

## **The Callcutt Review of Housebuilding Delivery - Call for evidence**

### **Summary**

The North West Regional Assembly would like to draw out the following key points from the response set out in Appendix 1. **Please note that the comments provided are officer level comments.**

- Differences which exist between data published at a national level and data provided by Local Authorities can cause problems in creating a sound evidence base at a regional level.
- It is difficult for the planning system to respond to the prevailing business model without an indepth understanding or knowledge of how the model works. The industry needs to be more open and transparent.
- Some changes to the traditional industry model are already evident with housebuilders beginning to explore the opportunities to make a long-term investments in sites.
- The extent to which the provision of housing is being influenced by the investment market eg 'buy to let' / 'buy to invest' is growing. This could raise significant issues in the future and more research is needed to better understand the implications of this trend.
- Skills shortages in construction and related trades, or in regeneration, housing management or neighbourhood renewal professionals are evident in the North West, as in other parts of the country. Given the scale of interventions envisaged in the next few years by the North West Regional Housing Strategy<sup>1</sup>, and the proposed levels of housing set out in draft RSS<sup>2</sup>, demand for people with the right skills are likely to continue to expand, offering both an opportunity to help spread the direct economic benefits of investment into the community and a threat to the North West's ambitions if the skill base is unable to rise to the challenge.
- There have been instances in the North West where the capacity of the utilities industry is causing significant delays which are subsequently impacting on delivery. This is a cause of concern.
- Good quality is not simply about good design but includes other issues such as materials, skills and workmanship. CABE<sup>3</sup> have highlighted in recent reports that the design quality of new housing development is poor. This is a key issue which needs to be addressed.

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<sup>1</sup> "North West Regional Housing Strategy 2005", North West Regional Housing Board, 2005.

<sup>2</sup> It is worth noting that 25,000 units net would equate to an approximate gross build rate of 28,000 units. This alone represents an increase in the house-building workforce of some 12,000 employees (Letter from HBF to NWRA dated 10<sup>th</sup> May 2005)

<sup>3</sup> Housing audit: Assessing the design quality of new homes in the North East, North West and Yorkshire & Humber, November 2005, CABE; Housing audit: assessing the design quality of new housing in the East Midlands, West Midlands and the South West, February 2007, CABE.

## Appendix 1

### 1. What published or private sources of information are used by housebuilders, suppliers, analysts and others to determine current and future demand for housing, in terms of volume, type, price and location, and over the near, medium and longer term?

Nathaniel Lichfield and Partners were commissioned in January 2005 by the North West Regional Assembly to undertake a Household Growth Estimates Study for the region. The aim of the study was to develop a methodology to calculate the likely demand and need for housing in the region for the period 2003 - 2021. The research informed the preparation of the draft Regional Spatial Strategy for the North West submitted to Government in January 2006.

The methodology developed draws on a wide range of data sources, which informed different elements of the study. Examples of the data sources used are set out below.

#### Regional Household Estimates

- Population projections (ONS)
- Household and household size projections (ONS)
- Base number of households (Census 2001)
- Employment rates (ONS: Region in Figures)
- Economic scenarios (consistent with the scenarios used to inform the review of the Regional Economic Strategy)
- Household size (Census 2001)
- Migration data (Census / NHS Patient Register data)
- Chelmer model (Forecasting model – population, households, migration and labour supply)

#### Housing Need

- RSL CORE lettings (National Housing Federation)
- Overcrowding data (ONS: Census data)
- Households in temporary accommodation (CLG: Housing Strategy Statistical Appendix Data)
- Homeless households, number and reasons for homelessness (CLG: P1(E) returns)
- House prices (Land Registry)
- Income (Annual Household Earnings Survey)
- BME Community (ONS: Census)

The Assembly also produces an Annual Monitoring Report to monitor the impact of the policies contained in the Regional Spatial Strategy. To do this the Assembly utilises the following data:

- percentage of new dwellings built on previously developed land or by conversion of existing buildings (CLG: Housing Flow Reconciliation Returns);
- percentage of unfit housing by area and tenure (CLG: Housing Strategy Statistical Appendix);
- percentage of vacant dwellings by area and tenure (CLG: Housing Strategy Statistical Appendix);
- dwellings cleared by area and tenure (CLG: Housing Flow Reconciliation Returns);
- total additions to the housing stock (net of clearance) (CLG: Housing Flow Reconciliation Returns);

- outstanding planning permissions (Local Authority data);
- number of dwellings on allocated sites without planning permission (Local Authority data);
- planning permissions granted (Local Authority data);
- projected net additional dwellings (Local Authority data);
- average house prices (Land Registry);
- affordable dwellings constructed by area and tenure (CLG: HIP Housing Strategy Statistical Appendix);
- densities of completed dwellings (Local Authority data).

