

How can the planning system deliver more housing?

Solutions
Lessons for policy
and practice

March 2010

What's the issue?

We are not delivering the quantity and quality of new housing required, especially affordable housing. The planning system is seen as one of the main barriers to delivery of new housing.

What are the problems?

- Recent years have seen higher house prices, greater house price volatility and worsening affordability. Housing output has been low, even in the boom.
- There is resistance to top-down targets at the local level. Local hostility to new development is often driven by fears that adequate roads, schools and other services will not be provided.
- Land supply is heavily constrained and available land is not always in the right places.
- There is not enough funding for affordable housing, especially with the collapse of Section 106 contributions in the market downturn.
- Regulation is expensive, complicated and slow moving.

Ways forward

- The top-down approach has not worked well. There is a case for a more bottom-up approach; moving away from national targets towards a more localised, incentives-based system of land-use planning.
- The core issue remains how to ensure that local authorities are planning enough housing to meet overall requirements. This requires at a minimum cooperation across broader housing markets and a continuing role for central government in agreeing local plans.
- Local incentives must be large enough to offset the negative impact of development on local communities. This will have to include both 'carrots' and 'sticks' and a monitoring and accountability system to ensure local authorities actually deliver.
- Contributions to infrastructure and affordable housing should be simplified, but include a narrowly defined Section 106. Tax increment funding for infrastructure should also be explored.
- Local housing trusts, community land trusts, self-build and other local initiatives should be encouraged. These can make small but significant contributions, especially in rural areas.

Authors

Gemma Burgess, Sarah Monk
and Christine Whitehead
Cambridge Centre for Housing
and Planning Research,
University of Cambridge

The case for change

The Government remains committed to its national target of building 240,000 new homes per year by 2016 and delivering three million new homes by 2020. But this almost certainly cannot be achieved.

Current arrangements

National housing requirements are 'top-down' and target driven. The Government sets the national requirements, informed and supported by the National Housing and Planning Advice Unit (NHPAU) and regional planning bodies.

The NHPAU was set up to produce consistent housing supply targets at the regional level. It provides independent advice on affordability matters to government, regions and other stakeholders. It makes an input into new housing policies in regional spatial strategies (RSSs).

There is a two-tiered planning system made up of RSSs and local development frameworks (LDFs). The regions allocate regional housing targets between local planning authorities. The RSS contains housing targets for each local authority district or sub-regional housing market area.

At the local level, planning authorities must develop their own policies for the location of new homes and the proportion that will be affordable. The LDF is a folder of documents prepared by local authorities that outlines these policies and provides additional details such as size and type of housing required, with individual planning briefs for large or strategic sites. Strategic Housing Market Assessments and Strategic Housing Land Availability Assessments provide the evidence base for policies and affordable housing targets.

Section 106 (S106) agreements, based on the needs identified in the LDF, are negotiated to provide and locate affordable housing and contribute to other infrastructure requirements. Currently over 60 per cent of affordable housing is delivered through S106. Finance for new affordable housing comes mainly from rents and sales revenue. But this cannot normally cover costs, so affordable housing also requires grants – developer contributions through S106 and Housing Association reserves.

Problems

Planning

The planning system is often criticised for being overly complex, too top-down, slow and over-engineered. The system provides few direct incentives for local authorities or local people to accept new development. There is often a lack of local buy-in to the need for additional housing, particularly affordable housing, which tends to have a stigma attached at the local and neighbourhood levels.

In the planning process there are problems of consistency with targets, delays and lack of capacity in terms of skills and staffing. There have been increasing regulatory demands, especially with respect to energy efficiency, carbon emissions densities, and the provision of affordable housing through S106. The system is not delivering enough affordable housing and many other charges are made on S106, including contributions to local infrastructure, schools, health, transport and community facilities. The continual change in the regulatory framework has had a negative impact on delivery of all types of housing.

Finance

Central government subsidies for affordable housing have been increasing recently but the current spending round has now been allocated and the new round is not in place. While house prices were booming, S106 was able to deliver growing proportions of affordable housing, but targets were still not met. With the downturn, public funds have gone towards getting the housing market moving again rather than further increasing supply. This level of funding cannot continue into the future.

