

Independent Review of Build Out - Letwin Review (October 2018)

1. On 29th October 2018 Government published the Final Report of the Independent Review of Build Out carried out by the Rt. Hon. Sir Oliver Letwin. The Review was commissioned by the Chancellor of the Exchequer and was published to coincide with the Autumn Budget.

2. *Aim of the Review*

2.1 The purpose of the Review is to explain the significant gap between housing completions and the amount of land allocated or permissioned in areas of high housing demand, and make recommendations for closing it.

3. *Draft Analysis (June 2018)*

3.1 A Draft Analysis, published in June 2018, focused on the issue of the build out rate of fully permitted new homes on the largest sites in areas of high housing demand. This concluded that the homogeneity of the types and tenures of the homes on offer on these sites, and the limits on the rate at which the market will absorb such homogenous products, are the fundamental drivers of the slow rate of build out.

4. *Key Recommendations of the Review*

4.1 In reference to the 'Independent Review of Build Out' the Chancellor Phillip Hammond stated in his Autumn Budget speech "The [Letwin] Review found no evidence that speculative land-banking is part of the business model for major house builders, nor that this is a driver of slow build out rates".

4.2 The Final Report reiterates the conclusions of the Draft Analysis and recommends ways in which the Government could increase the variety and differentiation of what is offered on large housing sites, raise the proportion of affordable housing, and raise the rate of build out.

4.1 The review recommends that Government should:

- Adopt a new set of planning rules specifically designed to apply to all future large sites (initially those over 1,500 units) in areas of high housing demand, requiring those developing such sites to provide a diversity of offerings, in line with diversification principles in a new planning policy document; and
- Establish a National Expert Committee to advise local planning authorities (LPAs) on the interpretation of diversity requirements for large sites and to arbitrate where the diversity requirements cause an appeal as a result of disagreement between the LPA and the developer.

4.2 To increase the effectiveness of such proposals in the **near-term**, the Review recommends that Government should:

- Provide incentives to diversify existing sites of over 1,500 units in areas of high housing demand, by making any future government funding for house builders or potential purchasers on such sites conditional upon the builder accepting a Section 106 agreement which conforms with the new planning policy for such sites; and
- Consider allocating a small amount of funding to a 'large sites viability fund' to prevent any interruption of development on existing large sites that could otherwise become non-viable for the existing builder as a result of accepting the new diversity provisions.

4.3 To increase the effectiveness of such proposals in the **long-term**, the Review also recommends that Government should:

- Introduce a power for LPAs in places with high housing demand to designate particular areas within their local plans as land which can be developed only as single large sites, and to create master plans and design codes for these sites which will ensure both a high degree of diversity and good design to promote rapid market absorption and rapid build out rates;
- Give LPAs clear statutory powers to purchase the land designated for such large sites compulsorily at prices which reflect the value of those sites once they have planning permission and a master plan that reflect the new diversity requirements (with guidance for LPAs to press the diversity requirements to the point where they generate a maximum residual development value for the land on these sites of around ten times existing use value rather than the huge multiples of existing use value which currently apply); and
- Give LPAs clear statutory powers to control the development of such designated large sites through either of two structures:
 - **Local Development Company (LDC):** The LPA could use an LDC to carry out this development role by establishing a master plan and design code for the site, and then bringing in private capital through a non-recourse special purpose vehicle to pay for the land and to invest in the infrastructure, before "parcelling up" the site and selling individual parcels to particular types of builders/providers offering housing of different types and different tenures; or
 - **Local Authority Master Planner (LAMP):** The LPA could establish an LAMP to develop a master plan and full design code for the site, and then enable a privately financed Infrastructure Development Company to purchase the land from the LPA, develop the infrastructure of the site, and promote the same variety of housing as in the LDC model.

5. Additional Recommendations of the Review

5.1 The Report envisages that the Recommendations will in the long term require:

- Certain, limited amendments to primary legislation;
- A small amount of new secondary legislation (Amend the Town and Country Planning (Development Management Procedure)(England) Order 2015); and

- A new planning policy document setting out diversification principles (including housing type, size, style, design, tenure and intended occupant group, variants of which should be present in each phase of the development) that could be annexed to the National Planning Policy Framework and would deal exclusively with planning policy in relation to large sites in areas of high housing demand.
- 5.2 With regard to the recommendation for LPAs with high housing demand to designate particular areas within their local plans as land which can be developed only as a single large site. The Review suggests that there is scope for Homes England to provide substantial support for those LPAs including the provision of both funding and expertise that enables the LPA to build the capacity required for the establishment of suitable master plans, design codes and Section 106 agreements.
 - 5.3 With regard to the recommendation to give LPAs clear statutory powers to control the development of designated large sites through an LDC/LAMP. The Review recommends that the LDC/LAMP should be enabled to apply for a small amount of seed funding potentially top-sliced out of the existing Ministry for Housing, Communities and Local Government Land Assembly Fund (following a change in the Government's remit for this fund).
 - 5.4 Furthermore, the Review recommends that LPAs using LDC/LAMP vehicles should obtain clear Compulsory Purchase Order (CPO) powers over large sites that they have designated. The Review also suggests considering the possibility of giving LPAs such CPO powers in relation to large sites that have been allocated in their local plan in the past but which have not obtained outline permission after a long period has elapsed. This would provide a good way of unlocking such sites – as well as providing a way to ensure that they are developed in a diverse, rapid and well-designed manner.
 - 5.5 The Draft Analysis (June 2018) found that more effective coordination between government departments, agencies and private sector operators was urgently required to improve and speed up the delivery of transport and utility infrastructure before the build out could start (and sometimes during the construction period) on large brownfield sites; but it concluded that this issue was not likely to impede the build out rate itself.
 - 5.6 Further detail on the proposed 'National Expert Committee' and the LDC/LAMP delivery vehicles are provided in annexes to the Report.

