

Government Policy – Threat or Opportunity – A Responsive Business Strategy

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Context

- Government policy reaches to the heart of our business
- Relates to all aspects from strategy to implementation
- How we deal with this sets us apart



Strategic Direction

- Understanding emerging policy is key
- Spotting the direction of travel and assessing the business implications
- Creating a structure so that we can respond effectively to emerging policy
- Putting the control and monitoring processes in place
- The role of the Group Team



Commercial Application

- Emerging policy - same rules for everyone - true but!
- Understanding how to use policy to offer commercial advantage is a fundamental component of our business model
- Devising a strategy on how to apply this through the operating businesses
- Creating a control structure to ensure the operating businesses know what to do and how to go about it
- Implementation and monitoring (centrally) to ensure strategy success
- Examples - threat or opportunity you decide!



Example 1: Green Belt

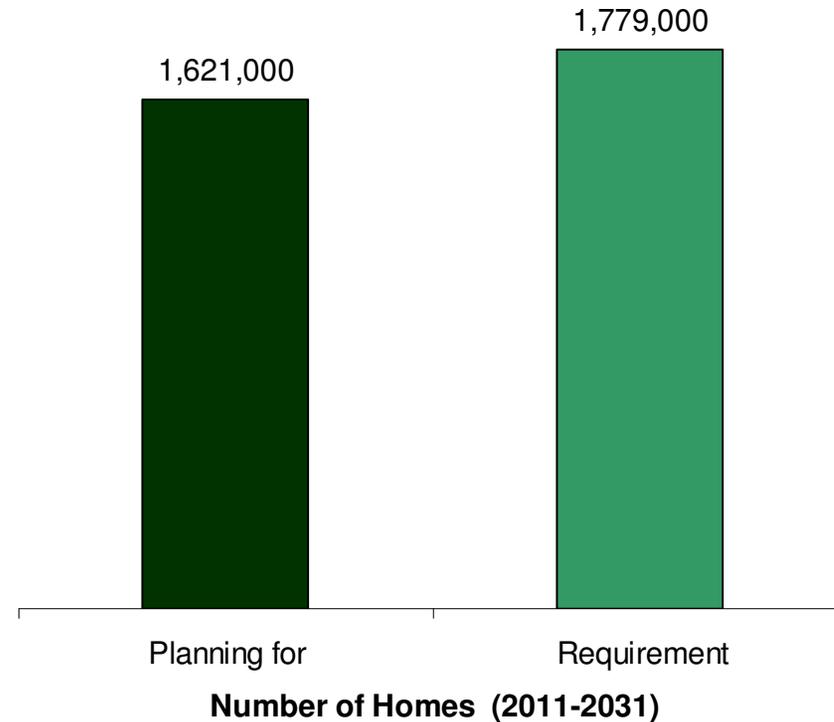
- The policy conflict - 'presumption in favour' verses 'exceptional circumstances'
- 'Significantly boost housing supply' yet at the moment GB policy is winning! Will this continue? Lets look at the facts!
- Where is the GB and what is its role?
- Due to its very purpose it surrounds our most populated areas where housing need is the highest!
- Understanding policy - Will the 'planning balance' swing towards GB review and release for development?



Green Belt (cont)