In the current system of local government finance there are few incentives for local authorities to provide additional housing. Yet there are obvious costs to the local population associated with new development. The ability of Housing Associations to develop has been restricted by financial market issues and by declining activity levels. Whilst there have been changes to the Housing Revenue Account (HRA) and some additional grants, the capacity of local authorities to generate additional housing remains unclear.

Land and building

Land availability is a core issue. The 'easiest' brownfield sites are thought to be running out, and there is increasing pressure to build on greenfield land. There were big increases in planning permissions during the boom, but new output levels did not rise in

line with this growth. A recent NHPAU report on public attitudes to new housing found that despite concerns about affordability, particularly for first-time buyers, support for building more homes is low. Eco towns are generally regarded as a failure in their current form and there are issues around urban extensions and new towns. The viability of the development industry has now come into question, hindered by the need for infrastructure funding and the difficult housing market.

Proposals for change

A range of organisations have addressed these problems in the run up to the general election and made suggestions for change:

Local Government Association

The Local Government Association, alongside the New Local Government Network, has called for changes to existing financial arrangements between the national and local level. They argue for stronger powers for local authorities, allowing them to retain finance to generate more housing supply and to tailor developments and related infrastructure to their areas. They have called for the Housing Revenue Account subsidy system to be scrapped and replaced with a more localised system.

Policy Exchange

The think tank Policy Exchange has argued that an alternative system of local taxation would incentivise housing development. Based on an examination of international planning systems, Policy Exchange suggests that local development needs can be better supported by directly generating additional local tax receipts for infrastructure funding or by tax cuts.

Policy Exchange argue that Britain's centralised system of planning restricts the supply of housing. European evidence suggests that weak central coordination of planning can result in individual towns and cities competing for development and competition for local development, especially where development directly brings local tax values with it, as in Switzerland, or in regions seeking an economic stimulus, like the German Ruhr area. They propose using the tax system to incentivise local authorities to support development. The Policy Exchange report found that countries such as Germany with these systems in place were able to combine upward demand pressures with stable house prices and spacious housing.

The Conservatives

The Conservative Party issued a Policy Green Paper on housing, *Strong Foundations: Building Homes and Communities* (No. 10), and a Policy Green Paper on planning, *Open Source Planning Green Paper* (No.14). They plan to replace the system of national requirements with one of local incentives. This would involve abolishing national and regional housing targets and the regional planning system.

The aim is to promote new house-building by matching local authorities' council tax income for each new house built for six years, with special additional incentives for affordable housing, which would be funded through abolishing the Housing and Planning Delivery Grant (HPDG). Entirely new bodies, local housing trusts, would have freedom to develop homes for local people, as long as there is strong community backing.

The Conservatives propose a system of 'Open Source Planning' to reduce unnecessary bureaucracy and allow local people to be more involved in shaping development in their local area. There would be a presumption in favour of sustainable development within the local plan and planning inspectors would no longer be able to rewrite local plans. There would be a consolidated national planning framework with a reduced number of simplified guidance notes, setting out minimum environmental, architectural, design, economic and social standards for sustainable development.

The Conservatives propose limiting the use of planning obligations to stipulations relating directly to site-specific remediation and adaptation. They would scrap the Community Infrastructure Levy (CIL) and non-site-specific planning obligations and instead introduce a single unified local tariff applicable to all residential and non-residential development (even a single dwelling), but at graded rates depending on the size of the development.

The Liberal Democrats

The Liberal Democrats favour a radical approach to local government finance. In particular, they see their long-standing commitment to a local income tax as offering a new incentive for local authorities to increase their populations through additional development. They propose abolishing regional house-building targets and allowing local authorities to determine how many and what type of homes are needed in their area.

The current Government

The Government has emphasised simplifying the regulatory framework, but additional requirements have also been added and targets strengthened. The focus has been on mitigating the impacts of the downturn through intervention by the Homes and Communities Agency (HCA).

The Government plans to introduce CIL in 2010, accompanied by a scaling down of S106. Negotiated developer contributions will only relate to (i) what is needed to mitigate the negative impacts of development, and (ii) affordable housing provision. Local authorities will be able to choose whether or not to introduce a CIL. CIL contributions will be the first call on developers and S106 will become a residual element.

Plans have been announced to dismantle the national HRA subsidy system, which for 30 years has discouraged local-authority building, and to replace it with a new local self-financing model together with additional grants, allowing local authorities to start building again. The Government is also exploring methods to enable local authorities to borrow against potential future income from, for example, CIL, rental streams or Tax Increment Funding (TIF), which could be used to help fund capital investment for infrastructure.

