



National Audit Office

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## **Report**

by the Comptroller  
and Auditor General

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**Ministry of Housing, Communities & Local Government**

# Planning for new homes

## Key facts

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**300,000**

the Ministry of Housing,  
Communities & Local  
Government's ambition for  
new homes per year from  
the mid-2020s

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**222,000**

number of new homes  
in 2017-18

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**44.1%**

percentage of local authorities  
that have a local plan for  
new homes that is less than  
five years old

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- 50%** percentage of local authorities likely to fail the 'housing delivery test' in 2020 for not building enough homes, so could face penalties
- 81%** percentage of major residential planning applications approved by local authorities in 2017-18
- 38 weeks** average time the Planning Inspectorate estimates it takes for it to determine an informal hearing or inquiry-based housing appeal
- 47%** percentage of local authorities that can get contributions from developers towards the cost of infrastructure through the Department's preferred mechanism, called the Community Infrastructure Levy
- 15%** percentage overall decrease in numbers of local authority planning staff between 2006 and 2016

# Summary

## Our report

**1** The Ministry of Housing, Communities & Local Government's (the Department's) objective for housing in England is to: "support the delivery of a million homes by the end of 2020 and half a million more by the end of 2022 and put us on track to deliver 300,000 net additional homes a year on average". Increasing the supply of new homes is a complex task. The Department has implemented a range of measures to achieve this, including reforms to the planning system.

**2** The planning system is vital to providing new homes as it helps government and local authorities to determine how many, where and what type of new homes are built. The planning system also helps to identify what areas need to be protected or enhanced and to assess whether proposed development is suitable and will benefit the economy and communities. It is, however, a complex end-to-end system with many moving parts.

**3** The Department is responsible for setting national policy for the planning system. Implementing that policy is largely devolved to local authorities that perform two functions: producing a local plan that sets policy for the location of and types of homes to be built in their areas; and 'development management', which is the process for considering applications for developments. In July 2018, the Department published its revised national planning policy framework.

**4** This report is part of a series on housing in England, including *Housing in England: overview* (2017) and *Homelessness* (2018). It assesses how effectively the Department supports the planning regime to provide the right homes in the right places by:

- supporting local authorities to produce plans for how the supply of new homes will meet need in their area;
- supporting local authorities and the Planning Inspectorate in having effective and sufficiently resourced planning processes and teams to deal with planning applications and appeals; and
- working effectively with local authorities, other government departments and developers to ensure infrastructure to support new homes is planned and funded.

**5** **Figure 1** details the stages of the planning system. We set out below the problems we have found in those stages, which cover:

- strategic planning for new homes (paragraph 6);
- producing local plans (paragraphs 7 to 11);
- planning applications and appeals (paragraphs 12 to 15); and
- funding and providing infrastructure (paragraphs 16 to 20).

We set out the constraints of the planning system in paragraphs 21 to 23.

## **Key findings**

### Strategic planning for new homes

**6** **The Department has an ambition to support the delivery of 300,000 new homes per year from the mid-2020s, which will be challenging to meet.**

