London First response to Department for Levelling Up, Housing and Communities consultation: Building Safety Levy

Introduction

London First is a business campaigning group with a mission to make London the best city in the world to do business, for the benefit of the whole UK. We convene and mobilise business leaders to tackle the key challenges facing our capital. We are made up of around 175 leading employers across a wide range of sectors including strong representation from the development industry.

We welcome the opportunity to respond to the Department for Levelling Up, Housing and Communities' (DLUHC) consultation on a new building safety levy. We support the government's objective of removing unsafe cladding and the wider focus on building safety standards. However, we have several concerns regarding the design, implementation, and scope of the Levy, particularly how it will affect the delivery of new homes in London, and it is crucial that it does not disincentivise new developments of all types from coming forward.

We have set out our key concerns in this response and would be delighted to discuss any of the points raised or any queries that you may have in relation to it. Please contact Stephanie Pollitt, Programme Director, Housing at spollitt@londonfirst.co.uk.

Design of the Levy

The levy is part of a building safety package which will interact with the proposed Residential Property Development Tax (RPDT) and the proposals for a new Infrastructure Levy as outlined in the Planning White Paper; and which will be applied to buildings of 18 metres and over. The consultation states that the levy and the RPDT are intended to target different parts of the housing sector meaning that developers could pay both or only one of the measures. Similarly, in the case of the Infrastructure Levy, the two levies are designed to target different points in the development cycle. These two points do not consider, however, that the levies and tax will need to be paid from one funding pot regardless of which stage they are taken.

There are currently 587 tall buildings in London's development pipeline some of which could provide an estimated 91,578 new homes[1]. The levy will therefore have a significant impact on development in London and, when taking into consideration the cumulative impact of the other property taxes as well as an increase in corporation tax due to take place in 2023, we are concerned about the residential development industry's ability to bring these homes forward for development.

In addition, the industry is already facing increasing costs with further liabilities due over the coming years to meet various policy objectives such as strengthened environmental and design standards for new homes and the existing Mayoral CIL (MCIL) rates which have seen a c.70% increase from MCIL 1 to MCIL 2.

[1] London Tall Buildings Survey 2021, NLA

Furthermore, while the RPDT has a target of raising at least £2 billion over a decade, there is no indication if the levy will be time limited or last in perpetuity? There is no reasonable justification for the levy being in perpetuity, but if the intention is to make the levy time limited with a target of raising a certain amount of money, this should be made explicitly clear, including a guarantee that the funds raised will be ring fenced for the purposes of building remediation. If this is not done, the levy simply becomes a tax on all tall buildings which will significantly penalise development in London.

Levy rate

The level of funds raised will be directly influenced by the rate at which the levy is set. Whilst the consultation has made a call for evidence to assess the impact of the levy, it is impossible to provide an accurate reflection of the impact without any idea of what the rate might be. It is imperative, therefore, that the rate is clarified as a matter of priority and done so in consultation with the development industry.

Exclusions

The levy will create challenges for all parts of the residential industry including build for sale, build to rent and purpose-built student accommodation and we have outlined our concerns in more detail under the housing supply impacts section below. In the case of affordable housing, we agree that this should be out of scope from the levy. However, greater clarity is required as to whether it is affordable housing per se that is excluded, or all development undertaken by affordable housing providers.

The consultation is also silent on estate regeneration. London typically sees a high concentration of estate regeneration schemes which have the capacity to make a significant contribution to London's future housing supply and local social and economic regeneration. Such projects are, by their very nature, challenging and time consuming and the addition of a levy would add a further layer of complexity, particularly where the charge will not have been accounted for and factored into the original viability assessment. Such schemes also include a significant amount of affordable housing and given that affordable housing is deemed out of scope, it would make sense that estate regenerations schemes are also excluded from the levy.

