

# policy analysis of housing and planning reform

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### ***Policy Analysis of Housing and Planning Reform***

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However, the TCPA would like to make clear that the views expressed in this report are those of the author and not necessarily those of the Joseph Rowntree Foundation or those attending the high-level roundtable meetings.

# policy analysis of housing and planning reform

## foreword

At its best, the planning system can create the certainty to secure long-term investment and growth, address housing need, secure sustainable development, and help local people to have a real voice in the future of their community.

The Government has set out plans in the Localism Bill to revolutionise the planning process by *'taking power away from officials and putting it into the hands of those who know most about their neighbourhood – local people themselves'*. Alongside this, the Government aims to create the freedom and the incentives for those places that want to grow to do so, and to reap the benefits.

The Localism Bill pursues this ambition, setting out a new neighbourhood planning framework, changes to the Local Development Framework process, the abolition of Regional Strategies, and the introduction of a new *'duty to co-operate'*. The effectiveness and fairness of the new regime will depend not just on these legislative changes, but also on a wider package of changes – including the introduction of the New Homes Bonus, designed to incentivise housing growth, changes to Housing Benefit, and a new National Planning Policy Framework, which will set the key national policy direction for planning.

The aim of this report is to analyse the current planning and housing reform measures and so inform the ongoing debate on the future of planning and housing in England and the implications for housing provision. The report summarises the Coalition Government's current proposals and begins to assess the cumulative impact of these measures.

A number of important themes requiring consideration can be identified within the planning and housing reform agenda. These themes include the most effective balance between strategic housing policy and an emphasis on the localism approach; the balance between traditional land use regulation and fiscal incentives; and the degree to which, taken as whole, the reforms provide for a socially progressive framework which will ensure access to high-quality homes and communities.

The TCPA is grateful to the Joseph Rowntree Foundation for its support for this study, and to experts from the public, private and voluntary sectors who have fed into the work.

**Kate Henderson**  
Chief Executive, TCPA



# introduction

The Coalition Government is proposing very significant changes to planning and housing policy. These changes are complex and fast-moving and have major implications for how we provide for all types of housing, and particularly housing for those on limited incomes.

The aim of this analysis report is to inform the ongoing debate about the future of planning and housing in England by drawing together the various planning and housing reform measures in order to try to understand the implications for housing provision. The objective of the report is to summarise the Government's current proposals and to begin to assess what the cumulative impact of these measures might be.

This report is forward looking and positive, seeking to help the Government to align its policy priorities for increasing housing provision, re-balancing the economy and increasing growth within the overall goal of achieving sustainable development. The report acknowledges that the previous planning system had proved controversial for many communities. These places felt little ownership over the decisions surrounding housing provision. The Government was right to identify a lack of local legitimacy as a key problem in need of reform.

Part 1 of the report summarises the structural changes being made to the planning system. Part 2 provides a brief summary of the key changes to social housing policy and benefit reform. Part 3 addresses the interaction of these measures in relation to housing provision and new patterns of housing demand. Part 4 offers positive recommendations which can more effectively align planning and housing reform within the Government's overall objectives of re-balancing the economy and embracing localism. The report concludes by noting the quite unprecedented scale of change in all aspects of how we plan for, fund and deliver housing, and the pressing need for continuing analysis of the combined impact of the reforms on those in housing need.

It is important to stress the provisional nature of this report. The policy analysis is not responding to a static situation, but rather is framed by a fast-moving political and policy environment which may be subject to change. Nor is this report able to deal in detail with all aspects of the reform package, but instead seeks to provide a first scan of the most significant implications, based on analysis by the TCPA and others in the housing sector.

# part 1

# planning reform measures

## 1.1 Transforming the strategic planning framework

The Conservative Party’s Policy Green Paper, *Open Source Planning*, published in February 2010, is the most detailed summary of the Coalition Government’s planning reform agenda. *Open Source Planning* set out the objective of a localised and transparent planning system led by local communities, rather than a centrally determined structure imposed by government.<sup>1</sup> The Localism Bill, published in December 2010, seeks to fulfil this ambition by abolishing Regional Strategies and

regional housing targets and creating a powerful, but complex community planning framework. The Localism Bill also sets out major changes to housing policy. The Bill is expected to achieve Royal Assent at the end of 2011.

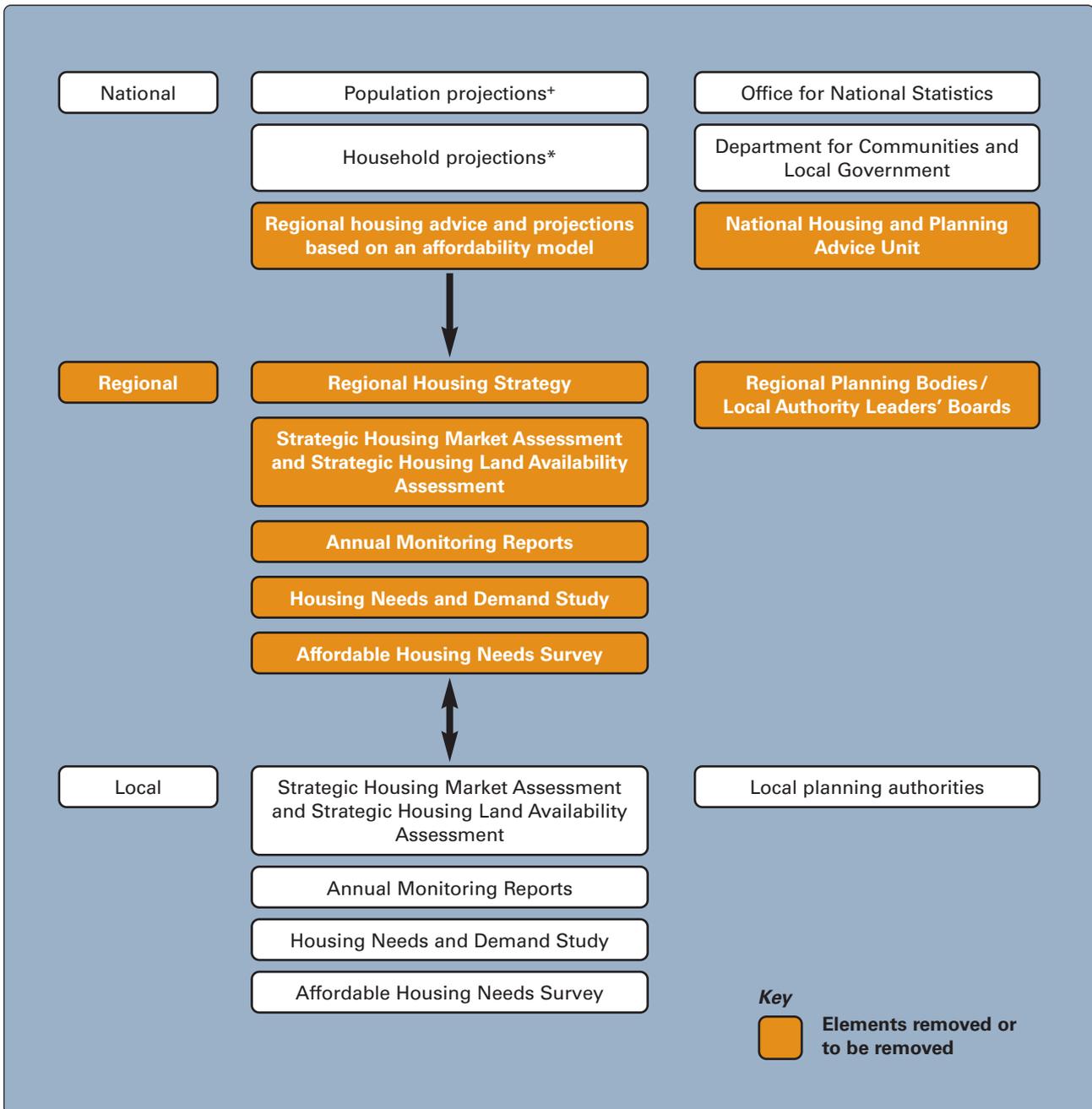
Although the increase in England’s housing stock in 2007-08 was the highest annual increase for almost 20 years (Table 1 shows actual delivery during the five years that regional planning was in place in England), the basis of the arguments which underpin the drive to remove strategic planning for housing lies in the loss of democratic legitimacy in planning and an assumption that regional housing targets contributed directly to a failure in delivery<sup>2</sup> – because of resistance to them from local communities.

