Resolution Foundation BRIEFING

Building blocks

Assessing the role of planning reform in meeting the Government's housing targets

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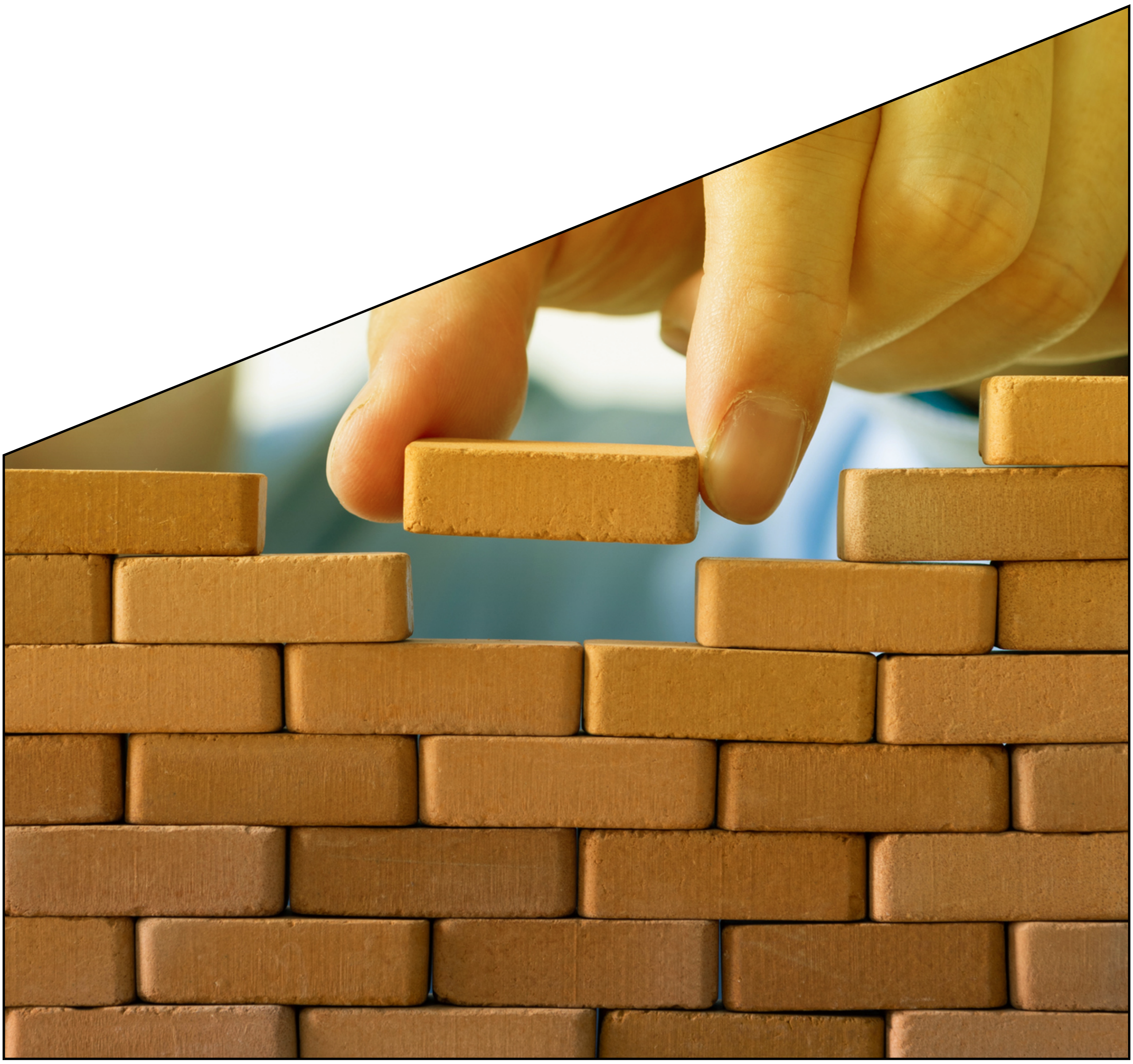

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Summary

Housing has emerged as a key priority for the new Government, who followed through on their manifesto commitment and set ambitious new housing targets in their first months in government. Delivering on the Government's aim, to create 1.5 million additional homes in England over the Parliament, would be unprecedented in historical terms: we have not seen an additional 300,000 homes per year delivered on record, even during the high housebuilding years of the 1970s. Meeting this target will require a significant gear-change when it comes to housebuilding in England, and a boost to output of around 60,000 homes (28 per cent) per year compared to 2022-23 levels.