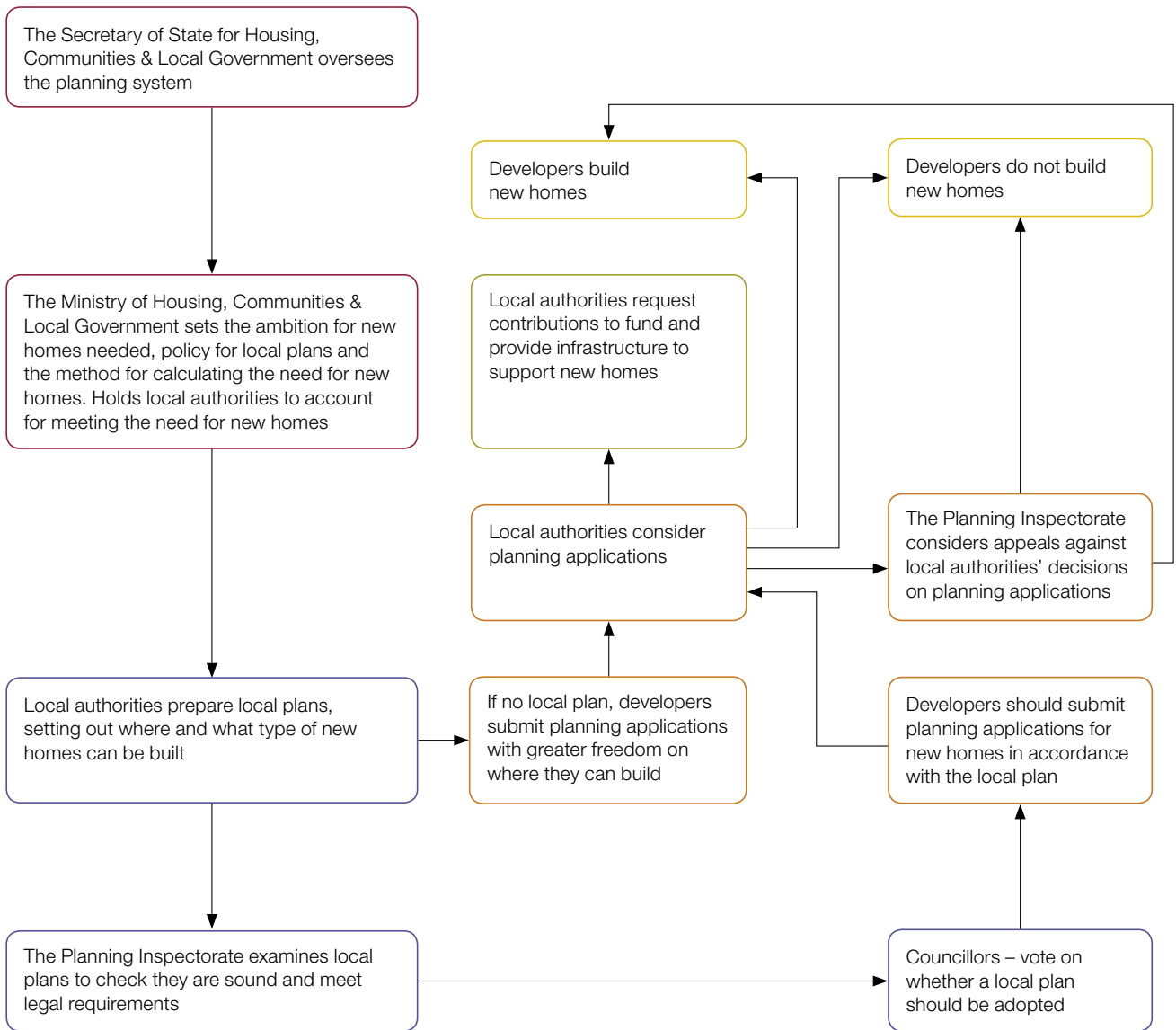
The Department's ambition was announced in the 2017 budget, but with no detailed calculations supporting it. The ambition is based on 'net additions', which includes new builds, conversions, changes of use (such as residential houses being converted into businesses) and demolitions. The average number of new homes each year between 2005-06 and 2017-18 was 177,000 per year and has never exceeded 224,000. Compared with the average number of new homes per year since 2005-06, the Department will need to oversee a 69% rise to meet its ambition from the mid-2020s. The number of new homes has increased every year since 2012-13, with 222,000 new homes in 2017-18 (paragraphs 1.2 to 1.4, Figure 3).

### Producing local plans

**7** **Local authorities have struggled to produce up-to-date local plans.** As of December 2018, only 44.1% of local authorities had an up-to-date local plan (a plan less than five years old) that sets out their strategies for meeting the need for new homes. All local authorities should have a local plan and identify a five-year supply of land for new homes. Producing local plans can be technically complex, resource-intensive and time-consuming. As of November 2018, the Department – through the Secretary of State – has only challenged 15 local authorities that do not have an up-to-date plan. If a local authority does not show it has a five-year supply of land for housing, it gives developers greater freedoms to build where they want, and a local authority has less control over the location of development. This limited local authority control risks ill-suited developments (paragraphs 1.10 to 1.14 and Figure 6).

