



House of Commons
Communities and Local
Government Committee

Capacity in the homebuilding industry

Tenth Report of Session 2016–17



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*Report, together with formal minutes relating
to the report*

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Communities and Local Government Committee

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Contacts

All correspondence should be addressed to the Clerk of the Communities and Local Government Committee, House of Commons, London SW1A 0AA. The telephone number for general enquiries is 020 7219 4972; the Committee's email address is clgcom@parliament.uk.

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Summary

It is clear that the housing market is broken and that as a country we have not been building enough new homes for some time. We launched this inquiry therefore to understand whether the homebuilding industry is capable of boosting housing output and to identify what challenges need to be overcome if the country is to meet the growing demand.

We have found a homebuilding sector that is dominated by the biggest companies. The eight largest firms build more than half of all new homes, which means we are overly reliant on an alarmingly small number of commercial actors. The large developers are often accused of landbanking (holding on to land to artificially restrain supply in order to maintain high house prices), and while we have not seen evidence of this, we have found that there is little incentive for volume housebuilders to build any quicker. It is in their commercial self-interest to maintain profits and they cannot be blamed for this. However if the country is to build the homes it so desperately needs, then we need to reduce the dominance of the high volume builders by encouraging a far greater mix of developers.

We have identified the land market as an area that requires particular attention and we hope our successors will return to this issue. We are concerned that the market for development land is so tight in higher demand areas that speculative developers are forced to pay inflated prices upfront for the land. The developer will then seek to recover their investment by increasing density, reducing the levels of affordable housing and building more slowly to ensure that local markets are not saturated and house prices do not fall. A subsequent inquiry might explore the feasibility of increased public intervention in the land market to incentivise schemes that prioritise long-term community benefits over short-term commercial profit.

Key to changing the over-reliance on so few developers will be initiatives to encourage increased contributions from other sub-sectors. Small and medium builders are declining in both their number and output, and if market challenges can be overcome there is a potential for existing firms to grow in size and for new entrants to be attracted into the sector. A key challenge for smaller builders is accessing land for development, with local plans predominantly identifying larger sites that are only suitable for volume builders. We therefore welcome measures in the housing White Paper to encourage local authorities to identify smaller sites and to sub-divide larger ones. The Government must make it clear what powers will be available to local authorities to ensure that this happens. Another challenge for small and medium builders is accessing finance as they are seen as being higher risk, particularly in the wake of the 2008 recession. We note that there is an effective model of financial support for SME companies in Germany which the Government should consider, and suggest our successors review the effectiveness of the Government's new Home Building Fund and the German model of finance.

A successful housing market is one that is competitive with large numbers of companies of different sizes all making a meaningful contribution to the country's housing output. We believe that diversity is also key in the output itself, with homes built for rent acting as a vital cushion against economic downturns and meeting the needs of large numbers of the population who cannot afford or do not wish to buy their own

home. Key to achieving this will be measures that increase certainty and limit risk for developers. If the Government, through the Homes and Communities Agency (HCA) or local authorities, were more proactive in preparing land for development, then far more developers would be able to build the homes we need. By providing infrastructure and in some cases planning permission, the risks and uncertainty for developers will be greatly reduced. The progress of the Government's Accelerated Construction programme should therefore be monitored closely.

All commercial actors are affected by downturns in the wider economic environment. If the country remains dependant on volume housebuilders to meet our housing demand, then the housing market will continue to be shaped by the cyclical nature of the economy. This is why we believe that public money can be used to increase housing output and to protect the sector against market cyclicity. Local authorities have a long history of building homes, but this almost completely ceased at the end of the twentieth century. We heard evidence that the borrowing caps on councils' Housing Revenue Accounts limit their ability to build. We believe these should be raised and in some cases removed, where housing affordability is at its worst. We note the increasing number of local authority housing companies that are in operation and seek reassurances that they are receiving the support and expertise they need. Housing associations also have a significant role to play in producing counter-cyclical development and we welcome their increased output during the last economic downturn. However they require greater certainty over their income from social rent and must remain conscious of their charitable objectives.

We also consider the planning reforms that will be needed to deliver the homes the country needs. We welcome many of the proposals in the housing White Paper, such as greater certainty for local authorities when assessing housing need and a five year land supply. However we are concerned at the lack of control planning authorities have over homes built using permitted development rights and the absence of any measures to address disputes regarding the financial viability of sites. It is also extremely regrettable that the Government's response to the Community Infrastructure Levy Review was not published alongside the White Paper.

It has been claimed that Modern Methods of Construction (MMC) can address a lot of the industry's challenges. Whilst we do not believe that MMC are a panacea, they do have the potential to make a significant contribution, especially for developments where the homes are easily replicable, such as rented accommodation. We heard evidence that modular housing in particular has a clear advantage in speeding up build out rates, but also that the relative infancy of the industry is dissuading developers from adopting MMC more fully. We argue that the Government should play an active role in supporting the growth of MMC and the wider supply chain, including through the HCA's support of rental developments. We also note concerns from the lending community regarding different methods of MMC, and recommend that the Government should sponsor a single, recognised quality assurance kite mark.

We believe that custom and self-build homes have the potential to make a far greater contribution to housing output than at present, and are disappointed that despite apparent Government support there does not appear to have been any growth in this area in recent years. In 2012 our predecessor Committee highlighted the positive

example of Almere in the Netherlands where custom build homes have made a significant contribution. We believe that this approach can and should be replicated in this country.

Perhaps the biggest challenge facing the homebuilding industry is the growing skills crisis, with the size of the workforce declining and the demand for certain skills growing. It is also a challenge that is too big to be tackled by individual actors, and so we welcome the Government's intention to review the role of the Construction Industry Training Board (CITB). It is imperative that this review produces concrete proposals for action, particularly with regard to improving Further Education routes into the construction industry and the development of a clear cross-Departmental strategy. Workers from the European Union can provide an important cushion to cyclical workforce fluctuations. In light of the existing skills crisis, we are concerned that large numbers of an already-stretched workforce face an uncertain future in light of the decision to leave the European Union.

In summary, our message is four-fold:

- The housing market is broken;
- To fix the broken market, both risk and volatility must be reduced, especially for small and medium developers;
- The Government's promises are encouraging, but their implementation must be closely scrutinised; and
- Local authorities do not yet have the tools they need to make an effective contribution to solving our housing crisis.

1 The ‘broken’ housing market

1. For several years, it has been generally recognised that England’s housing market is not functioning effectively and that the country has not been building enough new homes. The Government recently published a White Paper outlining its housing policy, entitled ‘Fixing our broken housing market’, which gives an illustrative example of the defective system:

In 21st century Britain it’s no longer unusual for houses to “earn” more than the people living in them. In 2015, the average home in the South East of England increased in value by £29,000, while the average annual pay in the region was just £24,542. The average London home made its owner more than £22 an hour during the working week in 2015—considerably more than the average Londoner’s hourly rate. That’s good news if you own a property in the capital, but it’s a big barrier to entry if you don’t.¹

2. For decades the country has not built enough homes. Estimates vary of how many homes are needed to make up the shortfall. In 2015 the then Housing Minister Brandon Lewis announced that the Government was seeking to build 1 million new homes before the end of the current Parliament—the equivalent of around 200,000 net new additional homes every year. The current Housing Minister Gavin Barwell confirmed to us that this figure is still the Government’s aspiration.² However some argue that this ambition is too modest. The housing charity Shelter, noting that assessments of need range from 230,000 to 280,000 homes per year, argues that the Government’s target should be 250,000 a year.³ In 2012–13, there were around 125,000 net additional homes in England, a figure that had risen to just under 190,000 by 2015–16.⁴ A report by the House of Lords Select Committee on Economic Affairs, ‘Building more homes’, concluded that:

The Government’s target of one million new homes by 2020 is not based on a robust analysis. To address the housing crisis at least 300,000 new homes are needed annually for the foreseeable future. One million homes by 2020 will not be enough.⁵

3. The continued failure to build enough homes has contributed to the cost of buying or renting a home continuing to rise. It has become increasingly difficult to enter the property market, with many young people having little choice but to remain living with their parents. A more extreme and worrying symptom of the defective housing market is the increase in levels of homelessness. In our report on Homelessness,⁶ we found that the ending of a rental agreement is now a major cause of homelessness as people cannot find anywhere to live that is affordable. Excessive demand for homes pushes the cost of living up and also restricts the ability of people to move to areas of high employment and thus companies’ ability to recruit the best talent. It also increases public expenditure by adding to the national cost of Housing Benefit.

1 Department for Communities and Local Government, *Fixing our broken housing market*, [Cm 9352](#), February 2017, p9

2 Q354

3 Shelter ([BLD021](#)), page 2

4 Department for Communities and Local Government, [Live table 120](#), accessed 11 April 2017

5 House of Lords, *Building more homes*, First Report of the Select Committee on Economic Affairs, Session 2016–17, [HL Paper 20](#), para 84

6 Communities and Local Government Committee, Third Report of Session 2016–17, [Homelessness](#), HC40

4. Most commentators recognise that the country's housing market is not functioning and that increasing the supply of new homes is an essential element in addressing this. We launched this inquiry to assess what steps need to be taken to deliver the homes that the country needs and to identify any obstacles. At the same time, we considered whether the building industry had the labour capacity and skill levels needed to build the increased number of homes should all other conditions be improved—an issue of growing significance in light of the decision to leave the European Union. We also wanted to examine whether focussing on the number of homes built would lead to the development of unsuccessful communities. As Tim Hill, Chief Planning Officer at Leeds City Council, told us, “The question should be one that society always forgets: what do we want the planning system to deliver? It is that good growth. That is what people want. They do not want the numbers at any price.”⁷

5. This report will consider the structure of the homebuilding industry in England and the role played by volume homebuilders (taken to be those that build over 2,000 units a year), medium sized builders (between 101 and 2,000 units a year) and smaller builders (those building less than 100 units a year). We will also discuss the perspective of public homebuilding and the challenges faced by local authorities and housing associations. We then debate how the country's planning system could be reformed to speed up the delivery of new homes and reduce unnecessary delays, before considering whether there is sufficient land available on which to build. Emerging technologies and the opportunities presented by modern methods of construction are highlighted in chapter five, before we consider the significant issues of a workforce that is declining in size and a growing skills gap.

2 The structure of the homebuilding industry

Developer behaviour and build out rates

6. An accusation frequently levelled at large developers is that they are artificially constraining the supply of new homes so as to ensure that consumer demand is not met, and prices therefore remain high. At the 2016 Conservative Party Conference, Sajid Javid, the Secretary of State for Communities and Local Government, argued that:

The big developers must release their stranglehold on supply. It's time to stop sitting on landbanks, delaying build-out: the homebuyers must come first. Almost 280,000 planning permissions were issued over the last twelve months ... I want to see each and every one of those homes built as soon as possible.⁸

7. **The high volume homebuilders⁹ dominate the market and are therefore able to shape how it operates. Having purchased land at a given price and devised a scheme that will allow them to recoup their investment and deliver a profit, they will not risk over-saturating a local market to the extent that house prices will fall and their profits decrease. This is rational commercial behaviour and a sound business model. But it is not one that is in the country's best interests.**

8. When we asked representatives from volume housebuilders about their development model, David Jenkinson from Persimmon told us:

I would describe us as speculative builders. We go out and we build to what we perceive a demand is, rather than actually waiting until someone comes and reserves [a home]. When we release a site, we may commit to build 30 houses on a development, even though we have only sold five. We will always look to meet the demand and build what is required to meet that demand, as long as other forces are not in place ... If the demand is there, we will build houses to meet it.¹⁰

9. Our concern is that when developers say they build to meet demand, what they mean is that they build to meet demand at a certain price. It is generally accepted that developers seek a profit margin of around 20 per cent of their investment, and so they build in a way that delivers this. We do not blame them for doing so, but note that the structure of the industry does not encourage them to deliver the increased supply of housing that is needed. In order to boost supply, a perspective that moves beyond the short to medium term is necessary. Later in this report we discuss the importance of Build to Rent programmes and other ways of delivering housing which are not so subject to the cyclical nature of the wider economy (see paragraphs 66 to 72). This is important as we believe that the speculative housing developer model which currently dominates in England is not always in the public interest.

8 [Speech to the Conservative Party Conference 2016: Sajid Javid](#), The ICC, Birmingham, 3rd October 2016

9 Taken to be those that build more than 2,000 units a year

10 Qq36–37

10. We are concerned that the land market for development land is so competitive that speculative developers are forced to pay inflated prices up front for the land. These firms then work to ensure that their investment is protected and their profit maximised. To recover their investment, developers will be more likely to increase building density, reduce the level of affordable housing delivered and build more slowly to maintain prices. We are concerned that this is a system that serves only to increase the landowners' profits and limits the long-term benefits that development can bring to a community. This would appear to be in conflict with the intentions of the 1947 Town and Country Planning Act.

11. We welcome the confirmation from the Secretary of State that the Government has accepted an amendment to the Neighbourhood Planning Bill that will make it easier for local authorities to establish public interest companies that can acquire land, obtain planning permission and then work with a developer to deliver housing. Under such arrangements the council would be able to capture much more of the profit from the land, which it could then invest in local infrastructure.¹¹

12. We do not believe that developers intentionally inflate prices—but they reduce risk by building to demand at current prices, and there is insufficient incentive for them to build any quicker, and considerable incentives for them to ensure that local prices do not fall. We encourage the Government to consider how it can influence the financial model of the sector and encourage developers to take a longer-term perspective and a greater stake in civic homebuilding. We recommend to our successors that they revisit the land market, how land prices can determine development outcomes and the feasibility of increased public intervention in the land market so as to be able to prioritise long-term community benefits over short-term commercial profits in a future inquiry.

Monitoring build out rates

13. The Government recognises that developers might not always be building as quickly as they are able to. The Department for Communities and Local Government (DCLG) notes that:

There is often developer caution about the ability of local housing markets to 'absorb' new-build supply. This leads to unambitious build-out rates (Developers with cautious build-rate assumptions will benefit from an advantage in terms of the price they can offer landowners—assuming house prices are rising faster than construction costs and the cost of borrowing).¹²

14. The Government proposes in the White Paper that: "We need to hold local authorities more closely to account for the delivery of homes that they have planned for, and enable them to hold developers to account".¹³ However we have reservations whether local authorities have either the capacity or the data to effectively hold developers to account. We will discuss the resourcing of local authorities later in this report (paragraphs 94 to 101), but in our view the data currently collected on planning permissions and their progress, and house starts and completions, is not sufficiently robust.

