the WAG are currently considering a proposal to require the installation of fire sprinklers in all new homes, which has the potential to add more than £70,000 extra to the build cost of the average housing development in Wales. The AM proposing the new requirement remarked that it will be a small sum for housing development in Wales to absorb and would not impact on development viability. This was despite not properly considering the costs associated with the proposal and also not making any attempt to ascertain what the actual cost and effect might be on development viability and housing delivery in Wales. This is another requirement on housing development that is not being proposed in England.

As can be seen from the examples above, whilst there seems to be a wider recognition that we all need to tighten our belts and be realistic in light of the spending cuts that are going to affect us, this particular acknowledgement doesn't seem to extend to the application of public policy requirements to the private sector in Wales, particularly the house building industry. Now, more than ever, there seems to be an assumption that housing development can absorb all the costs that are levied on it, despite the challenging business climate the industry faces and the widespread recognition that everybody else needs to be realistic with their expectations.

In light of the above, we are concerned that unless WAG departments and local authorities are more realistic with their requirements, the provision of housing in Wales, including affordable housing, is likely to be seriously adversely affected, which will obviously have wider social impacts and also a negative impact on the economy and the way Wales is able to recover from the recession.

HBF Issues and Concerns: Current and Future Policy, its impact on the housebuilding industry, housing delivery and the future economy of Wales.

Housing shortage and policy responses

We believe there is a specific challenge in solving the housing problems we face in Wales. These problems have been exacerbated as a result of the recent recession.

At our last estimation, there was a shortfall of nearly 40,000 homes in Wales before the recession hit 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 must begin to tackle the chronic under provision of homes we have experienced in Wales over the last few decades, and make a fresh policy commitment to increase the provision of new homes in the decades going forward.

In terms of the new Housing Strategy, a key objective of the Strategy is to *“Provide more housing of the right type and offer more choice”*. However, there is nothing within the ‘Strategy Commitments’ to make a commitment to increase the number of homes being built in Wales overall. Instead, the focus seems to relate solely to increasing the amount of affordable housing, which can only ever be part of the solution.

The latest WAG household projections show a marked increase in the population of Wales, particularly South Wales and therefore it is clear that we need to take the necessary steps to begin to address the housing problems we face. To merely have a commitment to provide affordable housing, does nothing to solve the severe shortage of homes of all types we have in Wales. Neither does it attempt to tackle the requirement for homes we will need in the future.

We agree that the requirement for affordable housing is great and needs to be addressed. However, we believe the real solution to affordability lies with providing more homes for everyone, and not just those that qualify for affordable housing. We also believe that without a strong and competitive private housing sector, the delivery of affordable housing would be adversely affected. We believe that by increasing overall supply in the housing market, you not only help to solve the problem of rising house prices, you also increase the opportunity to deliver more affordable homes via the planning system. Therefore, in order to address the housing affordability problems people face in Wales at present, a holistic approach is required that places the delivery of market housing on an equal policy footing to that of the delivery of affordable homes and recognises the contribution the private sector makes to affordable solutions.

The requirement to increase the total number of homes in Wales needs to be enshrined within national policy, which can then be implemented 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 Assembly Government, in order to ensure the delivery of homes gets a priority place on the policy agenda.

Cumulative cost burden of regulatory requirements

With each review of the planning system, it seems that the requirement for planning obligations has increased. The new requirements for sustainable buildings and the Assembly Government’s commitment to increase affordable housing are two prime examples of this, which have added to the growing list of requirements on housing developments.

However, the lack of consideration for viability within policy on planning obligations often results in land values not being able to support the full range of planning requirements sought. Even though it might not be the case that one single policy has a negative effect on viability, the cumulative requirements of other planning obligations policies might be enough to render a development unviable unless a proper analysis of the impact of each policy is undertaken. This issue has been exacerbated particularly by the recent recession, where we have witnessed land values fall by more than 50%. As such, it is crucial that we remain realistic with respect to the amount of subsidy that might be available from land values, in order to ensure that policy agendas to increase the provision of affordable housing and sustainability standards can be achieved successfully.