**Figure 1**  
Stages of the planning system

Local authorities play a key role in the planning process



- Strategic planning for new homes
- Building new homes
- Funding and providing infrastructure
- Planning applications and appeals
- Producing local plans

Source: National Audit Office analysis of the planning system

**8 The Department's standard method for assessing the need for new homes has weaknesses and as a result will be revised.** In 2017, the Department developed a standard method for local authorities to assess the number of new homes needed in their area. Previously, local authorities used a variety of methods to calculate this. The Department's standard method is based on projections of the growth in the numbers of households, adjusted for the affordability of housing in local areas. It is unclear whether the methodology is consistent with the overall ambition for 300,000 new homes per year by the mid-2020s. The Department intends to revise the methodology to be consistent with ensuring that 300,000 homes are built per year by the mid-2020s (paragraphs 1.15 to 1.19).

**9 Local authorities in four out of nine regions have seen an increase in the number of new homes needed in their areas.** The standard method has changed the need for new housing when compared with the need assessed previously by local authorities. Local authorities in the East of England, South West and South East will need to support the delivery of 15%, 6% and 5% more new homes respectively, mainly by identifying more land for new homes. The Department accepts that many of these local authorities will find this challenging. London faces the greatest challenge. The Department has agreed that London can use the Mayor's assessment of the need for new homes for the draft London Plan; however, it expects that future London Plans will identify the need for new homes using the standard method. The Mayor has assessed that around 66,000 new homes are needed in London, which is higher than the approximately 46,000 new homes that London borough councils had previously assessed were needed. In 2017-18, 31,723 new homes were built in London (paragraphs 1.20 and 1.21, Figure 7).

**10 The standard method reduces the numbers of new homes needed in other regions.** The North West, Yorkshire and the Humber, the North East, West Midlands and East Midlands need 24%, 23%, 19%, 11% and 3% fewer new homes than local authorities had previously assessed. This reduction could hamper local authorities' plans to regenerate and stimulate economic growth. While local authorities can support the delivery of more new homes than the standard method calculates, in some areas it may be difficult to get local support given the Department's method gives lower numbers (paragraph 1.22 and Figure 7).

**11 The Department holds local authorities to account for providing new homes, but this is not fully within local authorities' control.** The Department expects local authorities to meet the need for new homes in their areas and, beginning in 2019, will hold local authorities to account for this through the new 'housing delivery test'. The test has performance thresholds based on numbers of homes built, with increasing penalties for local authorities that are under-delivering. Local authorities can influence home-building by, for example, identifying land in their areas on which developers can build, facilitating the provision of infrastructure and considering planning applications. However, as local authorities are not major house-builders they cannot increase the numbers of new homes directly through their own efforts. Research suggests that in 2020, 50% of local authorities are likely to fail the test and could face penalties, which may include giving developers in those areas greater freedoms on where they can develop (paragraphs 1.23 to 1.25).

## Planning applications and appeals

### **12 According to the Department's performance measures, local authorities are increasingly processing planning applications within target timescales.**

The percentage of major residential applications that local authorities determined within the target of 13 weeks or agreed extended period, increased from 47% in 2012-13 to 87% in 2017-18. During the same period, local authorities dealt with more major residential applications. The number increased from 5,244 in 2012-13 to 7,997 in 2017-18. In 2017-18, local authorities approved 81% of major residential planning applications (paragraphs 2.3 and 2.4, Figure 9).

### **13 However, some of the reported improvement in local authorities' performance might reflect a greater use of agreed extensions to timescales rather than increased efficiency.**

For some applications – usually the more complex ones – local authorities and developers agree to extend timescales for a specified time. Some applications for which extensions have been agreed are classed as meeting timescales even though they take longer than the 13-week target to decide. Agreeing extensions is sensible practice in many cases as it gives certainty to both local authorities and developers and recognises that some applications are complex and will take longer to consider. In 2012-13, there were 107 extensions of time, but this had increased to 5,464 in 2017-18. In 2017-18, extensions had been agreed for more than two-thirds of applications. The time-period measured does not include the time a local authority spends on pre-application work (paragraph 2.5).

