



Communities and Local Government Committee

Oral evidence: Capacity in the home building industry, HC 46

Monday 17 October 2016

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Watch the session

Members present: Mr Clive Betts (Chair); Helen Hayes; Kevin Hollinrake; Julian Knight; David Mackintosh; Mr Mark Prisk; Mary Robinson; Alison Thewliss.

Questions 1 – 35

Witnesses

John Slaughter, Director of External Affairs, Home Builders Federation; Richard Blyth, Head of Policy, Practice and Research, Royal Town Planning Institute; David Cowans, Chief Executive, Places for People; and Sarah McMonagle, Director of External Affairs, Federation of Master Builders.

Q1 **Chair:** Good afternoon. Thank you very much for coming along and giving evidence to our inquiry into the capacity of the homebuilding industry. Before I pass over to our witnesses, can I just ask members of the Committee to put on record any interests they have? I am a vice-president of the Local Government Association.

David Mackintosh: I am a Northamptonshire county councillor.

Helen Hayes: I employ a local councillor in my staff team.

Mr Prisk: I am an adviser, which is on the record, to a build-to-rent developer.

Chair: That is all our interests so we will pass over now to the witnesses. Thank you very much for coming. Could you just say, going down the table, who you are and the organisation you are representing?

David Cowans: My name is David Cowans. I am the group chief executive of the Places for People group.

Sarah McMonagle: I am Sarah McMonagle, director of external affairs at the Federation of Master Builders.

John Slaughter: John Slaughter, the director of external affairs at the Home Builders Federation.

Richard Blyth: Richard Blyth, head of policy, Royal Town Planning Institute.

Q2 **Chair:** Thank you very much for coming to give your evidence. This is obviously a very important subject for the nation at present. The Government have made a commitment that we will build 1 million homes by 2020 in the course of this Parliament. Can the homebuilders meet that target? Is that something that is possible or achievable?

John Slaughter: I would say it was actually, yes. We are probably quite close to a build rate of something like 200,000 homes a year in England as we speak. If we look at the next five-year period, assuming that the economic circumstances remain generally supportive, then I think we would feel that the target of 1 million homes over a five-year period is deliverable. We are lacking the latest robust figures. The latest robust figures we have are for the 2014-2015 year, and they showed gross completions of 181,000 and net completions of 171,000. We would expect there to be some reasonable growth on top of that when we get the 2015-2016 figures next month. We suspect from other data that is out there that it will not be far short of 200,000 homes a year.

Sarah McMonagle: I would say it is going to be quite a challenge unless we do more to remove some of the barriers to SME housebuilders. We need to bring more SME housebuilders back into the market and help encourage those that are already building homes to build more new homes. Some of the things I am sure we will be talking about today, like access to finance, bringing forward more small sites and speeding up the planning process, can help. We need to diversify the housebuilding sector. In the late 1980s, two-thirds of all homes were built by SMEs, and now we are down to just over a quarter. We need to change that if we are going to get up to the numbers that the Government are talking about, which are arguably quite conservative. Some are saying that we should be building 300,000 homes a year and 200,000 is quite an understatement.

David Cowans: I go with the TCPA view that there are 312,000 properties required every year. One has to take account of the historical backlog, because one has to look at the whole situation; it is not reset every year. Those people who did not get a property because we did not build the houses last year all, obviously, end up in the mix for this year. There is a broader view. I think it is doable; I think it is difficult. The

interesting issue for me is that it is not just about numerical issues; it is about for whom and what type of housing.

There is very little academic understanding of housing as a system. An example of that is, if you look at a recent survey of over 55 year olds, the majority of them have no plans to move. They are not going to move out of the existing stock. Why? Because there is nothing suitable for them. They do not mean affordable housing; they mean high-end market rent and midmarket rent housing for sale for people who are retired. There has to be a qualitative issue for me as well. It is not just about numbers; it is about understanding how we can free up the housing stock by the right investment and the right types of housing.

Richard Blyth: To complicate matters for the Committee, it is also where they are, because there is a bit of a difficulty if you have a national policy when the circumstances, the needs and the concerns are very different in different parts of the country. Having a national total and counting it all the time does have drawbacks. Are they in the places where economic growth is happening? Do they address particular issues that certain cities have, which may not be numbers, but may be more to do with affordability and decent homes issues as well?

Q3 **Chair:** David, thank you for answering my second question. I was going to ask: are we talking about not just an overall number but getting the right properties in the right place? That is exactly what Richard raised as well: the issue of place and whether the locations are suitable. With those caveats, can we still hit 1 million, if we are going to be concerned about the types of properties and where they go?

I just throw this to John to answer as well. The big developers you tend to represent quite properly here are not going to build a million homes themselves, are they? Do you accept that there is a limit to what your members are going to build and that the SMEs may have to make a contribution?

John Slaughter: Absolutely, yes. We are equally as concerned as the FMB about the plight of the smaller developer and the fact that the business environment for small developers has been very difficult for a long time. We very much need to see SMEs contributing to that picture. I reiterate the fact that we believe we are already relatively close to 200,000 a year. That is mainly coming from the larger companies at the moment; 84% of the growth in output that there has been since the trough of the recession has come from large companies. The large companies have grown considerably and they can grow further. Of course, that is desirable in its own right, but we fully accept that we need more players on the pitch and we want to join with other bodies in helping small companies to get into the market more than they are now.

Sarah McMonagle: It is really important that we have more diversity in the housebuilding industry. It creates more choice for people and it will also help with planning permission being granted in local communities. Small builders are really good at bringing forward planning applications that are suited to a particular area in a way that larger housebuilders might struggle with slightly. Yes, we really need more small firms operating.

Q4 **Chair:** David, can the housing associations add to this number without losing your core purpose of building homes for people who cannot afford the expensive houses that John and his colleagues build?

David Cowans: The core purpose is to put roofs over people's heads, to be honest, and in a way that is consumerist. The one thing you can say about the housing market is that it is not particularly consumerist. It is not great about responding to customer demand. In terms of numbers and units it is, but often not in terms of the types of property people want. We deliberately acquired an SME housebuilder because we thought it was the most practical thing we could do to bring a smaller housebuilder into the market. We also acquired a construction company so that we can be proactive in building mixed-tenure neighbourhoods, because that is what we exist to do. If someone happens to aspire to an affordable rented property, God forbid, their economic situation might get better and they might want something else. Our job is to try to work with people to meet their requirements as best we can.

The other point I was going to make is that there is a big growth in relationships between traditional housebuilders and traditional housing associations. There are lots of joint ventures, lots of joint working, and the synergies for those things are quite impressive. We have a scheme of 2,500 units in Milton Keynes. We did all of the work about branding the place, sorting out the land, putting all the infrastructure in, and then we did a deal with a major developer to build the houses. We got the best of both worlds from that. My example is about how we will have to do things differently to get to this 1 million and above. We cannot just do what we have always done. We are making some progress—John is right—but there is a lot to be done.

Q5 **David Mackintosh:** Do you think the developers' land bank will restrict building rates?

John Slaughter: No, I do not think that it will. The land bank is much misunderstood. We have done analysis of the land bank held by our major and medium-sized members in recent years, and I would categorise that as plots that have some form of planning consent, not necessarily full planning consent. When we analysed a collection of data for over 200,000 plots with some form of planning permission, we found that only 4% of those plots were on sites that were buildable but were not being built. That was probably in cases where there were some delays in

terms of getting services to the site, road access or something of that nature.

Presuming that developers have what we call a fully implementable permission, where there are no planning condition restrictions on starting work, then essentially people do start work. They have no finance interest in not doing so, because developers operate on the basis of a return on capital employed model. When you own the site and you have full planning permission, there is no commercial interest in not building that out.

Sarah McMonagle: SME housebuilders do not land bank. There is no incentive for them to do that. It is in their interest to get onsite as soon as possible and start building so they can recoup their investment. That is how the finances stack up behind the whole business model, so it is simply not an issue.

Richard Blyth: Our concern is possibly not necessarily with people who are going to build, but people who own land and see no reason to sell it. The GLA did a study in 2012 of the ownership of land with planning permission in London and found that only 55% of the realistic permissions in London were owned by firms with any intention to build. They redid that survey subsequently and found that the numbers had got better, but they concluded that the big problem in London is to get sites into the hands of firms that actually build homes, and we would add, at low enough prices to enable that development to be sustainable. One of the difficulties is not so much that land is hoarded necessarily, but when it is transacted it is at such very high prices, which limits the ability of builders then to pursue a variety of beneficial housing outcomes.

David Cowans: That is true. The other issue that I am very interested in is to find the owners of land who have more of a long-term interest in the development of it. These people do exist. They are prepared, for example, to take a land payment at the point at which you sell the house. Or we might, and I prefer this, on larger schemes, be able to draw landholders in who are prepared to take a proportion of the benefit of a long-term place.

I was a judge on the Wolfson Prize for garden cities. The winner was primarily identified by how we use land in a way that we currently do not, but in northern Europe is pretty common: where you encourage landholders to bring sites to market with a view that they will have a share in a company rather than a big capital allowance upfront. That works, and if we can incentivise landholders to do things like that my experience is that there are enough of them out there to make a big difference.

