

East Cambridgeshire Local Plan Examination: Inspector's Matters, Issues, and Questions for Discussion at the Examination Hearings – Stage 2

Representations: Lichfields on behalf of Gladman Developments Limited and Barratt David Wilson

Date: August 2018

Our ref: 16168/02/MS/BHy

Subject Matter 17: Delivering a wide choice of high quality homes

Relevant Policy and Guidance for the purposes of the Examination

- 1.1 For clarity, the guidance note from the Inspector regarding the Stage 2 Hearings (ED034) sets out on page 1 that the policies of the previous Framework will apply for the purposes of examining the East Cambridgeshire Plan. This is the correct approach, but it confirms an immediate concern over the starting assumption on the housing requirement that provides the basis for this Matter, given the Inspector's the Stage 1 interim findings (ED031) which state that:
- "it is a sound approach for the standard method to be used to set the OAN for housing within East Cambridgeshire."*
- 1.2 The standard method does not follow the PPG steps for assessing OAN and indeed has no 'standing' under the previous Framework. We have significant concerns that the Interim Findings could be seen to not apply the transitional arrangements correctly. Allowing the plan to proceed on the basis identified by the Stage 1 Interim findings could lead to the plan being vulnerable to a legal challenge, if adopted. We set out the reasons for this at Appendix 1, which we prepared following the publication of the Inspector's Stage 1 findings. In the letter to the Council containing the Stage 1 findings it was stated that the Inspector did not wish to receive any comments on the Stage 1 Findings, but indicated matters could be considered under Matter 17. Clearly, a legal challenge would not arise in advance of plan adoption, but it would be remiss of a participant to not express concerns they have about the risk of legal challenge at the earliest opportunity.
- 1.3 Further, since the Stage 1 findings, the Peterborough Local Plan Inspector's interim findings (of 22nd August 2018) have been produced. That plan was similarly promulgated based on the Standard Methodology. The Peterborough Inspector's Interim Findings state:
- "Having regard to all of the evidence before me, including what I heard at the hearing sessions last week, I consider that this Plan's housing requirement should be based on the OAN figure identified through the up-to-date 2017 SHMA and not the local housing need method [the standard method] used in the Plan." (p.1 of Peterborough Inspector's Interim Findings 22nd August 2018).*
- 1.4 This is a different view to that in East Cambridgeshire, but whilst the Peterborough Inspector has sought to differentiate matters there from those in this Local Plan, it is considered that in both cases, the transitional arrangements under the NPPF clearly advise against use of the standard methodology irrespective of the status of an up-to-date SHMA as an alternative source of 'tested' evidence on OAN.

- 1.5 The above – and the points made in our note at Appendix 1 – are matters that we would respectfully suggest warrant appropriate consideration in the Hearing session under this Matter, and the outcomes could have a significant bearing on the implications of questions under this Matter. We have responded to the questions set out by the Inspector regarding the Stage 2 hearings by reference to the previous Framework, as stated in the guidance note.

Issue 1: Whether the approach towards the supply and delivery of housing land is justified, effective and consistent with national policy?

63. What is the estimated total supply of new housing in the plan period 2016- 2036? How does this compare with an annual requirement of 598 dwellings (11,960)? Would it be appropriate for the timescale of the Plan to be reduced from 2016- 2034 (as per Council’s letter of 3 August 2018) and would such an approach be justified, effective and consistent with national policy?

- 1.6 Page 73 of the Proposed Submission Local Plan (PSLP) (CD05A) shows the supply comprises a total of 11,672. This means the Council’s current supply is insufficient to meet a figure of 598 dpa (11,960), even without the allowance of an additional buffer.
- 1.7 The Council’s response to the Inspector’s interim findings (ED032) states that it intends to shorten the plan period to 2016-34. This is clearly an attempt to make the numbers ‘stack up’ on paper by ensuring that the plan period is short enough to ensure the overall need (10,764, assuming 598 dpa over 18 years) is met by the available supply already in the trajectory. This approach fundamentally fails to address existing backlog which exists now. We therefore strongly disagree with this approach and consider it would not represent an appropriate or justified method of addressing housing needs, specifically those which exist now and will arise in the short term.
- 1.8 As confirmed in ED032, shortening the plan period to 2034 would reduce supply to c.11,000 units. This would mean the Council would have enough supply to meet its new figure (10,764) in theory, but would have only a 2.9% buffer in its trajectory. The plan would clearly not have “sufficient flexibility to adapt to rapid change” as required by NPPF (2012) paragraph 14.

64. What is the estimated total supply in the plan period from a) completions since 2016; b) existing planning permissions; c) other commitments; for example, sites subject to S106; d) windfalls (including CLT developments); and e) proposed site allocations?

- 1.9 The Council’s supply 2016-2036 (page 73 of the PSLP) comprises 232 units from completions in 2016/17 (albeit since the PSLP was published the Council has confirmed completions in 2016/17 were 234), 610 units from small sites with planning permission, 3,015 units from large sites with planning permission, 6,755 units from remaining allocations, 850 windfall allowance and 210 units from community land trusts (CLT).
- 1.10 Were the final two years removed (as advocated by the Council to shorten the plan period), the supply would be reduced by around 600 units to c.11,000 units in total 2016-34.

65. What allowance has been made for, and on what basis will communal forms of accommodation contribute to the five year housing supply?

- 1.11 The household projections (which form the basis of the Council’s requirement) do not include the needs of those living in communal establishments, and thus the housing figure which derives from this does not include them. The Council has not identified its need for these bedspaces and added this on to the need for general housing to generate a total requirement figure. On this basis, the Council should not count communal forms of accommodation towards its five year land supply¹.

66. What are the assumptions about the scale and timing of supply and annual rates of delivery from these various sources? Are these realistic? For example, has there been any discounting of sites with planning permission?

- 1.12 Whilst we do not object to the inclusion of sites with extant planning permission in the trajectory, the Council assumes all permissions will deliver. There is a significant body of evidence which shows that planning permissions do not consistently translate into completions. Indeed, this is the basis on which the Letwin Review has been founded, to explain the gap between the numbers of planning permissions granted against those built.
- 1.13 Nationally, even prior to the Letwin Review, this is an issue with which DCLG is acutely aware. DCLG research² suggests that 10-20% of permissions do not materialise into a start on site. In addition, it is estimated that c.15-20% of permissions are re-engineered with a re-permission sought, which would have the effect of delaying completions, potentially for a significant period.
- 1.14 There is evidence a lapse rate is appropriate in East Cambridgeshire. A spot check of the large site permissions shows that two applications included appear to have expired (E/00734/13 10 units and E/00923/12 17 units)³. Furthermore, the Council projected housing completions of 424 units in 2017/18, made up entirely of small and large site permissions (see Table 5 of document M03). But EDO27 published on the 23rd July 2018 includes housing completions for 2017/18 were only 289 dwellings, or only 68% of projected completions for 2017/18. This provides a clear recent evidence-based indication that the Council systematically over-estimates completions and that a lapse rate should be included in the Local Plan trajectory to ensure the supply position from extant permissions is not unrealistic.

67. Specifically, are the timescales and rates of delivery on large sites over 500 dwellings realistic? Are there any barriers to development?

- 1.15 The Council has few allocations in excess of 500 dwellings; ELY.M1 (800 units, 1,200 units and 1,000 units), KEN.M1 (500 units), LIT.H5 (600 units), LIT.M2 (600 units) and SOH.M1 (550 units).
- 1.16 With regards to the realism of the assumed timescales and rates of delivery in the trajectory for these sites, the Council has provided no evidence on either of these points and seems to be

¹ It has been confirmed in the courts that supply of certain accommodation cannot be counted against a housing requirement where it does not feature in that requirement - ‘Exeter City Council v (1) Secretary of State for Communities and Local Government and (2) Waddeton Park Limited and (3) The R B Nelder Trust [2015] EWHC 1663’ - "it would be irrational to include student accommodation in housing supply as meeting an adopted housing requirement, where such accommodation does not feature in that requirement.”(paras 41-42)

² DCLG Presentations to the HBF Planning Conference (September 2015)

³ The two examples arise from a spot check rather than a comprehensive review – other examples may also exist.

relying on information provided by developers/land owners in some instances. Furthermore, it is not possible to identify if these factors are reasonable based on delivery of similar sized schemes in East Cambridgeshire because the Council's AMRs do not record completions on a site by site basis.

- 1.17 Notwithstanding this lack of evidence, a significant quantum of development is happening in the same strategic location to the north of Ely. Although build rates for individual applications may appear reasonable in some locations, the Council has not evidenced that it is realistic for this quantum of development to come forward cumulatively in such a localised market. Such an evidence would need to include information on the likely number of outlets, proportions of affordable housing, mix of housing types and sizes, and so on. All of these are relevant factors identified in the evidence findings of the Letwin Review (Appendix 2).

68. How have windfalls been defined and what evidence is there to support future estimates?

- 1.18 The Council has applied its windfall allowance to years 3, 4 and 5 of the five year land supply MO3. However, year 3 also includes supply from small sites permissions (160 units). This suggests there is double counting. Removing this would reduce the supply by 50 dwellings.
- 1.19 The PSLP also includes a 15 dpa allowance for CLT development from 2022-36. We set out in detail, at our response to Matter 4 question 33 of the Stage 1 Hearings why the Council's allowance for CLT development is inappropriate.
- 1.20 On the above basis, the overall supply should be reduced by 260 dwellings (50 dwellings for windfalls and 210 units for CLT) if the plan period remains up to 2036. If the plan period were shortened to 2034, the supply should be reduced by 230 dwellings (50 dwellings for windfalls and 180 units for CLT).

69. How has flexibility been provided in terms of the supply of housing? Are there other potential sources of supply not specifically identified? Can this be quantified?

- 1.21 As per our response to Q.63, there is limited flexibility in the housing supply.
- 1.22 PE13 'Site Assessment Evidence Report' confirms that there were a large number of sites which were rejected and not allocated, however some of the reasons for rejection are simply not valid.
- 1.23 Numerous sites were suitable but rejected for reasons that are not proper planning justifications, for example sites that were "*not favoured by the Parish Council*" (e.g. Sites 01/01, 01/02, 05/09, 13/04 and 26/08) – this is not a legitimate reason to exclude the site from the plan. Similarly, for numerous sites the Council states that they were rejected for reasons including "*likely impacts on heritage assets*", "*loss of views*" and "*loss of farming land*" (also e.g. Site 01/02). These are not legitimate reasons for outright rejection.
- 1.24 Further, some sites in PE03 were not included in the PSLP but were assessed as 'Has Merit', i.e. "*the Site Assessment has found the site to be potentially suitable for development, but more preferable sites are available*". For example, Site 23/11, 25/01 and 13/04. It is evident that the Council has a number of suitable sites which it could have allocated but chose not to. A shortage of suitable housing land is therefore not a valid reason why the Council cannot meet its housing requirement (without the inclusion of a stepped trajectory). Moreover, it clearly provides no

justification for the Council shortening its planning period to reduce the amount of housing it needs to identify.

70. Has there been a persistent undersupply of housing? If so, is it appropriate that a buffer of 20% be applied?

- 1.25 Yes, there has been persistent under-delivery of housing in East Cambridgeshire against the targets in the Local Plan (2001-11), Core Strategy and Regional Strategy, as shown in Appendix 3.
- 1.26 There has been a clear change of circumstance since the previous Local Plan was examined, with regards to housing delivery. The previous Local Plan Inspector found that a 20% buffer was not applicable, having regard to delivery between 2001/2 and 2008/9. However, between 2008/09 and 2014/15 (i.e. when the Core Strategy target was in place but before the Local Plan 2015 was adopted) there was under-delivery of 26%, with the target not being met any year, except 2 (in which it was exceeded by only 13 and 14 dwellings respectively). The Local Plan 2015 target has never been met – since adopted in 2015 or since its base date in 2011.
- 1.27 On the above bases, it is clearly appropriate for a 20% buffer to be applied. The conclusion of a 20% buffer has also been reached by two Inspectors at two recent appeals (in 2015 and 2018) in East Cambridgeshire⁵.

71. How should the shortfall in delivery since 2016 be dealt with?

- 1.28 In 2016/17, there were 234 net completions in East Cambridgeshire. Against the target of 598 dwellings per annum 2016-36 set out in the Inspector’s Stage 1 findings, this therefore amounts to under-delivery of 364 dwellings.
- 1.29 The PPG (ID 3-035) is clear that *“Local planning authorities should aim to deal with any undersupply within the first 5 years of the plan period where possible”*. It is of note that the PPG does not advocate a stepped trajectory or ‘Liverpool’ as an alternative where Sedgefield is not possible – rather it suggests the alternative is to meet shortfall in neighbouring authority areas. The use of the ‘Sedgefield’ method, i.e. addressing shortfall in the next 5 years, was advocated at the previous Local Plan Examination (the Inspector’s report for which was published only 3 years ago, in 2015) and was again advocated at a recent appeal in 2018⁶. That appeal Inspector did not accept the Council’s assertion that shortfall should be met over the long term due to reliance on strategic sites, noting that the previous Local Plan Inspector would have had this information available – and yet the Local Plan Inspector concluded that Sedgefield was appropriate.
- 1.30 The need to address shortfall over the next 5 years is of specific importance in this area due to substantial degree of under-delivery of housing not only in East Cambridgeshire but across the Sub-Region since 2011, as set out at our response to Matter 4 question 32 (Table 4). These are needs which exist in East Cambridgeshire and the wider Housing Market Area now, there are clearly suitable unallocated deliverable sites available, and there is no basis to justify deferring meeting these needs over the longer term.

