

Cabinet Lead Reports – Full Council 22 February 2017

Councillor David Guest: Cabinet Lead for Economy and Planning

PAS Conference: The Government and Planning Reform

I attended the conference with twenty-four other Portfolio holders or senior planning Councillors from across the UK to hear from the Planning Advisory Service on the following subjects:

- The Housing and Planning Act
- The Neighbourhood Planning Bill
- The Planning White Paper
- Future of CIL.

We have of course now seen the Housing White Paper – Fixing our broken housing market; including in chapter one, planning for the right homes in the right places.

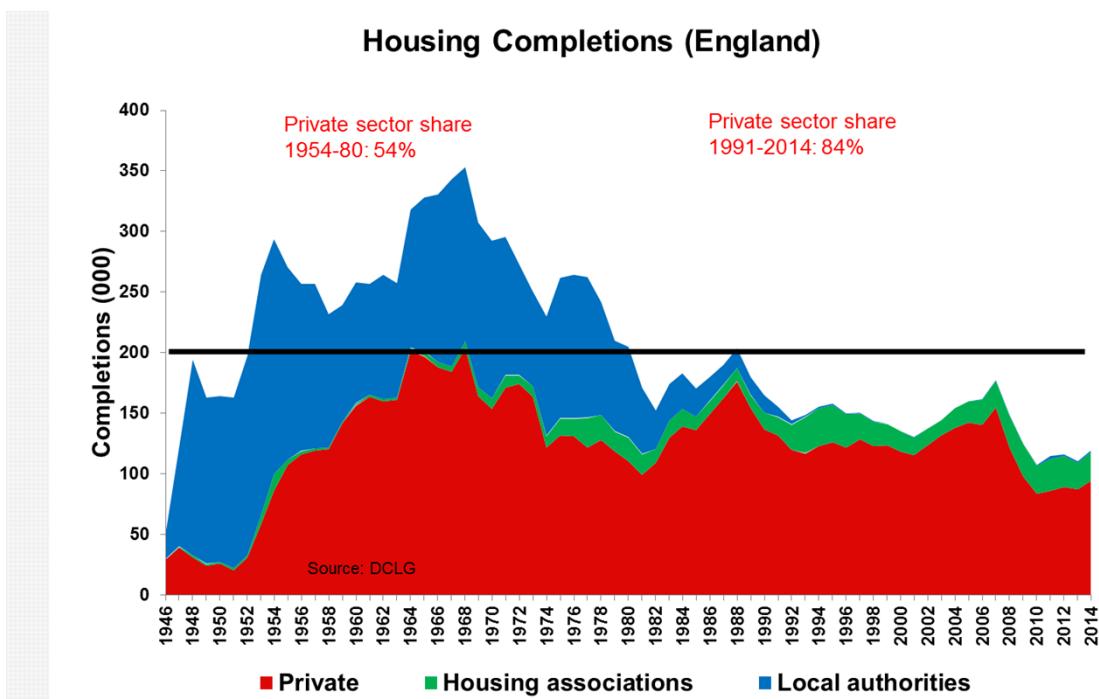
Statistics show that housing delivery in the UK continues to miss all of the targets set by government since before WW2.

Supply relies on three sources as illustrated in the following graph

Private Sector – shown in red

Registered Providers – shown in green

Public Sector – shown in blue



Whilst the Private Sector continues to supply housing at a rate to suit open market sale demand, this impacts directly on supply of its proportion of Affordable Homes (30%) that Housing Associations (Registered Providers) need. What is noticeable is the virtual disappearance nationally of delivery from the Public Sector. This is probably a direct result of government policies to promote private sector housing supply and systematic disposal of the social rental sector.

There are many other reasons for this I'm sure, although all not necessarily justifiable.

Since HBC disposed of its housing stock to Guinness Hermitage it might at the time have been reasonably expected that supply would be maintained to meet need. This turned out not to be the case: Affordable housing supply (proportional social rented, shared equity and now Starter Homes) continues to rely on funding increasingly in short supply from government sources, with more reliance being placed on proportional supply from the Private Sector. This is regarded as a housing tax on development that inevitably pushed up the price of housing.

If the Local Government system is to honestly address supply to meet the now nationally established Objectively Assessed Need (OAN) under post NPPF Local Plans, surely the Public Sector must rise phoenix like to the challenge.

