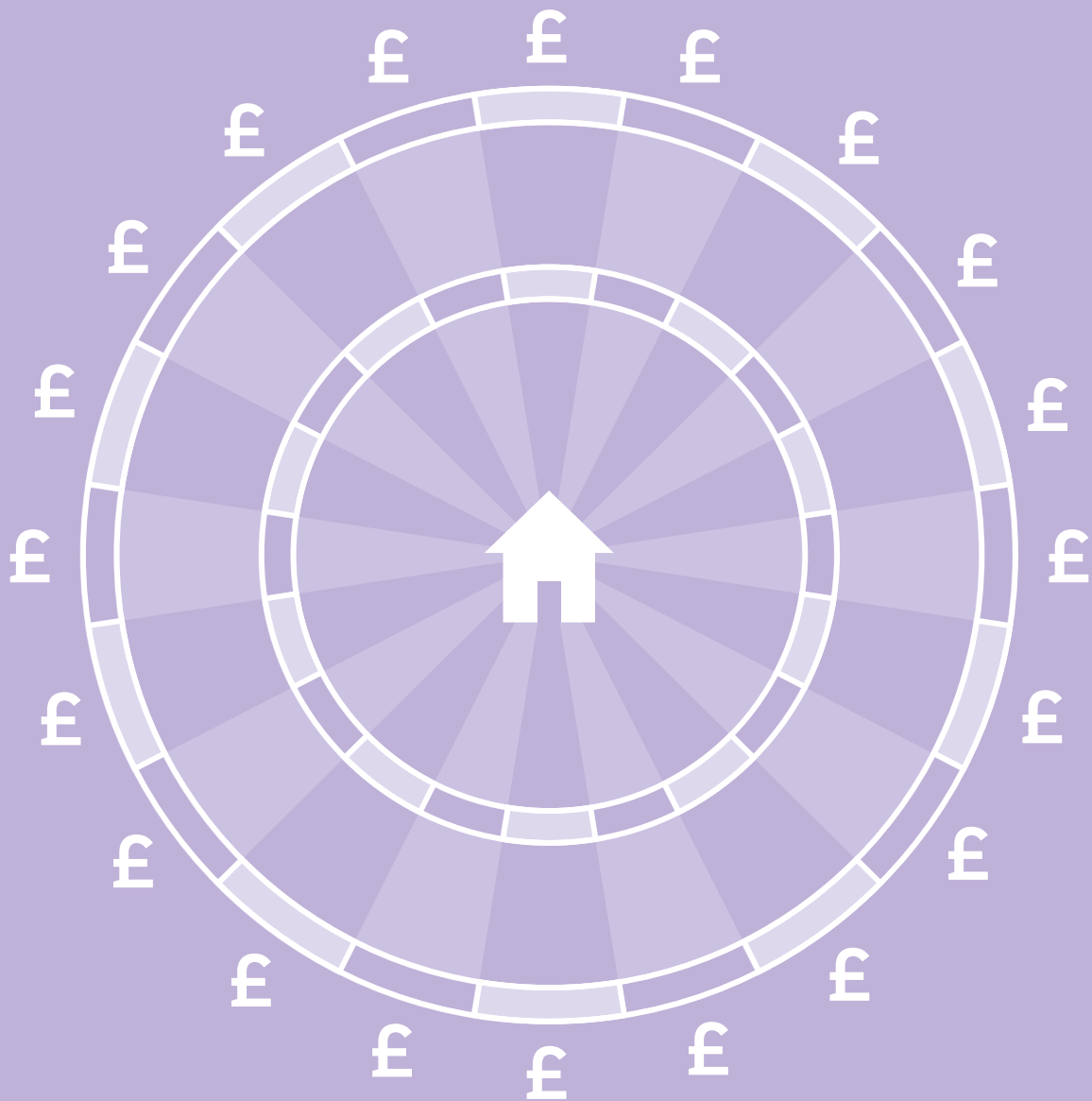


# Carrots and Sticks:

A targets and incentives approach to getting more homes built in London



**London First**

Middlesex House  
34-42 Cleveland Street  
London W1T 4JE

+44 (0) 20 7665 1500  
inquiry@london-first.co.uk  
**www.londonfirst.co.uk**

**James Fennell**

Managing Director  
Nathaniel Lichfield & Partners  
T 020 7837 4477  
E jfennell@nlplanning.com

**Nathaniel Lichfield & Partners**

14 Regent's Wharf  
All Saints Street  
London N1 9RL

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# Foreword



How we build more homes is one of the key challenges facing the country and Nathaniel Lichfield & Partners is delighted to work with London First on this crucial issue. The problem is at its most acute in London, where supply is failing to meet demand, reducing affordability and undermining the capital's competitiveness.

Despite these challenges, and the complexity of building new homes in a constrained urban environment, London offers an exciting opportunity to deliver large-scale, sustainable, high-density development – creating places for people to live and work.

This report follows on from London First's Home Truths report, which we were pleased to play a leading role in. It focusses on the practicalities of taking forward a central recommendation from Home Truths – how to introduce an effective system of "targets and incentives" to support more housebuilding.

This proposition looks at the performance of London's boroughs against their housebuilding targets and how to fairly measure success against these targets. It sets out details of sanctions that could be imposed where performance falls short, while also providing better incentives for boroughs to meet housing targets.

Addressing London's housing crisis requires a concerted effort on the part of everyone involved in housebuilding. The recommendations in this report are only one part of a broader solution which requires action on multiple fronts.

We have used our extensive experience of helping to deliver exciting and innovative housing schemes across the capital to inform the analysis and recommendations in this report. We hope that it contributes to the debate about how to encourage more housebuilding, greater efficiency in the planning process, and how to create a more meaningful financial incentives for local authorities.

Compiling this report would not have been possible without the support of key stakeholders across the planning and development industry, to whom we are very grateful. We trust it will prove to be a valuable resource for policymakers looking to tackle one of London's most critical issues.

**James Fennell**  
Managing Director  
Nathaniel Lichfield & Partners

# Summary

## 2

We urgently need to build more homes in London. The success of our capital in recent years has led to London's population growing by 100,000 people every year, with housebuilding singularly failing to keep up.

Rent and property prices have become a serious problem for residents and business alike: more than half of workers have difficulties paying their rent or mortgage, while three-quarters of businesses believe that the lack of new homes and rising housing costs are a significant risk to the capital's economic growth.

Politicians of all persuasions regularly commit to housing targets, zones and garden cities. The Mayor's annual housebuilding target for London has recently increased from around 32,000 homes a year to 42,000, but the actual need is about 50,000 homes.

The reality is that however ambitious the housebuilding targets in London are, completions remain at fewer than half of what the capital needs. There is a gap between rhetoric and reality, and this report examines how to close it.

**“Without reform, the existing system of targets and incentives risks failing to deliver the homes we need”**

A key piece of London's housing jigsaw is London's boroughs. Through the London Plan, they are expected to meet annual housebuilding targets. Yet there are no real consequences if a borough misses its target. The result is that missing the capital's overall housebuilding target has become as inevitable as night follows day.

A new analysis undertaken for this report shows that between 2010 and 2013, 18 boroughs met or exceeded their averaged annual target but 15 fell short.

So what can be done to make it more likely that boroughs will meet their targets?

### **Carrots and sticks**

This report argues that there needs to be a carrot and stick approach. The carrot would be increased financial benefits for boroughs that meet their targets. The stick would be giving greater powers to the Mayor of London to intervene, should boroughs fail.

#### **The carrot**

- A new incentive, the London Housing Delivery Bonus (LHDB);
- This would be in addition to the existing, but weak, New Homes Bonus;
- The LHDB would be allocated by the Mayor based on boroughs' performance against their housebuilding targets;
- Boroughs which exceed their target by the biggest margin would get the greatest reward.

#### **The stick**

- Give the London housebuilding targets greater force;
- The Mayor would have a discretionary power to determine all planning

applications for 50 homes or more in the borough for a set period of time for those boroughs which consistently underperform against their target;

- The Mayor would have to justify the intervention against a set of advisory performance criteria which would assess if a borough is doing all that it reasonably can, through the planning system, to get more homes built.

### **Costs**

The approach outlined in this report would involve some additional costs, mainly in relation to the new London Housing Delivery Bonus. Our analysis shows:

- On average, the New Homes Bonus currently represents about 2.4% of a borough's total spending power;
- The new delivery bonus should be up to 5% to have a meaningful impact.

The cost of implementing the new bonus would be several hundred million pounds. To fund this, we consider a number of options. Our preferred solution is the devolution of property taxes to London. This would create a virtuous circle of using the increase in the property tax base over time to fund the new incentive, which in turn would get more homes built and provide further tax.

### **Need for reform**

Without reform, the existing system of targets and incentives risks failing to deliver the homes we need. A reformed system which provides better incentives and tougher penalties aimed at the people at the sharp end – the boroughs – has the potential to drive a step change in housing delivery, something which London desperately needs if it is to maintain its status as one of the best places in the world to live and work.

# Introduction

## 3

In 2014 London First published *Home Truths*<sup>1</sup> which called for a bold approach to increasing housebuilding. The report made twelve recommendations including:

- the need for London to become a denser city;
- that new transport infrastructure must be used as a catalyst to unlock more housing development;
- that a 'Domesday Book' for surplus public land in London should be introduced to coordinate the release of this land for housing; and
- more support should be given to boroughs that want to start building again, by abolishing restrictions on local authorities borrowing against the value of their housing stock, where this would be within prudential rules.

