



National Audit Office

Report

by the Comptroller
and Auditor General

Ministry of Housing, Communities & Local Government

Planning for new homes

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National Audit Office

Ministry of Housing, Communities & Local Government

Planning for new homes

Report by the Comptroller and Auditor General

Ordered by the House of Commons
to be printed on 6 February 2019

This report has been prepared under Section 6 of the
National Audit Act 1983 for presentation to the House of
Commons in accordance with Section 9 of the Act

Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

5 February 2019

This report assesses how effectively the Ministry of Housing, Communities & Local Government supports the planning regime to provide the right homes in the right places.

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Key facts

300,000

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

222,000

number of new homes
in 2017-18

44.1%

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

- 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.**

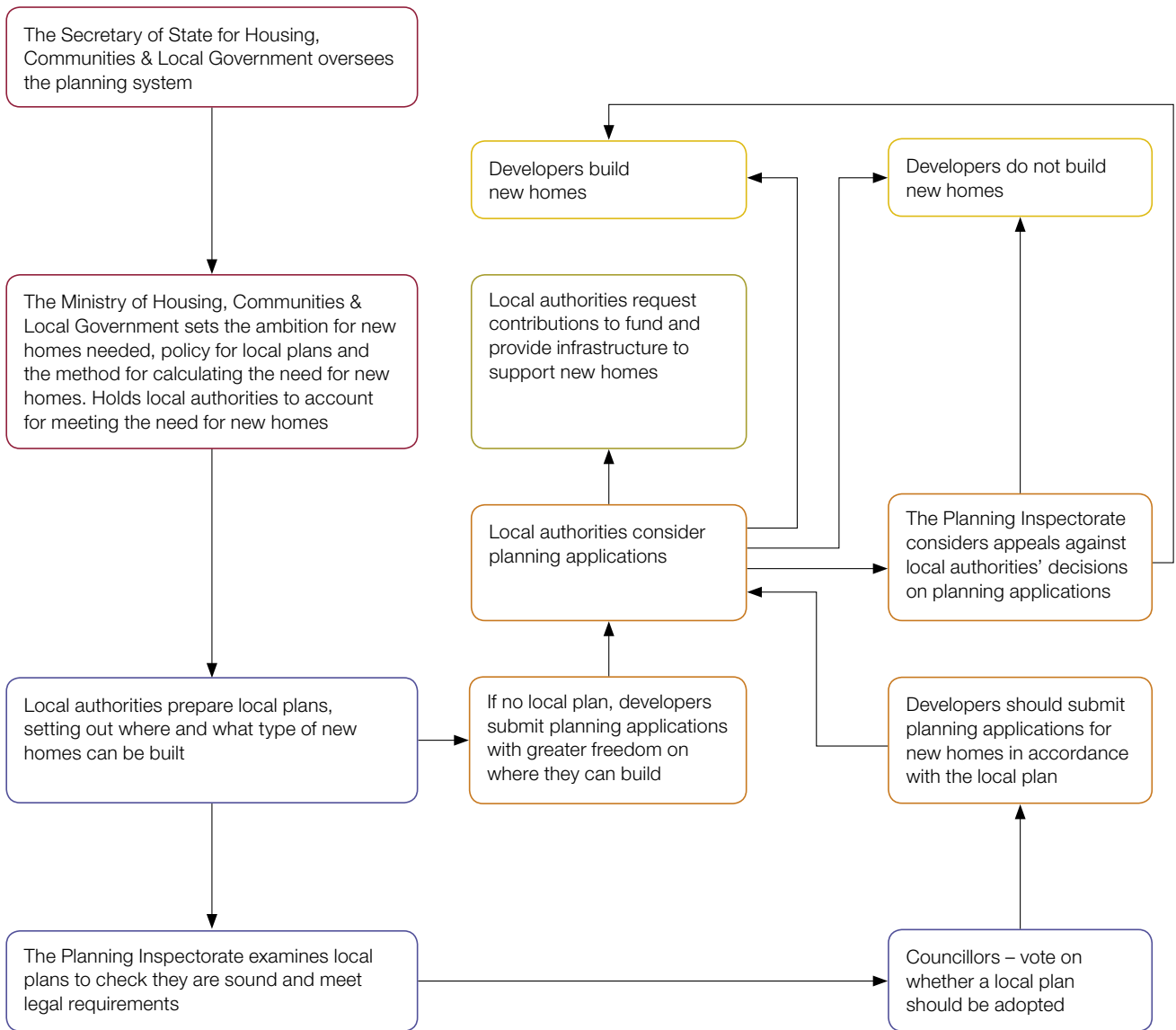
The Department's ambition was announced in the 2017 budget, but with no detailed calculations supporting it. The ambition is based on 'net additions', which includes new builds, conversions, changes of use (such as residential houses being converted into businesses) and demolitions. The average number 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.

Part One

Strategic planning for the right homes in the right places

1.1 This part of the report examines the Ministry of Housing, Communities & Local Government's (the Department's) ambition for the number of new homes, how the Department and local authorities calculate the number of new homes needed, and their strategies to meet that need. It also gives an overview of the planning system.

Planning and building new homes

1.2 The Department has committed to: "deliver the homes the country needs". This is a complex task and the Department has several work strands to help it achieve this, including reforming the planning system (**Figure 2** on pages 14 and 15).

The Department's objective for new homes

1.3 The Department's objective 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". The Department's ambition was announced in the 2017 Budget, but with no detailed calculations as to why the number was chosen. The ambition is based on 'net additions', which includes new builds, conversions (for example, from a house to a number of flats), changes of use (such as residential houses being converted into businesses) and demolitions. For ease and to avoid jargon, we refer to 'new homes' rather than 'net additions'.

1.4 This is a change in the scale of the Department's ambition. Its previous ambition was one million new homes between April 2015 and December 2020. As we noted in our *Housing in England: overview*, this would require only 174,000 new homes per year.¹ Achieving 300,000 will require a big increase in house-building as the numbers of new homes since 2005-06 to 2017-18 has averaged 177,000 and never exceeded 224,000 per year (**Figure 3** on page 16). 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 2023.²

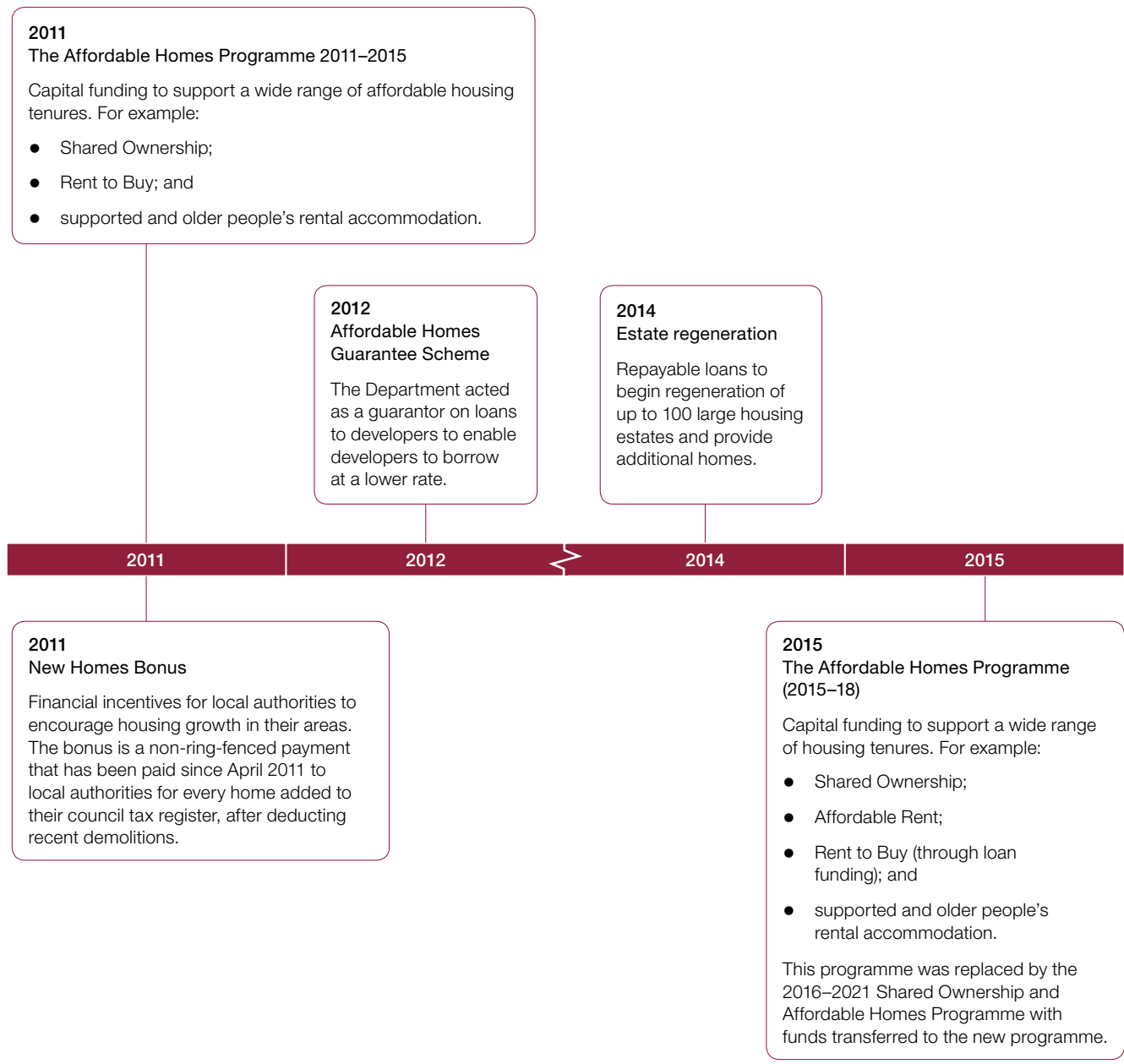
¹ Comptroller and Auditor General, *Housing in England: overview*, Session 2016-17, HC 917, National Audit Office, January 2017.

² For the purposes of the calculation we have assumed that the ambition will apply from January 2023 as the Department has a stated ambition for one million net additions to housing stock over the twenty-three quarters between 1 April 2015 and 31 December 2020, 500,000 net additions to housing stock over the eight quarters between 1 January 2021 and 31 December 2022.