⁵ Land rear of Mildenhall road, APP/VO510/W/17/3186785 and Land north of Field End APP/VO510/W/14/2224671

⁶ Land rear of Mildenhall road, APP/VO510/W/17/3186785, para 46

72. What would the requirement be for a five year supply of housing, including a buffer, and accommodating any shortfall since 2016?

- 1.31 Over the period 2017-22, the total requirement (including backlog and a buffer) would be 4,025, as shown in Table 1. Taking into account completions in 2017/18, and looking over the period 2018-23, the requirement would be 4,396.

Table 1 Five year housing requirement - 2017-22 and 2018-23

	2017-22	2018-23
Backlog	2016-17 = 364 (598 – 234) Total = 364	2016-17 = 364 (598 – 234) 2017-18 = 309 (598 – 289) Total = 673
5 year need	598 * 5 = 2,990	2,990
Total	3,354	3,663
Plus Buffer	20%	20%
Total	4,025	4,396

Source: Lichfields based ED027/ED031

73. Would the Local Plan realistically provide for a five year supply on adoption? Will a five year supply be maintained?

- 1.32 Based on the requirement identified above, and the Council's supply position, were the plan adopted in 2018 the Council would have a 5.55 year supply.

Table 2 Five Year Land Supply Position in 2018, based on Council's Supply

		2018-23
Requirement		4,396
Supply	Year 1 (2018/19)	645
	Year 2 (2019/20)	935 + 50 (windfalls) = 985
	Year 3 (2020/21)	1,203 + 50 (windfalls) = 1,253
	Year 4 (2021/22)	1,187 + 50 (windfalls) = 1,237
	Year 5 (2022/23)	695 + 50 (windfalls) + 15 (CLT) = 760
	Total	4,880
Position		5.55 years

Source: Lichfields based on MO3/ED027/CD05A

- 1.33 However, there are several reasons why the Council's supply is unlikely to materialise at this rate, and why it is unlikely the Council will be able to maintain a five year land supply:
- 1 In the 2017/18 the Council significantly over-estimated how many completions it expected – 289 (actual) compared to 424 (expected). This gives little confidence that the delivery rates expected in the next five years are likely to be achieved;
 - 2 The Council has not included an allowance for a lapse rate in its trajectory;
 - 3 Windfalls should not be included for 2019/20;
 - 4 There should be no allowance for CLT development;

- 5 The Council itself in ED032 states that based on the increased requirement of 598 dpa, *“the ability of the Council to maintain a Five Year Land Supply (5YLS), post adoption, becomes even more difficult”* and *“Taking into account backlog from 2016, the likelihood of the Council failing to demonstrate a 5YLS shortly after adoption becomes ever more real if the dwelling requirement is increased by 75pa.”*

1.34 Evidently the Council itself is not confident in its ability to demonstrate a five year land supply shortly after adoption of the plan.

74. Is there a case for a staggered or phased housing requirement with a lower figure in the early years of the plan period to take account of the larger strategic allocations and the findings of my letter of the 30th of July? If so, what would be the appropriate phasing in respect of annual housing requirements and timing?

1.35 No, there is not a case for a staggered requirement, for these reasons:

- 1 In the six years to date of the Council’s current Local Plan target, backlog has accumulated of over 2,000 dwellings. These are needs which exist now in the District and the Council should be seeking to address these as soon as possible, not to simply push these further and further down the line. The failure to address this past under-supply in the assessment of future need is a matter that undermines the SHMA (PE06) as an alternative OAN evidence base if the standard methodology is correctly disregarded for this Plan.
- 2 There has been even more backlog created as a result of Peterborough not providing the 75 dwellings per annum it agreed to provide (adding a further 450 dwellings of unmet need to the backlog that exists between East Cambridgeshire and Peterborough);
- 3 The Council’s own trajectory suggests there will be a significant increase in delivery in the next five years anyway with delivery beginning to decline in the mid-late 2020s to the end of the plan period. On this basis it is unclear why the Council would seek to impose a stepped trajectory on itself which reduces delivery up to 2021 and increases it thereafter. We assume that this has been done to reduce the level of backlog accumulating between 2016 and 2021– this is not an adequate basis for applying a stepped trajectory;
- 4 The Council’s trajectory suggests a significant degree of tailing off towards the end of the plan period, and if a higher annual requirement were in place at this time (as proposed by the Council in ED032 – around 635 dpa) it is unlikely the Council would be able to maintain a five year land supply.

75. In overall terms would the Local Plan deliver the wide choice of high quality homes required over the plan period?

1.36 Policy LP6 of the PSLP states that *“Developers are expected to provide housing that contributes to meeting the housing needs of the Cambridge Sub-Region housing market area, as identified in the latest Strategic Housing Market Assessment and in any other appropriate local evidence”*.

1.37 However, the Council has repeatedly noted that the Cambridge Sub-Region SHMA (2013) is out-of-date (indeed, this assertion is the entire basis for preparing an entirely new Local Plan so shortly after the previous Local Plan was adopted), and it has been noted by the Inspector in the interim Stage 1 findings that the prospect of a wholesale update is unlikely. In addition, the more recent SHMA published by the Council (PE06 - which is submitted as evidence for the

purposes of the PSLP but do not in fact underpin its requirement) does not include an assessment of appropriate housing mix.

1.38

On this basis, not only does the Council not have a “clear understanding” of housing needs within its area, as required by paragraph 159, but its policy on housing mix is not actually underpinned by any up-to-date evidence at the current time. Therefore, it is unclear how the Council plans to deliver a ‘wide choice’ of homes or meet the requirements of para 50 of the previous framework.



Appendix 1 – Response to Inspector’s Stage 1 findings

Our ref 16168/02/MS/BHy
Date 6th August 2018

Response to East Cambridgeshire Local Plan Inspector's Stage 1 Findings (30th July 2018)

- 1.1 This note has been prepared by Lichfields on behalf of Gladman Developments in response to the East Cambridgeshire ("the Council") Local Plan Inspector's Findings following the Stage 1 Hearings (letter dated 30th July 2018) (hereafter referred to as "Stage 1 Findings"). In particular, it focuses on the Inspector's conclusions regarding objectively assessed housing need (OAN) where it is concluded that *"it is a sound approach for the standard method to be used to set the OAN for housing within East Cambridgeshire at a minimum of 11,960 dwellings 2016-36"*.
- 1.2 We note that the Inspector is not inviting comments on her Stage 1 Findings. However, having considered the conclusions on OAN, we have significant concerns that were the Plan to progress on the basis set out, it would – in light of the clear transitional arrangements set out in the version of the NPPF published on 24th July 2018 ("NPPF2") – be vulnerable to a legal challenge under s.113 of the Planning and Compulsory Purchase Act 2004 on the basis that it did not properly reflect the requirements of National Policy and Guidance. We explain our reasoning below.
- 1.3 For the purposes of distinguishing between the emerging Local Plan and the adopted Local Plan, we refer to these as the "2018 Local Plan" and the "2015 Local Plan" respectively. We refer to the NPPF published on 24th July as "NPPF2" and the 2012 iteration as "the previous NPPF".
- 1.4 We have also seen the Council's response to the Inspector's Stage 1 Findings dated 3rd August 2018, and in Section 4.0 of our note we provide some initial observations on the points set out by the Council.

2.0 The transitional arrangements set out in NPPF 2

- 2.1 The revised National Planning Policy Framework ("NPPF 2") was published on 24th July 2018. Transitional arrangements regarding its implementation are set out at Annex 1. It was clear that for the purposes of plan-making (para 214):
- "The policies in the previous Framework will apply for the purpose of examining plans, where those plans are submitted on or before 24 January 2019. Where such plans are withdrawn or otherwise do not proceed to become part of the development plan, the policies contained in this Framework will apply to any subsequent plan produced for the area concerned". (emphasis added)*
- 2.2 Whilst updated Planning Practice Guidance is yet to be finalised, Government has confirmed that:
- "Where plans are being prepared under the transitional arrangements set out in Annex 1 to the revised National Planning Policy Framework, the policies in the previous version of the framework published in 2012 will continue to apply, as will any previous guidance which has been superseded since the new framework was published in July 2018". (emphasis added)*
- 2.3 Government also confirmed when it published NPPF2 that it would be consulting on changes to the standard method in September, and therefore it will almost certainly be subject to change. It

has also indicated that it will be publishing further guidance on, for example, how to address affordable housing needs (now defined more broadly than in the previous NPPF and what other factors will be relevant in estimating housing need (for example, employment growth), these being matters that were also addressed in the draft PPG text consulted upon in March 2018, but not finalised for release.

- 2.4 NPPF2 was published prior to the Inspector’s Stage 1 findings. It is unclear why its clear transitional arrangements were not reflected in the findings. We consider that the Stage 1 on the housing need figure – which refers to the standard method as being the “*sound approach*” could be challengeable on the basis that they do not reflect para 214 of NPPF2.
- 2.5 There is a practical good reason for having a clear transitional arrangement: NPPF 2 introduces a range of changes beyond simply the methodology against which housing needs are assessed. This includes for example the reference to the standard method as being the “*minimum starting point*” and the requirement for Statements of Common Ground to address housing needs among neighbouring authorities, based on housing need and requirement figures for all those authorities formulated in response to NPPF2. The transitional arrangements (i.e. with Local Plans being examined against the 2012 NPPF if submitted before a certain date) ensure that local authorities are not adopting a ‘pick and mix’ approach to which parts of which Framework apply, and equally that those engaged in Local Plan consultation, Inspectors and parties participating in examinations are clear on which framework the plan is being examined against and – in particular – that local residents, landowners, developers and others can make judgements as to the appropriateness of the evidence base and soundness of the Plan in deciding whether or not to make representations, and on what basis.
- 2.6 Adopting the standard method for the purposes of assessing housing needs but not testing the Local Plan against NPPF 2 as a whole for East Cambridgeshire would evidently be mixing and matching the two frameworks.

3.0 Assessing the Plan against the 2012 NPPF

- 3.1 On the basis that, under the transitional arrangements set out in NPPF2, the 2018 Local Plan should be examined against the previous NPPF, we note the following:

- 1 The Stage 1 Findings appear to accept that the Council’s evidence on OAN is not compliant with para 159 of the previous NPPF (and associated PPG), stating that “*ideally, for the purposes of this plan, the housing needs of the wider HMA would have been thoroughly considered through a new HMA*”.

Self-evidently, therefore, the 2018 Local Plan is not based on a “*clear understanding*” of the housing needs of the area through the preparation of an SHMA (as required by para 159) and it cannot be demonstrated that the plan accords with the para 47 requirement to “*use their evidence base to ensure that their Local Plan meets the full, objectively assessed needs for market and affordable housing in the housing market area*”.

The previous NPPF does not mean that the Council is always obligated to produce an HMA-wide SHMA, but - based on PPG ID2a-005 – the approach of the local planning authority in these circumstances should be to “*build upon the existing evidence base of partner local authorities in their housing market area*” and then “*co-ordinate future housing reviews so they take place at the same time*”. Clearly, the PPG was envisaging a situation where the ‘first round’ of Local Plans might come forward individually, but sought for reviews to be co-ordinated. Strangely, in East Cambridgeshire, we have the opposite situation (a coordinated approach for the 2015 Plan and uncoordinated in 2018).

Two points arise from this:

- a The “standard method” figure itself does not “*build upon the existing evidence base of partner local authorities in the HMA*”. Indeed, it has no evidence base at all to underpin it.
- b East Cambridgeshire already has a post-NPPF adopted Local Plan (the 2015 Local Plan) based on the 2013 SHMA aligned to the position of other local authorities. The 2018 Local Plan has unilaterally elected to review its housing requirement figure in the absence of a coordinated approach with partner local authorities, less than three years from the adoption of the last plan. It has not coordinated its future housing review to take place at the same time, and thus fails the requirements of PPG ID2a-005. The Stage 1 Findings refer to the “*particular circumstances of East Cambridgeshire*” in adopting their conclusions, but in fact the particular circumstances of the District are directly incompatible with the approach adopted.

If the Council’s motivation for its Local Plan review was its concerns about its land supply and ability to meet the requirement of its 2015 Local Plan, but other local authorities did not wish to update their 2013 SHMA, the Council could (indeed, should) have undertaken a partial review focused on identifying new sites, rather than ‘going it alone’ with a review of its housing requirement. Making the 2018 Plan a partial review remains a route open to the Council through main Modifications (ie reverting to the housing requirement in the 2015 Local Plan).

- 2 The Standard Methodology is a formula-based figure and has not been arrived at through the process identified by the PPG which – as confirmed by MHCLG (see para 2.2 above) – remains the extant basis for estimating OAN in plans submitted for examination during the transition period.

In particular, the Standard Methodology does not reflect the specific Planning Practice Guidance (PPG) requirement in ID 2a-015 for the assessment of housing need to “*reflect the consequences of past under-delivery of housing*”, which in the case of East Cambridgeshire, is very significant. Since the start of the 2015 Local Plan period (2011), the Council has accumulated a backlog of over 2,000 units¹, and had the 2018 Local Plan been assessed against the requirement of the 2012 NPPF and associated PPG it would have been necessary for the Council to address this specifically in its objective assessment of housing need. It appears that the Council’s attempt to use the standard method (despite this being contrary to the transitional arrangements in NPPF 2) is an attempt to ‘wipe the slate clean’ of this backlog. To be clear, even with the Peterborough re-distribution cancelled, the net effect of the 2018 Review is to reduce the housing requirement of East Cambridgeshire for the period 2011-2031 from 11,500 to 9,980² and not get to grips with the acute housing under-delivery since 2011. This is equivalent to a reduction of 1,500 homes.

