Giving Back Control

How to empower communities within the planning system

By Alex Morton and Samuel Hughes

Britain needs to build more homes. In recent years, it has had some success in doing this, partly through a system of housebuilding targets for local authorities. However, this has generated resistance in many communities, leading to Liz Truss's promise during the summer Conservative leadership campaign to reform the system of 'top-down targets' in order to secure greater local consent and rely on greater incentives.

The new Housing Secretary, Michael Gove, has since recommitted the Government to its target of building 300,000 homes a year. But there is still considerable uncertainty over the future of planning reform, and significant pressure – in particular from many Conservative MPs – to replace parts of the existing system, or make it far less stringent.

There is, however, a serious danger that by weakening or eliminating the systems set up to deliver new housing, without simultaneously introducing a clear and strong set of incentives to replace them, the Government would cause the number of houses being built to fall sharply. This risk is all the greater given the current market situation, with rising interest rates leading many to fear a looming contraction in the housebuilding sector. This would have disastrous consequences both economically and socially – as well as contravening the Government's pledge to ensure that more houses are built.

This briefing note therefore reviews some of the ways in which the Government could revise the target-based system to give greater control to communities. All of these, in the absence of further policy changes, are likely to have some negative impact on housebuilding – but they will do so in greatly varying degrees.

Background

Development in England is governed by local plans, in which Britain's local authorities set out what building they will permit and where they will permit it. When preparing a local plan, local authorities often face pressures to permit very little. The reasons for this should be obvious. When a local authority permits some housing, it causes trouble for people nearby, who must endure construction work, pressure on local infrastructure and services, and often loss of green space. They are often understandably dismayed, and seek to do everything they can to persuade local governments to move the development elsewhere, or to cancel it entirely.

The situation is very different with those who benefit from development. The most obvious

members of this group are all the private renters and buyers, across the entire housing market, who benefit from very slightly lower prices than would have obtained had the development not taken place. In aggregate, these benefits may be large, but they are diffused across a very large number of beneficiaries. Most of them will not live in the particular local authority in question, and even those who do are extremely unlikely to notice the benefit or give the local authority credit for it. It is true that most people who move into new housing in a given area already live relatively nearby, but buyers of new builds do not have a strong tendency to reward the local authority electorally for them. Local authorities therefore derive almost no political support from the good they do by permitting homes, great and valuable though it may be.

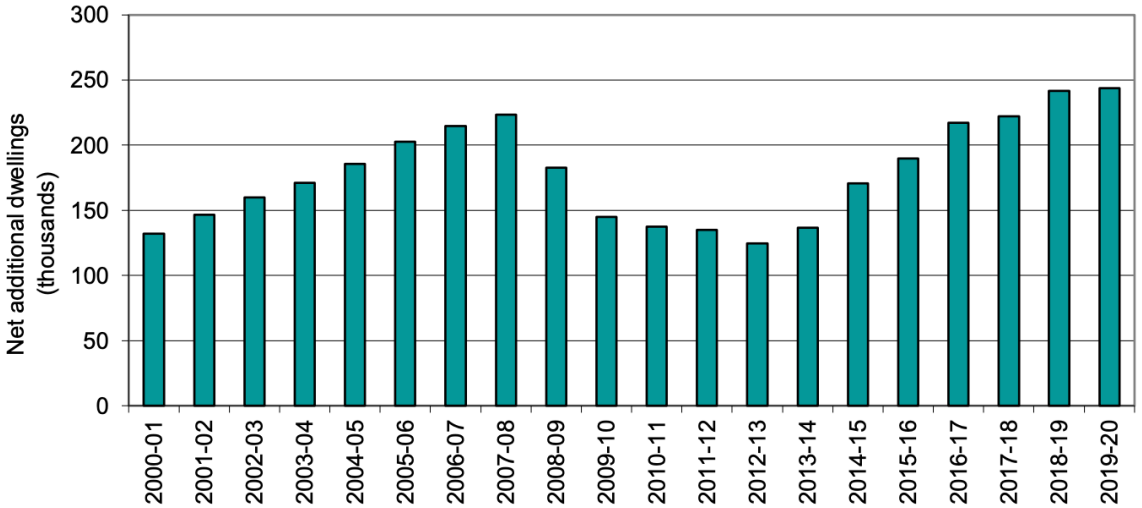
The other key beneficiaries are of course the owners of the permissioned land, who enjoy value uplift that can sometimes be very great indeed. Section 106 and the Community Infrastructure Levy, which require developers to make cash and in-kind contributions when they develop, are designed to share some of this benefit with local people and thereby win broader consent for development. However, these mechanisms tend to share too little of the uplift and to diffuse what they do share too widely around the local authority, meaning that they have only limited success in creating local support for development.