Levy calculation

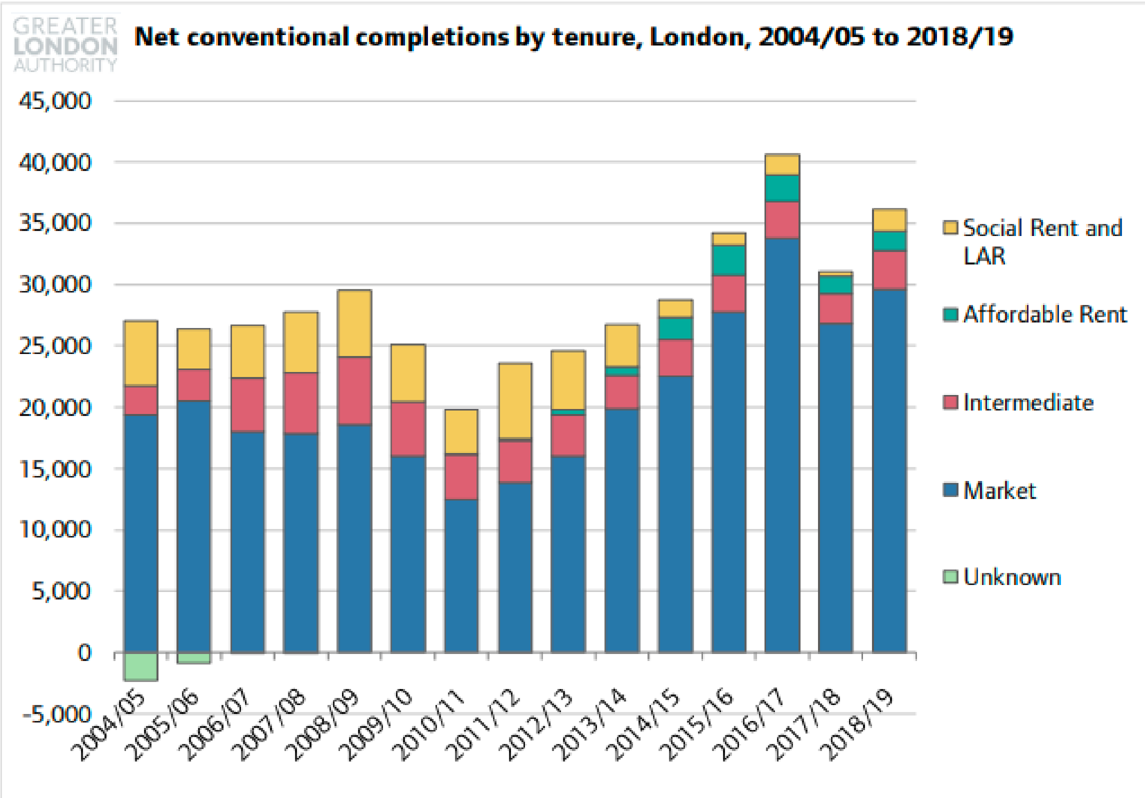
The proposed options for calculating the levy pose some challenges. If the calculation were to be done on a square meter basis, it should only be attributed to the net residential floorspace and should omit non-residential areas, such as communal spaces as found in BtR developments. If the charge was to be set against the number of units, the fee for a large unit would be equal to that of a small unit which may penalise the inclusion of smaller units in a development.

It is difficult to assess the implications of either calculation without knowing what the actual rate will be, but for the purposes of this response, we do not have preference for either calculation. Whichever method is chosen, it must be transparent, easy to apply and must not include non-residential areas or units.

Potential housing supply impacts

London has a chronic undersupply of homes with the city failing to keep up with demand. Historic housebuilding levels – as outlined in the graph below – are far off The Mayor's Strategic Housing Market Assessment 2017 which outlined a requirement for 66,000 new homes to be delivered each year. However, under the Government's latest version of calculating housing need, this annual figure has been placed at 85,000 whilst further research indicates that an even higher level of between 90,000-100,000 new homes are required each year to meet need and improve affordability.[2]

Yet net-conventional completions in London in 2018/2019 – the most up to date period covered by GLA figures – stood at 36,129 homes.[3]



Housing in London 2020: The evidence base for the London Housing Strategy, GLA, October 2020

London must build more homes not only to meet the needs of Londoners but to also help it remain a globally competitive city. While there are range issues which have contributed to the under supply of housing in the capital, additional costs on new development, such as the levy will only serve to reduce appetite for more development.

Though the Government estimates that only around 200 developments would be in scope to pay the levy annually, it is likely that many of these developments will be in London and, given the existing pressures over land supply in the capital, this will create more obstacles for development in the city.

Furthermore, in recent years there has been a policy move at both a national and London level to optimise the density of development in urban centres, which in some instances will require delivering a tall building. This levy may therefore incentivise sub-optimal development and create unintended consequences in terms of the number of new homes that are built in certain parts of the capital and other parts of England.

The consultation suggests that the costs of the levy would be passed through to the buyer. This is not the case; pricing is market driven and any inflation would artificially distort the market creating future unintended consequences such as market stagnation. If the cumulative costs of the levy, RPDT and

[2] Delivering on London's Housing Requirement, London Councils, August 2021.
[3] London Plan AMR 16 2018/2019, GLA

Infrastructure Levy are too high, then it is likely that appetite to deliver high rise schemes will be reduced. It is therefore imperative that if the levy is introduced it is set at a rate that does not impact the viability of development.