- 3 Further, the Stage 1 Findings explicitly acknowledge that “*there is no clear link between the standard method of determining an appropriate housing OAN and employment figures*”. However, such a link is an explicit requirement of the NPPF para 158 which states “*Local planning authorities should ensure that their assessment of and strategies for housing, employment and other uses are integrated*”. The PPG ID2a-018 entitled “*How Should Employment Trends be taken into account?*” amplifies how this should be addressed.

¹ As confirmed in a recent appeal decision in East Cambs – see IR 43 of APP/V0510/17/3186785

² The figure of 9,980 is based on completions of 1,190 (2011/12 to 2015/16) plus 8,790 (598 dpa from 2016/17 to 2031 based on the standard method). If the Peterborough redistribution had been accepted, it would be lower still t 9,316.

Indeed, the job growth was a very important component of the 2013 SHMA, and remains a necessary part of any assessment undertaken under the previous NPPF and PPG. The Stage 1 Findings endorse the jobs target of 6,000 from 2014 to 2016, but it remains a concern that the plan period is different for employment growth (2014-based) and housing (2016-based).

The lack of consistency with the requirements of the Framework in this important respect is not addressed in the Stage 1 Findings.

- 4 We note the Stage 1 Findings draw “*particular comfort*” from the fact that the annual rate in the standard method (598dpa) is “*comparable*” with the figure of 586dpa in the SHMA (PEO6). However, that conclusion faces some difficulties:
 - a The comparison is just made to annual averages, when it is the total supply over the plan period that is relevant. The standard method has a different base date of 2016, whereas the SHMA (PEO6) applied to a plan period of 2014 – 2036. The SHMA had a housing requirement of 12,900 dwellings over 22 years (586dpa) compared to the Standard Method of 11,960 over 20 years. Because net completions in 2014/15 and 2015/16 were just 343³, the comparable figure from the Standard Method if applied to the SHMA period of 2014 – 2036 is 12,303 which is some 600 dwellings short, which are material over a whole plan period. The figures are not comparable.
 - b The Stage 1 Findings do not engage with the question of whether PEO6 is, in fact, a sound assessment of objectively assessed need for housing, prepared in a manner consistent with the NPPF and the PPG. Further, in particular, the Stage 1 findings do not provide comfort that the 2016 SHMA document (PEO6):
 - i Properly “builds upon” the existing evidence base of partner local authorities in the housing market area (ie the 2013 SHMA) such that cross-boundary issues such as employment growth and commuting patterns, market signals etc are cognisant of what has changed across the HMA and what impacts this might have for East Cambridgeshire;
 - ii properly “*reflect[s] the consequences of past under-delivery of housing*” as required by PPGID2a-015. In East Cambridgeshire, the under-delivery is very significant - even up to the SHMA’s 2014 base date, some 878 dwellings had not been provided compared to what the Local Plan required⁴ and this is further compounded against the original estimate of OAN by under-delivery of the portion that was redistributed to Peterborough.
 - iii Had properly addressed employment trends and change in commuting patterns arising across the HMA (as required by PPG ID2a-018⁵). The issue is significant for East Cambridgeshire, because since the 2011 base date of the 2015 Local Plan, job growth in East Cambridgeshire had been significant, but housing delivery has

³ See Figure 2 of the AMR – 162 and 181dpa respectively.

⁴ See Figure 2 of the AMR – just 847 dwellings were completed 2011/12 to 2013/14, compared to the Local Plan requirement of 1,725 over three years (575 dpa, which already reflects the netting off of unmet need to Peterborough in that plan).

⁵ PPG ID2a-018 states: “*Plan makers should make an assessment of the likely change in job numbers based on past trends and/or economic forecasts as appropriate and also having regard to the growth of the working age population in the housing market area. Any cross-boundary migration assumptions, particularly where one area decides to assume a lower internal migration figure than the housing market area figures suggest, will need to be agreed with the other relevant local planning authority under the duty to cooperate. Failure to do so will mean that there would be an increase in unmet housing need.*” (*Our emphasis*)

under-performed, leading to a change in commuting patterns from that envisaged in the 2013 SHMA.

- iv Makes an appropriate market signals uplift that “*on reasonable assumptions and consistent with principles of sustainable development, could be expected to improve affordability*” (as required by PPG ID2a-020).
- v Has an assessment of affordable housing need based on properly justified assumptions and consistent with the approach adopted in the PPG at ID2a-021 – 0.29)

Finally, because PEO6 was not the basis for the submission plan’s housing need figure, it was not the focus of consultation or representations, so will not have received the appropriate level of scrutiny from those reviewing the draft plan at Regulation 19 Stage.

4.0 The Council’s response to the Inspector’s findings (letter dated 3rd August 2018)

Unmet needs

- 4.1 As set out in its letter dated 3rd August 2018, the Council disagrees with the Inspector that East Cambridgeshire should not export some of its housing need to Peterborough, citing the background and co-operation that went into the 2013 Memorandum of Co-operation between the Cambridgeshire and Peterborough authorities. However, the Council has failed to recognise that, based on housing delivery across the sub-region over the last 6-7 years, the redistribution set out in that Memorandum has clearly proved ineffective and there is no evidence that it will be effective going forward.

Increased requirement

- 4.2 As a result of the requirement (for the 2016-36 period) increasing to 11,960 dwellings, the Council considers that this will mean (in short):
- 1 A number of evidence base documents will need updating;
 - 2 The Council will be unlikely to pass the Housing Delivery Test (HDT) in November 2019;
 - 3 It would similarly be difficult for the Council to maintain a five-year land supply (5YHLS) in the early years after the plans’ adoption; and
 - 4 As a result, the Council will find itself with an out-of-date plan shortly after adoption, similar to the situation it found itself in in 2015, ‘severely’ undermining confidence in the plan-led system.
- 4.3 To address these issues, the Council proposes two main modifications; a shortening of the plan period (2016-34) and the inclusion of a stepped trajectory so that the requirement is 500 dpa (2016-21) and 635 dpa (2021-2034).
- 4.4 Difficulty in passing the HDT or demonstrating a five-year land supply (or indeed the additional work required in updating the evidence base) are issues which the Council should not be seeking to circumvent by shortening the plan period or adopting a stepped trajectory. The two issues (length of the plan period and short-term supply) are not linked. These measures (HDT and 5YHLS) are gauging housing delivery against needs or requirements in recent years and in the short-term.

- 4.5 Against the 2015 Local Plan housing requirement, there currently stands a backlog of over 2,000 dwellings. The Council's approach in the 2018 Local Plan did not actively address this under-delivery through relevant adjustments to its OAN (see comments above) or the requirement, and its suggested way forward in response to the Stage 1 Findings confirms that the Council is seeking to avoid a positive engagement with the issue of short term housing supply. It confirms this because rather than addressing supply issues (for example, by looking again at potential sites or revisiting some of its spatial strategy choices), it proposes to defer meeting housing need (by proposing a stepped trajectory). The current PPG is clear that the preference is to meet housing needs earlier rather than later in the plan period where possible (ID3-035), and thus that there must be good reasons for not doing so. The same principles apply to a 'stepped trajectory' which is no more or less than an alternative way of deferring the meeting of needs.
- 4.6 Any backlog that exists within East Cambridgeshire is a live issue relating to the current housing needs of existing and prospective households who want to live in the District as of now. The shortfall in housing supply relative to employment growth has led to an adverse change in commuting patterns. The Council should be seeking to address this by taking measures to increase housing supply in the short term, and not by adjusting the overall plan period (or the annual requirement) in order to demonstrate arbitrarily that - on paper at least - its numbers 'stack up'.
- 4.7 This further demonstrates why it would have been more prudent for the Council to have addressed deficiencies in its current Local Plan – which was only adopted in 2015 – by undertaking a partial review to address short term supply issues, rather than implementing an entire new plan.
- 4.8 We therefore invite the Inspector not to accept the Council's proposed modifications to the plan prior to a fuller exploration of the potential ways forward, including the identification of additional sites.

5.0 Summary

- 5.1 We recognise the Stage 1 Findings are seeking a "*pragmatic approach to determining the district's needs*". But, however pragmatic or not it might be perceived, we would respectfully contend that adopting the standard methodology under the transitional arrangements cannot be regarded as a sound approach – indeed, it is directly contradictory to the transitional arrangements set out in NPPF2. It would – we submit - be an error were the Plan to proceed on the basis of a housing requirement figure of 11,960 (2016-2036), leaving the Plan open to challenge.
- 5.2 Recognising that there is little prospect of neighbouring Councils updating their 2013 SHMA in the duration of the 2018 Local Plan examination, there are in our opinion two pragmatic ways forward if the Plan is to progress:
- 1 The Plan is subject to Main Modifications so that it becomes a 'partial review' and adopts the housing requirement from the 2015 Local Plan with a plan period of 2011 to 2031, retaining the 575dpa figure (which retains the unmet need redistribution to Peterborough);
 - 2 The plan period is updated to a 2014 base date, and the housing requirement is modified based on a SHMA for the District prepared consistent with the previous NPPF and PPG,

that is properly consulted upon and then subject to a full examination hearing session and findings⁶.

- 5.3 We recognise that the Inspector has not invited comments on the Stage 1 Findings and wishes the Hearings to progress to Stage 2 in a timely manner. However, it would in our view be remiss of a representor to the Plan not to alert the Inspector to a significant concern that would, if not remedied, result in a significant risk of legal challenge to the Plan on its adoption.
- 5.4 Finally, we would respectfully urge the Inspector to reject the Council's suggested way forward (as set out in its letter of 3rd August 2018) which lacks evidential justification, or any attempt to positively seek to meet objectively assessed needs in a timely manner.

⁶ It may be that the Council consider PEO6 and its concluded OAN of 12,900 2014-2036 is a sound approach, but it has not been the basis on which the Plan was consulted upon at Regulation 19 Stage (and would thus not have been the focus on Representations made in that regard) and there are significant concerns that it does not in fact adequately address the requirements of the NPPF and PPG, with such matters not having been addressed in the Stage 1 Findings.



Appendix 2 – Letwin Review

Independent Review of Build Out Rates

Draft Analysis

Rt Hon Sir Oliver Letwin MP

June 2018



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C Site visits

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E Published sources

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Chapter 1. Aims of the Review

1.1 My terms of reference require me, by the time of the Budget in the Autumn, to “explain the significant gap between housing completions and the amount of land allocated or permissioned in areas of high housing demand, and make recommendations for closing it”.

1.2 The issue identified by the terms of reference is an important one, since the rate of build out is one of the determinants of the supply of new housing provided for the nation in any given year: the output of new housing is determined by the number of homes permitted and the rate at which those permissions are built out.

1.3 Planning permissions are, of course, given for sites of varying sizes around the country – and this is as true in areas of high housing need as it is elsewhere. I have, however, chosen to focus only on the largest sites in areas of high housing need, for two reasons:

- the ‘build out rate’ on small sites is intrinsically likely to be quicker than on large sites; (to take the limiting case, a site with just one house will take only as long to build out as that house takes to build); and
- the largest sites are dominated by the major house builders and other major participants in the residential property market, and it is in relation to these major firms that concern has been expressed in some quarters about “land banking” and ‘intentional delay’.

1.4 As I made clear in my initial letter to the Chancellor and the Secretary of State for Housing in March, I have in accordance with my terms of reference focused on the issue of the build out rate of fully permitted new homes rather than allowing myself to be distracted by issues related to the speed of the planning system. Much has been done recently to encourage the granting of more planning permissions for more homes; and I have inevitably been told much, in the course of my enquiry, about the operation of the planning system. But I remain convinced, as I was in March, that – notwithstanding the complex permissioning and re-permissioning that frequently occurs in very large sites – it is possible to distinguish between a ‘regulatory’ Stage 1, which consists of securing all the necessary approvals to allow development to commence on at least part of the site, and a ‘build out’ Stage 2, which starts at the moment when the house builder has an implementable consent and is therefore able to start construction on the site (i.e. has received either the grant of full planning permission or the first final, detailed planning permission under reserved matters, and has satisfied all pre-commencement conditions).

1.5 I have accordingly ‘started the clock ticking’ for my enquiries at the beginning of Stage 2, and have ‘stopped the clock’ at the moment when the last home on the site has been, or is scheduled to be completed. The amount of time between these two moments is what I mean by the ‘build out period’. By the ‘build out rate’, I mean the percentage of the site that is built out on average in each year during the build out period. My aim throughout the five months of my work to date has been to determine:

- what the build out rate on large sites in areas of high housing demand actually is;
- why the rate of build out on these sites is as it is; and

- which factors would be most likely to increase the rate of build out on these sites without having other, untoward effects.

1.6 As I promised in March, the present Draft Analysis deals exclusively with these three questions. It is only in the next phase of my work that I shall consider, in the light of my analysis of build out rates, what policies the Government might adopt to 'close the gap' between permissions and homes completed on the largest sites and hence to increase the overall rate at which land allocated for housing is converted into new homes. I will present my recommendations on this to the Chancellor and the Housing Secretary at the time of the Budget in the Autumn.