In the context of the above, despite widespread recognition of the problems we are all facing with funding and expenditure cuts, not least those related to social housing grant, what we are witnessing from the WAG, and from local authorities, is a wish to increase the costs on development, with an expectation that these costs can still be absorbed by land values. In order to highlight the problem to hand, we have provided below some examples of why a policy approach that relies on housing development subsidising the plethora of policy requirements of the WAG and local authorities, cannot be sustained in the current climate and indeed in the longer term. We would also point out that such a policy approach is not only unsustainable, but is also damaging to the future supply of housing in Wales, which would directly contradict the ethos and objectives of the National Housing Strategy.

Delivery of planning obligations through Section 106

Affordable Housing

In terms of affordable housing, national guidance is clear that viability needs to be a key consideration in policy setting. However, there are many local authorities producing affordable housing policies with set percentages that will clearly have a major impact on viability and deliverability. The warning sign – that if a development fails to come forward, there will not be any affordable housing delivered, despite what percentage is set within the policy – is not being heeded.

Affordable housing is generally funded through a combination of public subsidy channelled through the Welsh Assembly Government, private borrowing against housing association assets, and private subsidy from land values captured through S106 planning obligations. The WAG has stated that public funding to help deliver affordable housing will be limited going forward, which will be exacerbated even further by the cuts that will inevitably be faced by all WAG departments over the next few years. Therefore, in order to deliver affordable housing through conventional means, the apparent assumption is that private subsidy from land values captured through S106 agreements, would need to form a substantial part of the funding. For such an approach to work, we would therefore have to implicitly assume that the increased subsidy out of land values through S106 agreements, and any consequent impact on development viabilities, would not reduce the supply of financially viable residential land going forward.

The HBF's very rough indicative estimate, based on discussions with industry experts, is that the affordable housing land subsidy might typically cost about £25,000 per plot averaged across a larger housing site, or

£880,000 per hectare at today's average density of 35 dwellings per hectare (dph). This estimate assumes an average house price of £160,000, an average value paid by a housing association (based on 50% of the average ACG banding by area and house type, without grant funding) of £80,000, and an average affordable housing requirement of 30%, giving a "subsidy" of £880,000 per hectare at 35 dph, or £25,000 per plot. However, as we are witnessing from recent LDP examinations and discussions with our members, many local authorities are now demanding higher affordable housing percentages e.g. 40% in Caerphilly, 50% in Conwy and up to 70% in Pembrokeshire Coast National Park. In addition to this, nearly all local authorities require a minimum of 42% of the ACG value rather than 50%, with some authorities requiring even lower percentages.

In terms of the above, and considering the effect on viability, many local authorities are now undertaking affordable housing viability assessments, in order to establish the effect their affordable housing policies might have on development viability. What we have witnessed from these assessments thus far is that in order to absorb the costs highlighted above, land owners are expected to accept a reduction on the value they receive for their land, and in many cases this 'expected hit' is substantial.

An example of the above can be seen with Caerphilly Council and their recently approved 40% affordable housing policy. In order to justify the affordable housing percentage, the Council has effectively reduced the proportion of the land value payable to the landowner by up to 90%, which theoretically means that the Council would have more money to spend on affordable housing. Of course, this completely ignores the important point that if a land owner does not feel he/she is getting the appropriate value for their land, they simply will not sell, which will mean the site will not come to the market and no housing will be delivered. However, this did not seem to register within the Council's evidence and they seemed to believe they were in a position to control the value of land, without any consequence to activity within the market. This position was also supported by the Inspector at the recent LDP Examination. Clearly, this policy approach is likely to have a devastating impact on the provision of housing and indeed affordable housing within Caerphilly, as it would effectively put a stop to any land being brought to the market for development.