Q6 **David Mackintosh:** Would having a variety of medium and small sites in each local authority area better meet the housing demand?

Sarah McMonagle: I would argue absolutely, yes. According to our latest housebuilders survey that we published last month, a lack of

available small sites was the number-one barrier to SME housebuilders increasing their delivery of new homes. At the moment, lots of local authorities tend to focus on larger strategic sites in their local plans, which is understandable given that it is more costly, time-consuming and resource-intensive to try to identify lots of small sites. We know that local authorities are pretty cash-strapped at the moment and have been for some years.

We think it is really important that we work with them. That is why we are doing some research with the Local Government Information Unit at the moment, which is going to be published in December, but we have started seeing some of the outcomes already. That is about how we work with local authorities, given their situation in terms of not having a huge amount of money floating around and lots of resource, to identify more small sites.

John Slaughter: I very much agree with what Sarah has said. There has been too big a focus in terms of local plans on allocating a relatively small number of relatively large sites. There are limits to how fast any large site can be built out, so it will be very beneficial to the operation of the market as a whole if we can have a range of sites from the large through the medium to the small. That will certainly help more builders to get into the marketplace as well. That diversity of product and operation will help support market activity and ensure that more buyers can get into the market. There is only a positive circle to be gained from that.

Richard Blyth: I do have to disagree. First of all, I do not see any reason why the size of the site that is allocated needs to have any relationship to the numbers of builders working on it or how it is then parcelled out. In fact, when I began my career it was in a local authority that bought a lot of land on the edge of the town, put in the infrastructure and then sold off sites of all sorts of different sizes including for custom and self-build, which we have not mentioned so far. Simply relating it to the size of the site as allocated in the local plan does not necessarily affect who is going to build on it.

Furthermore, if we are to see, as may well be the case, a substantial increase in greenfield housing in order to meet some of these numbers, which may be necessary, that is going to tend to mean either lots of small sites sprawled all out over the whole countryside, or a continuation of the trend, which I would agree is the case at the moment, that in places such as Cambridge the allocations have been large allocations on the edge. If we are going to see an increase in greenfield housing development, is that going to be associated with a sporadic pattern of development simply in order to meet requirements for having small sites? I would hope not.

David Cowans: Both are true, as is always the truth in complex matters. Of course, in some places there are only small sites, and in other places there are not. One of the big problems in talking about these issues at the highest level is that it masks a myriad of local conditions, local markets and local expressions that are very difficult to codify in one place,

frankly. In some places, the availability of small sites would be a big deal for local builders, but nobody is going to build anything unless they can sell it. Local supply and demand is crucial, and trying to delineate just the supply without understanding the demand is an important issue.

I was going to raise the custom-build/self-build issue because we are probably unique, certainly in western Europe, in not having significant numbers of self-builds. Our research suggests that, of those people who say they want to build their own home, 80% do not want to build their own home; they want something bespoke for them. That is what they want and there is a market there. We are experimenting at the moment in Basingstoke on a site to try to understand the detail of how you could turn custom-build into a real product, because how can you afford two mortgages? You cannot. Where do you live while your house is being built?

It is this level of practicality that we need to work on in order to create options. If we get this to a point where it is a product that can be sold to people and it is capital-efficient, then there is a role for small builders in doing that sort of work. There are lots of creative and innovative things we can do, and it is going to be the collection of those things that makes the difference.

Q7 Julian Knight: Why does it take so long to build out large sites and what can we do about it?

John Slaughter: Part of the answer is in terms of opening more sales outlets on a large site, but there are some urban myths out there. We have had an interesting discussion with the Government over the last several months about this issue. The Committee may have noticed that, back in the spring, we issued a statement of intent about how the industry could work with Government to optimise delivery from larger sites. The reality is that, from the figures we have put together in consultation with our members, if you are looking at a fully operational large site, a sales outlet can certainly deliver in the region of 100 sales a year, which is quite a substantial rate.

Any local market has a natural absorption rate, though, and if you allocate a site for 2,000 or 3,000 units you are certainly not going to be able to either produce physically or sell at a sustainable price that number of units in a very short period of time. You can look to create more than a single sales outlet on a large site, and that is very often what happens naturally through market mechanisms.

That is one of the areas we are looking at in terms of further work with the Government on optimisation and how we can encourage that further. We will also shortly be launching a land shop initiative, which will enable opportunities for selling parts of large sites on to SME developers to be put into operation as an online sales opportunity. We are looking at what we can do to further promote speed of build, but actually the speed of build on a well-established large site is often quite high anyway.

Sarah McMonagle: It is probably not for me to comment on the buildout rate on large sites because that is not really our area, in that we represent SME housebuilders. I suppose another reason why we might want more SME housebuilders building more homes is that, if you have lots of SMEs building on lots of sites, then the numbers will go up more quickly. They are not limited in the same way that maybe large housebuilders are when building lots of homes in one area, in terms of the whole market absorption issue.

David Cowans: You are right. It depends who is doing the construction; that is the honest answer. John is quite right; if you have one site, you have a natural absorption rate, which for you is important, but you might take a different view and start doing other tenures at the same time. You might do a bit of build for rent, which is what we do, and maybe a bit of affordable; maybe a bit of the site is for self-build and custom-build, but it has to be a product that works. I went through this myself. I tried to work out what I would have to do to be a self-builder, and it is enormously complicated; no wonder most people do not do it.

We have to find that market and a system where we can help people get to that point. You would definitely get bigger buildout rates if you did more than one thing. If we also introduced other constructors on the site, maybe some other SMEs as John suggests, it might have an impact on buildout rates. The big issue for me is the infrastructure as well. There has to be appropriate infrastructure, and one of the issues you often have is that the infrastructure is either not there or right at the back of the scheme. We have to find ways of putting that in earlier, in order to make the place attractive, and that in itself will bring more people who want to build on the site.

Richard Blyth: I am not going to comment except on the point of infrastructure. Owing to the fact that increasingly it is developers who are required to provide it, which did not always use to be the case if you go back 30 years, it is often harder to do if you have a spray of smaller sites than if you have one big one, despite the problems with big sites that we have mentioned. If you are going to get a secondary school, how will you do it if you have 50 sites of 10 units each? I am not convinced that the community infrastructure levy is terribly effective at filling those gaps. On the large sites there have been some very impressive deliveries of infrastructure, which have come as a consequence of economies of scale almost.

Q8 **Julian Knight:** What about public land? Do you think that is readily available enough? Do you think we are doing enough as a public sector in order to make this land available?

Sarah McMonagle: I know the National Audit Office has said that, if we are going to meet the 1 million homes target, probably around a third of those homes will have to be built on public land. As I was saying earlier, in terms of the need for more small sites, it is really important that, when

public land is available, it is sometimes, and as much as possible, in small parcels so that it is suitable for SMEs to build on. If it is owned by local authorities, and maybe they are commissioning their own homes through public procurement processes, then let us make sure that those public procurement processes are SME-friendly. It is still an issue, despite measures in the EU public procurement directive. It is mostly about making sure it is not always big chunks of land so it is SME friendly.

Julian Knight: John, what do you think?

John Slaughter: It is certainly an important part of the picture, and we have had a pretty active dialogue with the Homes and Communities Agency over many years now about the public land disposal programme. We have encouraged them to streamline and simplify their processes and also work with the industry to understand, if I can put it this way, the commerciality of some of the sites they are putting forward. There have been issues at times about whether the quality of land that is being offered is necessarily a good fit for what would be developable and viable. That has all been getting better, and we do think there is a lot of potential there. I am personally very keen that we keep promoting the potential for local authorities to use their land and maybe find useful ways of rewarding local authorities for using their land for housing development in partnership with the industry.

Richard Blyth: Government has some very difficult choices to make here, because if the purpose of public land disposal is to reduce the deficit and the debt, then you can emphasise that and you can get the highest possible price. That makes it difficult to achieve other outcomes such as provision of infrastructure and affordable housing. These are very hard political choices, and simply relying on public land per se does not necessarily solve those questions. They have to be dealt with by politicians at the highest level.

I am concerned that some public land is in appalling locations. In response to a recommendation of this Committee in December 2014, we understood a survey of all the planning permissions that had been granted in three years in 12 city regions. We found that to date the situation is pretty good: 75% within 10 kilometres of a major employment cluster and 13% within walking distance of a railway or metro station; that is the housing units. There is no room for complacency. If we start having every airfield turned into a housing estate, that figure would look much worse. There is public land that is in some very good places, and there is some rather dodgy public land that would not make very good communities.

David Cowans: All of that is true, but the additional point for me is, to be honest, trying to look at it from the public sector's point of view, there is no incentive for them to release land. One of the things I am very interested in is to work with local government. Their fundamental problem is revenue deficits; that is their fundamental problem, not capital. If they have a site now and they sell it, on the whole, what are

they going to do with it? We have been trying to encourage people to enter into joint ventures, where they put land in as their equity contribution to the deal and we then build it out, preferably with some revenue-producing assets: PRS, commercial or whatever it might be. That has worked really well.