Chapter 2. Process of the Review

2.1 I have conducted my investigation independently from the Government, but have been assisted both by a team of seconded officials from HMT and MHCLG and by an expert and senior panel consisting of:

- Richard Ehrman,
- Lord Gadhia,
- Lord Hutton of Furness,
- Baroness Prashar, and
- Professor Christine Whitehead.

2.2 Accompanied by my team, and on some occasions by members of the expert panel, I have visited and collected data on 15 large sites (ranging from over 1,000 homes to over 15,000 homes and together providing over 70,000 homes) in areas of very high housing demand (measured by a ratio of more than seven to one between the median house prices and median earnings). Five of these sites are in Greater London; of the remaining ten sites, nine are in the south of England because this is where there is typically the highest demand for housing; the tenth is in an area of the Northwest where there is exceptionally high demand. I have also visited one smaller site in an area of the West Midlands where there is high demand, and one large site in the home counties that is at too early a stage for the data to be meaningful, but which provided interesting qualitative insights to which I refer in Chapter 4. During the course of these visits, I have met large numbers of representatives of builders, local authorities, development companies and other organisations involved in the development of the sites. Records of the information conveyed at these site meetings are provided in Annex C.

2.3 In order to gain a sense of the contrasts and similarities between the way that very large sites are handled in England and the way that they are handled in comparable European countries, I have in addition visited a number of such sites in Germany and the Netherlands. The records of these meetings are provided in Annex D.

2.4 With my team, I have analysed the detailed, site-specific data provided by each of the sites visited in England. The results are presented in a series of charts and graphs in Annex A. To cross-check whether the data gathered from the inevitably limited number of detailed site visits was out of line with other data-sets, I have (with the help of the Mayor of London) compared the results of my own investigations with results derived from the Molior data-set for sites of over 500 homes in Greater London and with their smaller data-set for sites of over 1,000 homes. The results from this cross-check are also presented in relevant graphs in Annex A.

2.5 The methods used to collect, verify and analyse data are described in a note by officials which is provided in Annex B. I should emphasise that, in the course of our work, we have been somewhat dismayed by the paucity of publicly available data on land

holdings and build out rates. I recognise that the Government has commissioned work to make options and other agreements on land transparent by ensuring that they are recorded at the Land Registry; I urge Ministers to expedite this work so far as possible. I also urge MHCLG to ensure that the work that they have commissioned to construct a national database of build out rates on large sites is accelerated, and to take forward the proposal in the recent White Paper that house builders should provide data on build out rates.

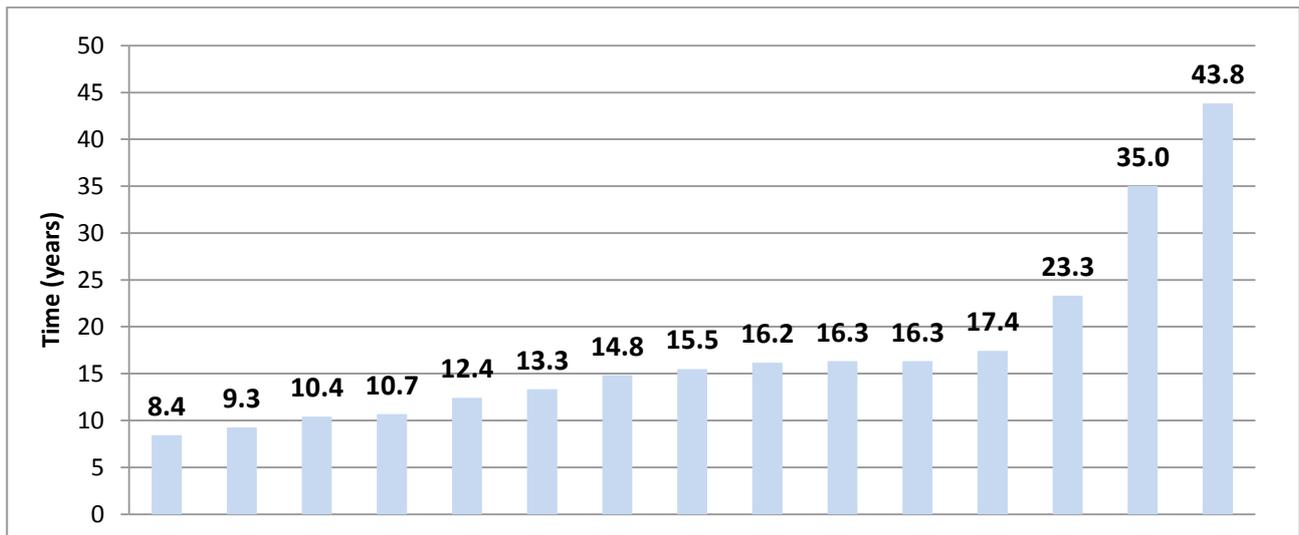
2.6 I have, in addition, accumulated and absorbed a range of published materials, listed in Annex E, and have held a large number of meetings to gather evidence from:

- local authorities,
- non-government organisations,
- housing associations,
- Homes England,
- house builders,
- promoters,
- investors,
- lenders,
- consultancies,
- planners and planning lawyers,
- land agents,
- representative and membership organisations,
- utilities,
- utility regulators,
- market analysts,
- economists and other experts,
- materials suppliers, and
- training providers.

2.7 Records of my meetings with these stakeholders are provided in Annex D.

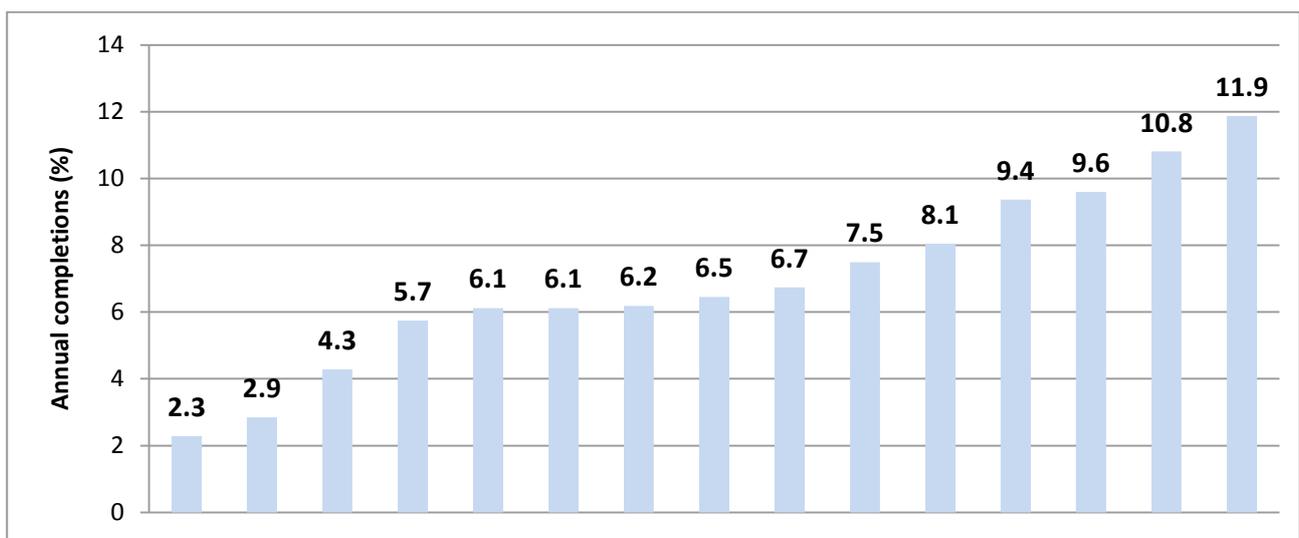
Chapter 3. Build out rates on large sites

3.1 The quantitative results of our investigation into 15 very large sites in areas of high housing demand are stark. As illustrated in graph AX25 of Annex A, reproduced below, the median build out period for these sites from the moment when the house builder has an implementable consent is 15.5 years:



Total build out period (years) of case study sites - Stage 2 - Median 15.5 years

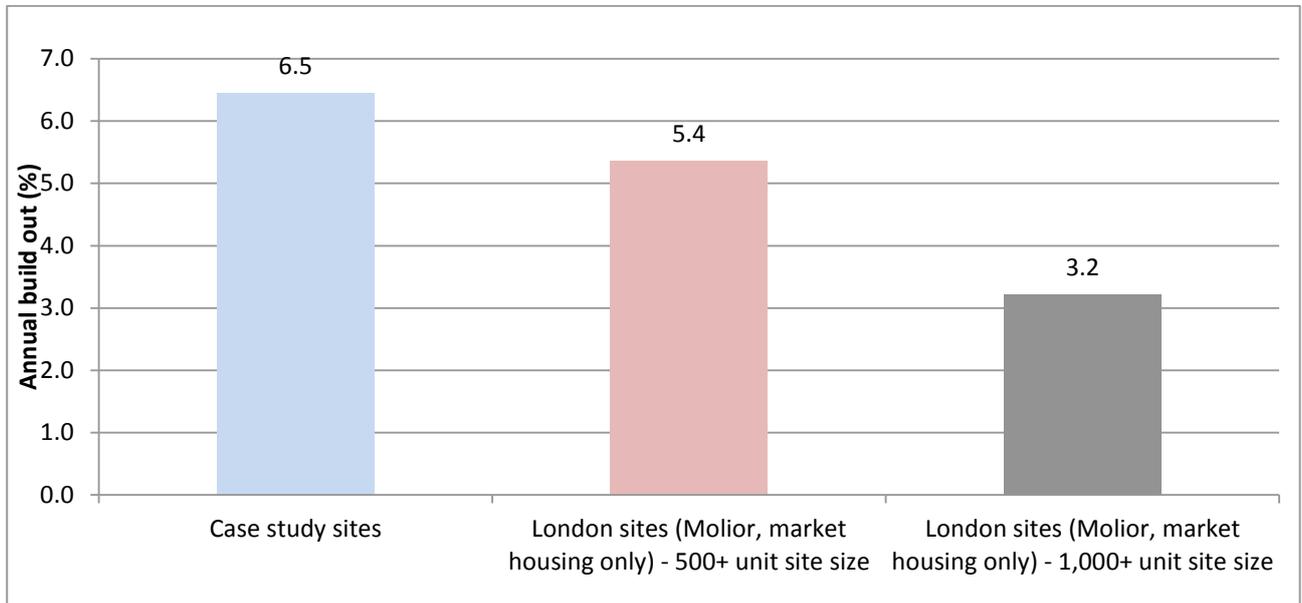
3.2 To put this another way, as illustrated in graph AX24 of Annex A, reproduced below, the median percentage of the site built out each year on average through the build out period in one of these 15 large sites is 6.5%:



Average annual build out (%) of case study sites - Stage 2 - Median 6.5%

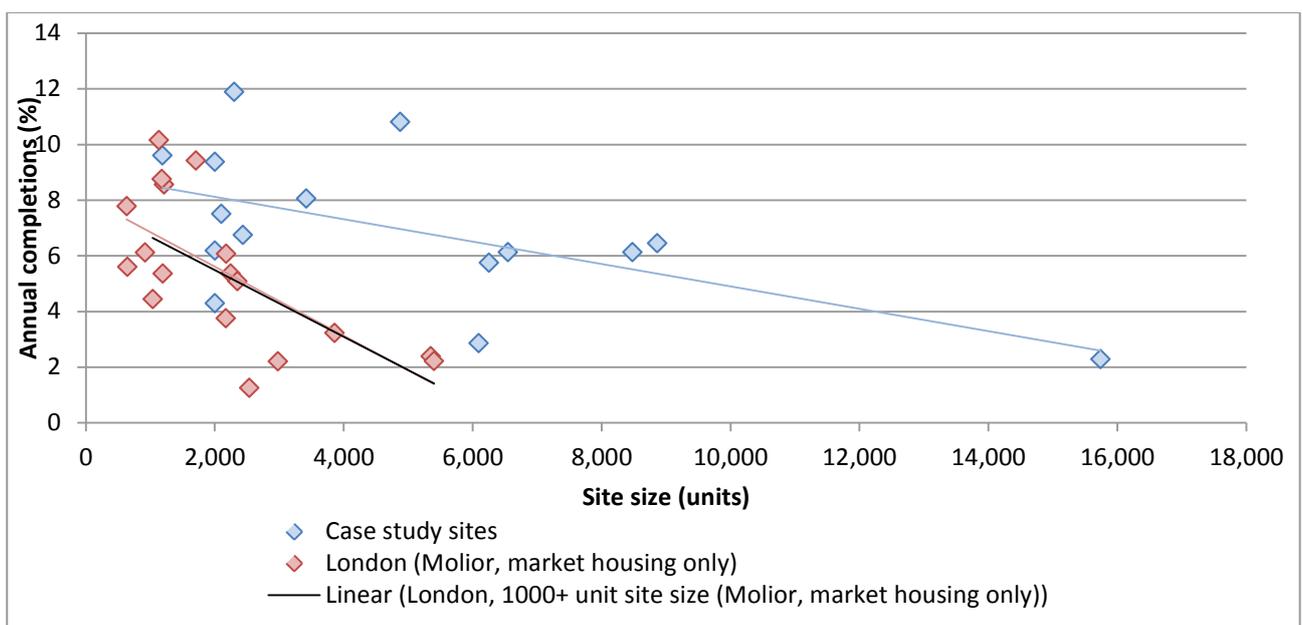
3.3 When we compare these figures with the figures derived from the Molior data-set for sites of over 500 homes in Greater London and with their smaller data-set for sites of

over 1,000 homes, we find that our sites are not atypical and indeed are, if anything, being built out at a faster rate than other large sites in London. This is illustrated in graph AX27 of Annex A, reproduced below:



Median annual build out rates (%)

3.4 There is, moreover, a clear, negative (though not overwhelmingly strong) relationship between the size of the site and the percentage of the site built out each year; as illustrated by graph AX34 of Annex A, reproduced below, all three data-sets suggest that the larger the site, the more likely it is to have a low build out rate. It is worth emphasising this point: very large sites will almost always deliver a higher absolute number of homes per year than large sites with only a few thousand homes in total; but the *proportion* of the site built out each year is likely to be smaller.



