Department for Communities and Local Government

Spending Review 2010: Housebuilder Deregulation

Final report

March 2015
Department for Communities and Local Government

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Background

This paper fulfils a commitment made in the last Spending Round to produce a final report on the Government's target to reduce regulatory burdens on housebuilders. The target was first announced in the 2010 Spending Review. Paragraph 2.31 of the Spending Review 2010 document said that the Government would:

> "…reduce the total regulatory burden on the house building industry over the Spending Review period."

This was reaffirmed in 2013. Paragraph 6.21 of "Investing in Britain's Future[1]" stated:

> "The Government will publish progress reports against the house builder de-regulation commitment at Budget 2014 and Budget 2015."

How has the commitment been measured?

The following key principles have been followed when assessing delivery against the commitment.

- Only burdens which specifically impact on construction or housebuilders are in scope of the commitment, meaning that regulations bearing on businesses more generally (such as employment law) are not counted.
- Where a measure affects the whole construction industry, an appropriate percentage estimated to housebuilding has been adopted for the purposes of this commitment.
- Government has measured the <u>net change</u> in regulation to track progress against the commitment, i.e. that the value of reductions in regulation outweigh any increases there have been
- Individual Departments are responsible for their own contributions to the commitment.
- Regulations implementing European Union Directives have not been counted for the purposes of this commitment, mirroring the position taken with the Government's wider "one in two out" deregulation target.
- The Department for Communities and Local Government has co-ordinated the measurement of progress against the commitment.

[1] https://www.gov.uk/government/publications/investing-in-britains-future

Progress against the Commitment

The current position shows a net reduction in the burden of regulation on housebuilders of £24.5 million. A table showing the detailed position by policy can be found at:

https://www.gov.uk/government/publications/spending-review-2010-housebuilder-deregulation-progress-report

Commentary

The key elements of increased regulation are: agreed coalition priorities relating to the energy efficiency of new homes. These play a significant role in the move towards zero-carbon development.

The key reductions in regulation relate to the abolition of Home Information Packs, and the simplification of the planning system.

This reduction in the burden of regulation has been delivered whilst maintaining essential requirements for sustainability and accessibility and quality.

Technical methodology

Introduction

The Coalition Government set itself the objective of lowering the general burden of regulation on businesses.[2] The Government subsequently made a specific commitment to lowering the regulatory burden on housebuilders over the Spending Review 2010 period.

> **2.31** The Government will increase housing supply by reforming the planning system so it is more efficient, effective and supportive of economic development. In addition, it will introduce a New Homes Bonus that will directly reward and incentivise local authorities and local communities to be supportive of housing growth, equivalent to matching the additional council tax from every new home for each of the following six years*. It will also reduce the total regulatory burden on the house building industry over the Spending Review period.*[3]

Attainment of this objective requires:

- Deriving an operational definition of housebuilding regulation;
- Identifying relevant regulatory changes; and,
- Measuring the net impact of those regulatory changes.

This note sets out the methodology used to estimate the impact of regulatory changes that impact on housebuilders.

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[2] *The Coalition: our Programme for Government,* 2010.
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/78977/coalition_programme_for_government.pdf

[3] Taken from *Spending Review 2010*, HMT, October 2010.
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/203826/Spending_review_2010.pdf

Operational definition of housebuilding deregulation

We are essentially interested in obtaining the net impact of any changes in relevant regulation over the Spending Review period (2011-15). Housebuilding regulation is defined as a local or national rule or standard: -

(1) which is specific to housebuilders and not generalisable to the rest of business;

(2) with which a housebuilder must comply or feels obliged to comply in order to be able to legally construct and legally sell new dwellings;

(3) which can be modified, reinterpreted or removed through the action of United Kingdom Government departments, local authorities or relevant agencies;

(4) which was subject to an implemented change at some point since the current Administration was established;[4] and

(5) which is also consistent with the One in Two Out qualifying process - i.e. a regulatory change which impacts directly on businesses and imposes a direct net cost;

By focussing on (1) housebuilders only and (2) net impacts over the Spending Review period, we are attempting to isolate the specific impact of regulation on housebuilders as far as practicable. This means that where a rule or standard is specific to both residential and non-residential development, we are only interested in measuring the cost impact on housebuilders (i.e. the residential component).

Type of regulatory changes

In practical terms, regulation or deregulation of housebuilding comprises interventions which, among other things:-

- increase/reduce the need for, and the process of obtaining, planning and non-planning consents (the permissions necessary to be able to build);

- increase/reduce the need for the process of certification (i.e. building control and other monitoring of compliance);

- directly impact on the cost of materials to be used in construction;

- involve the re-specification of standards concerning energy efficiency and emission offsets; and

- increase/reduce the financing costs to developers by impacting on project risks, e.g. narrowing recourse to appeals processes; extending protection of flora and fauna etc.

[4] Although the impact of the change will only be measured over the Spending Review period in line with the specific commitment to housebuilders.

Measuring the net impact of regulatory changes

The approach adopted is to focus on and measure the net *change* in the burden over the Spending Review period (April 2011 to March 2015), that is the balance of 'ins' and 'outs' over this period.

This approach makes use of the Equivalent Annual Net Cost to Business as the basic measure of the impact of regulatory and/or deregulatory changes. This is the core measure that is formally applied within the One-In Two-Out process. In technical terms, the Equivalent Annual Net Cost to Business of a regulatory change is defined as the annualised value of the present value of net costs to business and civil society organisations. It therefore includes both annual on-going costs and 'one-off' transitional costs that result from a regulatory change.

However, the strict application of the One-In Two-Out approach to assessing the balance of regulation on housebuilding poses two key problems.