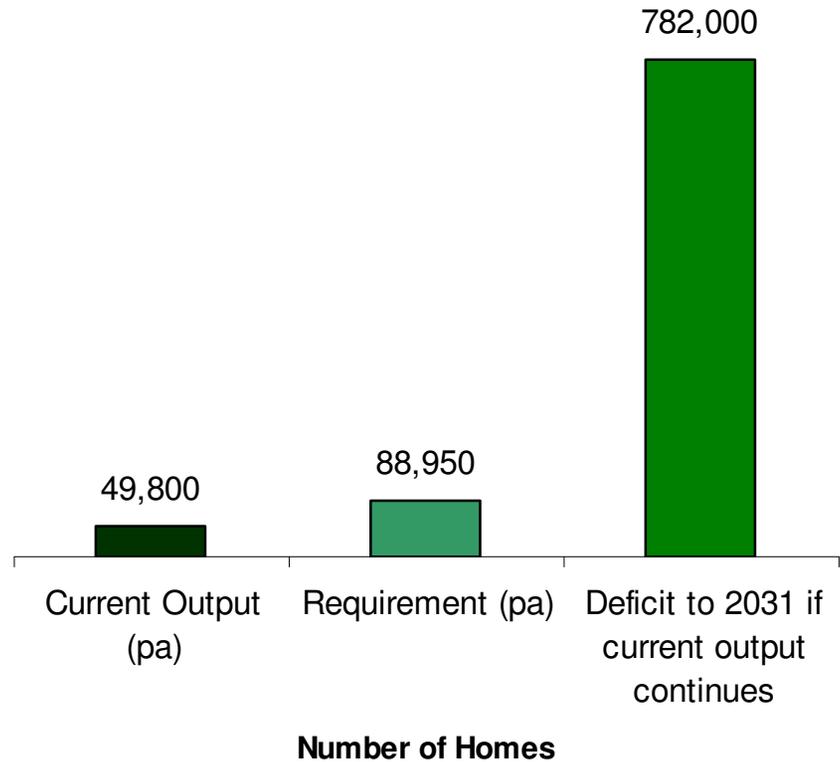
- Devising an effective strategy requires an understanding of the facts !
- Our approach
- Examined all GB Local Planning Authority (LPA) areas across the country to determine the following:
 - The housing requirement
 - What amount of housing these areas are planning for
 - How much housing they are currently supplying
 - What likely deficit will result if this pattern continues
- We have split the overall results into 2 areas - Outside London / London
- Sought to analyse the results / formulate impacts / reach conclusions

Green Belt LPA's - Outside London



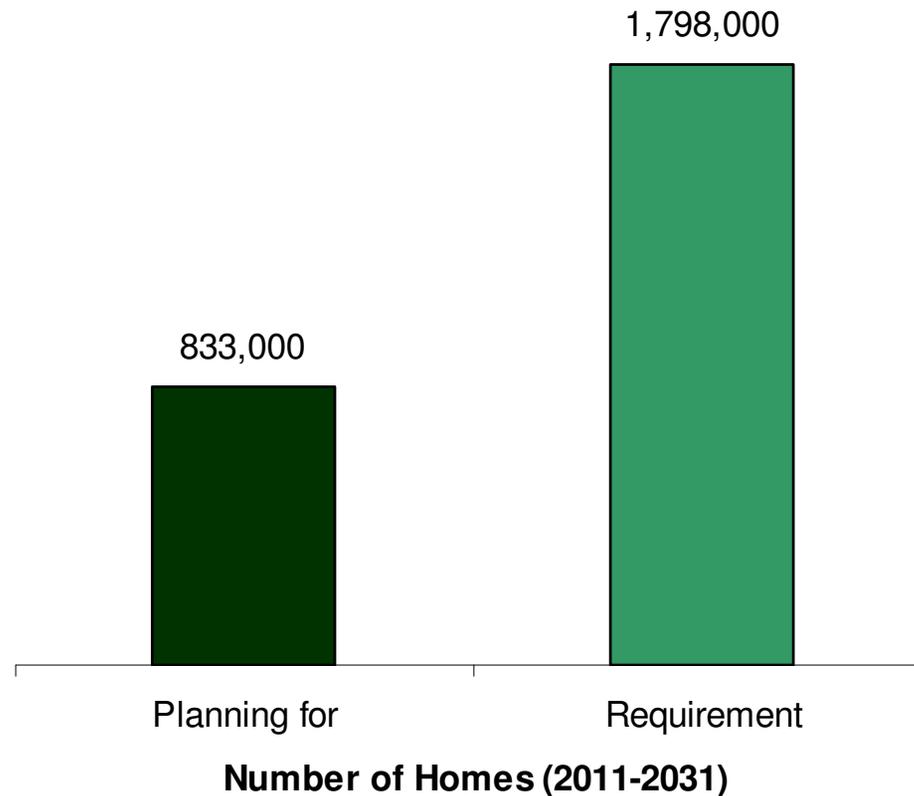
- Requirement (2011-31) = 88,950 homes pa with LPA's seeking to plan for 81,050 (91%)