The Government has announced a wide-ranging policy programme designed to meet this target centred around planning reform. England's planning system has long been criticised as a significant block to housebuilding. Many point to its highly discretionary nature, with local councils making most planning decisions on a case-by-case basis, therefore failing to provide developers with the stability and predictability most businesses crave. At the same time, critics also point to the system's restrictiveness, including the scale of the land that it protects from development through the Green Belt (currently nearly 13 per cent of England's land mass).

There is certainly evidence that England's planning system has some real problems. We find, for example, that approval rates for 'large' developments (over 10 units) range from an average of under 60 per cent in the ten most restrictive local authorities, to over 90 per cent in the least restrictive. And unsurprisingly, places that make more approvals have more housebuilding than elsewhere, providing a bigger boost to the existing housing stock. Indeed, the fact that planning permission for residential developments increases the value of land to such a significant degree (such land is worth around five times more than industrial land, for example), strongly suggests that planning is a meaningful constraint on housebuilding in England today.

So how is the Government proposing to reform the planning system? First, it will put local authority housebuilding targets back on a 'mandatory', rather than 'advisory', footing as they were before December 2023. Alongside this, the formula used to set these targets will be amended, boosting the overall target to 370,000 homes a year across England (significantly more than the 300,000 required annually to deliver on the promise of 1.5 million new homes over the Parliament). However, the new formula will see housing targets increase by nearly 50 per cent on average across the most affordable half of local authorities (in terms of house prices relative to earnings), compared to just over 10 per cent on average for those in the least affordable half. There may be good reasons for this – reducing the currently unrealistic targets in London is sensible, for example, and

accelerating building in relatively affordable cities such as Manchester and Birmingham is critical for growth (a topic we explore further in a sister paper) – but this is still somewhat at odds with Government rhetoric in this space.

Second, the Government is encouraging planning authorities to prioritise previously developed 'brownfield' land for development. We estimate that enough land of this type is available (or will become available over the Parliament) to build around 730,000 homes in the urban areas where housing need is likely to be highest. However, brownfield plots are often expensive to remediate, which can affect their viability for development. Beyond 'brownfield-first', the Government has also said it will release low-quality Green Belt land for housebuilding. Plausibly, this could liberate enough 'grey belt' land over the Parliament for up to around 300,000 additional homes in primarily urban areas, although there remains no guarantee that the specific plots that are available will be well-connected to either utilities or transport (which, again, can affect the viability of building on such land). We estimate that hitting the 1.5 million target would require the use of undeveloped land equivalent to the same size as the area of the current 'grey belt', or building homes at a higher density on brownfield and 'grey belt' land, equivalent to an additional storey on around two in five of these homes.

Third, the Government has trailed future proposals to boost the capacity of planning departments. Planning services have been one of the hardest-hit parts of local government in recent years, facing a real-terms spending cut of 36 per cent since 2010. It is unsurprising, then, that the number of planners working in the public sector has fallen by around one-fifth over the last decade, from over 15,000 in 2010, to 12,000 in 2020. Given this, the manifesto pledge to fund 300 additional planners is a drop in the ocean compared to the decline in the size of the sector, and would be equivalent to fewer than one additional planner per local authority in England. Added to this, it is an open question whether the broader construction sector is capable of delivering a significant increase in housing supply: employment in construction is in decline as a share of total workers, and the sector is increasingly reliant on an aging workforce: the proportion of construction workers aged 50 or over has risen from around one in four in 2005, for example, to a third by 2024.

Altogether, the Government's programme announced thus far amounts to necessary but arguably not sufficient reform to boost housebuilding. But more radical options are available. This could include adopting a 'rules-based' planning system, as is used by many other countries across Europe and elsewhere. However, weakening planning constraints further may still not solve the whole problem. Even if the planning system were to bring forward more land and approve more housebuilding, the Competition and Markets Authority (CMA) and others have argued that private developers simply do not have commercial incentives to build at greater pace. The fact that in 2023, there were over 80,000 fewer starts than the number of housing units granted planning permission gives credence to this view.