The biggest proposition that we have done is with Aberdeen City Council who, in my view, are very strategic. They have gone with a proposition where we are in a joint venture with them 50/50, so everybody understands what the score is. They are putting their land in as equity, which is fair enough; we are bringing the development and new-build expertise, and we both share in the outcome. We have a similar deal with Birmingham, British Waterways and Urban Splash in Birmingham.

A lot of local authorities are starting to wake up to the idea of decent asset management, which then incentivises them to bring forward a mix of sites: big, small and medium. There is a lot of mileage in that, and if we were promulgating that as a proposition we might get more movement on it, in my view.

Q9 Alison Thewliss: I am glad to hear you mention Aberdeen as a good example of where things are being done well. It is always nice to hear of examples from Scotland. In terms of public land, you all made some remarks about the infrastructure, the availability and the quality of that land. Do you think more could usefully be done in terms of pump-priming land by local authorities? It strikes me that, if sites are quite easy to develop, they have already been done in a lot of cases, and what you are left with is perhaps brownfield, contaminated or less easy to use land. Could there be more done in that respect to make land easier to develop?

Richard Blyth: As I said in my first answer, that is what we did. We had engineers and architects in the same building. We dug sewers, built roads and then, when it was all ready, we sold the land off to volume builders, small builders and individual people. Thinking aloud, could we have a homes and infrastructure agency that was able to do that, rather than just selling land that is not actually ready for development? That is the way in which it is done in many European countries. In the Netherlands, local authorities are the prime movers in the process and then the builders actually get on with the building.

John Slaughter: I agree. It can be an issue, and there are choices. If you are an agency dealing with public land disposal, you either offer it up at a fairly early stage and hope that you have judged it right in terms of location and the quality of the site—we use those terms—or you can go down the route that you are taking about, and in many cases that is possibly a more attractive route. From the developer's point of view, of course, it removes some of the risk from taking on the site. If it is in an area that is not necessarily a particularly high-value market area,

removing that degree of risk and pump-priming is probably helpful. We certainly support that.

I suppose you could say to a degree the latest fund that the Homes and Communities Agency is going to administer that was announced a couple of weeks ago may help with that, although that is really a fund for developers to apply for. Personally, I would support the general approach that you are suggesting.

Sarah McMonagle: I would agree with that, but I suppose my question would be where the money would come from, given that local authorities cannot seem to afford to resource their planning, legal and procurement departments properly. In an ideal world, yes, that would be brilliant.

David Cowans: That is my concern. The idea that someone should skill-up a site by putting infrastructure in is undeniable. That is all true. It always breaks down to who is going to fund it, who is the beneficiary of that risk capital and how you get it back. There are examples in other parts of the world where people have done that and charged a fee per square metre to recover their infrastructure cost. We do not have anything like that that I am aware of and somebody, presumably the public sector, would have to take risk capital on that.

There are ways of doing it. It is complicated. The 50/50 joint ventures that I have just mentioned are a way into that, but we need to get a lot more sophisticated about bringing public sector land to the market with a willing seller. It is very difficult for the public sector on the one hand to want to deal with all of its fiscal and financial difficulties; and on the other hand to give assets away to people. It seems like a dichotomy to me, whereas if we had much more commercial processes of engaging with the site we might get more traction.

John Slaughter: Also public land going in as equity is very much something to look at.

Q10 **Mr Prisk:** Following on from that, David, you flagged up this point that Ministers themselves had actually pointed to: namely, the use of the word "equity" when looking at the land assets or, indeed, underused buildings. We have heard evidence, though, from some local authorities in other parts of the public estate, including the NHS estates and so on, that they still feel the current value-for-money Treasury rules prohibit them. That is the language that I hear. What can best be done to unlock that?

David Cowans: It is a difficult question, and the only way that I can think of doing it has been, in the discussion we have had with NHS trusts, to try to hypothecate some of that land value for things they would otherwise have spent money on, so you are able to make the case: "I would have spent extra money on this, but I have done it through the land." That is hard to get across to the Treasury because they do not accept anything like that, but there are ways of doing that where you can

argue that that land value has been unlocked in part to deal with a public sector liability.

There are some examples, certainly around the whole issue of bed-blocking; patient flow, I believe, is the correct term. There is a huge movement about some NHS trusts to run their own care homes. They should not be doing that, and if we could find ways of unlocking some of these land positions in order for them to sort some of these issues out, there might be a way through that way. It would require a bit of creativity, I acknowledge, and we would all have to think differently, but that is a good thing.

Richard Blyth: I was thinking, again, a bit on the hoof, that the issue with procurement is to make sure that all bidders for a site are subject to the same rules and there is no favouritism or back-door behaviour. However, if it is set out very clearly that in this competition or this arrangement there are a variety of community outcomes that need to be achieved by all bidders—something to do with the NHS possibly, some affordable housing, public open space—and all the things are made clear, all bidders are in the same position.

The issue of fairness among bidders is then dealt with, and, as I say, it comes back to a high-level political decision about whether it is all right to achieve less than the absolute maximum in the pursuit of some wider objectives.

Q11 **Chair:** I have one point before we move on. You depress me with what you said about either self-build or self-contracting, which it really is, and the fact that we still have not got very far with it. In the last Parliament, the Committee went to Almere in the Netherlands to look at what was happening there. We came back enthused, I think; we made a very strong recommendation in our report that this ought now to be happening on a much bigger scale. Four years on, we have not really made any progress. Is that the truth?

David Cowans: I am a huge enthusiast, as is evident, and even when you are a huge enthusiast, trying to turn it into a marketable product that people will buy is hard work. Also, there are some interesting issues about the varying views of planning authorities, eclectic design, different styles, all that stuff. I spoke at an event in south-west England, Young Planners. There were about 150 young, aspiring planners in the room. I said, "Who has been to northern Europe?" Hands up. "Who thinks that is the best way of operating?" Hands up. "Who does it here?" Nobody.

There is something wrong somewhere, where we cannot create a sensible proposition that allows somebody who wants to, to build their own home. The way I am trying to tackle it is to create a product: they do not have to buy it, but it makes it easier for people. Cherwell Valley, to its credit, has a similar planning policy to help people into first-time-buyer plots, which is wonderful and should be replicable everywhere.

Richard Blyth: You also mentioned Urban Splash. I hope it is appropriate to advertise in these precincts, but Urban Splash is also doing something that I think they call “You Home” or “Your Home”—something like that.

David Cowans: It was a joint venture with us.

Richard Blyth: You may speak better about it than I can.

David Cowans: It is an excellent example of using volumetric system build to help people have 32 different types, so they can have a bespoke home for themselves. One of the things I was going to say is that the Dutch have had a housing innovation office for 25 years. We have not. Why not? Let us have one now.

John Slaughter: There are official legal requirements on local authorities to keep a register of people interested in self-build and to try to find sites for that. I am not aware that that is necessarily bringing forward a lot of activity at the moment, but Richard may know differently. Some of our smaller members are quite interested in the custom-build market, because they see that as something that can be complementary to their main business model. There is a commercial interest in trying to take it forward among the industry.

Chair: In the Netherlands, the public authorities provide the framework for it, provide the land, divide the sites up and do it that way.

Sarah McMonagle: I wanted to add something quickly, if I may, on the custom and self-build issue. On the register that John just referred to, we are hopeful that, now that local authorities have a duty to have this register of people who might be interested in building their own home in a given area, that could kind of spark things off. However, we notice, in the way the regulations have been drawn at the moment, that local authorities can charge however much they want of the person who wants to be on that register, and if the charge is too high it could kill off the whole thing. That is something we have been speaking to Richard Bacon MP about and we are trying to discuss at the moment in terms of the regulation drafting.

Q12 **Helen Hayes:** Why is there such a difference between the number of planning permissions granted and the number of homes delivered?

John Slaughter: This is partly the same set of issues that we were talking about earlier: large sites and delivery rates on large sites. The figures that are usually quoted for the number of consents do not just include fully implementable consents; a good proportion of those figures that are talked about you cannot actually build. Of the ones that you can build, pretty much all those sites are in production, and then it is a question of how quickly you can build those sites out.

There are lots of issues about the statistics in this field that are quite difficult and techie to understand, and we may well touch on this separately, but there are issues around things like the time it takes to discharge planning conditions on permissions, which has been a big frustration to our members over the last two or three years since the market picked up. There has been a lot of concern about just how long it can take from getting, in principle, a consent to build to actually being legally able to do that.

There is quite a large part of the picture that relates to that. There is also, as I say, the question of how quickly you can build out a large site. Probably there is, in a lot of local plans, quite a high reliance on large sites, so you may have quite a high number of consents recorded in the system, but you will not necessarily be building those out all in one go.

Richard Blyth: There is also an issue about where they are. To a certain extent, as I said at the beginning, a national total may not necessarily be that helpful, when if you are trying to buy or rent a house, what bothers you is what is going to go on in the area from which you can possibly travel to work. Breakdown of that information by travel to work area, or housing market area, or something, might reveal that some of those permissions are in places where there is less demand to build at all, so are they actually helping the system?

Anyone can apply for planning permission to build on land, even if they do not own it, so as I said before, there is not necessarily a relationship between the legal process for getting the permission and intending to build a home.