Green Belt LPA's - Outside London



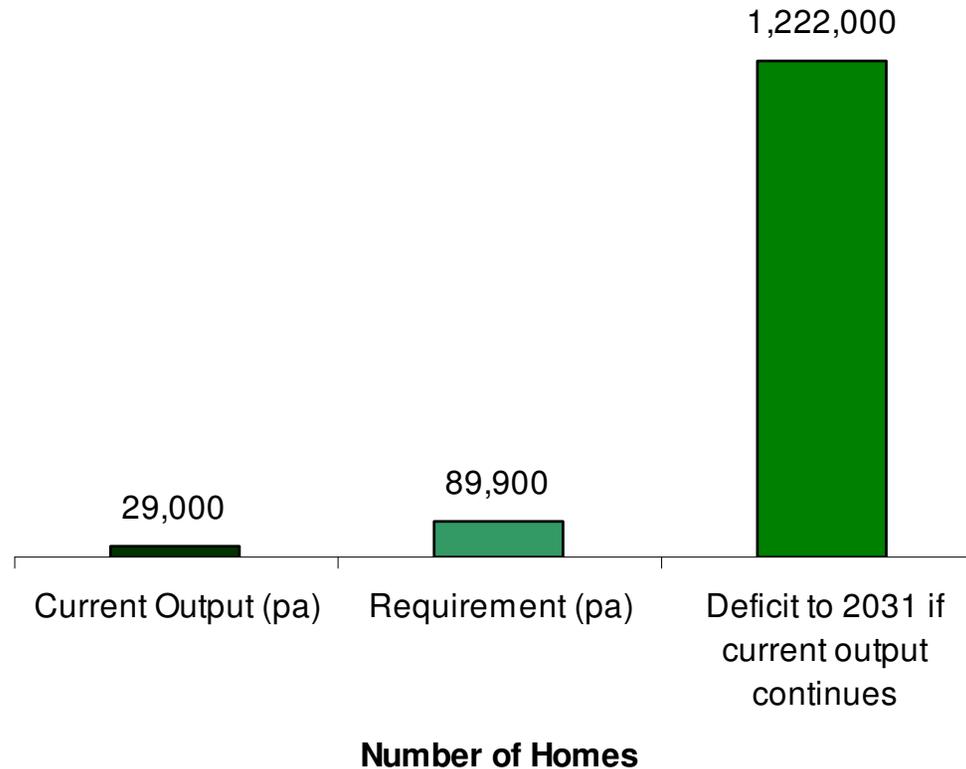
- Whilst it is encouraging that these LPA's are planning relatively positively this could be 'to little to late' as there are serious signs that much more will need to be done

Green Belt LPA's - London



- Requirement (2011-31) = 89,900 homes pa yet LPA's seeking to plan for only 41,650 homes pa (46%)

Green Belt LPA's - London



- There appears to be little positive planning being undertaken in this area despite the enormity of the problem

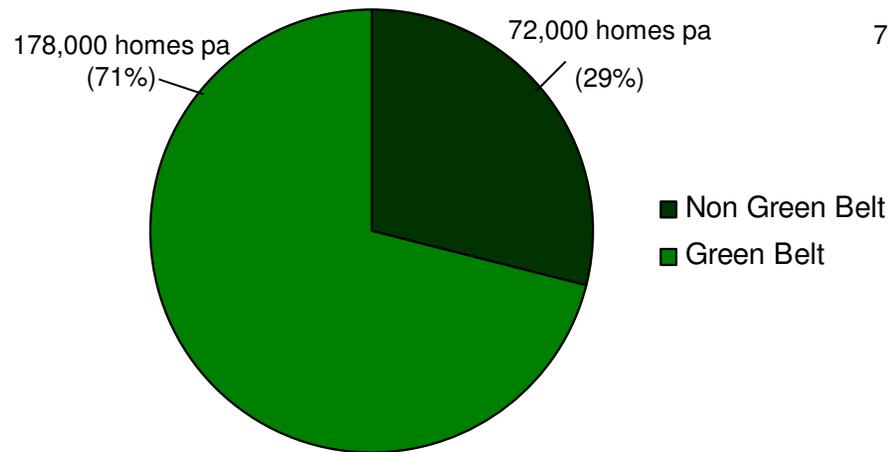
Pulling this all together

- The country needs circa 250,000 homes pa and this is increasing
- It needs them in GB areas!!
- The requirement in GB areas alone is 178,000 homes or 71% of our national housing need at a target of 250,000 pa
- All GB areas are underperforming yet there is a stark contrast between the efforts being made to address this between London and the rest of the country