Figure 2

The Ministry of Housing, Communities & Local Government’s main initiatives to deliver homes

The Ministry of Housing, Communities & Local Government is trying to increase the supply of new homes in several ways



Source: National Audit Office analysis of the Ministry of Housing, Communities & Local Government initiatives

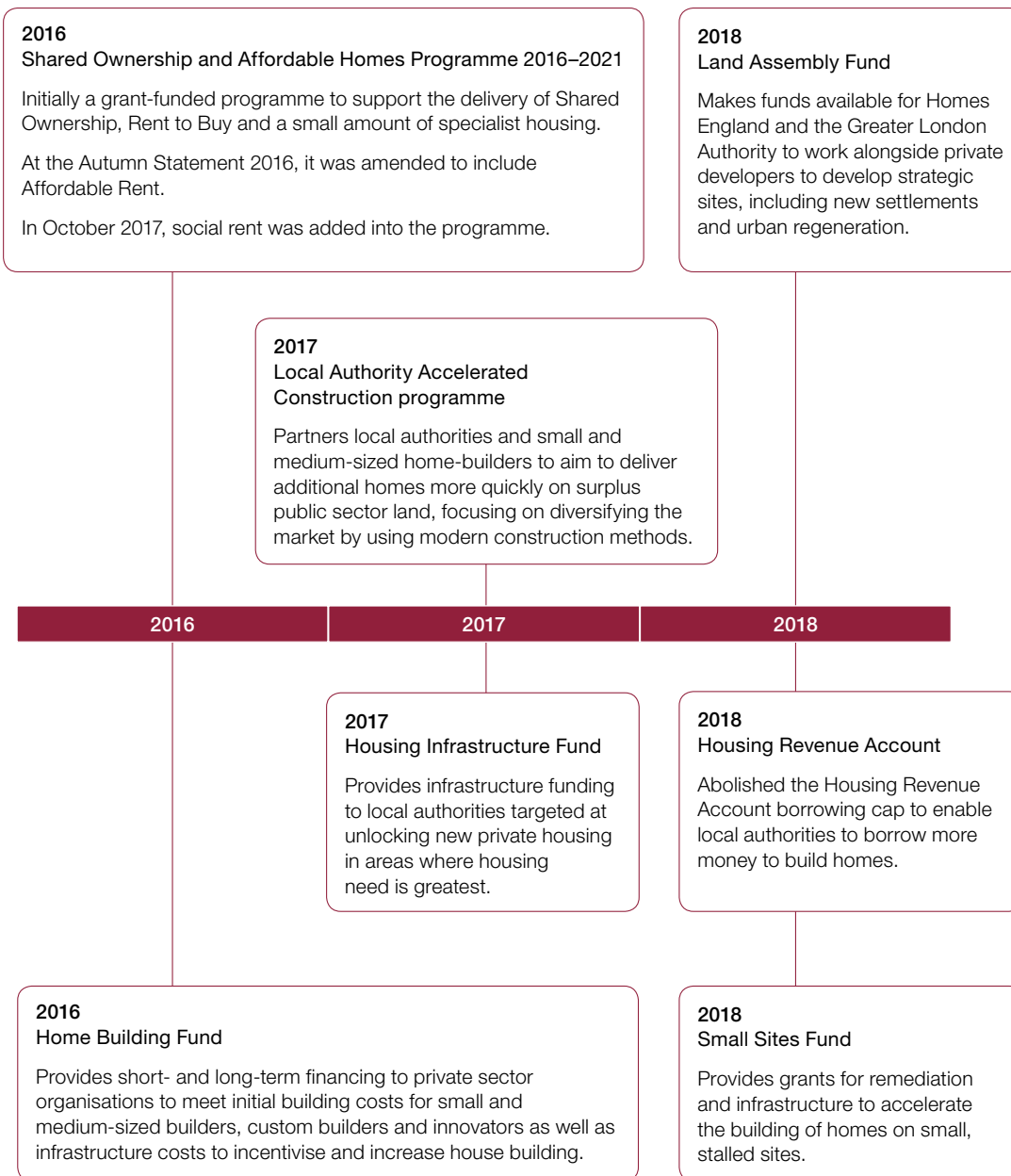
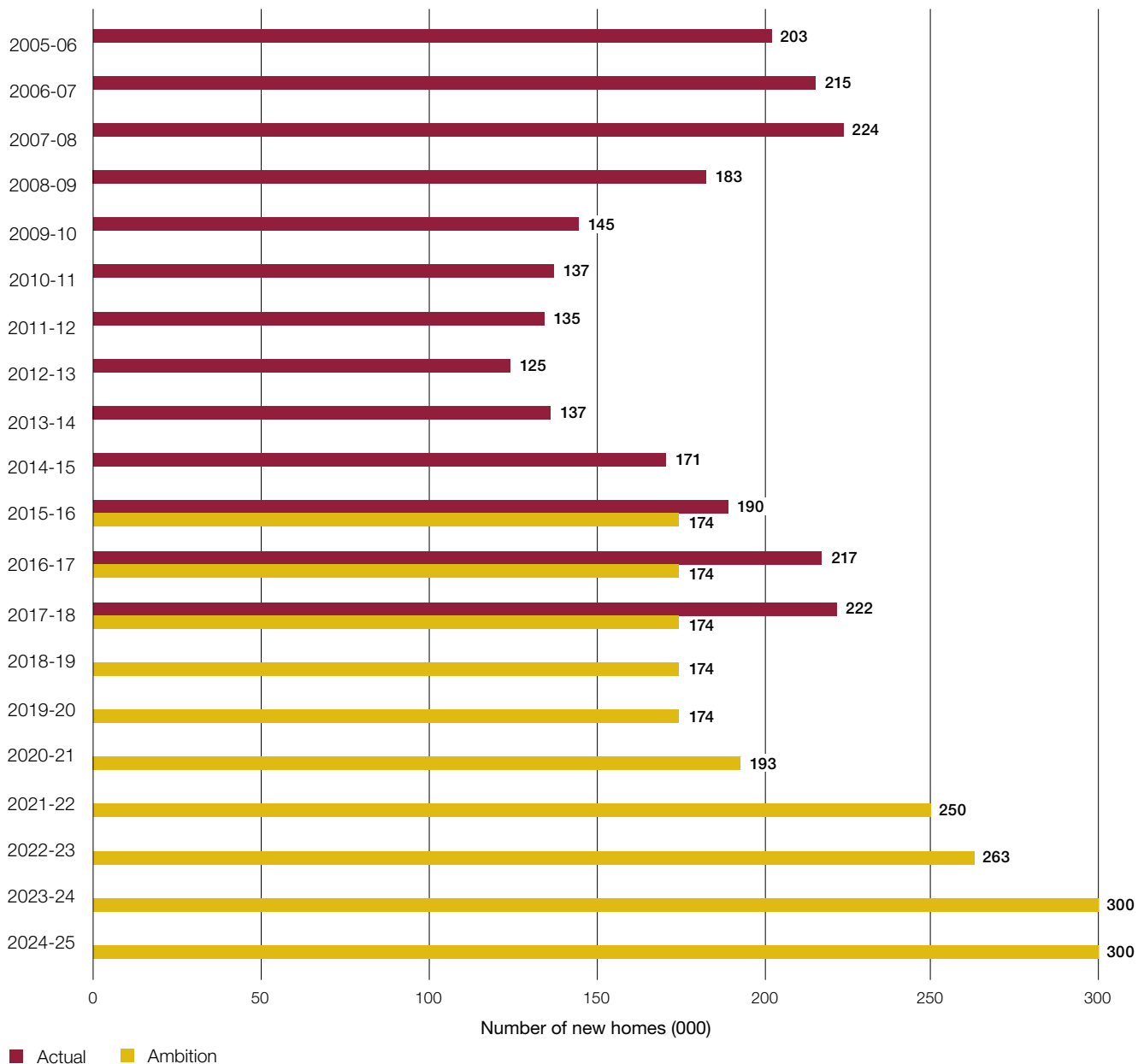


Figure 3

Average new homes per year required to meet the Ministry of Housing, Communities & Local Government’s future ambitions, in recent historical context

An increase in the number of new homes delivered per year will need to be higher than any recent year to meet the Ministry of Housing, Communities & Local Government’s ambition



Notes

1 National Audit Office calculation assumes one million net additions to housing stock over the twenty-three quarters between 1 April 2015 and 31 December 2020, 500,000 net additions to housing stock over the eight quarters between 1 January 2021 and 31 December 2022 and 300,000 net additions per year thereafter from January 2023.

Source: Ministry of Housing, Communities & Local Government (Actual), National Audit Office (Ambition)

Using the planning system to help build more homes

1.5 The planning system is vital to providing new homes because it enables government and local authorities to determine how many, where and what type of new homes are built. The planning system also helps to identify which geographical areas need to be protected or enhanced and assesses whether proposed developments are suitable and will benefit the economy and communities. The planning system is based on law, policy and guidance and is largely administered by local authorities with planning responsibilities.³

Roles and responsibilities in the planning system

1.6 The planning system is defined by acts of Parliament, legislation, case law, government policy and guidance dating back to the 1940s. The most recent revision is the new National Planning Policy Framework, published in July 2018. The Department is responsible for setting national policy for the planning system, mainly through the National Planning Policy Framework (**Figure 4** overleaf).

1.7 Administering the planning system is largely devolved to local authorities. They perform two functions: producing a **local plan** that sets policy on the location of and types of homes to be built; and **development management**, which is the process for considering applications for developments. The Planning Inspectorate is an executive agency of the Department whose role is to examine local plans to check that they are both sound and meet legal requirements. The Planning Inspectorate prioritises work on local plans. The Planning Inspectorate also hears appeals against rejected planning applications on behalf of the Secretary of State (Figure 4).

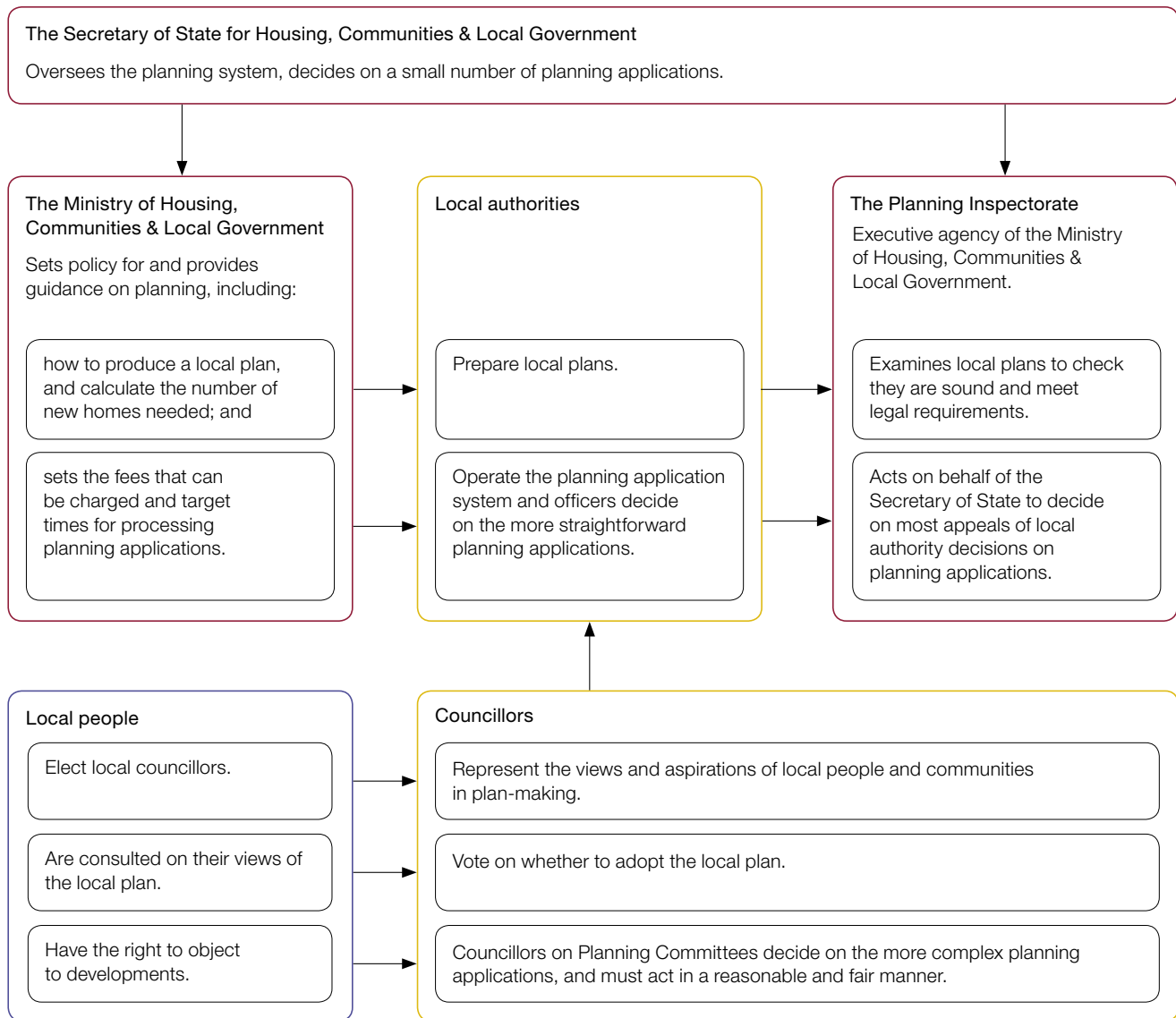
Local plans

1.8 The Neighbourhood Act 2017 requires that all local authorities should set out their strategies for meeting the need for new homes in their areas in a local plan (**Figure 5** on page 19). In their local plan, local authorities should set out how they will meet the need for economic growth, community facilities and infrastructure alongside development including homes, affordable housing, employment, retail, leisure and commercial developments.