Sarah McMonagle: Just to agree with what John said around the planning conditions being an issue, sometimes it is taking far too long to sign off planning conditions, and that is again related to the resourcing issue in local authorities. For example, delay in signing off Section 106 agreements is often down to a poorly resourced legal department in a local authority, but it is actually only quite a small proportion of planning permissions that are more than 12 months. Most of them are less than 12 months. Again, it is about resourcing.

David Cowans: Part of the problem is seeing everything in the mega numbers. Unless you start to understand the detail—and nearly all my colleagues have said something similar—it becomes a bit meaningless. If you have planning permission for a site in an area with very limited demand, it will not be built out quickly, because nobody can afford to live there, so they will not buy the houses. I am not advancing any generic reason, but simply saying that if you broke it down into relatively small chunks you would get a better handle on why that is the case.

Q13 **Helen Hayes:** Most of you have mentioned the issue of pre-commencement planning conditions. Could you comment on the extent to which you think there is a misuse of the pre-commencement planning condition process on the part of local authorities? To what extent—as you, Sarah, hinted at—is it a

question of the resourcing of local authorities to assist developers in the discharge of conditions that is really the problem?

Sarah McMonagle: Feedback from our members suggests that it is quite an issue. On the positive side, it looks like that is something that the Neighbourhood Planning Bill might be able to tackle. My colleague is giving evidence to the Bill Committee tomorrow, going through some of that in more detail. Yes, I think our members would say it is quite an issue.

John Slaughter: Certainly, as I have already said, it is for our members, and they have been raising this consistently for the last three years. When the market conditions picked up and they wanted to be able to take sites through the planning system more quickly, it immediately became a frustration due to the time it took before they could legally start work onsite.

In some cases, we are talking about very large numbers of conditions. You see varying examples of this, but people come in and say there might be 60 or 80 conditions on a planning consent. A number of them are issues that were, or in principle should have been, dealt with at the initial application stage, but they are re-imposed as planning conditions in the full consent. We think that that is perverse. It probably is connected with the resource issue. Perhaps the easiest thing to do in practice for a local planning authority, given that their resources are stretched, is to safeguard their position and limit risk by putting lots of conditions on the consent, resting on the fact that they have issued a consent. In terms of housing delivery, of course, that then becomes a frustration.

The other problem with that is that it is then difficult to get a discharge of the conditions exercised. Again, it is probably a resource issue, but our members tell us that in practice they have to try very hard and be very persistent, often, to have the conditions finally discharged.

Richard Blyth: There are already provisions in regulations from 2015 that mean that conditions will be deemed to be discharged if local authorities take too long over them, so that could be regarded as having been dealt with in terms of the time question. It does not necessarily deal with whether they are the wrong conditions or unnecessary. The Neighbourhood Planning Bill proposes to elevate into law current very longstanding policy from both parties on what may constitute a legal condition, and that policy has been there for a long time, so if a condition is not appropriate according to planning policy in law, there is no reason why it should be applied.

There may be cases where there are too many of them, although it is more the number of pages rather than the number of conditions that counts. The other question is that they are there for a purpose, which is to enable development to happen that could not otherwise happen. This can be very convenient; it may well be handy. I was speaking to the developer of a very large site who said, "We do not want to decide

everything now. It is very convenient. We need an outline permission in order to raise funds and deal with this vast development, but in fact we are not in a position to decide a lot of these details."

They are happy to have them, and I understand the Government's proposals are that you agree them in advance. The difficulty might be that, if a lot of extra paperwork is brought in for both developers and planning authorities in order to cure some elements of bad practice in some places, that is quite a big change. All the people who are doing well will also now have to do the extra burden of work in order to cope with the fact that there are bad eggs around. It may not be the best way of dealing with the problem of the bad eggs.

Q14 Helen Hayes: Can I ask others on the panel: do you think that the measures proposed in the Neighbourhood Planning Bill, which would require prior consent for the introduction of pre-commencement planning conditions, will help to resolve this problem; or will they introduce an additional burden of administrative responsibility, which may not then result in the problem of the delayed discharge of conditions that are agreed to necessarily being properly resourced in any event?

John Slaughter: We recognise that there may be a degree of risk, but on balance we think it will be positive. There are still guidelines or requirements about timescales for processing planning consent, which should be a helpful backdrop. Yes, you are right to say it is not necessarily a one-way street on that, but our view is that overall it should be positive, and we welcome it. We equally welcome the point that Richard is making about regularising the position generally about the use of conditions.

Sarah McMonagle: I would agree with John's point, and also add that to mitigate the risk of resource being an issue, one of the things that we are calling for at the moment is for planning fees to increase for small developers, where we can see that the planning departments are delivering a high service. That would help in terms of the resource issue and hopefully mitigate any risk of the Neighbourhood Planning Bill changing things.

David Cowans: I have nothing to add to that.

Richard Blyth: Because it has not been mentioned so far, can I shed some light on just how serious the resourcing question is? We did a deep study of all the local planning authorities in north-west England, published a year ago, and it said that between 2010 and 2015, 27% falls in the staff dealing with planning applications had taken place, and a 37% fall in the staff available to do planning policy work, which now includes the additional task of supporting neighbourhood plans.

Those are the numbers that we are dealing with, and that was only up to summer 2015. I am not sure whether it has necessarily got any better since then. That is the background; there is agreement on the panel here

that there is a problem, and it might be useful to put some numbers on that.

Sarah McMonagle: It is not even a numbers issue alone, in terms of the resourcing of planning departments. Our members are feeding back that a lot of the senior people, the most experienced planners, have left those departments, and there is now a cohort of more junior planners in their place. They tend to be maybe less innovative, more risk-averse, more likely to make unnecessary information requirements to cover themselves and make sure that they are ticking all the boxes. That is slowing down the process across the board. It is a really serious issue.

Q15 Helen Hayes: What options are there to prevent unnecessary delays and to incentivise quicker buildout rates? For example, would charging council tax on unbuilt units or further limiting the lifetime of planning consents act as an incentive to the development industry to get more sites underway more quickly?

John Slaughter: We have had a good think about this, because these kinds of proposals have been raised on a number of occasions. Overall, we would find that that would be more likely to be unhelpful than helpful, essentially because in practice what you are talking about would be increasing risk in terms of coming into an investment and taking a site forward through the system. We should always remember that homebuilding in the private sector context is a relatively high-risk industry.

In many ways, the highest risk of all is about getting sites through the system, and not necessarily knowing until you reach a fairly advanced stage that you are going to be able to do that. You have invested time and money to get to that point and have further investment to come before you see any return on the land you then own. If you increase the financial penalties of things not working the way you ideally hope they would, then the risk is that you will discourage some people from coming forward to develop sites.

Our concern would be that you probably risk undermining delivery rather than boosting it. It has been raised by the panel already that there may be situations where people are not necessarily building out in the way that we believe our members do. The other way of looking at this is: would it be possible in practice to target and design an incentive of the kind you are talking about that could capture the situations where it is a non-housebuilder who is holding the land, as opposed to a housebuilder who may be holding the land?

We have looked at that, and we cannot see a way of doing it. As a result, our concern would be that you might capture some situations which you might argue in public policy terms are not ideal, but you would risk damaging more legitimate activities in the wider market.

Q16 Helen Hayes: This Committee has discussed earlier today the issue of larger sites, and the delays that there are sometimes with

development coming forward on larger sites. This Committee has previously heard evidence that developers, particularly in relation to larger sites, will for perfectly rational reasons artificially constrain supply, in order to maintain the value of the homes that are being delivered on those sites.

What would you suggest would act as an effective incentive to the development industry in circumstances like that, where there is a rational constraint to delivery, but that rational constraint is not serving very well the communities that urgently need those homes?

John Slaughter: I could give a very long answer to this. I will try to be brief. There is a natural market absorption rate, which I hope is a position that the Committee can understand and would accept. The problem is that, if you are looking to build out faster than the natural absorption rate, that potentially becomes commercially unattractive. The developer in the private sector has competed in an open market to acquire a site, and you acquire a site on the basis of an assumption of market prices. If you cannot achieve market prices, then you would not have a viable site, and you would not build out at a rate that either led to a big build-up of stock or made your selling price non-viable.

To answer your question, if you accept that premise, that situation, then you can only speed up buildout rate through other interventions. It may well often be putting more public money or public intervention into place to do that; more investment in affordable housing potentially could speed up the rate. Certainly, you can look at some of the things we talked about, about optimising sites.

Beyond that, you are looking at issues that the Government are beginning to look at, particularly on public land, about direct commissioning and potentially taking sales risk. That would then be the public sector taking on sales risk, because obviously developers, naturally, in an open market situation, will build and sell according to what is a natural, normal, viable market rate. If you are going to do more than that, then somebody else has to step in and take on that additional risk.

Richard Blyth: This has been looked at very extensively by the Irish Government. I have not brought all the details about it, but they have tried some interesting things. One of the difficulties is that, when you take part of the development process and focus all your heat on it, like the continued emphasis on decision times that local authorities take, what tends to happen is that things spill over into other areas and you get unintended consequences.