**Table 1**  
**Components of net housing supply, England 2006-07 to 2009-10**

Components of net housing supply	Number of dwellings			
	2006-07	2007-08	2008-09	2009-10
New build completions	193,080	200,300	157,630	124,200
Net conversions	7,600	9,020	8,640	6,230
Net change of use	20,150	17,640	16,640	13,600
Net other gains	460	1,020	270	970
<i>Minus</i> Demolitions	-22,290	-20,500	-16,590	-16,330
<b>Net additional dwellings</b>	<b>198,770</b>	<b>207,370</b>	<b>166,570</b>	<b>128,680</b>

Source: Live Table 120: 'Components of net housing supply, England 2006-07 to 2009-10'. Housing Statistics, Live Tables on Stock. Department for Communities and Local Government, Oct. 2010. <http://www.communities.gov.uk/housing/housingresearch/housingstatistics/housingstatisticsby/stockincludingvacants/livetables/>

1 *Open Source Planning*. Policy Green Paper 14. Conservative Party, Feb 2010. [http://www.conservatives.com/news/news\\_stories/2010/02/~/\\_media/Files/Green%20Papers/planning-green-paper.ashx](http://www.conservatives.com/news/news_stories/2010/02/~/_media/Files/Green%20Papers/planning-green-paper.ashx)  
 2 Greg Clark: 'Local planning for sustainable development'. CPRE Annual Lecture, by the Minister for Decentralisation, 10 Feb. 2011. <http://www.communities.gov.uk/speeches/corporate/localsustainabledevelopment>



**Figure 1 Proposed structural changes to the English planning system**

<sup>+</sup> Latest 2008-based population projections for England issued on 27 May 2010  
<sup>\*</sup> Latest household projections for England to 2033 issued on 26 November 2010

The removal of Regional Strategies and the associated abolition of the National Housing and Planning Advice Unit is likely to have a substantial impact on the way that housing needs are forecast and provided for through the planning system. The new structure is shown in Figure 1, but there is concern that its exclusively local consideration of housing needs will not match what was achieved by a nationally organised and regionally and locally expressed

housing regime based on targets. The TCPA's *The Future of Planning Report*<sup>3</sup> concluded that the consequences of the measures could be a significant 'under-supply' of housing because Local Housing Needs Assessments may not adequately consider international, national and regional housing pressures.

The forthcoming abolition of Regional Strategies also has major implications for existing Local

3 *The Future of Planning Report: Distilling the TCPA Roundtable Debates*. TCPA, Jun. 2010. [http://www.tcpa.org.uk/data/files/tcpa\\_futureplanning\\_report.pdf](http://www.tcpa.org.uk/data/files/tcpa_futureplanning_report.pdf)

## Box 1

### Regional Strategies and the CALA Homes judgement

CALA Homes Ltd successfully challenged the Secretary of State's decision to revoke Regional Strategies. The High Court quashed the decision on two grounds, and as a result restored Regional Strategies as part of the legally constituted Development Plan.

The effect of this is to restore the Regional Strategies' housing targets. The Department for Communities and Local Government (DCLG) will not appeal this decision.

However, DCLG has subsequently issued a letter which makes clear the Government's intention to abolish Regional Strategies. The letter highlights that this intention should be material to all planning decisions.

The resulting position can be best seen as two distinct stages. Stage one is the interregnum between now and the passage of the Localism Bill into law. This stage will last for at least 12 months and will be marked by uncertainty and a likely increase in appeals and legal challenges. The second stage will correspond to the formal abolition of Regional Strategies and the removal of housing targets, subject to the final provisions of the Localism Bill.

Development Frameworks. This is because both Regional Strategies and Local Development Frameworks are in law two halves of the Development Plan.<sup>4</sup> Local Development Frameworks were strongly encouraged not to repeat the substance of the Regional Strategies, which contained much of the strategic content on housing forecasting and allocations. As a result there is likely to be a significant policy gap while local planning authorities consider what, if any, strategic content their Local Development Framework now requires.

The abolition of the National Housing and Planning Advice Unit and the forthcoming abolition of Regional Strategies creates the following uncertainties about how housing need will be assessed:

- There is no national or sub-national derived target mechanism to deal with overall housing needs or the particular social housing needs of those on low incomes, our aging society, or particular ethnic groups, such as Gypsies and Travellers.
- There is no national or sub-national mechanism for apportionment of international, national or inter-regional demographic change.
- There is no national or sub-national mechanism for the relocation of housing

pressures from areas of high demand and limited capacity to areas of greater opportunity.

## 1.2 The impact of planning reform on local housing allocations

There has been a substantial impact on housing allocations following the announcement on the revocation of Regional Strategies. In 2010 the Building and Social Housing Foundation (BSHF) carried out a questionnaire survey among local authorities to gather information on the effects of new policy relating to house building targets.<sup>5</sup>

The BSHF study showed that, for example, approximately one third of local authorities (32%) in the East Midlands were undecided on their housing target. Over one third of local authorities (38%) stated their intention to keep the housing target in the Regional Strategy.

Some local authorities that responded to the questionnaire were struggling to understand

4 Planning and Compulsory Purchase Act 2004, Section 38. <http://www.legislation.gov.uk/ukpga/2004/5/contents>

5 D. Burton with B. Pattison, J. Strutt and J. Vine: *Abolition of Regional Spatial Strategies. Rapid Impact Assessment for the Midlands and North of England*. Building and Social Housing Foundation, Oct. 2010. <http://www.bshf.org/published-information/publication.cfm?lang=00&thePubID=87703D2F-15C5-F4C0-99D05637440173BC>

**Table 2**  
**Variations in the reduction in new homes allocations across England**

Region	Number of dwellings removed from local plan allocation
South East	56,620 (official: 49,620)
East of England	32,948 (official: 22,848)
South West	81,256 (official: 75,906)
Other regions	25,055 (official: 23,155)

Source: Updated Research on the Impact of the Intended Revocation of Regional Strategies on Proposed Local Housing Targets in England. Tetlow King Planning on behalf of the National Housing Federation, Jan. 2011

the nature and scope of their new responsibilities. There appeared to be particular confusion about implied default housing targets (the so-called 'Option 1' figures). Local authorities were concerned that they do not have the financial or technical resources to assess local housing need, particularly given the removal of support from regional bodies and organisations such as the National Housing and Planning Advice Unit.

This research has since been updated by Tetlow King Planning for the National Housing Federation (NHF).<sup>6</sup> In supplementary evidence sent to the House of Commons Communities and Local Government Select Committee in January 2011, the NHF concluded that the number of homes no longer being planned for since the Government announced its intention to abolish Regional Strategies has now increased to a total of around 201,509. This figure has risen from 84,530 since the NHF's first assessment was carried out in July 2010. Around 88% of the estimated 201,509 dwellings derive from official local authority sources, such as Core Strategy consultation documents or press releases. The remaining 12% come from unofficial estimates. The NHF research also found significant regional variations, as illustrated in Table 2.

Since the planning changes were announced, almost 70 councils have halted progress on Development Plans, reduced previously planned housing numbers, or delayed planning enquiries

at appeal.<sup>7</sup> These structural changes and their implications do not apply in the same way in London, where strategic planning remains in place and where current allocations in the Spatial Development Strategy for Greater London (the London Plan) also remain.

The long-term implications of the new regime are hard to gauge precisely, but the scale of the reduction in plan allocations for housing in the aftermath of the planned revocation of Regional Strategies is evident from Table 2. The highest annual unit output in the last decade was 207,370, in 2007-08 (see Table 1);<sup>8</sup> for comparison, this can be set against the current estimate of lost allocations of over 200,000. The figures also illustrate a strong geographical concentration, with southern regions showing by far the largest reduction in planned numbers. However, these reductions may be countered to some extent by the New Homes Bonus, which is discussed below (see Sections 1.4.2 and 1.4.3).

