

# Mending the market

A round table hosted by Drivers Jonas Deloitte explored the tensions between different strands of government policy and the prospects for getting housing development moving again



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Since a Conservative-Liberal Democrat coalition took office in May, the planning and housing worlds have been propelled into uncertainty by the rapid abolition of regional spatial strategies (RSSs), with nothing definite lined up to replace them, and by public spending cuts, not least at the Homes and Communities Agency.

When communities secretary Eric Pickles abruptly told councils that they can ignore the RSSs pending their abolition (*Planning*, 4 June, p1), he said only that the government intends instead to give powers over housing and planning to councils. Now the secretary of state has declared his intention to revoke RSSs with immediate effect. But it remains to be seen how local planning will operate without them and how effective the government's proposed incentives to encourage development will be.

However, it is clear that the flow of public money through social housing and market support schemes of the past few years, which shored the housing industry through the recession, will soon dry up. Does England face a future of confident private sector firms building on sites where councils eager for the financial incentive welcome them, or one where nimbies rule and few builders can afford to develop anyway? Drivers Jonas Deloitte convened an expert panel in early June to discuss these issues raised. **Mark Smulian** hears their views.

### What impact will abolition of regional spatial strategies have on planning and development?

**Morris** "The coalition government has said it will rapidly abolish regional spatial strategies and return decision-making powers on housing and planning to councils. Communities secretary Eric Pickles was very quick in sending off letters on this subject. How will local authorities define their housing targets and requirements?"

**Stone**: "The cynic in me says some will choose not to. In the South East, where there has traditionally been resistance to development, we might see that attitude continue. But some local authorities, in our experience, have been more positively engaged and are somewhat bewildered by the situation they are left in now, in a vacuum with no clear steer."

**Bunting**: "We're in limbo and need guidance quickly. My concern is that wherever you go, the local government structure will become different. We will find some groupings of local authorities that will get together and commission studies, but in others that will not happen. Unless there is clear guidance on how councils should work together on planning, there will be a mish-mash of different arrangements across the country. Some councils will pool ideas but others will row their own boat where locally they don't want to build. I think we will see an increased north-south divide. London is easier because the

### THE PANEL

(above, left to right)

**Chaired by Huw Morris**, editor, *Planning*

**Colin Wilson**, manager, planning decisions unit, Greater London Authority

**James Stone**, development manager, Lands Improvement Holdings

**Richard Burrows**, managing director, Bellway Homes Essex

**Giulia Bunting**, associate partner and head of London planning team, Drivers Jonas Deloitte

**Peter Minoletti**, planning development manager, London Thames Gateway Development Corporation

**Andrew Gale**, planning director, Drivers Jonas Deloitte

Greater London Authority (GLA) is a strategic body providing the necessary guidance, which makes it a special case."

**Minoletti**: "The GLA got boroughs to agree housing targets, more or less, and there is a genuine willingness by the east London boroughs to bring forward housing. There is a lot of doubt about housing in parts of the South East, but there is a danger of over-exaggeration."

**Burrows**: "The Conservatives talked about using Option 1 figures as housing targets. If removed, I wonder how you can mount an argument on housing land supply if you have no target at all."

**Minoletti**: "You do need some sort of framework or there is a danger of nimbysism."

**Burrows**: "It comes down to the financial incentives, which the government says will be six times the council tax raised by new homes. But it's the stick that will be used if you don't build that we don't know about. The theory was that on one hand there would be an incentive, but on the other money would be taken away from councils if they fail to produce certain levels of housing. If you want to put up council tax by more than five per cent you'll need a referendum. You would not want to go to the people and say 'we must increase council tax because we haven't built enough houses.'"

**Bunting**: "But you require a delivery framework too. Where is that going to come from? If targets are set locally it will be easy to meet them because the target will be what the local authority wants to achieve anyway. If the target is imposed from elsewhere, you need a carrot and stick approach."

**Gale**: "My view is that incentives will appeal to more cash-strapped councils. But if there is genuine local choice, some authorities will say they don't need an extra few million and that not building will see land values go up, so money will come from other avenues."

**Burrows**: "You find landowners taking a 50 per cent hit on land values against 2007 levels but they seem to think that values will jump back tomorrow. My view is that you will not see any recovery in land values for five years, maybe ten, given the lack of funding and mortgage availability. Trying to get someone to sell you a site at the moment is a big problem. If you talk to lawyers, there are just no transactions being done. We want to get out there and build, but people don't want to sell sites."

### Is the decline in house building a failure of the planning system or the financial system?

**Bunting**: "Over the past couple of years it has been more a problem of lack of finance and mortgages than a planning block. Most RSSs promoted quite high house building rates and the reason they are not coming forward is not to do with the planning system. It is more about the market and the



banking crisis. If in five years' time no houses are being built, it will not be because of the planning system but because of a lack of mortgage finances."