Differences exist between the data published by CLG in the Housing Flow Returns tables and the data provided by Local Authorities. At a regional level this can produce a very unclear picture with conflicting figures existing for the number of completed dwellings per annum. This doesn't provide a sound evidence base on which to plan to meet future housing needs in either the short, medium or long term.

It is important to ensure that the planning system doesn't return to a predict and provide approach with an overall focus on housing numbers. Issues of type, size, mix, tenure and price also need to be addressed.

**2. Does the prevailing business model of the housebuilding industry constrain how it responds to demand? Is that model evolving or likely to evolve to meet changing patterns of demand? What would encourage a shift towards greater responsiveness?**

It is difficult for the planning system to respond to the prevailing business model when the mechanisms of that model are unclear to those outside of the industry. Within the constraints of commercial confidentiality the industry should be more open about the way those models function. This transparency could encourage more responsiveness from both the industry and the planning system.

**3. What are the alternatives to the prevailing business model? What are the constraints on the development of those alternative models, and what advantages might accrue from the development of other models?**

Some changes to the traditional industry model are already evident with housebuilders beginning to explore the opportunities to make a long-term investment in sites by maintaining ownership and control of parts of sites including public spaces and a proportion of properties, and selling off the remaining properties on long freeholds. This model makes housebuilders less vulnerable to short-term fluctuations in house prices. Longer term investment in sites could also act as an incentive to housebuilders to improve construction quality (both build quality and materials) reducing maintenance costs over the long-term.

Other constraints include barriers within the housebuilding industry. The 'Lessons Learnt' document produced for the Design for Manufacture competition run by English Partnerships and CLG<sup>4</sup> highlights this issue.

*'Property development is too often done in silos. A developer employs a contractor to build an architect's design using a construction method chosen on price. The architect designs to planning rather than the construction stage. Developers complain that architects don't think enough about how their designs will be built. Manufacturers complain that the potential of their systems are rarely exploited because the technology is shoehorned into a design predating the choice of construction method.'*

<sup>4</sup> Designed for Manufacture: Lessons Learnt, June 2006, English Partnerships and CLG.

One of the key lessons to come out of the 'Design for Manufacture' competition was that those bidders who closely linked their design, suppliers and delivery teams into a single process, found savings that others did not. This is an important lesson in an industry where sub-contracting is widely used to bring together the necessary skills needed to take a project from inception to completion and to minimise the financial impact of risk.

'Northern Affordable Homes' (NAH) is a private company which operates throughout the country as a specialist affordable housing provider. More details of the way they work are given in response to question 8. A case study of one recent project undertaken by NAH is given below.

### **Case Study – Kirkby Lonsdale**

Kirkby Lonsdale is within the area administered by South Lakeland District Council. It has a population of 1,800 with an average household income of less than £25,000 per year and a household income of £40,000 required to buy the cheapest home. NAH secured an option on a site consisting of abandoned allotments on the edge of Kirkby Lonsdale. Planning consent was granted, under the Rural Exceptions Policy, for 14 houses (4 with 3 bedrooms (sold for £80,000) and 10 with 2 bedrooms (sold for £70,000)). The occupancy of the houses was restricted through the s106 to people who had lived and worked in Kirkby Lonsdale for at least 5 years and were in housing need. South Lakeland District Council retained the right to nominate and approve occupants. The buyers include a teacher, a bus driver, 3 farmers' sons who are involved in their family farming businesses, a care worker, an insurance salesman, a local shop keeper, an outdoor instructor, a health visitor, a hotel chef, a lecturer and a school accountant. The project didn't receive any subsidy.

In contrast NAH also submitted 3 applications to another authority in 2006, all of which were recommended for refusal. One of these was subsequently approved by committee, but this highlights inconsistent approaches to the delivery of affordable housing between authorities, and perhaps an uncertainty to explore the value of different business models.