### **14 The Planning Inspectorate is slow at determining appeals and acknowledges its performance is unacceptable.**

The Planning Inspectorate hears appeals from developers whose applications have been refused by local authorities. Between 2010-11 and 2017-18, the Planning Inspectorate on average decided on 659 major housing appeals a year. Developers were successful in 43% of these appeals, representing on average 21,430 new homes a year. Between 2013-14 and 2017-18, the time the Planning Inspectorate took to determine housing appeals increased significantly. The Planning Inspectorate estimates the time it took to determine an appeal has increased on average from 30 weeks to 38 weeks, between 2013-14 and 2017-18 (for hearings and inquiries). Most new homes granted by appeal are from inquiries, which take the longest. In response to concerns about the performance of the Planning Inspectorate, in June 2018 the Secretary of State appointed Bridget Rosewell CBE to chair an independent review of the system for planning appeal inquiries (paragraphs 2.8 to 2.11).

### **15 The statutory performance measures do not show the overall extent of the time taken to determine a planning appeal.**

The Planning Inspectorate is failing to meet many of the Department's statutory targets, which cover all planning applications. However, these measures are flawed. The measures do not factor in the time it takes between the Planning Inspectorate receiving the appeal papers and starting the appeal process. The Planning Inspectorate does not think the measures reflect customer expectations and would like the Department to revise the measures (paragraph 2.12 and Figure 10).

## Providing infrastructure to support new homes

**16 The way infrastructure is funded is complex, involves several government departments and private developers and lacks cohesion and certainty.** To create new homes and places for people to live, infrastructure such as public and private transport, healthcare, schools and utilities must be in place to support those homes and the people living in those homes. A range of organisations pay for and provide infrastructure including local authorities, government departments such as the Department for Education, the Department for Transport, arm's-length bodies and private sector developers. Local authorities try to use their local plan to align the required infrastructure with new developments. However, this is difficult as government departments are not required to align their investment strategies with local authorities' infrastructure plans so local authorities can lack certainty about how some infrastructure will be funded. The Department has only done a rough estimate of the funding required for supporting infrastructure to support new homes, so future costs for all organisations are uncertain (paragraphs 2.13 to 2.15, Figure 11).

**17 The Department has developed the Housing Infrastructure Fund to help local authorities pay for new infrastructure.** The Housing Infrastructure Fund is a ring-fenced fund that local authorities bid into. It will provide £5.5 billion to local authorities between 2018-19 and 2023-24. In autumn 2018, the Department stated that 80% of the fund must go to the 50% of local authorities that have the least affordable houses compared with wages. This aligns with the Department's aim for more new homes in unaffordable areas (paragraph 2.17).

**18 The system to get contributions from developers towards the cost of infrastructure is not working effectively.** Through the planning system, the Department has provided tools to local authorities to get developers to contribute to the cost of infrastructure and affordable housing through planning obligations (mostly section 106 agreements) and the Community Infrastructure Levy (the Levy), which is voluntary for local authorities to implement. Both are complex, and local authorities, with the Department's help, need to apply them more effectively, rigorously and consistently to maximise the contributions from developers. For example, as of January 2019, only 47% of local authorities had implemented the Levy, while in 2011 the Department profiled that between 82% to 92% of local authorities would charge the Levy (paragraph 2.18 and Figure 12).

**19 Developers can use the planning system to pay less in contributions than agreed.** Developers have been renegotiating lower contributions through section 106 agreements on the grounds of financial viability – that the project cost more than anticipated and they can no longer provide the agreed contribution to infrastructure and still maintain profit margins. The Department notes that some local authorities are unable to negotiate effectively with developers. The Department does not collate information on how frequently these renegotiations happen and the decrease in contributions that results. If developers do not contribute, this results in either less infrastructure, or local authorities or central government paying more towards infrastructure, which could increase financial pressures on them. The Department is introducing reforms, but some of these will not take effect for several years (paragraphs 2.20, 2.22, 2.23 and Figure 12).



