



## Three Dragons

### Response to MHCLG consultation: Changes to the Current Planning System

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#### **The standard method for assessing housing numbers in strategic plans**

**Q1: Do you agree that planning practice guidance should be amended to specify that the appropriate baseline for the standard method is whichever is the higher of the level of 0.5% of housing stock in each local authority area OR the latest household projections averaged over a 10-year period?**

We support the use of a standard method of calculating housing need as the previous approach of OAN was overly complex, with too many opportunities to adjust the figures to meet political rather than planning objectives.

It is clear that Government is seeking a method to meet its target of 300,000 dwellings per annum. However, we note that the latest figures from ONS suggest that this target is too high in first place. Continued reliance on household projections will simply result in a failure to meet the target and we would urge the Government to fully consider expert opinion on this matter.

Authorities and their advisers have reported that the proposed methods, if applied, lead to implausible targets in some areas, at both extremes - either very low, especially in the north of England, or very high in areas of the south, exacerbating the current north/south divide and completely contrary to the Government's aim of levelling up the country. The same can also be said of urban and rural areas, where numbers are seemingly much higher in the least sustainable areas.

Some commentators have suggested that ditching the household projections completely and just using the uplift (albeit increased to 0.75), would be a far clearer system and would meet the 300,000 per year target. However, this method also has its limitations, not least that it assumes that our population and demographics will have a smooth and steady pace and pattern. Continual building does not necessarily equate with meeting needs.

Whatever the method of calculation we would strongly urge the Government to reconsider its implementation - we would recommend a needs based approach, set on a regional basis (so that development can be directed to the most sustainable places, which may include new towns and settlements). Local authority geography, especially in two tier areas is insufficient in both size and resource to effectively deal with spatial distribution – this is

better done across a wider area where proper consideration of travel, infrastructure, economy and environment can be undertaken.

**Q2: In the stock element of the baseline, do you agree that 0.5% of existing stock for the standard method is appropriate? If not, please explain why.**

See above – we do not consider this to be a reliable approach, especially if used over a long time period which will not necessarily meet need and in time could lead to too much of the wrong type of housing.

**Q3: Do you agree that using the workplace-based median house price to median earnings ratio from the most recent year for which data is available to adjust the standard method's baseline is appropriate? If not, please explain why.**

This approach simply inflates housing needs in high price areas – it does little to help the balancing up of the north south divide.

**Q4: Do you agree that incorporating an adjustment for the change of affordability over 10 years is a positive way to look at whether affordability has improved? If not, please explain why.**

This approach simply inflates housing needs in high price areas – it does little to help the balancing up of the north south divide.

**Q5: Do you agree that affordability is given an appropriate weighting within the standard method? If not, please explain why.**

This approach simply inflates housing needs in high price areas – it does little to help the balancing up of the north south divide.

**Do you agree that authorities should be planning having regard to their revised standard method need figure, from publication date of the revised guidance, with the exception of:**

**Q6: Authorities which are already at the second stage of the strategic plan consultation process (Regulation 19), which should be given 6 months to submit their plan to the Planning Inspectorate for examination?**

This is reasonable and avoids undue delay.

**Q7: Authorities close to publishing their second stage consultation (Regulation 19), which should be given 3 months from the publication date of the revised guidance to publish their Regulation 19 plan, and a further 6 months to submit their plan to the Planning Inspectorate? If not, please explain why. Are there particular circumstances which need to be catered for?**

This is reasonable and avoids undue delay.

## **First Homes**

**Q8: The Government is proposing policy compliant planning applications will deliver a minimum of 25% of onsite affordable housing as First Homes, and a minimum of 25% of offsite contributions towards First Homes where appropriate. Which do you think is the most appropriate option for the remaining 75% of affordable housing secured through developer contributions? Please provide reasons and / or evidence for your views (if possible):**

- i) Prioritising the replacement of affordable home ownership tenures, and delivering rental tenures in the ratio set out in the local plan policy.**
- ii) ii) Negotiation between a local authority and developer.**
- iii) iii) Other (please specify)**

Response – iii) We consider that First Homes will make a positive contribution to the suite of affordable low cost home ownership tenures available to households on lower incomes. However, we advocate leaving responsibility for decision about the amount of First Homes in onsite affordable housing schemes to the relevant authority who will best know their local market and the need for different tenures in their area.

The current consultation does not make clear who will identify households who are eligible to purchase a First Home nor how First Homes are to be delivered and their later re-sale, to be managed. Are the bulk of the homes to be delivered by local authorities, housing associations (as with shared ownership), private developers (as with Help to Buy) or another body set up for the purpose? It is also unclear how the percentage discount will be funded. These issues make significant difference to the viability of the product and ease of delivery.