11 Oral evidence taken on 19 April 2017, [HC 1082](#), Q32

12 Department for Communities and Local Government ([BLD068](#)), para 9

13 Department for Communities and Local Government, *Fixing our broken housing market*, [Cm 9352](#), February 2017, para 2.35

15. Following a discussion with volume homebuilders on build out rates,¹⁴ we were concerned that the number of planning permissions that had been granted seemed to be far in excess of the number of new homes started, and wrote to the Secretary of State. In his response, Mr Javid explained that using data from Barbour ABI, the Department had the following data on the planning pipeline:

As of July 2016 there were 684,000 units with detailed planning permission granted on sites which had not yet been completed. Of these, 349,000 units have started and 335,000 units are on sites yet to start. Of those yet to start 301,000 are now 'progressing towards a start' and 18,000 units are on un-started sites that are 'on hold or shelved'. This includes only those units that have been granted detailed planning permission, or approval of reserved matters, on sites with ten or more residential units.¹⁵

16. It is unclear whether the quoted figure of 349,000 relates to the number of individual units started or whether this relates to the anticipated output of sites where some work has begun. It could well be that a relatively small proportion of the 349,000 have actually commenced. In a subsequent letter, we asked whether information was held on who owned the land to which the 335,000 units that were yet to start applied, and whether the Department had information on the distribution of these outstanding permissions between the major homebuilders, SME housing developers and other developers such as housing associations. The Housing and Planning Minister, Gavin Barwell MP, confirmed that "it is not possible from these data to identify who owns the land nor do the data include a systematic categorisation of the type of developer".¹⁶

17. If local authorities are to be held responsible for holding developers to account, it is imperative that the information collected on the planning pipeline be significantly improved. Councils must be able to identify where delays are occurring if they are to speed up development. We welcome the positive comments from the Housing and Planning Minister on improving the transparency of land ownership.¹⁷ ***Working with developers and local authorities, the Government must ensure that the data collected by local authorities on the development pipeline are more thorough and reliable. It must be clear at a local level how many planning permissions have been granted, at what stage those permissions are, who owns the land, when the permissions will be built out and what the reasons for any delay are. We would expect this to be done by autumn 2017.***

18. Once the data are more robust, local authorities must then be able to influence developer behaviour. We asked representatives from local authorities about how councils could incentivise quicker build out rates, for example by requiring developers to commit to agreed build-out rates. Sandra Dinneen, Chief Executive of South Norfolk Council, told us that:

Planned delivery agreements of some sort would work, as long as the right people were signed up to them. You need to tackle the issue of statutory consultees, utilities and so on to make sure you have everybody in on the act. However, you need some teeth about what happens if people renege on

14 Qq57–60

15 [Letter from the Secretary of State to the Chair of the Committee](#), 7 December 2016

16 [Letter from Gavin Barwell MP to the Chair of the Committee](#), 30 January 2017

17 Q352

them. You are trying to get houses built, so just fining or penalising is not necessarily going to get you the outcome, because you actually want houses to be built.¹⁸

19. The need to strike a balance between penalising slow build out rates and encouraging development was recognised by the Minister:

If the powers were too draconian, it would actually have a chilling effect on house-building in this country because, if you were running a medium or large developer and you knew you were going to get hit with a big fine if you did not do something within two years and it was a marginal site, you just would not put the application in. We have to get the balance right here where the powers are effective but are not sufficiently draconian as to have that chilling effect.¹⁹

20. It is disappointing that the White Paper was not able to suggest how this balance could be struck. However, we welcome the Government's suggestion that local authorities should be more active in their use of compulsory purchase orders to achieve development on stalled sites.²⁰ Similarly, we welcome the proposal to publish data on the build-out rates of different developers. Mr Barwell told us:

There is also a bit of nudge policy there. We want to start publishing, at an aggregate level and at a national level, the performance of different developers in terms of speed of build-out so that you, we, the House and local authorities will be able to see the different performance of the different developers, which will be very interesting information.²¹

21. We do not want measures intended to increase housing completions to act as a disincentive for developers to consider proposing a development. But local authorities should be encouraged to require a schedule of build-out rates prior to granting planning permission. This, coupled with increased transparency on developer behaviour and performance and a greater use of compulsory purchase powers, would in our view be likely to increase build out rates.

Volume homebuilders

22. The homebuilding sector is dominated by the volume developers, with a quarter of all new homes in 2015 being built by the three largest companies (Persimmon, Taylor-Wimpey and Barratt) and the eight largest firms accounting for more than half of all new homes.²² If we remain overly reliant on a part of the industry that has little incentive to change the way it works, then the country will not be able to deliver the new homes it needs. As the Department observes, "large house builders have a set business model, and we can't rely on them to increase their output".²³ The market has in recent years become

18 Q147

19 Q370

20 Department for Communities and Local Government, *Fixing our broken housing market*, Cm 9352, February 2017, para 2.44

21 Q370

22 "*If Sajid Javid really wants more homes built he should take on the big builders*", The Telegraph, 6 February 2017

23 Department for Communities and Local Government (BLD068) para 35

increasingly reliant on the high volume homebuilders to deliver new homes. Using data from NHBC (National House Building Council) registrations, the housing White Paper highlights the recent trend towards market dominance:

Table 1: Market share in the housing industry by builder size

	Small builders (1–100 units a year)	Medium builders (101–2000 units a year)	Volume builders (2000+ units a year)
Market share in 2008	28%	40%	31%
Market share in 2015	12%	29%	59%

Source: DCLG, Fixing our broken housing market²⁴

23. Under a market-led, speculative model, the sector is extremely susceptible to the cyclicity of the wider economy: if the demand (or rather, the demand for houses at a price that would deliver profits for developers) is not there, then construction slows. During times of economic slowdown, there is no capacity for developers to build homes which fewer people will be able or willing to buy. This was evident following the recession of 2008 when the number of new dwellings started dropped from 170,440 in 2007–08 to 88,010 in 2008–09, and as the economic situation has improved, the number of starts has risen.²⁵ As a result of market cyclicity, the sector has become characterised by uncertainty and risk. Pete Redfern from Taylor Wimpey told us:

If you want to put capital to work in our sector, it takes a long time and the levels of uncertainty are too high. You are not sure you will get a payback before that environment changes. That is the biggest constraint. It affects our strategies, in the short term, but our strategies would change if those things changed. We want to be able to grow our businesses aggressively, but we cannot throw money at things when we have a high degree of uncertainty. It is those uncertainties that stop new capital coming in.²⁶

24. Volume homebuilders that are seeking to grow their businesses must make judgements about economic conditions and manage their exposure to risk so that they are not threatened in the event of a downturn, or if the policy environment changes. David Thomas from Barratt Homes emphasised to us the role of risk management:

The reality is that a big part of our role, in terms of running housebuilders, is about risk management. If the Government provide a risk proposition that is substantially lower risk, then the contractors or developers will build houses at lower margins. If you have no sales risk, then you are clearly going to build at a lower margin ... Currently, we are effectively speculative builders. We are taking all the build risk: the problems that we find in the ground. We are taking all the sales risk: can we or can't we sell the houses?²⁷

24 Department for Communities and Local Government, *Fixing our broken housing market*, Cm 9352, February 2017, figure 7, page 47

25 Department for Communities and Local Government, [Live table 208](#), accessed 23 March 2017

26 Q43

27 Q48

25. **The country's homebuilding market is dominated by the volume builders, whose output is determined by their assessment of risk and uncertainty. If the country is to boost the supply of new homes, then greater market diversification and counter-cyclical building will be necessary, as well as measures to reduce risk to developers.** We discuss this further in paragraph 66.

Small and medium sized builders

26. Small and medium sized builders have an important role to play in boosting the number of homes built and lessening the dominance of volume housebuilders. The challenges facing volume homebuilders are however more acute for small and medium sized builders who have lower tolerances for market downturns. This is evident in the number of them that have ceased operating in the last twenty years, and from the fact that very few of them have grown into larger players:

Table 2: Number of homebuilding companies according to size

Year	The number of companies registering 1–10 units per year	The number of companies registering 11–30 units per year	The number of companies registering 31–100 units a year
1988	10,112	1,500	603
2014	2,000	244	159

Source: Federation of Master Builders²⁸

27. The Federation of Master Builders argue that not only the number of small and medium firms, but also their output has declined:

It is well-established that SME house builders have declined significantly in terms of number of firms and aggregate output over the past few decades. NHBC figures show the proportion of new homes being registered by those building fewer than 500 units per year (a rough approximation for medium-sized firms and smaller) has fallen from two thirds in 1988 to just over a quarter in 2015. A significant part of this decline has occurred over the past eight years. From 2008 to 2015 this figure fell from 44% to 26%.²⁹

28. We asked representatives from smaller building companies why there had been such a marked decline. Adrian Swan, Managing Director of Swan Homes, told us:

Over the last eight years, one third of that two thirds [the share of the market that used to be SME builders] has fallen out of the marketplace because of the recession and the financial crisis. As an industry, there are a lot of capable developers out there who cannot get back in, either due to lack of access to finance or the constraints of the planning system. Both those things sit hand in glove ... a lot of those guys would be encouraged to come back if those two areas were far easier to access.³⁰

28 Federation of Master Builders ([BLD071](#)) para 7

29 Federation of Master Builders ([BLD071](#)) para 6

30 Q98

29. Daniel Gath, Managing Director of Daniel Gath Homes, told us that:

house building has gone the way of major retail and groceries, with the big players. We are the same in house building, but at the very bottom end of the industry you would have a jobbing builder who would be doing extensions and bits and bobs of work locally, who would maybe build two, three or four houses per year. The complexity of planning, with all the technical hoops you have to get through, the conditions on planning and the restriction on finance, mean that Joe Bloggs, your local general contractor, thinks it is not worth the hassle anymore.³¹

30. Representatives of the volume builders agreed that market consolidation had occurred. Pete Redfern, Chief Executive of Taylor Wimpey, explained:

The biggest issue for small housebuilders is that housebuilding has become a far more complex business over the course of the last 20 to 25 years. The amount of resources you need to hold for businesses like ours has grown significantly ... I would not necessarily argue that it is wrong, in a material way, that it has become more complex. There are serious issues around environmental performance, around safety and around other things. A lot of those regulations are necessary. It is a natural trend in many industries. Again, with that car industry comparison, a similar trend makes it very, very difficult for small businesses to compete. Housing is not the cottage industry that it was 30 or 40 years ago.³²

Accessing land

31. Alongside this market consolidation, a key barrier for small and medium sized builders is their inability to access land for development, because a significant proportion of land is made available only as part of large-scale developments. Sarah McMonagle, Director of External Affairs at the Federation of Master Builders, told us that in a recent survey of housebuilders, it was found that:

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.³³

32. Daniel Gath, Managing Director of Daniel Gath Homes, told us that his company generally builds sites ranging in size from five to fifteen units. Many of these sites are windfall sites that were not identified in a local plan.³⁴ The Federation of Master Builders identifies small and medium builders as largely reliant on windfall sites, which because they are not allocated in local plans, come with much greater uncertainty as to whether they will get planning permission.³⁵

31 Q98

32 Q45

33 Q6

34 Q92

35 Federation of Master Builders ([BLD071](#)) para 13

33. The trend towards local authorities focussing on fewer large sites is understandable in light of their reduced resources. Housing developments can also be politically contentious and subject to local opposition, so it can be sensible on those grounds to have fewer sites. David Heathcoat-Amory from Devonshire Homes summarised the challenge of delivering homes in the face of local opposition:

There is inevitably a tension. People with houses on the whole do not want other people to have them, at least not where they live. That is the overarching human context in which we operate, and the planning system has to find a way around this.³⁶

34. We asked local authorities about the trend towards allocating fewer, larger sites. Tim Hill from Leeds City Council explained that:

About half of our sites are small sites, but they deliver 20% of the numbers. Yes, there is a challenge for us. If we are going to be delivering bigger numbers, we have to work out how that is going to be done at scale. Large sites will deliver at scale,³⁷

35. We appreciate the reasons why local authorities often prioritise allocating larger sites for development over multiple smaller sites. However this has made accessing land more difficult for small and medium sized builders, and we urge local authorities to make more suitable land available to them.

Accessing finance

36. Borrowing is extremely important for small and medium sized builders, because their cash-flow is that much smaller than that of the volume homebuilders. Usually, a small or medium sized builder must complete a development and sell the properties before they can borrow for their next development. Accessing finance and being able to borrow capital at competitive rates is therefore vital. David Heathcoat-Amory told us that:

The credit crunch put a lot of banks in shock and they became very risk averse to lending on property, even to companies such as mine, which gave them no trouble. We were not highly geared, but even so, property was a kind of red zone to them. That has now improved markedly. Some banks understand the business now and have come to accept the risks. Nevertheless, for a considerable number of years it was very difficult to assemble the right capital. If you are a small company, you are almost by definition short of capital, so lending, or rather borrowing from our point of view, is crucial. When the banks withdrew, it created very severe problems for us.³⁸

37. Daniel Gath, Managing Director of Daniel Gath Homes, argued that the finance needs of smaller builders are still not being met:

Of the three banks I have spoken to in the last 18 months—you have mentioned they are getting better, but generally they do not understand the model of the speculative house builder. In the recession they were left with

36 Q106

37 Q166

38 Q102

a lot of half-built houses, whereas somebody controlling well their business in spec house building will control their work in progress. You might have one house finished, or a show house; you will have another one at shell and leave the rest at foundations. They want you to build out the site so that they have their security if anything goes wrong. That puts an added pressure on house builders. They do not understand at all the model we work to.³⁹

38. Sarah McMonagle from the Federation of Master Builders (FMB) told us that the situation had improved in recent years, but not because of the banks: it was because small and medium sized builders had begun exploring alternative forms of finance. Many of the FMB's members want to work with their local banks, but cannot do so. Ms McMonagle gave an example where a builder with a 90 year relationship with a bank had been told that it would no longer lend to his firm because it did not have an annual turnover in excess of £5 million.⁴⁰ John Slaughter from the Home Builders Federation also highlighted that when banks are prepared to lend to smaller companies, they often do so on prohibitive terms or with low loan to value ratios in the region of 60–65 per cent.⁴¹ Difficulties in accessing finance are therefore a significant barrier to enabling smaller builders to grow and increase their output, and to allowing new entrants into the sector.