**20 Contributions to the cost of infrastructure and affordable housing agreed with developers are not keeping pace with increases in house prices.**

The Department estimates that average contributions agreed with developers remained in cash terms at around £19,000 per new home permissioned between 2011-12 and 2016-17. In contrast, over the same period, average house prices increased in cash terms by 31% and the top five developers' average operating profit margins increased from around 12% to 21% between 2012 and 2016. The Department estimated that in 2016-17, local authorities and developers agreed contributions of £6 billion to the cost of infrastructure and affordable housing through the Levy and section 106 agreements. However, the actual contribution developers make will be lower as developers will not build everything that local authorities approved, and developers may renegotiate lower contributions during the build (paragraph 2.21, Figure 13).

Constraints on the planning system

**21 Total spending by local authorities on planning functions fell 14.6% in real-terms between 2010-11 and 2017-18; local authorities increased their income to avoid further reductions.** Between 2010-11 and 2017-18, there was a 37.9% real-terms fall in net current expenditure (expenditure funded by an authority's own resources) on planning functions. However, increased income generated from sales, fees and charges or transfers from other public authorities meant that total spending on planning reduced in real-terms by 14.6%; from £1.125 billion in 2010-11 to £961 million in 2017-18 (paragraphs 3.2 to 3.5 and Figure 14).

**22 The Department does not understand the extent of skills shortages in planning.** In 2017, the Department pledged to help ensure that the planning system has enough skilled professionals. While local authorities complain of a shortage of planners, data on staff numbers are patchy and the Department does not collate comprehensive data on the extent of this shortage. Research in 2017 indicated that the number of local authority planning staff fell 15% overall between 2006 and 2016. As of the end of 2018, the Department had made some efforts to deal with the shortages of planners by helping to fund a bursary scheme and supporting a bid by the Royal Town Planning Institute for a degree-level planning apprenticeship (paragraphs 3.6 to 3.11).

**23 The Planning Inspectorate has failed to recruit the right number of inspectors.** Between 2010 and 2018, the Planning Inspectorate experienced a 13% fall in staff numbers, amounting to almost 100 full-time equivalent staff. The Planning Inspectorate does not have detailed workforce plans to show how it will use existing and any newly recruited staff effectively, and deal with future workload pressures. The Planning Inspectorate accepts its approach to staffing needs to improve. The Department has agreed in principle a £13 million investment package to boost performance, which will focus on workforce initiatives (paragraphs 3.12 to 3.14 and Figure 15).

## **Conclusion on value for money**

**24** Historically, the supply of new homes has failed to meet demand, as we set out in our *Housing in England: overview*. In response, the Department has set out a challenging ambition for 300,000 new homes a year from the mid-2020s, together with supporting infrastructure. The planning system is a key element in facilitating this. However, looking across the landscape, from the setting of the need for new homes, to the reductions in local authority capability, the under-performing Planning Inspectorate and failures in the system to ensure adequate contributions for infrastructure, it is clear that the system is not working well. Given these problems, we cannot conclude that the planning system currently provides value for money in terms of delivering new homes effectively.

**25** The Department understands the shortfalls in the planning system and its new planning policy framework aims to address some of these, such as the system for contributions from developers. However, it is too early to say how effective the new framework and proposed reforms will be in bringing about the level of change needed. The Department and government more widely need to take this much more seriously and bring about improvement if they are to meet their ambition of 300,000 new homes per year by the mid-2020s.

## **Recommendations**

**26** The Department's new National Planning Policy Framework is an important step in planning policy. It is too early to tell whether the changes it introduces will be effective. The following recommendations are for the Department to implement alongside the framework to help the planning system to work more effectively.

- a** **The Department needs to regularly monitor the gap between the number calculated by the standard method, local authorities' own assessment and the ambition for 300,000 new homes** and assess the risks of not meeting its ambition.
- b** **The Department needs to assess the numbers of, and the potential implications for, local authorities that are at risk of failing the housing delivery test** and set out how it will support those local authorities.
- c** **The Department's performance metrics for local authorities and the Planning Inspectorate for dealing with planning applications and appeals need to reflect performance more fully**, the process in its entirety and take capacity into account.
- d** **The Department needs to work with local authorities and other government departments to ensure that the necessary infrastructure is funded and delivered.**
- e** **The Department should work with industry bodies on detailed research on the skills gaps in local authorities' planning teams**, particularly on the shortages of experienced planners with specialist skills sets.