This means that, even if the aggregated benefit greatly outweighs the aggregated cost, building houses can be a thankless process for local authorities. And the effect of this is that local authorities tend to permit much less housing than would be optimal from the point of view of the country as a whole, or even of their own community.

National government has tried to address this lack of incentives and dysfunctional political structure around new development by inducing or compelling local authorities to permit more housebuilding. This has been pursued in various ways since the establishment of the planning system: in recent years, it has largely operated through a complex system of targets, generated through attempting to assess housing needs and constraints on housing supply in each local authority, and using this to drive land release.

This system has been fairly successful in increasing housebuilding, with home delivery on the eve of the Covid-19 pandemic reaching the highest levels seen in several decades.[1] However, it has also generated understandable resistance, being seen as a top-down way of forcing communities to build against their will. There has therefore been increasing pressure to revisit the target system with a view to lessening these tensions.

[1] MHCLG, 'Most Homes Delivered in 33 Years', 2020.



Net additional dwellings in England.[2]

We believe that, in the long run, it is both possible and desirable to move towards a system of development control that does not rely on making local authorities permit more than they want to. Both of the present authors have written extensively on this. It must be accepted, however, that in the short to medium term, housing delivery in Britain is to a substantial extent reliant on some system of targets: if this system is wholly abolished, it will be extremely difficult for any other measures to compensate for the fall in development. It is therefore worth looking at how our housebuilding system could be revised to make it less rigid and aggressive, without entirely abandoning the principles that underpin it.

What measures are under discussion and what are the risks of each?

There have been many suggestions for how to revise the housing target system. But these five appear to be the leading contenders currently under discussion:

1. Guaranteeing that local plans will be treated as up-to-date for a set period, meaning that new homes will not be permitted on appeal outside the local plan after the local plan has been approved. At present, local plans may be partly invalidated by shifting national policies fairly rapidly. This means that even if a local authority has done everything right, it may find its local plan being overridden within a couple of years, generating resentment and disincentivising local authorities from preparing local plans at all. The lack of clarity as to whether a local plan is 'up to date' similarly acts as a disincentive;
2. Reducing the power of the Planning Inspectorate (PINs) to throw out a local plan if it is close

[2] MHCLG, 'Statistical Release: Housing Supply', 2020.

to the target for housing (e.g. at say 95% of the figure in the December 2020 standard method);

3. Cutting housing targets for greenfield and increasing them for brownfield (which would shift pressure from the South and rural areas to the North and urban areas);
4. Scrapping the five-year land supply test (effectively weakening the Presumption in Favour of Sustainable Development permanently);
5. Allowing councils to assess their own local housing need (i.e. making the current Dec 2020 targets 'advisory').

These proposals divide into two groups: (1) and (2), which would reduce housebuilding, but not drastically, and (3), (4) and (5), which would do serious damage.

Measures such as (1) and (2) will clearly impact the flow of land, but would not fundamentally break the existing system. Both offer a way of mitigating its perceived rigidity and arbitrariness. (1) ensures that an approved local plan will actually be effective in governing development for a time, and it strengthens the incentive for local authorities to prepare a plan, thereby engendering more local control over development. (2) would stop plans from being rejected for quantitatively trivial deviations from targets. Both would likely be popular among MPs and councillors. They would of course have some negative impact on housing supply, but this would be manageable.

That said, both measures would need to be carefully handled. On (1), the period in which PINs is weakened should not be too long – local plans must of course be brought up to date with national policy eventually. But giving a clear reward is surely preferable to the vague situation at present, where councils do gain protection but this is not entirely clear.

On (2), the key issue is to be as clear as possible. For example, if councils in the South know that as long as they reach 90% of their housing target, PINs will sign off their local plan, most will aim for just above 90% of their housing target. The vaguer any requirement is, the greater the uncertainty will be, and so the more this will delay the system – so if the Government merely states that councils must be 'close to' their target, then if one council goes for 11% less and gets their plan through, another will try 12%, and another 13%. There is a risk that different inspectors would take different approaches, leading to confusion about what is allowed, which would discourage councils from trying to put plans in place at all, gum up the planning system, and create a political backlash when councils were not treated consistently.