39. When we visited Berlin to learn about the German approach to homebuilding, we met KfW Bankengruppe (KfW), a government-owned development bank. We heard that because KfW was backed by the state, it enjoyed a positive credit rating (AAA). Customers approach their existing bank for a loan, which is then refinanced by KfW at its low rate, with the advantages passed on to the customer and risk reduced for the customer's bank. For small and medium companies, KfW exempts the customer's bank from liability, encouraging the bank to lend and allowing the customer to benefit from KfW's low rates. KfW described this to us as "financing with a public mission" and we also heard from the Association of German Building Industry that companies with less than 50 employees carry out 81 per cent of all residential development in Germany. ***The Government should consider helping smaller building companies to access credit at more favourable rates.***

40. We heard evidence from the Homes and Communities Agency (HCA) and the Housing Minister about the Home Building Fund, which in part is designed to address the needs of smaller builders. Launched in October 2016, the Fund amounts to £3 billion, with £1 billion assigned for short-term loan finance targeted at small and medium sized builders, custom-builders and those using innovative methods to deliver up to 25,000 homes during the current parliament; and a further £2 billion of long-term loan funding for infrastructure and large sites, with the aim of delivering up to 200,000 homes. The Home Building Fund is administered by the HCA, whose Chief Investment Officer, Gordon More, told us:

we have had over 1,000 enquiries, 90% from SMEs, and we are working very hard to go through all their proposals and applications. There is clearly demand there. High street banks tend to fund at 60% to 65% of cost; we are doing more than that. One of the questions we ask them is, "Can you obtain commercial funding?" and if the answer is yes, Government should not necessarily be funding them. There is big demand from people who

39 Q103

40 Q32

41 Q32

cannot get what they consider commercial funding out of the commercial organisations. One of the things we are trying to do is to give people a track record so that they can, in future, access funding from more normal commercial channels.⁴²

41. We heard evidence from SME builders about previous government schemes and their shortcomings. Mr Heathcoat-Amory told us:

There was an initiative called the Builders Finance Fund, but it was hopeless from our point of view, because it was very slow. It required us to put our equity in first—a familiar problem—and the conditions they attached were stricter than those of the banks ... I hope the Government can design a system [through the Home Builders Fund] to bring in the banks and themselves. I do hope that it is effective and does not delay, because in one case we were still negotiating with the Builders Finance Fund when we had finished the site.⁴³

42. It is vital that the Government's attempts to increase access to finance for small and medium sized builders are not overly bureaucratic and that they meet the needs of the SME sector. However the Government should also recognise that due to past experiences of government schemes and long-standing relationships, many developers would still prefer to borrow from commercial high street banks. When we asked the Housing Minister what steps were being taken to encourage commercial lenders, he told us:

we are obviously also interested to make sure they [the banks] are lending to viable propositions from SMEs in terms of building new homes. It is a good illustration of this point I made at the start about having to build a very broad coalition of people. If we are going to get this job done, the lenders are part of that, so we have a regular dialogue with them. We actually had a meeting today with a medium-size developer who was expressing frustration with a particular bank that their business banked with, who had refused to loan ... I will take that up with them.⁴⁴

43. Whilst we welcome this dialogue and the Minister's efforts to address specific cases, we believe that further steps should be taken. For example we note the finding of the Business, Energy and Industrial Strategy Select Committee in its report 'Access to Finance' that there can be a financial information gap: "Over half of SMEs do not shop around but go straight to their bank to apply for finance. And SMEs are, by definition, small and do not always have the time to research their options".⁴⁵ This report also highlights the importance of the availability of advice and guidance, and the role that the British Business Bank could play in improving this.

44. We welcome the introduction of the Home Building Fund, especially its efforts to increase access to finance for small and medium sized builders. We recommend that our successors revisit the implementation and effectiveness of the Fund within the next two years to assess its success, and consider the German model of support

42 Q292

43 Q104

44 Q415

45 Business, Energy and Industrial Strategy Committee, First Report of the Session 2016–17, [Access to Finance](#), HC 84, para 41

for SMEs. The Government should publish a strategy within the next year outlining the practical steps to be taken to encourage commercial lenders to lend on more appropriate terms to home builders. The Government should look closely at the lessons that can be learned from the German model of support for SME companies, which offers support and certainty for the sector as a whole rather than to individual companies.

Accelerated Construction

45. The Government is also seeking to increase market diversity and to support small and medium sized builders through its Accelerated Construction programme. The housing White Paper explains that the programme will seek to partner with small and medium sized builders, contractors and others to build out surplus public land to deliver 15,000 housing starts during the current Parliament. The programme will also seek to support offsite manufacturing and generate higher receipts for the public purse by sharing in the risk and reward of development on public land. By lowering developer risk and improving access to finance, the Government hopes to build out sites at up to twice the rate of a large developer. The programme will consider the most appropriate development route for each site and could include enabling works such as land remediation or basic infrastructure provision. Where appropriate, the Government will obtain or provide itself with outline permission and undertake the costs of some remediation work to reduce development risks.⁴⁶ The use of publicly owned land and modern methods of construction are discussed later in this report (paragraphs 106 and 111 respectively).

46. It was unclear to us how the Accelerated Construction programme differed from the direct commissioning pilots announced by the former Prime Minister in January 2016. When direct commissioning was announced, it was intended to use the HCA to coordinate the use of publicly-owned land to build 13,000 homes across five pilot sites, using smaller building firms.⁴⁷ The DCLG argued that “because we own the land we can control the pace of build out. We think we can deliver homes up to 50% more quickly than the private sector would”.⁴⁸ When we asked Sir Edward Lister, Chairman of the HCA, about progress with the pilots, he told us:

We have gone a little slower than we would have liked. One of the challenges to us is we have to speed up. On the first one, we have been through the whole tendering process. We learnt a lot from that tendering process and have now completed that, and the order, if it is not already placed, will be placed within the next few days with the successful company. We have a second one that is well on the way to completion and the others are all further behind that. We need to go well north of the five sites to achieve our numbers⁴⁹

47. Isobel Stephen, Director of Housing Supply at DCLG, subsequently told us that: “Direct commissioning was the predecessor to Accelerated Construction. Accelerated Construction builds on the ideas we had in direct commissioning and takes them a bit further”. When asked what had been learnt from direct commissioning and what lessons

46 Department for Communities and Local Government, *Fixing our broken housing market*, Cm 9352, February 2017, para 3.11–3.13

47 “PM: the government will directly build affordable homes”, Department for Communities and Local Government press release, 4 January 2016

48 Department for Communities and Local Government (BLD068) para 44

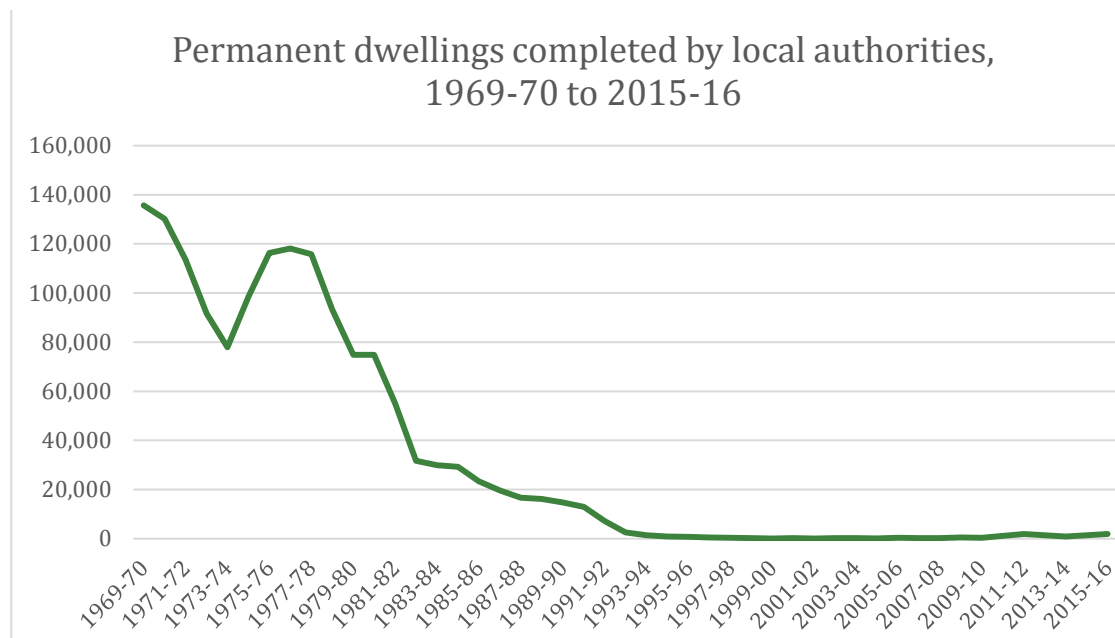
49 Q280

could be applied to Accelerated Construction, Ms Stephen said “I do not think we got far enough with any of the pilots to be able to work that evidence in but we are definitely looking to learn from the programme as we go forward”.⁵⁰ Mr Barwell explained that “We could have sat and waited for a year and a half or two years, but we felt there was enough merit in this idea that we wanted to get on with it”.⁵¹

48. It is essential that Accelerated Construction does not become another stalled initiative like the direct commissioning pilots which have little to show a year on from the substantial initial financial commitment. The Accelerated Construction programme should be closely monitored by our successors, so as to make it possible to assess its effectiveness at bringing forward more surplus public land for development, diversifying the market through partnership arrangements with small and medium sized builders and supporting offsite manufacturing. Accelerated Construction provides a welcome opportunity for public funds to be used to reduce the risk of development through a more proactive role for the HCA. The HCA should provide regular written updates to the Committee with progress reports against key milestones.

Building by local authorities

49. Local authorities have a history of building homes on a large scale, but have told us that they currently find it difficult to build homes directly. In 1969–70, local authorities built 135,700 homes but this figure declined steadily until 1999–2000 when just sixty homes were completed. Despite an increase in recent years, in 2015–16 the total was still only 1,890. The declining contribution to housing output from local authorities is shown below:



Source: DCLG Live table 209⁵²

50 Qq 416–417

51 Q417

52 Department for Communities and Local Government, [Live table 209](#), accessed 28 March 2017

50. Building by local authorities is important if the country is to meet the challenge of addressing the failings of the housing market and increase the diversity of organisations that are building homes. Many councils argue that their ability to build is restricted by the borrowing rules on their Housing Revenue Accounts (HRA). Council housing finance reformed in 2012 and a revised HRA system was introduced with the intention of boosting council investment in new homes by making them self-financing. The HRA system pools all the rent that is assumed to be collected at a local level and redistributes this resource back to local authorities to fund the management, maintenance and major improvements of their housing stock and to support the borrowing costs of the existing level of housing debt. It also introduced caps to the levels of borrowing for new developments that was allowed for each council to prevent excessive levels of debt. Local authorities argue that the borrowing caps inhibit housing development and prevent them from increasing levels of social housing. The Local Government Association (LGA), for example, argue that the Government should allow increased borrowing:

Resistance to removing the borrowing caps has been based on concerns that councils will borrow excessively and increase overall national debt, however over four years of self-financing councils have been prudent in managing their housing debt while investing in new and existing housing. The Housing Revenue Account borrowing cap should be lifted, at least for those councils with a track record in delivery.⁵³

51. Cllr Peter John, Leader of the London Borough of Southwark, told us:

the system is broken. Where it is broken is obvious if you look at homes being delivered since 1969. In 1969, councils built 185,000 new homes across our country ... Councils being able to borrow is the restriction that effectively means that we as councils cannot build at the scale that we used to.⁵⁴

52. Borrowing through the HRA is the only method of borrowing that is capped for local authorities, and the limits have led to some borrowing instead from their general fund at the expense of other services. Giving local authorities greater freedom to borrow in order to invest in new homes could also help them to take full advantage of the self-financing model and use their low gearing ratio (the ratio of debt to equity) to secure finance on preferable terms. Tim Hill, Chief Planning Officer at Leeds City Council, told us:

our capital limit through the HRA is about £23 million a year. Our rent roll is something like £260 million a year. If we were a private sector business, we would be massively undergeared. We would be the Apple of local authority housebuilders ... we feel there is an awful lot more we can do and not necessarily just focused on social rent. We have a build programme of about 1,000 that we think we can fund at the moment. We would like to do a lot more.⁵⁵

53 Local Government Association ([BLD032](#)) para 3.3

54 Q156

55 Q156

53. When we asked the Minister about the possibility of relaxing HRA borrowing caps, he told us:

We are not in a fiscal position at the moment to do that for everybody ... On the borrowing caps issue, the Government did, back in their autumn statement 2013, make £300 million additional borrowing headroom available and, actually, less than half of that was taken up. That surprised me when I heard that, but I have checked and that is the figure. The other thing that may be relevant ... is that there is an offer in the White Paper for individual authorities to approach us over bespoke deals, particularly those that are in areas of really high housing demand.⁵⁶

54. A survey of 141 councils by Inside Housing in 2016 found that 57 per cent had not taken advantage of the additional borrowing capacity. Inside Housing cites organisations such as the Chartered Institute for Housing and the Chartered Institute of Public Finance & Accountability which suggest that the reason many councils have not sought to increase their HRA borrowing is as a reaction to funding cuts and uncertainty. They argue that the chance for increased borrowing headroom is no longer seen as an opportunity to take additional action, but as a necessary protection from further cuts and intervention.⁵⁷

55. We recognise that some local authorities may be wary of increasing borrowing in a time of austerity, but in light of the severity of the housing crisis recommend that all HRA borrowing caps should be raised and in some cases removed, where housing affordability is at its worst.