Points from discussion

A round-table discussion was held in December 2009 with housing and planning academics and practitioners to consider the main changes that have been proposed. This section presents some of the points raised in the discussion.

Targets

The possibility of abolishing targets for new housing both at the national and regional levels was discussed. There has been increasing resistance to national and regional targets at the local level by those who see them as top-down imposition. The methodology for estimating targets is strongly queried at the local level and the role of NHPAU in setting targets has been challenged.

A potential problem with no targets or only local targets is that the sum of local targets and output may not meet national need. There is concern that, in areas where there is greatest local need but also

local resistance to new development, local targets and output will be low. The spatial distribution of housing output is critical but without targets and some form of top-down pressure housing may not be delivered where it is needed most.

One suggestion is to replace crude numeric output targets with outcome targets that include the broader goals and priorities that local authorities want to achieve in housing. For example, Barker (2004) proposed a target outcome based on market affordability. A benefit of local targets is that there are policy goals other than just securing more housing that are important at the local level, so there is the potential for holistic approaches to planning for housing, employment, transport and infrastructure together.

For local decision making, housing is not necessarily seen as an end but as a means to other social and economic ends in a local environment. You can't put all these complexities together at the national level and have them make sense. You need local understanding, a knowledge that in the local area they might want to achieve other things.
(Local planner)

Local incentives

The current system for transferring funds to local authorities often appears to penalise them for growth.

The arrangements are based on data that are two or three years out of date. They get less than it costs to provide services so there is a disincentive to accept development and we need to get rid of this.
(Local planner)

Payments are indirect and local stakeholders often do not see any immediate benefits to the local economy and community to additional housing. One reason councils are reluctant to embrace growth with no direct funding stream is that they are concerned that without it they will not be able to fund the capital investment necessary for a functioning community, or to meet the revenue cost of maintaining infrastructure and services.

To make a system without national and regional targets work, there would need to be a combination of local targets and incentives, plus a system of penalties to ensure that some local authorities do not opt out of their responsibilities. They should provide for the whole population and address particular needs, notably affordable homes.

What is critical is the combination of targets and incentives; we need both together, plus penalties, as some local authorities will just opt out.
(Housing provider)

The TIF approach could work but it would be difficult to identify relevant revenue streams. There needs to be more innovation around funding infrastructure.

There will be a fiscal drought for ten years at least so the market won't resolve all the problems. We need to replace grant funds and look at how to sweat public sector assets as a whole, to pool them into a single asset strategy.
(Local development agency)

How can direct incentives be introduced to provide additional housing? A local income tax related to population and employment is one suggestion, because it could create competition for new development between areas. However, it might not work in the context of housing in most local authorities as new households can be expected to have below average incomes for the area, which would produce a disincentive to increase the population.

In principle, the most obvious way would be to introduce incentives within a 'root and branch' restructuring of local government finance to support the localisation agenda. This is almost certainly politically unacceptable in the short to medium term. A better approach is therefore a system of direct incentives by payment per dwelling.

The currently proposed incentives were not thought to be large enough to encourage the delivery of sufficient housing where it is most needed. Incentives to allow more housing could lead to more in the places where need is not great, but not enough where need is greatest. This implies a need to include a means of penalising areas that will not allow development, providing pressure for them to change.

We need to shift the psychology about growth and see the direct benefits. But incentives alone are not enough, as political incentives in some places will trump any other incentives. We still need some means to discipline areas that won't build.
(Local development agency)

There is no hard evidence about the likely response to different incentives. It is not clear whether incentives will translate into planning permissions and development across different local political environments. More broadly, there needs to be greater consideration of why people resist new housing.

What can we do to get local populations on board? Do councillors, planners and developers talk to local populations in the right way and could they do it better? It is not just about financial incentives.
(Housing charity)

Regions

The regional role has been to address broader issues, give advice and make allocations for new housing more acceptable. Some regard regions as a forum for bringing together diverse sub-regions and in some cases they play a role in encouraging local authorities to work together and not just protect local interests.

However, what the regions add to housing delivery has increasingly been questioned. It is suggested that if they were removed, other more appropriate forms of integration would emerge.