However, proposals along the lines of (3), (4) and (5) would be much more damaging.

An immediate effect of proposal (3) would be to reduce housing target numbers in the South and increase them in the North and Midlands, because these areas are more likely to be urban. This would be done to argue that we need more brownfield sites.

Focusing on brownfield sites is indeed an appealing objective, but in most of the versions on the table, the proposal would almost certainly result in a major drop in housebuilding. The reason for this is that brownfield targets in the North and Midlands are much harder to hit than greenfield ones in the South. There are a range of reasons for this: brownfield sites have higher build cost because the land often has to be remediated;[3] they are often worth more if used for commercial or industrial purposes, generating viability problems;[4] the areas of the North and Midlands where brownfield is plentiful will have lower prices;[5] and they are built out much more slowly.[6]

Already the goals that were set in 2020 for many parts of the North and Midlands will be extremely difficult to meet, and any further shift of targets in this direction will make it even harder. The shortfalls can be strikingly large. For example, Sheffield currently has an annual goal of delivering 2,877 new homes, way more than its average annual delivery of the last 10 years of 1,692, while Wolverhampton's goal is 1,013, far ahead of the annual average of 637 homes. London is meant to deliver 93,000 homes every year, yet its average in the past decade has been 33,000 (including conversions). The upshot of this is that even if cuts in southern greenfield targets were nominally matched by increases in brownfield targets in the North, Midlands and London, such a shift would lead to substantial falls in real housing supply.

Under proposal (4), the Government would effectively scrap the five-year land supply without any increase in the delivery test: national housing targets would still officially exist, but councils would be free to not deliver the land necessary to hit them. This would remove the current sanction for not allocating land for new homes, which is to allow for greater success for developers on appeal, so its effect would be very similar to abolishing national targets altogether.

After the introduction of housing targets, housing output has risen from well under 150,000 to nearly 250,000 before the pandemic. This change was not entirely due to targets (permitted development rights also played a role, for example). Nonetheless, industry experts suggest that rendering housing targets ineffective in this way would mean at least a 20% drop in housing supply, perhaps as much as 30-40%.[7] It would also be hard to justify scrapping the five-year land supply in some areas and not in others, so this would almost certainly be a national change.

Proposal (5), allowing councils to set their own housing figures, would have similar results. As discussed above, the underlying structure of the English planning system means that councils tend to permit less housing than the country needs, given purely political constraints. Setting targets locally

[3] Cf. Local Authority Building Maintenance, 'Breaking Barriers to Brownfield Development', 2018.
[4] See MHCLG, 'Land Value Estimate for Policy Appraisal', 2020.
[5] See House of Lords, 'Meeting Housing Demand', 2021-22 and CPRE, 'Recycling our Land: The State of Brownfield Report', 2021.
[6] Lichfields, 'Start to Finish', 2016.
[7] The Home Builders Federation claims the fall may be even higher: 'End of house building targets will deal £17bn blow to economy, OBR warned', Daily Telegraph, 22 October 2022.

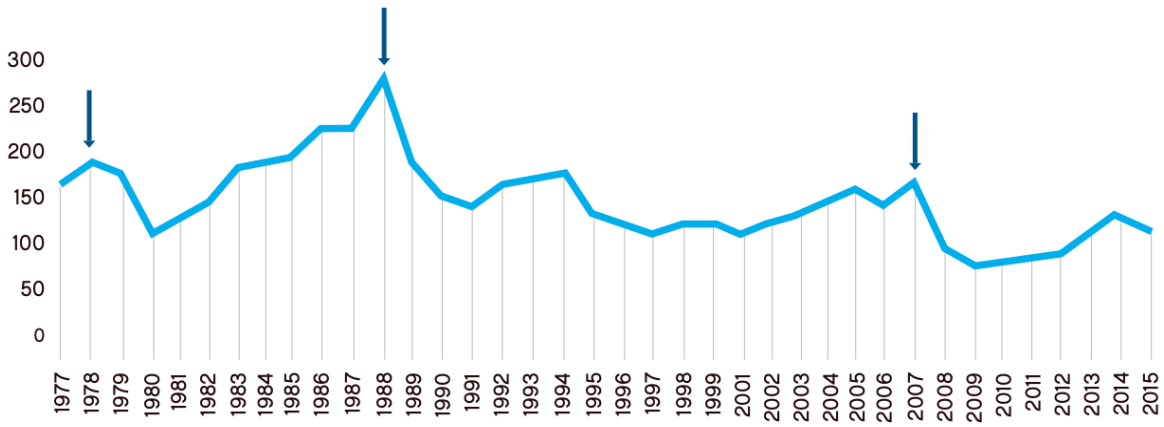
would therefore lead to a drop of supply of at least 20%, and potentially up to 30-40%. It would also lead to a period of chaos as existing plans in progress were delayed and revised downwards.

