

SENT BY EMAIL  
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11/07/2022

Dear Spatial Policy Team,

**DEVELOPMENT VIABILITY, AFFORDABLE HOUSING AND FINANCIAL CONTRIBUTIONS SUPPLEMENTARY PLANNING DOCUMENT (SPD)**

1. Thank you for consulting with the Home Builders Federation (HBF) on the Development Viability, Affordable Housing and Financial Contributions Supplementary Planning Document (SPD).
2. The HBF is the principal representative body of the house-building industry in England and Wales. Our representations reflect the views of our membership, which includes multi-national PLC's, regional developers and small, local builders. In any one year, our members account for over 80% of all new "for sale" market housing built in England and Wales as well as a large proportion of newly built affordable housing.
3. The HBF welcomes this SPD which provides the opportunity to ensure that the County Durham Plan (CDP) delivers sufficient homes throughout the County. The SPD affords the industry and Council the chance to review the validity of various inputs which supported the CDP and to reflect the shifting legislative landscape around development and in particular the housebuilding industry. There have been a significant amount of changes introduced since the CDP evidence base was prepared and the preparation of this SPD provides an excellent opportunity to reflect the current picture to ensure housing needs are met throughout the plan period.
4. As you will be aware, members of the HBF have been involved with the viability work in Durham over an extensive period, and during the consultation of the now adopted local plan, worked with bodies such as RICS to try our best to assist Durham County Council (DCC) in developing the County Durham Plan (CDP). In particular, to ensure that the CDP that was deliverable, viable and capable of achieving the housing requirement.
5. As a starting point the HBF has reviewed key assumptions made in the Viability Testing document (June 2018), which supported the CDP to understand their validity and relevance four years since it was produced.

Gross to Net Ratios

6. Previous assumptions in the viability testing which supported the adoption of the CDP in 2018 were based on various gross to net ratios dependent upon the size of the development. However, these will now need to be re-evaluated to include the requirement for 10% biodiversity net gain (BNG). The SPD brings this forward in advance of legislative changes, but regardless this will become a requirement for all developments in the near future. The preference is for ecological enhancement on site, which will have a significant impact on the gross to net ratio of every allocation yet to



come forward. If BNG is delivered off-site, then there will be a financial contribution which will also impact upon viability and has not been taken into account through the average S106 costs in the whole plan viability. There is no consideration of this in this SPD.

#### Plot Construction Costs

7. BCIS private housing construction index has shown a 24% increase in construction costs from the date of the CDP viability report (Q3 2018) to now (Q1 2022). In addition, a raft of new building regulations and the withdrawal of red diesel in construction are additional costs on the horizon and a further increase to build cost on top of rising inflation impacts.
8. There are two upcoming major changes to Building Regulations – one of which is imminent. Changes to Part L in June 2022 will reduce carbon emissions from new homes by at least 31% compared to current regulations whilst the Future Homes Standard will be introduced in 2025 and reduce emissions by 75-80% against current requirements. These are significant step-changes in the construction industry and will substantially support a low-carbon future for the industry. These changes can be delivered through various combinations of new technology and enhanced fabric, however they undoubtedly come with a cost.
9. Government estimates from 2019 indicate that the additional cost to build a home to the 2022 Part L standard is £2,986 whilst the cost to deliver to Future Homes Standard is £5,280. If these prices are brought up to today's prices using the BCIS index, they are increased by nearly 15%.
10. The changes to Building Regulations are nationally implemented policies which will have a direct impact on build costs within County Durham. These should be taken into account through the Local Plan viability to ensure that it is based on the most up-to-date information.

#### External costs

11. Due to the external costs being considered as a percentage of build cost, this too will need to be re-evaluated.

#### Contingency

12. As a result of these significant rises in build costs other inflationary pressures it is increasingly more difficult to keep up with these rises when costing a proposed development. The volatility on supply chains, costs in materials and labour therefore reflects a need for a greater contingency than the 3% previously included. This is not addressed in this SPD.

#### Abnormal Costs

13. The HBF has previously raised concerns over what was included in the evidence base to support the CDP, and more importantly what wasn't included. Through our representations made during the EiP, we provided evidence to prove that abnormal costs were significantly higher than tested and that BMLV's in generally low value areas

had been set without detailed discussions / endorsement from landowners and / or their agents. Land values will be significantly impacted in all but the very highest value areas when true abnormal cost rates are applied.