Local authority housing companies

56. Many local authorities have created arms-length vehicles and commercial partnerships. Sir Edward Lister, Chairman of the HCA, told us that the HCA estimated that there were now 160 local authority-based companies. He explained that the HCA:

cannot fund directly a local authority but we can fund a local authority company ... It is still early days and everybody is still finding their feet, but that is a route and we are quite keen to encourage it, because local authority companies working alongside the RSLs [registered social landlords] and normal developers just increases the numbers that can be produced.⁵⁸

57. Reasons for creating local authority housing companies vary, with the LGA noting that they include “the need to increase supply, plug certain gaps in the market, or generate revenue”. The LGA also highlight examples, such as South Norfolk Council which established Big Sky Developments, a company building homes for market sale and rent alongside affordable homes and commercial sites.⁵⁹ However, we also heard from private developers who had reservations about the skills and capacity of local authorities. David Thomas, Chief Executive of Barratt Developments, told us that his company is joint venturing with housing associations, but not councils.⁶⁰ Similarly, Pete Redfern, Chief Executive of Taylor Wimpey, told us:

56 Q407

57 [“Councils hold back from new HRA borrowing”](#), Inside Housing, 20 May 2016

58 Q271

59 Local Government Associations ([BLD032](#)) para 7.1–7.5

60 Q49

Local authorities are a long way from having the skills at the moment. Those skills have long since gone. The housing associations are a better vehicle. They have some of the skills, but they do not have all of them.⁶¹

58. We welcome all efforts by councils to be innovative and explore alternative delivery models such as joint ventures and arms-length local authority trading companies. However we are concerned that with so many different approaches across the country, there is a risk that best practice is not shared and that resources could be used inefficiently. There is also a risk that the large number of local authority housing companies could struggle to access the skills and expertise needed to deliver at scale. When we asked the Minister about this, he confirmed that “That is something I may be looking at”.⁶² *The Government should review the capacity and skills of local authority housing companies to assess whether they are able to access the quality of expertise needed and to identify and share examples of best practice in order to improve performance and the delivery of new homes.*

Housing associations

59. Housing associations have been making an increasing contribution to the housing supply. The National Housing Federation (NHF) explain that the sector has an ambition to boost its output to 120,000 homes a year by 2030.⁶³ The role of housing associations is especially key during recessions, as they can use public subsidy to act as an important counter-cyclical force. Kathleen Kelly, Assistant Director of Policy and Research at the NHF, told us that:

If you look at the last economic downturn, housing associations increased their output by 22%. They act as a catalyst for both the public and private sectors. That is a really important role for them to play, because they keep local supply chains going.⁶⁴

60. Housing associations are able to do this because of their funding arrangements, which allow them to take a longer term view of the housing market rather than pursuing short-term profits. David Montague, Chief Executive of the L&Q housing association, explained that:

The [commercial] housebuilder model is entirely dependent on sale. In an uncertain market they will do less, not more. Housing associations are funded through the bond markets, which means we can take a 30-, 40- or 50-year view of the housing market. We are charities, and so 100% of our profit is invested back into affordable housing. We can take that long-term view of the housing market.⁶⁵

61. The housing association model is usually robust enough to withstand recessions because, as Kathleen Kelly identified, the rented stock acts as a “shock absorber” in the market.⁶⁶ By not working to the same financial model as commercial builders, housing

61 Q48

62 Q411

63 National Housing Federation ([BLD063](#))

64 Q169

65 Q169

66 Q171

associations are not as concerned about market absorption rates. As a result, the presence of a housing association on a development site can increase build out rates. David Montague told us of an example where a housing association had increased build out:

In the case of Barking Riverside, Bellway have been there for some years and their model allows them to deliver 150 homes a year. As a result of our arrival, we will quadruple that number. It is good for Bellway, it is good for the Mayor, good for the borough and good for us as well ... The great advantage that we can offer is that there is a huge waiting list for affordable housing. If people are not buying, they will move into private renting or affordable home ownership.⁶⁷

62. However in our report, *Housing associations and the right to buy*, we expressed concern at the potential for housing associations to become overly commercial and move away from their charitable purpose.⁶⁸ The risk was illustrated by the previous Government's emphasis on housing associations building shared ownership homes. Matthew Harrison, Chief Executive of Great Places, explained that this policy put housing associations in the same market as commercial developers:

On the point of saturation, one of the frustrations of the Government's shared ownership obsession ... was that we were in that same space of saturation, which probably helped to explain why there was an underbid for the funding that was available: the sector was physically unable to produce the amounts of shared ownership that was funded. The new flexibility, which we worked hard with Government to explain the need for, will hopefully help us to broaden our offer and avoid exactly [that situation].⁶⁹

63. In the Summer Budget 2015, the Government announced that it would be scrapping the previously agreed ten year settlement by reducing all social rents in England by 1 per cent a year for four years, requiring housing associations and local authorities to find efficiencies and make better use of the subsidy they receive. The change has both reduced the income of housing associations and removed certainty of future rent levels. David Montague told us:

In the last Cameron-Osborne budget, we saw our rents reduced by 1% a year. For my business, that is worth £55 million a year; for g15, it is £500 million a year; for the sector, it is £1.6 billion a year. We could have built a lot of homes with that money. The bigger issue for us is what happens in five years' time. At the moment, we just do not know. So far, the sector has raised £80 billion to invest in new homes. If we gear up, as we suggest we want to, to deliver even more homes, our future and our ability relies on the confidence of our investors. Those investors are quite rightly saying: "What happens to rents in five years' time?"⁷⁰

67 Qq184–185

68 Communities and Local Government Committee, Second Report of Session 2015–16, [Housing associations and the Right to Buy](#), HC370, paras 115–120

69 Q187

70 Q198

64. When we raised the issue of certainty with Mr Barwell, he told us that “I do not have a timescale for that ... Everybody I have spoken in the local authority and housing association world is very clear that certainty on this front as soon as possible will help them. I want to provide that certainty as quick as I can”.⁷¹ *We welcome the Minister’s recognition of the need for certainty over social rent levels, and call on the Government to provide this as a matter of urgency to ensure that housing associations are able to maximise their delivery of new housing. At the very latest, certainty over social rents should be provided by the Autumn Statement.*

65. Housing associations have charitable purposes, and they (and Government) must remain mindful of this. Government policies on the reduction of social rents have affected the sector’s financial modelling, with many increasingly subsidising services by building more homes for sale, or merging to achieve financial efficiencies. We are not opposed to this in principle, as long as housing associations continue to deliver on their fundamental social purpose.

Tenure diversity

66. A healthy housing market addresses the diverse needs of the population, and tenure diversity is therefore key. We welcome the Government’s recognition of the importance of a multi-tenure approach. The then Chancellor announced in the 2015 Autumn Statement plans to build 200,000 Starter Homes, 135,000 Shared Ownership homes and 10,000 Rent to Buy homes, with no funding allocation for social or affordable rented homes. The National Housing Federation highlighted the impact of this policy on the business models of housing associations:

Housing associations have traditionally delivered a tenure mix of around 75% sub-market rent and 25% shared ownership. The new tenure mix of 88% shared ownership and 12% sub market rent represents a marked change. This exposes housing associations to much higher levels of market risk and makes their businesses far more pro-cyclical. This undermines the one of the of the sector’s key strengths of being counter cyclical and therefore able to maintain housing delivery in a market downturn.⁷²

67. Since the change in government in 2016, there has been a change of emphasis and greater flexibility. Gavin Barwell told us that “I very strongly believe that we need a housing policy that has an offer to everyone. We have changed that [previous] position; we have given much more flexibility in terms of the programme”.⁷³ This is especially welcome as we have heard about the opportunities presented by Build to Rent projects and their ability to provide greater certainty for investors and run counter to prevailing economic trends. Philip Callan, Research Associate at ResPublica, told us:

It is about certainty. That is the crucial thing that is missing at the moment within the market. We have a sales-led market, which will be cyclical. Output will vary between 110,000 and 150,000 homes depending on the

71 Q404

72 National Housing Federation ([BLD063](#)) para 3.7

73 Q355

pace at which housebuilders think they can sell properties. The last time we had a functioning housing market was when we had a significant amount of rented homes being produced. What is missing now is that certainty.⁷⁴

68. The building of homes for rented accommodation can help to decrease the levels of risk and therefore make developments a more attractive investment. In February 2017 the Government launched a consultation on planning measures that could be used to make Build to Rent projects easier and quicker, and we look forward with interest to the announcement of resulting initiatives.

69. The Build to Rent Fund was launched in 2012 to promote the supply of rented homes and saw the Government sharing risk or providing bridging finance to enable schemes to be delivered. Developers paid the loan back by refinancing the deal or selling on to an institutional investor within one to two years of completing the scheme. In October 2016, it was announced that the Build to Rent Fund would be rolled into a broader Home Building Fund, with no specific requirements that funding be used for properties in the private rented sector. When we asked the HCA about the performance of the Build to Rent Fund, Gordon More, Chief Investment Officer, told us:

I believe that that programme has been successful in a number of ways. By the Government stepping up with a couple of investment products, it has encouraged other commercial lenders into it and has increased and proven the funding of the PRS and build-to-rent sector.⁷⁵

70. Mr More also explained that the Home Building Fund was introduced because developers, especially SMEs, were finding the range of different Government programmes confusing, so they were consolidated into the single fund.⁷⁶

71. As previously noted, the homebuilding industry is extremely susceptible to economic downturns, with the risk that as the economic situation worsens, firms are lost and labour leaves the sector. We therefore welcome the recognition by the Minister that the “affordable housing programme is a counter-cyclical measure”. By maintaining building throughout downturns, the sector as a whole can be more robust. Mr Barwell told us “To me, it is a little bit of, ‘Do not put all your eggs in one basket’. You want a diverse housing market where lots of people are involved in supply and the mixture of what you get at different times will probably vary depending on where you are in the economic cycle”.⁷⁷

72. We welcome the Government’s recognition that focussing on a single tenure will not address the country’s housing needs. *The Build to Rent Fund has proven to be successful in helping to deliver greater tenure diversity and we urge the Government to ensure that the consolidated Home Building Fund does not overlook the rented sector. We recommend that in a year’s time our successors seek reassurance from the Government that the consolidated fund is providing effective support to Build to Rent products.*

74 Q208

75 Q289

76 Q290

77 Q434

3 Planning reform

Assessing housing need

73. In the preparation of a local plan, councils are required to ascertain what the housing need is in their area. They do this by preparing a Strategic Housing Market Assessment (SHMA), which includes an Objectively Assessed Need (OAN) calculation. However, we have heard that disputes over an area's OAN can often be a significant cause of delay and uncertainty. For example, John Slaughter from the Home Builders Federation told us:

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.⁷⁸

74. In September 2015 the independent Local Plans Expert Group (LPEG) was launched by the DCLG, and it published its report in March 2016. Among its findings was that there were significant shortcomings in the process for agreeing SHMAs and OANs. For example population and household projections can only be considered accurate for twelve months before being superseded, economic forecasts are open to debate and objectors prepare rival SHMAs using different methodologies:

The result is that local plan examinations often struggle to conclude on whether the Local Plan is based on a sound estimate of OAN without considerable debate about rival assessments ... [and] some SHMAs do not reach clear conclusions at the apparent request of commissioning authorities where politicians wish to influence the reported OAN to its lowest potentially credible level ... The production of SHMA has become overly politicised and has also become an industry in itself for consultants, whilst being one of the largest costs for authorities and the source of greatest concern, risk and uncertainty.⁷⁹

75. As discussed in paragraph 67, certainty is vital to encourage homebuilding. The continuing debate over how to assess housing need in local planning authorities across the country is a major cause of delay. Our predecessor committee highlighted this issue in 2014 and recommended that the Government should work to produce an agreed methodology.⁸⁰ We therefore welcome the news in the housing White Paper that the Government now recognises that the debate over methodologies is “causing unnecessary delay and wasting taxpayers’ money”.⁸¹ ***The Government is currently consulting on a standardised approach for assessing housing requirements, but use of the new standardised methodology will be an expectation rather than a requirement. The Government should ensure that there are sufficient incentives for local planning authorities to use the standardised methodology for assessing housing need, and Planning Inspectors should take use of the methodology into account when considering local plans.***

78 Q18

79 Local Plans Expert Group, *Local Plans*, March 2016, paras 3.17–3.20

80 Communities and Local Government Committee, Fourth Report of Session 2014–2015, *Operation of the National Planning Policy Framework*, HC190, para 70

81 Department for Communities and Local Government, *Fixing our broken housing market*, Cm 9352, February 2017, para 1.12

Sites brought forward for development

76. As noted in paragraphs 31 to 35, we have found that local authorities tend to identify fewer, larger sites for housing in their local plans, and that their doing so reflects both the limited resources available to them and their awareness of potential political opposition and NIMBYism. Build out rates on larger sites are usually slower with single developers wary of over-saturating a market and larger sites are harder for small and medium sized builders to acquire. As Gavin Barwell told us, “The blunt truth about this is if authorities are not giving small builders sites that they can build on, we should not be surprised that we have a market dominated by large builders”.⁸²

77. We therefore welcome the measures introduced in the housing White Paper. The Government is proposing to amend the National Planning Policy Framework (NPPF) so that at least 10 per cent of sites allocated for residential development in local plans will be half a hectare or less and there will be an expectation that local planning authorities encourage the sub-division of large sites.⁸³ These measures have the potential to ensure that local plans make enough land available for small and medium sized builders, as well as custom builders. However it will be imperative to ensure that once designated, such sites are ultimately used by SME builders. There is a risk that larger developers might view a mixed portfolio of small and large sites as a more prudent approach and a way of maintaining a land pipeline which is less exposed to market cyclical risk. **The Government is currently consulting on the proposed changes to the NPPF and we look forward to further information on how it proposes to ensure that smaller sites in a local plan are used by small and medium sized builders. *The Government must set out the requirements on local authorities to ensure that larger sites are sub-divided.***

78. While welcoming measures to increase the number of small sites brought forward in local plans, we are conscious that large sites provide vital infrastructure through developer contributions. Large developments include a section 106 agreement which requires the developer to make a contribution to the required infrastructure. However, as Richard Blyth from the Royal Town Planning Institute told us:

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.⁸⁴

79. **Increasing the number of small sites will help to challenge the dominance of larger developers and support small and medium sized builders. However they must not come at the expense of developer contributions that provide necessary community infrastructure. This issue must be addressed in the Government’s response to the Community Infrastructure Levy Review.**

82 Q394

83 Department for Communities and Local Government, *Fixing our broken housing market*, Cm 9352, February 2017, para 1.33

84 Q7

80. Local planning authorities are required to demonstrate that they have planned for a sufficient number of homes by having a five year land supply identified. In the event of having a less than five year supply, local planning authorities will have less control over development in their area with sites being decided on appeal and the absence of a five year land supply making inspectors likely to approve developments, even if opposed by the council. The Local Plans Expert Group noted that there is often a challenge to the accuracy of a five year land supply. The LPEG explains that “even where a Local Plan has recently been found sound—with a housing requirement that meets OAN—the subsequent publication of new household projections or other data is being cited by developers and others as reason to argue that the plan is out of date”.⁸⁵ Appeals by developers and the potential for challenging a five year land supply are creating uncertainty and are diverting the resources of developers, planning authorities and inspectors away from delivering the homes needed. **We welcome the measures in the White Paper to make it clearer for all parties how the five year land supply should be calculated, and the opportunity for local authorities to have their housing land supply set and agreed on an annual basis, and fixed for a one year period to minimise disputes.**⁸⁶

Permitted development

81. First introduced in 2013, temporary permitted development rights have enabled vacant offices to be converted to new homes without planning permission. In October 2015 the then Housing and Planning Minister Brandon Lewis announced that the change would be made permanent. The extension of permitted development rights has been successful in creating more homes, but such conversions do not incur any Community Infrastructure Levy (CIL) and are exempt from affordable housing requirements and some building regulations.