It just should not be the Government drawing lines on a map. We should let local players get together and do what works around their economic geography. Lots of councils want to play in to different and overlapping geographies. But we do need to be careful about dismantling the capability that currently exists between the national and the local. We need incentives to encourage local authorities to work together and not just protect local interests.
(Local planner)

If the regional tier were removed from the housing delivery system, measures would be needed to ensure that the strategic planning capability and skills that currently exist between the national and the local levels are not lost.

Simplifying the system

There is general recognition that the planning system needs to be simplified. There are concerns that the idea of replacing parts of S106 with a standard contribution through CIL adds to complexity, but CIL used instead of S106 puts housing at a disadvantage. The new CIL regulations are complex and it is feared that the new system will not give developers and planners the simplicity that is needed. There are also concerns about the loss of contributions for affordable housing because it becomes a 'residual' element.

Currently, suggestions for how to take local contributions forward are not well specified. Land values clearly should contribute to local infrastructure and housing, and could be a major support to localisation, but a simplified more rule-based S106 seems the best option on offer.

Local housing trusts

Local housing trusts (LHTs) have been proposed to enable the development of homes for local people where there is strong community backing. They may be popular in rural areas where local communities are struggling to survive and local landowners may see the donation of land as a way to help.

LHTs are in many ways an extension of the rural exceptions policy, which, while popular, did not deliver much housing. There are uncertainties about how much land can be made available and where this might be situated as well as how the process can be managed to ensure non profit provision. But the potential for local involvement is important and a simplified approach could add real value to a localist agenda, as could more emphasis on community land trusts and self-build. It could also add impetus to community land trust initiatives.

The concern is that they have to be voted for locally and they have to be 'in-keeping' but this is an easy way to object to them. It is better if the referendum is about the housing need issue and the planning system is left to deal with the way it looks.
(Surveyor)

Ways forward

Almost everyone agrees that the current system is unwieldy and has not been effective in achieving the necessary housing output. But the ways forward suggested come from quite different paradigms. The current government sees the future in terms of more holistic local investment, planning and funding, but with a continuing, and if anything increasing, role for central government and its agents. This involves the continuation of national targets; strong guidance to regions and equally strong requirements on local planning authorities; and grant allocations through the national Homes and Communities Agency. In other words, an approach based on improving and strengthening the top-down system.

Many of the proposals currently under discussion reject this approach as being counter productive. Housing is instead seen as a local issue where responsibility to provide adequate housing and decision-making powers should be directly aligned. This implies a strong impetus towards policies that provide incentives to make development worthwhile for both local authorities and local populations. The trick is to find a way of balancing these two approaches to meet both local and national objectives.

A system based on locally agreed housing requirements and plans raises three key issues:

- How can adequate provision be ensured both overall and in the right locations while maintaining freedom of choice at the local level? Related to this is the fear that an immediate removal of Regional Spatial Strategies would hinder strategic planning and leave a policy vacuum that would reduce output, at least in the short term. Building sub-regional and regional partnerships with a positive approach to development would be an absolute necessity – but these should be based on housing markets and economic interrelationships rather than administrative boundaries.
- What scale of incentive is required to ensure the necessary land supply and can these incentives be differentiated in relation to housing pressure to support the national agenda? This is the core question especially as incentives can come in many forms, including the freedom to develop new streams of funding for infrastructure provision as well as direct payment or tax benefits from increasing housing supply. No one knows what types of incentives would be most effective.
- How can local plans be made to stick? This would undoubtedly require a penalty system operated by central government, for example through the withdrawal of some more general local government funding. A consequence of this would be that local plans would have to act as a form of contract between local and central government.

These are problematic issues and implementation strategies would need to be put in place rapidly, in a difficult economic and housing market environment. All changes take time to bed in and can have a dampening effect on output. Whilst this suggests a case for a more incremental approach, simply to maintain confidence and stability, many believe that the system is broken and that greater and more rapid change is needed.

There are clearly benefits to local approaches. For example, there is potential for local housing trusts, community land trusts and self-build to not only deliver more housing but also to empower local communities. A shift to a more localist agenda might give greater support to these initiatives. A system that increases the engagement of local people in planning might also encourage them to feel more strongly about the application of S106 to local development in order to increase benefits to their community.