14. The Councils position was that abnormal costs are much lower (we have seen no evidence to prove this) and that they simply come off the benchmark land values (BMLV) which has been set at a generous level, and which is able to absorb this cost whilst still retaining sufficient value to incentivise an owner to sell their land for development.
15. Our evidence, demonstrated through detailed examination of 14 sites, provided measured and evidenced actual costs for all abnormal items. They clearly demonstrated that the average abnormal costs are some £459k per net hectare for greenfield sites (10 tested in total) and £711k per net hectare for brownfield sites (4 tested).
16. Following the workshop meetings with HBF and some RICS members (who act for both public sector and private clients) the Council agreed to consider the impact increased abnormal costs could have on land value / policy position. The Councils approach (Local Plan Viability Addendum) was to scenario test abnormal costs at £300k per net developable ha, uplifted from the current £75k greenfield or £150k brownfield, (albeit we are unsure why this figure was chosen given the HBF evidenced an average abnormal cost between 50-100% greater than the 300k allowed).
17. Paragraph 3.7.5 of the Local Plan Viability Addendum (April 2019) stated that: The Councils conclusions on this exercise are that 'overall only around 15% of the schemes return a viable outcome with abnormal costs at £300k per net ha'
18. We highlighted at the time that this was an alarming conclusion as this in itself was only based on 5% affordable housing provision and therefore has clear concerns on a site with full policy requirements of 10% - 25% affordable housing as now adopted.
19. The worry is that considerations towards build costs from DCC have not deviated in the last four years, highlighted in paragraph 6.5 of the SPD, which still list 'normal' build costs such as: site demolition, preparation, retaining walls, piling infrastructure provision and flood mitigation should be established at the outset and reflected in the amount paid (agreed to pay) for land. However, BCIS do not cover these costs as normal build costs and therefore the cost of development will be significantly higher than the assumption made by the Council. This was expressly highlighted throughout our previous representations, and we are highlighting it again because the main point of all this is that it leaves our members in the difficult position of needing land to come forward that complies with policy whilst still encouraging owners to sell land within a competitive market. The Council's definition of 'normal' build costs misses out a number of significant costs from the development viability equation. If sites are not sold then new homes will not be built.

#### Finance

20. The debit interest rates were adopted at 5.5% in the viability evidence for the CDP. Since December 2021 to now, Bank of England interest rates have risen sharply from

0.1% to 1% and there are clear indications that this trend is expected to continue. This will cause a rise in interest rates payable on finance for schemes and therefore the figure adopted in the viability of the CDP needs a full re-evaluation.

### Revenues

21. The main issue our members have is that this regulatory burden is set from the adoption of this SPD. It immediately creates additional cost to developments in the County. What our members require is clarity as to how this is factored into the development viability, which isn't shown in this document. Build costs and revenue will fluctuate throughout this plan period however, these additional costs will remain a constant from adoption of the SPD.
22. When there is so much additional burden being placed on developments above what was discussed at EiP two years ago, as an industry we simply cannot say with comfort that "revenue increase will cover the additional costs", we simply do not know if this is the case. We are still so far apart on abnormal costs for developments, the introduction of Part L and Future Homes Building Standards, and the requirement for Biodiversity Net Gain all provide additional costs that will require an analysis of the remaining allocations to see if they are deliverable, which we are yet to see.

### Delivery so far

23. When we look at the delivery rates of the allocations in the adopted plan, it emphasises what we are highlighting above. The table below shows a traffic light analysis of which sites has come forward (green), what is currently in the planning system (orange) and which sites are yet to see a planning application (red):

| REGION            | AREA             | VIABILITY AREA | ALLOCATION NO. | NO. OF HOUSES (estimate yield) | LAND TYPE (PDL or Greenfield) | APPROVED Y/N?                     | NO. OF DWELLINGS | Applicant / Ownership                  |
|-------------------|------------------|----------------|----------------|--------------------------------|-------------------------------|-----------------------------------|------------------|--|
| DURHAM CITY       | DURHAM CITY      | HIGHEST        | H1             | 60                             | PDL                           | Approved 30/08/20                 | 60               | Chapter Homes Durham Ltd               |
| DURHAM CITY       | DURHAM CITY      | HIGHEST        | H2             | 20                             | GF                            | Approved 13/08/19                 | 17               | Believe Housing                        |
| DURHAM CITY       | DURHAM CITY      | HIGHEST        | H3             | 10                             | PDL                           | Approved Subject to S106 31.03.22 | 9                | Durham County Council                  |
| DURHAM CITY       | DURHAM CITY      | HIGHEST        | H4             | 50                             | PDL                           | Approved subject to S106 10.05.22 | 48               | Persimmon Homes Ltd                    |
| DURHAM CITY       | DURHAM CITY      | HIGHEST        | H5             | 1700                           | GF                            | Pending 11.05.22                  | 370              | Church C and Galaxy Land Ltd (Bellway) |
| DURHAM CITY       | DURHAM CITY      | HIGHEST        | H6             | 420                            | GF                            | Approved 25/03/22                 | 500              | Banks Property Ltd                     |
| CENTRAL DURHAM    | BEARPARK         | HIGHEST        | H7             | 200                            | GF                            | Went to committee 3.5.22          | 148              | Gleeson and Church Commissioners       |
| CENTRAL DURHAM    | BEARPARK         | HIGHEST        | H8             | 50                             | GF                            | N/A                               |                  | Durham County Council                  |
| NORTH DURHAM      | PELTON /NEWFIELD | MEDIUM         | H11            | 65                             | PDL                           | N/A                               |                  | Durham County Council                  |
| NORTH WEST DURHAM | CONSETT          | MEDIUM         | H16            | 100                            | PDL                           | N/A                               |                  | Durham County Council                  |