**Burrows:** "The planning system was just about beginning to work, local development frameworks (LDFs) were coming to fruition and there were approved core strategies. All of a sudden we are changing it again."

**Bunting:** "A new planning system may slow things down but I'm not sure it will be planning's fault."

**Burrows:** "Housing delivery collapsed because of the market, not the planning system. Some of the things the previous administration put in place did work, such as Homebuy and Kickstart. Without those initiatives house building levels would have been significantly lower. On some of our sites 50 per cent of sales have some form of government assistance and without that we would have been in real trouble. Mortgage availability is the key factor, particularly at entry level because

quite critically at banks that lend too much. We don't want another Northern Rock, but this attitude takes a lot of confidence away. If no money is available to buy properties we are not going to start building them."

#### **What planning gain regime is needed?**

**Morris:** "What measures could the government take to encourage development?"

**Bunting:** "Do we still have a community infrastructure levy (CIL)? There seems to be some confusion. It does not appear as a policy plank for the new government, yet it has not disappeared. We are acting for a few local authorities on setting up tariff systems and they are continuing for the moment. One of the key issues is how you provide for major infrastructure. The section 106 mechanism does not provide it. I don't know what government can do about it, but we need some mechanism to pool money to pay for infrastructure."

**Minoletti:** "We run a tariff very similar to CIL in discussion with the boroughs which works quite well."

**Wilson:** "It works well for Crossrail too."

**Gale:** "Ashford and Barnet are deferring tariffs or section 106 requirements. In the good days, policies were written to capture value through tariffs and section 106. Now people are saying they want to see supply continue and therefore need to park or defer contributions to a later stage."

#### **How will localism fit with growth that crosses local authority boundaries?**

**Morris:** "What will happen about growth areas that transcend local authority boundaries? Where do they sit under the localism agenda?"

**Minoletti:** "For the next few years there will not be too much change, at least for us. It's recognised that we need some strategic authority because of the post-Olympic challenge."

**Burrows:** "If you move outside London, you do not have a strategic authority. That is the drawback."

**Stone:** "It took us long enough to get local authorities to talk to each other under the system that's just ending, where they were directed. I gravely fear that localism will allow them to pull up the drawbridge."

**Minoletti:** "The presence of strategic planning in London may mean resources come more into London and so other areas will suffer disproportionately because of that."

**Wilson:** "There could be a reasonably sane planning world in London, but not beyond it."

**Bunting:** "You can make an argument for county councils as strategic planning bodies. In Suffolk, for example, they would think of Suffolk County Council as local but not the RSS or the regional assembly."



## **The reason houses are not coming forward is more about the market**

**Giulia Bunting**

the 'bank of mum and dad' is beginning to run dry."

**Stone:** "We were making progress with planning, but it takes an inordinate amount of time from concept to permission. Most sites are not consented, they just have potential. Further uncertainty from the planning perspective will slow down land sales further."

**Bunting:** "My figures suggest that 17 per cent of councils have adopted core strategies, 65 per cent are at an early stage and 19 per cent at submission. At least 50 per cent were to have been adopted by next year, with 25 per cent at public examination. But at Brighton, Milton Keynes, Peterborough and South Oxfordshire, core strategies have been delayed because of the abolition of RSSs. This is going to block progress."

**Wilson:** "In London, it has taken six years to get planners used to LDFs and it seems a shame that we are now going to get something different. Inspectors have been going out of their way to make the process work. There is a lot of sympathy in City Hall for the idea of being careful about the way the system is revised because it was starting to work. You can see lots of housing schemes on site but only because the Homes and Communities Agency (HCA) put in lots of money. There is a lot of concern about retrenchment in the public sector and whether the private sector can step in to fill the gap."

**Burrows:** "The private sector can only step in if mortgage availability is there. The Bank of England has said it will look

**Burrows:** "County structure plans used to work, but there was target-setting. From Joe Public's perception no-one knew what regions meant, but they knew what counties stood for."

### **Would a national planning framework help?**

**Morris:** "The new coalition government is talking about a streamlined framework to establish national social, environmental and economic priorities. How might a national planning framework work out for housing? Isn't there an inevitable clash with localism?"

**Minoletti:** "We are looking at sustainable communities rather than just housing numbers. The whole point is to lift an area and get different income groups. So you have to start with new facilities and that is where a national framework has to be translated down to the regional level."

**Stone:** "I saw sense in looking at it regionally because at least it gave a framework on priorities."

**Morris:** "If you talk to the Institution of Civil Engineers, one of the things it is close to terrified about is energy. That doesn't seem to be getting into the planning system."

**Wilson:** "We look at what the effects are of substation capacity and take that seriously in plans."

**Burrows:** "Utilities have five-year spending plans. That means a planning framework to trigger measures being put in place to ensure funding for infrastructure."