One of the biggest risks with the proposals is in lower value area where demand for newbuild low cost home ownership is weaker and there can be little guarantee of a market for the First Homes product<sup>1</sup>. In reviewing the proposals we urge the Government to allow decisions about the amount of First Homes to be provided in mixed tenure schemes to be set at the local level, with flexibility to revert to other forms of low cost housing if demand is simply not there. This is a well-tried approach that would seem well suited to a new form of low cost home ownership

However, if the Government does proceed with specifying that First Homes must be provided, we would recommend that the minimum is set at *up to* 25%, replacing only intermediate home ownership tenures with First Homes. Any affordable rented homes

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<sup>1</sup> e.g. areas where house prices are in the lower quartile - £160K nationally and £95K in North East (ONS LQ House Prices – data release 22/7/20)

required through Local Plan policy should be preserved for those identified through SHMAs as in housing need and unable to afford (subsidised) home ownership. In our experience, the majority of councils require 25% or more of affordable housing to be delivered as affordable LCHO anyway.

For example (1) - NE Council has existing policy of 30% intermediate affordable tenures and 70% affordable rented. In this case the policy would be delivered as 25% FH / 5% any intermediate affordable tenure and 70% affordable rented.

But in example (2) NE2 Council has policy of 20% intermediate affordable and 80% affordable rented. Under the new regime, policy would deliver 20% FH and 80% affordable rented.

However, alongside this, a blanket requirement for 25% First Homes risks squeezing out shared ownership tenure options which are more flexible and tailored to an individual households' needs and budget. (A 30% discount on a First Home compliant 250K home would still require a £25,000 deposit. The same home could be purchased with a deposit £6,250 under shared ownership<sup>2</sup>.) Under shared ownership, households retain the ability to staircase up to full market ownership as their income improves.

**With regards to current exemptions from delivery of affordable home ownership products:**

**Q9: Should the existing exemptions from the requirement for affordable home ownership products (e.g. for build to rent) also apply to apply to this First Homes requirement?**

Yes, for clarity

**Q10: Are any existing exemptions not required? If not, please set out which exemptions and why.**

No

**Q11: Are any other exemptions needed? If so, please provide reasons and /or evidence for your views.**

Specialist older persons housing should not have to provide a product aimed at first time buyers.

Rural Exception Sites should retain flexibility to provide the tenures identified through local needs survey.

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<sup>2</sup> Assuming 10% deposit

**Q12: Do you agree with the proposed approach to transitional arrangements set out above?**

yes

**Q13: Do you agree with the proposed approach to different levels of discount?**

We agree that authorities should have flexibility to set the discount level based on local affordability which will be evidenced through SHMA and informed by Local Plan viability evidence.

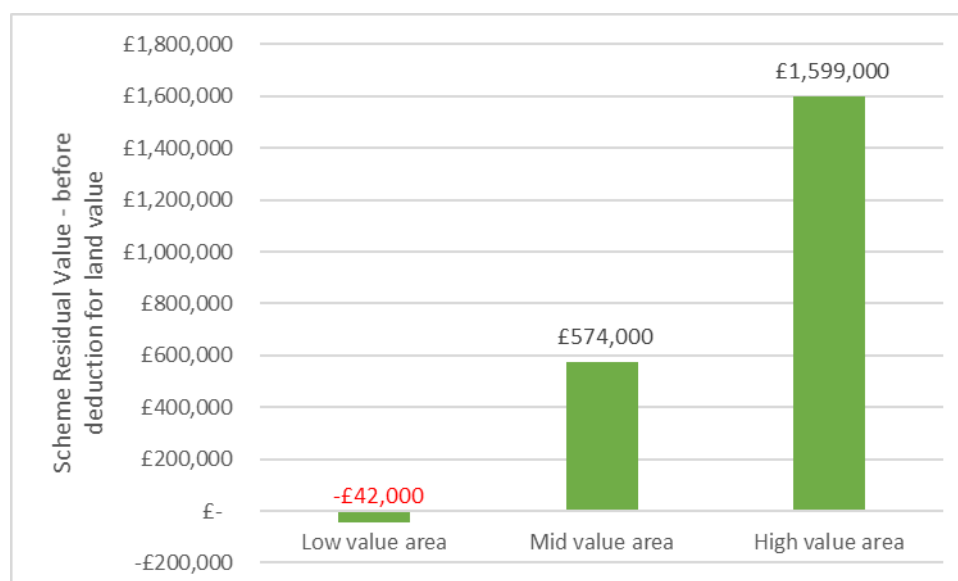
**Q14: Do you agree with the approach of allowing a small proportion of market housing on First Homes exception sites, in order to ensure site viability?**

The text suggests that a range of tenures may be allowed on First Homes Exception Sites, including market. We would support this approach where it is geared to meeting evidenced local need. If affordable rented products are needed for local people, then the market units could be used to support this tenure which is generally less viable than affordable home ownership products.