And therein lies the rub: the Government can happily set overarching housing targets, and take a more muscular approach with local authorities when it comes to local plans and permissions, but it relies very heavily on the private sector to deliver against its ambitions. Given this, it is likely that boosting housing supply by 1.5 million homes over the course of the Parliament will require increased direct public investment. Historically, this has been key: at the post-war housebuilding peak in 1968, nearly two-in-five homes were built through the public sector, compared to just under one-quarter of homes in 2023. In part, this was due to the public sector's ability to procure land cheaply; the Government's suggestion that it will "further reform compulsory purchase compensation rules" in upcoming legislation is therefore promising.

Equally, direct public investment is crucial to realising the Government's ambition to oversee "the biggest boost to social and affordable housing in a generation". If we assume the overall housebuilding targets are hit, and the same proportion of the new homes are delivered by private developers under section 106 as is currently the case, 8,500 additional affordable homes would be built per year. This would constitute a 13 per cent increase in sub-market housing supply compared to 2022-23, returning affordable housebuilding to early 1990s levels. But there are reasons to believe this is an optimistic scenario. Section 106 contributions are often negotiated down, particularly on less viable land (likely including the 'grey belt'). As a result, the scale of public investment brought forward at the next spending review for affordable housing will be crucial to whether the Government is able to deliver on the housing revolution it has so fervently promised.

Introduction

The new Government has pledged to deliver 1.5 million additional homes in England by the end of this Parliament – an ambitious target that requires a significant step-change in housebuilding rates.

In this note, we explore the extent to which the Government's plans to reform the planning system will help achieve this housing target. We start by exploring the Government's target from a historical and international perspective, and evidence that reform of England's planning system is important in boosting housing supply, using data on land values and volumes of planning approvals from across local authorities.

We then assess each of the Government's interventions on planning and their ability to boost housing supply, while highlighting the presence of other constraints on housing delivery. Taken together, we argue that these relatively modest planning reforms are likely necessary but not sufficient for the Government to meet its target. We end by exploring the additional interventions the Government could adopt to boost housebuilding, including more radical planning reform and increasing direct public investment into affordable housing.

Planning reform takes centre stage in the Government's plans to meet their ambitious housing targets

The Government's targets are ambitious from a historical perspective, but not an international one

The Government has set out an ambitious housebuilding target of building 1.5 million new homes in England over this Parliament (housing is a devolved policy area, so these targets do not relate to Scotland, Wales or Northern Ireland).[1] So how many more homes built does this mean in practice? Although this might seem a straightforward question, a crucial distinction is whether the Government is planning to build 1.5 million new homes, or achieve 1.5 million 'net additional' homes. New homes just means newly built homes, whereas net additions include, for example, office conversions into homes, or converting one home into multiple flats, and subtracts the small number of demolitions that occur each year (i.e. measuring additions to England's housing stock). 'Net additions' is the measure that was used by the previous Government for its housing targets, and the new Government has indicated that it will also use this measure for its housing target.[2]