HBC owns very little land suitable for housing, but it could acquire it.

HBC holds a preferential position on land acquisition having outstanding financial advantages and readily available funding.

It would therefore seem a sensible proposition to then consider building and renting homes at affordable rents whilst maybe finding private sector partners to help deliver an open market element. A reversal of current trends.

Development

Private investment in housing development relies on a return on capital employed – from either banking finance or shareholder investment.

Developers work on a return of at least 20% on cost, sometimes nearer 30% depending on the evaluated risk at the starting viability, working on the maxim of risk to reward ratio. In other words, those that take risks will stand to make higher rewards or loss depending on the circumstances and their management skill.

Housing development feasibility relies on certain fairly fixed proportions of the Gross Development Value (GDV) achievable in any location - the price a purchaser is willing to pay for a house.

The following diagram illustrates the financial structure comprising the GDV:



Blue Box - Whilst build costs are fairly predictable for standard housing, associated site abnormal costs and risks vary considerably.

Red Box – Allowance for developer's overheads, cost of finance and profit, which is impacted by ever increasing labour and material costs and lack of skilled national personnel and trained development managers. Also, the cost of obtaining planning consent has risen considerably due to more restrictive regulation and environmental impact mitigation.

Yellow Box – This provision covers Local Planning Authority costs which may be variable depending on policy and determination to achieve supply. This is generally regarded as a 'tax'. In recent years successive governments have burdened costs by increasing planning requirements.

Green Box – The cost of land acquisition. A land owner will have sales value expectations below which he may not be willing to sell for development. A developer will have to meet the 'going rate' as generally valued by

professional advisers. Development doesn't get out of the ground without a willing seller and a willing buyer. This is where HBC could have a distinct advantage due to its ability to pay attractive prices within the GDV equation whilst not expecting a normal developer's profit.

It used to be said that costs could roughly be split into thirds. However, given scarcity of land this has increased its value, and increases of the many items affecting the 'tax' element, means that either the build cost or the more sacrosanct Red Box proportion would need to move - it already is for the reasons explained earlier, but not for an additional profit margin. That said, who would finance anything without a suitable return: other than not for profit organisations such as Local authorities.

Local authorities such as HBC can now build once again, retaining ownership perhaps in novel ways to maintain public sector housing with lessons learnt from the past.

Not being bound to make a 'developer's profit' could make this a very attractive proposition.

Brownfield Land Register

The government requires all Local Authorities to have an up to date register by March 2017.

Starter Homes

There is a legal duty on Local Authorities to deliver Starter Homes for capped sale at 80% of market price

106 Contributions

We are working towards an update of our holdings and the intention for them.

In the past, we have collected contributions in an effort to get something delivered, but this is to change. There is no point of doing this unless there is a reasonable chance of accumulation sufficient funds for the purpose and then having to offer unspent money back to the contributor.

It may be better to use a flexible Affordable Housing proportion than to collect funds that will have to be released if their target is not achieved.

In future, this may not include more than five sources for a single purpose.

We may always decide to allocate CIL to match fund contributions..

Property investment

Investment in property is not to be entered into casually. Wise investors take careful due diligence, with good market advice from those active in the market place.

A net return on capital investment of c5% is somewhat of a holy grail given low interest rates. Such opportunities do not present themselves every day, but it is good to be in a position to move quickly when they do, remembering everyone and their mothers will be rushing to buy good prospects as there is plenty of money looking for a good home at times of low interest rates.

As with all investments, values can grow or diminish. The risk needs careful evaluation.

Development Management Committee

In my report this time last year, I reminded Councillors of the Peer Review that was carried out in December 2014 and reported in February 2015.

There have been resulting improvements but more still needs to be achieved.

Three vital principals should apply to all members on DMC:

- To be strategic
- To be impartial
- To be objective

It is important that member training continues to give us the best possible outcome from case considered at committee. New training course are being arranged.

The Secretary of State has said that we may now review planning fees in the order of a 20% increase which would go so way to reducing our service supply deficit.

Major Developments – Progress Update

Market Parade, Havant

Efforts are underway with the property owner to find ways of accelerating development of this site.

West Street, Havant

This much delayed re-development is entering bid stage according to the architect.