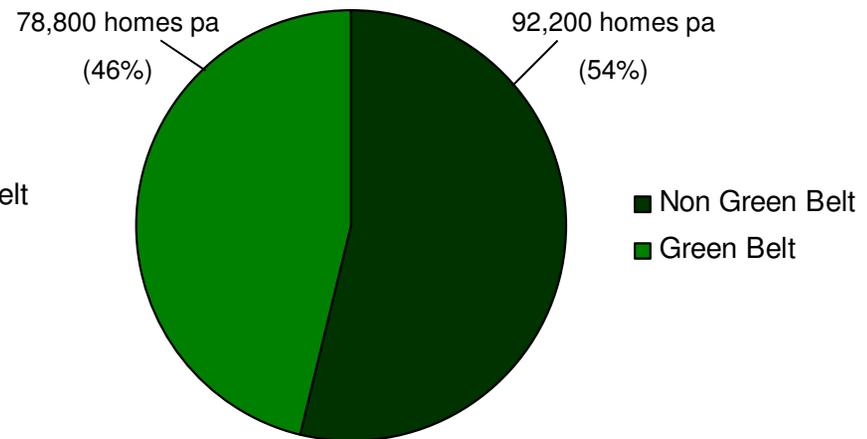


Pulling this all together

Housing Numbers



Housing Delivery



- In simple terms we are building significantly more houses where the planning system will currently permit them rather than where they actually should be!

Green Belt (cont)

- GB policy will need to change if housing targets are ever going to be hit
- We had anticipated this / devised an appropriate land strategy of identification and promotion
- This has been applied by the operational land teams and we have already started to see success through the Local Plan process
- Fully appreciate the sensitivities but the facts must be known so that constructive dialogue at industry level may occur



Example 2: Affordable Housing / Starter Homes

- Government wish to move towards 'affordable ownership' from 'affordable rent' - huge opportunity
- Manifesto commitment to introduce Starter Homes - min 20% OMV discount / FTB requirement / price caps
- Starter Homes (exception sites) - current policy
- Starter Homes (all sites) - emerging policy
- 2015 Budget / Social Rent changes - Housing Associations reviewing strategy / delaying / renegeing or renegotiation
- Delivery concerns - Ministerial letter urging LPA's to 'respond constructively, rapidly and positively to requests for renegotiations'
- Policy direction of travel clear / strategy required

Affordable Housing / Starter Homes (cont)

- Strategy - to consider how can we most effectively seek to implement the governments emerging policy objectives across the businesses
- Identify within our land bank all exception sites opportunities and via group guidance proactively pursue them
- Understand the 'controls' associated with all our sites AH to maximise our ability to implement this direction of travel yet stand by existing HA deals
- Measure this against operational requirements to maintain / boost production
- Create a site specific strategy for each company to demonstrate how the commercial nature of the AH offer can be improved via application of emerging policy & ensure S106 drafting to enable early change & cascade mechanism
- Implementation via the Group team / control templates / company review / centralised guidance and support
- Hard work at the coalface but huge benefits !

Affordable Housing / Starter Homes (cont)

- New government / new perspective - a more mixed tenure approach towards affordable housing yet Starter Homes remains a manifesto pledge however in what form?
- Will there be a national minimum requirement? What change in policy will be needed? What will the criteria be? When will this happen?
- The scale of the opportunity will be far reduced from the original concept in our view
- Despite this over the 'window of opportunity' major strides were taken - SH Exception sites remain policy / we have renegotiated many agreements by turning rented to intermediate tenures significantly improving margin
- All the teams have learnt a huge amount about this complex process and that with understanding / application and support we will continue to adapt our business strategy proactively in the light of emerging policy.

Conclusions

- The examples above demonstrate the company thought process when it comes to emerging policy
- We could have chosen from a range of other areas but the approach would be the same - e.g. design principles / layout etc.
- Our objective is to ensure that we understand policy and to try and maximise the opportunity it gives us. We then ensure everyone in the group is applying the agreed approach
- This in turn drives margin, improved ROCE and increased output