³ Local authorities with planning responsibilities are called local planning authorities that are the public authority. It is their duty to carry out specific planning functions for a particular area.

Figure 4
Roles and responsibilities in the planning system

Administering the planning system is largely devolved to local authorities



- Central government
- Local government
- Local people

Source: National Audit Office analysis of the planning system

Figure 5

Local plans: an overview

Local authorities lead on local plan making

Local plans should:

- set out needs and opportunities in relation to housing, the local economy, community facilities and infrastructure; and
- safeguard the environment, enable adaptation to climate change and help secure high-quality, accessible design.

With their local plans, local authorities must:

- review whether local plans should be updated every five years;
- identify a rolling five-year supply of land;
- demonstrate that they have worked with neighbouring local authorities to meet the need for new homes (duty to cooperate); and
- set out the contributions that local authorities expect from developers including affordable housing and infrastructure.

Where no five-year land supply is identified:

- 'Presumption of sustainable development' applies, which gives developers greater freedoms on where to build new homes and less control for the local authority.

The Secretary of State for Housing, Communities & Local Government:

- Can intervene in a local authorities' local plan process.

Source: National Audit Office analysis of the National Planning Policy Framework 2018

The Department's support to local authorities to produce local plans

1.9 The Department supports local authorities to produce local plans through:

- producing **guidance**;
- the **Planning Advisory Service**: the Department has given £1 million to the Planning Advisory Service in 2018-19 to help local authorities deal with the changes in planning brought about by the new framework; and
- the **Planning Delivery Fund**: the Department has created a £25 million fund from 2017-18 to 2019-20 (£16.1 million has been allocated for 2017-18 to 2018-19) to support more and better joint working, improve design quality and bring about innovation in the planning system.

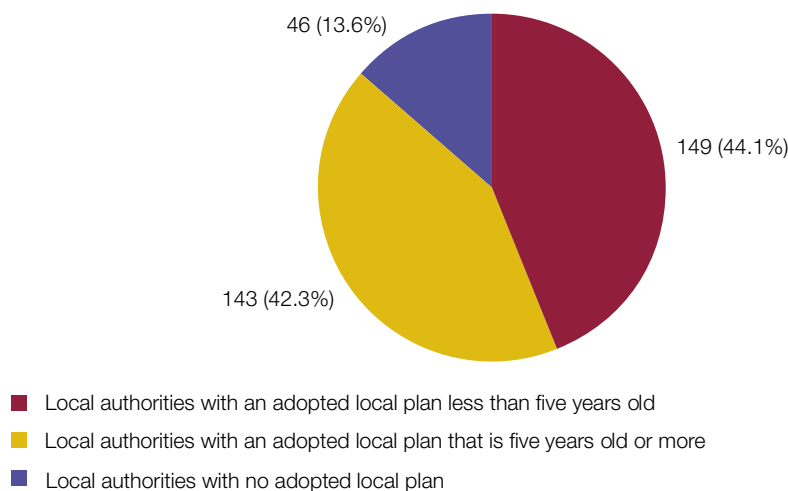
Local authorities' performance in producing local plans

1.10 Local authorities have struggled to produce local plans. As of December 2018, only 44.1% of local authorities had an up-to-date local plan (an adopted plan that is less than five years old) and 13.6% had no local plan at all (**Figure 6**). If a local authority does not have a local plan or an up-to-date local plan, this gives developers greater freedoms to build where they want, and the local authority has less control over the location of development. This limited local authority control risks ill-suited developments. Producing local plans can be technically complex, resource-intensive and time-consuming. Some local authorities we spoke to on our visits noted that it can take several years to develop a local plan. In 2017-18, local authorities spent £280 million on producing local plans, along with other planning policy activity. The Department recognised that some local authorities were developing their local plans as the new National Planning Policy Framework was implemented and allowed local authorities to submit plans under the old policy framework on or before 24 January 2019.

Figure 6

Local authorities' performance in producing local plans

As of December 2018, less than half of local authorities had an up-to-date local plan



Notes

- 1 Any plan adopted by a local authority before the Planning Act 2004 is no longer regarded as being an adopted plan.
- 2 There are 338 local authorities who could be covered by a local plan. This is made up of 326 Local Planning Authorities, 10 National Parks and 2 Mayoral Development Corporations.

Source: Data taken from the Planning Inspectorate as of December 2018

1.11 The Department – through the Secretary of State – has powers to intervene if a local authority has not produced a local plan. However, as of November 2018, it had only challenged a minority of the local authorities that had no up-to-date plan. In November 2017, the Secretary of State wrote to 15 local authorities expressing dissatisfaction at their lack of progress in producing their local plan and notifying them that he would formally intervene. This could range from making local authorities produce an action plan, to the Department producing a local plan for a local authority on behalf of the Secretary of State. In March 2018, the Secretary of State considered that three of the 15 local authorities had made insufficient progress in producing a local plan and were still under threat of intervention. In January 2019, the Secretary of State intervened to direct that two of three should appoint a lead councillor and lead official to progress the preparation of a local plan, and in one case, produce an action plan. He decided not to prepare their local plans directly at this time.⁴

Identifying a local supply of land for new homes

1.12 The Department requires that local authorities identify a local supply of land for development for the next five years. If local authorities fail to identify a supply of land, then the “presumption of sustainable development” applies. This presumption obliges local authorities to approve applications for developments, unless the “adverse impacts demonstrably outweigh the benefits”. If the presumption is applied, this can give developers greater freedoms on where to build new homes and the local authority has less control. It can also lead to costly appeals by developers of local authorities’ decisions on planning applications. The Planning Inspectorate considers that many appeals are based on a lack of a five-year supply of land but does not have data to determine the extent of this.

1.13 While the Department mandates that local authorities must identify a supply of land, it does not enforce this directly. Instead, it relies on local authorities’ desire to avoid the presumption of sustainable development. This approach may prove an effective mechanism locally. One local authority told us that it had experienced high numbers of costly appeals against its planning decisions by developers who claimed that it had not identified a five-year supply of land.

1.14 Some local authorities are increasing the supply of land by reducing their green belt or using flood plains for development. The Department states that the green belt should only be altered in “exceptional circumstances” through the adoption of a local plan. Fifty local authorities out of 186 local authorities with a green belt boundary revised their green belt boundary at least once between 2010-11 and 2017-18. While this has led to only a 0.61% reduction in the size of the green belt (10,020 hectares), it demonstrates that local authorities can and will change the green belt to meet their housing needs. The percentage of new homes built on land categorised as having the highest flood risk (national flood zone 3) has increased from 7% to 11% between 2013-14 and 2016-17.

⁴ Available at: www.gov.uk/government/publications/local-plan-intervention-secretary-of-state-letters-to-local-authorities

Determining the need for new homes

1.15 A key part of local plans is setting out the number of new homes needed in the area. In 2017, the Department developed a standard method for local authorities to calculate numbers of new homes needed in their area. The Department's aim was to simplify, speed up and give transparency to the process of calculating the need for new homes. It also stated that any approach should give an understanding of the minimum new homes needed in England, while taking into account housing market signals. Before the standard method was introduced, local authorities used a variety of ways to calculate the need for new homes in their area. The Department estimated that this cost around £50,000 per local authority.

History of the standard method

1.16 In February 2017, the Department considered nine options for its standard method, all of which calculated the need for new homes at around 285,000 to 302,000. None of the options considered factors such as the need for specialist housing for older people, wider labour market issues, or future economic growth. The Department did not consult on the nine options.

1.17 In 2018, the Department confirmed its chosen standard method. It has three elements:

- a baseline set using national projections of the growth in the numbers of households, calculated by the Office for National Statistics;
- adjustment based on affordability of housing in local areas; and
- increases in new homes will be capped at no more than 40% above that assessed by the local authority in its local plan if the plan is up to date.⁵

1.18 The Department expects that, from January 2019, local authorities will use the standard method to determine the number of new homes needed in their local area. Local authorities may claim to have exceptional circumstances that prevent them using the method.

⁵ The cap reduced the number of new homes needed to a number lower than the nine options the Department considered in February 2017. Full guidance is available at: www.gov.uk/guidance/housing-and-economic-development-needs-assessments

1.19 The method is simple but has weaknesses. It gives local authorities limited flexibility to reflect local circumstances. While it adjusts for affordability, the method uses projections of the growth in the numbers of households, which are based on past trends. When developing the new framework, the Department was aware that updated household projections would be released by the Office for National Statistics in September 2018. If these new projections were applied, it would reduce the numbers of new homes needed to around 213,000. The Department has therefore advised local authorities to use the previously published 2014-based household projections as the baseline, which calculates that 265,000 new homes per year are needed. 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 standard method, so to be consistent with its ambition to deliver 300,000 new homes per year.

The standard method and redistribution of the need for new homes

1.20 The standard method changes the number of new homes needed compared with what local authorities had previously assessed, creating greater challenges for some local authorities who will have to increase efforts to support the delivery of more new homes than expected. 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 (**Figure 7** on pages 24 and 25). This aligns with the Department's aim to have more new homes in less affordable areas. The Department accepts that many of these local authorities will find this challenging. The Department allowed local authorities to submit a local plan based on their own potentially lower figures rather than the standard method if they submitted their plan on or before 24 January 2019. It also applied a 40% cap (see paragraph 1.17), which limits the gap between the number of new homes needed calculated using the standard method and local authorities' own assessment.

1.21 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 the need for new homes in London to be around 66,000. This compares with approximately 46,000 new homes that individual London borough councils had previously assessed were required.⁶ In 2017-18, 31,723 new homes were built in London. The Secretary of State wrote to the Mayor in July 2018 stating he felt the need for new homes in London to be greater than the number stated in the draft London Plan, and requested that the figures be reviewed in future Plans.

⁶ In *The 2017 London Strategic Housing Market Assessment*, published in November 2017, alongside the draft London Plan, the Mayor estimated that 66,000 new homes a year were needed. The draft London Plan accepted this assessment but suggested that 65,000 new homes should be provided a year. The comparison with what London borough councils (and included within this the City of London) had assessed were required is based on the methodology outlined in Figure 7, with the assessment largely based on London boroughs' assessment of need prior to the 2017 draft London Plan being published.