Average annual build out rate (%) by site size

Chapter 4. Fundamental explanations

4.1 This brings us to the question: why does it take so long to build out these large sites?

4.2 In my letter to the Chancellor and the Secretary of State of 9 March, I set out in the following terms what then appeared to me to be the fundamental explanation for the phenomenon:

The fundamental driver of build out rates once detailed planning permission is granted for large sites appears to be the ‘absorption rate’ – the rate at which newly constructed homes can be sold into (or are believed by the house builder to be able to be sold successfully into) the local market without materially disturbing the market price. The absorption rate of homes sold on the site appears, in turn, to be largely determined at present by the type of home being constructed (when ‘type’ includes size, design, context and tenure) and the pricing of the new homes built. The principal reason why house builders are in a position to exercise control over these key drivers of sales rates appears to be that there are limited opportunities for rivals to enter large sites and compete for customers by offering different types of homes at different price-points and with different tenures.

When a large house builder occupies the whole (or even a large part) of a large site, the size and style (and physical context) of the homes on offer will typically be fairly homogeneous. We have seen examples of some variation in size, style and context on some large sites; but the variations have not generally been great. It has become apparent to us that, when major house builders talk about the absorption rates on a large site being affected by “the number of outlets”, they are typically referring not only to the physical location of different points of sale on the site, but also and more importantly to differences in the size and style (and context) of the products being offered for open market sale in different parts of the site. Even these relatively slight variations are clearly sufficient to create additional demand – and hence additional absorption, leading to a higher rate of build out.

It is also clear from our investigation of large sites that differences of tenure are critical. The absorption of the ‘affordable homes’ (including shared ownership homes) and of the ‘social rented housing’ on large sites is regarded universally as additional to the number of homes that can be sold to the open market in a given year on a given large site. We have seen ample evidence from our site visits that the rate of completion of the ‘affordable’ and ‘social rented’ homes is constrained by the requirement for cross-subsidy from the open market housing on the site. Where the rate of sale of open market housing is limited by a given absorption rate for the character and size of home being sold by the house builder at or near to the price of comparable second-hand homes in the locality, this limits the house builder receipts available to provide cross-subsidies. This in turn limits the rate at which the house builder will build out the ‘affordable’ and ‘social rented’ housing required by the Section 106 Agreement – at least in the case of large sites where the non-market housing is either mixed in with the open market housing as an act of conscious policy (as we have frequently found) or where the non-market housing is sold to the housing association at a price that reflects only construction cost (as we have also seen occurring). If freed from these supply constraints, the demand for ‘affordable’ homes (including shared ownership) and ‘social rented’ accommodation on large

sites would undoubtedly be consistent with a faster rate of build out. And we have heard, also, that the demand for private rented accommodation at full open market rents (the scale of which is at present uncertain) would be largely additional to, rather than a substitute for, demand for homes purchased outright on the open market.

4.3 The further work we have done since 9 March, and the further evidence we have heard, has done nothing to alter my view that the homogeneity of the types and tenures of the homes on offer in these sites, and the limits on the rate at which the market will absorb such homogenous products, are the fundamental drivers of the slow rate of build out. Indeed, our further work has reinforced this view.

4.4 In March, I promised to ask three questions arising from this fundamental analysis – namely:

- *what are the implications of changing the absorption rate for the current business model of major house builders if the gross development value of sites starts to deviate from the original assumptions that underpin the land purchase?*
- *would the absorption rate be different if the reliance on large sites to deliver local housing were reduced? And*
- *would the absorption rate, and hence the build out rate be different if large sites were ‘packaged’ in ways that led to the presence on at least part of the site of:*
 - *other types of house builder offering different products in terms of size, price-point and tenure? Or*
 - *the major house builders offering markedly differing types of homes and/or markedly different tenures themselves?*

4.5 As a result of our further work, I am now in a position to answer these questions.

Implications of gross development value deviating from assumptions of land purchase

4.6 Turning first to the question of value, I have concluded that it would not be sensible to attempt to solve the problem of market absorption rates by forcing the major house builders to reduce the prices at which they sell their current, relatively homogenous products. This would, in my view, create very serious problems not only for the major house builders but also, potentially, for the housing market and hence the economy as a whole.

4.7 To understand this dynamic, one needs to grasp the way in which pricing and land values for large permitted sites are established.

4.8 The Royal Institution of Chartered Surveyors publishes a ‘red book’ which has become the ‘bible’ for surveyors and land agents when they are required for any purpose or by any client to value land. This ‘red book’, though large and complicated in detail, contains what is in principle a very simple instruction – viz. that the valuer should start with the assumption that the open market sale value of a new home of a given kind and size in a given location will be close to that of a second-hand home of the same or similar kind and size in the same or similar location – perhaps with some slight premium for the new home to represent the extent of the depreciation on the second-hand home and, of course,

with a further assumption about the expected average rate of house price inflation across the anticipated period to completion.

4.9 It is not difficult to see why the RICS has reached this view. Clearly, an individual or family seeking to buy a home in a particular location is able to compare the cost of two alternatives – buying something newly constructed or buying something second-hand. Accordingly, the open market value of a marginal newly constructed home (the price that can be reached between a price-maximising willing seller and a price-minimising willing buyer) will bear some close relation to the price of a comparable second-hand home in the same location.

4.10 There is, however, a crucial assumption lying behind this method of valuation: namely, that the supply of new homes in the locality is not going to be sufficiently large to have any noticeable effect on the supply and demand balance in that local housing market, and is therefore not going to have any noticeable impact on the open market value of second-hand homes in that locality. Only if this assumption holds good, will the marginal valuation principle hold true. In other words, the standard method of valuation for new housing used by all reputable valuers in the UK bakes in the assumption that local housing markets will not be 'flooded' with new homes to the point where the current prices of second-hand homes in the local market are forced downwards.

4.11 But the significance of the valuation method goes beyond the baking in of this assumption about the number of new homes built in a locality in a given period – because it also forms the basis for land valuation.

4.12 We have heard from a range of participants in different parts of the housing industry that, when house builders come to buy land for development, they typically do so on the basis of a so-called 'residual value' calculation. This calculation starts with an estimate of the open market value of the new homes that can be built on the site (i.e. a value close to the current value of comparable second-hand homes in that local market) multiplied by the number of homes of that value that are expected to be built on the site under the outline planning permission. The expected costs of construction (including return on equity, costs of debt, infrastructure and policy/regulatory requirements) are then subtracted from this 'gross development value' to yield a 'residual value' that should be attributed to the land and the outline planning permission.

4.13 It appears that, in some cases, this method of valuation is directly applied by independent valuers to settle a price for the land under the terms of an option agreement that the house builder has with a landowner. In other cases, a landowner or promoter may auction the land with outline planning permission. Or an auction may be held in order to determine an open market price for the land that will form the basis for the price that has to be paid by a house builder who holds an option if the house builder wishes to exercise that option. But we have heard from everyone we have talked to in the industry about these processes that, in all of these forms of land sale, the starting point of all participants is the residual value calculation. And that residual value calculation always starts with the assumed open market value of new homes in the local area – which is always fundamentally driven by the prices of comparable second-hand homes in the local area, and hence by the assumption that the number of new homes built in any given year in that area will not be large enough to put downward pressure on the price of second-hand homes in the area.

4.14 Once a house builder working on a large site has paid a price for the land that is based on the assumption that the sale value of the new homes will be close to the current

value of second-hand homes in the locality, the house building company is not inclined to build more homes of a given type in any given year on that site than can be sold by the company at that value; and the house builder's first customers (and indeed their mortgage lenders) may tend to be unenthusiastic if they see the prospect of homes of the same type on the same site being sold in such quantities as to reduce the prices obtained for those homes in the market after they have bought their own homes.

4.15 The value-unaffected rate of sale that avoids all of these effects is what the house builders, the land agents, the council planners – and indeed independent commentators such as the OFT – call the 'absorption rate' for homes on a large site by the local market. They do not actually mean the absolute absorption rate in the sense of the rate at which the market will absorb the homes at any price, or even the construction-cost-relative absorption rate at which the market will absorb the homes if they are sold at or near to the cost of construction (including the cost of capital). They mean, instead, the rate at which new homes can be absorbed without reducing the price of the homes below the price assumed for the purposes of the land valuation.

4.16 We have heard, likewise, that these same principles and assumptions are built into the business plans of the house builders and the development assessments prepared for the house builders by the land agents. So it is natural that the whole process of construction by large house builders on a large site should thereafter be based on the same assumptions: we have found in all of our site visits that the pattern of phasing and financing is adapted to fit the rate at which it is believed that the new homes can be absorbed by the local market without contradicting the pricing assumptions built into the house builder's business model, and hence without affecting the sale prices of second-hand homes in that market. The same applies to the arrangements made for the provision of labour, materials, utilities, progressive remediation and site infrastructure; all of these are organised around the expected 'absorption rate' for the kind of homes being sold by the house builder at the price baked into the land value.

Increasing build out rates by reducing reliance on large sites

4.17 It seems sensible to ask whether we could hope to increase build out rates in high pressure areas by reducing reliance on very large sites. Would the use of more smaller sites (and hence the presence of more builders) increase output?

4.18 There is evidence from our statistical investigation to back the common sense intuition that smaller sites will tend to build out a greater proportion of the site each year than larger sites – at least once they begin to be built out at all. And the theoretical underpinning of this proposition is not difficult to find. We have been told repeatedly that the market absorption rate for a given type of home is to some considerable degree highly location-specific: there is a given depth of market at a given price for a given type of home of a given tenure in this particular place. Move only a little way away and you enter a slightly different market, composed at least partly of people with somewhat differing patterns of life which make that other place more attractive to them. Hence, all else being equal, one might expect two homes, only one of which would sell at a given time at the given price on large site A, to be sold simultaneously at the same price on two smaller sites, B and C.

4.19 There are two principal ways in which we could increase the number of small sites. The first would be to find some means of "packaging" large sites into smaller sites. The

second would be to use the planning system to encourage the use of more “naturally” smaller sites.

4.20 Although not within the scope of my Review, there may well be advantages in attempting to adopt the second approach by encouraging the use of more individual small sites within local planning authority land supply plans. But there are reasons to believe that doing this without also increasing the rate of build out on large sites by “packaging” those sites in ways that increase the variety of supply is *not* desirable. The reasons are that:

- to increase housing supply as a whole over the long-term, we require increased infrastructure – and it is often the large sites that unlock values and short-term demand sufficiently great to support major new infrastructure with the help of grants, Section 106 agreements and the like; it is true that small sites typically require less additional infrastructure than large sites – but an attempt to fund all needed major new local infrastructure through Community Infrastructure Levies (CILs) collected from a multitude of small developments would require more effort from most local authorities in areas of high housing need;
- to meet the needs of people seeking homes in high pressure areas, we need *both* high rates of build out *and* high levels of allocation. Reliance exclusively on smaller sites requires local authorities in their local plans to pick a multitude of small fights – whereas many planners and councillors have told us that it is often far easier to pick a few, larger fights; although the National Planning Policy Framework has enabled some unallocated sites to receive planning permission where five year land supplies are not at the required levels, it would be an unfortunate irony if the effect of efforts to improve build out rates by concentrating exclusively on smaller sites actually led to reduced allocations in some local authority areas; and
- given that, in many areas, we have seen very large sites that are clearly suitable for development (e.g. major brownfield sites of derelict post-industrial land), it seems counter-productive (to the point of absurdity) to allow only small bits of them to be developed at any one time in order to accelerate build out rates; the rate on *permitted* sites might well (indeed, probably would) increase sharply – but the rate of build out across the remainder of the undeveloped brownfield land still begging to be developed would, paradoxically, reduce to zero.

4.21 My conclusion is that we cannot rely solely on small individual sites. This cannot be a question of “either / or”. We will continue to need more new housing *both* on smaller sites *and* on large sites.

Differentiating products to address differing markets

4.22 This brings us to the question whether the problem of slow build out rates on large sites could be accelerated by means of increased differentiation within these sites.

4.23 Given my conclusion that the current low build out rates are caused by the restricted market absorption rates of the fairly homogeneous products typically being constructed at present by the major house builders on the largest sites, it seems natural to seek some means of achieving differentiation within sites. If this were achieved, it is intuitively plausible that a range of markets (each with their own absorption rates) could be addressed simultaneously, thereby accelerating the overall rate of build out.

4.24 But is this intuition an insight into the truth, or an illusion? Is the market for one type of dwelling with one type of tenure in a given place sufficiently separate from the market for other types of dwelling and other types of tenure on the same site to make simultaneous disposal of differentiated products possible?