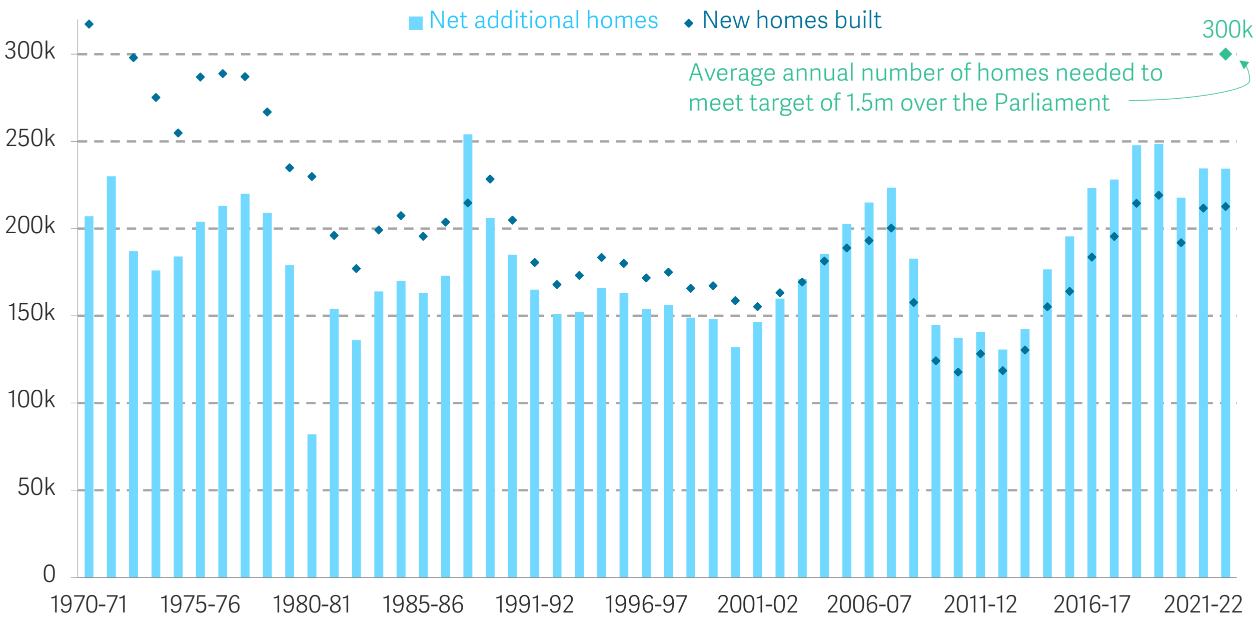
Adding 1.5 million net additional dwellings to England's housing stock over the Parliament may not, therefore, require the building of 1.5 million entirely new homes. As shown in Figure 1, since the turn of the millennium, measures of net additional homes have been 10 per cent higher on average than the number of new homes built per year. However, achieving 1.5 million net additional dwellings, which would amount to annual average of 300,000 over a five-year parliament, does remain an ambitious target, not even achieved in the high housebuilding years of the 1970s (in part because demolitions were so high then). For these targets to be achieved, we would need an extra 66,000 net additional homes each year over the next five years compared to 2022-23 levels. If we assume new homes will make up the same proportion of these net additional dwellings as currently, around 60,000 of these net additions would require the building of new homes. It will also take several years for the Government's policy proposals to

1 Labour Party, Change. Labour Party Manifesto 2024, June 2024.
2 G Georgieva & A Reuben, New homes: What's the new government's housebuilding target?, BBC Verify, 2 August 2024.

take effect. So in practice it is likely that many fewer homes will be delivered in the first few years of the Parliament, and more than 300,000 net additions per year will need to be achieved over the final years of the Parliament to reach the Government's target of 1.5 million homes over the Parliament as a whole.[3]

FIGURE 1: **The UK has not achieved 300,000 annual net additions on record, even in the high housebuilding years of the 1970s**

Number of net additional dwellings delivered and number of new homes built: England, 1970-71 to 2022-23



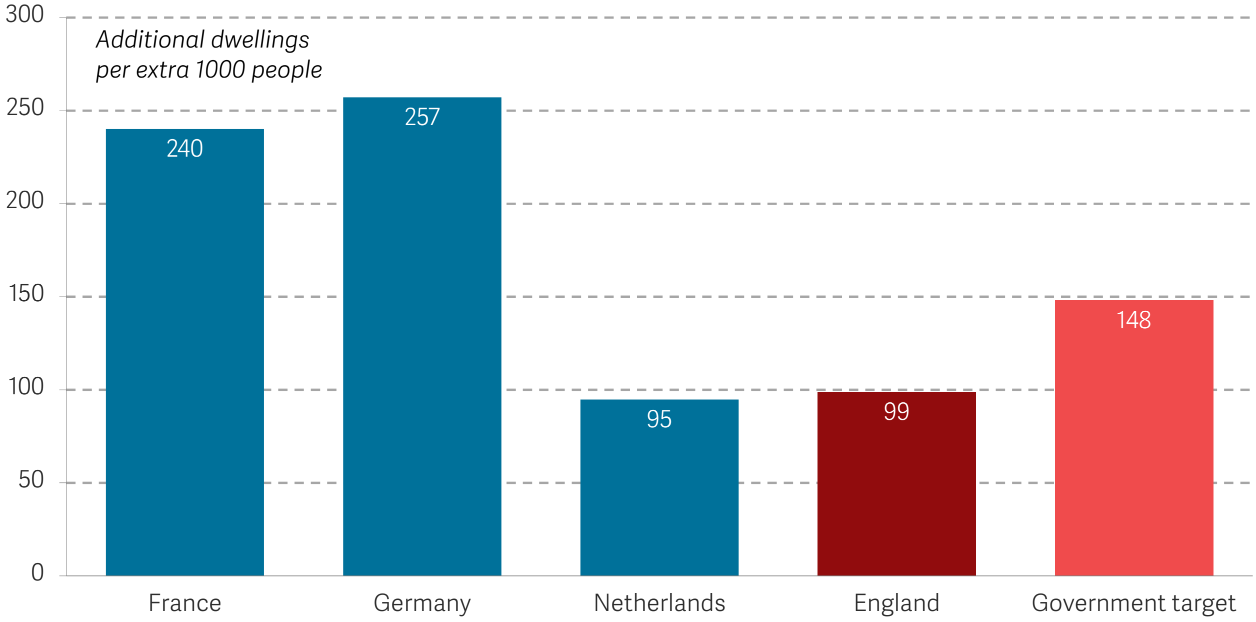
NOTES: Net additional homes is calculated using calendar year data pre-1990. 'New homes built' series uses the new builds component of net additions data from 2006-07 splicing on completions data before this point.
SOURCE: RF analysis of MHCLG, Live table 104.