82. In 2015–16, more than 13,800 homes were added to the housing stock as a result of the extended permitted development rights.⁸⁷ However local authority representatives told us about some of the negative impacts of the policy. Cllr Peter John, Leader of the London Borough of Southwark, said:

My primary concern is that you are ending up with very poor quality housing in some instances as a consequence. Offices were built as offices and not intended to be homes. We have even had rather daft genuine examples in Southwark: an arch in a railway viaduct being lawfully converted into a home. In Lambeth a number of new homes are built with no windows. This is not housing that we should be aspiring to deliver for our residents.⁸⁸

83. We have also seen some high quality homes that have been delivered using permitted development. The Committee visited Essential Living’s Vantage Point development at Archway Tower in Islington. The properties were finished to a high standard and although smaller than the size prescribed in building regulations, the development included large amounts of communal living space to off-set the smaller personal space. Vantage Point was

85 Local Plans Expert Group, *Local Plans*, March 2016, para 11.2

86 Department for Communities and Local Government, *Fixing our broken housing market*, Cm 9352, February 2017, para 2.9

87 Department for Communities and Local Government, *Fixing our broken housing market*, Cm 9352, February 2017, para A.41

88 Q151

built using a seventeen storey office block that had been vacant for two years in a city with a lot of commercial office space. However we heard concerns that in some areas permitted development could restrict the availability of needed office space. Sandra Dinneen, Chief Executive of South Norfolk Council, explained that:

It has not been a massive issue in our area in terms of the volumes, but the sorts of office premises that have been taken for housing tend to be the lower quality end of the market, which some people would say is a good thing. However, when you have a lot of start-up businesses, that is exactly the sort of accommodation they need to get their businesses going. The office accommodation that is left is outside their ability to work, so it is starting to restrict that kind of entrepreneurial start-up end of the market.⁸⁹

84. When we asked the Housing Minister about permitted development rights, Mr Barwell recognised that the policy had some negative consequences:

There are drawbacks to the permitted development policy. You do not have the same control necessarily over design. You do not get the affordable housing contributions. On the other hand, it is making a significant contribution to the supply of housing in this country and, if you agree with the Government that we are facing a real crisis here and that there is an urgent need to improve supply, the Government's judgment is that that contribution is worth having and that is why we have continued with the policy.⁹⁰

85. **We agree with the Minister that the country is facing a housing crisis and recognise the need to increase the number of homes available. However we remain concerned by the lack of control that planning authorities will have over homes created using permitted development rights.** We note for example a recent case in Barnet where it is proposed that an eleven storey office tower be turned into 254 flats, 96 per cent of which would be below the national minimum space standard. The proposal has generated media interest as some of the flats would be 40 per cent smaller than the average room in a budget hotel. Barnet Council is opposed to the scheme, but as it would be completed under permitted development rules, it has no control.⁹¹ Local authorities take very deliberate decisions on the allocation of residential and commercial space, but these are undermined by the permitted development rules.

86. The Government is currently considering its response to the Community Infrastructure Levy Review (discussed further in paragraph 90). ***We call on the Government to ensure that in its response to the Community Infrastructure Levy Review, it considers the appropriateness of homes built using permitted development rights not contributing to local services, infrastructure or affordable housing.***

Site viability and developer contributions

87. The housing White Paper does not address the issue of disputes between developers and planning authorities over the financial viability of sites. Such disputes can cause

89 Q151

90 Q386

91 ["‘Rabbit hutch’ Barnet homes which are smaller than Travelodge hotel rooms spark backlash"](#), Evening Standard, 28 March 2017

significant delays to housing delivery, and can lead to less affordable housing being provided. Similarly, negotiations over the level of developer contributions are a source of contention, delay and uncertainty for all parties. It should also be noted that ensuring that the impact on a community of new homes is mitigated by new infrastructure is vital to both reducing any local opposition and to creating sustainable communities.

88. Having already bought the land, and managing their build out rate to ensure the selling price is satisfactory, developers can only increase profit by attempting to minimise their costs by seeking to reduce their developer contributions. This is a reflection of the often arbitrary nature of such agreements. Daniel Gath, Managing Director of Daniel Gath Homes, explained to us that without a standard approach to agreeing developer contributions, debates between councils and developers exist:

You have all these dozens of local authorities up and down the country, all doing the same things but differently ... Why can we not have a national template that every local authority uses? There is no arguments; everybody has dealt with it a number of times, it has been agreed, we just insert the figures. We had a situation with two local authorities we have dealt with within a few months of each other for the same contribution for public open space. One local authority took four months and charged us £5,250 for the exact same thing that another local authority got through in a month, costing us £1,250.⁹²

89. Agreeing a balance between the different priorities of developer and planning authority can take several years and delay the building of homes, which is not in the interest of either party. The difficulty for the local authority is that the developer can claim that the demands in them are too onerous and that the site has become unviable. David Heathcoat-Amory, Director of Devonshire Homes, told us:

I can tell you that if CIL is imposed as well as a section 106 agreement and a set of obligations, it can render a site unviable. If there is a high CIL payment, then it is very difficult for a developer like us to agree to a high proportion of affordable housing. I do not think local government or national Government can expect to have everything all the time, if they still expect us to build houses.⁹³

90. The Government published the findings of an independent review of CIL at the same time as the housing White Paper, and the Minister confirmed to us that the response to the review would be made near to the Autumn Budget.⁹⁴ **It is extremely regrettable that the Government's response to the Community Infrastructure Levy Review was not published alongside the White Paper and will not be available until the autumn.**

91. One reason that the negotiations over a site's viability can take a long time is the lack of transparency: a local authority has no way of assessing whether a developer's claim that a site has become unviable is true, or a negotiating tactic. Our predecessors expressed concern at the emerging "battleground" of viability and the perception by councils that viability was being used by developers "as a stick with which to beat them, and a means of

92 Q113

93 Q115

94 Q361

reducing their infrastructure and affordable housing contributions”.⁹⁵ It would appear that the issues identified in 2014 remain. ***We therefore reiterate the findings of our predecessor Committee and recommend that developer assumptions and assessments of viability must be shared with local authorities to ensure that the provision of infrastructure, affordable housing and build density is not compromised.***

92. Sandra Dinneen from South Norfolk Council explained the challenge of finding a solution that meets the objectives of both the local community and the developer’s shareholders. She highlighted the need for a level playing field and for local authorities to have more levers to encourage developers to engage positively to increase the pace of delivery.⁹⁶ We also heard that developers are likely to have greater experience in commercial negotiations than local authority staff. Ms Dinneen explained:

The skills that we really need for the future are different skills; they are the more deal-making, commercial skills, because you are negotiating with developers in a very different way and that is a very different skill set from traditional planning officer skill sets.⁹⁷

93. **The recognition by the sector of the changing skill requirements of local authority planning departments is welcome, but the delivery of affordable housing should not depend upon the negotiating skills of a particular local authority. We therefore urge the Government to explore the feasibility of a standardised methodology for assessing viability, much as it has proposed for agreeing Objectively Assessed Need.**

Planning fees and resources

94. The limited resources of local authority planning departments also contribute to delays. Richard Blyth, Head of Policy, Practice and Research at the Royal Town Planning Institute, illustrated the scale of recent reductions:

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.⁹⁸

95. The reduced resources of planning departments are a factor in many of the other challenges identified in this report, such as the prioritising of larger sites over multiple small sites, the time taken to process planning applications and the time taken to negotiate with developers. We therefore welcome the proposal in the housing White Paper that from July 2017 local authorities will be able to increase nationally set planning fees by twenty per cent, if they commit to invest the additional income in their planning department, with the possibility of a further twenty per cent increase for authorities that are delivering the homes their communities need.⁹⁹ In the context of multiple budgetary concerns for

95 Communities and Local Government Committee, Fourth Report of Session 2014–2015, [Operation of the National Planning Policy Framework](#), HC190, para 67

96 Q159

97 Q160

98 Q14

99 Department for Communities and Local Government, *Fixing our broken housing market*, [Cm 9352](#), February 2017, para 2.15

councils, it will be important to ensure that the additional income is ring-fenced to the planning function if the increased cost for developers is to be justified. We heard that developers would generally welcome the increased fees, but only if they led to a better service. For example David Jenkinson, Group Managing Director of Persimmon, said Persimmon had paid a local planning authority to employ an additional planner, but had received the same service despite the investment.¹⁰⁰ Similarly, when we asked Pete Redfern, Chief Executive of Taylor Wimpey, if he would pay increased fees in exchange for a quicker planning process, he explained that:

For me, the answer is definitely yes, but we have very little confidence that local authorities are physically able to provide the planning process that would be enhanced. That is not necessarily from lack of will... If we genuinely felt that, yes, we could pay for this service, that will ring-fence the resource and that will mean that we get a faster-paced planning decision, then for us as a business, yes, we would see that as a positive. We just question whether it is able to be executed, because of resource levels within local authorities.¹⁰¹

96. It is also important that the potential additional increase in fees should reward performance across the entirety of the planning function. If it only rewards the processing of applications, there is a risk that councils will prioritise resources on development management functions at the expense of planning policy and the delivery of local plans. Likewise, it will be necessary to consider how the increased income can be used to address the delays arising from other departments such as legal teams, which often lead on preparing section 106 agreements. In two-tier council areas, consideration will also have to be given to upper tier authorities which are responsible for highways and statutory services such as education. As statutory consultees, upper tier councils have an important role to play in the processing of planning applications, and their performance must be captured and incentivised to ensure developments are delivered as quickly as possible.

97. Councils should be required to demonstrate that the additional income from the increased fees has been used to accelerate housing and other developments, and to publish this information on their website to give developers assurance that the additional costs can be justified. The proposed second twenty per cent increase should incentivise all aspects of planning, not just the processing of applications.

98. Planning departments are struggling to recruit and retain experienced staff. Sarah McMonagle, Director of External Affairs for the Federation of Master Builders, told us that:

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.¹⁰²

100 Q56

101 Q56

102 Q14

99. The RTPI identify the issue as being less of a skills gap, and more of a capacity gap, and explain that “in the majority of cases, local planning services are surviving on the goodwill and professional integrity of the officers, but this may not be sustainable”.¹⁰³ Under-resourcing of planning departments is undoubtedly slowing down the planning system. We welcome the work of the RTPI in encouraging more people to pursue a career in planning and the 1,300 planning graduates that are produced by the UK universities that it accredits. However the status of planning needs to improve to ensure that these graduates are recruited and supported. David Cowans, Chief Executive of the Places for People housing association, told us:

The status of planning is crucial in this country... 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 ... 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.¹⁰⁴

100. This sometime pejorative image of planners is reinforced by complaints that they are unnecessarily delaying development. This is why local political leadership is essential, as John Slaughter from the Home Builders Federation told us:

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.¹⁰⁵

101. *The role of planning is fundamental to the success of communities, and council leaders and chief executives must show leadership and support to recognise this and empower innovation by planners. Local authorities must show a commitment to the planning function and ensure there are incentives and support in place for employees that are seeking further training and formal planning qualifications, such as those facilitated by the RTPI.*

103 Royal Town Planning Institute ([BLD025](#)) page 3

104 Q23

105 Q23

4 Land availability

Brown field, green field and the green belt

102. Some developers argue that it will not be possible to meet the Government’s aspiration of delivering one million new homes by the end of the current Parliament unless the restrictions on building on the green belt are relaxed. David Jenkinson from Persimmon Homes argued that the green belt restrictions were the single biggest obstacle to delivering the homes needed. He told us that not being able to use green belt land is restricting the ability to meet an area’s needs:

If you have a look, outside of London, it is not too bad ... most of the authorities outside of London, they are planning for 91% of the housing requirement in those districts. Where we have a massive problem is in London and the surrounding London areas. The current output in local planning authorities surrounded by green belt is 29,000 dwellings. They should be producing 89,900. That gives us a shortfall of 913,500 houses by 2031. The most damning stat in all that is that they are only planning for 46% of the housing need.¹⁰⁶

103. However, other witnesses were not as adamant that the green belt was stifling development. Pete Redfern from Taylor Wimpey, for example, highlighted that “the emotion tends to take over the reality and people talk quite regularly about green belt and brown field, ignoring that there is green field in the middle”, and that more than half of all development has been on brown field land. Mr Redfern also told us that:

I find it frustrating that we, as a country, do not seem to have a rational, sensible conversation about green belt, understand what its original purpose was and work out what its purpose should be today ... Green belt has this aura of certainty to it that it does not necessarily deserve.¹⁰⁷

104. The green belt designation was created to prevent excessive urban sprawl and we believe that it has been successful in this and continues to be so. However, we also recognise that there may be cases when it needs to be reviewed. For example, Tim Hill, Chief Planning Officer at Leeds City Council, told us that in his area the green belt stops before the edge of the city, so that there is land that is further away from the city centre that in policy terms is easier to develop than some more urban land. Mr Hill argued that the green belt does need to be reviewed occasionally, and that in such instances it should be through the local plan process.¹⁰⁸ He also suggested that in areas where green field and green belt land exists it can prove an understandable distraction for developers, who may seek to challenge a local plan’s assessment of a five year land supply to secure land that is more financially attractive: “It distracts our resources because we are forever fighting appeals about five-year land supply against sites that are very attractive for a volume housebuilder in terms of their model but are not helping to deliver the Government’s targets around brownfield delivery”.¹⁰⁹