In addition to the above, when you drill down into the detail of the various affordable housing viability assessments being undertaken, it is quite clear that at current market values, the level of affordable housing that is actually viable is considerably less than the LPA's 'required' percentage, and in many cases the level of affordable housing that can actually be justified is nil. An example of this can be seen with Wrexham's affordable housing viability assessment, where the report concluded that when current market values are taken as the benchmark, out of the 18 sites that were tested (at 30% affordable housing), none were viable. However, this still did not stop the Council from including a policy within the deposit LDP requiring 30% affordable housing.

The example above is common place amongst most local authorities, where despite the affordable housing viability assessment stating that their desired policy requirement is not achievable, they will include it as a requirement nonetheless. In most cases, their justification is that as house prices will increase in the future (their assumption), there will be greater scope to require more affordable housing, due to the increased subsidy from the land value. Of course, this completely ignores the demands of future policy requirements, such as the

WAG's proposed building regulations target (55% improvement over current part L regulations in 2013) and new proposed policy areas such as a requirement for fire sprinklers in all new homes, all of which will also require further subsidy from land values. However, and importantly, this approach also ignores the fact that a policy which relies on house price inflation to make it sound and robust is completely inappropriate, particularly when we are trying to provide *affordable* housing. In essence, what this suggests is that in order to make housing more affordable, the price of housing has to **increase**, which simply cannot be an appropriate basis for a policy that tries to make homes more affordable to more people.

In terms of the examples above, we have attempted to indicate some of the problems inherent with the reliance on land values to increase the delivery of affordable housing, particularly in the current climate. It is evident that even in the more investment-attractive areas in Wales, we cannot continue to rely on land values to support the delivery of affordable housing, and therefore there clearly needs to be a different approach taken by the WAG in terms of how we deal with the housing shortages faced across Wales. Surely, as we recognise that there is an affordable housing problem in Wales, each LPA should be doing all it can to reduce the price of homes in general over the long term, in order to make homes more accessible and affordable to the general public. This, in our view, means facilitating development and making a commitment to increase the volume of homes in general and not allowing house prices to spiral out of control in the hope of increasing the supply of affordable housing for the minority of the population that qualify for it.

The requirement for Planning Obligations other than Affordable Housing

In addition to the requirement for affordable housing, there will also be further policy obligations that will need to be satisfied as part of a planning application for housing development, which will also require a significant subsidy from the land value. In terms of these 'other planning obligations', as they are frequently called, we believe it is fair to state that there are certain ones that cannot be compromised e.g. those related to the provision of highways and education. In addition to this, it is also fair to state that there are certain requirements of a development that are necessary to allow the development to proceed. An example of such a requirement is the need for remediation works in order to overcome any abnormal site constraints, particularly when considering development of brownfield land, which is now a standard policy objective in all LDPs. In this context, in relation to the physical delivery of the site, it is reasonable to assume that there are 'essential' and 'non essential' categories of planning obligations, despite the acceptance that some planning requirements in the 'non essential' category are intrinsically important. In light of this, more often than not, and particularly in the current climate, there will be a need to renegotiate the planning requirements that are not 'essential' to enable the development to proceed. That is, where there is an overwhelming requirement for transport improvements and the site has significant constraints, these issues will need to be addressed in order for the site to actually be developed. The same urgency in terms of planning requirements cannot be attributed to requirements for affordable housing and sustainable buildings, despite their requirement being equally as important in many cases, in order to create a sustainable development.

In the context of the above, a significant problem arises. At present the requirement for affordable housing and adherence to the Code for Sustainable Homes are considered to be a 'Ministerial priority' by the Assembly

Government, which provides a stern message to local authorities in terms of their importance. In addition to this, at recent local development plan examinations, the Assembly Government has reinforced this requirement for local authorities to prioritise the delivery of affordable housing, which, when coupled with the raft of 'essential and non essential' planning obligations, can seriously hinder the viability of developments. Therefore, we believe it is essential, particularly in the current climate, that local authorities and the WAG are realistic in terms of their expectations on land values and set clear priorities on their planning obligations, when the total requirements cannot be subsidised by the development concerned.