## 1.3 The new local planning framework

The Localism Bill creates a new local planning framework. This new framework will comprise two major components: the reformed Local

<sup>6</sup> Updated Research on the Impact of the Intended Revocation of Regional Strategies on Proposed Local Housing Targets in England. Tetlow King Planning on behalf of the National Housing Federation, Jan. 2011. Submitted as Supplementary Evidence to the House of Commons Communities and Local Government Committee Inquiry on the Abolition of Regional Spatial Strategies

<sup>7</sup> *Ibid.*

<sup>8</sup> Live Table 120: 'Components of net housing supply, England 2006-07 to 2009-10'. Housing Statistics, Live Tables on Stock. Department for Communities and Local Government, Oct. 2010. <http://www.communities.gov.uk/housing/housingresearch/housingstatistics/housingstatisticsby/stockincludingvacants/livetable/>

Development Framework, and new Neighbourhood Plans.

### 1.3.1

## The reformed Local Development Framework

The Core Strategy element of the Local Development Framework will be retained. This will be a more flexible document with less detail and with a streamlined preparation process. There will no longer be requirements for Annual Monitoring Reports to be submitted to the Government. The performance of local planning authorities in implementing Local Development Frameworks will be a matter of local accountability, based on locally determined targets and indicators of performance.<sup>9</sup> Housing Needs Assessment will be carried out at the Local Development Framework level and district-wide allocations will be agreed. These allocations may or may not be defined in detail in site allocation documents as part of the Core Strategy. In the absence of Regional Strategies the components of local housing assessments will be a mix of the following:

- Office for National Statistics (ONS) demographic change data;
- Local Housing Needs Assessments (including, for example, homelessness and waiting list data);
- any voluntary cross-border housing market partnership working (but no longer working with regional economic or housing objectives); and
- Strategic Housing Market Assessments (SHMAs), although no longer framed around regional considerations.

For clarity, the 'lost' forecasting elements from the Regional Strategies are principally:

- affordability data and regionally derived housing number allocations; and
- housing targets.

Local authorities will still be under an obligation to plan for a five-year supply of housing land, but this supply could fall if housing needs are defined solely on a local basis. Unless a

voluntary cross-border housing market assessment approach is in place (dealing with data collection, housing forecasting and reporting), housing provision will play out primarily, if not solely, at the local authority level.

### 1.3.2

## Neighbourhood planning

The Localism Bill sets out new rights for neighbourhoods to develop their own community plans through a powerful new mechanism, complemented by the Community Right to Build and opportunities to secure community assets. Neighbourhood Development Plans and Neighbourhood Development Orders will be legal parts of the Development Plan, and Neighbourhood Development Orders will be able to effectively create development consent for defined areas.

The nature of the Neighbourhood Development Plan will vary significantly, depending on whether the locality is parished. Where they exist, Parish Councils will have neighbourhood planning responsibilities, but in other areas they will be granted to an ad hoc Neighbourhood Forum; this is already raising concerns about accountability.<sup>10</sup>

The process of preparing Neighbourhood Development Orders also risks being procedurally complex and costly for councils and communities. The Department for Communities and Local Government estimates that on average Neighbourhood Plans will cost between £17,000 and £63,000; the upper estimate is £200,000.<sup>11</sup>

Many questions have been posed on whether Neighbourhood Development Plans, as currently drafted in the Localism Bill, could be used to block legitimate housing provision. However, the Department for Communities and Local Government has made clear that Neighbourhood Development Plans must be in conformity with the strategic policies of the local authority, and as such they cannot advocate less housing than is allocated in the Local Development Framework.<sup>12</sup>

9 Localism Bill. Part 5. Clause 93. House of Commons. TSO, Dec. 2010.

<http://www.publications.parliament.uk/pa/cm201011/cmbills/126/11126part1.pdf>

10 House of Commons Public Bill Committee on the Localism Bill. Session 2010-11. Fourth Sitting, 27 Jan. 2011.

<http://www.publications.parliament.uk/pa/cm201011/cmpublic/localism/110127/pm/110127s01.htm>

11 *Localism Bill: Neighbourhood Plans and Community Right to Build. Impact Assessment*. Department for Communities and Local Government, Jan. 2011. <http://www.communities.gov.uk/documents/localgovernment/pdf/1829678.pdf>

12 *Ibid.*

Such a conformity mechanism should avoid this problem, although it may lead to tension within communities about the value of Neighbourhood Development Plans if issues such as housing allocations, waste and minerals are not to be subject to community control through neighbourhood planning.

There are also questions around those cases where Neighbourhood Development Plans are developed in advance of a Core Strategy or where the Core Strategy remains vague on specific allocations. At this stage it is not possible to quantify how significant this issue is.

In areas where the community has not chosen to plan, or does not have a plan in place, there would be a general presumption in favour of sustainable development. The definition of what this might mean will be contained in the new National Planning Policy Framework. This document will replace all existing Planning Policy Statements and Planning Policy Guidance. A draft will be published shortly, with the final National Planning Policy Framework published in April 2012.

## 1.4 The Government's approach to strategic growth

The Government has proposed two principal alternatives to replace the function of regional planning and housing targets. These are voluntary co-operation driven by a new legal duty, and the New Homes Bonus incentive.

### 1.4.1 The duty to co-operate

Clause 90 of the Localism Bill sets out the new duty to co-operate in relation to planning the

sustainable development of land. This co-operation relates to the preparation of Development Plan Documents and 'other' planning matters. This is a significant new duty which will partly be clarified in regulation after the Bill receives Royal Assent.

The degree to which the duty is significant will be largely dependent on the nature of the joint planning effort. For example, where a joint planning committee is established between authorities, such a duty may be significant. Where two authorities plan separate Development Plan Documents, it would appear that the heart of the duty is a passive requirement to respond if consulted and provide information to assist a planning process.<sup>13</sup>

The duty does not specify particular issues which have a fundamentally cross-border and sub-regional character, such as housing and climate change, although it has been suggested that the Secretary of State may issue more detailed guidance on what kind of issues might be relevant. It is possible that the nature of the duty may also be amended during the passage of the Localism Bill through Parliament.

There has been speculation over what role Local Enterprise Partnerships (LEPs) might play in assisting cross-border co-operation for strategic planning policy for housing. LEPs have been developed by the Department for Business, Innovation and Skills, as set out in the Local Growth White Paper published in October 2010.<sup>14</sup> To date, 31 LEPs have been approved across England with a wide variety of scales and functional areas.

Ministers have suggested that Local Enterprise Partnerships could play an important role in co-ordinating cross-border sub-regional working on housing through the preparation of joint planning strategies.<sup>15</sup> Some of the LEP bids have acknowledged the need for housing and economic development to be properly integrated, but the degree to which the focus of LEPs will be on spatial planning and housing is not yet clear.

13 Localism Bill. Part 5. Clause 90, Sub-sections 4a and 4b. House of Commons. TSO, Dec. 2010. <http://www.publications.parliament.uk/pa/cm201011/cmbills/126/11126part1.pdf>

14 *Local Growth: Realising Every Place's Potential*. Cm 7961. Local Growth White Paper. Department for Business, Innovation and Skills. HM Government, Oct. 2010. <http://www.bis.gov.uk/assets/biscore/economic-development/docs/l/cm7961-local-growth-white-paper.pdf>

15 'Local enterprise partnerships'. Letter to Local Authority Leaders and Business Leaders from the Secretary of State for Business, Innovation and Skills and the Secretary of State for Communities and Local Government, 29 Jun. 2010. <http://www.communities.gov.uk/documents/localgovernment/pdf/1626854.pdf>

## Case Study 1

### South Cambridgeshire and the New Homes Bonus

South Cambridgeshire has seen strong housing growth over recent years, taking advantage of co-ordinated investment facilitated by the local delivery vehicle Cambridgeshire Horizons. In 2009-10 there were 610 net additional homes, of which 350 were affordable.

If housing completions continue at the existing rate South Cambridgeshire's New Homes Bonus will build up from £869,000 in year 1 to £5,212,000 in year 6, based on the Department for Communities and Local Government's New Homes Bonus calculator.<sup>#</sup> These figures are based on lowest-tier share (80%, with the remaining 20% being allocated to the County Council). This represents a substantial proportion of South Cambridgeshire District Council's current annual Formula Grant and makes the New Homes Bonus a very significant and powerful financial instrument.

<sup>#</sup> New Homes Bonus Calculator. Department for Communities and Local Government.  
<http://www.communities.gov.uk/housing/housingsupply/newhomesbonus/>

The duty to co-operate does not apply to LEPs at present because the duty only applies to a person or persons who 'exercise functions for the purpose of an enactment',<sup>16</sup> and LEPs have no legal status as a 'body corporate' in their own right.