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|-------------------|-----------------|----------------|----------------|--------------------------------|-------------------------------|--|------------------|---|
| NORTH WEST DURHAM | CONSETT         | MEDIUM         | H17            | 30                             | GF                            | N/A  |                  | Durham County Council   |
| NORTH WEST DURHAM | CONSETT         | MEDIUM         | H18            | 290                            | GF                            | N/A  |                  | Durham County Council and Iveston Developments Ltd  |
| NORTH WEST DURHAM | CONSETT         | LOW            | H19            | 200                            | GF                            | Pending 11.05.22   | 201              | Persimmon Homes Ltd   |
| NORTH WEST DURHAM | CONSETT         | HIGH           | H20            | 50                             | GF                            | N/A  |                  | Durham County Council   |
| MID DURHAM        | CROOK           | MEDIUM         | H22            | 250                            | GF                            | Pending 11.05.22   | 260              | Persimmon Homes   |
| MID DURHAM        | SPENNYMOOR      | MEDIUM         | H24            | 85                             | PDL                           | N/A  |                  | Durham County Council   |
| MID DURHAM        | SPENNYMOOR      | MEDIUM         | H25            | 110                            | PDL                           | N/A  |                  | Durham County Council   |
| MID DURHAM        | WILLINGTON      | MEDIUM         | H26            | 200                            | GF                            | Approved 20/04/21  | 200              | (George F White- Agent- A. Moralee, owner).   |
| SOUTH DURHAM      | BISHOP AUCKLAND | MEDIUM         | H28            | 75                             | PDL                           | Refused 23/03/18 Appeal Dismissed. Unacceptable impact on highways network junction at Tindale Crescent. Developer offered reduced contribution to mitigation. |                  | Gleeson Regeneration Ltd  |
| SOUTH DURHAM      | BISHOP AUCKLAND | LOW            | H29            | 50                             | GF                            | N/A  |                  | Church Commissioners  |
| SOUTH DURHAM      | NEWTON AYCLIFFE | MEDIUM         | H30            | 770                            | PDL & GF                      | N/A  |                  | Secretary of State for Education Church Commissioners for England North East Autism Society Durham County Council |
| SOUTH DURHAM      | NEWTON AYCLIFFE | MEDIUM         | H32            | 100                            | GF                            | N/A  |                  | Church Commissioners  |
| SOUTH DURHAM      | NEWTON AYCLIFFE | MEDIUM         | H33            | 50                             | GF                            | N/A  |                  | Durham County Council   |
| EAST DURHAM       | PETERLEE        | LOW            | H36            | 65                             | GF                            | N/A  |                  | Durham County Council   |
| EAST DURHAM       | SEAHAM          | MEDIUM         | H37            | 335                            | PDL                           | application withdrawn 2017   |                  | Durham County Council (Southern Parcel) Homes and Communities Agency  |

| REGION       | AREA       | VIABILITY AREA | ALLOCATION NO. | NO. OF HOUSES (estimate yield) | LAND TYPE (PDL or Greenfield) | APPROVED Y/N?              | NO. OF DWELLINGS | Applicant / Ownership |
|--------------|------------|----------------|----------------|--------------------------------|-------------------------------|----------------------------|------------------|-----------------------|
|              |            |                |                |                                |                               |                            |                  | (Northern Parcel)     |
| EAST DURHAM  | SEAHAM     | MEDIUM         | H38            | 95                             | PDL & GF                      | Application Withdrawn 2017 |                  | Durham County Council |
| WEST DURHAM  | WOLSINGHAM | HIGH           | H43            | 40                             | PDL                           | N/A                        |                  | Durham County Council |
| <b>Total</b> |            |                |                | 5470                           |                               |                            |                  |                       |