106 Q76

107 Q80

108 Q161

109 Q149

105. The NPPF states that green belt boundaries should only be altered in ‘exceptional circumstances’, but does not define what these circumstances might be. The housing White Paper recognises this and proposes that the NPPF be amended to make it clear that green belt boundaries should only be changed when a local authority can demonstrate that it has fully examined all other reasonable options for meeting an area’s development requirements. The White Paper also proposes that where land is removed from the green belt, the impact should be offset with compensatory improvements to the environmental quality or accessibility of the remaining green belt land.¹¹⁰ In our report on the Department’s consultation on national planning policy, we argued that local authorities should be provided with guidelines on the appropriateness of reviewing the green belt.¹¹¹ **We welcome the Government’s commitment to protecting the green belt, but are concerned that the proposals in the White Paper effectively weaken the protections in the NPPF, as the ‘exceptional circumstances’ could now include an authority not building enough homes. Any changes to a green belt designation should only be made as part of the wider local plan review process to ensure opportunities for community consultation. While we believe that removing land from the green belt should be a last resort, we reiterate our recommendation from our earlier report: the Government should publish guidance for local authorities, setting clear guidelines on when and how it may be appropriate for a local authority to review its green belt boundary in order to deliver new homes to meet local need.**

Disposal of public land

106. The Government’s programme of public land disposal has not succeeded either in disposing of enough land or making it sufficiently easy for developers to access. The National Audit Office found in July 2016 that DCLG had made progress in setting up its programme to release enough public sector land for 160,000 homes by 2020, but that so far only land with capacity for an estimated 8,580 homes had been disposed of. In order to meet the new target, “departments must now dispose of more land in each of the remaining four years than they achieved in any year of the previous land disposals programme”. The report also found that “The Homes and Communities Agency, responsible for collecting information from government departments, has not yet however obtained sufficient evidence that this additional land will actually be developed for housing”.¹¹²

107. Ian Piper, Head of Land at the HCA, explained that the findings of the National Audit Office report were one of the drivers for the Accelerated Construction programme (discussed earlier at paragraph 45), which had the aim of delivering 15,000 home starts on public land by the end of the current Parliament. Mr Piper also said that the HCA was now receiving land from all of the big government departments and that subsequent years should see a substantial increase in public land disposal.¹¹³ The Minister was similarly optimistic that the rate of disposal would increase and told us that around 90 per cent of the necessary land had now been identified:

110 Department for Communities and Local Government, *Fixing our broken housing market*, Cm 9352, February 2017, paras 1.37–1.39

111 Communities and Local Government Committee, Third Report of Session 2015–16, *Department for Communities and Local Government’s consultation on national planning policy*, HC703, para 25

112 National Audit Office, Session 2016–17, *Disposal of public land for new homes: a progress report*, HC510

113 Qq277–279

These programmes are always back-loaded ... The Government start a scheme; it is slow to get started. You get a heavy delivery right before the end of the programme, at the end of a Parliament. You then stop, and then start again. You always have that problem.¹¹⁴

108. The housing White Paper also contains measures to encourage local authorities to dispose of land, including making explicit existing flexibility to dispose of land at less than best financial return. **We welcome such measures and encourage local authorities to recognise both the social value that can be delivered by developments and that this can be more beneficial than maximising immediate financial returns.**

109. We welcome the Government's efforts to increase the availability of public land for development. However, it will be important to ensure that land released is in the right places and has the infrastructure needed to create sustainable communities. Richard Blyth from the RTPPI shared his concern that "some public land is in appalling locations". He also explained that:

In response to a recommendation of this Committee in December 2014, we undertook 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.¹¹⁵

110. It is also important that, once identified for disposal, land is handed over to developers without delay. We heard of an example of a fire authority taking several years to dispose of land to Daniel Gath Homes, a small building company. The purchase of the land was agreed in 2014, but the contracts had still not been exchanged in November 2016.¹¹⁶ **It is essential that the disposal of public land focusses on delivering land in areas where it is most needed, and that it does so without delay. We would welcome the HCA becoming more active in the acquisition of surplus land and, where appropriate, obtaining planning permission and directly commissioning development. We also support exploring whether incentives for Departments and public bodies (such as the opportunity to maintain a financial stake in the land) would help bring forward more public land.**

114 Q397

115 Q8

116 Q105

5 Innovation

Off-site construction and modern methods of construction

111. The predominant method of building homes is the traditional bricks and mortar approach with tradespeople working on site, each with a different specialism, such as bricklaying, carpentry or plastering. However there is a growing view that more innovative methods of construction could speed up the delivery of homes, and help address the growing skills crisis (discussed in chapter 6). Modern methods of construction (MMC) is a collective term for a wide range of non-traditional building systems. These include modular construction where units are fully fitted out off-site, panelised systems (such as timber or light steel frames), site-based MMC such as thin joint blockwork and sub-assemblies, and components (such as pre-fabricated chimneys, porches etc).

112. We do not believe that MMC are the panacea for all of the industry's problems, but they have the potential to make an important contribution. A significant advantage of MMC, particularly modular construction, is the speed at which homes can be built. Essential Living claim that by using modular construction the overall construction period is reduced by 25 per cent.¹¹⁷ Marc Vlessing, Chief Executive of Pocket Living, also emphasised the speed advantage. He told us that across a range of small and medium sized sites across London, his company was reducing a typical build time of twelve to thirteen months down to eight or nine months. Pocket Living are in the process of constructing a 26 storey modular development in Wandsworth, where the use of modular technology is expected to cut six months off the expected build time of two years.¹¹⁸ We also heard that modular units and off-site construction can deliver homes with far fewer deficiencies. Mr Vlessing for example told us that "the snagging on our product is zero".¹¹⁹ However, as Samantha Fernley of BOPAS (the Buildoffsite Property Assurance Scheme) told us, although many technologies look promising, it is too early to say definitively whether there is a quality advantage:

We are on the edge of this curve. With building things in a factory, there are much tougher regulations; things are much more quality controlled and much more consistent. ... If you look to Japan or Europe, they are already using some of this technology and it seems to be working very well for them.¹²⁰

113. Whilst acknowledging the speed and quality consistency benefits, we do not view modular or other MMC approaches as currently providing a cost benefit for developers. This is because MMC works best where there is a steady demand for identical units. However, as output increases, the cost per unit is likely to decrease. Marc Vlessing told us:

If you want those factories to hum, if you want the sense of continuous ordering to really happen, then this is not about one-offs, however great the factory might be at responding to one-offs. The industrial manufacturing of housing will always be at its most efficient when it is a replicable format.¹²¹

117 Essential Living ([BLD077](#)) para 4.6

118 Q133

119 Q126

120 Q329

121 Q128

114. Off-site construction methods are therefore suited to easily replicable designs such as blocks of flats. We therefore welcomed the confirmation from housing associations that they are fully exploring off-site construction,¹²² as their product has the potential to be well-suited to it and would offer the certainty of demand that is needed. This certainty and the need for a full order book are vital for MMC and off-site construction to establish themselves and make a meaningful contribution to levels of homebuilding. Many witnesses told us that they would consider using MMC more, if it were better established. David Thomas, Chief Executive of Barratt Developments, for example, told us that:

The reality is that the supply chain there is not fully in place. The supply chain is not geared up for large levels of production. It definitely could be, but it will clearly take time to bring through large levels of production. In the medium term, we come back to the fact that the vast majority of houses will be brick and block construction.¹²³

115. The housing White Paper highlights the benefits of MMC and proposes measures to support their increased use. It also recognises the challenge of creating a mature supply chain: “Firms have told us that the most significant barrier to growth is the lack of a pipeline”. It therefore argues that this can be addressed by encouraging future orders through the Accelerated Construction programme and the Home Builders’ Fund.¹²⁴ ***We welcome the Government’s support of Modern Methods of Construction, but believe that it needs to take a more active role to improve the wider sustainability of the MMC supply chain and to encourage the market to grow. This could include the work of the HCA and its support of rental developments.***

116. Financing developments that use MMC can also be a challenge. Many lenders are risk averse and do not yet have faith in the new technologies being used, especially in light of the shortcomings of earlier forms of prefabricated housing. We were told about lenders’ caution by Marc Vlessing, who explained that for an average development, banks would require around 65 per cent senior debt levels, with the balance made up by the developer. For modular schemes, the senior debt level drops to between 45 and 55 per cent because the banks view them as higher risk.¹²⁵ Mr Vlessing also explained that:

When I sign a modular contract, I am signing over my life to a company that, were they not to arrive on Monday with the units, I would not be able to do anything about. With a conventional developer I can sack the bricklayer or the electrician if they are not on site. With modular I have given away all that clout, which, by the way, is why the banks put in a lower senior debt layer. It is a level of trust.¹²⁶

117. The Council of Mortgage Lenders explained that this perception of higher risk came from lenders’ experiences in the past:

While lenders have no intrinsic preference for any particular mode of construction, they do have one overriding requirement: that properties

122 Qq188–189

123 Q84

124 Department for Communities and Local Government, *Fixing our broken housing market*, Cm 9352, February 2017, paras 3.37–3.39

125 Q125

126 Q133

considered in relation to a mortgage must be capable of standing as security for a loan of up to 35 years. ... Some caution in lending on Modern Methods of Construction (MMC) has been, in part, fuelled by the relatively poor track record of past generations of non-traditional construction.¹²⁷

118. We welcome the attempts to provide more confidence to lenders, such as the development of BOPAS (the Buildoffsite Property Assurance Scheme) and work by the NHBC (National House Building Council) to certify different MMC. However we are concerned that with so many different systems being used to build homes, there is no single recognised scheme to give builders, lenders or home-buyers confidence in the product's value. Samantha Fernley from BOPAS told us that the industry is very fragmented, and explained that:

The warranty providers do not talk to each other; we would like to but do not do it enough. Every mortgage lender has their own view. We are all doing individual work to push this forward but something needs to bring it together. We almost need a Kitemark or something that encompasses it, to give more faith to the lenders.¹²⁸

119. We support the increased use of Modern Methods of Construction and note the understandable caution exercised by lenders. In order to address this, homes built using MMC should have a single, recognised quality assurance mark, sponsored by the Government, to give lenders, consumers and builders the confidence to use new methods.

Custom and self-build

120. The National Custom and Self-Build Association (NaCSBA) argue that there is evidence of unmet demand for people who want to custom or self-build. It highlights that in other developed countries, around half of the homes built are custom or self-build, and that:

53% of the UK population would like to build or commission their own home at some time in their lives (14% / 7 million people in the next 12 months) but only around 10,000 succeed. Around 10% of this market want to do the full 'Grand Designs' self-build approach. Around 12% are happy with the minimal choice offered by a speculative volume house builder. The remaining 78% of prospective new home buyers are not catered for in the UK currently.¹²⁹

121. The home construction industry is dominated by volume builders, and we therefore welcome any market diversification and the opportunities presented by custom and self-build homes. Chris Brown, Executive Chair and Founder of Igloo Regeneration, told us:

You have heard quite a lot of evidence about the market being driven by sales rates of primarily speculatively developed standard house types. For me, the constraining factor is how many people there are in that relatively small geographic market who will buy that standard house type, because people tend not to move very far. Most of the population do not actually

127 Council of Mortgage Lenders ([BLD019](#)) Annex A

128 Q313

129 National Custom and Self-Build Association ([BLD 079](#)) para 2

want to buy any new house from a big house builder ... when you remove that constraint of standard house types and you allow the customer to have the house they want, the sales rate goes up ... by three to five times. The increase is potentially a very significant increase in the speed at which you can sell and, therefore, the speed of supply. That is different from how fast you can build: how fast you can sell.¹³⁰

122. However, despite the opportunities presented by custom and self-build homes, there are a number of obstacles for people wishing to build a home using them. Michael Holmes, Chair of NaCSBA, summarised the situation: “if you have money, you can self-build; if you are in the ordinary housing market and do not have a big deposit, you are probably excluded from the custom and self-build sector”.¹³¹ We have discussed how homes built using MMC can present a higher risk investment for lenders (paragraph 116), and this also applies to custom and self-build homes. Chris Brown told us that the supply of mortgages was a long way off meeting any expansion of custom or self-build and that “we are in this catch-22 situation at the moment: without the big mortgage providers being in the stage payment mortgage market, we cannot ramp up production”.¹³² **We welcome the recognition from the Government in the housing White Paper that accessing finance is a major obstacle to custom and self-building, and its commitment to continue working with lenders to address this. We ask that the Department provide the Committee with an update on this issue in twelve months’ time.**

123. Accessing land is also a challenge for custom and self-builders. Local planning authorities are required to keep a register of people who would like to have a custom built home and they are required to identify land to meet this demand. However the implementation of this duty varies greatly. Michael Holmes told us that “Where there is a will, there is tremendous progress. There are also lots of local authorities who have a housing strategy document that says, “There is no discernible demand for custom and self-build in our area” and therefore are doing absolutely nothing about it”.¹³³ We also heard from Sarah McMonagle from the Federation of Master Builders that local authorities can charge as much as they like for people wishing to be on the register, and that this could be putting people off from pursuing custom and self-build further.¹³⁴ However despite this, planning policy guidance states that the registers are a good measure of demand when a planning authority is completing its SHMA (strategic housing market assessment).¹³⁵

124. The challenges faced by small and medium sized builders when trying to access land are magnified for custom and self-builders. Michael Holmes, Chair of NaCSBA told us: “Basically it is a lot more work to deliver for custom-builds. It is a lot more work to deliver sites for small to medium sizes house builders. It is a lot easier to zone large strategic sites and wait for them to be brought forward by land owners and major house builders for hundreds if not thousands of houses at one time”.¹³⁶