This means that even though more detailed regulation on which kinds of bodies might be subject to the duty is expected, this could not include LEPs. At present the LEP planning role remains entirely voluntary and informal; they are not bound by any duty on sustainable development, climate change or equality, and any output of a LEP would not have statutory weight in planning beyond being a material consideration. It is therefore difficult to see how the Localism Bill could be amended to create an effective basis of joint strategic planning via the LEP initiative (unless all LEP areas were obliged to have a joint planning board for some issues), and it is unlikely that LEPs will be an effective forum for resolving sub-regional planning for housing.

As a result, the only pathway for formal strategic planning now available is through extensive use of joint planning committees to prepare shared Development Plans. However, it is as yet unclear how many joint committees might emerge (there are currently 13<sup>17</sup>), whether they will be aligned with LEPs, how long this

process might take, and what resource implications there are.

The voluntary approach may be capable of sustaining the existing housing market partnerships present in many areas to allow for a shared approach to housing forecasting and allocation. Such approaches could provide an effective evidence base for planning in some localities. However, such partnerships were not designed to be forums for the resolution of the kind of dispute that has emerged in places such as Stevenage (see Case Study 3, on page 19).

#### 1.4.2

### The New Homes Bonus

The New Homes Bonus is designed to be a 'powerful, simple, transparent, predictable and flexible' incentives scheme to encourage and reward local authorities to deliver more new and sustainable housing.<sup>18</sup> The Bonus will start in April 2011 and will offer local authorities an incentive to stimulate housing development by match-funding additional Council Tax for each new home completed for the next six years. There will be an additional bonus of £350 per annum for six years for all new units of affordable housing.

16 Localism Bill. Part 5. Clause 90, Sub-section 6. House of Commons. TSO, Dec. 2010.  
<http://www.publications.parliament.uk/pa/cm201011/cmbills/126/11126part1.pdf>

17 Unpublished research. TCPA, Feb 2011

18 The New Homes Bonus was consulted upon for a six-week public consultation period until 24 Dec. 2010.  
<http://www.communities.gov.uk/documents/housing/pdf/1767788.pdf>

## Case Study 2

### Liverpool City Council and the New Homes Bonus

For the first six months of 2010-11 (1 April 2010 to 30 September 2010), Liverpool recorded only 452 housing completions against a loss of 612 from demolitions – a net *loss* of 160 dwellings. In comparison, gross housing completions averaged 2,611 per annum over the seven years 2003-10, and over the same period the net annual average was 1,583 net *gains*.

The Department for Communities and Local Government's New Homes Bonus calculator<sup>#</sup> provides slightly different figures based on 2009-10; the net loss is 449 units, with 1,251 homes brought back into use. According to the calculator, in year 1 the New Homes Bonus value is £877,000, building to £5,262,000 in year 6.

More than 80% of Liverpool City Council's funding comes from grants, but these have been cut significantly, with the loss of all of the area-based grant, some £110 million, including grants targeted at deprived communities – working neighbourhood fund (£32 million); supporting people (£11 million) and grants for adult social care (£8 million). The City Council has also had the maximum possible reduction (8.9%) in formula funding from the Government, and has had its general revenue funding cut by over 22% in the next two years. A request to extend the period over which the cuts could be made has been rejected by the Government.

Liverpool City Council made clear in its response to the New Homes Bonus consultation that it was concerned that peripheral greenfield sites would be favoured over more complex inner city areas, compromising regeneration efforts.

<sup>#</sup> New Homes Bonus Calculator. Department for Communities and Local Government.  
<http://www.communities.gov.uk/housing/housingsupply/newhomesbonus/>

The funding that has been set aside is £196 million in the first year and £250 million in the following three years. The Department for Communities and Local Government (DCLG) has previously made clear that the first year of the tax-matching scheme would be funded from the scrapped £200 million Housing and Planning Delivery Grant. This reallocated 'new' money is insufficient to meet the expected cost of the New Homes Bonus set out in the DCLG consultation paper as £1.2 billion by year six of the scheme.<sup>19</sup> The gap in funding will be filled by top-slicing Formula Grant allocations to local authorities. This means that, while it is wrong to say that the full burden of the New Homes Bonus will fall on local authority formula funding, a very substantial element of it will. The National Housing Federation estimates that the £950 million shortfall equates to a total cut in Formula Grant across England in year six of the scheme of 3.28%.<sup>20</sup>

The design of the New Homes Bonus is based on net additions to the housing stock (conversions, change of use, demolitions and other net figures). The impact of housing demolitions raises questions about incentivising areas undergoing significant area-based regeneration. Liverpool provides a clear illustration of the potential challenges facing places with large-scale programmes of demolition and renewal (see Case Study 2). The New Homes Bonus payments are based on a band D equivalent calculation for each local authority area, which itself is based on an aggregate of the locality's Council Tax profile. The roundtables held during the course of the research carried out for this report identified a risk that this may drive the allocation of higher-value housing in order to maximise New Homes Bonus receipts.

The focus on the Council Tax formula also presents a challenge for the planning process.

<sup>19</sup> The global amount of funding available in the Spending Review period is, as the Chartered Institute of Housing points out, insufficient to fund expected levels of need – see *Allocating Social Housing: Opportunities and Challenges*. Chartered Institute of Housing, Jul. 2010.  
<http://www.cih.org/policy/fpp-AllocatingSocialHousing-July10.pdf>

<sup>20</sup> *Response: The New Homes Bonus*. Response to the New Homes Bonus consultation. National Housing Federation, Dec. 2010.  
<http://www.housing.org.uk/Uploads/File/Policy%20briefings/Neighbourhoods/NewHomesBonusResponse-nsdv2010rs18.pdf>

Since the incentive is paid on completion rather than on allocation or the granting of planning permission, the planning process comes under new pressures to approve the most developable rather than most sustainable locations. This has particular implications for regeneration and the wider objectives of the planning system.

### 1.4.3 Questions about the New Homes Bonus

The proposed New Homes Bonus raises a number of questions that have yet to be fully addressed.

#### Question 1 Does the incentive incentivise?

It is not yet clear how much housing is likely to be incentivised through the New Homes Bonus. For example, it is hard to predict the degree to which entrenched local opposition will be susceptible to benefits which accrue to local authorities, particularly in communities not reliant on public services.

There is also the significant issue of additionality. The New Homes Bonus is substantially a redistribution of existing funding withdrawn from central Formula Grant. The original idea of incentives for growth was to compensate communities for the increased pressures on physical and social infrastructure, to ensure that service provision was maintained or even improved. The New Homes Bonus model, providing money which is not ring-fenced, is likely to be attractive to cash-strapped local authorities. This presents a risk and even a likelihood that such money will be spent largely on sustaining core services.

#### Question 2 How does the incentive deal with social housing?

There is no direct linkage between the New Homes Bonus and the provision of funding for social housing. While additional incentives are paid for 'affordable' housing units to incentivise their allocation (based on the Planning Policy

Statement 3 (PPS3), Annex B, definition of 'affordable'), there is no necessity to use the New Homes Bonus to fund the provision of such housing. This will be a decision for the local authority, and there is the potential that such funds will be spent partly or wholly to fund existing core activities such as social services.

#### Question 3 How does the New Homes Bonus impact on urban regeneration?

The New Homes Bonus does not have a direct relationship with securing urban regeneration, and the Government has not designed the mechanism to do this. However, the New Homes Bonus is of significance to the way that major urban areas seek to renew their housing stock through comprehensive redevelopment schemes involving large-scale demolition and regeneration. Local authorities who have no net housing additions will not receive the New Homes Bonus. While the New Homes Bonus is paid for bringing housing stock back into use, the likely effectiveness of this income stream is open to question.

The Government has an aim to rebalance growth across the country, but has emphasised that regeneration activity should be led by local communities, and not by Whitehall.<sup>21</sup> If central government urban regeneration funding programmes have been removed and council budgets are cut, then meeting the upfront costs of bringing homes back into use will be problematic. As the New Homes Bonus is not ring-fenced and is paid in arrears, there is a reduced likelihood of the income stream driving significant change.

The study roundtable discussions also identified a risk that spatial plans would rapidly be modified to favour higher-value housing on easier greenfield site locations, as opposed to focused urban renewal.