Home Truths makes clear there is no panacea for London's lack of housebuilding. The only way to increase supply is to take action on multiple fronts. This report focuses on how to improve the effectiveness of London's housebuilding targets, while also offering boroughs a real financial incentive to help them accommodate new homes.

### Housebuilding targets

London is the only region in England that still has a spatial strategy – the London Plan. The plan includes, among a wide range of policies, an overall housebuilding target for London comprised of individual borough targets.

A great deal of time and effort goes into producing the housebuilding target, with just as much spent on analysing why London consistently fails to meet it. Housing completions remain below the previous target of 32,000 net additional homes a year, despite this target recently increasing to a minimum of 42,000.

Given the importance that is attached to the London Plan and the pressing need to build more homes, it is somewhat strange that there are little-to-no consequences for boroughs that consistently fail to meet their housebuilding target.

There is a considerable difference between the boroughs in meeting their targets. Some have seen significantly more housing built. Others substantially less. However, using housebuilding statistics as the sole criterion for assessing performance (and potentially, therefore, of sanction) oversimplifies a complex issue. Where targets are not met, some boroughs are planning positively and working hard with landowners and developers to facilitate development. There are a number of reasons why targets are not met. They can include location, individual site circumstances and the wider economy<sup>2</sup>.

Nevertheless, it is also apparent that some boroughs could improve their performance by adopting a more positive approach to housebuilding, smoothing the planning process, and reducing other obstacles to development.

The recommendations in this report about targets build upon the existing monitoring arrangements in the London Plan. We advocate a new tier of assessment. Failing this assessment, as well as failing to meet the housebuilding target, could ultimately see a borough losing its power to determine some applications for residential development.

<sup>1</sup> Home Truths: 12 Steps to Solving London's Housing Crisis, London First: March 2014

<sup>2</sup> For a discussion on barriers to housing delivery in London see, *Barriers to Housing Delivery, What are the Market-Perceived Barriers to Residential Development in London*, Greater London Authority: December 2012 and the follow up report, *Barriers to Housing Delivery – Update, Private Sector Housing Development on Larger Sites in London*, Greater London Authority: July 2014.

## **Financial incentives**

Incentivising boroughs to support more housebuilding must be the other constituent of a reformed system. Simply adopting a more stringent approach to meeting targets will fail to motivate those boroughs that need to view housebuilding in more positive terms.

The majority of London's councillors agree that the capital needs more homes, although views differ about how this can be achieved. Crucially, local pressures can make any particular development unattractive.

This is borne out by the London First and Turner & Townsend report *Moving Out*<sup>3</sup> – a comprehensive survey of London's attitude towards housebuilding. It found that 92 per cent of councillors think there is a housing shortage in London, with 88 per cent believing there is a shortage in their local area.

However, the councillors voiced concerns about how popular it would be with their electorate if they advocated building more homes in their local area. Of those councillors surveyed, 30 per cent thought that calls by them to support greater housebuilding locally would generate more support, 32 per cent thought it would generate less support, 30 per cent thought it would generate about the same level of support, and 4 per cent didn't know.

These figures show more work still needs to be done to convince local authorities to be bolder in getting more homes built. Increasing the financial reward for accommodating new homes must be part of the answer.

The recommendations in this report about financial incentives – like those about targets – seek reform within the existing structure of London's planning system, minimising the need for wholesale change. We suggest that in addition to the New Homes Bonus, a new London incentive is introduced to reward boroughs that meet or exceed their housebuilding target.

## **Moving towards a new system of targets and incentives**

The approach outlined in this report, which would enhance the Mayor of London's planning powers, aligns with the broader political direction of travel, and in particular, with recent announcements by the Mayor and the Chancellor that:

New homes shouldn't be held up for years by central government rules: what gets built in London should be for London to decide. Significant new powers over planning will be devolved to the Mayor, so that we can get more houses built<sup>4</sup>.

This report makes a significant contribution to this debate.

The ideas contained in this report are designed to stimulate debate and have been informed by meetings with borough planning officials, the Greater London Authority, London Councils, housebuilders, developers and financial and legal advisors. Ultimately further detailed work will be required to see how these ideas can be translated into real change.



# A New System of Targets and Incentives

## 4

The structure of the new system is outlined below, with the original recommendations from Home Truths highlighted in the colour blocks.

### Targets

#### *'Home Truths' Recommendation*

*The Mayor should set boroughs hard housebuilding targets and take over the determination of housing applications where boroughs fail to meet those targets.*

The boroughs' "hard targets" are the prevailing London Plan housebuilding targets, including any subsequent alteration.

The process of setting the targets would remain the same as the one used to prepare and adopt the current London Plan<sup>5</sup>.

Boroughs would be monitored over a three year period against these targets (i.e. homes built), using the existing Greater London Authority (GLA) Annual Monitoring Report system.

If a borough has not met its housebuilding target, averaged over three years, the Mayor would have the power to take over the determination of applications for residential development for 50 homes or more.

The Mayor's ability to intervene and determine residential applications would be a discretionary power. In addition to missing the London Plan housebuilding target, the Mayor's decision to intervene would be based upon a set of advisory performance criteria. This would assess if a borough had:

- An up-to-date local plan in place, compliant with the National Planning Policy Framework (NPPF), which sets out the borough's housing requirement and how this will be met;
- A five year housing land supply, in line with the NPPF and National Planning Policy Guidance (NPPG);
- Granted planning permission for more homes in the borough than the borough's housebuilding target, averaged over a three year period;
- Determined a minimum of 50 per cent of major applications for residential development within 13 weeks or an alternative timescale agreed via a Planning Performance Agreement;
- No more than 20 per cent of major applications for residential development overturned at appeal.

If the Mayor proceeded with taking over the residential applications in a borough, a written statement would be issued explaining the decision, set out against the advisory performance criteria.

At this point, all applications for 50 homes or more would be automatically

<sup>5</sup> Any future planning reform should resolve the current anomalous status of the London Plan as a Spatial Development Strategy and not a Development Plan Document.

transferred to the Mayor for determination (rather than at the discretion of the applicant). This arrangement would last for a set period of time.

The Mayor would only use the intervention power if it was likely to significantly boost housing supply. In making this decision the Mayor would consider if there are mitigating factors that justify a borough's under performance against its target – for example, in the event of a recession or if the progress of a large site has been delayed due to being called in for determination by the Secretary of State.

## **Incentives**

### *'Home Truths' Recommendation*

*The boroughs should be given a new, long term, predictable and real financial incentive that will enable them to benefit directly from the construction of new homes and will motivate them to support new housebuilding.*

In addition to the New Homes Bonus (NHB) – through which central government financially rewards local councils for the construction of new homes, conversions and long-term empty homes brought back to use – a London premium called the "London Housing Delivery Bonus" (LHDB) should be introduced.

The NHB would continue to be distributed in the usual way. The LHDB would be allocated by the Mayor to those boroughs that deliver 80 per cent or more of their housebuilding target, relative to the scale of housing delivery, with higher unit rates of bonus as delivery increases. This would give the greatest reward to those who exceed the target by the biggest margin.

There are a number of options for funding the LHDB. Our preferred solution, and the long term option, would be the devolution of property taxes to London, as recommended by the London Finance Commission<sup>6</sup>. With the retention of a property tax base that would increase over time, London government could apportion some of the increase to fund the LHDB.

# Analysis: Targets

## 5

This section analyses how boroughs' housebuilding performance should be assessed and how sanctions for poor performance could be applied. It focuses on:

- setting and meeting the targets
- the advisory performance criteria that the Mayor would use to assess a borough's performance
- how the Mayor would intervene
- the legislative and resourcing implications of the proposals

### **What should the "hard targets" be and how should they be set?**

A London-wide housebuilding target has been in place since the first London Plan was adopted in 2004. The original target was 23,000 homes per year. Since then the target has been revised upwards in 2008 and 2011, and the new target in the Further Alterations to London Plan stands at 42,000 per year. This is almost double that set in 2004, although actual housing need is about 50,000 homes a year if not more<sup>7</sup>.

The target has traditionally been set on the basis of 'capacity' within London – i.e. how many homes can realistically be built when land-use constraints, such as the Green Belt and various heritage designations, are taken into account. This approach is different from simply setting a target based purely on 'need' – i.e. how many people need a home.

Some boroughs have expressed concern that the targets are unfairly set or they are unrealistic or are easier for some to meet than others. We have concluded that the current process for establishing the targets in the London Plan, while not perfect, is the most appropriate approach. Targets are proposed by the Mayor and extensively consulted upon. An independent inspector reviews the targets as part of an Examination in Public and makes recommendations. While there are some nuances in terms of how the system in London works in practice, this is generally the approach used for assessing local plans across England and we see no reason to change this.

### **Meeting housing targets**

Having established the targets, the key question is: how can they be met?

London has consistently failed to meet the London Plan housebuilding target. The GLA's most recent figures show that 31,468 homes were delivered in 2013/14 against the 2011 London Plan target of 32,210<sup>8</sup>.

From our discussions with developers and boroughs it is clear there is limited attention paid to the housing targets in the London Plan when considering planning applications for residential development in London.