130 Q133

131 Q136

132 Q138

133 Q136

134 Q11

135 Q139

136 Q139 [Michael Holmes]

125. The housing White Paper makes a commitment to supporting custom and self-builders through the Home Building Fund and the Accelerated Construction programme, and states that if the Government believes that local authorities are not supporting them adequately, it will consider changing legislation to address this.¹³⁷ ***We believe that the Government needs to review planning policy guidance to ensure that the measures promoting custom and self-build in the NPPF lead to greater opportunities for such development in local plans. In particular the fees charged by local authorities for the custom and self-build register should be reviewed to ensure they are not prohibitive.***

126. In 2012, our predecessor Committee published a report on the financing of new housing supply. As part of the inquiry the Committee visited Almere in the Netherlands and observed a model whereby 800 homes had been built by people self-commissioning their own homes on publicly owned land. The local authority designated plots, put in place purchase arrangements, and provided roads and other infrastructure. In response to our findings, the Department was very enthusiastic about custom and self-build housing.¹³⁸ ***We are therefore disappointed at the lack of progress in the five years since the Committee's report, and call for a more proactive role to support custom and self-build by Government and local authorities as investment by public bodies can encourage private investment.***

137 Department for Communities and Local Government, *Fixing our broken housing market*, [Cm 9352](#), February 2017, para 3.18

138 Communities and Local Government Committee, Eleventh Report of Session 2010–12, *Financing of new housing supply*, HC 1652, paras 149–155, and the Government Response, July 2012, [Cm 8401](#), para 33

6 Skills

The declining and aging workforce and the skills gap

127. So far this report has highlighted a range of challenges that must be overcome if the country is to build the homes that it needs. However, even if they are all addressed, it will matter little if there is not the labour force to physically build homes. Skill levels and workforce capacity are arguably the single biggest challenge facing the homebuilding industry, but one with the least obvious solutions and one that individual stakeholders cannot address on their own. The Federation of Master Builders highlight research by the Construction Industry Training Board (CITB) which predicts that, at projected rates of growth, the industry will need to recruit a further 230,000 workers before 2020. At the same time the construction workforce is ageing and 400,000 workers can be expected to retire over the next five to ten years.¹³⁹ The CITB argue that bricklaying requires a twenty per cent increase to its workforce (14,350 to an existing workforce of 72,000) and carpentry and wood trades require an additional 21,600 workers to an existing workforce of 273,000 (an increase of eight per cent).¹⁴⁰

128. As part of our inquiry, we visited Berlin to learn about their approach to home building. We were told by the Association of German Building Industry that “No-one grows up wanting to be a builder”. We have found a similar issue in the UK. In 2016 Mark Farmer was commissioned by the Construction Leadership Council, at the request of Brandon Lewis and Nick Boles (the Ministers for Housing & Planning and Skills respectively at the time) to undertake a review of the UK’s construction labour model. His report, ‘Modernise or Die’, identified a poor industry image. He cites an industry that is “struggling with its public facing image which is influencing the career decisions of the next generation of potential workers”. A key factor in this image problem is the public perception of low job security, unpleasant working conditions and poor health and safety. Mr Farmer also highlights the “endless raft of ‘cowboy builder’ media exposés” that contribute to construction not being seen as a viable or attractive career choice.¹⁴¹

129. Mr Farmer identified a dual problem for the homebuilding industry: skills and training, and the need for innovation. He told us that “We have so big a challenge around the declining workforce in construction that we cannot recruit or retain our way out of it. We have to be prepared for a reducing workforce, which means we need to be able to build more with less”.¹⁴² He argues that it is imperative that home builders embrace innovative methods such as off-site construction and pre-manufacturing. The Farmer Review also identifies the opportunity of using new methods of construction to appeal to digital generations who may be less inclined to pursue careers using more traditional building methods.¹⁴³

130. We heard that addressing the skills crisis cannot be done by individual actors in the industry. David Jenkinson from Persimmon Homes told us that his company was

139 Federation of Master Builders (BLD071) para 23

140 Construction Industry Training Board (BLD072) para 7

141 The Farmer Review of the UK Construction Labour Model, [Modernise or Die: Time to decide the industry's future](#), (October 2016), page 40

142 Q214

143 The Farmer Review of the UK Construction Labour Model, [Modernise or Die: Time to decide the industry's future](#), (October 2016), page 48

investing in training and that at any one time, fourteen per cent of Persimmon's staff were in training. However he conceded that despite training over 1,000 people, this would not be enough to meet the required increase in output.¹⁴⁴ We therefore welcome the work by the CITB and the Home Builders Federation to deliver the Home Building Skills Partnership, which brings together over forty home builders to tackle the industry's skills needs. The partnership will support 3,500 construction businesses, and train 45,000 new entrants and 1,000 experienced workers by 2019.¹⁴⁵ John Slaughter from the Home Builders Federation told us that "The idea is to bring the industry together for the first time, to work collaboratively in meeting future skills".¹⁴⁶

131. The Government recognises the issues of a shrinking workforce and an emerging skills shortage. In the housing White Paper, it announced changes to training courses, its intention to work with the Construction Leadership Council to encourage developers to invest in training, and a review of the CITB's purpose, functions and operations.¹⁴⁷ **We believe that the review of the Construction Industry Training Board must produce concrete proposals for action, particularly on improving Further Education routes into the construction industry and the development of a clear cross-Departmental strategy.** We note in this context the conclusions of the Business, Energy and Industrial Strategy Select Committee's report on the Government's Industrial Strategy Green Paper:

A skilled workforce is an essential foundation of economic success. Given the weaknesses identified by the Government in the UK's skills base, the proposals contained in the industrial strategy Green Paper leave much to be desired ... It is deeply disappointing that the Green Paper fails to outline any detailed proposals for discussion in relation to encouraging the uptake of STEM [Science, Technology, Engineering, Mathematics] subjects, and improving the skills of those already of working age.¹⁴⁸

132. **Addressing the skills shortage and the declining workforce is essential to ensure a continued and sustainable increase in the number of homes built. The Government's review of the Construction Industry Training Board should be monitored, and we expect the Government to come forward with practical measures within a year to encourage new entrants into the industry and to retain those already working.**

Leaving the European Union

133. Much of the evidence we received about the skills shortage also highlighted the potential for Brexit to exacerbate the situation. David Cowans from the Places for People housing association emphasised that the skills crisis pre-dates the decision to leave the EU, but it could worsen the situation: "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

144 Q83

145 Construction Industry Training Board ([BLD072](#)) para 18

146 Q24

147 Department for Communities and Local Government, *Fixing our broken housing market*, [Cm 9352](#), February 2017, paras 2.31–2.34

148 Business, Energy and Industrial Strategy Committee, Second Report of Session 2016–17, [Industrial Strategy: First Review](#) (HC 616), para 115

it get worse? Very definitely. Should we do something about training and development of construction staff generally? Yes.”¹⁴⁹ Likewise, Sarah McMonagle from the Federation of Master Builders told us that:

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.¹⁵⁰

134. Workers from the EU can provide an important cushion to cyclical workforce fluctuations. A report by the London Assembly’s Economy Committee estimates that in London alone, around a quarter (88,000) of all workers in construction were born in EU countries.¹⁵¹ When we put this figure to the Housing Minister, Mr Barwell stated that “My perception would be that on most building sites in London the figure is significantly higher than that”.¹⁵² **While the level of EU-born workers will vary across the country, London undoubtedly faces the largest challenges both in terms of required development and the numbers of EU workers. We are therefore concerned that large numbers of an already stretched workforce face an uncertain future. *The importance of EU labour to the construction industry should be taken into account by the Government in setting priorities for the Brexit negotiations.***

149 Q24

150 Q24

151 London Assembly Economy Committee, [EU Migration](#), February 2017, page 4

152 Q418

7 Issues for the Committee to return to

135. Alongside our conclusions and recommendations for Government, we have identified a number of issues that that we believe should be kept under scrutiny to ensure our housing market improves. To aid our successors, we present them below for ease of reference:

- The operation of the land market (paragraph 12)
- The implementation and effectiveness of the Home Building Fund and the German model of support for SMEs (paragraph 44)
- The Accelerated Construction programme should be closely monitored. The HCA should provide regular written updates to the Committee with progress reports against key milestones (paragraph 48)
- We recommend that in a year's time, our successors seek reassurance from the Government that the consolidated Home Building Fund is providing effective support to Build to Rent products (paragraph 72)
- The Government's response to the Community Infrastructure Levy Review (paragraphs 79, 86 and 90)
- Policies relating to assessing the viability of housing developments (paragraphs 87-93)
- We ask that the Department provide the Committee with an update on accessing finance for custom and self-builders in twelve months' time (paragraph 122)
- The Government's review of the Construction Industry Training Board should be monitored, and we expect the Government to come forward with practical measures within a year (paragraph 132)

Conclusions and recommendations

The structure of the homebuilding industry

1. The high volume homebuilders dominate the market and are therefore able to shape how it operates. Having purchased land at a given price and devised a scheme that will allow them to recoup their investment and deliver a profit, they will not risk over-saturating a local market to the extent that house prices will fall and their profits decrease. This is rational commercial behaviour and a sound business model. But it is not one that is in the country's best interests. (Paragraph 7)
2. We do not believe that developers intentionally inflate prices—but they reduce risk by building to demand at current prices, and there is insufficient incentive for them to build any quicker, and considerable incentives for them to ensure that local prices do not fall. *We encourage the Government to consider how it can influence the financial model of the sector and encourage developers to take a longer-term perspective and a greater stake in civic homebuilding.* We recommend to our successors that they revisit the land market, how land prices can determine development outcomes and the feasibility of increased public intervention in the land market so as to be able to prioritise long-term community benefits over short-term commercial profits in a future inquiry. (Paragraph 12)
3. *Working with developers and local authorities, the Government must ensure that the data collected by local authorities on the development pipeline are more thorough and reliable. It must be clear at a local level how many planning permissions have been granted, at what stage those permissions are, who owns the land, when the permissions will be built out and what the reasons for any delay are. We would expect this to be done by autumn 2017.* (Paragraph 17)
4. We do not want measures intended to increase housing completions to act as a disincentive for developers to consider proposing a development. But local authorities should be encouraged to require a schedule of build-out rates prior to granting planning permission. This, coupled with increased transparency on developer behaviour and performance and a greater use of compulsory purchase powers, would in our view be likely to increase build out rates. (Paragraph 21)
5. The country's homebuilding market is dominated by the volume builders, whose output is determined by their assessment of risk and uncertainty. If the country is to boost the supply of new homes, then greater market diversification and counter-cyclical building will be necessary, as well as measures to reduce risk to developers. (Paragraph 25)
6. We appreciate the reasons why local authorities often prioritise allocating larger sites for development over multiple smaller sites. However this has made accessing land more difficult for small and medium sized builders, and we urge local authorities to make more suitable land available to them. (Paragraph 35)
7. *The Government should consider helping smaller building companies to access credit at more favourable rates.* (Paragraph 39)

8. We welcome the introduction of the Home Building Fund, especially its efforts to increase access to finance for small and medium sized builders. We recommend that our successors revisit the implementation and effectiveness of the Fund within the next two years to assess its success, and consider the German model of support for SMEs. *The Government should publish a strategy within the next year outlining the practical steps to be taken to encourage commercial lenders to lend on more appropriate terms to home builders. The Government should look closely at the lessons that can be learned from the German model of support for SME companies, which offers support and certainty for the sector as a whole rather than to individual companies.* (Paragraph 44)
9. It is essential that Accelerated Construction does not become another stalled initiative like the direct commissioning pilots which have little to show a year on from the substantial initial financial commitment. The Accelerated Construction programme should be closely monitored by our successors, so as to make it possible to assess its effectiveness at bringing forward more surplus public land for development, diversifying the market through partnership arrangements with small and medium sized builders and supporting offsite manufacturing. Accelerated Construction provides a welcome opportunity for public funds to be used to reduce the risk of development through a more proactive role for the HCA. *The HCA should provide regular written updates to the Committee with progress reports against key milestones.* (Paragraph 48)
10. *We recognise that some local authorities may be wary of increasing borrowing in a time of austerity, but in light of the severity of the housing crisis recommend that all HRA borrowing caps should be raised and in some cases removed, where housing affordability is at its worst.* (Paragraph 55)
11. We welcome all efforts by councils to be innovative and explore alternative delivery models such as joint ventures and arms-length local authority trading companies. However we are concerned that with so many different approaches across the country, there is a risk that best practice is not shared and that resources could be used inefficiently. There is also a risk that the large number of local authority housing companies could struggle to access the skills and expertise needed to deliver at scale. *The Government should review the capacity and skills of local authority housing companies to assess whether they are able to access the quality of expertise needed and to identify and share examples of best practice in order to improve performance and the delivery of new homes.* (Paragraph 58)
12. *We welcome the Minister's recognition of the need for certainty over social rent levels, and call on the Government to provide this as a matter of urgency to ensure that housing associations are able to maximise their delivery of new housing. At the very latest, certainty over social rents should be provided by the Autumn Statement.* (Paragraph 64)
13. Housing associations have charitable purposes, and they (and Government) must remain mindful of this. Government policies on the reduction of social rents have affected the sector's financial modelling, with many increasingly subsidising services

by building more homes for sale, or merging to achieve financial efficiencies. We are not opposed to this in principle, as long as housing associations continue to deliver on their fundamental social purpose (Paragraph 65)

14. We welcome the Government's recognition that focussing on a single tenure will not address the country's housing needs. *The Build to Rent Fund has proven to be successful in helping to deliver greater tenure diversity and we urge the Government to ensure that the consolidated Home Building Fund does not overlook the rented sector. We recommend that in a year's time our successors seek reassurance from the Government that the consolidated fund is providing effective support to Build to Rent products.* (Paragraph 72)