- 4. To what extent is the housebuilding industry exposed to competitive pressures? Are there barriers to competition, including to new entrants? If so, what might be done to reduce or remove these barriers?**
- 5. To what extent is the volume and responsiveness of housebuilding constrained by limits in the supply of capital (including land), labour, skills or materials? Is this likely to change as a result of sustainability or other constraints? What steps might be taken to mitigate any effects?**

Evidence provided to the Assembly by the Home Builders Federation during the preparation of the draft Regional Spatial Strategy clearly highlighted that the housing figures set out in the existing Regional Spatial Strategy for the North West<sup>5</sup> of just under 13,000 units per annum has significantly constrained house building well below the actual level of demand. The effect of this has been both to constrain economic growth in the North West, and to redirect future housing investment away from the North West into neighbouring regions such as Yorkshire. The revised figures set out in the draft Regional Spatial Strategy for the North West<sup>6</sup> of approximately 23,000 per annum should reduce that constraint ensuring that the amount of land allocated for

<sup>5</sup> Regional Spatial Strategy for the North West (RPG13), March 2003, GONW

<sup>6</sup> Draft Regional Spatial Strategy for the North West, January 2006, NWRA

development is more in line with the anticipated demand for housing over the period 2003 – 2021.

Skills shortages in construction and related trades, or in regeneration, housing management or neighbourhood renewal professionals are evident in the North West, as in other parts of the country. Given the scale of interventions envisaged in the next few years by the North West Regional Housing Strategy<sup>7</sup>, and the proposed levels of housing set out in draft RSS<sup>8</sup>, demand for people with the right skills are likely to continue to expand, offering both an opportunity to help spread the direct economic benefits of investment into the community and a threat to the North West's ambitions if the skillbase is unable to rise to the challenge. The Assembly, as the Regional Housing Board has committed to assist the Northwest Regional Development Agency and its partners in their work to ensure the availability of sufficient skilled personnel to deliver the physical works relating to housing and urban regeneration investment by both public and private sectors in the North West. In this respect the Government and other partners should be ensuring that sufficient resources are made available for:

- improving the skillbase; and
- promoting the career opportunities in the construction and related trades, or in regeneration, housing management or neighbourhood renewal professions.

As a piece of anecdotal evidence it is noticeable that the North West construction industry is having to use migrant labour to address skills shortages.

The North West has four Pathfinder areas. The clearance, replacement and refurbishment of housing stock associated with these programmes is having an impact on the regeneration and building programmes within and adjacent to their areas.

Related to this the North West has also experienced instances of the capacity of the utilities industry to provide power to new sites and disconnects to sites in clearance areas. In some instance these are causing significant delays which are impacting on delivery. The North West Housing Forum has written to CLG about this and we understand that they intend to raise this issue with other regions to get a clearer understanding of this extent of this issue.

Another key issue is the extent to which the provision of housing is being influenced by the investment market eg 'buy to let' / 'buy to invest'. This may manifest itself most simply in the type of provision being made not meeting the needs of the population, but being provided on the basis of investment opportunities and returns. This is a significant issue in city centres. The impact of this influence is not fully understood and more research is needed to fully understand the scale of the issue. Research<sup>9</sup> undertaken for the Greater London Authority shows that in London 66% of new build private homes were bought by investors.

## **6. What constitutes good quality in housebuilding? To what extent is the housebuilding industry, as currently structured, well adapted to deliver well designed, good quality homes? What steps might be taken to improve quality?**

<sup>7</sup> "North West Regional Housing Strategy 2005", North West Regional Housing Board, 2005.

<sup>8</sup> It is worth noting that 25,000 units net would equate to an approximate gross build rate of 28,000 units. This alone represents an increase in the house-building workforce of some 12,000 employees (Letter from HBF to NWRA dated 10<sup>th</sup> May 2005)

<sup>9</sup> Who buys new market homes in London?, London Development Research for Greater London Authority and London Development Agency, December 2006 (<http://www.london.gov.uk/gla/publications/housing.jsp>)

Good quality is not simply about good design (including both building design and site design). It is about:

- sourcing and using materials which are high quality and which have a minimal impact on the environment
- developing the skills within the housebuilding industry to deliver well constructed properties
- creating decent homes, which is as critical in the private sector, particularly the private rented sector, as the social housing sector.
- ensuring that buildings are well built and not shoddy

The recent publications by CABA<sup>10</sup> have highlighted that the design quality of new housing development is poor, and *'that, while developers and local authorities understand well what constitutes good design and are able to deliver well-designed schemes, there are too many occasions where design quality does not seem to have been a priority for either the developer or the local authority'*<sup>11</sup>.

The North West Regional Housing Strategy 2005 highlights that the Regional Housing Board expects to see investment in decent homes across all tenures, within a framework which includes measures to improve local economies, to improve neighbourhood environments, reduce crime, tackle worklessness etc. This acknowledges the importance of good quality housing within its wider context.

The North West Regional Assembly has developed a sustainability checklist for developments (supported by Communities and Local Government (CLG) and the World Wildlife Fund for Nature (WWF)). The checklist is designed to cover all development, not specifically housing development, and covers a range of issues including: ensuring that new developments are appropriately adapted to the potential future impacts of climate change and minimising their own impacts on greenhouse gases, flooding, heat gain and water resources.