Furthermore, there are no sanctions against a borough if it fails to meet its target – something that would normally be expected from any system that benchmarks and monitors performance. This is not to say that most boroughs do not want to see more homes built in their area. From our discussions with boroughs, many are pro-

<sup>7</sup> The FALP acknowledges, as does the London Infrastructure Plan, that London needs 49,000 new homes a year. Other commentators have suggested 50,000 homes a year as a minimum figure – see Spotlight, London Demand, Savills: 2013.

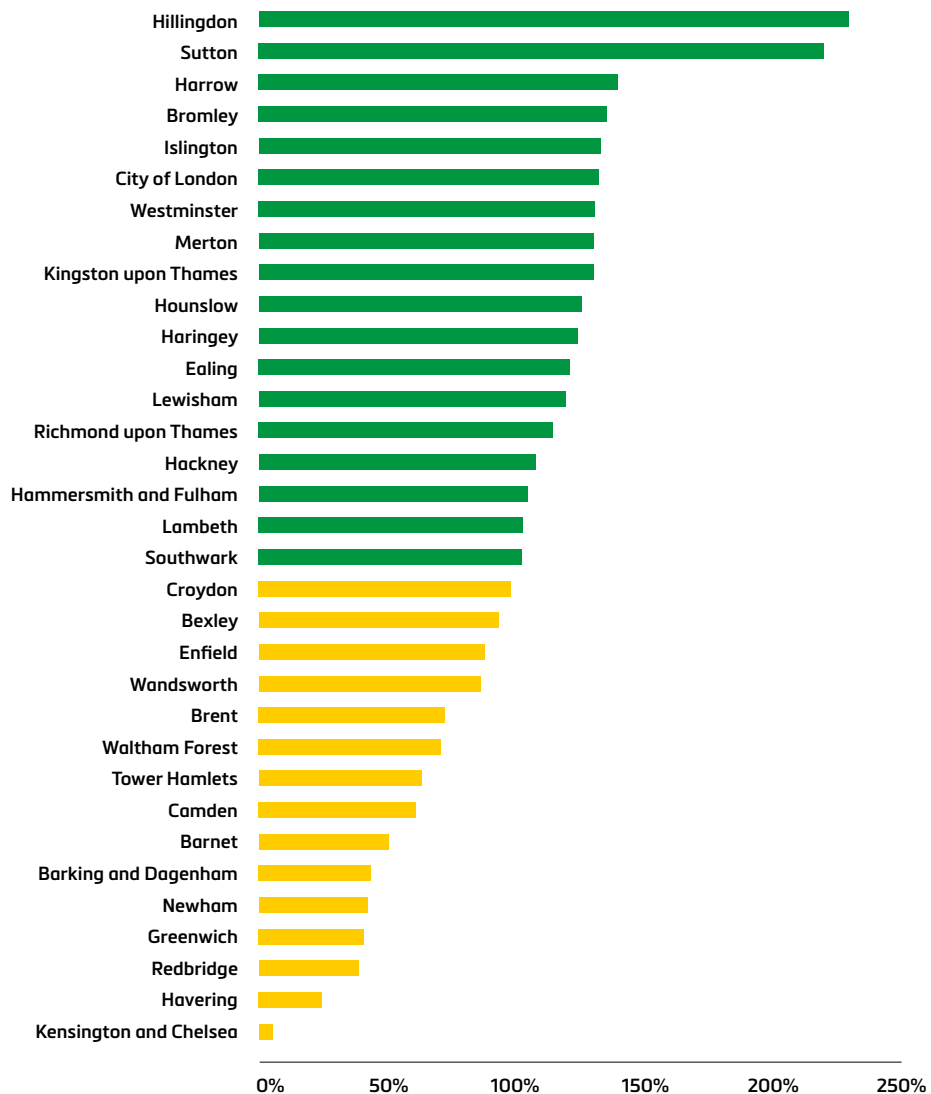
<sup>8</sup> This figure encompasses conventional supply (homes built), non-conventional supply (student accommodation, Houses of Multiple Occupation etc) and long-term empty homes brought back into use. See London Plan Annual Monitoring Report 11, 2013-2014, Greater London Authority: March 2015

growth, but this attitude and their decision-making process is not driven by meeting or trying to exceed their housebuilding targets.

Looking at the annual housebuilding target for each borough, averaged over a three year period from 2010 to 2013, Figure 1 shows that 18 London boroughs met or exceeded their target and 15 fell short. Performance varies widely, with some boroughs achieving in excess of 200 per cent of their target while others managed less than 50 per cent.

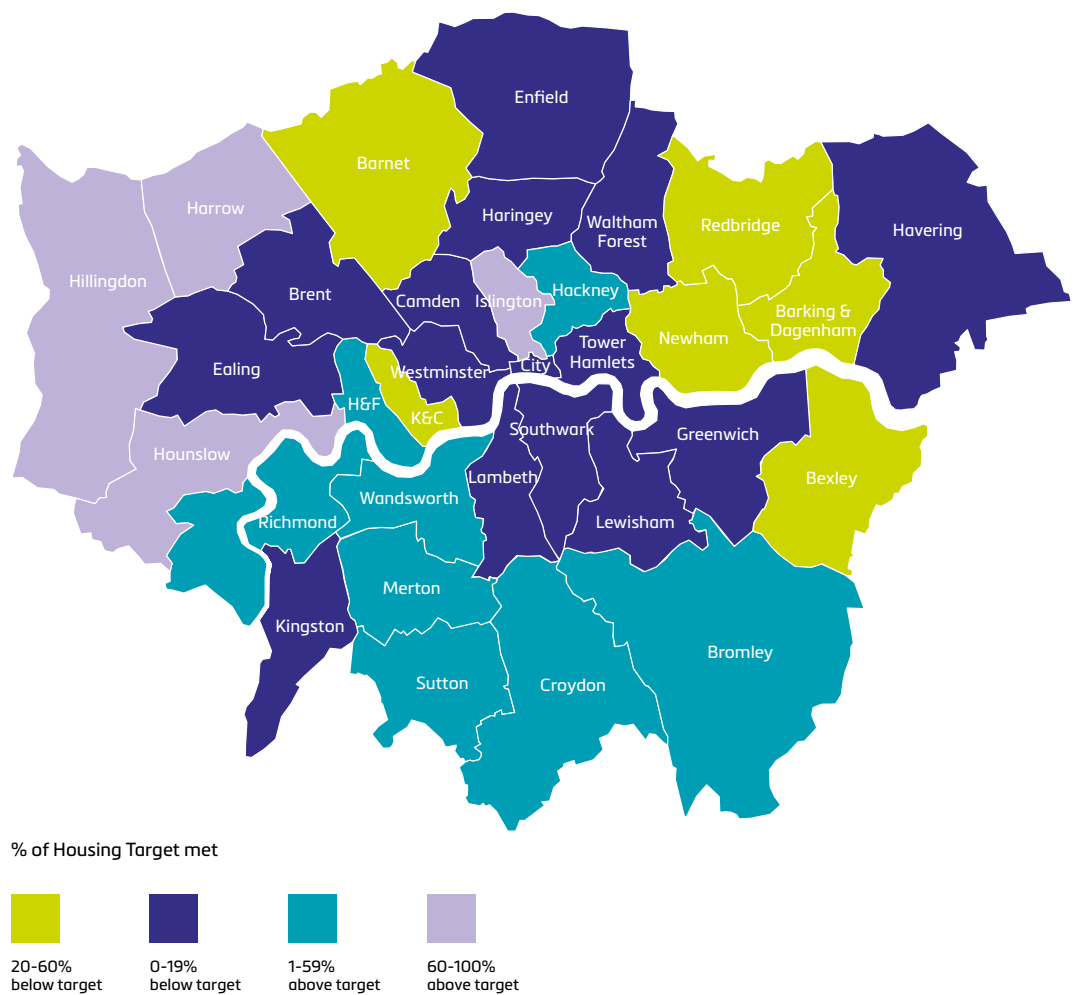
This performance can partly be attributed to the fact that housebuilding is, for a variety of reasons, cyclical – whether as a consequence of viability considerations or the complexity of bringing forward brownfield development, among other reasons.