My worry about penalising people who already have planning permissions is that you would disincentivise people from bothering to apply, and in a way, there is an equal difficulty with sites that ought to have planning permission but do not yet, as much as sites that have planning permission and are not moving. There is always the difficulty that, if you

put the torchlight on one area, other things are happening in other parts of the supply chain, which are then unintended and undesirable consequences.

David Cowans: It is also an issue about the use of capital. We are members of the HBF, so I have been quiet; he is speaking for me. The reality is, though, that the use of that capital is crucial. The residual land value model is based on an expectation of sales revenues of X, and then what is left is the land value, broadly speaking. If that, for whatever reason—market demand, supply or whatever—starts to become constrained and someone else increases another financial penalty, John is right: the risk/rewards analysis becomes completely different. That site that you might have just gone over as worth doing suddenly becomes not non-viable, but not worth the risk. It might be viable for somebody else, but it might not be.

I completely understand the frustration about buildout rates in terms of getting houses built, with the difficulties of risk capital placement expecting somebody to buy it. The only way I can find around it, as I said earlier, is to go for multiple tenures, because that definitely gets a bigger buildout rate, but sometimes it can change the value of the land.

You might build for rent on the whole; it does not compete well for site values against someone trying to buy it to sell properties on, because their values are higher, their turnover of capital is much faster, and on the whole most institutions do not want to take planning risk. Some of them will take development risk, but not all of them.

There is some work to be done to shift that risk appetite so that we could get sources of capital to bolster the housebuilder position in order to provide other tenures, to maximise the buildout rate. I do think it is doable. It is a way from where we are now, but that is probably a more effective way of achieving the objective than other policy levers you have described.

Q17 **Chair:** Could you give us a note about the mechanics of that and how that might be achieved?

David Cowans: My colleagues will comment, I am sure, but for the sake of argument let us make it 200 units, 100 per year. That is two years to build it out for sale, all things being equal. This is incredibly theoretical, but broadly speaking that is right. Now, if one was to do an arrangement where the housebuilder built the 100, and another tenure built the rest, which is doable—we do it all the time—then the source of capital for the second part of the site would have to be known upfront. At the moment, that is quite difficult. It is not impossible; there are some people who will take development risk, but it is by no means the majority of the institutions that will do that.

Were that to change, then this becomes easier to do. If the housebuilder built the units knowing he has sold them on anyway, so he has a capital risk mitigation strategy because he knows half his capital is being dealt

with by somebody else, that sort of works. It could possibly get to a situation where you get a smoother buildout rate. One of the big issues about the UK construction and property development industry is its extreme volatility, which affects everything from the quality of building tradespeople to the likelihood of companies going bust. 2008 was not great, and a lot of people simply did not emerge from that—large numbers of them SMEs, but even some of the big propositions. Trying to get some volatility mitigation in there with the use of additional capital is worth exploring, in my view.

Q18 Helen Hayes: A final question from me: do the housing allocation numbers in local plans accurately reflect housing need, in your experience of the schemes that you have worked on?

Richard Blyth: We used not to have them. It is quite interesting: if you go back to 1975, county councils planned for how many houses they thought were necessary, and then we entered into this demographically-driven process, which is complicated. I suppose a wider question—dodging that slightly—is: if you limit the number of homes built to a formulaic answer, the difficulty is that, when the total number is completed, there is a tendency for local authorities to think that no more needs to be built. I have been in this position myself, working for local authorities.

It is quite a strange view, because there is usually continuing housing demand, so this idea of having to do it by calculation is quite complicated. I am not totally sure. I support the proposals by the Local Plans Expert Group, which talked about trying to improve the way of calculating housing need. There is a huge industry involved in this; if there were some way of regularising it with a standard methodology, that might help. Ultimately, it is tricky when you are talking about a situation where people are free to move around the country. Let us take a district in the greenbelt around London that has continually had 100 houses per year built in it, for the last 20 years. You could say that the housing need in that district was something to do with the number of houses that are built, because if you do your demographic forecasts forward, if you do what you have always done, you will always get what you have always got.

The difficulty about that way of thinking is that it might be in a wider public interest that that area has a lot more homes, but the way the calculations and spreadsheets work means that is very difficult to do unless you have a much larger area in which you are doing the calculations of the housing need and the area that people might commute across.

We as the RTPI have continually argued for strategic planning over housing market areas to be more effective than it now is, although not a return to regional spatial strategies, which I think were too large. Certainly, some of the joint working around city regions and counties that

is now beginning to emerge is great, but it needs stronger incentives. It is not always in an individual council's interest to enter into an arrangement like this, and the money would talk if they found it worth their while to start co-operating.

John Slaughter: We feel that they have been improving overall, but I have colleagues who spend most of their professional life going around the country taking part in local planning examinations and arguing that local plans are not necessarily providing as much as is justified by the assessment of local need. There is probably still a way to go. To pick out, if I understood it correctly, one of Richard's points, as has often been said, it is slightly perverse that we often end up in a discussion about the figure being a maximum. I do not know that it is necessarily helpful to look at it that way.

The other point that we have recently spent quite a lot of time discussing, and talking to Government about as well, is that you cannot just look at the assessment of need on its own. When it comes to achievement and meeting local requirements, you also have to look at the robustness of the five-year land supply. We are advocating that we should have a much more detailed and robust process with full participation by all parties, including developers, in this, so that we can properly interrogate what is in the local plan and what is likely to be deliverable in the next five-year period. You need to have both things working alongside each other effectively.

Sarah McMonagle: I do not have anything to add to that; I generally agree with John's points.

David Cowans: I do, with the addition that, if you accept the TCPA's position on the backlog, the answer would be no. By definition, it does not include, at a local level, the impact on the requirements and need that the failure to build in the past has then built up. At the macro level, the answer is categorically no. I agree it is getting better, but it needs to be much more focused. There are some effects in some places that do not have the strongest economies that tend to boost their numbers, while in other places that have very strong economies they tend to dampen the numbers. You can see lots of evidence of that.

I also think that it is not as variegated as it needs to be. I will use my retirement example, but there are lots of other examples. I am not sure how much effort goes into engaging with local people about this. What about young people? Do they have a voice to decide where they want to live in the future? I am fairly confident that they do not. No would be my straight answer, but it is getting better.

Q19 **Kevin Hollinrake:** Just looking at the buildout rates on large sites, I think you said, John, that you felt that was partly to do with market absorption, just building too many and worrying about prices. David, you were talking about risk capital. Are both of those conditions better placed on smaller sites than large sites? Buildout rates are certainly quicker on small sites.

John Slaughter: I guess so, yes, but I do not think as HBF we have any scientific evidence that I could give you specifically to prove that one way or the other. Very often smaller builders are perhaps providing a different type of product. I am taking Sarah's words here, but they may be operating with regard to a particular aspect of a local market, and because it is a relatively small site, yes, once you can build on it you probably can press ahead fairly quickly.

However, it is not that big sites are not built quickly. As I say, we have examples where, on a well-established large site, you are selling 100 or sometimes more units a year, which is a reasonably fast buildout rate, if you look at national averages. I think it is unfair to say that large sites do not build out reasonably quickly, but since they are large, they necessarily take a period of years to complete.

David Cowans: I would say it depends where they are; that is the obvious but true comment. If you have a very large site in an area that has very good transport networks and is next to a big conurbation, it is likely to support a larger number of providers and therefore more likely to be built out more quickly. A large site that is perhaps not well-communited, where the infrastructure is poor, probably would not, so on the whole I would go for the larger over the smaller, but it would definitely depend where it was, and the quality of the infrastructure will be crucial in that.

Sarah McMonagle: Just to be clear, as well, it is not as though SME housebuilders are physically building houses more quickly than large housebuilders. It is more that, say, 20 SME housebuilders building 10 homes each across 20 sites are not subject to the same issues around market absorption rates as a large housebuilder trying to build 200 homes across three sites. That is the issue. They are not physically building the homes any faster; it is just that they are not subject to the same issues that a large housebuilder might be.

Q20 **Kevin Hollinrake:** On speed of delivery, we have heard evidence that buildout rates on large sites are slower than small sites, yet we seem to be focusing on permission consents around big sites. Would it not be better doing it the other way around and spread the load across more sites? Would that not be more effective in terms of bringing forward delivery? Is that not what the evidence is showing?

Sarah McMonagle: Yes, absolutely.

Richard Blyth: It depends if that is your only consideration. You could spread a lot of small sites around the whole of your constituency and see a lot of houses built. The question would be: what are the implications of that for the kind of communities, the kind of commuting, the difficulty of people in older age being isolated?

Q21 **Kevin Hollinrake:** But just looking at speed of delivery, you would accept that would be the case.

Richard Blyth: Yes, but it concerns me what the consequences of sprawl, of lots of small sites, would be. It depends what kind they are. Are they small sites in a built-up area? Are they small sites within a larger site that is being prepared with infrastructure on the edge of a town? Is it sporadic development in villages, with a lot of people moving into those villages who have no connection with the villages at the moment and are then trying to drive back into towns for work? That raises other questions, which we have a planning system to grapple with.