6. *Proposed Implementation Timeframe*

- 6.1 The Review recommends that an adequate notice period should be given by Government for the implementation of its recommendations. If, for example, the Government decides to adopt the recommendations at the end of 2018, it suggests that it should be made clear that the new rules governing planning permission for large sites will come into force at the start of 2021, and will therefore govern any permissions granted for large sites on or after that date.

6.2 However, the Review also recommends that in order to maximise the chance of the new planning framework having a productive effect on sites which have, or by 2021 will have, received an outline permission, from 2021 onwards, Ministers should seek to provide incentives for house builders to accept changes to their existing site plans. This can be done through introduction of conditions to any government funding dependent upon the site being developed in conformity with the new planning policy and new secondary legislation for large sites.

7. Potential Implications for the Leeds City Region

7.1 The recommendations of the Review propose LPAs are given new statutory powers which could potentially amount to significant new levers by which to improve build out rates on large housing sites. However, this is reserved for LPAs with areas of high housing demand. The Review suggests that this be defined as ‘areas with high ratios of median house prices to median earnings’ (Para 3.8 Pg. 13). The Draft Analysis defines areas of very high housing demand as those ‘measured by a ratio of more than seven to one between the median house prices and median earnings’ (Para 2.2 Pg. 7).

7.2 In 2017 the median house price to median earnings for Partner Council Authority areas in the Leeds City Region were the following:

Partner Council	Housing Affordability Ratio
Harrogate	8.83
York	8.79
Craven	8.16
Selby	6.45
Leeds	6.04
Wakefield	5.82
Kirklees	5.36
Bradford	5.32
Calderdale	5.00
Barnsley	4.82

Table 1: Housing Affordability Ratio in 2017 (Ratio of median house price to median gross annual residence-based earnings)
Source: ONS, 2018

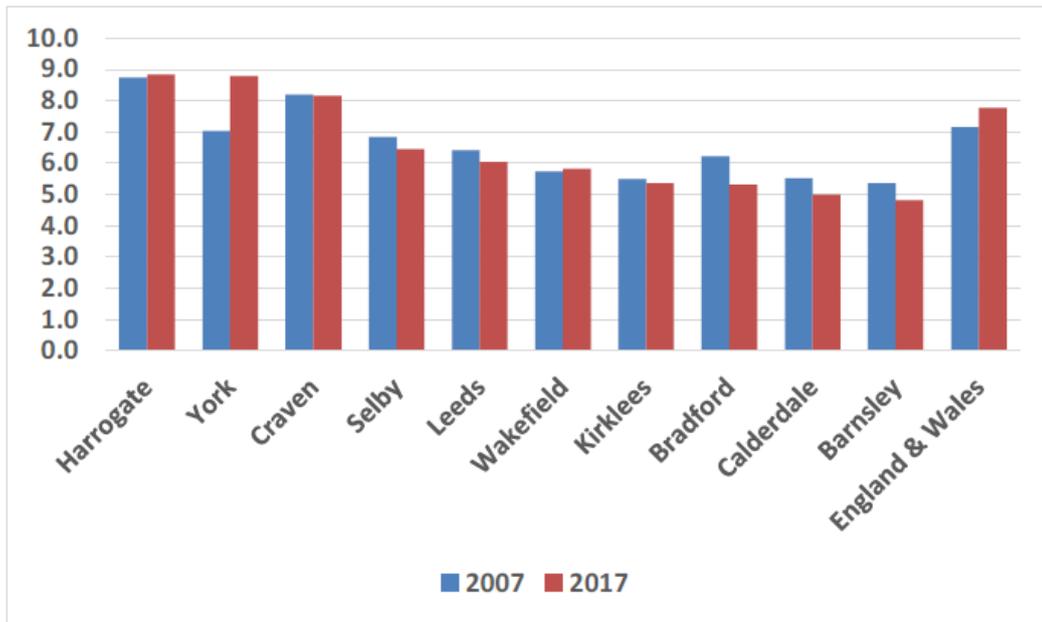


Figure 1: Affordability of house prices 2007 and 2017 – Ratio of local prices compared to local incomes. Source: ONS, 2018
(Reproduced from Leeds City Region, Housing Delivery Annual Monitoring Report Final Report (2018))

- 7.3 The Review’s recommended planning rules are only applicable to sites with outline permissions for 1,500 housing units or over. The Leeds City Region Strategic Housing Sites Pipeline (Sept 2018)¹ identifies one individual housing site within the Leeds City Region which has outline planning permission to develop 1,500 housing units or more: Olympia Park in Selby.
- 7.4 However, there are 11 individual sites identified in the Sites Pipeline which potentially meet or exceed the 1,500 unit threshold but do not currently benefit from outline planning permission. Two of these sites are located in York and one in Harrogate. Therefore, as these Authority areas are deemed to be within areas of high housing demand, and above the housing unit threshold these LPAs may be applicable for the recommendations detailed in the Independent Review of Build Out.

8. **Government Response**

- 8.1 It is understood that the Government will respond to the Reviews proposals in the New Year.

¹ Please note that the Leeds City Region Strategic Housing Sites Pipeline (Sept 2018) does not include all housing sites within the City Region and therefore this is an indicative early assessment for the purpose of this Briefing Paper