**Figure 1**  
 London borough housing delivery rates against targets 2010-13  
 Source: GLA London Plan Annual Monitoring Reports 8, 9 & 10; NLP analysis



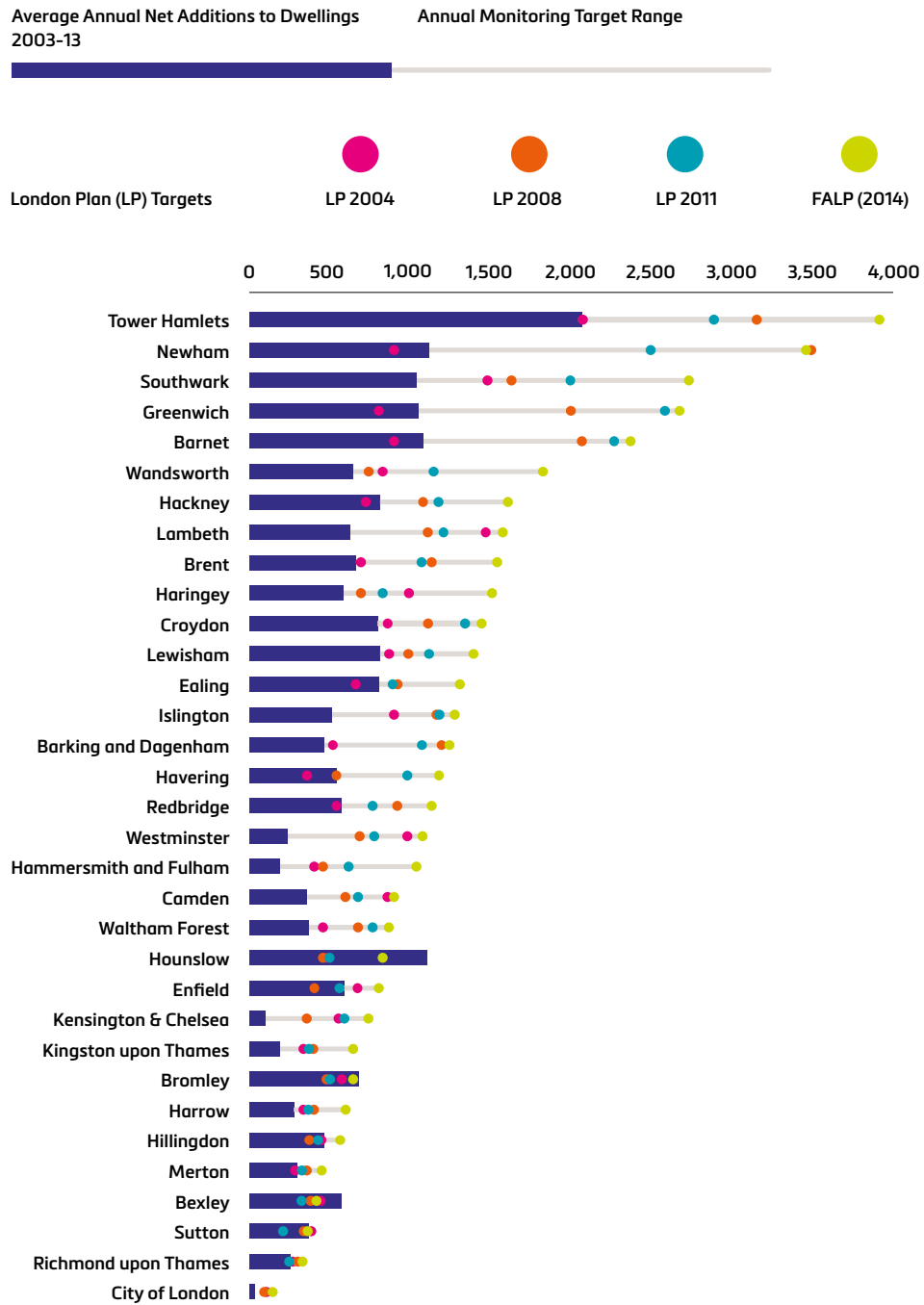
However, as Figure 2 shows, borough performance against their targets over a longer period of time – ten years – is also variable. From 2003-13, less than half of the boroughs met or exceeded their averaged target over this period. Figure 3 shows the same information broken down against the different London Plan housebuilding targets but with the inclusion of the latest target of 42,000 homes a year. It clearly shows the significant gulf between the historic rates of house delivery in each borough and the scale of increase required to meet current need.

**Figure 2**  
 London borough housing delivery rates against targets 2003-13  
 Source: GLA London Plan Annual Monitoring Reports 1-10 (2003-2013), NLP analysis



**Figure 3**  
 London borough housing delivery rates against targets 2004-14

Source: GLA London Plan Annual Monitoring Reports 1-10 (2003-2013); CLG Live tables on housebuilding; Table 253 Housebuilding: permanent dwellings started and completed; NLP analysis



### Advisory performance criteria

Boroughs play an important role in creating the right environment for development but are not primarily responsible for building new homes. The purpose, therefore, of the advisory performance criteria is to ascertain a more nuanced picture of a borough’s performance rather than relying solely on the blunt measure of housebuilding targets.

Any process that removes the ability for a borough to determine planning applications must be transparent and fair. Our approach is based on objective performance but also contains inbuilt discretion, allowing for common sense to be applied. This approach is an evolution of the Mayor’s current call-in powers for strategic planning applications and crucially retains accountability and democratic legitimacy by placing the Mayor at the heart of the system.

The advisory performance criteria are discussed in more detail below.

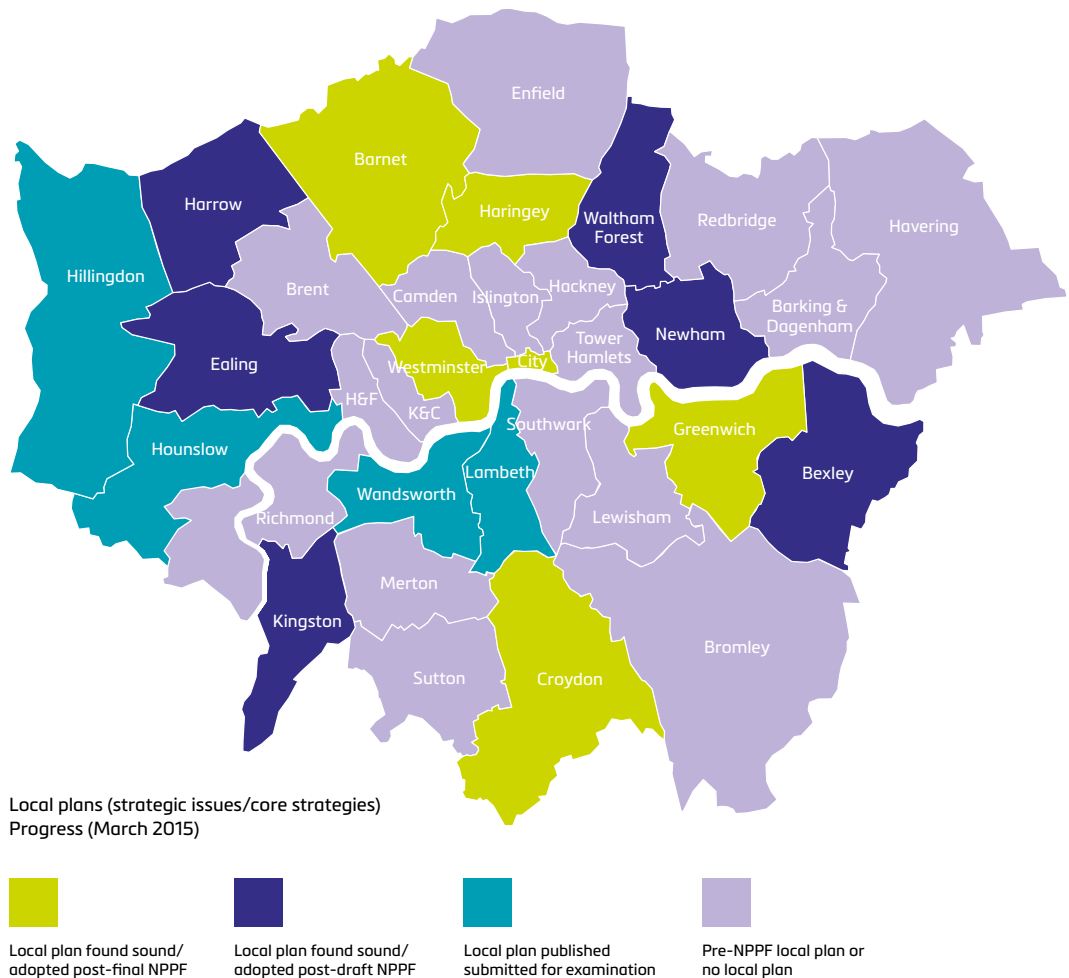
**Monitoring**

There would be a three year cycle for monitoring housebuilding performance and the advisory performance criteria. This allows for economic downturns, which could impact upon performance. In making decisions about a borough’s performance, the Mayor would also be able to consider historic performance to provide for a more rounded view.

**An up-to-date local plan**

Having an up-to-date local plan, which reflects current housing targets, should result in applications being processed more efficiently. It is a good indication of positive planning. As shown in Figure 4, many, but not all, boroughs have an up-to-date plan in place, although some of these plans pre-date the NPPF.

**Figure 4**  
London borough local plan progress post NPPF  
Source: Planning Inspectorate; NLP analysis



### Five year housing land supply

The NPPF states that planning policies relating to housing supply should not be considered up-to-date if a council cannot demonstrate a five year deliverable supply of housing against its housing requirement<sup>9</sup>.

Outside of London, failure to demonstrate a five year housing land supply is a significant factor in planning permissions being granted for housing on non-allocated sites (a site which the local plan has not identified for development). These sites would otherwise be delayed, while land owners and developers promoted them through the local plan process.