Q22 **Mary Robinson:** I will roll a couple of questions together. Obviously, the role of the local authorities is key to this discussion, so I just want to look at incentives again. In your view, to what extent do you think local authorities are sufficiently incentivised to support the building of new homes? I know that there have been various views on this already expressed. David, I think you talked about joint ventures. Should more joint ventures between local authorities and developers be encouraged? Are there any other views on how we can incentivise the local authorities?

David Cowans: The answer is categorically yes, and there is also something to be done by central Government to clearly give local authorities permission to do this. There is a bit of a chasm. Some local authorities are very proactive themselves, and great, and some are even setting up their own vehicles, which is fantastic. It does not matter who does it, as long as it happens. When one engages with the local authority, there is a sense that local government does not think it has permission to do these things; that is what I pick up. Where they feel like they have, because either they have grabbed it for themselves or they are very proactive, they are finding this is a good way to operate and it is very clear what the relationships are.

The ones we are dealing with like the fact that they are 50/50 joint ventures; we also engage for 10-20 years with them, so the longevity is very clear. The big thing about the bigger sites is that there needs to be a longer-term proposition with them, which there often is not with the smaller sites. The reason they do not build out as fast is probably where they are. They tend to be not well served by transport, a bit out of the way, perhaps; there is no axiom, I think, between buildout rates and type of site, unless you understand where they are and how well they are served by infrastructure.

Local authorities are very proactive where they are, and that is good. There needs to be some showcasing of what the good ones are doing, a permission for others to do the same, and that is also true with the NHS. If people can see the art of the possible, we might make some movement. 20 years ago, I worked in local government, so I know there is a sense in which you are not exposed to a broader world. You just deal with your world. Whatever we can do to expose people to the art of the possible, about working with other parties so that they are engaged in it

because they can see the advantage of it, will help us make more progress than other policy tools.

Sarah McMonagle: One thing I was going to flag that was working well according to our members across England at the moment is the new homes bonus. Apparently, they have noticed that stimulating local authorities to be more accepting of development where they may not have been previously, given the fact that they are so cash strapped.

Maybe “incentive” is the wrong word, but one of the things we are trying to do more is explain and remind local authorities of the benefits of developing homes in their areas, especially if using SMEs, given that SMEs train two-thirds of all apprentices. If local authorities are not that interested in homes, maybe they are interested in future jobs and careers for young people living in the area.

John Slaughter: I definitely support the idea of more incentives for local authorities, and there is probably a range of things that can be looked at there. We also support the new homes bonus. The general change in the finance regime for local authorities, as the central government grant is reduced, will probably focus minds quite a lot in the next few years, so we should not forget that. We have often supported calls to relax the limits on local authorities’ ability to borrow against their housing revenue account. As an organisation we have been on record as supporting that, as I would personally.

Finally, my big thought—and it is one that we have shared with policymakers in the past—is this: since infrastructure issues are often one of the big considerations or concerns that local authorities have in accepting more development, could we make a grander gesture in terms of providing access to infrastructure finance for local authorities? I know from talking to local authorities around the country in the past that, even where local authorities have CIL in place, it will often not be nearly enough to cover the costs of infrastructure investment. Equally, private sector developers cannot necessarily meet the balance of that. We have to look at a bigger picture solution on access to infrastructure finance.

To make it an incentive, I would suggest that access to that pot of money or finance would be conditional on local authorities being positive about meeting their housing requirements.

Richard Blyth: I would totally endorse what John has just said. Our strategic planning policy is that devolution deals, for example, should be made conditional on local authorities coming together and indicating that they have plans to meet housing need, and in return they should be getting support for the physical and social infrastructure that would make that possible.

At the moment, it can be difficult for a local authority, because in a way they get a lot of political comeback for opposing housing, but they do not receive much in the way of incentives. They also have to deal with people saying, “I cannot now get a doctor’s appointment; I cannot get my child into primary school,” and a lot of difficulties around the linking of housing

development to other forms of funding for social infrastructure, which devolution deals could do a lot to unlock.

Let us have some good examples: I would like to cite Plymouth, which has a plan for homes that has released 100 acres of land for housing of its own, as part of a joined-up strategy to try to get 5,000 homes built over five years. Birmingham we have often heard mentioned in terms of its municipal housing trust, which by 2020 will deliver 4,000 homes for rent and sale.

There are places where there is some very good practice, and it would be good to celebrate it.

Q23 Mary Robinson: Just looking at the authorities themselves and their planning departments, I would like to have your views on how planning departments are able to deliver ranges of sites, sizes and locations, in terms of the skills and capacities there. There have been a few comments made about planning department people. I was interested, Sarah, when you talked about the skills that were coming through and said that the 150 you were speaking to were not innovative enough and were not thinking differently. Is that the case? What are the skills and capacities in these departments?

Sarah McMonagle: I think it is the case that quite a lot of the more experienced planners have left local authorities and gone into the private sector over the past few years. I know our members are feeling the difference there. Behaviours have changed slightly, and, as I was saying earlier, they are making unnecessary information requirements when a planning permission is going through, asking for things that are not required. They might be asking for a decontamination report on a greenfield site or something; it is slightly absurd.

One of the things that we have been trying to say to our members is that, if you challenge those, often they will back down on two or three. If you ask them, "Why are you asking for this piece of information?" then they will realise and maybe pull back on a few of those requests. That is back on our members to do it, but it would be good, I suppose, if they were not being asked in the first place, to be honest.

John Slaughter: There is an issue with resource; we all agree that. The solutions to having the right skills go beyond pure numbers of planners. I am sure Richard would want to say something about that from an RTPI point of view. One thing that I would add into the pot from our experience, and again, talking to local politicians and others around the country over some years, is that it works enormously well where local planners have real backing and support from the local political leadership—the chief executive, the leader of the council or other senior councillors.

In areas where the local political leadership really empowers and supports the planners—Plymouth is one—even if they are resource-constrained, I think they are going to rise to the challenge more. Part of the problem

very often is that that does not happen. There will be training, skills and resource issues, but it is also a question of political leadership supporting the planners in the right way.

Richard Blyth: We have been hearing about how more experienced practitioners are leaving local authorities, although there are some left who are doing incredibly well, considering the constraints that they are having to work under. That was one of the interesting results of our Arup study: the striving authorities managing, despite all that was being thrown at them.

One issue has been the way in which local authorities evaluate posts and do management restructuring. I have sat in this Committee on a previous occasion and said that, if you evaluate work according to either the number of people who are under you or the size of your budget, the difficulty is that planning does not directly employ very many people in local authorities. However, the value of what is permitted is very substantial. If you were to factor that into how much you valued the profession within the local authority, it would lead you to slightly different results than saying, "Oh well, they only have 15 staff, so they cannot be worth very much." There is that kind of aspect to it.

I have just heard some amazing results from our Young Planners conference in Belfast, which was full of energy. I would not run down people in their early career that much. There are a lot of very energetic people entering the profession, although sometimes they are going straight into the private sector, I would admit.

We are very grateful to DCLG for supporting our bursary scheme this academic year, which was to the tune of £36,000, to help people with the fees entering the profession. We need young planners to enter the profession in any case, even if we have difficulties about what is happening to the senior ones. It needs to keep on happening, and be a career that people want to choose. Sometimes, on occasion, there have been murmurings from people in responsible positions that have not been too favourable to planning. You could imagine, if you were thinking about what career to do, you would not want to do something that is going to be not appreciated by society as a whole, if I can put it that way.

David Cowans: The status of planning is crucial in this country. Planning should be a verb and not a noun. It should be something we actively, aggressively do, as it is in most of northern Europe. If you are a planner in the Netherlands, you are hot stuff, frankly. If you are a planner here, you are looking at somebody's conservatory. That is the kind of image it has. It ought not to have that image. You are right; the job evaluation should be done on the multi-million-pound responsibilities and not on how many people you have, and we have to do something about the status of planners. Unless we do that, I do not think we will address this issue.

Q24 **Mr Prisk:** Just turning to industry skills, in the time we have, does the industry have enough workers with the right skills and is Brexit

impacting on planned investment for those?

Sarah McMonagle: According to our latest State of Trade Survey, which we are publishing on Wednesday, the skills shortage is looking pretty dire in construction. 59% of our members are saying that they are having difficulties hiring bricklayers; 55% are saying they are having difficulties hiring carpenters and joiners. That has gone up from around 15%, respectively, in, say, early 2013; so you can see how it has leapt up. We have not left the EU yet, but even as we approach that point, whether it is in two or three years or longer, I imagine that it could have an impact even in the run-up.

If I were a Polish bricklayer now, looking to leave Poland and go to work somewhere else in Europe, I probably would not come to the UK. I might go somewhere else where I know I would be welcome, could maybe have a career for an extended period and would not have my status at risk. I am quite concerned that it will exacerbate the skills crisis, which is why it is important that we do all we can to make sure that we have a flexible immigration system that replaces whatever we have at the moment. We also need to invest in apprenticeships as much as possible, which is not an overnight solution, but certainly is something that we can address in the medium to longer term.