- ensuring that the most sustainable sites are used for development and that the design process, layout structure and form provide a development that is appropriate to the local context and supports a sustainable community
- ensuring that the development supports a vibrant, diverse and inclusive community which integrates with surrounding communities
- promoting the more sustainable use of resources related to both the construction and the operation of new developments
- ensuring that the design of individual buildings does not undermine the sustainability of the overall development

During the course of the recent Examination in Public<sup>12</sup> on the Draft Regional Spatial Strategy for the North West, wording changes were put forward to ensure that all planning applications for developments of more than 10 dwellings are accompanied by a sustainability audit using the sustainability checklist for developments.

**7. To what extent is sustainability, in any sense, a factor in the choices made either by housebuilders, suppliers and other providers, or by housebuyers? What impact is being achieved by the Code for**

<sup>10</sup> Housing audit: Assessing the design quality of new homes in the North East, North West and Yorkshire & Humber, November 2005, CABA; Housing audit: assessing the design quality of new housing in the East Midlands, West Midlands and the South West, February 2007, CABA.

<sup>11</sup> Housing audit: Assessing the design quality of new homes in the North East, North West and Yorkshire & Humber, November 2005, CABA, pg 2

<sup>12</sup> The Examination in Public Panel Report is due to be published in May 2007

**Sustainable Homes and the agenda set out in the Government's consultation document "Building a Greener Future: Towards Zero Carbon Development"?**

For all groups the extent to which sustainability is a factor in choices varies. Those choices will be influenced by a wide range of other factors including financial costs, location, availability and personal values.

The North West Regional Assembly is committed to raising awareness across the North West of the need for both consumers, developers and suppliers to be more conscious of the impacts of their decision-making processes. We are working with a range of partners on a number of projects to influence decision-making processes at the earliest possible stage of development. This response has already made reference to the Sustainability Checklist for Developments (see question 6). Alongside the checklist the Assembly has also led the development of an Integrated Appraisal Toolkit to highlight the economic, social and environmental impacts of policies, projects and development proposals and to provide useful decision support information that will help to enhance the delivery of public benefits whilst according with the principles of sustainable development.

The Assembly is also involved in the Sustainable Consumption and Production Network, a partnership between the Environment Agency, Regional Development Agencies and Regional Assemblies which is delivering an evidence base to enable regions to tackle the challenge of sustainable consumption and production.

It is too early to fully assess the impacts of the Code for Sustainable Homes. The draft Regional Spatial Strategy for the North West<sup>13</sup> requires all new homes to be built to Code for Sustainable Homes standards. Assuming that this requirement is carried through into the adopted Spatial Strategy, the standards will become part of the statutory development plan.

**8. There is a clear public interest in the operation of a free market, in securing an adequate supply of new homes, and in sustainability. How, and how far, does the housebuilding industry respond to considerations of public interest? What public policy instruments are available to influence the performance of the industry, and how effective are they?**

The housebuilding industry is very varied and within it there are examples of firms responding to public interest. Northern Affordable Homes Ltd (NAH) is a specialist developer of affordable housing. It only develops affordable housing and is only involved in schemes where the affordability is guaranteed in perpetuity. Working with The Housing Enterprise Fund Ltd, NAH have developed an innovative business model which allows them to deliver affordable housing without subsidy. The key factor is the land cost. NAH only develops land that has either been allocated by planning authorities specifically for affordable housing or, alternatively, is not suitable (for planning reasons) for normal development as housing to be sold as open market housing. This enables land to be acquired less expensively.

NAH use a legal structure which involves a shared ownership lease and NAH entering into a s106 agreement. The shared ownership lease allows conditions to be imposed on the purchasers to maintain the affordability in perpetuity and the term of the lease is 999 years. The s106 agreement defines who can buy and live in the houses in the future.

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<sup>13</sup> Draft Regional Spatial Strategy for the North West, January 2006, NWRA

It is also important to highlight the limited amount of control that Local Planning Authorities have over the delivery of housing. They can grant planning permissions to whatever level is set out in the Development Plan policy, but they cannot guarantee delivery of those permissions. Commercial considerations by developers will determine which sites with planning permission will be built, when and over what timescale. This can differ overtime and between administrative areas.

For example three adjoining authorities may grant planning permissions for a similar number of dwellings, but due to a range of factors (the nature of the local housing market, attractiveness to investors / buyers, site constraints) the delivery of those permissions will vary significantly between the individual authorities. This could have potential implications for the creation of balanced housing markets.

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