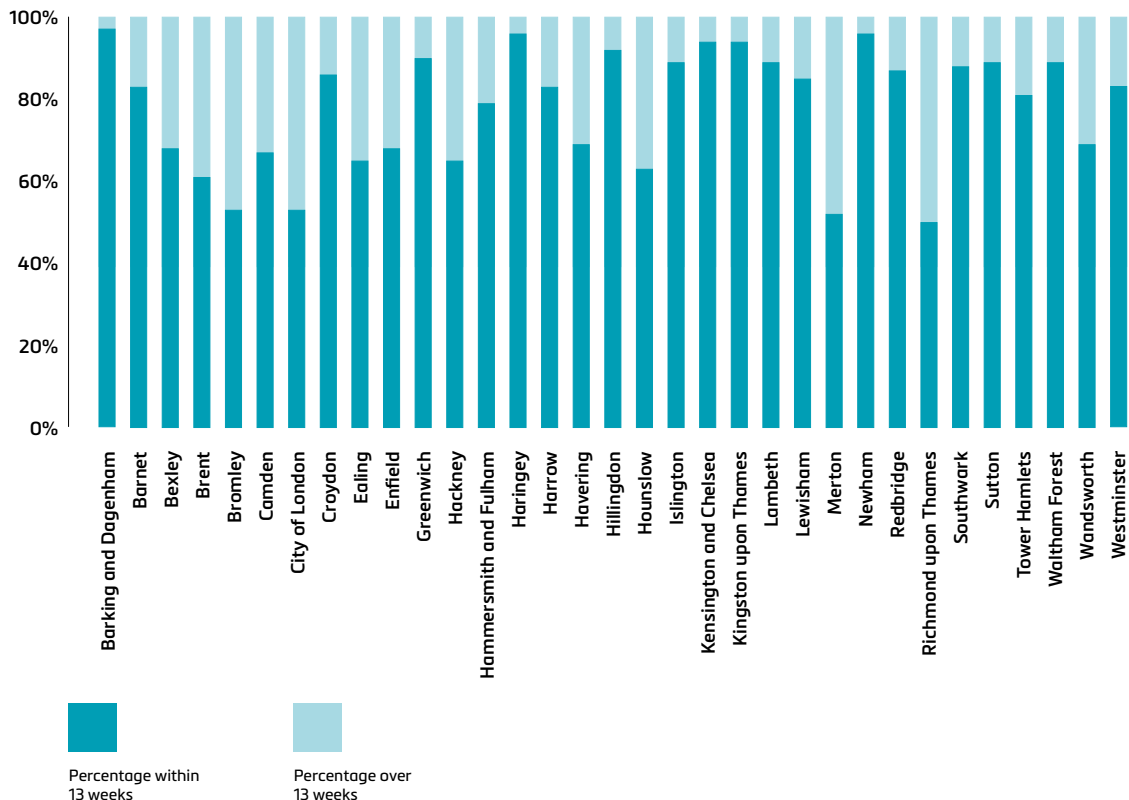
In London, the promotion of sites through local plans is less prevalent, with windfall delivery (unallocated sites that unexpectedly come to the market) making up a greater proportion of supply<sup>10</sup>.

For a variety of reasons, the five year housing land supply position is less prominent in decision making in London. However, in our view, this should not detract from the NPPF requirement for boroughs to demonstrate a rolling five year housing land supply<sup>11</sup>. This is a useful performance measure and the absence of one may indicate a failure to plan positively for development.

### Speed of determination

Improving the speed of determination of applications for residential development can only be a positive step towards building more homes. Figure 5 shows borough performance for the speed of determination of major planning applications (covering all types of development)<sup>12</sup>.

**Figure 5**  
 Percentage of major applications granted within or over 13 weeks by London boroughs in 2014  
 Source: DCLG Table P132: district planning authorities - planning decisions, by development type, speed of decision and local planning authority



<sup>9</sup> The National Planning Policy Framework, paragraph 48.

<sup>10</sup> London boroughs can include windfalls in years 4 – 5 of their 5 year supply, as long as robust evidence is provided to justify it.

<sup>11</sup> The FALP states that boroughs should seek to make up the “gap” between need and supply (Policy 3.3Da) ‘in line with the requirements of the NPPF’. Demonstrating a five year housing land supply is therefore likely to become more challenging over time.

<sup>12</sup> For the purposes of residential applications, a major application is 10 homes or more.



We propose that boroughs are assessed against a minimum standard for speed of determination. This is similar to the “special measures”<sup>13</sup> criteria but, in our view, a tougher threshold should be applied – 50 per cent of applications for major residential development should be determined within 13 weeks of being received. This reflects the likely direction of travel for the criteria used in the special measures process and the importance of the timely consideration of planning applications<sup>14</sup>.

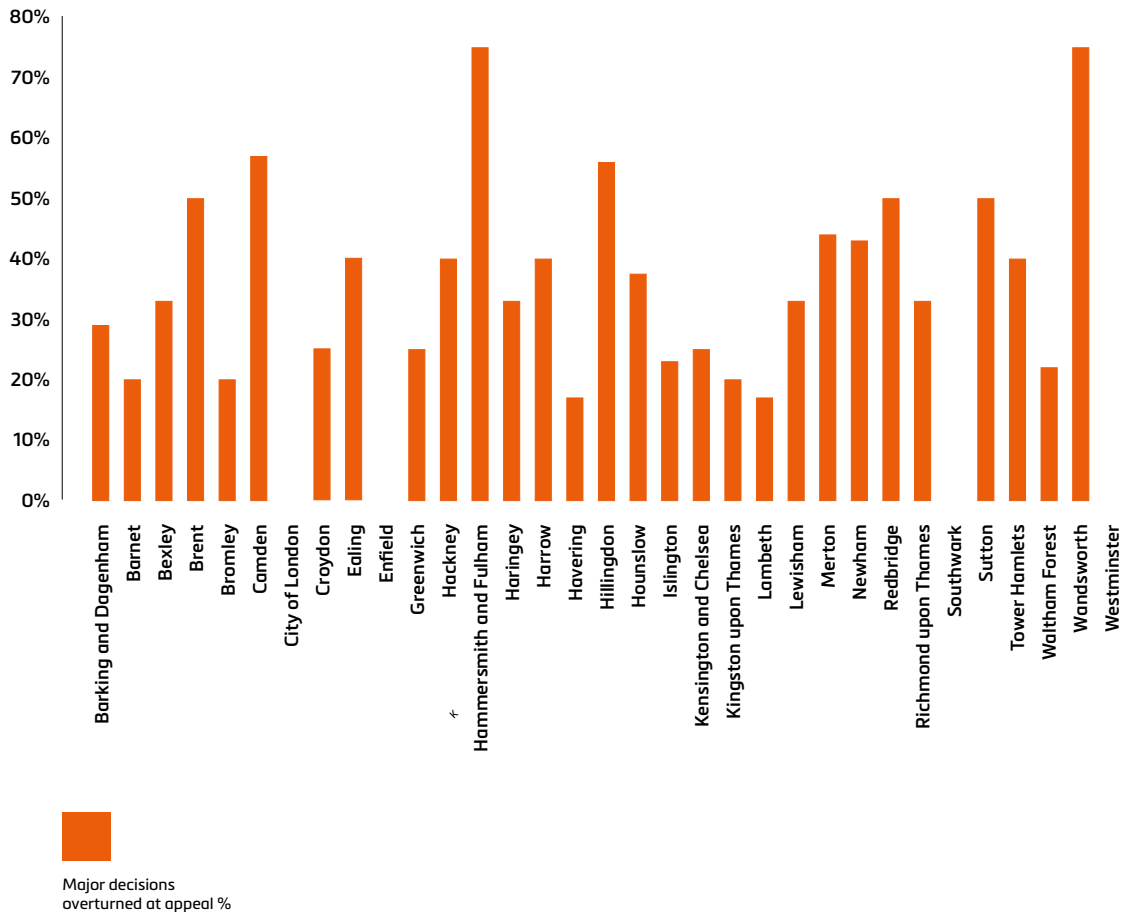
**Performance at appeal**

Another measure, again reflecting that adopted for “special measures”, is performance at appeal (i.e. an applicant appealing against the decision made by a local planning authority). The latest data in Figure 6 below, shows that London boroughs perform reasonably well at appeal.

**Figure 6**

Percentage of major decisions overturned at appeal in London boroughs April 2012 - March 2014

Source: DCLG Table P152: district and ‘county matters’ planning authorities performance - quality of major development decisions



However, as housing need increases and sites become more challenging, this is a useful measure of borough performance. A threshold set at 20 per cent or more of major applications for residential development overturned at appeal would set a benchmark for poor performance<sup>15</sup>.

<sup>13</sup> This is a process introduced by government to designate local planning authorities if their performance in handling planning applications falls below a satisfactory level.  
<sup>14</sup> For the purposes of the system outlined in this report, a monitoring review would have to separate out the speed of determination of major residential applications from major applications for other types of development.  
<sup>15</sup> As with the speed of determination, a monitoring review would have to separate out appeal performance for major residential applications from major applications for other types of development.

### **Using the Mayor's intervention power**

If the Mayor chooses to use the intervention power in a borough, all applications for 50 homes or more would be determined at City Hall. To establish this threshold, we analysed all planning permissions for residential development in London in 2012<sup>16</sup>. Just under 4,200 residential planning permissions were issued in 2012. 95 per cent of these were for schemes of under 50 homes and 5 per cent (a total of 242 permissions, or about 280 applications using the proxy that an average of 86 per cent of major applications are approved) were for schemes of 50 homes or more. However, in terms of contributing to housing supply, the 5 per cent of permissions accounted for 75 per cent of all homes permitted in 2012.

Setting the Mayor's intervention power at a 50 home threshold strikes the right balance between ensuring that a significant proportion of overall housing supply is captured without requiring the GLA to determine lots of smaller applications that cumulatively only make a modest contribution to total supply.