Planning reform

15. *The Government is currently consulting on a standardised approach for assessing housing requirements, but use of the new standardised methodology will be an expectation rather than a requirement. The Government should ensure that there are sufficient incentives for local planning authorities to use the standardised methodology for assessing housing need, and Planning Inspectors should take use of the methodology into account when considering local plans.* (Paragraph 75)
16. The Government is currently consulting on the proposed changes to the NPPF and we look forward to further information on how it proposes to ensure that smaller sites in a local plan are used by small and medium sized builders. *The Government must set out the requirements on local authorities to ensure that larger sites are sub-divided.* (Paragraph 77)
17. Increasing the number of small sites will help to challenge the dominance of larger developers and support small and medium sized builders. However they must not come at the expense of developer contributions that provide necessary community infrastructure. This issue must be addressed in the Government's response to the Community Infrastructure Levy Review. (Paragraph 79)
18. We welcome the measures in the White Paper to make it clearer for all parties how the five year land supply should be calculated, and the opportunity for local authorities to have their housing land supply set and agreed on an annual basis, and fixed for a one year period to minimise disputes. (Paragraph 80)
19. We agree with the Minister that the country is facing a housing crisis and recognise the need to increase the number of homes available. However we remain concerned by the lack of control that planning authorities will have over homes created using permitted development rights. (Paragraph 85)
20. *We call on the Government to ensure that in its response to the Community Infrastructure Levy Review, it considers the appropriateness of homes built using permitted development rights not contributing to local services, infrastructure or affordable housing.* (Paragraph 86)
21. It is extremely regrettable that the Government's response to the Community Infrastructure Levy Review was not published alongside the White Paper and will not be available until the autumn. (Paragraph 90)

22. *We therefore reiterate the findings of our predecessor Committee and recommend that developer assumptions and assessments of viability must be shared with local authorities to ensure that the provision of infrastructure, affordable housing and build density is not compromised.* (Paragraph 91)
23. The recognition by the sector of the changing skill requirements of local authority planning departments is welcome, but the delivery of affordable housing should not depend upon the negotiating skills of a particular local authority. *We therefore urge the Government to explore the feasibility of a standardised methodology for assessing viability, much as it has proposed for agreeing Objectively Assessed Need.* (Paragraph 93)
24. *Councils should be required to demonstrate that the additional income from the increased fees has been used to accelerate housing and other developments, and to publish this information on their website to give developers assurance that the additional costs can be justified. The proposed second twenty per cent increase should incentivise all aspects of planning, not just the processing of applications.* (Paragraph 97)
25. *The role of planning is fundamental to the success of communities, and council leaders and chief executives must show leadership and support to recognise this and empower innovation by planners. Local authorities must show a commitment to the planning function and ensure there are incentives and support in place for employees that are seeking further training and formal planning qualifications, such as those facilitated by the RTPI.* (Paragraph 101)

Land availability

26. We welcome the Government's commitment to protecting the green belt, but are concerned that the proposals in the White Paper effectively weaken the protections in the NPPF, as the 'exceptional circumstances' could now include an authority not building enough homes. *Any changes to a green belt designation should only be made as part of the wider local plan review process to ensure opportunities for community consultation. While we believe that removing land from the green belt should be a last resort, we reiterate our recommendation from our earlier report: the Government should publish guidance for local authorities, setting clear guidelines on when and how it may be appropriate for a local authority to review its green belt boundary in order to deliver new homes to meet local need.* (Paragraph 105)
27. We welcome such measures and encourage local authorities to recognise both the social value that can be delivered by developments and that this can be more beneficial than maximising immediate financial returns. (Paragraph 108)
28. It is essential that the disposal of public land focusses on delivering land in areas where it is most needed, and that it does so without delay. We would welcome the HCA becoming more active in the acquisition of surplus land and, where appropriate, obtaining planning permission and directly commissioning development. We also support exploring whether incentives for Departments and public bodies (such as the opportunity to maintain a financial stake in the land) would help bring forward more public land. (Paragraph 110)

Innovation

29. *We welcome the Government's support of Modern Methods of Construction, but believe that it needs to take a more active role to improve the wider sustainability of the MMC supply chain and to encourage the market to grow. This could include the work of the HCA and its support of rental developments. (Paragraph 115)*
30. *We support the increased use of Modern Methods of Construction and note the understandable caution exercised by lenders. In order to address this, homes built using MMC should have a single, recognised quality assurance mark, sponsored by the Government, to give lenders, consumers and builders the confidence to use new methods. (Paragraph 119)*
31. *We welcome the recognition from the Government in the housing White Paper that accessing finance is a major obstacle to custom and self-building, and its commitment to continue working with lenders to address this. We ask that the Department provide the Committee with an update on this issue in twelve months' time. (Paragraph 122)*
32. *We believe that the Government needs to review planning policy guidance to ensure that the measures promoting custom and self-build in the NPPF lead to greater opportunities for such development in local plans. In particular the fees charged by local authorities for the custom and self-build register should be reviewed to ensure they are not prohibitive. (Paragraph 125)*
33. *We are therefore disappointed at the lack of progress in the five years since the Committee's report, and call for a more proactive role to support custom and self-build by Government and local authorities as investment by public bodies can encourage private investment. (Paragraph 126)*

Skills

34. *We believe that the review of the Construction Industry Training Board must produce concrete proposals for action, particularly on improving Further Education routes into the construction industry and the development of a clear cross-Departmental strategy. (Paragraph 131)*
35. *Addressing the skills shortage and the declining workforce is essential to ensure a continued and sustainable increase in the number of homes built. The Government's review of the Construction Industry Training Board should be monitored, and we expect the Government to come forward with practical measures within a year to encourage new entrants into the industry and to retain those already working. (Paragraph 132)*
36. *While the level of EU-born workers will vary across the country, London undoubtedly faces the largest challenges both in terms of required development and the numbers of EU workers. We are therefore concerned that large numbers of an already stretched workforce face an uncertain future. The importance of EU labour to the construction industry should be taken into account by the Government in setting priorities for the Brexit negotiations. (Paragraph 134)*

Formal Minutes

Monday 24 April 2017

Members present:

Mr Clive Betts, in the Chair

Helen Hayes

Mr Mark Prisk

Kevin Hollinrake

Alison Thewliss

David Mackintosh

Draft Report (*Capacity in the home building industry*) proposed by the Chair, brought up and read.

Ordered, That the Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 135 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Tenth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned until Tuesday 25 April at 3.30 p.m.]

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the [inquiry publications page](#) of the Committee's website.

Monday 17 October 2016

Question number

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

[Q1–35](#)

Monday 31 October 2016

David Jenkinson, Group Managing Director, Persimmon plc, **David Thomas**, Group Chief Executive, Barratt Developments plc, and **Pete Redfern**, Chief Executive, Taylor Wimpey plc

[Q36–90](#)

Monday 21 November 2016

Daniel Gath, Managing Director, Daniel Gath Homes, **Rt Hon David Heathcoat-Amory**, Director, Devonshire Homes, and **Adrian Swan**, Managing Director, Swan Homes

[Q91–119](#)

Chris Brown, Executive Chair & Founder, Igloo Regeneration, **Michael Holmes**, Chair, National Custom & Self Build Association, **Christine Hynes**, Chief Executive Officer, 24:7LivingUK, and **Marc Vlessing**, Chief Executive Officer, Pocket Living

[Q120–144](#)

Tuesday 29 November 2016

Sandra Dinneen, Chief Executive, South Norfolk Council, **Councillor Peter John**, Leader of the Council, London Borough of Southwark, and **Tim Hill**, Chief Planning Officer, Leeds City Council

[Q145–167](#)

Kathleen Kelly, Assistant Director of Policy and Research, National Housing Federation, **David Montague**, Chief Executive, L&Q, and **Matthew Harrison**, Chief Executive, Great Places

[Q168–206](#)

Monday 16 January 2017

Professor Michael Ball, Professor of Urban and Property Economics, Henley Business School, University of Reading, **Philip Callan**, Research Associate, ResPublica, and **Mark Farmer**, author of *The Farmer Review of the UK construction labour model: modernise or die*

[Q207–255](#)

Monday 6 February 2017

Sir Edward Lister, Chairman, Homes and Communities Agency, **Gordon More**, Chief Investment Officer, Homes and Communities Agency, and **Ian Piper**, Head of Land, Homes and Communities Agency

[Q256–308](#)

Paul Smee, Director General, Council of Mortgage Lenders, **Lewis Sidnick**, Director of Corporate Affairs, NHBC, and **Samantha Fernley**, Business Development Executive BLP Consult representing BOPAS

[Q309–350](#)

Monday 27 February 2017

Gavin Barwell MP, Minister for Housing and Planning, Department for Communities and Local Government, and **Isobel Stephen**, Director of Housing Supply, Department for Communities and Local Government

[Q351–434](#)

Published written evidence

The following written evidence was received and can be viewed on the [inquiry publications page](#) of the Committee's website.

BLD numbers are generated by the evidence processing system and so may not be complete.

- 1 247 Living UK Ltd ([BLD0028](#))
- 2 Affordable Homes UK (Group) & Benfield ATT Group ([BLD0033](#))
- 3 Anonymous ([BLD0081](#))
- 4 Association of Local Government Archaeological Officers ([BLD0037](#))
- 5 ATTMA, The Air Tightness Testing & Measurement Association Ltd ([BLD0008](#))
- 6 Beau Homes ([BLD0067](#))
- 7 Bioregional ([BLD0038](#))
- 8 BPF ([BLD0074](#))
- 9 Building & Social Housing Foundation ([BLD0051](#))
- 10 Campaign to Protect Rural England (Kent Branch) ([BLD0061](#))
- 11 Chartered Institute for Archaeologists ([BLD0035](#))
- 12 Cheyne Capital ([BLD0041](#))
- 13 CIH ([BLD0054](#))
- 14 CITB ([BLD0072](#))
- 15 Council of Mortgage Lenders ([BLD0019](#))
- 16 Daniel Gath Homes ([BLD0078](#))
- 17 David Cooper & Co ([BLD0001](#))
- 18 Demos ([BLD0050](#))
- 19 Department for Communities and Local Government ([BLD0068](#))
- 20 Department for Communities and Local Government ([BLD0082](#))
- 21 Devonshire Homes Limited ([BLD0039](#))
- 22 District Councils' Network ([BLD0043](#))
- 23 Dr Sarah Payne ([BLD0031](#))
- 24 Dr Tim Brown ([BLD0023](#))
- 25 Enevate Building Systems Ltd ([BLD0029](#))
- 26 Essential Living ([BLD0077](#))
- 27 Farnham PLACE Group ([BLD0004](#))
- 28 Federation of Master Builders ([BLD0071](#))
- 29 Funding Options Ltd. ([BLD0070](#))
- 30 G15 ([BLD0040](#))
- 31 Greater Manchester Combined Authority ([BLD0060](#))
- 32 Heylo ([BLD0080](#))
- 33 Home Builders Federation ([BLD0059](#))

- 34 HWO Architects ([BLD0022](#))
- 35 igloo Regeneration ([BLD0064](#))
- 36 International Longevity Centre - UK ([BLD0007](#))
- 37 L&Q ([BLD0056](#))
- 38 Land Planning Associates ([BLD0006](#))
- 39 Larkfleet Homes ([BLD0046](#))
- 40 Leeds City Council ([BLD0055](#))
- 41 LendInvest ([BLD0048](#))
- 42 Local Government Association ([BLD0032](#))
- 43 London Borough of Newham ([BLD0049](#))
- 44 London Borough of Southwark ([BLD0066](#))
- 45 McCarthy & Stone ([BLD0003](#))
- 46 Mr Daniel Bentley ([BLD0013](#))
- 47 Mr Daniel Scharf ([BLD0002](#))
- 48 Mr Terry Adams ([BLD0062](#))
- 49 National Custom and Self Build Association ([BLD0079](#))
- 50 National Housing Federation ([BLD0063](#))
- 51 Norfolk Homes Ltd ([BLD0018](#))
- 52 Peabody ([BLD0017](#))
- 53 Places for People Group ([BLD0015](#))
- 54 Professor Nicholas Whitehouse ([BLD0030](#))
- 55 Rated People ([BLD0045](#))
- 56 Regeneration X ([BLD0044](#))
- 57 Rentplus ([BLD0052](#))
- 58 Residential Landlords Association ([BLD0009](#))
- 59 RIBA ([BLD0065](#))
- 60 Royal Institution of Chartered Surveyors ([BLD0075](#))
- 61 Royal Town Planning Institute ([BLD0025](#))
- 62 Savills plc ([BLD0036](#))
- 63 Sheffield Hallam University ([BLD0057](#))
- 64 Shelter ([BLD0021](#))
- 65 South East England Councils ([BLD0020](#))
- 66 South Gloucestershire Council ([BLD0010](#))
- 67 South Norfolk Council ([BLD0034](#))
- 68 Swan Housing ([BLD0014](#))
- 69 Taylor Wimpey UK ([BLD0042](#))
- 70 The Hyde Group ([BLD0011](#))
- 71 The Intergenerational Foundation ([BLD0026](#))

- 72 The Mayor of London ([BLD0073](#))
- 73 The Nationwide Foundation ([BLD0024](#))
- 74 The Smith Institute ([BLD0005](#))
- 75 University of Northampton ([BLD0012](#))
- 76 Urban Develop Ltd ([BLD0027](#))
- 77 Westbuild Homes ([BLD0069](#))
- 78 Woodland Trust ([BLD0058](#))

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the [publications page](#) of the Committee's website.

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

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First Report	100 per cent retention of business rates: issues for consideration	HC 241
Second Report	Pre-appointment hearing with the Government's preferred candidate for the post of Chair of the Homes and Communities Agency	HC 41
Third Report	Homelessness	HC 40 (9443)
Fourth Report	Government interventions: the use of Commissioners in Rotherham Metropolitan Borough Council and the London Borough of Tower Hamlets	HC 42 (CM 9345)
Fifth Report	The draft Homelessness Reduction Bill	HC 635 (CM 9443)
Sixth Report	Pre-appointment hearing with the Government's preferred candidate for the post of Local Government Ombudsman	HC 737
Seventh Report	Public Parks	HC 45
Eighth Report	Adult social care: a pre-Budget report	HC 47
Ninth Report	Adult social care	HC 1103
First Special Report	Housing associations and the Right to Buy: Homes and Communities Agency response to the Committee's Second Report of Session 2015–16	HC 902

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First Report	Devolution: the next five years and beyond	HC 369 (CM 9291)
Second Report	Housing associations and the Right to Buy	HC 370 (CM 9416, 2017–18)
Third Report	Department for Communities and Local Government's consultation on national planning policy	HC 703 (CM 9418, 2017–18)
First Special Report	Child sexual exploitation in Rotherham: Ofsted and further government issues: Ofsted Response to the Committee's Ninth Report of Session 2014–15	HC 435
Second Special Report	Private rented sector: the evidence from banning letting agents' fees in Scotland: Government Response to the Committee's Eighth Report of Session 2014–15	HC 434