We have provided some examples above on the effect of affordable housing requirements on development viability, however, we believe it is also important to consider the effects of other planning obligations and the impact they can have on the delivery of affordable housing, particularly considering the fact that affordable housing must be considered within the 'non-essential' planning obligations bracket. Again, in order to highlight the problem to hand, it might be helpful to draw on our recent experiences at LDP Examinations. Take for example the recent RCT Examination session on affordable housing. At the session, the Council produced a viability study to justify their affordable housing percentage. However, again, after close scrutiny of this evidence, it was clear that the percentages proposed were in fact not justified, but were proposed nonetheless. In this respect, one major flaw within the evidence base was the assumption that the cost of 'other planning obligations' (those obligations that would be required in addition to affordable housing) amounted to a value of £5000 per plot. However, after studying the Planning Obligations SPG written by the Council and costing the raft of planning obligations the Council would require on developments, along with the WAG's requirements for sustainable buildings (information on these costs are given below), the actual cost of the 'other planning obligations' amounted to a value in excess of £40,000 per plot. As you might imagine, this would have a significant impact on the viability of any development. Apply this to a standard housing site of 35 dwellings per hectare, and the cost would be in excess of £1.4 million, before any requirement for affordable housing or potential remediation works has been accounted for.

Clearly, with examples such as the one above becoming more and more commonplace, we cannot continue to place a priority on all planning obligations and expect them to be delivered through the planning system and section 106. In terms of the above example, if we add the average cost of affordable housing to costs given, the total potential cost levied on a development would be roughly £2.3 million per hectare. We recognise that these are merely rough figures, however, extracting this level of value from land, even before allowing for the cost of things such as exceptional remediation works, on-site infrastructure, rising building regulation costs and general building cost inflation etc, when the average value of serviced land with planning permission in RCT is roughly £1.5 million per hectare, simply cannot be reconciled. The result will be that many potential development sites will fall well below the threshold of viability. And it must be stressed, these estimates only cover current areas of regulation. The multitude of other new regulations and increased affordable housing targets would further exacerbate these costs.

It is clear that we have an increasing housing shortage, which means it is essential we not only continue to build homes for the people of Wales, but we increase the volume of homes over and above the levels experienced in

the past. As such, we believe the priority focus should be firstly in the provision of homes and delivery of housing sites and then a hierarchy should be set out of what the Welsh Assembly Government believes to be important in terms of planning obligations, with a clear mandate to ensure the issue of viability is fully considered within policy setting. In light of this, it is clear that we need a strong leadership approach from the Welsh Assembly Government to prioritise the delivery of homes, as well as the delivery of planning obligations. If we are to ensure planning obligations are secured through the planning system, it is essential that the development providing the vehicle for delivering those obligations is viable and deliverable. Without housing development, we will not deliver any planning obligations including affordable housing and more importantly, we will continue to exacerbate the acute housing problems we experience in Wales. This we believe needs to be fully recognised within national policy, particularly the National Housing Strategy as well as within local policy.

Code for Sustainable Homes and the costs associated with provision.

In terms of sustainable building, we believe it is important to highlight the potential cost of this policy agenda and importantly, the uncertainties and difficulties in terms of achieving higher sustainability standards in new homes going forward. These issues have been intensified by the Welsh Assembly adopting a policy approach for all new developments to achieve Code for Sustainable Homes Level 3 plus 6 credits, without undertaking proper analysis of the costs associated with achieving this standard.