In our view, the Mayor's power to step in and determine residential applications should be time limited. The power would revert back to a borough after a set period of time or after a further review of performance (how this further review is measured requires careful consideration).

For reasons of simplicity and impact, we favour all applications over the threshold being determined by the Mayor for a set time period. This is different to the Mayor's existing power to recover applications, which is done once the borough's planning committee has made a recommendation<sup>17</sup>.

In our system, where the Mayor has taken over a borough's planning power, City Hall will only determine the principal planning application. The subsequent follow-up work, such as applications for reserved matters approval and discharge of conditions, would remain with the borough. This follows current procedure used when an application is called-in by the Mayor or applications are granted on appeal by the Planning Inspectorate. This allows for site specific issues with very local impacts, such as landscaping or boundary concerns, to be addressed locally.

However the Mayor's intervention power works in practice, it must be effective, rather than being diluted so it has limited impact. But, at the same time, it should not unduly affect the long-term skills and resources of a borough planning department. This would need to be kept under review.

### **Legislative changes**

The Government would have to amend the Mayor of London Order 2008 to enable the Mayor to exercise the powers we have outlined.

<sup>16</sup> Financial year 2012/13. At the time of writing, this was the latest available data. The data was obtained from the London Development Database.

<sup>17</sup> The Mayor is consulted on and has the power to direct refusal of or call-in for his/her own determination planning applications over certain thresholds following a borough resolution to grant or refuse permission itself.

## Resourcing

The system outlined above is designed to be challenging but fair, erring towards allowing a borough to demonstrate it is doing all that it can to meet its housing target. Even where a target is missed, it would not automatically mean a borough losing its right to determine residential applications. The system is therefore, to some extent, self-regulating in terms of resource implications.

Nonetheless, if the Mayor decided to exercise the intervention power then additional resources would be required at City Hall. The GLA's planning decisions unit - which already advises the Mayor about planning applications for 150 homes or more<sup>18</sup> - would need to be expanded to deal with the additional applications.

Looking at the 2012 planning permission data for London<sup>19</sup>, there were around 280 applications for developments involving 50 homes or more. This is an average of about 8 applications per borough. If we assume that in any one year, at most, the Mayor used the intervention power to determine applications in two London boroughs that would be 16 applications a year.

This system would place new costs on City Hall, but as there is already an administrative structure in place, the additional costs would be relatively modest in terms of the GLA's total expenditure.

<sup>18</sup> Under the Mayor's existing powers, he is consulted on (and gives an opinion on) all applications over 150 homes or more. There are two stages to this process: Stage 1 - where City Hall outlines its thoughts to the local planning authority where the application is being made and Stage 2 - once the local planning authority has resolved to make a decision, it goes back to City Hall for further report. At this point the Mayor decides whether to take no further action, direct refusal or call it in. A key difference to the existing system and the one we are proposing is that at the moment the Mayor only takes over an application when the borough has made an initial decision. We are proposing the Mayor simply acts as the local planning authority from the start.

<sup>19</sup> Supplied by the London Development Database with assumptions made about total application number as discussed in the 'using the Mayor's intervention power' section above.

# Analysis: Incentives

## 6

This section analyses how boroughs could be rewarded under the proposed system. It considers:

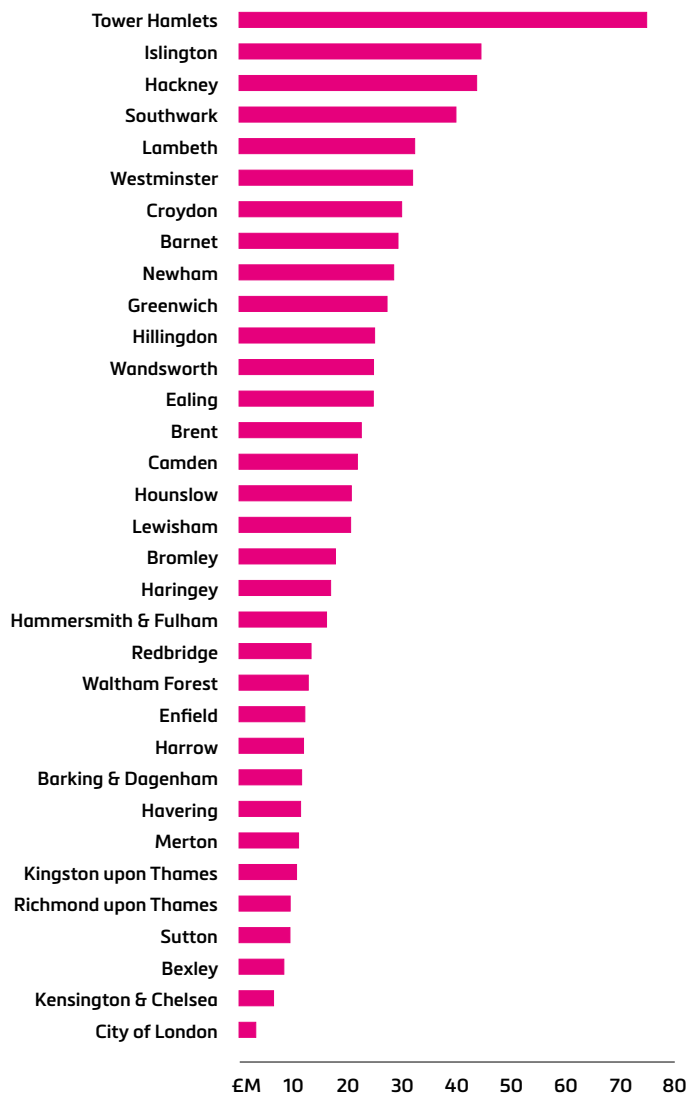
- the shortcomings of the New Homes Bonus (NHB)
- how an additional incentive – the London Housing Delivery Bonus (LHDB) – could be introduced
- what the funding options are for this new incentive

### The New Homes Bonus

The NHB was introduced in 2010/11 as part of the Government’s policy to increase housebuilding. It involves central government awarding councils a grant for the construction of new homes, conversions and bringing long term empty homes back to use.

To date, £473 million of NHB has been given to London boroughs. This funding varies significantly by borough as shown in Figure 7 below.

**Figure 7**  
Total New Homes Bonus to date (including final payment for 15/16) (£m)  
Source: DCLG New Homes Bonus: aggregate numbers of homes recognised, 2011-12 to 2015-16; NLP analysis

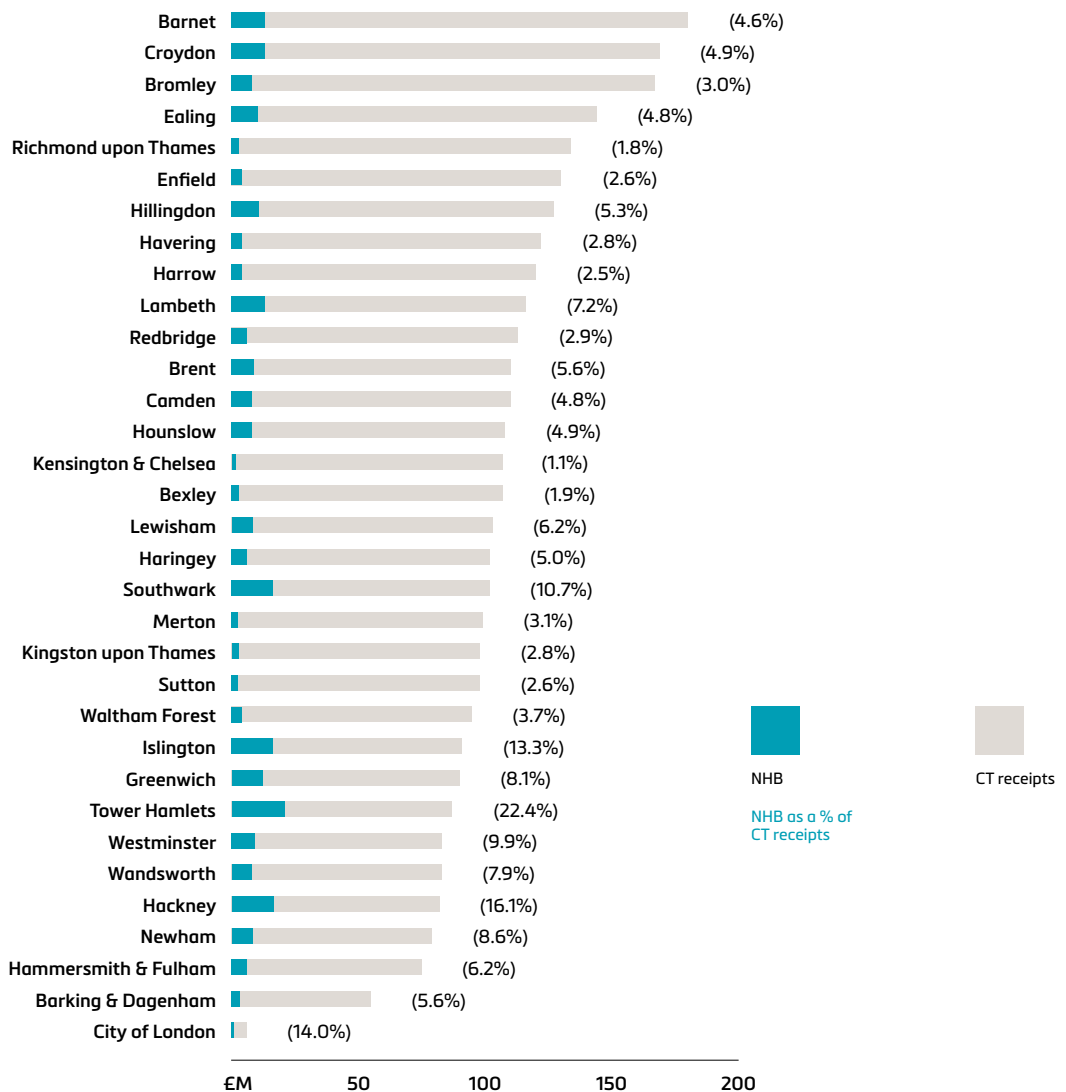


The funding for the NHB is largely met from a ‘bottom slicing’ of the existing local government finance ‘pot’. This means that councils which build proportionately more homes are rewarded at the expense of those who build less. At the same time, because the NHB is taken out of the formula grant funding, those councils with a greater proportionate share of the formula grant need to deliver more net new homes than other councils with less formula grant in order to secure a net financial gain (or offset losses) compared with a situation where the NHB did not exist.