#### Question 4 How will the New Homes Bonus impact on regional inequalities?

The basis of the New Homes Bonus scheme design has implications for spatial inequalities. The New Homes Bonus is paid for net housing completions, over which, on the whole, local

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<sup>21</sup> *Regeneration to Enable Growth: What Government is Doing in Support of Community-Led Regeneration*. Department for Communities and Local Government, Jan. 2011. <http://www.communities.gov.uk/documents/regeneration/pdf/1830137.pdf>

authorities have little or no control (in contrast to allocated units in plans). Such completions will be focused on areas of high demand, which will draw down much greater levels of the New Homes Bonus, than on areas of low demand but with potentially much greater social needs.

The National Housing Federation has calculated that the four northern regions of England will lose £104 million, while the five southern regions will gain £342 million.<sup>22</sup> This is the product of an assumed blanket reduction in Formula Grant, matched with the highly variable spatial delivery of housing units. The New Homes Bonus, as currently formulated, potentially risks acting as a regressive policy mechanism which redistributes what was largely Formula Grant solely on the basis of market-dependent housing completions.

Areas of high market demand may well find the New Homes Bonus a very useful and positive investment mechanism. The South Cambridgeshire case study (Case Study 1, on page 10) illustrates the significance of investment opportunities. However, net losers in the New Homes Bonus formula also appear to be those places most impacted by the end of area-based and Housing Market Renewal grant aid (see Case Study 2, on page 11).

Overall, the roundtable debates held during the course of the research undertaken for this report identified a risk that there was a strong general tendency for metropolitan authorities in the northern regions to lose resources to those in the Greater South East.

Both the Home Builders Federation and the National Housing Federation have pointed out the potentially perverse outcome that that some southern districts might receive a large increase in funding simply for delivering at current housing levels.<sup>23</sup> Others could deliver less housing than at present and in theory not see a reduction in overall funding. The study roundtables also noted that some northern authorities were completely committed to

housing growth, and that further incentives could not increase this commitment. Leaving aside the issue of whether such outcomes represent good value for money, it is possible that the New Homes Bonus could drive spatial inequalities.

The implications of this are, of course, complex, but should be seen in the light of the conclusions of the Royal Commission on Environmental Pollution (RCEP) report, *Demographic Change and the Environment*, on the dangers of demographic concentration in the South East of England.<sup>24</sup> There is a clear need for fiscal incentives to be properly aligned with the wider objectives of spatial planning to ensure effective resource use and efficient infrastructure provision.

### Question 5

#### **How will the New Homes Bonus work with other financial instruments, such as planning obligations and the Community Infrastructure Levy?**

The New Homes Bonus scheme must be seen in the context of other financial instruments, such as planning obligations, Section 106 agreements, and the Community Infrastructure Levy, so that funds can be pooled in an integrated manner to deliver community benefits and so help in making the case for development. This requires a degree of co-ordination to make the most out of the funding pools available.

The Community Infrastructure Levy is a tool that allows local authorities to charge a levy on development which can be used to fund infrastructure. Although it came into being in April 2010, it is being reviewed to allow a number of changes, including permitting a meaningful proportion to be spent on the neighbourhood directly affected by the development and enabling community groups to inform decisions on how that money is spent. These changes to the Community Infrastructure Levy allow communities to benefit directly from new development and to fund ongoing infrastructure and community project costs.

22 *Response: The New Homes Bonus*. Response to the New Homes Bonus consultation. National Housing Federation, Dec. 2010. <http://www.housing.org.uk/Uploads/File/Policy%20briefings/Neighbourhoods/NewHomesBonusResponse-nsdv2010rs18.pdf>

23 See *New Homes Bonus – Ranked by LAs’ Potential Loss of Income*. Home Builders Federation, Feb. 2011. [http://www.hbf.co.uk/fileadmin/documents/Email\\_Links/NHB\\_-\\_Ranked\\_by\\_LAs\\_potential\\_loss\\_of\\_income\\_-\\_Feb\\_2011.pdf](http://www.hbf.co.uk/fileadmin/documents/Email_Links/NHB_-_Ranked_by_LAs_potential_loss_of_income_-_Feb_2011.pdf); and ‘Minister hits out at NHF building claims’. *Inside Housing*, 22 Feb. 2011. <http://www.insidehousing.co.uk/news/development/-minister-hits-out-at-nhf-building-claims/6513781.article>

24 *Demographic Change and the Environment*. Twenty-Ninth Report. Royal Commission on Environmental Pollution, Feb. 2011. [http://www.rcep.org.uk/reports/29-demographics/documents/Demography\\_final\\_report.pdf](http://www.rcep.org.uk/reports/29-demographics/documents/Demography_final_report.pdf) – summary at [http://www.rcep.org.uk/reports/29-demographics/documents/Demography\\_summary\\_report.pdf](http://www.rcep.org.uk/reports/29-demographics/documents/Demography_summary_report.pdf)

## part 2

# housing policy and housing benefit reform

A complex set of housing policy and finance announcements have been made over the last six months. This Section attempts to identify the key areas of reform that might have particular spatial implications for housing delivery and demographic change. In general there are very significant changes to both the supply side of social housing, through reductions in State aid announced in the Spending Review in October 2010, and the demand side through, for example, Housing Benefit reform, expansion of the intermediate rented sector, and the proposed ending of open council house waiting lists.

## 2.1 Changes to the funding of social housing units

The National Housing Federation has estimated that funding for new social housing provision will be cut from £8.4 billion to £4.4 billion over the next four years.<sup>25</sup> The ambition to build 150,000 new social homes between April 2011 and March 2015 will depend in large part on a new 'Affordable Rent' product which the Government intends '*will form the principal element of the new supply offer*'.<sup>26</sup> The new 'Affordable Rent' product will be a form of social housing offered through the usual lettings process, and the intention is that it will be considered as affordable housing for planning purposes

(alongside social rented housing and intermediate affordable housing). It will be provided by Registered Providers and will be the main focus for grant funding from the Homes and Communities Agency from April 2011. It offers more flexibility to providers than traditional socially rented properties in that it *can* be let at higher rent levels (up to 80% of local market rents), and *can* be let on the basis of less secure tenancies (of two years or more).

In addition to the grant funding available for this new product, Registered Providers can make use of a new power to re-let *existing* social rented properties at 'Affordable Rents', using the additional capacity generated to support new supply. Estimates by the Chartered Institute of Housing<sup>27</sup> show that an increase to 80% of market rent (but limited to the new Local Housing Allowance caps, see below) will allow Housing Associations to generate an additional £1.5 billion of borrowing capacity and build 15,000 homes a year.

However, this has significant spatial implications in terms of potential yield, because the difference between social rent and 'Affordable Rent' varies markedly between different parts of the country. For example, North Star Housing Group, which owns 3,000 properties in the Teesside area, has calculated that 'Affordable Rent' at 80% of market rent is just £13 a week higher than social rents.<sup>28</sup> Based on current re-let rates, this would yield an additional rental income of just under £3 million over ten years. North Star says that even with

25 'Government housing plans will leave thousands dependent on benefits and signal the 'end of real new social homes''. News Release. National Housing Federation, 29 Oct. 2010. <http://www.housing.org.uk/default.aspx?tabid=212&mid=828&ctl=Details&ArticleID=3440>

26 *Planning Policy Statement 3: Planning for Housing. Technical Change to Annex B, Affordable Housing Definition. Consultation*. Department for Communities and Local Government, Feb. 2011. <http://www.communities.gov.uk/documents/planningandbuilding/pdf/1840767.pdf>

27 'Affordable rent' to derail development'. *Inside Housing*, 5. Nov. 2010. <http://www.insidehousing.co.uk/news/development/%E2%80%99affordable-rent%E2%80%99-to-derail-development/6512352.article>

28 *Ibid.*

discounts through the planning process and factoring in expected extra borrowing capacity, the new regime would only be able to fund an extra 56 homes over ten years.

The Chartered Institute of Housing analysis suggests that capacity will be heavily skewed towards London and the South East, which between them would account for over 60% (9,258) of the homes funded through this route. In contrast, the East Midlands would account for just 332 new homes annually and the North East just 358 (around 2%, compared with a 4% share in 2009-10). Therefore it appears that the use of 'Affordable Rents' to fund new social housing will have a strong spatial dimension, producing greater yields in higher-value areas.