Figure 7
 The number of new homes per year required by region using the standard method compared with local authorities' assessment

Five regions need less housing under the standard method than their constituent local authorities had previously assessed; London needs much more new homes

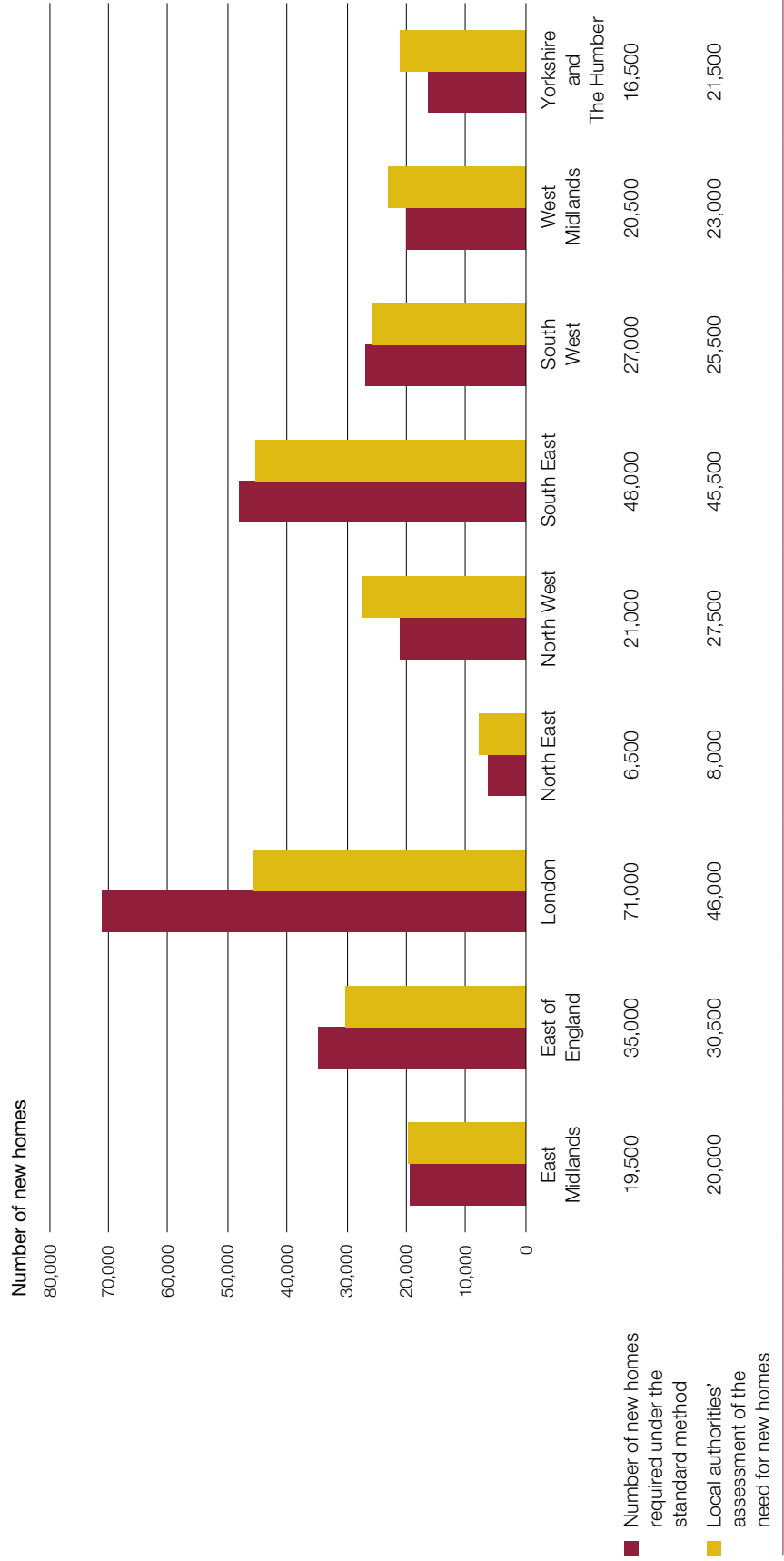


Figure 7 continued

The number of new homes per year required by region using the standard method compared with local authorities' assessment

Notes

- 1 The number of new homes for each region are estimates, rounded to the nearest 500 and are largely based on a snapshot from September 2017.
- 2 The standard method is live and the numbers it produces regularly change. The standard method gives each local authority an indicative number of new homes that it needs to plan for each year. It is calculated by using national household growth projections as a baseline, and then adjusted for housing affordability. A cap may limit the increase of new homes that need to be planned for. Full information on how the standard method works is available at: www.gov.uk/guidance/housing-and-economic-development-needs-assessments
- 3 Apart from adjustments noted below, all data are based on the housing need consultation data table published as part of *Planning for the right homes in the right places consultation proposals*, September 2017. We have not audited the source data. The Department acknowledges that some local authorities have not verified data used in the consultation and advise that these figures should be treated with caution. We have not updated the data to take account of local plans that have been submitted or adopted since September 2017.
- 4 The figure is based on updated 2014-based average household growth projections for 2018 to 2028, instead of 2014-based average household growth projections for 2016 to 2026, which the Department used in its consultation.
- 5 This figure is based on 2017 median house price to workplace-based earnings ratios, (Office for National Statistics 2018), rather than the 2016 ratios. For West Somerset, the figure uses an affordability ratio of 5.68 as a proxy.
- 6 The figure corrects discrepancies in the Departmental data affecting Christchurch and East Dorset, Warrington, West Dorset and Weymouth and Portland and Central Lincolnshire.
- 7 All data for the local authority assessed need are based on the housing need consultation data table published as part of *Planning for the right homes in the right places consultation proposals*, September 2017 apart from when a local authority assessment of need was not available. For those local authorities we sourced an appropriate assessment of need. We have not updated any other local authorities' assessed need for new homes.
- 8 For local authority assessed need for new homes, we used the mid-point if local authorities gave a range.
- 9 The figure for London 'local authority assessment of need for new homes' is based on assessments made by individual London borough councils (and the City of London) not the numbers in the draft London Plan.

Source: National Audit Office analysis of data from the Ministry of Housing, Communities & Local Government

1.22 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 (Figure 7). 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 for this given the Department's method gives lower numbers.

Meeting the need for new homes: the housing delivery test

1.23 The Department expects local authorities to meet the need for new homes in their areas. The Department intends to hold local authorities to account for this through the new ‘housing delivery test’.⁷ The implementation of the test has been delayed from November 2018, and the Department intends to implement it in 2019. The test has performance thresholds, with increasing penalties for local authorities that are under-delivering. Penalties range from giving developers greater freedom on where they can build, to requiring a local authority producing an action plan setting out how they will meet the need for new homes in the future. The requirements of the test will become much more challenging in November 2020.

1.24 Local authorities in areas with a high need for new homes will find it increasingly difficult to satisfy the test. Research by the planning and development consultancy Lichfields indicates that in 2020, around 34% of local authorities are likely to fail the test and could face the most stringent penalty, giving developers in those areas greater freedoms on where they can develop.⁸ A further 16% of local authorities are likely to fail but face lesser penalties, such as needing to produce an action plan. The Department has not assessed how many local authorities are likely to fail the housing delivery test in future years.

1.25 Through the test, the Department is holding local authorities to account for delivering something over which they do not have full control. 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 through their own development efforts. The 2018 Letwin review aimed to understand why there is a gap between the numbers of planning applications that local authorities approve, and new homes built. It concluded that the main reasons for the gap were a lack of diversity in the mix of new homes, and the slow pace at which the market absorbs these new homes.⁹

7 The method for calculating the housing delivery test is set by the Department and available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/728523/HDT_Measurement_Rule_Book.pdf

8 Lichfields, *Housing supply in 2017-18*, November 2018. Available at: https://lichfields.uk/media/4633/housing-supply-in-2017-18_november-18.pdf

9 Rt Hon Sir Oliver Letwin MP, *Independent Review of Build Out Rates: Draft Analysis*, June 2018.

Part Two

Implementing strategy through the planning system

2.1 This part of the report examines how local authorities implement their strategy to get the right homes in the right places. It looks at the performance of local authorities and the Planning Inspectorate in dealing with planning applications and assesses how effectively local authorities can use the planning system to secure infrastructure funding to support new homes.

Overview of the planning application process

2.2 Local authorities provide the service for deciding on planning applications – also known as development management. This process is set out in **Figure 8** overleaf.

Local authorities' performance in processing planning applications

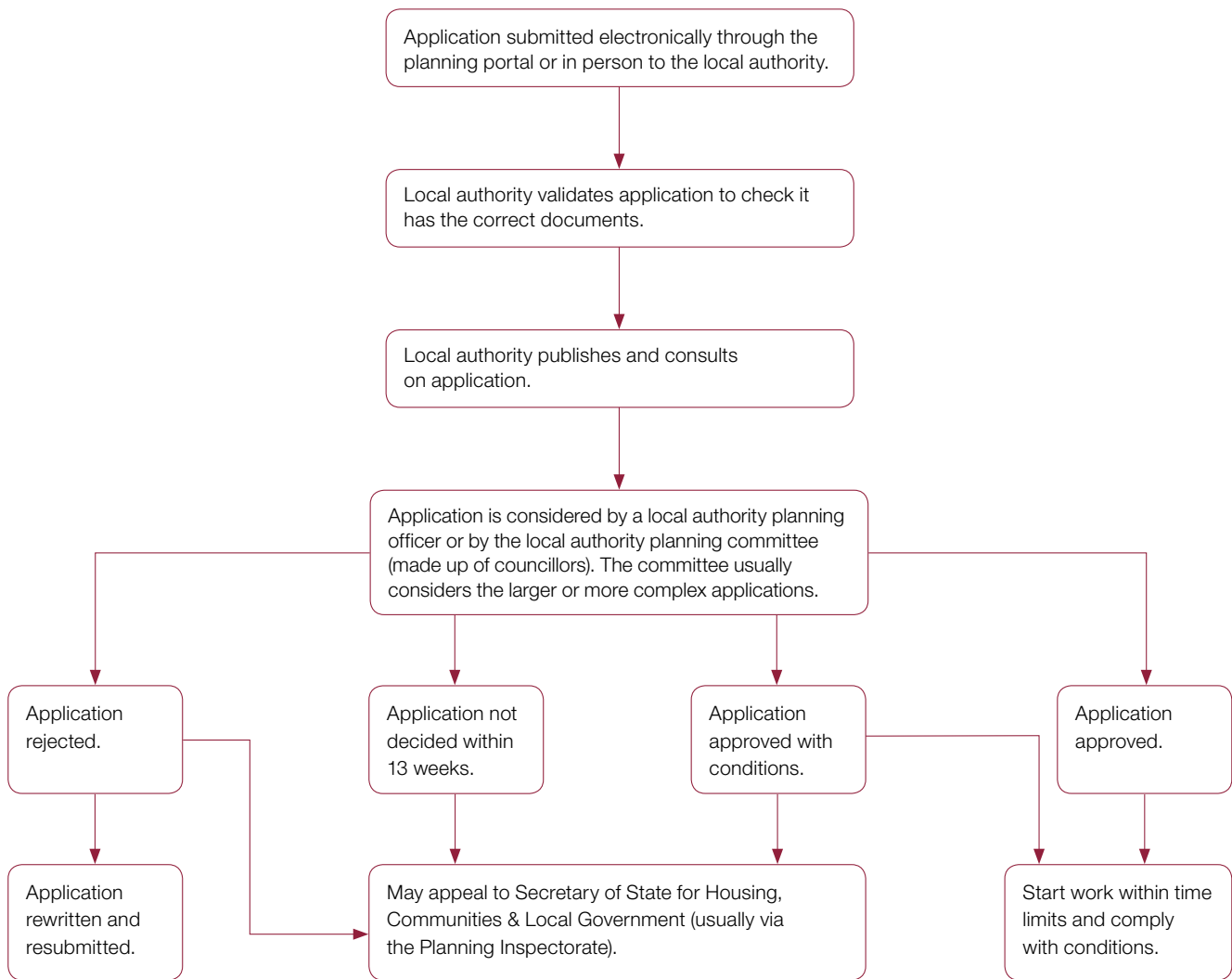
2.3 Local authorities approve a high proportion of planning applications that they consider. Between 2010-11 and 2017-18, they approved between 79% and 82% of major residential planning applications each year. In 2017-18, local authorities approved 81% of major residential planning applications. The Department estimated that in 2017-18, local authorities approved applications for 378,100 new homes in total.