The NHB has been a material consideration in the determination of some planning applications and was seen by the coalition government as an important tool to encourage councils to increase their housing stock. However, it is commonly regarded by developers and boroughs as being insufficient to influence behaviour or plans. This is perhaps particularly the case in boroughs that need to do the most to encourage more development and persuade residents of the benefits that new housing brings.

While boroughs are generally appreciative of the NHB, in the wider scale of budget planning the income from it is comparatively small. To put the size of the NHB into context, Figure 8 compares the NHB and council tax receipts by borough.

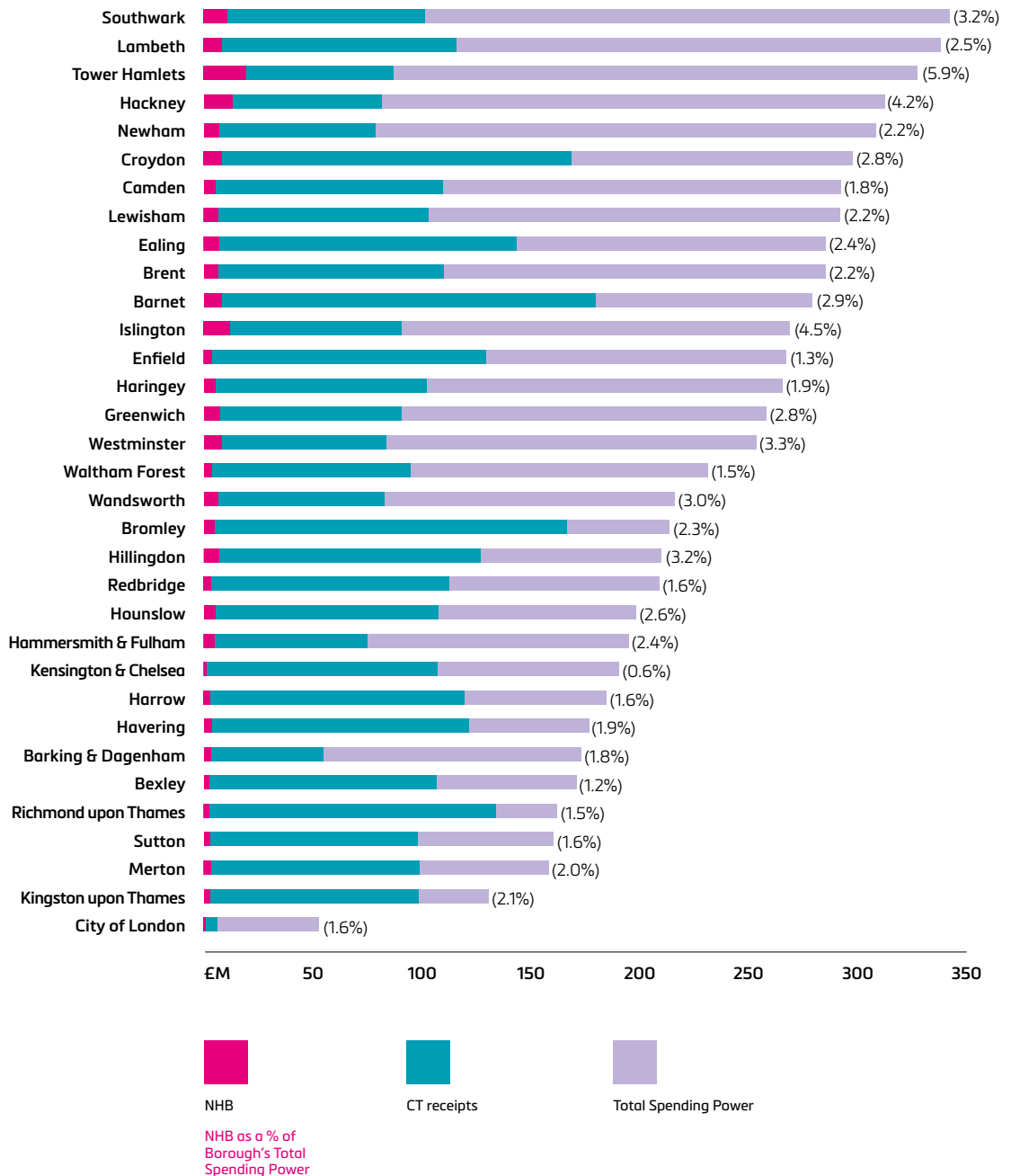
**Figure 8**  
 New Homes Bonus and Council Tax Receipts by Borough 2013-14  
 Source: DCLG New Homes Bonus: final allocations for 2013-2014; council tax receipts 2013-14; NLP analysis



On average, the NHB equates to less than 10 per cent of total council tax receipts received by each borough, in some cases a lot less. And of course, council tax is just one input into total borough budgets, which are shaped by the annual local government finance settlement. Figure 9 shows the breakdown of the NHB and council tax receipts as a proportion of each borough's total spending power according to the local government finance settlement. On average, the NHB accounts for just 2.4 per cent of a London borough's total spending power.

**Figure 9**  
New Homes Bonus, council tax receipts and total spending power by borough 2013-14

Source: New Homes Bonus: final allocations for 2013 to 2014; council tax receipts 2013-14; local authority spending power 2013-14; NLP analysis



One of the main criticisms made about the NHB is that although it is supposed to be paid for six years, this is not guaranteed and is subject to changes in government policy which makes it hard for a borough to rely upon it for financial planning. This uncertainty was highlighted by the Government's decision to allow for some pooling of the NHB in London, taking a 'top-slice' from the boroughs to give to the London Enterprise Panel. Similar concerns apply to the business rates retention scheme and its relationship to the 're-basing' process.

### **A London Housing Delivery Bonus**

The effectiveness of the NHB needs to be improved so that the incentive on offer is significant enough to motivate boroughs to support more housebuilding. This could be achieved by adding a 'London premium' to the NHB known as a 'London Housing Delivery Bonus' (LHDB).

Creating a proportionate allocation process for the LHDB could help to get more homes built. This would mean the reward for housebuilding would grow exponentially with higher rates of delivery, rather than money being distributed evenly for every home built (as is the case with the NHB). In practical terms this would see a weighting applied to the LHDB allocation proportionate to the scale of housing delivery in each borough against their housebuilding target<sup>20</sup>.

The NHB does not clearly reward boroughs for taking difficult decisions which may get them close to or above their housebuilding target. Our approach to allocating the LHDB would achieve this by giving the greatest reward to those boroughs that exceed their target by the biggest margin (in percentage terms). For example, there could be no bonus allocated where delivery was below 80 per cent of a borough's target, some bonus could be given if the target was met, and progressively more for exceeding the target.

Linking the financial incentive to housebuilding targets has the benefit of relative simplicity and on rewarding the sometimes difficult decisions that are needed to secure higher levels of housebuilding. An alternative process for allocating the LHDB could be to distribute it based on the performance of boroughs against the advisory performance criteria outlined earlier in this report<sup>21</sup>. For example, rewarding authorities that meet some or all of the criteria. This would focus the incentive on positive planning behaviours (and investment in planning departments), even if other factors mean that housing targets were missed<sup>22</sup>.

We favour the simplicity and focus of linking the financial incentive to housing completions.

Subject to the amount and rules, the LHDB could act as a significant incentive to support more housebuilding, particularly in boroughs with tight budgets. Indeed, the financial position of many boroughs will come under further pressure from 2015/16 as further cuts are made to public spending<sup>23</sup>.

Quantifying how much money to put into the LHDB is difficult without more evidence on attitudinal responses to financial incentives. However, on the basis that the scale of NHB relative to most council budgets has had a limited impact on behaviour, we propose that the pot of financial reward for stretching towards, meeting and exceeding the minimum housing targets, could be around 3-5 per cent of the total spending power of boroughs.

<sup>20</sup>Further consideration would be required as to how these marginal rates could be applied relative to the scale of a boroughs finances and housebuilding target.

<sup>21</sup>See page 7.

<sup>22</sup>This would be similar to the former Housing and Planning Delivery Grant. It would also share similarities with the approach of some City Deals such as that in Greater Cambridge where tranches of funding are only released if certain criteria (including housing completions) are met.