The issue of cost in terms of sustainable building has been at the forefront of UK Government research. In this context, the UK Zero Carbon Hub has undertaken work in order to establish the costs to achieving higher energy standards in new homes, and their latest results indicate that in order to achieve the various levels of the Code for Sustainable Homes (for the energy element alone), the average costs could be as follows:-

- Code Level 3 = £6000 per plot
- Code Level 4 = £10,000 per plot
- Code Level 5 = £25,000 per plot plus

In the context of these figures, it is important to note that the UK Zero Carbon Hub costs are only related to achieving the energy requirements of different Code levels. The costs of achieving additional requirements of the Code for Sustainable Homes could potentially cost considerably more than this. e.g. Achieving the provisions of SUR1 surface water requirements, where our members have estimated that it can cost up to 50%-100% more to achieve these credits. In light of this, to achieve Code for Sustainable Homes Level 4 could cost between £15,000 and £20,000 per plot.

In addition to this, as mentioned above, the WAG has recently released an announcement to alter building regulations in Wales to require a 55% improvement over current (2006) building regulations, which is to be implemented in 2013. The costs of this have not yet been established, however, our initial estimate based on input from the WAG and our members, is that it could add approximately £700,000 to the build cost of the average 35 unit development, which equates to roughly £20,000 per plot. At this level, this proposal alone has

the potential to quash land values completely, particularly in areas where land values are low and the requirement to attract inward investment to facilitate regeneration is vital.

Whatever the present or future costs of this agenda, it is clear that they will have to come out of land values. At present there is absolutely no evidence to suggest that people are willing to pay an increased premium for more sustainable homes and there is also no evidence to suggest that lenders will look more favourably on homes meeting certain sustainability standards and offer discounts on mortgages etc. Therefore, the capital cost of provision is not subsidised by increase revenue from sales, which means the value of land will have to completely absorb the costs associated with achieving the current and future policy requirements of this agenda.

Cumulative impact of planning obligations – Conclusions

Many developers are currently reappraising their forward land holdings, not just because they face much more difficult market conditions, but also because they now have to factor in guesstimates of the cost of the forthcoming policy agendas. In terms of land values in Wales, every time the state imposes additional regulatory costs on development that cannot be recouped through higher sales values, these costs have to be borne by land values. And each time a new regulatory cost is imposed, sites at the margin of viability on the land-value distribution slip into non-viability. Rapid increases in house prices between 1997 and 2006, coupled with a rise in densities in many areas of Wales, drove up land values and disguised the increasing regulatory cost burden. But now that sales prices have fallen, and given that house price inflation is likely to remain subdued, possibly for several years, and densities likely to fall particularly in areas such as Cardiff, the impact of very large forthcoming increases in the regulatory cost burden on land values and viabilities will be impossible to hide. If we continue to rely on housing development to subsidise increased affordable housing provision, sustainability requirements, the cost of developing brownfield land and the cost of other planning obligations etc, there will clearly be a huge negative impact on development viability, which in turn could cause housebuilding in Wales to grind to a halt. In the context of current planning requirements and land values, we are already starting to witness landowners refuse to sell land which they were willing to release before these new policy requirements came into force. Furthermore, another important factor to consider is that if the regulatory burden in Wales is greater than in other areas of the UK, there is a very real risk of developers focusing their attentions away from Wales, which will have a significant impact not only on the delivery of housing and affordable housing, but also on the social and economic success of Wales as a whole. This is a very real concern, which is being voiced by our members on a more regular basis than ever before.

In light of the above, it is clear that the previous reliance on land values to absorb the ever increasing requirements of affordable housing and other planning obligations cannot continue. Viability is the cornerstone to ensuring that developments are delivered and therefore, if planning obligations are to be delivered through the planning system, viability and deliverability must be a key consideration for that system to operate effectively.

Conclusions

It is clear we have a housing crisis in Wales and as such, we believe this needs to be recognised within national guidance and a key commitment within national policy and within the National Housing Strategy should therefore be to increase the supply of homes in Wales. We believe this commitment should extend beyond merely trying to increase the delivery affordable housing and should place the delivery of all types and tenures of homes on an equal footing. We also believe the WAG should send a clear mandate to local authorities that increasing the supply of homes should be a paramount objective of their LDP strategies, in order ensure national policy can be clearly translated at the frontline within each area of Wales.