2.4 The Ministry of Housing, Communities & Local Government (the Department) measures local authorities' performance for processing planning applications and aims to capture the time taken and quality of decision-making. Local authorities are increasingly meeting the Department's targets for processing major residential planning applications (usually 10 or more houses). The percentage of major residential planning applications that local authorities determined within the 13-week target or an agreed extended period has increased from 47% in 2012-13 to 87% in 2017-18 (see **Figure 9** on page 29). During the same period, local authorities have dealt with an increasing number of major residential planning applications, which rose from 5,244 in 2012-13 to 7,997 in 2017-18.

Figure 8

The process for a major residential planning application

In the first instance, a local authority will consider a major residential planning application



Notes

- 1 A major residential planning application is classified as such where the number of residential units to be constructed is more than 10 or where the number of dwellings to be constructed is on a site of 0.5 hectares or more.
- 2 A local authority has 16 weeks to determine an application if an Environmental Impact Assessment is required.

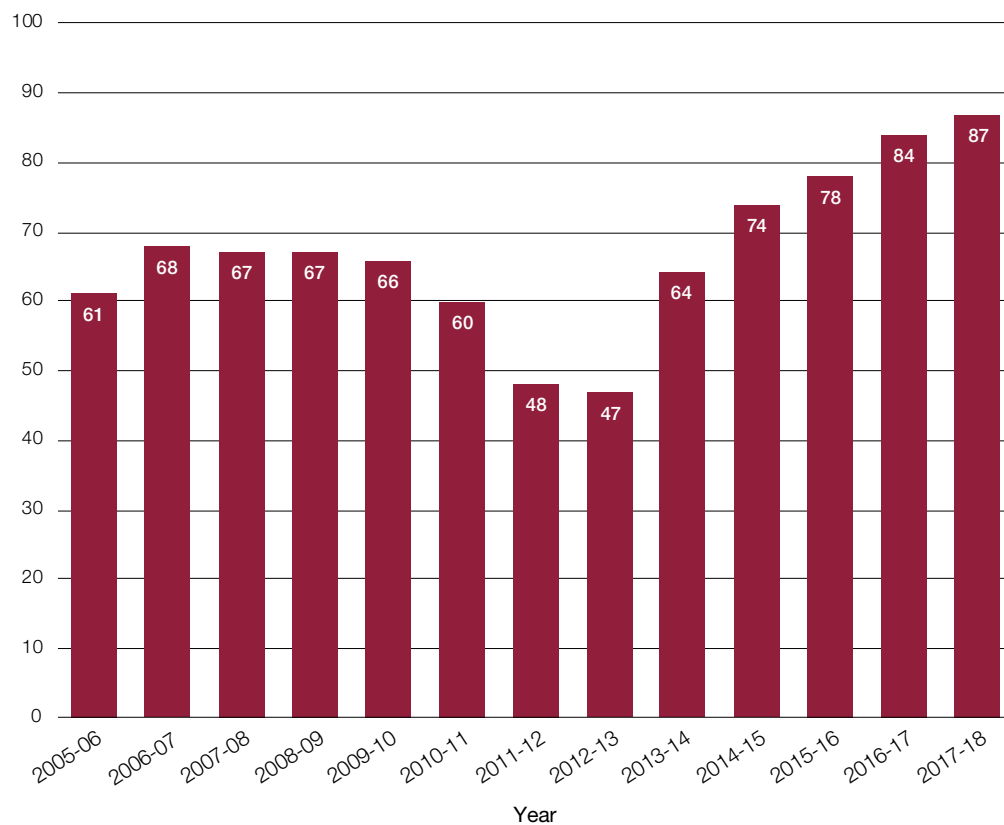
Source: National Audit Office analysis of the planning application process

Figure 9

Local authorities' performance in processing major residential planning applications, 2005-06 to 2017-18

Local authorities' recorded performance in processing major residential planning applications has been improving since 2014-15

Percentage of major residential planning applications determined within 13 weeks or agreed time (%)



Note

1 A major residential planning application is classified as such where the number of residential units to be constructed is more than 10 or where the number of dwellings to be constructed is on a site of 0.5 hectares or more.

Source: Ministry of Housing, Communities & Local Government

2.5 Some of the reported improvement in local authorities' performance might reflect agreed extensions to timescales rather than greater efficiencies. Some applications are classed as meeting targets even though they take longer than the target of 13 weeks to determine. These include applications where local authorities have agreed with developers to extend the timescales for decision-making for a specified time (usually the more complex ones), or as a result of an environmental impact assessment. In 2012-13 there were 107 extensions for major residential planning applications, but this had increased to 5,464 in 2017-18, and in 2017-18 extensions had been agreed for more than two-thirds of major residential planning applications. This is sensible practice in many cases as it gives certainty and recognises that some applications are complex and will take longer to consider. The time-period measured does not include the time a local authority will spend on pre-application work.

2.6 The Department does not directly assess the quality of local authorities' decision-making in determining planning applications but uses the number of appeals allowed by the Planning Inspectorate to monitor performance. There are many reasons why the Planning Inspectorate might allow an appeal, such as better information becoming available.

2.7 Local authorities risk 'designation' for poor performance on quality and timeliness of processing applications. Designation means that developers can apply directly to the Planning Inspectorate to decide on planning applications. This removes the local authority's control over the planning process.

Planning Inspectorate's performance in dealing with appeals

2.8 The Planning Inspectorate deals with appeals against local authorities' decisions on planning applications. Between 2010-11 and 2017-18, the Planning Inspectorate on average decided on 659 major housing appeals a year. Between 2010-11 and 2017-18 developers were successful in 43% of these appeals; representing on average 21,430 new homes a year.¹⁰

2.9 For major developments, appeals can be heard by:

- written representation – the most common appeal route, based on written material, and usually the route for smaller appeals;
- informal hearings – similar to written representations but with an informal hearing;
- transferred local inquiry – more formal and usually used for complex cases where legal issues need to be considered; and
- recovered local inquiry – like a transferred local inquiry but the inspector recommends a decision to the Secretary of State.

¹⁰ A major housing appeal is defined as an appeal where the developer appeals against an application that has 10 or more new homes.

2.10 Only around 2% of appeals are inquires, but the inquiry route is how the largest number of new homes are granted by appeal. In June 2018, the Secretary of State appointed Bridget Rosewell CBE to chair an independent review into planning appeal inquiries. The review was initiated because of concerns about the length of time it was taking to deal with these inquiries. Its purpose is to make recommendations to significantly reduce the time taken to conclude planning inquiries, while maintaining the quality of decisions. The review is due to report in 2019.

2.11 Since 2013-14, the time the Planning Inspectorate takes to determine housing appeals other than via written representations has increased significantly. The Planning Inspectorate accepts that its recent performance in terms of timeliness has been unacceptable and short of the service it seeks to provide. The Planning Inspectorate has poor-quality systems, which makes interrogating data difficult. We were not able to validate the data it provided. Between 2013-14 and 2017-18, the Planning Inspectorate estimated the time taken to determine a housing appeal through an informal hearing or inquiry increased from around 30 weeks to 38 weeks. This is despite a fall in the number of appeals from 833 in 2013-14 to 703 in 2017-18. Using the same data, in 2017-18, the Planning Inspectorate took on average 34 weeks to determine an informal hearing and 43 weeks to determine a transferred local inquiry. A recovered inquiry took on average 69 weeks.¹¹ The Planning Inspectorate's slow decision-making delays the building of new homes and creates uncertainty for local authorities and local communities.

2.12 The Planning Inspectorate is failing to meet three statutory targets (set by the Department) relating to timeliness, which cover all planning applications (**Figure 10** overleaf). The statutory performance measures for the Planning Inspectorate are flawed, and the Planning Inspectorate does not think measures reflect customer expectations. The measures mask the extent of the delays developers face because hardly any of the performance measures factor in the time between the Planning Inspectorate receiving the appeal papers and starting the appeal process. The measures make little distinction between the types of case the Planning Inspectorate hears. The Planning Inspectorate does not think measures reflect customer expectations and would like the Department to revise the measures.

How the planning system supports infrastructure for new homes

2.13 To create new homes and places for people to live, infrastructure such as public and private transport, healthcare and schools must be in place to support those homes and the people living in them. Local authorities set out the need for infrastructure as part of their local plan. They also assess whether there is enough supporting infrastructure in place when considering a planning application for a development. We have been told that concerns over a lack of supporting infrastructure is a frequent cause of local communities' opposition to new developments.

¹¹ These data are unpublished and have not been audited.

Figure 10

The Planning Inspectorate's performance against statutory targets in 2016-17 and 2017-18

The Planning Inspectorate's performance is falling short of its statutory targets

Statutory target	2016-17 (%)	2017-18 (%)
Determine 80% of written representations within 14 weeks of start date	68.6	76.7
Determine 80% of hearings within 14 weeks of start date	17.3	31.4
Determine 80% of (non-bespoke) hearings within 22 weeks of start date	10.8	13.7

Notes

- 1 The figures presented include all planning applications received by the Planning Inspectorate, not just housing appeals.
- 2 Performance against the target covers the period 1 April to 31 March.
- 3 A non-bespoke hearing is when the Planning Inspectorate sets the timetable, rather than the developer and local planning authority agreeing a timetable.

Source: Planning Inspectorate Annual Report and Accounts 2017-18

2.14 A range of organisations pay for and provide this infrastructure, including local authorities, government departments, arm's-length bodies and private sector developers. Local authorities try to use their local plan to align required infrastructure with new developments. The Department's intention is that public sector bodies and utility companies will fund most infrastructure (**Figure 11** on pages 33 and 34).

2.15 The way infrastructure is funded is complex and lacks cohesion. Local authorities set out the infrastructure needed to support new homes in their local plans. These plans usually cover a 15-year period, which is much longer than the period covered by the government's Spending Review. Therefore, local authorities lack certainty about how infrastructure will be funded beyond the period covered by a Spending Review. Within a spending review period, relevant government departments are not required to align their investment strategies with local plans, which can also create uncertainty for local authorities.

2.16 Using information from a sample of local plans, in 2017 the Department estimated that the amount of money required from public sources to support infrastructure for new homes was around £12 billion a year.¹² This is a rough estimate because the Department does not systematically collate information from local authorities about the infrastructure needed. Local authorities aim to assess the infrastructure needed in their local plans, but timings, scale and costs are often uncertain. Without this information, future infrastructure costs for all organisations involved are uncertain.

¹² The £12 billion figure is based on 200,000 new homes a year.