This is an ambitious target compared to recent English experience, but not when compared to other countries today. Figure 2 shows that between 2015 and 2022, as their populations grew, Germany and France delivered well over twice the number of new dwellings per additional 1,000 people than England. Moreover, even if the Government achieves their 1.5 million target, England will still be delivering around 40 per cent fewer net additional dwellings relative to population growth per year between 2024 and 2029, than France and Germany delivered relative to population between 2015 and 2022. So the Government has adopted an ambitious target in terms of England's recent history, but unambitious in international terms given rapid projected population growth.

3 B Haynes et al., A new Standard Method: Stocking up?, Lichfields, July 2024.

FIGURE 2: **Although the Government's target is ambitious with respect to our own recent history, it isn't relative to some of our peers**

Average annual additional dwellings per extra 1,000 people by country: 2015-2022



NOTES: Data for Germany is the annual average of 2015-2021, given lack of 2022 data. 'Government target' bar calculates population growth using ONS projections for the UK over the next five years, scaling these in line with England's current share of the UK population. Housing supply data for England is a fiscal year average.
SOURCE: RF analysis of James Gleeson, Public House; ONS, Dwelling stock by tenure; ONS, United Kingdom population mid-year estimate; ONS, UK population estimates, mid-1996 to mid-2021, and projections to mid-2046.

The Government's proposals largely focus on planning reform

With these targets in mind, the Government has announced a range of measures to kickstart housing delivery. The Government has announced "an overhaul of the planning system" and published a consultation on proposed reforms to the National Planning Policy Framework.[4] This includes measures such as the reintroduction of mandatory housebuilding targets for local planning authorities and the release of lower quality 'grey belt' land from the Green Belt for development. In addition, these reforms include proposals designed to place more pressure on councils who fail to keep their local plans up-to-date, and encourage strategic planning for housing at a wider, combined authority level.[5]

These proposed reforms will be augmented by further legislation. The King's Speech promised a Planning and Infrastructure Bill that will involve the "reform of planning committees so that they focus on the right applications", the reform of compulsory purchase compensation rules to make the acquiring of land cheaper, as well as measures

4 MHCLG & The Rt Hon Angela Rayner MP, Housing targets increased to get Britain building again, July 2024; MHCLG, Proposed reforms to the National Planning Policy Framework and other changes to the planning system, July 2024.
5 MHCLG, Proposed reforms to the National Planning Policy Framework and other changes to the planning system, July 2024.

to boost the capacity of planning departments (with Labour's manifesto promising an additional 300 planners).[6] The final piece of the Government's strategy is the promised delivery of several new towns (see Box 1).

BOX 1: **New towns**

The Government has set up a taskforce to lead the development of a new generation of new towns.[7] It has set a target of at least 10,000 homes in each new town, including a 40 per cent affordable housing target, with appropriate locations for these towns to be shortlisted within the next year.