4.25 I have not been able to find any conclusive numerical evidence of the extent of separation or overlap between the markets for different products on the same site. However, I have been able to observe some strong reasons for supposing that the degree of product separation is considerable, and that the degree of product overlap is relatively slight:

- it is a truth universally acknowledged that, in areas of high demand, the high ratio of house prices to incomes creates a serious problem of affordability; accordingly, for each individual or family that can afford to buy a home of a certain style and size on a given site in such an area, there will be other individuals or families who might like to live on that site, but who cannot afford to buy such a home at the price of such homes set by the local second-hand market; for such individuals or families, there are only two choices – to go elsewhere, or to obtain a home that has a different cost because it is of a different type or of a different tenure; and this alone is enough to imply that the market in any one site is tiered rather than homogeneous;
- I have been told, on every one of my site visits, that the need for social rented housing is far from exhausted; my interlocutors have regularly used phrases such as ‘virtually unlimited’ to describe the demand for such housing; and this, too, strongly implies that, in areas of high housing pressure at least, the market for social rented property is separate from the price-constrained market for open market sales of family-sized homes;
- on those visited sites where there was a significant amount of property being offered in the private rented sector, it has been repeatedly explained to me by those responsible for marketing homes on the site that the people seeking such rented property arrive seeking this particular form of tenure, due to whatever circumstances make it more appropriate for them than either open market purchase or social renting; how deep this market currently is outside the major cities, is currently in some doubt – but I have seen evidence that institutional investors are able to have private rented sector properties constructed simultaneously with properties for sale on the same site, and are able to dispose of them simultaneously, even in out-of-town locations; this, again, strongly suggests that the private rented sector is essentially a separate market;
- given these points about the separation of the social rented and private rented markets from the market for open market sales, I have not been surprised to find developers regularly telling me that they also have no difficulty disposing of ‘affordable’ rented properties at various discounts simultaneously with open market sales; on no occasion has it been suggested to me that there was any serious competition between homes offered with these four types of tenure (open market sale, open market private rented, discounted or ‘affordable’ rented and ‘social’ rented), implying that the markets for each are largely complementary rather than overlapping;
- the same seems clearly true of specialised housing for particular groups such as nurses, students or retirement living; I have seen significant amounts of housing of these kinds built right next to some of the sites I have visited, without any

suggestion from those marketing the visited sites that the specialised properties competed with the non-specialised newly built properties – once again, suggesting the existence of largely complementary, rather than significantly overlapping markets;

- in discussions both in the UK and in the Netherlands, it has become clear to me that there is a particular and separate market also for custom-build and self-build homes. The resistance to including such homes on large sites at present is considerable in some quarters; but both those who welcome (and provide) these more customised types of housing and those who resist them appear to agree that they suit a different clientele, who would not be attracted to the more uniform homes constructed on so many of our large sites at present. This, too, suggests the existence of separate markets;
- I have heard much the same said repeatedly about the market for shared ownership of various kinds; we have received testimony suggesting that this form of tenure is likely to become more established and more accepted both by the housing associations and by private investors – and it seems clear that it is a mixed tenure that will be attractive to purchasers somewhat different from those who are attracted either by outright sales or purely rented properties;
- I have learned that different types of builder, constructing different types of building, have different business models – and are clearly aiming to satisfy the demands of different market niches; for example, those building high rise flats (which are inevitably constructed in one fell swoop) are typically seeking a high proportion either of individual buy-to-let investors or institutional investors in the Private Rented Sector, whereas SME house builders typically have a very different set of customers in mind; and
- finally, I have been told many times by those engaged in marketing homes on large sites that the choice of a newly built home is much influenced not only by ‘hard’ facts such as location, size, price and tenure-type, but also by ‘soft’ facts such as architecture, interior design, garden, setting and surrounding landscape or street-scape; and this is entirely natural, as the choice of where to live is in part an aesthetic matter of huge significance to those (very many) of us who care about our surroundings as much as we care about almost any other aspect of our daily lives; accordingly, it seems extraordinarily likely that the presence of more variety in these aesthetic characteristics would create more, separate markets than can be created within the high degree of uniformity that characterises many (though not all) of the large sites that we have visited.

4.26 For all of these reasons, I conclude that if either the major house builders themselves, or others, were to offer much more housing of varying types, designs and tenures (and, indeed, more distinct settings, landscapes and street-scapes) on the large sites and if the resulting variety matched appropriately the desires of the people wanting to live in each particular part of the country, then the overall absorption rates – and hence the overall build out rates – could be substantially accelerated. The policy levers required to bring this about without damaging the economics of individual sites or the financial sustainability of the major house builders are topics for the second phase of my work, on which I shall report at the time of the Budget. But the shape of the outcome at which we should aim is, I think, clear from the work we have already done: to obtain more rapid building out of the largest sites, we need more variety within those sites.

Chapter 5. Other potential constraints

5.1 In my letter to the Chancellor and the Housing Secretary of 9 March, I promised to provide an assessment of the extent to which the rate of build out on very large sites might be held back by constraints other than the market absorption rate, if that binding constraint were removed. In particular, I said that I would consider the effects on build out rates that could be caused by:

- lack of transport infrastructure,
- difficulties of land remediation,
- delayed installations by utility companies,
- constrained site logistics,
- limited availability of capital,
- limited supplies of building materials, and
- limited availability of skilled labour.

5.2 In the course of the further work that I have undertaken since 9 March, I have looked in some detail at all of these issues, and have come to conclusions about the extent to which they could currently hold back, or might in future hold back rates of build out on large sites. I have also looked at one further issue, namely:

- alleged intentional “land banking” on the part of major house builders.

Lack of transport infrastructure

5.3 The time taken to provide major new transport infrastructure has certainly had a major impact on the speed of development in a number of the sites that I have studied. In some cases, the opportunity to develop housing was an outcome envisaged only after rapid transport links were installed for other reasons: the Olympic Park, North Greenwich and Ebbsfleet are cases in point – where rail links to central London were built, respectively, for the Olympics, the Millennium Dome and HS1, thereby opening up the possibility of major housing development that would not otherwise, in all probability, have occurred. In each of these cases, the building of the rail link took a considerable time. We have also seen a limited number of cases in which delays in provision of smaller local transport infrastructure (e.g. roundabouts, link roads and new rail stations) have caused a delay in the start of construction on site. But an outstanding example of delays in housing caused by delayed infrastructure is Barking Riverside – where a considerable period of time was spent considering whether to construct (and eventually deciding not to construct) an extension of the Docklands Light Railway. During the whole of this period, the large housing project at Barking Riverside was stalled; it moved forward only after the failed DLR proposition was replaced by a definite decision to extend the London Overground to reach the site (at far lower cost).

5.4 But these examples of the importance of new transport infrastructure, which are matched by several less dramatic examples in other large sites that I have visited, share

the characteristic that they do not, in general, appear to have had any effect on the build out rate during the periods at which I have been looking. My clock starts ticking only after the first implementable permission has been received – and, by this time, almost always, the major infrastructure issues have been sorted out. This is partly a feature of the planning system: typically, final permission to proceed with a large new site is not given until the transport infrastructure will enable the new inhabitants to take up residence without causing undue pressure on existing infrastructure. And it is partly a feature of the market: developers and builders do not generally seek final permits to build homes in places which cannot easily be accessed, because such homes are unlikely to be attractive to potential customers. Accordingly, whilst it seems clear (and an enormously important point) that faster resolution of major infrastructure issues would be likely to bring forward the dates at which new major housing construction sites could be opened up, this is largely a separate question from the acceleration of the narrowly defined ‘build out rates’ (from first implementable permission to final completion) on which I have focused, because (although later phases of development are sometimes contingent on the provision of further infrastructure) I have not found any notable example of delay in infrastructure affecting the rate of build out once construction has begun.

5.5 I accordingly welcome the effect on the release of new large housing sites that is likely to arise from the significant steps that have been taken in recent years to accelerate the provision of major new infrastructure (including the introduction of National Policy Statements for infrastructure and the establishment of the National Infrastructure Commission). I strongly urge Ministers to work collectively across government to ensure that the construction of major infrastructure is driven by the need to release large, allocated sites for development; this will require more effective coordination between the various government departments, agencies and private sector operators involved in providing infrastructure. But I do not believe that these steps, or any further (desirable) steps that may be taken in future to increase the speed of delivery of major new transport infrastructure, will have any noticeable impact on the particular question of the build out rates achieved on large sites between the time when the first implementable permission is received and the time when the last home is completed.

Difficulties of land remediation

5.6 In the course of visiting and studying the development of large “brownfield” sites, I have seen several examples of the costs and difficulties that can be caused by the need to remediate land before construction can begin. It is clear that, where a site has previously been used either by long-present heavy industry or by other, more specialised contaminators such as the MoD, such remediation is likely to be required – and the (entirely appropriate) regulatory requirements mean that the remedial work is likely to be both expensive and prolonged. Perhaps the outstanding example of this amongst those large sites I have seen is at Nine Elms, where the need for remediation of the former Battersea power station has clearly imposed very considerable financial burdens on a succession of developers.

5.7 But in such cases, as with major transport infrastructure, the remedial work is typically (and rightly) required before the first implementable permission to build homes is received. So (although remediation may in some cases continue through several phases of construction and may well affect the timing of capital requirements on a large brownfield

site) it does not tend to affect the rate of build out that I have been examining; starting the clock at the point of first implementable permission, I have been unable to find any systemic contrast between the rate of build out on large “greenfield” sites that require no remedial work and the rate of build out on large “brownfield” sites that have required intensive remediation before the housing construction could commence.

Delayed installations by utility companies

5.8 I have received somewhat conflicting evidence about the effect, or lack of effect, of utility connections on build out rates.

5.9 The house builders that we have met on the large sites studied have repeatedly complained about the impediments caused by slow responses from utility companies.

5.10 In discussion with the utility providers, we were told, on the contrary, that these problems arose from insufficient clarity, coordination, and notice on the part of the house builders. The providers took the view that a period of between nine months and two years was needed in order to plan significant additions to utility networks, and complained that this timetable is often not respected by the house builders and developers. (The Olympic Delivery Authority was cited as a shining exception and as a developer who gave full and adequate notice.)

5.11 Discussions with the utility regulators made clear that some of the reason for this conflict of views probably arises from the difficulty of distinguishing between infrastructure that will be paid for by utility customers, and infrastructure that needs to be paid for by house builders and developers; it also became apparent there remains some lack of clarity about the point at which a utility regulator will recognise a development as being sufficiently certain to permit assets constructed in relation to that development to be added to the regulatory asset base of the relevant utility. We also heard on some sites that there can be very different views between local and national levels within the utility companies.

5.12 However, despite this rather messy scene – which I believe definitely and urgently requires further attention across government – I have not in fact been able to find any substantial evidence that delays in the provision of utility connections have caused delays in build out once the first implementable permission has been received. My impression is that such problems as there are in dealing with utilities mainly increase the complexity and “bother” of development rather than impeding build out – and that, to the extent that significant utility infrastructure does cause substantial delay, this typically occurs before the point at which a very large site begins to be built out. For example, we discovered that, at the very large Nine Elms development in central London, it had proved necessary to submit a new planning application to remove an intended electricity sub-station due to late confirmation from the utility providers that the sub-station in question could be provided at an alternative site – thereby delaying the date of the implementable planning permission rather than lengthening the build out period.

5.13 In short, I conclude that the serious problem of utility provision for some sites falls broadly into the same category as the problem of transport infrastructure. Neither is directly relevant to the focus of my Review, but both require attention from government. I urge Ministers to establish a cross-government taskforce to address the provision of utility infrastructure for large sites at a pace that permits development on those sites to commence faster than at present.

Constrained site logistics

5.14 When I began my investigations, I imagined that the complexities of managing large sites might have a major impact on the rates at which such sites are built out. And I have found some instances in which the management of the site has clearly imposed constraints of certain sorts. For example, it has been pointed out to me in the course of several site visits that the developers recognised the need to avoid building simultaneously in all directions around the early inhabitants who had moved into one particular part of the site, lest their lives be made intolerable.

5.15 But I have been impressed both by the highly professional way in which the major house builders have learned to manage large sites so as to permit efficient construction without imposing unduly on the inhabitants, and by the lack of any evidence (outside highly constrained inner-city settings) that site logistics in fact currently impede the overall rate of build out on these sites. My impression has been that, if a faster rate of build out were thought to be feasible for other reasons, developers and major house builders would have all the capabilities required to organise entry to (and working on) different parts of large sites simultaneously in a way that is compatible both with efficient construction and with making life tolerable for early inhabitants.

Limited availability of capital

5.16 Capital constraints are sometimes advanced as reasons for slow development of housing – and I was therefore keen to find out whether there was any evidence of such restrictions on finance creating limits to the speed of build out on large sites.

5.17 Somewhat to my surprise, neither discussions with industry participants nor discussions with those involved in providing finance have furnished any evidence that such constraints are biting at present. It has, on the contrary, become clear that:

- The major house builders have capital structures with very low gearing. They are able to obtain large lines of credit to fund working capital requirements; but they rarely use this as a means of obtaining long-term debt finance, because at present their cash flow is typically sufficient to repay such loans in-year.
- The major house builders also have access, through structured project-financing, to debt finance for housing construction projects at low rates of interest, and over a term sufficient to fund a given phase of a given development. Because of their own strong cash positions, they do not currently appear to have any difficulty providing the cash required to fund the equity component of such projects.
- There are both major clearing banks and providers of non-bank finance who have appetite for increased lending to well-structured housing construction projects at present. We were told that the entry of challenger banks and of institutional investors had made this an increasingly competitive market for the lenders – suggesting a ready supply for the borrowers. We did not receive any evidence of inhibitions being caused at present by macro-prudential supervision.
- Both housing associations and commercial institutional investors have told us that they have appetite and equity finance available for considerable expansion into the

rented sector – but are currently held back by lack of access to large sites on which to build homes for rent.