Figure 11

Main funding sources for infrastructure to support new homes

Funding comes from a variety of sources

Organisation	Main funding sources for new infrastructure to support new homes	Issues arising
Ministry of Housing, Communities & Local Government	Housing Infrastructure Fund Housing deals – distinct packages of support provided to local bodies. Housing deals are in place or proposed for West Midlands, West of England, Greater Manchester and Oxfordshire.	Housing deals are ad-hoc agreements between a local body and the Ministry of Housing, Communities & Local Government. They are not widespread.
NHS England	NHS England provides capital grants for new GP services. In addition, NHS Property Services sometimes provides capital funding for GPs and community services.	There is no duty on NHS England to align investment with local authorities' local plans. Some local authorities have found it difficult to align new housing growth with new health facilities. Work is under way to improve how the NHS plans for its estate.
Department for Education	The majority of school places are funded through the basic need grant, which is intended to fund each additional place that local authorities report that they will need. Funding has been allocated for new places up to academic year 2021-22, worth on average around £1.15 billion per year between 2011 and 2021. In addition, the Free Schools Programme creates new schools that are independent of local authority control.	The Department for Education allocates funding three years ahead to help local authorities plan more effectively. These allocations are based on local authorities' own forecasts of need, which are inherently uncertain. Some local authorities find it difficult to reach agreement with local schools about expanding their provision, and potentially allocating new sites, particularly if local school providers are not receptive to discussions over future growth.
Department for Transport	Provides funding to Highways England for the strategic road network. The Department for Transport issues funding and guidance to local authorities to maintain and improve the local highway network. Provides funding to enhance, maintain and operate the national rail network. Enhancements to the rail network are made on a case by case basis. For other transport projects, funding is often allocated to local authorities for specific projects or services based on appraisal of business cases.	The Department for Transport notes there are capacity issues and that substantial investment is likely to be required in order to achieve the government's housing objectives, particularly in London and the South East. The Department for Transport accepts that funding for transport is complex, and local authorities can find it difficult to access funding. The Department for Transport is working with the Ministry of Housing, Communities & Local Government to try to improve this.
Water	Water companies issue debt or raise equity for new capital investment and recoup this through customer bills. Every five years a water company will present a business plan to Ofwat, the regulator. Their plans should reflect comprehensive stakeholder engagement.	Water UK report on water industry performance on the timescales within which water companies provide services to developers. Most water companies generally meet the levels of service timeframes they have currently committed to provide for developers. However, for some of the metrics developers can agree to an extension to the timeframe.
Gas and electricity	Privatised distribution networks fund new capital investment through issuing debt or raising equity or through payments from those benefiting from the investment. They recover their efficient costs "allowed revenue" through payments from those using the infrastructure. The energy regulator, Ofgem, sets this allowed revenue by periodically reviewing and challenging the business and expenditure plans of the gas and electricity networks and by setting the outputs the companies must deliver. Their plans should reflect comprehensive stakeholder engagement.	Ofgem notes that connecting to an electricity network in a constrained area can be more costly and time-consuming than in other areas. In areas where there is no local gas network, it can be expensive to get a new gas connection. Network companies have minimum standards of performance in relation to the time it takes to connect customers to the network. All network companies are complying with their relevant licence conditions, but not all electricity distribution networks are meeting stretch targets, for which there are additional incentives.

Figure 11 *continued*

Main funding sources for infrastructure to support new homes

Organisation	Main funding sources for new infrastructure to support new homes	Issues arising
Telecommunications	Telecommunications infrastructure for new builds is primarily funded through commercial arrangements between developers and telecommunications network providers.	Ofcom, the regulator for communications services, note that industry stakeholders are concerned about the availability of labour; particularly those working in civil engineering.
Environment Agency	The Environment Agency is a non-departmental public body, sponsored by the Department for Environment, Food & Rural Affairs (Defra). The principal funding stream for flood and coastal erosion risk management capital projects is grant-in-aid, which is allocated to schemes using Defra's partnership funding policy. The policy allocates funds based on the costs and benefits of prospective schemes. Only benefits to properties built or converted into housing before 1 January 2012 can count towards this calculation, although many schemes may also contribute to reducing the risk to new development or to prospective development sites.	The standard method for new homes does not take into account the presence of flood risk or the provision of flood defences, or other environmental constraints. The Environment Agency highlighted that the standard method is likely to result in greatest housing growth in London and the South East where water resources are limited, potentially putting strain on the environment.
Local authorities	Local authorities or partner organisations can seek funding from a wide range of sources. Local authorities can borrow to support capital spend, servicing the debt from revenue sources.	If they do not receive a specified grant, local authorities often have limited ability to fund new infrastructure, given their financial pressures.

Source: National Audit Office analysis of infrastructure funding sources to support new homes

Housing Infrastructure Fund

2.17 The Department has provided a new ring-fenced fund to help local authorities pay for new infrastructure and provide new homes. The Housing Infrastructure Fund (the Fund) 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 to wages. This aligns with the Department's aim to support new homes in the most unaffordable areas (see paragraph 1.20).

Contributions from developers to the provision of infrastructure and affordable housing

2.18 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 complex planning obligations (mostly section 106 agreements) and the Community Infrastructure Levy (the Levy). The system to get developers to contribute to the cost of infrastructure and affordable housing needs to work more effectively, and local authorities, with the Department's help, must apply tools more rigorously and consistently (**Figure 12** overleaf). For example, as of January 2019, only 47% of local authorities had implemented the Levy. If developers do not contribute, this results in either less infrastructure, or local authorities or central government paying more towards infrastructure, which for local authorities can be challenging given the financial pressures they face.

2.19 The Department estimated that local authorities and developers agreed contributions to the cost of infrastructure and affordable housing through the Levy and section 106 agreements, adjusted to real-terms 2016-17 prices, of:

- £5.1 billion in 2005-06;
- £6.0 billion in 2007-08;
- £4.0 billion in 2011-12; and
- £6.0 billion in 2016-17.

2.20 However, the actual contribution developers make will be lower as developers will not build everything that local authorities approved. In addition, some developers will renegotiate lower section 106 contributions than they originally agreed. The Department does not systematically collect data on the amount local authorities received in contributions from section 106 agreements.

2.21 While the amount that developers have contributed overall to the cost of infrastructure and affordable housing may be increasing, 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 while average house prices increased by around 31% in the same period (**Figure 13** on page 37). The average operating profit margin for the top five house-builders also increased, from around 12% in 2012 to 21% in 2016.¹³ The Department considers that the average contribution per new home is overestimated as it includes contributions from housing and non-housing development.

¹³ These estimates were taken from the Housing Market Intelligence reports for 2017 and 2018.

Figure 12

Analysis of planning obligations and the Community Infrastructure Levy

The system to get developers to contribute to the cost of development through planning obligations or the Community Infrastructure Levy needs to work more effectively

Method of contribution	Description	Limits of the contribution method
Planning obligations – mostly contributions required from developers under section 106 of the Town and Country Planning Act 1990	<p>Developers' payments towards infrastructure and affordable housing, which makes development acceptable. Local authorities agree obligations with developers at the point when plans are approved, but developers often pay or contribute in instalments when development milestones are reached.</p> <p>In 2016-17, the Ministry of Housing, Communities & Local Government estimated that local authorities had earmarked £4.0 billion (67%) of agreed contributions from developers for affordable housing. This is an increase in both absolute and proportionate terms from £2.5 billion (62%) in 2011-12. The actual amounts local authorities received will be lower.</p>	<p>Payments are often tied to development milestones, so the timing of payments is dependent on the progress of the project.</p> <p>There have been instances when developers have renegotiated their initially agreed contribution on the grounds of financial viability. Developers can argue that the project cost more than anticipated and they can no longer provide the agreed scheme or contributions and maintain profit margins – understood across the industry to be 20%. The Ministry of Housing, Communities & Local Government does not collate information on how frequently this happens and the decrease in contributions that result.</p> <p>Local authorities may not have the commercial and negotiating skills needed to deal with developers' arguments on viability. The Ministry of Housing, Communities & Local Government notes that some local authorities are unable to negotiate effectively with developers. This is compounded by the lack of a standard assessment of viability for local authorities to use.</p> <p>Lacks transparency – the Ministry of Housing, Communities & Local Government does not require local authorities to publish how much the developers contributed and on what it was spent. Negotiations on viability are rarely made public because of commercial confidentiality.</p>
Community Infrastructure Levy	<p>The Levy is a planning charge that developers pay, introduced in April 2010. The Levy is based on a charging schedule that the local authority puts in place, based on land values. Local authorities can choose whether to implement the Levy. The Levy is usually developed as part of a local plan and is often examined by the Planning Inspectorate.</p> <p>The Levy cannot be used to fund affordable housing.</p> <p>Local authorities levy developers at the point when planning applications are approved, but developers often pay in instalments. To help fund Crossrail there is a Mayoral Levy, payable on some London development.</p> <p>In 2016-17 local authorities agreed with developers contributions of £945 million through the Levy and Mayoral Levy.</p>	<p>Local authorities have been slow to implement the Levy. Implementing the Levy is voluntary and is not suitable for all local authorities. However, as of January 2019, only 47% of local authorities had a Levy in place, and 21% of local authorities were developing a Levy. In 2011, the Department profiled that by 2016 between 82% and 92% of local authorities would charge the Levy.</p> <p>The Levy is complex, costly and time-consuming to implement.</p> <p>The amounts local authorities can raise from the Levy vary significantly. For some local authorities with low land values in their area, the amount the Levy would raise is so small that it is not worth implementing.</p> <p>The amounts raised by the Levy towards infrastructure are less than the Ministry of Housing, Communities & Local Government expected. In 2011, the Ministry of Housing, Communities & Local Government estimated that the Levy would raise around £1 billion a year by 2016. In 2016-17, receipts from the Levy were £286 million in England, and a further £137 million through Mayoral Levy. The Ministry of Housing, Communities & Local Government expects receipts from the Levy in England to increase to £816 million by 2022-23.</p> <p>It is difficult to use the Levy to forward-fund infrastructure, as there are no enacted regulations to allow local authorities to borrow against future receipts from the Levy.</p>

Note

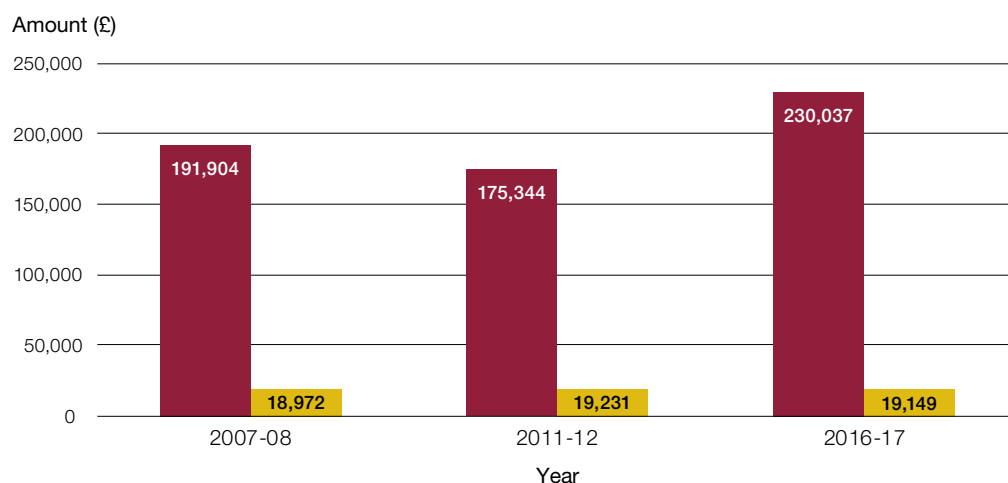
- 1 The limits of the contribution method are based on the operation of planning obligations and the Levy up to 2016-17. The Department is seeking to address some of these limits (paragraph 2.22).