David Cowans: The answer to that is no, and it has been the case for a long time. I do not think it is a recent thing. For all the reasons that have been said, Brexit will exacerbate it, but it is not a primary cause. The truth is, we do not train large numbers of people, and why, if you are a young person, would you seek to do construction? We do a deal with Passmores Academy in Harlow where we try to help young people get into construction, but their first question is: "When there is a problem in the economy, will I keep my job?" They all know somebody who got made redundant, got fired, and that very volatility is one of the reasons it is not attractive as a career. It is worth saying that now, and I have a lot of sympathy with it. The skills-based stuff people engage with; they like it. They are into that, but it is the career basis that is a real problem for us. Brexit or no, we had this problem before. Was the influx of foreign workers a sort of sticking-plaster for that? Yes, it was. If you take it away, will it get worse? Very definitely. Should we do something about training and development of construction staff generally? Yes. What on earth can we do to mitigate volatility? Of course, it will be there, but what can we do to mitigate it, so we can tell young people there is a career for them in the long term?

John Slaughter: I will have to mention that we are doing a lot of work on skills at the moment. We launched our Home Building Skills Partnership earlier in the year, and FMB is part of the partnership along with CITB, the NHBC and others. The idea is to bring the industry together for the first time, to work collaboratively in meeting future skills

requirements. We all recognise that skills is a challenge. If you talk to our members, operationally it is the biggest issue for them.

Clearly, it is not preventing significant increases in output at this stage. The largest housebuilders have increased their output by 60% in the last five years; so, although skills is a challenge, they have still been able to expand their businesses. We have not talked about innovation yet, but the skills position is certainly one of the drivers that mean that people are looking more at alternative methods of production, which is potentially a way of dealing with the skills issue.

We are determined, through our skills partnership, to work on attracting more people to the industry, improving training standards in the industry and working with the homebuilding supply chain. That is the other important thing in the industry: you have a lot of indirectly employed labour on sites, so we are determined that we will try to work in a much better way in the future, to develop the supply chain capacity. These are not necessarily quick fixes, but we have an agenda and we are determined to pursue that. We are very much working with Government on that.

In terms of foreign labour, it is a concern and we would want to have continued reasonable access to skilled foreign labour in the construction sector and housebuilding. The best figures that we have at the moment are that something like 12% of the construction workforce is foreign labour. That is not just EU nationals, but from around the world. Clearly, the construction sector as a whole, not just housebuilding, needs to have continued access to foreign labour at the current stage. We will not be able to switch that quickly to indigenous labour overnight.

Richard Blyth: Can I just say two things? One is that, as I am the only one here, the built environment professional bodies wrote to David Davis saying much the same things around continued access to skilled labour after Brexit. Another point that has not been mentioned is the role of both universities and further education institutions in training people for the whole wide range of built environment jobs. There is a question around the viability of built environment courses that have a large number of foreign students on them at the moment. If you confine that to home students, the home students have to pay a lot more for the courses, for one thing, which is a worry in terms of if anything changes in relation to university and college viability on the built environment. There is a question of both the training and the jobs.

Q25 Mr Prisk: Briefly, David has already talked about this, and so has John to a degree: how important could offsite modular construction, complementing the traditional industry, be in being able to expand the capacity of the sector as a whole? You talked about innovation, John.

John Slaughter: It could be very important. Some of the major companies are looking at it seriously at the moment. It has to be said,

though, that at this stage a number of well-informed commenters have said to me that, outside timber frame, offsite manufacture is currently fairly much a cottage industry. It will take a bit of time to develop the capacity, but it is definitely something that we should be, and people are, looking at.

Sarah McMonagle: Perhaps understandably, we are not hugely convinced by offsite construction as being some kind of silver bullet in terms of increasing capacity. It has a role to play, but it is certainly not something an SME can engage in. I wonder whether, if offsite construction will involve lots of factories, and we know that factories are very difficult to mothball and then get going again in times of economic peaks and troughs, it might make the housebuilding sector that much less flexible to respond to those peaks and troughs. It is also an issue, in that we know that different communities demand different types of homes: to what extent can offsite construction meet those individual needs? I think it can play a role, but to what extent, I am not so sure.

David Cowans: I think it has huge potential. It needs two things, neither of which we have been able to give it: it needs scale and it needs certainty. That is why it has never taken off. Intrinsically it works; the housing industry must be one of the few bits of manufactured goods that has not mechanised and attacked productivity in the way that nearly everything else has. It does need certainty, or a relevant degree of certainty. Why would you invest in a factory if you did not have very long production runs? You would not; people do not.

There is definitely mileage in it; it definitely works. In the scheme we are doing at the moment about homebuild, you can get a custom-build product, 22 different variants on one site, with timber frame. It is true that you can have variability, and in a sense it is easier, because you press "item 5" in a factory and out comes number 5, because that is what you ordered. We need people to build it on site, and obviously you will need the foundations and all the site works and everything, but that has to be part of the answer to the question, "How do you build more houses?"

Q26 **Julian Knight:** John, I think I will start with you. Do developer contributions and the process for determining a developer's financial viability need looking at?

John Slaughter: We would probably say not really. They operate fairly well. It is often, of course, one of the most keenly contested aspects of the planning discussion, but I think our members feel that the current processes work effectively. They are often pressed quite hard to disclose information. They need to demonstrate their points about viability when it comes down to a discussion about how much in the way of developer contributions can be made.

I do not think we feel that there is an enormous amount lacking in the system. I know there is a discussion about whether you can standardise

viability assessments, but from our point of view that is difficult, because no two situations are usually exactly the same. Trying to convert viability discussions into a template rule book is a very difficult process, and we are doubtful whether you could readily achieve that.

Julian Knight: Are there any other thoughts, before I move on to our next question?

Richard Blyth: A lot of difficulty stems from having to provide all your infrastructure and your affordable housing from the Section 106 process. I would say that it does need looking at, because it is not generating enough of it. However, the difficulty is ultimately down to the land price, and one of the problems is that, if land has changed hands for a certain price, that is the price at which the builders have to operate. It is often said, "If they knew that they were going to have to provide all this infrastructure and social housing, then they would offer less for it," but in fact the land market does not work that way.

Sometimes this land may have been in the builders' possession for some time, so the idea that you can just influence land prices through changing planning policy is optimistic, especially if they are not rising very fast. One thing that we will look at in the RTPI is this question of it having to be around 20% return, because of the high risks of getting planning permission. Why do we not lower the risks of getting planning permission, and therefore the return could return to more of an industry average?

That might mean taking a more public agency or local authority-led approach to the way in which land is brought forward, which would then mean, as we have mentioned a few times this afternoon, that the builders were basically building on a consented site already and were not having to obtain planning permission. That would not be the role of the housebuilders; that would be the role of public agencies. That might be one way in which risks are reduced and returns do not need to be so high; then the arguments about viability and who discloses what, and a lot of the public worry over it, would be reduced, because it is trying to do more than it perhaps should be trying to do.

David Cowans: An even more radical thought is that maybe we are doing it the wrong way round, and the planning gain discussion ought to be done with the landholder before the housebuilder even becomes involved. That is often the case in many northern European countries, so they leverage the planning permission by saying, "We will give you planning permission if you give us this." That is a much more sensible proposition, frankly, than the way we do it, which is that somebody buys a site on a commercial proposition and somebody else comes in and says: "Oh, and by the way, we need all this out of it", and then, surprisingly, it does not work.

Chair: That was the intention of the planning legislation post-war. It is very simple.

Q27 **Julian Knight:** I will ask for yes/no answers, you will be very relieved to know. It is just yes/no. David, let me start with you and ask whether you think help to buy, first of all, has increased housing supply.

David Cowans: It certainly has had a big impact. If you look at the proportion, John will have more detailed statistics than me, but the proportion of new build sales that are recipients of it is very high. Has it made a difference? Yes. The interesting question is: to what extent does it continue? There is nothing so permanent as a temporary government programme. What happens in the fullness of time? That is a good question. Did it help when it needed to? It did, definitely.

Sarah McMonagle: The help to buy shared equity element has certainly been helpful. It has increased supply, because it has made housing more affordable. Housebuilders will not build homes unless they know they can sell them, so it certainly has had a positive impact. We know the mortgage guarantee element will end at the end of this year, but we want the equity loan version to go to 2020 as promised. I think that would be useful.

John Slaughter: Yes, mortgage guarantees have hardly been used for new build in practice, but the equity loan scheme has been extremely successful, and DCLG research shows something like 40% additionality, or sales that would not have taken place without the scheme. I definitely agree that it has worked as an affordability product and helped bring more people into the market. We did see a very quick and immediate response in terms of volumes from the industry.

Richard Blyth: I have no comment on help to buy.

Q28 **Julian Knight:** What about starter homes, Richard? That was going to be my next question. Yes or no?

Richard Blyth: I can start at this end of the thing. It is encouraging that new Ministers have shown an interest in more than one kind of tenure as something to encourage, because we are all in favour of people being able to buy their own homes, but there are a lot of people who cannot and may well not be able to for a foreseeable period of time. In that case, I believe that the Government should be covering build to rent as well, and build to rent with a subsidy, so social rent.

We have been hearing a lot about how big sites move more quickly if you have a variety of tenures, and I think that is the way to go, really, rather than a single tenure. In some parts of the country, the starter home principle would have basically meant that all the land value was taken up with starter homes and there would be no other kind of homes available within a Section 106 agreement, because of viability again. Single tenure is not very successful.