Phasing

In the One-In Two-Out approach, the Equivalent Annual Net Cost to Business value produced from the underlying standard cost benefit analysis is a single summary measure. In other words, it converts all future annual impacts of a regulatory change into a single equivalent annual measure. It is therefore a useful summary measure of the impact of a regulation over a number of years. However, there are potential difficulties with such a measure where the impact and initial appraisal of a regulatory change extends beyond the Spending Review period (2011-15). For example, it means that in effect, using a single Equivalent Annual Net Cost to Business value for each intervention gives equal weight to regulatory changes introduced at the start of the period with regulatory changes introduced at the end of the period. Consequently, the strict One-In Two-Out approach would not really capture the cumulative impact of regulation or deregulatory activity over the period.

Recognising this issue, it was decided that the most appropriate way to measure the impact of any regulation/deregulation change, would be to multiply the Equivalent Annual Net Cost to Business figure by the number of years the regulatory/deregulatory measure was expected to last for over the Spending Review period. For example, the burden of a regulation introduced in April 2011 would be measured by four times its Equivalent Annual Net Cost to Business value if it lasts for four or more years.

In addition, the Equivalent Annual Net Cost to Business measure is further adjusted according to when the change is introduced within the financial year. For example, the estimated Equivalent Annual Net Cost to Business value is halved in a particular year if a regulation was implemented in October (i.e. half way through a financial year).

Time lags

Secondly, there may be time lags between when house building regulation takes full effect and when houses are built. Houses are built according to the consents that were originally agreed in respect of the scheme and it can sometimes take several years for a scheme to be completed following the granting of that consent. Therefore, even though standards may have been changed, the lead and development times for housebuilding are such that a proportion of any new housing, for a number of years following the change, is still likely to be built according to older standards.

To account for the actual time profile of policies, a ‘phase in’ which accounts for the proportion of homes being constructed in each year that adhere to new regulations is included. These assumptions are set out in the table below. For example, if a policy introduced in Year zero is estimated to be introduced at a consistent rate over four years with all homes being built to the new standard from year 4 then the analysis assumes 40 per cent of all homes built in year 1 have the new regulatory rules applied, for year 2 60 per cent do, by year 3 90 per cent and by year 4 100 per cent of homes do.

Table1

Nature of Regulation	Year 1	Year 2	Year 3	Year 4
Standard building regulation	40%	60%	90%	100%

Adjustment for actual housebuilding levels

A further adjustment to the Equivalent Annual Net Cost to Business has been made to account for actual outturn housebuilding levels. Original assessments were based on hypothetical levels of housebuilding. However, outturn data on actual build rates is now available. To reflect this new data and increases in house building levels, over the Spending Review period the Equivalent Annual Net Cost to Business figures have been further adjusted (see table 2 for outturn build rates). Each Equivalent Annual Net Cost to Business for each individual year has been pro-rated to comparable figures used in the original assessment.

For 2014/15, data on house completions is not available for quarter one of 2015. To get an estimate for the whole of 2014/15, we have estimated housing completions for quarter one of 2015 by using data on housing starts in the previous year i.e. housing starts in quarter one of 2014. This gives an estimate for 2014/15 of 128,550.

Equivalent Annual Net Cost to Business figures are adjusted in this way as otherwise the estimated costs to housebuilders of any regulatory or deregulatory change could be over or understated.

Table 2

Revised Rates of Housebuilding				
	2011/12	**2012/13**	**2013/14**	**2014/15 (estimate)**
Revised Build Rate	118,510	107,980	112,400	128,550

Overall balance of regulation

The estimated overall impact of regulation and deregulation is essentially achieved by aggregating the Equivalent Annual Net Cost to Business values for each policy change captured. Deregulatory interventions have negative Equivalent Annual Net Cost to Business values while regulatory have positive values. An overall negative value implies that there has been net deregulation over the period.

The following two hypothetical examples are simple illustrations of how the methodology works in practice.

Example 1

A streamlining of the planning application process yields an Equivalent Annual Net Cost to Business value of £5m. The policy change is introduced at the start of April 2012.

In this example, the saving produced by the deregulation is assumed to be three times the Equivalent Annual Net Cost to Business value or £15m, as the policy is in effect for three years of the Spending Review period. The intervention is a saving to businesses and the Equivalent Annual Net Cost to Business is therefore shown as a negative value (as shown in the table below). If the intervention had been introduced in August of 2012, the value in 2012/13 would have been adjusted downwards by a third.

Example 2

A building standards measure is introduced in 2011/12 and takes effect in 2012/13. The Equivalent Annual Net Cost to Business was calculated to be £6.5m. To adapt this value according to the methodology described above, we need to scale the Equivalent Annual Net Cost to Business to reflect (i) the revised actual build rate and (ii) the phasing of when changes in standards are incorporated into new build. For example, for 2012/13 the Equivalent Annual Net Cost to Business of £6.5m is multiplied by the "phasing in" assumption in Table 1 of 40 per cent and then further pro-rated compared to the build assumption used in the original analysis[5],giving an estimated 2012/13 impact of £1.9m. For 2013/14 and 2014/15, the Equivalent Annual Net Cost to Business is calculated in a similar fashion. As this measure is regulatory, the numbers are positive with the net change being the difference between the two totals.

Table 3

Nature of Regulation	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**Total**
Example 1 Planning Deregulation	-	- £5m	- £5m	- £5m	- £15m
Example 2 Building Standard		£1.9m	£2.9m	£5.0m	£9.8m
Net Change					- £5.2m

[5] In this case, 107,980 (actual) / 150,000 (hypothesised) = 72%.