Source: National Audit Office analysis of Ministry of Housing, Communities & Local Government documents

Figure 13

Average house prices and average contributions agreed with developers per new home

Average house prices have risen 31% since 2011-12, but contributions agreed with developers have remained steady



- Average house price
- Estimated average agreed developer contributions per new home permitted

Notes

- 1 House prices and estimated contributions agreed with developers are presented in nominal terms, for the financial years in which the Ministry of Housing, Communities & Local Government estimated agreed developer contributions.
- 2 The average house price is calculated from 1 April to 31 March.
- 3 Developers' contributions are the sum of the planning obligations agreed with developers under Section 106 of the Town and Country Planning Act 1990 and the amounts agreed with developers under the Community Infrastructure Levy.
- 4 Some of the contributions agreed will be for non-housing developments, so the average developer contribution per new home will be an overestimate.
- 5 The developer contribution is based on what was agreed (levied), actual future receipts may be lower.
- 6 The data are for England only.

Source: National Audit Office analysis of Ministry of Housing, Communities & Local Government data and Office for National Statistics UK House Price Index: November 2018 (house prices)

Proposed reforms to the system to get contributions from developers

2.22 The Department is aware that the system to get contributions from developers needs to work more effectively. It introduced reforms to section 106 and viability assessments as part of the new National Planning Policy Framework and associated guidance in July 2018. It outlined its proposed changes to the Levy in October 2018, which were in consultation as of January 2019. The changes include:

- **Section 106**

Local authorities will set out in local plans the contributions that developers are expected to make towards infrastructure and affordable housing. The Department's planning practice guidance on viability states that 15% to 20% of gross development value may be considered a suitable return for developers to establish the viability of plan policies. The Department also introduced a standard approach to certain inputs, such as establishing land value and the Department aims to increase transparency and accountability by publishing viability assessments and improving the way it monitors and reports on section 106 planning obligations. The Department intends to lift pooling restrictions.¹⁴

- **The Levy**

Under proposed reforms, the Department would improve its guidance for local authorities, reduce the requirements for local authorities to consult with the public on proposals to implement the Levy, and increase transparency by introducing new arrangements for reporting contributions from developers. Combined authorities would be permitted to use a strategic infrastructure tariff, which would enable them to charge an additional levy across local authority boundaries to fund major infrastructure projects.

2.23 It will take several years for these reforms to take effect in full. Local authorities will need to incorporate the changes to section 106 related to plan-making in any updated or new local plan. Some of the proposed reforms to the Levy would require changes to legislation, which will take an unknown amount of time to implement. The Department had considered making more radical changes to the way developers contribute to infrastructure, but it rejected these over concerns that this could stall the development of new homes.

¹⁴ The pooling restriction prevents local authorities from using more than five section 106 planning obligations to fund a single infrastructure project.

Part Three

Constraints on the planning system

3.1 This part of the report examines the financial pressures on local authorities' planning teams, and the shortage of experienced staff. It also looks at the pressures on the Planning Inspectorate, and the shortage of experienced planning inspectors that it is facing.

Financial pressures on local authorities

3.2 Between 2010-11 and 2017-18, in real-terms there was a 37.9% fall in net current expenditure on planning functions (development control, conservation and listed buildings planning policy and other planning policy) by local authorities.¹⁵ Once income generated from sales, fees and charges or transfers from other public authorities is considered, total spending by local authorities fell 14.6% in real-terms between 2010-11 and 2017-18, from £1.125 billion to £961 million.¹⁶ Within this period total spending on planning functions reached its lowest point (£952 million) in 2013-14 (**Figure 14** overleaf).

3.3 Local authorities have avoided deeper spending reductions to planning teams by increasing income from developers and service users. Local authorities have been able to increase income for planning mainly by carrying out extra fee-generating activities, introducing higher fee levels and making greater use of planning performance agreements with developers.¹⁷ Between 2010-11 and 2017-18, planning income increased in real terms by 24.8%, from £419 million to £523 million (Figure 14).

3.4 The Ministry of Housing, Communities and Local Government (the Department) has little oversight of how local authorities generate income from planning. It does not collect information on the extent of planning performance agreements, or how much income they are generating. From January 2018, the Department increased the planning fees that local authorities can charge by 20%. The Department required local authorities to commit to spend the additional resource within their planning teams, but the Department has not performed detailed checks as to whether local authorities have spent the additional income generated on planning.

¹⁵ Net current expenditure is expenditure funded by an authority's own resources, such as business rates, grants and council tax. Total net current expenditure on planning functions by local authorities fell in real terms from £706 million in 2010-11 to £438 million in 2017-18. Local authorities in this context includes local councils, national parks and the Greater London Authority.

¹⁶ Total spending includes net current expenditure and income generated from sales, fees and charges or transfers from other public authorities.

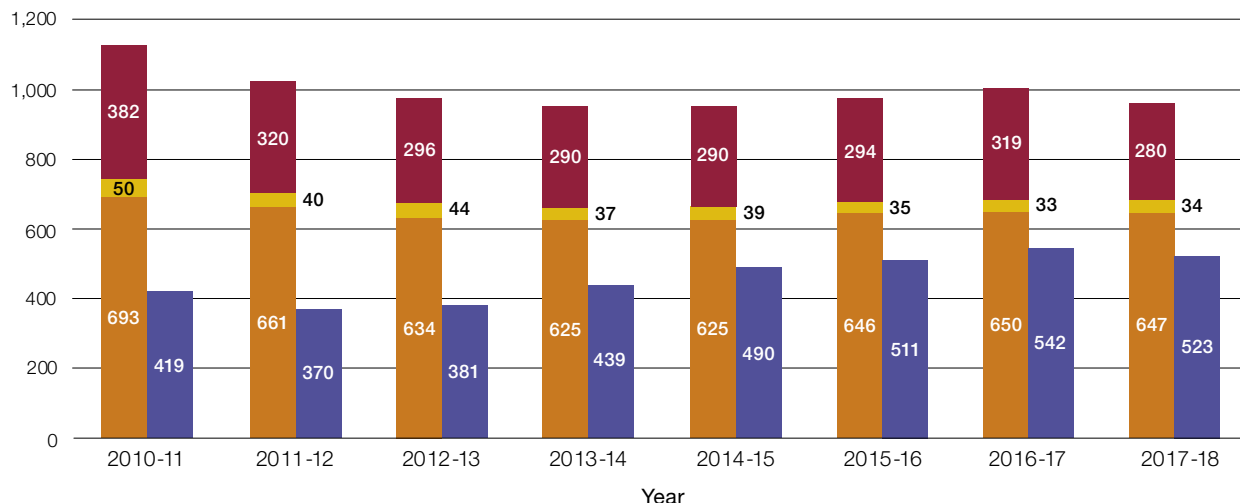
¹⁷ Developers can pay local authorities for discretionary services like pre-application advice; planning policy agreements are one such service, where the authority makes commitments on the timescales, actions or resources for the relevant applications. The level of fees local authorities can charge for planning applications is set by the Department.

Figure 14

Local authorities' total planning income and spending, 2010-11 to 2017-18

Total spending on local authorities' planning services decreased 14.6% from 2010-11 to 2017-18

Spend in real-terms (2017-18 prices) (£m)



- Spending on other planning policy
- Spending on conservation and listed buildings planning policy
- Spending on development control
- Income received from planning activities

Notes

- 1 The total planning spending is the sum of spending on development control, conservation and listed buildings planning policy and other planning policy.
- 2 Development control includes providing advice; processing planning applications and appeals; enforcement; and regulation of other special topics including minerals and waste.
- 3 Conservation and listed buildings planning policy includes the determination of policy and guidelines for conservation' designation of conservation area; building risk assessment; and advice on historic buildings.
- 4 Other planning policy covers work to develop local plans; sustainable development strategies; and supplementary planning guidance.
- 5 Income refers only to income from development control, conservation and listed buildings planning policy and other planning policy.
- 6 Spending and income are rounded to the nearest million.

Source: National Audit Office analysis of Ministry of Housing, Communities & Local Government Revenue Outturn Returns data

3.5 Financial pressures have come at a time of increased workload for many local authorities' planning teams (paragraph 2.4). Complying with the requirements set out in the new National Planning Policy Framework will also add to the local authorities' work pressures.

Skills shortages in local authority planning teams

3.6 There are three routes to becoming a planning professional: undergraduate, postgraduate and work-based. In England 17 institutions offer undergraduate or post-graduate planning courses accredited by the Royal Town Planning Institute. In June 2018, the Royal Town Planning Institute reported an increase of 6.7% in the number of students attending its accredited university courses in the UK over 2016-17.

3.7 Local authorities and organisations such as the Local Government Association and the Royal Town Planning Institute are reporting a shortage of experienced planners in local authorities. The data on staff numbers and staff shortages in local authority planning teams are patchy. The Department does not collate comprehensive data on the extent of this shortage and there are no reliable data on how many planners work in local authorities in England. Our previous National Audit Office reports on professional skills shortages in the public sector highlighted the need to understand the requirement for skills.¹⁸

3.8 In 2017, the Royal Town Planning Institute examined local authorities' planning departments in the South East and North West. It found:

- local authorities had difficulties in recruiting and retaining staff;
- the number of specialist staff in areas such as conservation, urban design and regeneration had fallen;
- the availability of wider services such as local authority transport and environment teams was limited;
- there had been a move towards reactive rather than proactive planning work; and
- budget limits had restricted the long-term development of staff.¹⁹

3.9 Research in 2017 by the think tank Planning Futures indicated that the overall number of local authority planning staff fell by 15% between 2006 and 2016. It found that not all local authorities experienced decreases, as 26% of planning departments increased their staff numbers between 2006 and 2016, while 51% saw staff losses of more than 15%.²⁰

¹⁸ Comptroller and Auditor General, *Central government staff costs*, Session 2015-16, HC 79, National Audit Office, June 2015. Available at: www.nao.org.uk/report/central-government-staff-costs

¹⁹ Royal Town Planning Institute, *Investing in Delivery: The state of resourcing of planning departments in the South East and North West of England*, 2017

²⁰ Planning Futures, *Delivering the Planning Service We Need: Building Planning Department Capacity*, December 2017.

Dealing with skills shortages

3.10 The Department is aware of the problems that local authorities face in recruiting and retaining planning staff. In the 2017 white paper, *Fixing our broken housing market*, it pledged to:

“...take steps to secure the financial sustainability of planning departments; ensure that the planning system has the skilled professionals it needs to assess and make the tough decisions we expect; and provide targeted support to address areas of specialist weakness.”

3.11 As of the end of 2018, the Department had made some efforts to deal with the shortages of planners. In February 2018, it allocated £345,000 over three years from the Planning Delivery Fund to the Royal Town Planning Institute’s Future Planners Bursary Scheme. In May 2018, the Department wrote a letter of support for the Royal Town Planning Institute’s proposed degree-level apprenticeship in its bid to get accreditation from the Institute for Apprenticeships. However, in April 2018, the proposal was rejected. A recent report by the House of Commons Education Select Committee expressed disappointment in the lack of growth of degree apprenticeships.²¹

Capacity and capability of the Planning Inspectorate

3.12 Between 2010 and 2018, the Planning Inspectorate experienced a 13% fall in staff numbers, amounting to almost 100 full-time equivalent (FTE) staff (**Figure 15**). The biggest decreases have been in the number of support staff and of ‘band 2’ inspectors, the latter of which dropped from 129 in 2010 to 75 in 2018. The number of ‘band 3’ inspectors, the most experienced staff, has fluctuated but decreased since 2016 from 44 to 38 in 2018, despite an increase in its complex casework, including validating local plans.