Given the issues presented above with regard to viability and deliverability, particularly in terms of affordable housing, we believe that if the National Housing Strategy aims to increase the availability of housing for the people of Wales, national policy needs to look beyond the delivery of *affordable housing* as the only solution. As we have stated above, the need for affordable housing is significant and needs to be addressed, however, even though this might provide housing for a minority of the population that qualify for it in the short term (if indeed it proves to be viable), the long term issues of affordability for the rest of the population will continue to be exacerbated, unless we look for a more holistic and wide-ranging solution to the problem.

Richard Price

Planning and Policy Advisor – Wales

The Home Builders Federation

November 2010

ANNEX B

Federation of Master Builders - Tackling the existing housing stock

Urgent action is needed now to make our existing homes greener and more energy efficient. Given that our homes contribute 27% of the total carbon emissions and that 85% of our homes will be still be in use in 2050 it is imperative if the Assembly is to meet its legal requirement to cut carbon emissions that a more concerted effort is made to transform our existing housing stock. A large scale programme of retrofitting is required to transform our two million homes. Such a programme could have a significant role in helping to reduce fuel poverty and creating new jobs in the construction sector. However, a number of barriers will need to be overcome if the intention for large scale retrofitting is to be turned into a reality. First, is the need to identify the range of techniques and technologies that will achieve the desired goals most effectively. These methods will then need to be rolled out on a massive scale which will require the development of new skills in the workforce. However, the biggest barrier to overcome is the development of a viable funding mechanism for the programme. To save at least 80% of the energy used to heat and run our existing homes and communities it would only cost approximately £20,000 per home to upgrade to eco-excellent standards.

Vacant properties

According to the Joseph Rowntree Foundation report on Rural Housing in Wales, Vacant properties accounted for 4.3 per cent of the total rural housing stock in 2001, a figure that is slightly higher than the Welsh average (4 per cent). They also report that it is clear that, in numerical terms, vacant homes are more significant than second and holiday home properties in rural Wales. Indeed, the proportion of vacant properties was higher in seven of the nine rural local authority areas.

There are difficulties with providing new housing in many rural areas of Wales and so it is useful to make more effective use of the existing housing stock. The Rowntree report indicated that there were about 18,000 vacant properties in rural Wales, bringing these properties back in to use would have a huge effect on the housing shortage in Wales. There is also the constructive suggestion that the conversion of more redundant agricultural buildings into affordable dwellings could have a large effect on housing shortages.

A New Market

The FMB's recent report, 'Building A Greener Britain -Transforming the UK's Existing Housing Stock', researched by Oxford University calculates that there is a new market worth between £3.5 and £6.5 billion per annum to refurbish existing homes in the UK. The Assembly needs to kick start this market in Wales, which will not only help the building industry but help meet the target to cut carbon emissions and reduce fuel poverty. To create this new market to upgrade Wales's housing stock a stronger policy signal than that outlined in the Assembly's needs to start a process of innovation, skills development, and capacity building in the construction industry. The stakeholders involved in refurbishment are quite different from those involved in new house-building, with the smaller businesses in the construction industry being typically involved in repair, maintenance and improvement. Over £23 billion per year is spent on repair, maintenance and improvement works to existing housing in the UK, and much of this is a missed opportunity in terms of low-carbon refurbishment

Financial Incentives to Create Demand

To open up the potential lucrative retrofitting market additional incentives and support for new financing arrangements will be essential if the Assembly is serious about developing a green economy and meeting its carbon reduction targets for 2020 and 2050. Without such measures, neither target will be readily achieved. In addition it needs to be augmented by a large-scale training programme in energy efficient building skills as current capacity within the industry is not sufficient to cope with the challenge ahead. At a time when unemployment figures are at their highest for well over a decade, this would provide much needed stimulus for the labour market. To achieve its aims the Assembly needs to set out a range of practical financial incentives and without these it is difficult to see how much progress can be made in the short term. Fiscal measures we would like the Assembly to consider as part of a wider 'policy package' include incentives such as council tax rebates; support a cut in VAT to 5% on property refurbishment; and low interest rate loans and grants to stimulate significant additional spending on domestic energy efficiency in Wales's housing stock.