Councils will get increased powers to borrow, but there is no analysis as to whether they will want to or be able to borrow enough to meet growing demand. Local authorities' ability to spend on social housing must be viewed in the context of overall budget cuts and multiple demands, particularly on social care.

Local Housing Trusts have been suggested by government as having a role in meeting an element of social housing need, but it seems unlikely that they will be able to fill the gap in terms of numbers or in an acceptable timeframe.<sup>29</sup>

## 2.2 Benefit reform

Housing Benefit has been the subject of widespread concern among all political parties because of perceived problems with rising costs, administrative complexity, and variation between localities and between tenures.

Before the Spending Review there was provision of social housing at below market rents, and Local Housing Allowance was paid to households in private accommodation at the average median price (50th percentile) of the area in which the household resided. From April 2011, Local Housing Allowance payments will be based on the 30th percentile of rental prices in an area.<sup>30</sup> Households will receive less Local Housing Allowance, thereby making it more difficult for them to stay in their current homes owing to the loss of income. Additionally, a Local Housing Allowance cap will be implemented as follows: one bedroom at £250, two bedrooms at £290, three bedrooms at £340, and four bedrooms at £400.<sup>31</sup> The change to the 30th percentile, the caps, and the removal of the £15 per week excess allowance will help to trim £2 billion off the annual Housing Benefit bill. The Government has stated that private landlords will drop their rents or else face having unoccupied properties. Research carried out by the Cambridge Centre for Housing and Planning Research shows that while many landlords will drop their rents, many will not: it estimates that this set of changes could force 134,000 households to move.<sup>32</sup>

The Spending Review announced a further cut to the Local Housing Allowance payable to single claimants. Single people under 35 will only be able to claim the rate for a room in a shared house rather than a self-contained property.<sup>33</sup> Before the reform, this rule only applied to under-25s. According to some estimates, by increasing the age to 35 the Government could save £215 million by 2014-15.<sup>34</sup>

Changes to the Local Housing Allowance will affect all existing claimants, with an estimated 775,000 experiencing a change that will mean their benefit covers less of their rent.<sup>35</sup> These households will have to offset the portion of the rent that is no longer covered by the Government, unless their landlord forgoes rent.<sup>36</sup>

29 There might be a net reduction in the number of social rented homes because any Registered Social Landlord receiving Homes and Communities Agency funding will have to re-let a proportion of its existing stock on 'Affordable Rent'

30 *Impact of Changes to Local Housing Allowance from 2011*. Department for Work and Pensions, Jul. 2010. <http://www.dwp.gov.uk/local-authority-staff/housing-benefit/claims-processing/local-housing-allowance/impact-of-changes.shtml>

31 *Ibid.*

32 A. Fenton: *How Will Changes to Local Housing Allowance Affect Low-Income Tenants in Private Rented Housing?* Cambridge Centre for Housing and Planning Research, Department of Land Economy, University of Cambridge, for Shelter, Sept. 2010. [http://www.cchpr.landecon.cam.ac.uk/Downloads/lha\\_reform\\_effects\\_prs-fenton-Sep2010.pdf](http://www.cchpr.landecon.cam.ac.uk/Downloads/lha_reform_effects_prs-fenton-Sep2010.pdf)

33 *Impact of Changes to Local Housing Allowance from 2011*. Department for Work and Pensions, Jul. 2010. <http://www.dwp.gov.uk/local-authority-staff/housing-benefit/claims-processing/local-housing-allowance/impact-of-changes.shtml>

34 'Further housing benefit cuts to save £215 million'. *Inside Housing*, 20 Oct. 2010

35 *Impact of Changes to Local Housing Allowance from 2011*. Department for Work and Pensions. Jul. 2010. <http://www.dwp.gov.uk/local-authority-staff/housing-benefit/claims-processing/local-housing-allowance/impact-of-changes.shtml>

36 *Ibid.*

Losses are greatest in London, at an average of £22 per week, followed by the South East at an average of £12 per week. A high proportion of Local Housing Allowance claimants work in these regions – 33%

To counteract some of the hardship which could be felt by some of the country's poorest households as a result of the benefit reforms, Ministers have allocated an additional £130 million for local authorities' discretionary housing payment over the next four years, with an additional £10 million allocated for next year.<sup>37</sup> This will be on top of the £20 million already allocated for topping up rents for disabled people and those on benefit who are unable to pay the entirety of their rent payments.<sup>38</sup> The discretionary fund will allow local authorities to provide extra support to those with extreme burden, and some councils have stated that those with children and at risk of losing their home will be prioritised. The National Housing Federation has noted that if the full amount of discretionary funding was distributed, it would cover only 85,470 households – around 13% of the approximately 600,000 households being affected by the cutbacks.<sup>39</sup>

Further research by the Cambridge Centre for Housing and Planning Research has concluded that Housing Benefit reform is likely to have a profound impact on affordability in London. The changes will mean an immediate reduction in the number of neighbourhoods affordable to Local Housing Allowance claimants from 75% to 51%, reducing further to 36% by 2016,<sup>40</sup> as the Consumer Prices Index link further erodes the value of Local Housing Allowance. The remaining affordable areas are characterised by high rates of multiple deprivation and unemployment. The research study concludes that *'the reforms will intensify the spatial concentration of disadvantage in the city, and increase the segregation of poor and better off households within London'*.<sup>41</sup>

As well as changes within London there has been speculation about the possibility of large numbers of households having to move out of London.<sup>42</sup> It is not possible at this stage to provide a more realistic estimate of how many households might be displaced.

The reforms to Local Housing Allowance will have a direct effect on the well-being of many low-income households. The spatial consequences of these impacts are striking both in terms of spatial segregation and in the potential for the shift of significant numbers of low-income families out of London into low-rental areas. The multiple policy challenges for receiving authorities are profound, as are the economic consequences for high-demand areas in finding a workforce.

## 2.3 Changes to social housing waiting lists and homelessness definitions

The Localism Bill proposes to reverse measures in the 2002 Homelessness Act, and specifically to reintroduce closed housing waiting lists, which would give local authorities further discretion as to which households are eligible for an allocation of social housing.<sup>43</sup>

For example, the Government's *Local Decisions: A Fairer Future for Social Housing* consultation paper suggested that residency criteria might be appropriate. This has proved to be a controversial suggestion, leading to differing approaches over which households might be included in a closed-list system. As waiting list numbers are currently used as core data in the assessment of local housing need, restricted waiting lists could

37 'Housing Benefit reforms continue as extra funding is given to Local Authorities'. Press Release. Department for Work and Pensions, 2 Feb. 2011. <http://www.dwp.gov.uk/newsroom/press-releases/2011/feb-2011/dwp013-11.shtml>

38 'Housing benefit hardship fund would be worth just £1.30 a month per household'. News Release. National Housing Federation. 9 Nov. 2010. <http://www.housing.org.uk/default.aspx?tabid=212&mid=828&ctl=Details&ArticleID=3451>

39 *Ibid.*

40 A. Fenton: *Housing Benefit Reform and the Spatial Segregation of Low-Income Households in London*. Cambridge Centre for Housing and Planning Research, Department of Land Economy, University of Cambridge, for Shelter, Jan. 2011. [http://www.cchpr.landecon.cam.ac.uk/Downloads/hb\\_reform\\_london\\_spatial\\_implications-cchpr2011.pdf](http://www.cchpr.landecon.cam.ac.uk/Downloads/hb_reform_london_spatial_implications-cchpr2011.pdf)

41 *Ibid.*

42 'Spending review places housing choices at local authority doors'. *Planning*, 29 Oct. 2010

43 Localism Bill. Part 5. Clauses 121-123. House of Commons. TSO, Dec. 2010. <http://www.publications.parliament.uk/pa/cm201011/cmbills/126/11126part1.pdf>

significantly influence the assessments of housing need and demand through the planning process.<sup>44</sup> Further discretion on waiting lists could incentivise an area that is averse to development to under-record levels of housing need and demand as measured by its waiting list.

Changes to the definition of the homelessness duty may have a similar impact. The ability to discharge the duty via an offer of private rented accommodation without the tenant's consent could reduce the apparent scale of local

homelessness. Again, as the numbers of local homeless households are used as core data in housing need assessment, this could result in a reduction in the calculation of future social housing requirements. Although it is not possible to quantify the scale of the impact of this, there is a risk that those authorities who wish to scale back assessments of housing need will be able to do so while remaining within the requirements for an evidence base when planning policy is examined.