The history of new towns in England began in the aftermath of the Second World War with the 1946 New Towns Act, which led to the creation of towns such as Stevenage, Crawley and Hemel Hempstead.[8] The Act allowed central Government to bypass local authorities in order to found new towns, and manage their planning through development corporations. A second wave of new towns were developed in the 1960s, including arguably one of the most well-known new towns in the country: Milton Keynes. The development of new towns drew to a close in 1970, by which time 32 had been built in the UK.[9]

The success of these towns has been varied, with wages in the new towns built in the first wave often higher than new towns built later on, largely as a result of their proximity to major cities.[10] And although these new towns are now home to around 2.8 million people (4 per cent of the UK population), only 3.3 per cent of the new homes built in the 40 years after the 1946 New Towns Act were in new towns.[11] New towns can, then, help with housing targets, but if they are to contribute to the Government's broader economic aim to boost growth, then they need to be put in the right places.

Thus far, most of the policy proposals announced by the Government concern the reform of England's planning system. This focus on planning reform will work only if the planning system meaningfully constrains housing supply. The planning system is often cast as the

6 MHCLG & The Rt Hon Angela Rayner MP, Housing targets increased to get Britain building again, July 2024; Labour Party, Change. Labour Party Manifesto 2024, June 2024.
7 MHCLG, The Rt Hon Angela Rayner MP and The Rt Hon Rachel Reeves MP, Expert taskforce to spearhead a new generation of new towns, July 2024.
8 S Watling, Why Britain doesn't build, Works in Progress, May 2023.
9 Town and County Planning Association, New Towns, accessed 29 August 2024.
10 S Watling, Why Britain doesn't build, Works in Progress, May 2023.
11 Town and County Planning Association, New Towns; M Lange, Are new towns the answer to the UK's housebuilding crisis?, Centre for Cities, August 2024.

villain in the whodunnit of low housebuilding, for two main reasons.

First, the UK's planning system is highly discretionary: decisions are nearly always made on a case-by-case basis by local planning authorities.[12] This creates uncertainty because any application can, in theory, be rejected by planning committees. These committees are made up of local councillors who may come under significant pressure from residents to block developments.[13] Second, the planning system in England is restrictive, in that it includes broad bans on new constructions in certain areas of land, such as the Green Belt. [14] There is evidence that both these factors are playing out across England, resulting in a wide range of planning approval rates across the country. And there is evidence that these planning constraints are impacting housing supply, with areas that approve more applications seeing stronger boosts to their housebuilding, and land with planning permission seeing large increases in value.

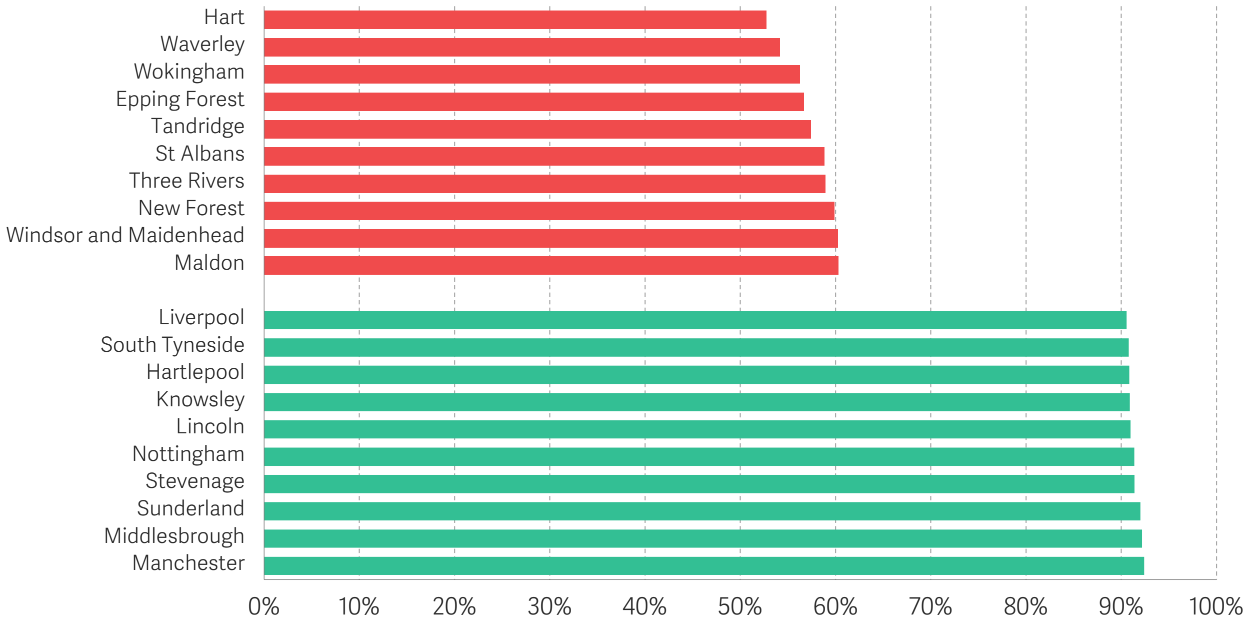
Looking at the first of these pieces of evidence, the proportion of major dwellings applications that are approved varies a great deal across local planning authorities, with a staggering 30 percentage point difference in the approval rates between the top and bottom ten local planning authorities over the last two decades (see Figure 3). Our planning system enables this large variation, allowing some local planning authorities to refuse a significant number of developments in their local areas, while others are much more permissive. Among the bottom 10 authorities, there is a strong concentration in the South East and in areas surrounding London: six are in the South East and four in the East of England, and six of them have over 60 per cent of land designated as Green Belt. Meanwhile, those with the highest approval rates are largely in the north of England, with two in the Midlands and one in the East of England.