- SME builders (who are not typically present on very large sites at the moment) are no longer able to obtain the straightforward balance sheet financing that they used to obtain from the high street banks, and are therefore driven back to project financing. We have been told that this frequently limits their capacity to engage in multiple transactions simultaneously, as each project requires a substantial equity component – but we were told by the lenders themselves that they are willing to provide the support and expertise required to enable SMEs to engage in project finance. I conclude that, if SMEs were more able to obtain a place on very large sites, they (unlike the major house builders) would probably begin to experience financing constraints that would require some attention.
- On the demand side, we were told that the only financial constraints for people seeking ordinary open-market purchases were the affordability of property in high pressure areas and the ability of potential purchasers to raise cash for deposits – in relation to which, we were also told by builders, estate agents and lenders that on large sites the availability of financial assistance through the Help to Buy scheme for first time buyers plays a role in supporting open market sales at prevailing prices. I have not reviewed the role of the Help to Buy scheme more generally, but have found no evidence of any rationing of mortgages for buyers who were able to meet the regulatory tests of affordability.
- Also on the demand side, we were told that shared ownership mortgages – though somewhat more complicated because of the requirement for close cooperation between the housing association or other landlord and the lender – are available in the market place both from the big mortgage lenders and from a handful of regional building societies. Though there are no doubt limits to the exposure that any one financial institution wishes to have to this particular risk, we were told that such mortgages do not at present have higher default rates than the traditional mortgage market, and are likely to be financeable in significantly greater quantities than at present if and when more shared ownership homes are made available on large sites.

Limited supplies of building materials

5.18 I am aware, from my experience in government shortly after the 2008/9 crash, that the supply of adequate building materials can be a significant barrier to construction. I was consequently anxious to find out whether there is any evidence of such constraints operating at present, or being likely to operate if rates of build out on the large sites (and hence rates of construction as a whole) were to rise significantly. I am pleased to report that I have not found any such evidence. So far as the future is concerned, even if rates of housing construction were to rise as the Government hopes and plans, I see little reason to expect that supply of building materials will be unable to keep pace.

5.19 I was told that sufficient quantities of steel, glass and timber could be obtained. In relation to ceramic construction materials, likewise, there appeared to be sufficient capacity through domestic production and imports to meet demand – though it was made clear to me that investment in further domestic capacity would depend upon the industry

having a clear line of sight to new levels of demand from house builders before taking steps such as securing long-term licences for clay assets.

5.20 The tightest relevant supply market appears to be in bricks. I received conflicting accounts of the operation of the brick supply chain from brick makers and house builders – with each blaming the other for inefficient supply or procurement practices. I was told that existing UK factories in existing configurations are currently producing at capacity, with roughly 20% of the total current supply being met from use of stock by merchants and from imports; it was felt by the brick industry participants with whom I spoke that construction growth in northern continental countries could put pressure on import prices. However, I was also told that – if there were a clear demand for increased numbers of bricks – changing shift patterns and increasing the number of production lines within existing factories could increase capacity by 10-15% in under a year, and that new factories could be built within about three years, and that substitutes such as concrete bricks could be introduced.

5.21 My conclusion is that, if there is a reasonable level of assurance about the future levels of building materials required, investment in increased domestic production of all the materials is likely to follow – with any gaps in the interim being filled by imports. In the medium term, it is also likely that the increasing move towards so-called modern methods of construction such as modular ('factory') production of components for new houses will reduce dependence on particular items (such as bricks) that might otherwise be temporarily in short supply if the rate of construction were to accelerate rapidly.

Limited availability of skilled labour

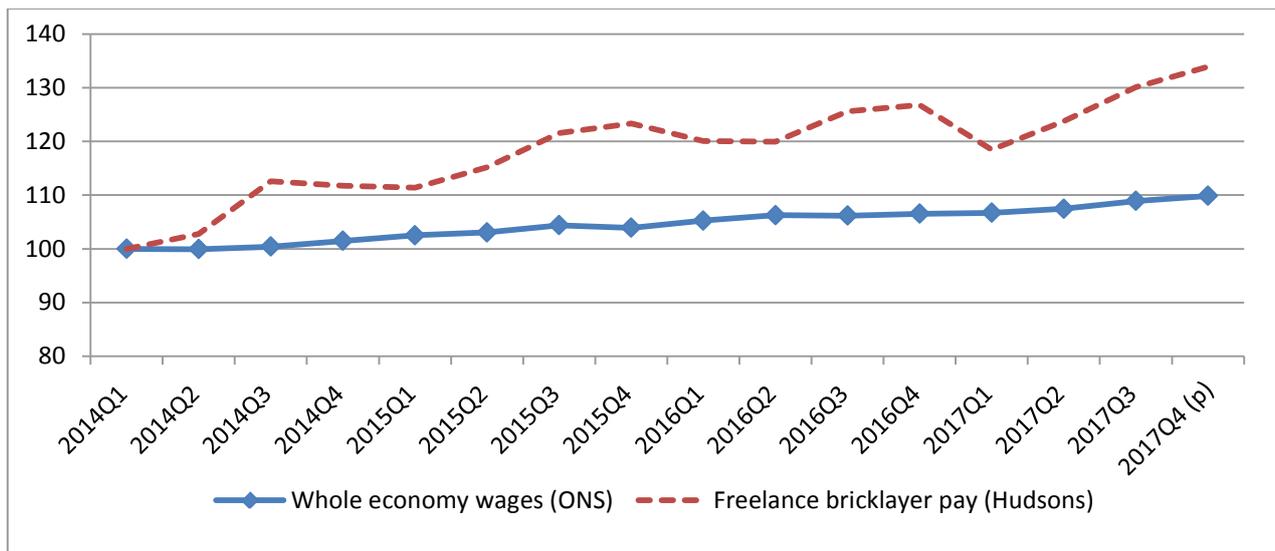
5.22 In general, the picture I have gained of the supply of skilled labour for house construction is similar to that for construction finance and building materials.

5.23 There seems little doubt that the availability and price of labour is a significant concern for the major house builders. More than 20% of members of the Federation of Master Builders reported shortages in thirteen different types of skilled labour, and the Royal Institution of Chartered Surveyors shows 40-60% of surveyed employers identifying shortages in both professions and trades – figures similar to those reported by members of the Home Builders Federation. During the course of our site visits, we heard anecdotal evidence confirming the impression that the market for skilled labour is currently quite tight – and it was clear that a significant proportion of the workforce employed on these sites (particularly in London) came from outside the UK; this echoes the figures presented in the HBF Home Building Workforce Census, which show around 50% of the workforce in London, and over 20% in the South East, coming from abroad (mainly from the EU). We also frequently heard reports of skilled labourers moving quite large distances to work on large sites in the high pressure areas that we were visiting; and this, too, is borne out by the figures produced by the HBF and the Construction Industry Training Board, which suggest that 19% of the workforce have relocated to take up employment and that 36% have frequently worked away from home. Finally, we heard reports that one of the motivations for experimenting with modular "factory" production of major components for new homes was to clear the critical path by removing the need for people with very particular skills to be present on site at exactly the right moment in the construction of each individual new home.

5.24 It is important, however, to set these points in context. The construction workforce is composed of people with a wide range of skills and occupations, many (though not all) of which are fairly interchangeable with skills and occupations in other industries; and even within the construction industry, people with the various skills are deployed in a wide range of activities including repair and maintenance of housing, the construction and repair of infrastructure and the construction and repair of commercial and industrial buildings. Consequently, according to ONS figures, the building of new homes occupies less than a quarter of the total construction workforce. Indeed, ONS figures show that even in most of the key trades which form part of the critical path for the construction of a new home, the majority of the skilled workforce (and, in most cases, the great majority) are employed in construction activities other than the building of new homes. This suggests that, if there were a serious shortage of skilled labour in the various trades and professions required for house building, it would in general be possible to meet these demands by raising the wage rates paid to these workers in order to draw them over from other parts of the construction industry – albeit with some consequences for the rest of the industry – until such time as the level of training increased to reduce the shortages.

5.25 Accordingly, I am reasonably confident that skilled labour from within the construction industry is, or could generally become available to meet demand even if rates of build out on large sites, and hence rates of house construction as a whole, were to increase markedly. I am told by some industry participants that they have concerns about the availability of sufficient skilled labour in a few areas for which I do not have adequate data, including groundworkers and site managers; this is an issue I shall need to pursue further over coming months. There is, however, at least one definite exception to the general rule – namely, the supply of skilled bricklayers.

5.26 The official ONS figures show mean hourly pay for bricklayers at a level below the average for all employees across the economy, and also show no growth in the wage-rates for bricklayers during recent years. But this does not reflect the anecdotal evidence, and subsequent investigation has revealed that the reason lies in the fact that a very high proportion – according to some estimates, as many as 90% – of bricklayers are self-employed and are therefore excluded from the ONS figures. I have accordingly obtained information from Hudsons (a company that administers payroll for many thousands of self-employed people, with a large number of bricklayers amongst them). This gives a national average weekly wage for self-employed bricklayers around 60% higher than the ONS figure for employed bricklayers; this is roughly what one would have expected on the basis of the anecdotal evidence of rates 80-100% higher than the ONS figure, once allowance is made for the fact that our anecdotal evidence derives from sites in the high pressure areas only. But, if we take these national figures for self-employed bricklayers rather than the ONS data for employed bricklayers as the guide, then we observe also a rise in bricklayer earnings of over 30% since Q1 2014 – suggesting that the market in this particular set of skills is very much tighter than it was in 2014.



Wages in the whole economy and freelance bricklayer pay (2014 Q1=100)

5.27 What makes this current situation concerning for the purposes of my Review is that, in contrast to the situation in most other parts of the construction workforce, the proportion of bricklayers working on the building of new homes appears to be very high. I have not been able to obtain reliable official figures – but, by combining estimates provided by the HBF for the average number of bricklayers required to build a new home with the CITB estimates for the total number of bricklayers in the country at present, and with the relatively reliable data for the number of new homes being constructed, one arrives at the conclusion that more (and perhaps significantly more) than three quarters of all bricklayers are engaged in the construction of new homes. This compares with some 20% of plasterers, 10% of carpenters and 5% of plumbers and electricians who are devoted to the building of new homes. Clearly, the opportunity to bring bricklayers across from other parts of the construction industry to work on newly built homes is restricted.

5.28 This will create a significant biting constraint if the rate of build out on large sites can be increased to the point where, in conjunction with other measures being taken by the Government, the total number of homes constructed each year rises from the present figure of around 220,000 to around 300,000 (in line with government targets). Again using HBF estimates for the average number of bricklayers currently required to build a new home, and allowing for the different types of construction typically involved in flats and houses, and further assuming that there is no rapid short-term change in methods of building, this will require an increase of about 15,000 in the total number of bricklayers, or almost one quarter of the existing size of this particular workforce.

5.29 To achieve such an increase over, say, a five year period by training more bricklayers would require more than doubling existing training levels. While it is encouraging that the Department for Education has established a new fund to increase innovative schemes for construction training, my discussions with those involved in such training lead me to believe that there is no prospect at present of the training providers being able to produce such a change in gear in the required timescale, even if sufficient funding were forthcoming. A far more realistic prospect would be for the providers to increase long-term training to a level at which it was able to provide a replenishment of the bricklaying workforce once that workforce had reached a steady state size roughly one quarter greater than its current size. Obviously, this would require an expansion of only

some 25% compared with current training provision – a realistic ambition over, say, 5 years.

5.30 The inevitable conclusion is that, in the immediate future, if there is not to be either a substantial move away from brick-built homes or a significant requirement for more skilled bricklayers from abroad, and to the extent that modular construction techniques do not sufficiently reduce demand for highly skilled bricklaying, the only realistic method of filling the gap in the number of bricklayers needed to raise production of new homes from about 220,000 to about 300,000, is for the Government and major house builders to work together (specifically *without the current training providers*) on a five year “flash” programme of pure on-the-job training. I therefore urge Ministers to consider now the need for measures to achieve a rapid expansion in the number of bricklayers.

Alleged intentional “land banking” on the part of major house builders

5.31 Finally, I have considered the allegation that the major house builders are reducing the rate of construction as part of an intentional attempt to “bank land”.

5.32 In one sense, as I have argued, the major house builders are certainly “land banking”: they proceed on a large site, once that site benefits from an implementable permission, at a rate designed to protect their profits by constructing and selling homes only at a pace that matches the market’s capacity to absorb those homes at the prices determined by reference to the local second-hand market. Accordingly, if we can speed up the build out rate of large sites then the amount of land with full planning permission being held by the house builders should reduce. The further question, however, is whether there is or is not also “land banking” in the sense of major builders or others attempting to influence the market by “locking up” land before they seek final implementable permissions to build.