3.13 The Planning Inspectorate accepts that its approach to staffing needs to improve and:

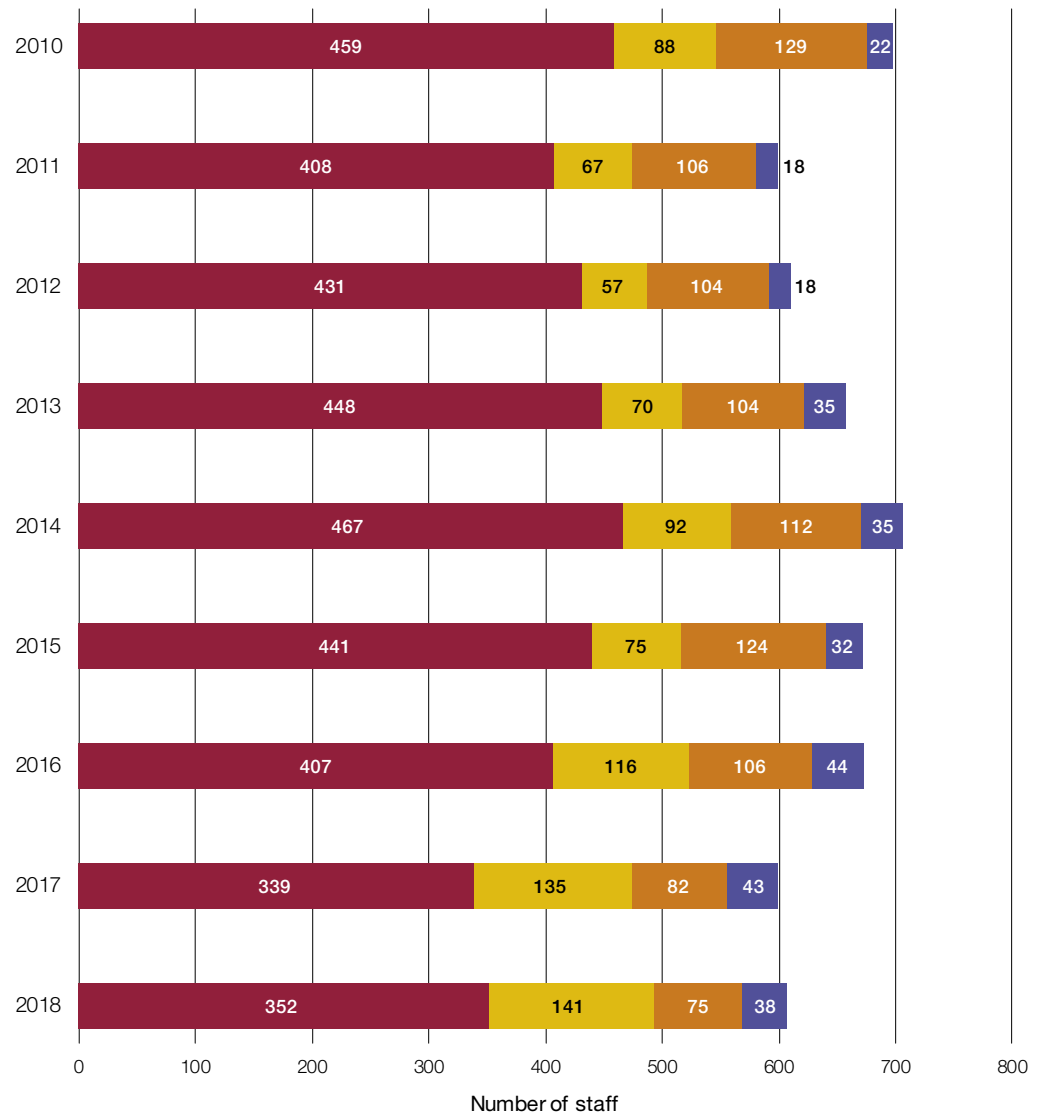
- have a stronger focus on workforce planning;
- invest in training and development, principally the leadership skills of managers; and
- undertake much better forecasting of future workload.

²¹ House of Commons, Education Select Committee, *Value for money in higher education*, Session 2017–2019, HC 343, November 2018. Available at: https://publications.parliament.uk/pa/cm201719/cmselect/cmeduc/343/34307.htm#_idTextAnchor023

Figure 15

The number of staff in the Planning Inspectorate, 2010 to 2018

Staff numbers have fallen most years since 2014



- Support staff
- Band 1
- Band 2
- Band 3

Notes

- 1 Support staff includes admin officers; executive officers; higher executive officers; senior executive officers; experienced civil servants and senior civil servants.
- 2 Inspectors are classified as Band 1, Band 2 or Band 3. Band 3 are the most senior. Band 3 inspectors also includes examining inspectors in 2013, 2014 and 2015.
- 3 The staff head count is full-time equivalents as of 31 March.

Source: Internal workforce data from the Planning Inspectorate. We did not audit these data

3.14 The Planning Inspectorate has produced a performance recovery business plan to address shortages and improve its performance. The Department has approved in principle £13 million of investment for this and will work with the Planning Inspectorate to improve performance. A large focus of this investment is on staffing. The Planning Inspectorate has been running regular recruitment campaigns throughout 2018. However, it does not have detailed workforce plans to show how it will use current and newly recruited staff effectively, and deal with future workload pressures. The Department estimates that local authorities will submit 50 local plans to the Planning Inspectorate for validation in 2019. Therefore, pressures on more experienced inspectors who work on local plans will continue. The Planning Inspectorate has committed to producing a clear approach to strategic workforce planning by summer 2019.

Appendix One

Our audit approach

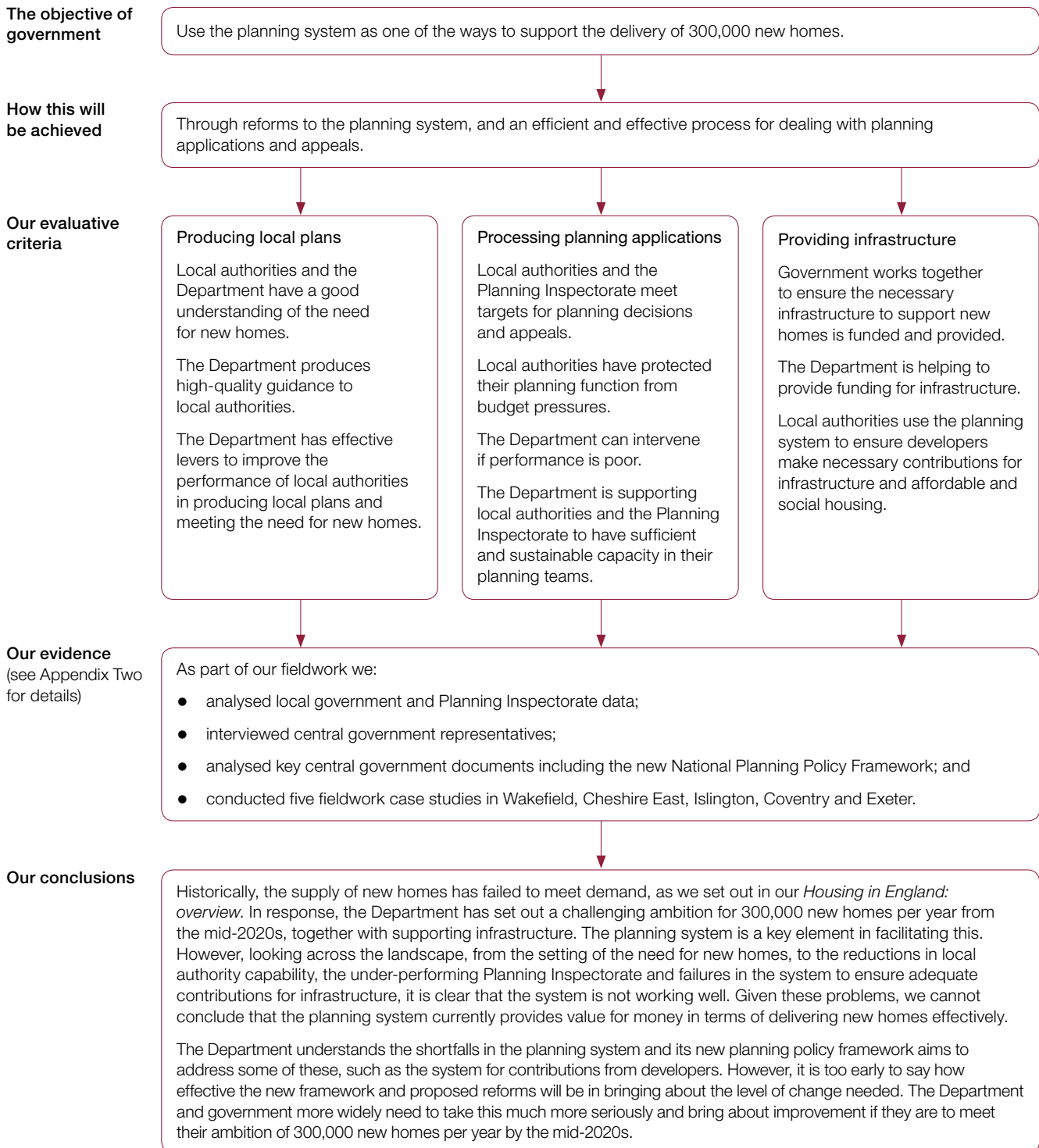
1 This report assesses how effectively the Ministry of Housing, Communities & Local Government (the Department) supports the planning regime to provide the right homes in the right places. We examined whether the Department is:

- supporting local authorities to produce plans that set out how the supply of new homes will meet need, as assessed by the Department, 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 that infrastructure to support new homes is planned and funded.

2 Our audit approach is summarised in **Figure 16** overleaf, and our evidence base is set out in Appendix Two.

Figure 16

Our audit approach



Appendix Two

Our evidence base

1 We reached our independent conclusion on whether the Ministry of Housing, Communities & Local Government (the Department) is supporting the planning regime to have the right homes in the right places.

2 We analysed data, mainly from the Department. We analysed published data on housing, local government finance and planning and land use. We analysed published statistics from the Planning Inspectorate. We also analysed data from the Planning Inspectorate's internal database.

3 We assessed the Department's standard methodology and compared this to local authorities' assessment of the need for new homes. This was largely based on data provided by the Department in its spreadsheet published in September 2017 in the 'Planning for the right homes in the right places' consultation.

4 We interviewed central government representatives from the Ministry of Housing, Communities & Local Government, the Department for Transport, the Department for Business, Energy & Industrial Strategy, the Department for Environment, Food & Rural Affairs, and arm's-length and executive agencies including Highways England, Network Rail, Natural England, Homes England and the Planning Inspectorate. We also spoke to regulators Ofgem, Ofwat and Ofcom.

5 We interviewed representatives from a range of other organisations active in the planning sector including the Local Government Association, the Planning Advisory Service, the Association of Directors of Environment, Economy, Planning and Transport, the Royal Town Planning Institute, the Home Builders Federation, and the Planning Officers Society.

6 We reviewed government policy documents, guidance and consultation documents. We reviewed performance monitoring arrangements.

7 We reviewed research by industry bodies including the Royal Town Planning Institute, Planning Futures and Lichfields.

8 We carried out a review of external literature. We reviewed external literature, including Select Committee reports and evidence to other Parliamentary committees.

9 We conducted five case study visits and interviews in October and November 2018 to Wakefield, Exeter, Cheshire East, Coventry and Islington. We spoke with local authority directors of planning services, planning officers, finance officers, councillors and local private sector developers. This work was designed to understand the local authority perspective and the challenges they face, particularly in terms of resources and implementing the new National Planning Policy Framework. We interviewed representatives from the Greater London Authority.

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National Audit Office

Design and Production by NAO External Relations
DP Ref: 005030-001

£10.00

ISBN 978-1-78604-242-2



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