We have undertaken a high level viability assessment of First Homes Exception Sites and through this have identified that cross subsidy from market housing would be needed to support delivery in lower value areas. This suggests a flexible approach to the need for market housing is required which is interpreted at the local level.

The results of the high level assessment are shown in the chart below. We have assessed a notional scheme of 15 units – 12 First Homes and 3 Affordable Rented homes, in a low, mid and high value area. The residual values shown are before deduction for land value.

**Figure 1: First Homes Exception Site of 15 units – showing residual value before deduction for land**



In the example low value area there is no residual value headroom to pay for land and subsidy would be required in the form of grant or by allowing market sales. The number of market properties required to provide a viable scheme will depend on local values and costs.

We would be happy to share our analysis with MHCLG if requested.

**Q15: Do you agree with the removal of the site size threshold set out in the National Planning Policy Framework?**

Currently, Entry-level exception sites should not be larger than one hectare in size or exceed 5% of the size of the existing settlement – whilst removing the restriction may help with viability and increase the volume of delivery this appears to be against the spirit of developing sites that are an ‘exception’ to policy and adjacent to rural settlements.

**Q16: Do you agree that the First Homes exception sites policy should not apply in designated rural areas?**

Yes – ‘Traditional’ Rural Exception Sites fulfil a useful role in rural areas providing a mix of affordable tenures and this flexibility and local choice should be retained. We also support the retention of RES in other rural areas, i.e. those not designated.

## **Supporting small and medium-sized developers**

**For each of these questions, please provide reasons and / or evidence for your views (if possible):**

**Q17: Do you agree with the proposed approach to raise the small sites threshold for a time-limited period? (see question 18 for comments on level of threshold)**

We do not consider that raising the site size threshold on a temporary or permanent basis is a useful option. In our experience, smaller schemes (but above 1-3 dwellings) tend to be more viable and there is no justification on economic grounds for raising the threshold above 10 dwellings

**Q18: What is the appropriate level of small sites threshold? i) Up to 40 homes ii) Up to 50 homes iii) Other (please specify)**

Current arrangements are working effectively and there are no economic grounds for raising the threshold above 10 dwellings.

In our experience, viability is generally better on smaller sites (not including flatted schemes or supported & retirement housing) because site preparation and infrastructure costs are significantly lower.

We would also urge the Government to look at evidence for delivery of affordable homes to ascertain how many would be lost if the threshold is raised and whether there will be authorities, non-urban authorities in particular, whose affordable delivery will be affected disproportionately by this policy.

We would especially ask that National Parks, where sometimes *all* affordable delivery is on smaller sites, are not included in this policy.

**Q19: Do you agree with the proposed approach to the site size threshold?**

No, there is no economic rationale for raising the site size threshold.

**Q20: Do you agree with linking the time-limited period to economic recovery and raising the threshold for an initial period of 18 months?**

There is a tenuous link to economic recovery – the delivery of significantly fewer affordable homes will increase housing stress on local authority waiting lists and homelessness departments. It will also mean delivery of fewer affordable low cost home ownership dwellings, including First Homes.

**Q21: Do you agree with the proposed approach to minimising threshold effects?**

Yes – where development is phased, developers should not be allowed to use the legislation to avoid delivering affordable homes

**Q22: Do you agree with the Government’s proposed approach to setting thresholds in rural areas?**

yes

**Supporting SMEs 83 - The Government recognises that in addition to planning contributions, there may be many reasons why SME builders are unable to access and progress developable sites during this time. We are keen to hear whether there are any other ways in which the Government can support SME builders to deliver new homes.**

**Q23: Are there any other ways in which the Government can support SME builders to deliver new homes during the economic recovery period?**

We would support the following initiatives:

- Where SME developers can show genuine viability barriers to building, grant could be made available for the affordable element
- Ability for SMEs to access Homes England lending
- Longer term, to give planning authorities greater planning powers to break up large-scale sites into smaller deliverable parcels of land.

**To discuss any of these issues further with us, please contact Three Dragons**

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