<sup>23</sup>According to the Local Government Association, total spending must fall by 21 per cent in cash terms or 33 per cent in real terms over the period to 2019/20 – Future funding outlook 2014: Funding outlook for councils to 2019/20 – <http://www.local.gov.uk/documents/10180/5854661/L14-340+Future+funding+initial+draft.pdf/1854420d-1ce0-49c5-8515-062dcca2c70>

The challenge for the LHDB, as was the case in the original formulation of the NHB, is to balance the simplicity of the scheme with the sophistication of targeting incentives to make a genuine difference to behaviour. Based on the experience to date with NHB, further targeting is considered necessary for the LHDB which justifies a more sophisticated scheme design.

### **Resourcing in the short-to-medium term**

It will be difficult to find additional revenue to fund the LHDB in the short-to-medium term. One option would be to amend the current arrangements by which local government funding is apportioned within London, placing greater importance on rewarding housebuilding through channelling this 'regular' funding into the funding of the LHDB.

Another option could be to divert underspend from some of the Mayor's existing housing programmes. For example, not all of the money for the £200 million London Housing Bank<sup>24</sup>, nor the £1.25 billion 2015-2018 affordable housing programme<sup>25</sup> have been allocated. However, reallocating this money is not straightforward:

- unallocated money is generally allocated at a later stage (known as 'continuous market engagement')
- not all of the money is grant – some is loans
- moving money from one programme to another during the lifetime of the programme creates a lack of confidence in the programme itself

These hurdles are surmountable and there is a good case that underspends in some programmes could, in the short term, be channelled into incentivising housebuilding, although it may prove challenging to link it to a system such as the LHDB. Such money could instead be allocated to support borough programmes such as estate regeneration or infrastructure development.

A final alternative option would be to secure additional money from Government to fund the incentive. This money would reflect the strength of London's housing needs. On the basis of need, London's case is clearly strong. However, given the current fiscal environment it seems unrealistic to rely on additional government funding.

### **A long term solution**

In the long term, significant changes to the local government finance regime are required to fund a new incentive. The starting point for this, in relation to London, are the recommendations of the London Finance Commission (LFC)<sup>26</sup>.

The LFC proposed, among other things, devolving five property taxes (council tax, business rates<sup>27</sup>, stamp duty land tax, annual tax on enveloped dwellings and capital gains property disposal tax) to London government in a pound-for-pound swap with government grant. This would ensure that the proposals are fiscally neutral at the outset. Table 1 shows the yields from these taxes in London and the UK.

<sup>24</sup>See <http://www.insidehousing.co.uk/strict-terms-blamed-for-boris-housing-bank-snub/7007864.article>

<sup>25</sup>See <http://www.insidehousing.co.uk/gla-to-reserve-affordable-grant-funding/7004727.article>

<sup>26</sup>Raising the capital, the report of the London Finance Commission, May 2013

<sup>27</sup>Council tax is already retained by boroughs and some of the growth in business rates is also currently retained locally.



**Table 1**

Tax yields in London and the UK for 2013-14 (£m)

Source: London Finance Commission

	London	UK	London %
Council tax	3,390	27,400	12%
Business rates	6,245	26,700	23%
Stamp duty land tax	2,567	7,700	33%
Annual tax on enveloped dwellings	36	45	80%
Capital gains property disposal tax	20	25	80%

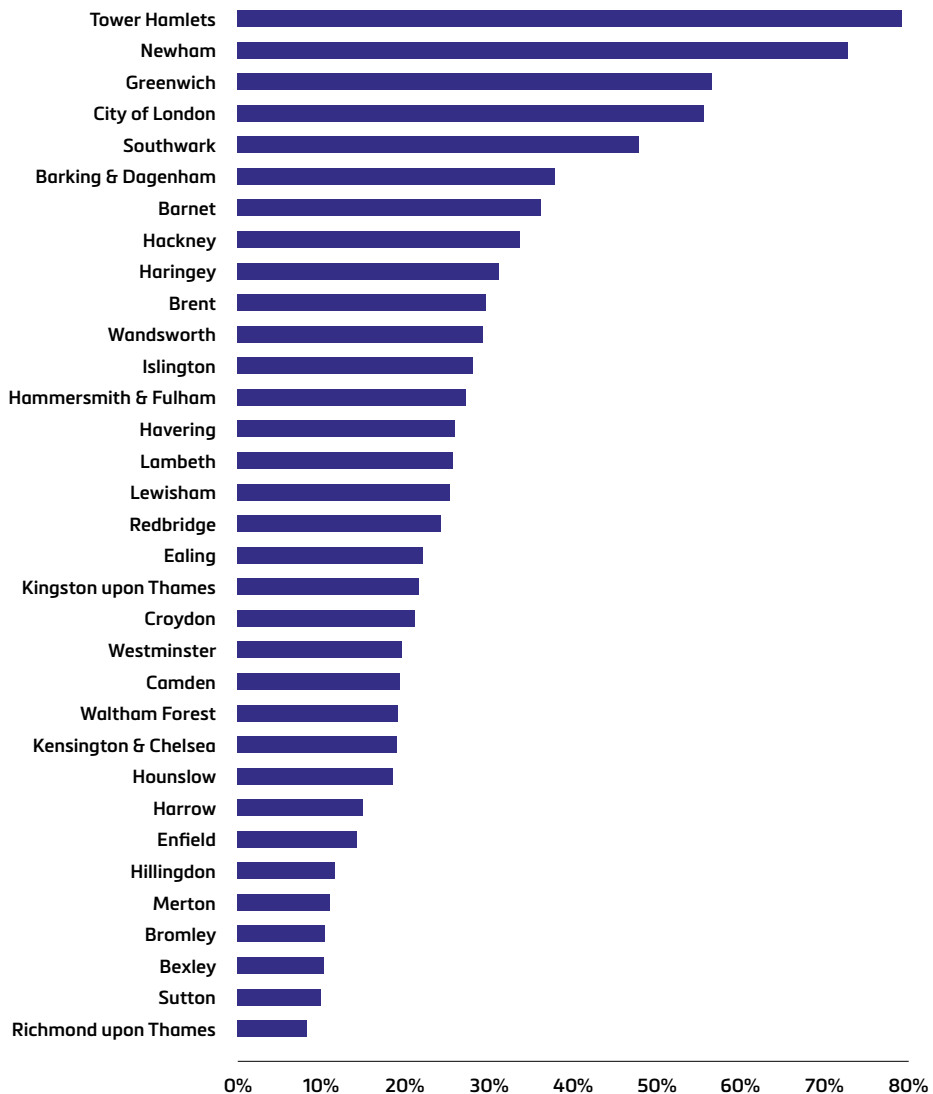
In addition to devolving property taxes to London, the LFC also recommended that London government should assume responsibility for setting the tax rates and decisions about revaluation, banding and discounts. This could lead to a restructuring to incentivise boroughs to meet their housebuilding targets.

Using council tax as an example, Figure 10 shows that if the boroughs met the proposed minimum housing targets put forward in the FALP period they would see a significant uplift in their overall council tax base<sup>28</sup>.

**Figure 10**

Potential uplift in council tax base over Further Alterations to the London Plan period (2014-2036) (% change in council tax receipts)

Source: Further Alterations to the London Plan; council tax receipts and dwelling stock -DCLG; NLP analysis



<sup>28</sup>To estimate the potential uplift, the analysis uses council tax receipts for 2013-14 and dwelling stock for 2013-14 to derive average council tax receipt per dwelling in each borough. The potential annual council tax receipts, if annual housing targets set out in the FALP are met, have been calculated by multiplying each borough's housing target with average council tax receipt per dwelling. This figure has then been extrapolated over the entire FALP period of 22 years. The percentage uplift figure has been calculated by comparing the additional council tax receipts from meeting the FALP targets with the current council tax receipts from existing dwelling stock.

Under a devolved system of property taxation in London the tax base would rise over time allowing London government the option of attributing a proportion of the increase in tax take to fund the LHDB.

If new housing meant increased costs for councils to provide public services for the residents of these homes, this might negate the impact of any incentive. However, much of the demand for public services will rise by virtue of population growth that is likely to occur irrespective of the growth in homes. In effect, more people will be squeezed into the existing housing stock through increased sharing and reduced household formation. This will drive demand for public services without increasing local tax revenue.

By encouraging the growth of new homes (that in turn generate revenue) it supports the ability of local councils to meet the costs of public service delivery, while also reducing the costs associated with adverse housing outcomes such as over-crowding, for example.

In order for the LHDB to have sufficient impact and to influence behaviour it must become a permanent fixture in London. In the first instance, the Government could adopt it as a new policy (in the same way the NHB was introduced). In the long term, however, creating a new financial incentive regime for housebuilding in London linked to the LFC recommendations would require new legislation.

While devolving an element of fiscal control to London is often viewed as an aspiration, it is arguably several steps closer due to recent events. The Scottish referendum vote and the subsequent promise by the three main political parties to support devolving further powers to Scotland has started a wider debate about the need to devolve more power to cities within the United Kingdom. London is rightly at the forefront of this debate.



**Contact us**

London First  
Middlesex House  
34-42 Cleveland Street  
London W1T 4JE

+44 (0) 20 7665 1500  
[inquiry@london-first.co.uk](mailto:inquiry@london-first.co.uk)  
[www.londonfirst.co.uk](http://www.londonfirst.co.uk)