What Figure 3 also shows is that the discretionary nature of our planning system can throw up different results even within regions. For example, Stevenage is among the top ten local planning authorities for approval rates, yet there are four other local planning authorities (Epping Forest, St Albans, Three Rivers and Maldon) also in the East of England region among the bottom ten (including Maldon, where there is no Green Belt land). This highlights how England's planning system leads to a wide variation in approval rates, even as you move between local planning authorities within the same region.

12 A Carella, P Deb & N Haider, Construction planning reforms for growth and investment – United Kingdom, IMF, July 2024.
13 G Salutin, Beyond the comfort zone, Social Market Foundation, April 2024.
14 For example see A Carella, P Deb & N Haider, Construction planning reforms for growth and investment – United Kingdom, IMF, July 2024; P Cheshire, Broken market or broken policy? The unintended consequences of restrictive planning, National Institute Economic Review, 245, July 2018; J Airey & C Doughty, Rethinking the planning system for the 21st century, Policy Exchange, January 2020.

FIGURE 3: **A number of local planning authorities in the South East are among the lowest approvers of major dwellings applications**

Average annual major dwellings approval rate, bottom 10 and top 10 local planning authorities: England, 2004-05 to 2023-24

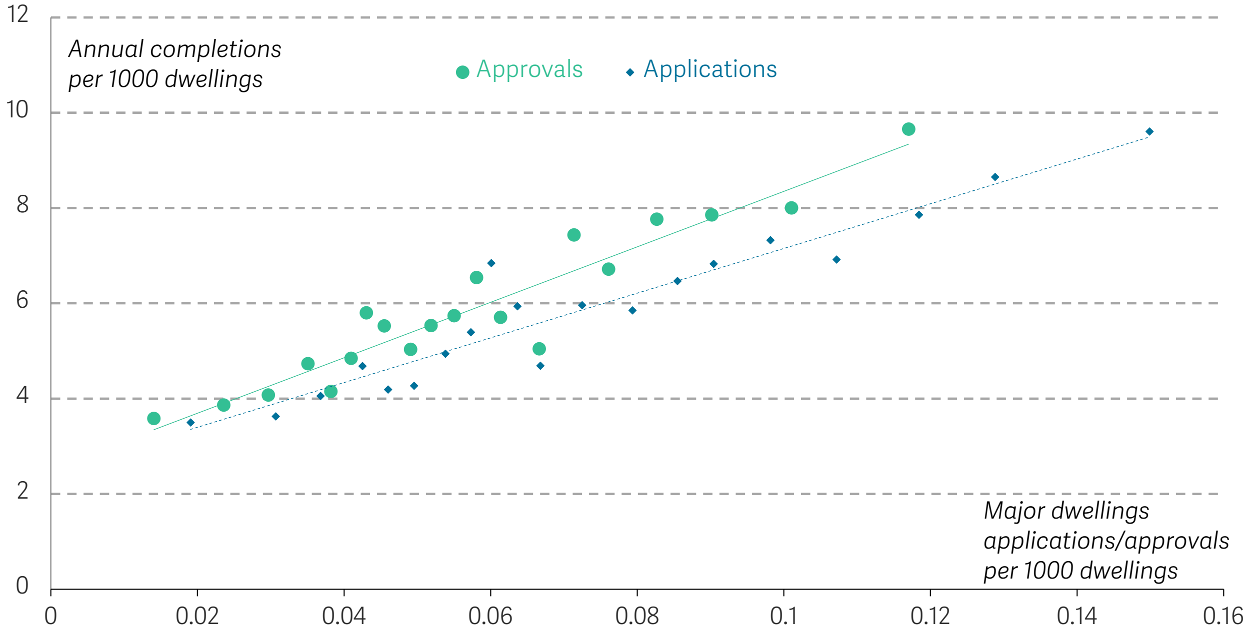