Even so, new streams of funding must be identified for infrastructure, and indeed housing. The situation with respect to CIL and S106 is too uncertain, but most commentators see the need for a continuing developer contribution toward affordable housing in a simplified form. The potential for funding against revenue streams depends on Treasury decisions as well as rents policy. Yet immediate decisions are required as part of any policy reform.

On paper, the best way forward might be reform within a broadly based restructuring of local government finance towards a localist agenda. This could be expected to include a more direct incentive to develop as well as a local tax on increments in land values arising from planning permission.

A very different approach is to shift the emphasis in planning away from individual permissions towards an assumption of the right to develop unless offsetting costs to the community can be identified. But these radical approaches are unlikely to be politically or practically on the cards immediately and the problems cannot wait.

To stop the system grinding to a halt there must be buy-in by voters, both national and local, to the need for more housing development and a simpler, more inclusive planning system. Local communities need both a vision and an acceptance that they must plan for the long term – and must take account of their neighbours' needs as well as their own. The shift has to be away from centralised target-based decisions and negativity in development control towards a system where there is a much greater expectation that viable housing projects should, and will, be enabled.

About the research

The team drafted a paper on the problems of the current system and proposed alternatives to use as a starting point for discussion with political advisers and a round-table event was held with housing and planning academics and practitioners to discuss options for delivering a better supply of housing. This paper draws on these discussions, but the suggestions made here reflect the views of the research team.

The research was conducted by the Cambridge Centre for Housing and Planning Research (www.cchpr.landecon.cam.ac.uk), part of the Department of Land Economy at the University of Cambridge. For more information please contact Dr Gemma Burgess at glb36@cam.ac.uk or on 01223 872970.

References

Barker, K. (2004) *Barker Review of Land Use Planning: Final Report – Recommendations*. London: The Stationery Office
http://www.hm-treasury.gov.uk/d/barker_review_report_494.pdf

Department for Communities and Local Government (2007a) *Housing Green Paper: Homes for the future: more affordable, more sustainable*. London: The Stationery Office
<http://www.communities.gov.uk/documents/housing/pdf/439986.pdf>

Department for Communities and Local Government (2007b) *Strategic Housing Land Availability Assessment: Practice Guidance*. London: DCLG
<http://www.communities.gov.uk/documents/planningandbuilding/pdf/399267.pdf>

Department for Communities and Local Government (2008a) *Facing the housing challenge. Action today, innovation for tomorrow*. London: DCLG
<http://www.communities.gov.uk/documents/housing/pdf/facinghousingchallenge>

Department for Communities and Local Government (2008b) *Securing the Future Supply of Brownfield Land: Government Response to English Partnerships' Recommendations on the National Brownfield Strategy*. London: DCLG
<http://www.communities.gov.uk/documents/planningandbuilding/pdf/securingfuturebrownfield.pdf>

Department for Communities and Local Government (2008c) *Common Starting Points for Section 106 Affordable Housing Negotiations*. London: DCLG
<http://www.communities.gov.uk/documents/planningandbuilding/pdf/commonstartingpoints.pdf>

Department for Communities and Local Government (2008d) *Housing and Planning Delivery Grant: Allocation Mechanism and Summary of Consultation Responses*. London: DCLG
<http://www.communities.gov.uk/documents/housing/pdf/grantallocationresponses.pdf>

Department for Communities and Local Government (2009) *House Building: March Quarter 2009, England*. London: DCLG

Department for Communities and Local Government (2009) *Housing and planning delivery grant (HPDG) Consultation on allocation mechanism for year 2 and year 3*. London: DCLG
<http://www.communities.gov.uk/documents/planningandbuilding/pdf/consultationdeliverygrant.pdf>

Evans, A. and Hartwich, O. (2005) *Bigger Better Faster More: Why some countries plan better than others*. London: Policy Exchange Limited

Liberal Democrats (2010) *Pocket Guide to Liberal Democrat Policy*. London: Liberal Democrats
http://www.libdems.org.uk/pocket_guide_to_policy.aspx

Local Government Association (2009) *Local Housing – Local Solutions: the case for self-determination*. London: LGA

The Conservative Party (2009) *Strong Foundations: Building Homes and Communities*. Policy Green Paper No.10. London: The Conservative Party

The Conservative Party (2010) *Open Source Planning*. Policy Green Paper No.14. London: The Conservative Party