Cutting VAT

Whilst the Assembly has no powers to vary Vat in any way, it would be extremely helpful to the campaign to have the full support of the Assembly in arguing the case to reduce VAT from 17.5% to 5% for all building repair and maintenance work¹. This would allow many of our empty homes to be brought back into use as the current high rate of VAT makes them too expensive for many owners to maintain or refurbish and encourages neglect leading to demolition and new build. Reducing the rate of VAT would also make it easier for people to make energy efficient improvements to their homes; not only reducing the carbon emissions of these homes but also making them more economic to heat. We know that a reduced rate of VAT can reap economic benefits. In December 2007, the Isle of Man Treasury reported on the impact of a reduced rate of VAT charged on the renovation and repair of private dwellings in the United Kingdom (Isle of Man) and concluded that, "The actual tax take increased despite the 12.5 per cent differential in VAT for the comparable organisations" and that, "The experiment had been a fiscal success on the Island." According to the Belgian Government the reduced VAT measure met the objectives of growth in both turnover and employment. In France the reduced rate saw the creation of some 43,000 new jobs in the construction industry and 5.6 per cent growth of turnover in the construction industry in the order of €1.4 billion. In Italy as a result of the reduced rate some 65,000 – 75,000 new jobs in the construction industry and 35,000 enterprises emerged from the informal economy and started paying VAT for the first time. While in Portugal construction companies enjoyed between 20-25% growth. Furthermore, there is considerable support for a reduction in VAT in the UK Parliament, in industry and amongst the general public as evidenced by the Early Day Motion (EDM) 669 which attracted the support of 102 MPs.

Skills

For SME building trades-people to develop green skills the sector's capacity to do this kind of work needs to be developed, almost from scratch. Experience of our members reveals that work to build capacity in the sector needs to take account of established custom and practice otherwise the endeavour will result in rejection by

¹ The CBI does not have a formal position on this.

most practitioners. This insight is captured in the idea of 'buildability'; a term intended to capture the reality of how builders operate and the fact that, whenever refurbishment is carried out, the contractors have to be confident of their ability to do the work and achieve satisfactory results, both for themselves and for their clients. If a low carbon refurbishment strategy can be devised in such a way that it takes account of the need for 'buildability', then the strategy has the greatest chance of acceptance by the SME construction sector. Without it, it is likely to be ignored or subverted. Key elements of the 'buildability' idea are that building work needs to be made up of products and methods that practical, affordable, reliable and of course profitable!

Where new products are needed to help meet the low-carbon refurbishment agenda, the key stakeholders in addition to builders are the manufacturers and suppliers. Where new supply chains need to be developed, the key to success is a strong long-term policy signal from Assembly. This would stimulate investment and strategic business developments, both among existing players in the market and among potential new market entrants.

Conclusion

The housing crisis presents a unique opportunity to help build Wales out of recession and deliver the homes that are needed today and for future generations as the population grows and the way we live and work changes in the developing low carbon economy. House builders are more than capable of delivering the homes to meet the nation's needs if people can get the mortgages; if sufficient public funding is devoted to social housing; if businesses can get loans to start up and grow; and if the planning system is streamlined and made more receptive to current and future housing needs. Our existing housing stock can be transformed to make it fit for purpose helping to reduce not only fuel poverty but help to retain and develop our skills base which will be needed if Wales is to be competitive in the emerging green markets that will come to dominate future decades. What are needed are the initial financial incentives to kick-start the retrofit market. Most of all though is the need for a strong political will to tackle the current housing crisis and transform the homes that already exist and need to be built in the coming years. Those with that political will deliver not only the political rewards but leave a lasting legacy to the people of this country.

Richard Jenkins

FMB

November 2010