24. Two years down the line from the adopted plan and four years from the viability assessment, the table shows that out of the 27 allocations, there have been 6 approvals in total, 4 applications are currently in determination, leaving 17 which have either been withdrawn, refused, or as in most cases not come forward at all. This equates to approximately 2,090 dwellings, based on estimated site yields, which is a total of 38% of the allocated housing numbers in the development plan, which are yet to see any prospect of coming forward for development.
25. What is evident is the significant lack of delivery on sites in the medium to lower value areas, outside of Durham City Centre, which although only two years into the plan, very few have even seen a planning application submitted. It also highlights the lack of delivery on Durham County Council owned sites, which make up a large proportion of the allocations. Members of the HBF are therefore still concerned that there are question marks with respect to the deliverability and willingness of owners to dispose of land in the medium and lower value areas.
26. We are concerned that this will result in a lack of delivery in the plan in the years to come, with allocations not coming to the market and exacerbated by lengthy and protracted determination periods for applications on sites in control of willing developers.

#### S106

27. Our members are also concerned about paragraphs 5.5 – 5.7 of the SPD, which appears to discuss the pooling of contributions for use on wider strategic priorities across the County, which reflects an introduction of a CIL charge and not in accordance with paragraph 57 of the NPPF.

#### Summary

28. What this SPD fails to tackle is the forthcoming costs associated with Zero Carbon by 2025, the impact of Biodiversity Net Gain + 10% on costs / coverage / agricultural land value, Building Regulations changes as we move towards Zero Carbon such as EV charging to all homes, as well as increasing material and labour costs and availability. Put simply, we have concerns in regards to delivering development in the low to medium areas at the plan making stage, within which the vast majority of unimplemented allocations sit. The viability position has changed significantly since plan making stage and as we have demonstrated will become more challenging as we move forward.
29. Looming over all of this is Nitrate Neutrality. This has been a considerable factor in halting development in other areas of the country for several years now, and has

recently landed on our doorstep in the Tees Valley catchment area. This has caused a significant degree of uncertainty as to how development and investment can proceed, leading to discussions with the Tees Valley Mayor on what can now be done to overcome this. This issue is not going to disappear, certainly not in a short timeframe, and will likely impact the majority of this plan period. As a result, the catchment area for this impacts upon 3 allocations in the CDP at Newton Aycliffe, which equates to approximately 820 dwellings. This now puts huge question mark over the delivery of 15% of the planned allocations, and at the very least puts them to the back of the plan period, if they can come forward at all. Indeed, one inspector on an appeal in Kent has recently significantly shrunk a LPA's supply of housing land due to the lack of evidence on the deliverability of sites impacted by Nutrient Neutrality. The bigger concern is the uncertainty of Nutrient Neutrality and if it will impact the River Wear in the near future, which can certainly not be ruled out.

30. As a representative of all types of housebuilder we have always been keen to work with Durham County Council to ensure that investment can happen in the County and the right houses are built in the right locations. However, what we have shown is that two years down the line from adoption, the plan appears to be heading in the direction we feared. Several of the developments in the high value area can and have come forward, but the majority of the allocations are yet to see movement. We therefore raise the same concerns over the deliverability of the remaining allocations in the CDP and to ensure the planned delivery of the Council's housing requirement, the viability consideration must be fundamentally reset given the vastly different economic environment the construction industry find ourselves in today.
31. Our members would like to continue to invest in County Durham but an understanding of how all of this is required so that we can advise people who wish to invest in Durham to tackle the issue of viability. We have therefore provided some suggested actions that we consider are required to establish the deliverability of the remaining allocations in the plan.:
  - i. Review Local Plan viability inputs against legislative changes (e.g. Building Regulations, Biodiversity Net Gain etc)
  - ii. Review Local Plan viability inputs against latest market data (e.g. build costs, sales revenues etc)
  - iii. Reassess deliverability of allocation typologies in all viability areas following actions 1 and 2.
  - iv. Reassess trajectory of sites impacted by Natural England's advice on nutrient neutrality.

### **Future Engagement**

32. Our members would very much be open to workshop discussions so that the above can be discussed openly and transparently.
33. I trust that the Council will find these comments useful as it continues to progress its SPDs and Local Plan. I would be happy to discuss these issues in greater detail or assist in facilitating discussions with the wider house building industry.

34. The HBF would like to be kept informed of all forthcoming consultations on this SPD and other associated Local Plan, SPD and evidence documents. Please use the contact details provided below for future correspondence.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'J. Harding', written in a cursive style.

**Joanne Harding**  
**Planning Manager – Local Plan (North)**

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