### **How can affordable housing be realised in the light of public spending cuts?**

**Morris:** "There is a question over the HCA's ability to fund schemes across the four-year cycle. Is this going to have a large or small effect on the viability of sites?"

**Burrows:** "It will have a massive effect. It is the single biggest problem we face. We have become too lax over the past two years when we've had HCA support. If you think back three or four years, we used more creativity on shared equity and shared ownership. We could do that again. The tools are there to get round the problem, but it is a huge problem."

**Minoletti:** "Local authorities seek a large percentage of affordable homes. In some cases, we have said we would be happy with a low percentage to start with. But local authorities were very resistant and said 'no, we want affordable'."

**Burrows:** "I think you can still generate high levels of affordable housing if you are flexible about tenure, shared equity, shared ownership and below-market rents. You can cross-subsidise that way. We can maintain 30 per cent affordable housing on sites, but what we cannot do is 80 per cent rented."

**Gale:** "The key is flexibility. A local plan that says there must be X per cent of this or that tenure will need to change and change again. You need flexibility in policy, but at the decision stage you need flexibility about sites too."

**Burrows:** "Planners have been a little more open about this than housing departments, who say 'our main demand is for rental and that is what we want'. There is a whole lack of understanding about how shared ownership and equity can fill part of the void in housing need and there is a need to educate housing departments. They feel that they have a rental shortfall and that is all they are concentrating on. They don't feel that shared ownership will help."

### **What incentives might restart the housing market?**

**Morris:** "We've heard landowners are in cloud cuckoo land thinking they might get back to a boom era. Land sales need some kind of incentive. Does anyone have any idea what that might be?"

**Burrows:** "Landowners' advisers need to manage their expectations better. Their lawyers, accountants and surveyors need to tell them honestly how things stand. That is the hardest thing their advisers have to do. They have to say that a piece of land is worth £1 now and will still be worth £1 in ten years' time, so they may as well sell it now."

**Stone:** "A clear planning framework would help achieve this. Uncertainty makes landowners hold back. Landowners have to accept the position."

**Bunting:** "The government is moving towards encouraging lower density. Surely this has an impact on land values, because fewer units can be got out of a site?"

**Burrows:** "Not necessarily. Houses are cheaper to build than flats because you don't have to go high-rise. In London there is no choice because everything is high-rise. It would help to have a use class for private rented homes that are financed by institutions. There has been much discussion but little action."

**Minoletti:** "Private rent will be attractive in certain cases, but you need responsible people to do it in sufficient numbers."

**Burrows:** "There is a reputational risk. If you are a landlord and you evict a business no-one cares too much but if Mrs Miggins doesn't pay her rent you're on the front page of the *Daily Mail*."

**Stone:** "The PPS3 changes on minimum densities and garden grabbing mean that if you have a core strategy directed towards producing a certain number of units the land required



## **You can still generate high levels of affordable housing if you are flexible**

**Richard Burrows**

to deliver it will increase. At public consultations, I have found that the majority of people outside London say they do not like denser development."

**Wilson:** "Will there be a tendency to direct HCA funding into places where you get more units for your spend? I can imagine that will be a temptation."

### **Does coalition planning policy hand power over to nimbies?**

**Morris:** "The government wants to push power down to local neighbourhoods. Will planners then face inevitable tension with nimbysts?"

**Burrows:** "Planners will be swayed by the attitudes of council members and chief executives. When we make investment decisions, we have always analysed where we feel a local authority will be receptive to our development proposals. If there was a planning policy in the background we were not too fussed. Now we will look at their balance sheets to see whether they are in financial trouble and need incentives, then we will put proposals to them. There are certain authorities I won't go to because I know their attitude will be anti-development."

**Bunting:** "Every local authority has a housing need. The frustrating thing is that I can see members being swayed by what local residents want because they want to be re-elected."

**Stone:** "I do think house building will slow down."

**Burrows:** "I expect 2010-11 will be the most difficult because of the lack of HCA funding, planning constraints and uncertainty over the economy. Production will fall then increase over two to three years. Not all the problems are planning-based. It is not planners' fault that just when the system was beginning to work, the government says let's rip it up and start again."

### **About Drivers Jonas Deloitte**

Drivers Jonas Deloitte comprises the property consultancy area of Deloitte LLP. We have 700 professionals working throughout the UK. Key services include agency, investment, property management, project management, planning and development, strategic property consultancy, building consultancy, residential and valuation.

Drivers Jonas Deloitte Planning team are a leading planning consultancy in London and across the UK. We provide advice to both private and public sector clients including house builders, investors and landowners, financial institutions, local government and health trusts. Our services include applications and appeals, strategic planning advice on site acquisitions and disposals, influencing policy at national and local level and expert witness. For more information, please contact Giulia Bunting on 020 7303 3447 or gibunting@djdeloitte.co.uk