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<sup>44</sup> *Local Decisions: A Fairer Future for Social Housing*. Consultation. Department for Communities and Local Government, Nov. 2010. <http://www.communities.gov.uk/documents/housing/pdf/1775577.pdf> – the consultation makes clear that ‘we believe that these changes [open waiting lists] encouraged households to put their names on housing waiting lists even where they have no real need of social housing’

# part 3

## analysis

It is important to restate that at the time of writing there remains some uncertainty about the final shape of planning and housing reform measures. This is partly because key legislation is still under consideration, but also because the localism ideal devolves decision-making to localities and the sum total of the decisions that they might make is a matter of conjecture. The findings of this report are therefore provisional. This Section attempts to draw together the reform measures to offer an outline assessment of how housing provision through planning may evolve.

### 3.1

## A new housing provision model?

The regime for housing forecasting in England is now significantly changed and substantially localised. The final revocation of regional planning will bring to an end a framework that provided a way of planning strategically for housing and economic change, and specifically provided data on housing needs and allocations. Such policy also sought, sometimes controversially, to apportion growth in a way that compelled a level of negotiation and co-operation between individual authorities.

Under the new system, evidence of demographic change, local needs and other local housing market conditions will still be key to housing provision, but the relationship with wider housing change, including economic trends and

the likely housing demands that follow, will be more uncertain and pluralistic.

Some housing partnerships will continue, and voluntary joint planning may emerge over time. In the meantime, a key mechanism for understanding housing pressures on a regional scale and using this understanding to manage demands efficiently and in line with key resources and environmental constraints has been removed. The evidence so far suggests a steady decline in the numbers of housing units allocated through the old Regional Strategy framework, although the pattern is regionally variable. The loss of approximately 200,000 allocated homes will have a substantial impact on meeting community housing needs.

There are also concerns that changes to housing policy regarding waiting list criteria and the homelessness duty may lead some authorities to reduce the forecast level of housing needs in their local plans.<sup>45</sup> The need for further research into the impact of this interaction is one of the key findings of this analysis.

Other changes to the way that communities plan for housing might seem more minor, but could nevertheless have long-term impacts on our ability to understand what progress is being made on meeting housing needs. For example, Annual Monitoring Reports will still be prepared, but they will not be assessed centrally. They will simply be open to local accountability. It will be important to ensure that, in the absence of higher-tier targets, the needs of minority groups, such as Gypsies and Travellers, are adequately addressed.

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<sup>45</sup> *Strategic Housing Market Assessments: Practice Guidance* (Department for Communities and Local Government, Aug. 2007. <http://www.communities.gov.uk/documents/planningandbuilding/pdf/323201.pdf>) makes clear that waiting lists and homelessness are both factors in estimating future housing requirements – see Table 5.2, p. 43

### Case Study 3

#### Stevenage and North Hertfordshire and the abolition of the East of England Plan

Prior to the abolition of the East of England Plan, Stevenage Borough Council and North Hertfordshire District Council were working jointly on an Action Plan (SNAP) to plan and deliver the longer-term growth of Stevenage, related to its role as a key centre. Following the Secretary of State's letter of 27 May 2010, giving notice of the intention to abolish Regional Strategies, North Hertfordshire District Council resolved on 15 June to place all work on SNAP into abeyance. The Council stated: *'Whilst the North Hertfordshire Cabinet resolution refers to all work on SNAP ceasing until there is further clarity, it is extremely unlikely that SNAP will be resumed in its current form once that clarity is found.'*

The Council went on to state: *'It is highly unlikely that (North Hertfordshire District Council) will reach the same conclusions reached by the East of England Plan.'*

North Hertfordshire District Council's Local Development Framework will go back to Stage I to re-consult on the principles of growth in the district. Further strategic housing provision at Stevenage has stopped.

## 3.2

### The role of voluntary strategic planning

The Government's proposed duty to co-operate and other voluntary agreements for strategic planning for housing are hard to evaluate in the short term. The approach deliberately does not seek to offer a coherent strategic framework across the whole of England. While in some strong city-regions approaches with more local political legitimacy might emerge, there will no longer be a mechanism for obliging cross-border consensus-building where there is little or no willingness for active co-operation.

Another pathway for effective strategic planning is through the extensive use of joint planning committees to prepare shared Development Plans. However, as noted above, it is as yet unclear how many joint planning committees might emerge, whether they will be aligned with Local Enterprise Partnerships (LEPs), how long this process may take, and what resource implications there are. There are currently 13 joint planning committees in place.

The case of Stevenage and North Hertfordshire, set out in Case Study 3, illustrates the potential consequences of a purely localised approach to strategic housing needs.

## 3.3

### The role of incentives in housing provision

The New Homes Bonus will fulfil the Government's Coalition Agreement commitment to provide local authorities with incentives to deliver housing growth, and as the South Cambridgeshire District Council case study illustrates (Case Study 1, on page 10) the Bonus will make a significant contribution to local authority income in some parts of England. The success of the New Homes Bonus is vital in filling the gap left by the end of comprehensive regional planning for housing. The concept of incentives, and in particular funding to ensure that services are maintained and enhanced where growth takes place, is worth while.

However, while the New Homes Bonus might be a powerful incentive for some local authorities, it will not necessarily be the source of any additionality which might incentivise local people through the improvement of local services. The degree to which the New Homes Bonus will address issues of community resistance is therefore uncertain, and there is currently little empirical evidence to suggest that the scheme as designed will work to this effect. This is partly because monies paid to local authorities will not be ring-fenced for direct local spending within the communities affected. They will also be paid

retrospectively, which may not overcome initial objections to new development.

### 3.4

## Funding social housing

In broad terms, public investment in social housing provision is being residualised, with greater emphasis placed on income yield from the intermediate sector and continuing reliance on private sector provision through planning agreements.

Private sector provision of social housing through planning is dependent in part on effective policy, but is dependent mostly on market conditions and scheme viability. The type, location and tenure of social housing provided through planning mechanisms will be closely related to variable market conditions. The degree to which the New Homes Bonus is used directly or indirectly, through infrastructure provision, to facilitate social housing remains uncertain. However, the New Homes Bonus, the Community Infrastructure Levy (CIL) and Section 106 agreements form a suite of measures which all share a characteristic of yielding most benefit in high-demand, high-value areas.

As a potential alternative funding source for social housing provision, the New Homes Bonus may not prove effective. It is at the discretion of the local authority to spend Bonus revenues on direct housing provision or on bringing existing homes back into use. However, the context set by the Spending Review makes it more likely that substantial sums of the New Homes Bonus will be used to support core services in many authorities. However, the South Cambridgeshire District Council case study (Case Study 1, on page 10) illustrates the powerful force of the New Homes Bonus in high-demand areas, and the potential for investment in these areas should not be underestimated.

### 3.5

## Rebuilding communities and engaging in place-making

Analysis has revealed strong evidence about the spatial implications of the New Homes Bonus. This report has noted the significant potential impacts on long-term demographic and economic trends, as well as shorter-term impacts on regeneration and on sustainable development.

By top-slicing Formula Grant, the New Homes Bonus will re-allocate monies which local authorities used to receive. This will have the effect of re-allocating funding from renewal areas with no net housing additions to councils in areas with high-economic-growth agendas – for example, in broad terms moving funding from broadly northern metropolitan areas to southern districts.

As the Liverpool City Council case study (Case Study 2, on page 11) highlights, in a situation where a town or city is focusing on regeneration and there is a net loss in homes (with more demolitions than completions) there will be limited income from the New Homes Bonus. Set against Liverpool City Council's 8.9% reduction in formula funding from the central government, it is difficult to see how the local authority will be able to continue to undertake regeneration and place-making activities.