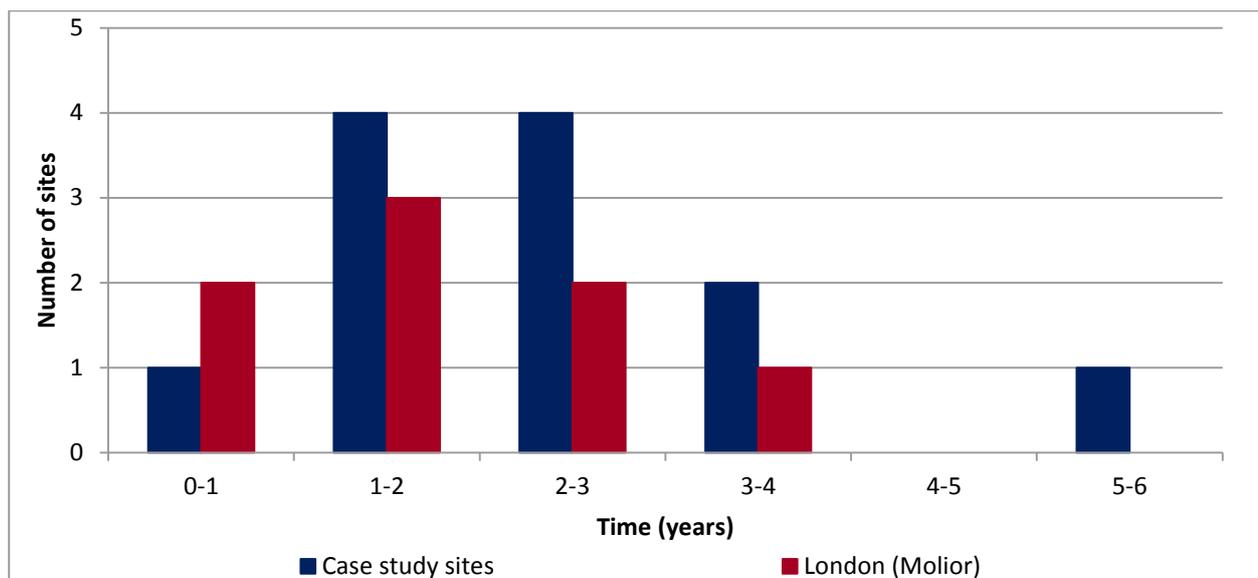
5.33 The reasons for the allegation that there is also this other form of “land banking” are:

- the large amounts of land ‘held’ under various forms of options and agreements by the major house builders at any one time – often leading to the elapse of a long period between the moment when a piece of land comes under the control of the builder and the moment when it begins to be built out; and
- the fact that land, unlike most assets, does not depreciate, has generally tended to increase in value, and has a ‘real option’ value.

5.34 The most obvious point to make is that the first of these observations – the large amount of land held in one way or another by major house builders – has a plausible explanation. The fact that a major house builder holds large amounts of land, is explained by the fact that the major house builders need to maintain a sustainable business and seek to do this by ensuring that they, rather than their competitors, hold as much of the land on which they will later wish to build as is compatible with their capital constraints. This may well enable them to minimise market entry and thereby enable them to maintain market share while building out at a stately pace; but it does not, in itself, drive slow build out rates. Indeed, if anything, one would expect faster rates of build out to require builders to hold larger supplies of land – since we have been told by market analysts that the stock-market valuations of house builders depend not only on the current annual profits of those

builders but also on the degree to which those profits are made sustainable by the holding of supplies of land that can be developed in coming years. The faster the land is used, the larger the need for a back-up supply of land that can be used in future.

5.35 So compelling is this point, indeed, that I became worried at one stage during our work about the opposite phenomenon: namely, that concerns about sustainability of profits (and hence concerns about more rapid use of land holdings) might actually act as a brake on speed of build out. I was concerned, in other words, that the builders might be reluctant to build out faster, lest this reduce their stock of land holdings to the point where market analysts and their own boards raised concerns about the sustainability of their businesses. I have now concluded that this is not, in fact, likely to be a major concern. I have been assured by both local authorities and industry participants that the percentage of planning applications from promoters and major house builders ultimately receiving approval is now very high (probably higher than the 80% figure for national planning data as a whole). Contrary to some assertions from industry participants, I have also ascertained that (as shown in graph AX15 of Annex A, reproduced below) the variability in the time taken to obtain outline permission for building on the large sites I have seen (and on the range of sites studied by Molior), whilst undoubtedly aggravating and sometimes costly for the major house builders, is actually not so great as to cause problems of business continuity for major house builders with large property portfolios.

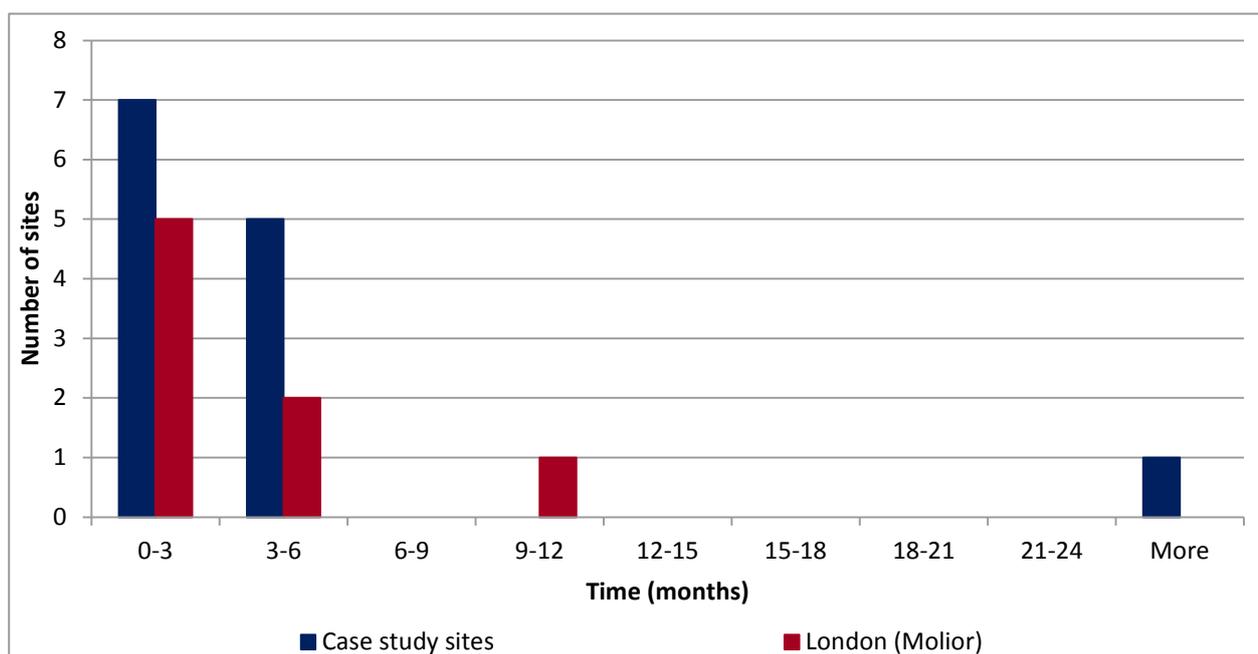


Stage 1A - Distribution - From application to outline permission granted (Exc. Barking Riverside and hybrid applications)

5.36 This suggests that major house builders can expect to obtain new additions to their portfolios of land for development within three to four years of making an application in all but the most exceptional circumstances, and typically within two to three years – thereby enabling them to accelerate the rate of build out of current sites without any substantial fear of running down their stock of land supply to levels that would reduce their long-term sustainability. This is in line with the findings of the study conducted by Professor Michael Ball in 2010 for the National Housing and Planning Advice Unit, which showed that – even before performance agreements between developers and local planning authorities

became widespread – around 90% of outline permissions granted were approved within three years of application, and that the median time taken was under 18 months.

5.37 During the course of the Review, I have received a number of representations about the time taken by (and the difficulty involved in) the process of converting an outline permission into the first fully implementable permission on a large site. I am certainly conscious of the very large amount of paperwork (and often the large amount of cost) involved – and this no doubt in part explains the fact that it has, on some of our studied sites, taken several years to convert outline permission into an implementable permission. However, I have not received any indication that such conversion in practice ever fails to occur after whatever delay may arise, and – as shown in graph AX17 of Annex A, reproduced below – the first implementable permission is typically granted within 6 months of the first application for such permission:



Stage 1C - Distribution - From first detailed application submitted to first detailed permission granted (exc. hybrid applications)

5.38 This is, of course, reliant on the maintenance of the current strong and effective planning system, and in particular the maintenance of the requirement for local authorities to have an adequate five year land supply. If this requirement were to be relaxed then speeding up the build out of large sites would merely bring forward housing – rather than increase the supply of housing in the long-term – as developers would struggle to replace their stock of land holdings.

5.39 The other allegation – that the ‘real option’ value attaching to the non-depreciating asset of land is inducing the major house builders to engage in “land banking” in the sense of “locking away” land from the market before receiving implementable permissions is (albeit in a slightly less obvious way) equally implausible.

5.40 It is of course true that, although the land market can be highly volatile, land (unlike most assets) does not depreciate, and has generally tended to increase in value across the cycle, and has a ‘real option’ value. By holding rights over land that benefits from (or is

soon likely to benefit from) some form of permission to build houses, the company which holds that land obtains a valuable ability to make profit by building on it at whatever time is thought likely to maximise the profitability of doing so. It would therefore be perfectly possible for financial investors of a certain kind to seek to make a business out of holding land as a purely speculative activity.

5.41 But I cannot find any evidence that the major house builders are financial investors of this kind. Their business models depend on generating profits out of sales of housing, rather than out of the increasing value of land holdings; and it is the profitability of the sale of housing that they are trying to protect by building only at the 'market absorption rate' for their products. I have heard anecdotes concerning land owners who seek to speculate in exactly this way by obtaining outline permission many years before allowing the land to have any real development upon it – and I am inclined to believe that this is a serious issue for the planning system. But it is not one that is consistent with the business model of the major house builders.

Chapter 6. Next steps

6.1 Interesting as it is to understand why the rate of build out on very large sites proceeds at its current stately pace, this analysis becomes of use only if it leads to action that will accelerate such build out rates. Accordingly, in line with my terms of reference, I shall now move on from analysis to recommendations.

6.2 By the time of the Budget in the Autumn, I shall seek – with the invaluable aid of my expert panel and my team of officials – to put forward policy options for ministers. Clearly, these options will be geared towards solving the particular problem that I have identified as the main cause of the slow build out rates on these sites: namely, the constraints imposed by the market absorption rates for the relatively homogeneous products currently being built on these sites. Clearly, also, in line with my analysis of the causes of the problem, I shall seek to find policy levers that will tend to increase the variety and differentiation of what is offered on these sites. I shall also look at the overall speed at which unconsented land can be converted into new housing on a sustained basis.

6.3 But, in constructing policy options, I shall be mindful of the need to ensure that:

- a. they should not jam up the housing market or impair the capacity of the major house builders to continue large-scale construction;
- b. they should not impose undue strains on local authorities whose planning departments are already under considerable strain;
- c. they should help to widen opportunities for people seeking homes;
- d. they should also widen opportunities for those capable of supplying new homes on large sites; and
- e. they should yield the greatest possible likelihood that such sites, as well as being built out more quickly, will in future be places that are beautiful and ecologically sustainable, so that succeeding generations can be proud of them.

6.4 In short, the policies that emerge should not “throw the baby out with the bathwater”.

6.5 Finally, I am conscious, as I embark on the endeavour of identifying policy options which can meet all of these criteria, that we are unlikely to be able to find a single prescription which will be equally applicable in the short, medium and long-term. I shall accordingly be open to the possibility that the policies designed to achieve immediate, short-term improvement in build out rates (while avoiding all of the pitfalls) may be somewhat different in character from those designed to optimise the use of large sites that come forward in future and thereby increase the overall velocity of house building in the long-term.



Appendix 3 – Historic housing delivery against targets in East Cambridgeshire

Table 3 East Cambridgeshire annual delivery and housing requirement

Year	Completions	Target since Adoption									Target from Base Date								
		LP (April 2015)			CS (Oct 2009)			RS (May 2008)			LP (2011/2031)			CS (2009/2025)			RS (2001/2021)		
		Target	Surplus/deficit	Cumulative Surplus/deficit	Target	Surplus/deficit	Cumulative Surplus/deficit	Target	Surplus/deficit	Cumulative Surplus/deficit	Target	Surplus/deficit	Cumulative Surplus/deficit	Target	Surplus/deficit	Cumulative Surplus/deficit	Target	Surplus/deficit	Cumulative Surplus/deficit
Totals		1,150	-735	-735	2,133	-553	-553	357.3	+110	+110	3,450	-2,026	-2,026	711	-139	-139	3,440	+362	+362
% under delivery			63.9%	63.9%		25.9%	25.9%					58.7%	58.7%		19.6%	19.6%			
2016/17	234	575	-341	-735							575	-341	-2,026						
2015/16	181	575	-394	-394							575	-394	-1,685						
2014/15	162				355.5	-194	-553				575	-413	-1,291						
2013/14	191				355.5	-165	-359				575	-384	-878						
2012/13	287				355.5	-69	-194				575	-288	-494						
2011/12	369				355.5	+14	-125				575	-206	-206						
2010/11	368				355.5	+13	-139							355.5	+13	-139			
2009/10	204				355.5	-152	-152							355.5	-152	-152			
2008/09	467							357.3	+110	+110							430	+37	+362
2007/08	755																430	+325	+325

Source: Based on East Cambridgeshire District Council Monitoring Data