Effects on the construction industry

A fall in housebuilding will of course have ramifications for the construction industry. If measures (3), (4) or (5) are put in place without any countervailing measures to drive up housebuilding, many jobs will be lost among the 1.3 million people working in construction, and more in related sectors (e.g. white goods, movers, estate agents etc). Given some 4 million people are directly and indirectly employed in construction and related sectors, a downturn of 20% in housing supply might lead to 400,000 job losses in those working in construction and maybe another 400,000 in the wider construction-related economy.

It is important to stress that these losses would not be evenly distributed across the sector. It is well known that Britain's housing sector is dominated by a handful of large businesses to a far greater extent than that of France, Germany or the United States. It is also well known that this generates local monopolies, which in turn lead to low build-out rates, higher prices for buyers, and limited competitive pressure to improve quality.

If proposals (3), (4) or (5) are taken up, there will be a period of acute uncertainty as local plans are radically revised downwards and/or expectations change about how they will be enforced. Because of their size, the big developers will be able to absorb this uncertainty with much less damage. Small and medium sized enterprises (SMEs), by contrast, will be intensely vulnerable: many may go out of business, leading to still greater market concentration, and intensifying the problems associated with this. This is not idle speculation: it is exactly what has happened every other time the market has run into difficulties.



Number of companies registering between 101 and 2000 new homes p.a.[8]

[8] Home Builders Federation, 'Reversing the Decline of Small Housebuilders', 2017.

These blows would come at a time when the sector is likely to be facing grave difficulties already. Higher interest rates and a slowing economy are likely to push down prices and housing delivery in the coming months, regardless of action the Government takes on housing targets. The share prices of Britain's housebuilders have fallen precipitously in recent months in anticipation of this.

If prices do indeed fall, sites will begin to fall out of viability and developments will be cancelled or postponed. This will begin to push some housebuilders towards failure, especially SMEs. At the same time, some of the political tensions generated by housebuilding may slacken, at least in the medium term. This being so, now may be an especially unpropitious time to pile further pressure on the sector by severely reducing housing supply.

What could a successful package of reforms look like instead?

It is clear that Britain faces a serious challenge in building durable support for large-scale housebuilding. This should be approached carefully, and the Government ought to conduct a full review of available options before drastically revising the current system. Proposals like (1)and (2) at the top of this document are one way in which the rough edges of the current target system could be smoothed without undermining housebuilding too greatly.

However, the softening targets ought to be tied to a range of other measures designed to create greater support for development. These include:

A. Letting local communities opt into planning permission through street votes or similarly structured measures;

B. Giving local people more control over issues like design and layout;

C. Supporting SME builders by streamlined planning;

D. Ensuring faster build-out on sites, e.g. through levying a land-value tax on permissioned sites to incentivise rapid build-out;

E. Potentially limiting the land supply to five or ten years (i.e. requiring that local authorities have five years' worth of sites allocated, but abolishing the vaguer and less useful requirements for them to indicate areas where they intend to allocate sites thereafter).

In the long run, moving England away from a target-based system is a perfectly reasonable aspiration. But we cannot destroy the current system of housebuilding until we have developed a credible alternative. The underlying structure of the current system means that, in the short to medium term, targets remain vital if a steep drop in housebuilding is to be averted. This is particularly important given a likely fall in output as the UK enters a recession and house prices may well drop, which will hit the supply of homes and SMEs particularly hard.

Instead of scrapping top-down targets, the Government should look at ways in which it could

mitigate their inflexibility, as well as addressing other unpopular features of the housebuilding system. In other words, at least some of the structure of any new system needs to be put in place before the existing system is torn down – at least if we are to avoid chaos, fewer homes, and a blow to SMEs just when we can afford it least.