Something that we have mulled on a bit is this question about being able to renegotiate your Section 106 agreement because you think the site is no longer viable. Maybe Government could consider, rather than going

through that process, which could be quite time-consuming, simply saying, "The Government will guarantee the affordable housing element of mixed sites to enable them to continue."

I can see pros and cons of this, but it is quite an interesting notion to put on the table, that rather than upsetting the whole appplecart and having to go through the process of reaching a new agreement, you say, "We will underwrite the affordable housing." This happened a lot in the 1990 recession. A lot of sites were moved on simply because housing associations were able to move in and do the affordable housing bit. The cashflow was helped, and then the private sales could come along when they could, but people kept on bricklaying and things kept moving.

Q29 Julian Knight: John, yes/no: are starter homes increasing housing supply? I am going to hear a "yes" or "no" at some point.

John Slaughter: Yes-ish. In principle, yes. We have raised a number of issues in responding to the Government's consultation about how we think the Government's proposals might be improved. In terms of why we want to improve it, it is to have more assurance of additionality. There is still some work to do on the detail, and we are awaiting the Government's response to the consultation.

Sarah McMonagle: I would also go for a "yes-ish". We broadly support the starter homes initiative, but we are slightly concerned about the scale of the ambition, 200,000 by 2020, and how that might warp house prices in certain areas. That is a concern in terms of an unintended consequence of the initiative.

David Cowans: Yes-ish. I would like it more tailored to individual circumstances rather than a product you have to have, so forms of rent to home-buy, forms of subsidised tapered market rent that allows you to save to buy; those sorts of things, over time, I think would be received well by the populace and would work better in terms of a toolbox of supply initiatives.

Q30 Julian Knight: Now we are on such a roll in terms of brevity, I wondered what you want to see in the Government's forthcoming Housing White Paper. Tell me one thing, each of you, that you would like to see in it.

David Cowans: For me, it would be the support for a programme of garden cities that would address the issue of large-scale supply. Without it, we will not be able to tool up for the explosion in system build volumetric and non-traditional housing that we need.

Sarah McMonagle: For us, it is small sites, because that is the number one barrier to SME housebuilders. We are looking with the LGIU at how you can redesign the planning process with small sites and treat it completely differently. At the moment, you have so many of the same expectations on a site of five units as you do 500, and it does not make sense; it is squeezing supply.

John Slaughter: A loan guarantee scheme from the Government for SME builders so they can get more attractive finance terms, particularly higher loan-to-value ratios for business finance.

Richard Blyth: Incentives for areas to co-operate, including health, education and transport. The signatures of the Secretaries of State for those three Departments as well as the Secretary of State for communities on the White Paper might be quite an interesting development.

Chair: David, I think you probably need to go.

David Cowans: Is that all right?

Chair: Yes.

Q31 **Mary Robinson:** We have touched on the barriers to SME builders. Why do you think SME builders are important?

Sarah McMonagle: It comes back to the broad question of your inquiry around capacity. We can see that, when we were building many more homes than we are now, two-thirds of those homes were being built by SME housebuilders. Although there is still some way to go in terms of the large housebuilders increasing their output, we will never reach the 300,000 a year that we want to be at in order to then try to address the backlog of decades of underbuilding without many, many more SME housebuilders entering the market and the ones that are already building being helped to increase the number of homes they are building. I do not see it being possible in any other way.

John Slaughter: The way we often answer your question is to say that all today's big companies started as SMEs, often within living memory, going back to the 1960s and 1970s. We need the next generation of large companies, in principle, to come from the new intake of SMEs and existing SMEs growing. The more companies and the more active sales outlets we have in the market, the more confidence we will have about meeting our requirements.

Richard Blyth: I am in favour of SMEs, but I am very wary of special treatment. The planning system exists to make development possible, and I do not think that development by companies of different sizes is particularly an important reason to, for example, alter planning policy. I do think that it would be good to see some of those large sites broken down into a wider variety of providers, including single plots as well as groups. The planning system and planning policy are there for a valid reason, and if we had a lot of units that were sites of 10, something must be done around the cumulative impact of all those sites on infrastructure requirements. They do not disappear simply because you have a lot of different providers, and it can be difficult to ensure that the cumulative impact on traffic, education and health is dealt with if you have a lot of different small sites, good though they would be.

Q32 **Mary Robinson:** Notwithstanding that you have no desire to give special treatment to SME builders, there are other aspects of it that

may impact on them, such as access to finance, etc. How easy is it for SME builders to have this access?

Sarah McMonagle: The situation has improved slightly over the past couple of years. We do an annual housebuilders survey, and two years ago it was the number one barrier to new homes being built by SMEs, or their lack of ability to increase the number of new homes they were building. Now it is the second barrier, which is still an improvement. We still have half of our housebuilder members telling us that it is constraining them and putting a brake on them building more new homes. The improvement has come not because major banks have started looking upon our sector more favourably. It is more that the SME housebuilders have got better at understanding what other options are out there in terms of alternative forms of finance. I know a lot of our members at the moment are borrowing from private individuals, rather than going to their major banks. I was speaking to a member recently who had been banking with a particular bank, one of the big five, for 90 years, and was told recently that they will not be lending to his firm anymore because he does not have a turnover of £5 million per year.

That is a huge issue, and that is why we support what John was talking about earlier, because a lot of our members are still very wedded to trying to work with their local banks, even if they are not necessarily getting what they want from them. That is why it would be useful to have the loan guarantee scheme introduced, so you have the alternative forms of finance, the £3 billion homebuilding fund from Government, but also a bit more openness in terms of the major banks' attitudes to our sector.

John Slaughter: This is very much the issue. In one sense, the banks would say that they are lending, but the problem is the terms on which they lend. To the best of our knowledge, from feedback from our smaller members, typically the banks, in terms of business finance for an SME, are not offering more than 60% or 65% of loan to value. That is not necessarily on the whole project cost; that might only be on a proportion of it, including the work in progress costs, rather than the full project costs.

In practical terms, it is a massive issue in terms of growing a small business or getting a small business established in the first place. We do think that, although some would say the lending is there, it is the terms of finance that are the real problem. That is where a guarantee scheme could potentially help, by encouraging banks to be willing to lend a higher loan to value.

Q33 **Mary Robinson:** Earlier we have spoken about land, with some quite innovative ideas about how to go forward in this respect. For SME builders, when you said there were two things and one was finance, is the other land?

Sarah McMonagle: Yes, a lack of suitable, viable small sites.

John Slaughter: It is linked to the wider planning question as well. Everything effectively militates against the SME, in the sense that in order to get to a viable project stage you have to invest a fair amount of money for an SME in getting your initial planning consent, and the other studies and things that are undertaken, and you cannot necessarily get a bank loan until you have your initial planning consent. It is a real problem.

Q34 **Mary Robinson:** Finally, we will learn from the past, I am sure, in this as we go into the future. SME builders were once a force to be reckoned with, and they have seen a radical decline. Why is that?

Sarah McMonagle: All the reasons we have been speaking about. The most recent economic downturn took a huge hit on the number of SME housebuilders out there operating. It was probably about 45% of new homes that were being built by SMEs just before the recession, and now it is just over one-quarter. Although it has been declining since the late 1980s, a huge chunk was taken out in the most recent economic downturn.

It is also small sites and things we were talking about earlier, such as information requirements. If you are building out a site of 500 units, you might have to have a habitat survey that would cost £3,000 to £5,000. The same survey would have to be paid for and carried out for a site of five units. It is understanding that, although you might not want to redesign the planning process for smaller sites and smaller housebuilders, you need to understand and recognise that those costs are squeezing them and making it less attractive to go back into housebuilding.

We represent firms that do all sorts of building work. The vast majority of our members operate mostly in the private domestic sector. They do a lot of extensions and loft conversions, and they might build one house per year. How do we make that kind of company interested in doing more housebuilding? It is looking at the costs and risks around it that will, I think, persuade them to come back in.

Richard Blyth: There is also the possibility that small and medium enterprises could be building, like for example in the Birmingham municipal housing programme. The client does not necessarily have to be someone you sell the house to; there are other ways in which firms could be put to use, and put to use at scale, other than simply building homes for direct sale by the company.

It might be that that could be thrown into the mix. I am not sure how it was done, but when there was a larger public housebuilding programme, a lot of building firms were building council houses—dare I say it? There are a variety of ways in which the SME sector can, in my view, be encouraged and helped to grow as well.

Q35 **Kevin Hollinrake:** Just on your wish list for the White Paper and the loan guarantee scheme for small builders, obviously Government will be trumpeting the homebuilding fund. Does that not tick the right boxes for your members?

John Slaughter: You are quite correct to pick me up on that. I did not mean to suggest that that was not welcome. However, welcome though it is, the actual amount of finance for SMEs for purely project finance is £1 billion out of £3 billion. £2 billion is for infrastructure projects, which may go to a whole range of different sized companies in practice. What I should say is that, absolutely, we are very happy about the new fund, but we need a much bigger, whole market solution.

Chair: Thank you very much indeed for coming to give evidence this afternoon and going through such a wide range of subjects with us. Thank you.