In addition to the New Homes Bonus, the Regional Growth Fund, a discretionary £1.4 billion fund, will operate for three years between 2011 and 2014, to stimulate enterprise by providing support for projects and programmes with significant potential for creating long-term, private-sector-led economic growth and employment. While the Fund is not a traditional regeneration fund supporting social housing, it is intended to help those areas and communities that are currently dependent on the public sector to make the transition to sustainable private-sector-led growth and prosperity.<sup>46</sup>

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<sup>46</sup> Regional Growth Fund. Department for Business, Innovation and Skills. See <http://www.bis.gov.uk/policies/economic-development/regional-growth-fund>

## 3.6 New patterns of demand?

England is a nation with long-standing patterns of demographic and economic change. The Royal Commission on Environmental Pollution report published in January 2011, *Demographic Change and the Environment*, usefully summarises these pressures, from the role of London as the entry point for immigration to the continuing relative decline of northern cities.<sup>47</sup> The planning system has traditionally played a role in mediating and planning for such changes and in attempting to integrate social objectives with economic policy. The overall impact of housing and planning reform can be described as having two scales of impact.

First, the long-term patterns of spatial inequalities in England are likely to be reinforced by a combination of the end of regional planning and policy and an incentive scheme for housing which rewards high-market-demand areas. This may have long-term implications for the distribution of England's population. The extent of this impact is hard to gauge without further study.

Secondly, there will be shorter-term impacts on a significant number of low-income households. Analysis undertaken by the Cambridge Centre for Housing and Planning Research<sup>48</sup> has demonstrated how the reform of Local Housing Allowance is likely to 'intensify spatial segregation' in London. Shelter's analysis of figures published by the Department for Work and Pensions<sup>49</sup> has shown that such segregation would also play out in regional cities, albeit in a more limited way.

There are potentially significant implications for the planning system as a result of large-scale social upheaval within cities. In particular, sustaining urban renewal and striving for socially and economically mixed communities could be compromised if Housing Benefit policy leads to much greater social housing need in those areas already subject to significant deprivation and disadvantage. It is less clear what the medium- and long-term implications are for longer-distance displacement of low-income households. The South East is likely to see increased pressure on places with large amounts of private temporary accommodation, in which case the medium-term impacts on the communities meeting these 'local' housing needs would be significant.

47 *Demographic Change and the Environment*. Twenty-Ninth Report. Royal Commission on Environmental Pollution, Feb. 2011. [http://www.rcep.org.uk/reports/29-demographics/documents/Demography\\_final\\_report.pdf](http://www.rcep.org.uk/reports/29-demographics/documents/Demography_final_report.pdf) – summary at [http://www.rcep.org.uk/reports/29-demographics/documents/Demography\\_summary\\_report.pdf](http://www.rcep.org.uk/reports/29-demographics/documents/Demography_summary_report.pdf)

48 A. Fenton: *Housing Benefit Reform and the Spatial Segregation of Low-Income Households in London*. Cambridge Centre for Housing and Planning Research, Department of Land Economy, University of Cambridge, for Shelter, Jan. 2011. [http://www.cchpr.landecon.cam.ac.uk/Downloads/hb\\_reform\\_london\\_spatial\\_implications-cchpr2011.pdf](http://www.cchpr.landecon.cam.ac.uk/Downloads/hb_reform_london_spatial_implications-cchpr2011.pdf)

49 'New analysis shows impact of housing benefit cuts on South West.' News Release. Shelter, 8 Nov. 2010. <http://media.shelter.org.uk/content/Detail.aspx?ReleaseID=856&NewsAreaID=2>, drawing on figures in *Impact of Changes to Local Housing Allowance from 2011*. Department for Work and Pensions. Jul. 2010. <http://www.dwp.gov.uk/local-authority-staff/housing-benefit/claims-processing/local-housing-allowance/impact-of-changes.shtml>

## part 4

# delivering government's policy priorities

### Recommendation 1

#### A new housing provision model

- The Conservative Party Policy Green Paper, *Open Source Planning*, set out an expectation of 'the provision of good data by the local planning authority to the electors in the neighbourhoods, so that they can develop their vision for their community on a well-informed basis'. It noted that 'this will need to include analysis by the council of the likely need for housing and for affordable housing for local people in each neighbourhood'. In supporting this ambition it is important that local authorities consider both local needs and wider patterns of housing demand. Comprehensive guidance is needed to ensure an open, fair and consistent approach.
- To ensure the effective alignment of the Government's economic growth and housing aspirations, a mechanism is needed to assess whether the sum of local decisions matches up to the national picture for housing need.

### Recommendation 2

#### Strengthening the role of strategic planning

- Planning for housing requires a cross-border and sub-regional approach. There are significant opportunities to strengthen the 'duty to co-operate' in the Localism Bill to ensure that local authorities gather effective evidence and co-operate over the most sustainable housing allocations.

- The National Planning Policy Framework provides an opportunity to further set out the expectations on strategic co-operation for housing.

### Recommendation 3

#### Smartening housing incentives

- To change community attitudes towards development there must be genuine local benefit from development, secured by ensuring that a proportion of the New Homes Bonus goes directly towards infrastructure provision in the locality.
- Urgent consideration should be given to evolving the design of the New Homes Bonus to better support local aspirations for community-led regeneration.<sup>50</sup>

### Recommendation 4

#### Aligning the planning and incentives regimes

- To ensure that the New Homes Bonus contributes towards the delivery of the right housing mix, local authorities should align the incentives scheme with good forward planning and ensure that the homes that are delivered are of high quality and in sustainable places, supporting the range of services and facilities needed to maintain sustainable communities.

<sup>50</sup> *Regeneration to Enable Growth: What Government is Doing in Support of Community-Led Regeneration*. Department for Communities and Local Government, Jan. 2011. <http://www.communities.gov.uk/documents/regeneration/pdf/1830137.pdf>

- The New Homes Bonus should be seen in the context of other financial instruments such as planning obligations and the Community Infrastructure Levy, to ensure the integrated pooling of funds to deliver community benefits.

### **Recommendation 5**

#### **Rebuilding and repairing communities**

- If the New Homes Bonus redistributes resources away from older northern metropolitan areas, thus compromising their ability to regenerate and meet social housing needs, then additional funding and support mechanisms must be identified to ensure that regional inequalities are not exacerbated.
- When applying to the Regional Growth Fund, Local Enterprise Partnerships and local authorities should not only consider creating the right environment for business and growth in their areas, but also address planning and housing, local transport and infrastructure priorities, employment and

enterprise, and the transition to a low-carbon economy.

### **Recommendation 6**

#### **Re-balancing England**

- The Government should give comprehensive consideration to the long-term economic implications of the spatial distribution of activity in England. There is a case for a focused Royal Commission to examine the interaction of economic, demographic and environmental factors.
- The Government should consider introducing comprehensive national spatial policy to ensure both the efficient use of resources and delivery on the ambition of increasing housing provision.
- As a contribution to open debate, it would be helpful if the Government were to undertake a cumulative impact assessment of the housing and planning reforms, alongside economic strategies such as the Local Growth White Paper.

# conclusion

A number of important themes requiring consideration can be identified within the planning and housing reform agenda. These themes include the most effective balance between strategic housing policy and an emphasis on the localism approach; the balance between traditional land use regulation and fiscal incentives; and the degree to which, taken as a whole, the reforms provide for a socially progressive framework which will ensure access to high-quality homes and communities.

Two further sets of implications flow from the housing and planning reform agenda. The first set are direct, and surround, for example, the significant removal of strategic planning for housing and the reduction in key housing benefits. The second set are more complex, and flow from the cumulative impact of the interaction of the individual reform packages on, for example, long-term spatial inequalities. These inequalities play out at both a city scale, in terms of the potential concentration of deprivation, and

at an England-wide scale in terms of reinforcing, rather than mediating, long-term regional inequalities.

What is most striking is that the planning system (outside London, which retains its regional London Plan) will have to deal with these new challenges at a time when both the framework and the resources have been significantly reduced. Individual authorities who find themselves net receivers of displaced low-income families will have to deal with these pressures to plan for and provide homes on a purely localised basis, with only voluntary relationships with their neighbours and the wider sub-region.

The net result will be period of uncertainty in how we plan for housing. Ultimately, we as a society will have to confront the need for planning structures and incentives that reinforce sustainable and socially just outcomes, rather than potentially undermining them.





**tcpa**

The **Town and Country Planning Association** is an independent charity working to improve the art and science of town and country planning. The TCPA puts social justice and the environment at the heart of policy debate and inspires government, industry and campaigners to take a fresh perspective on major issues, including planning policy, housing, regeneration, and climate change.

Its objectives are to:

- secure a decent, well designed home for everyone, in a human-scale environment combining the best features of town and country;
- empower people and communities to influence decisions that affect them; and
- improve the planning system in accordance with the principles of sustainable development.

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