NOTES: National parks are not included. Isles of Scilly and City of London corporation are not included due to a small number of overall applications. 'Major' refers to planning applications for 10 or more dwellings. Planning decisions made by development corporations are excluded.
SOURCE: RF analysis of MHCLG, District Planning Application Statistics (PS2).

Moving to the impact of this variation on housing supply across the country, Figure 4 shows that local planning authorities that have approved more major dwellings applications over the last 14 years have also seen a higher number of completions, relative to their size. To put this in context, the average local planning authority in the top half of major dwellings approvals has seen over 50 per cent more completions per 1,000 dwellings compared to the average local planning authority in the bottom half. And, although Figure 4 also shows us that the more major dwellings applications a local planning authority receives, the higher the number of completions relative to their size, the trendline for planning approvals is steeper than applications. This highlights that, even accounting for higher volumes of applications, a given rise in approvals feeds through more strongly into higher completions.

FIGURE 4: **There is evidence that areas that approve more, build more**

Average number of completions per 1,000 dwellings and major dwellings applications/approvals per 1,000 dwellings by local planning authority: England, 2009-10 to 2023-24



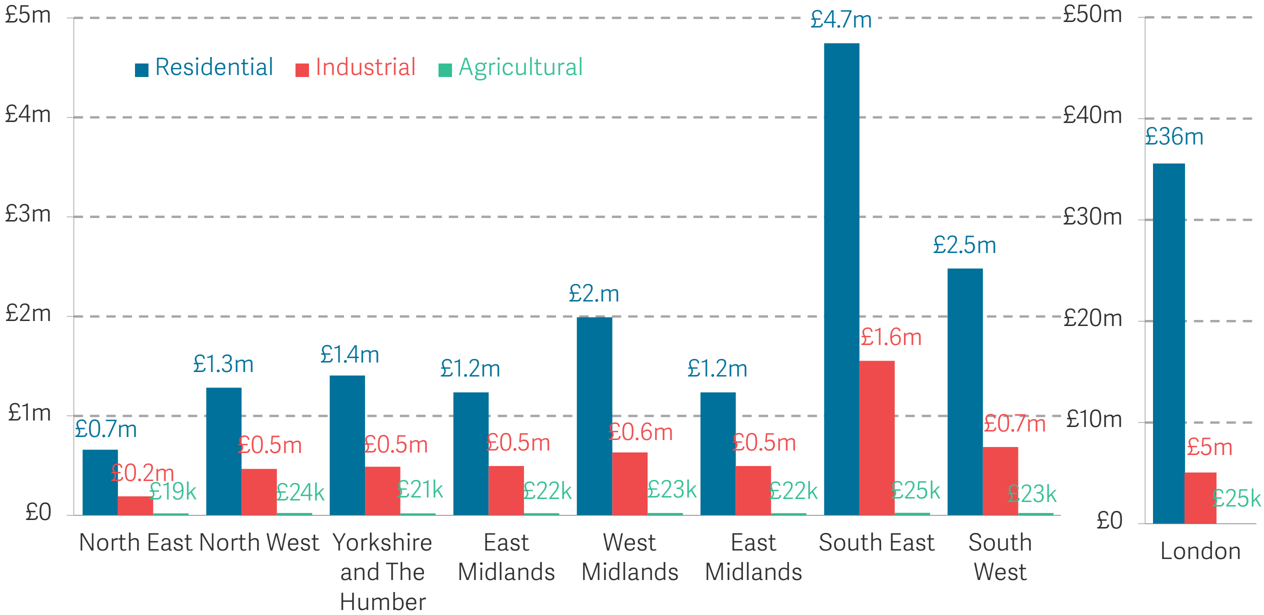
NOTES: Major refers to planning applications for 10 or more dwellings. Bin scatter plot used with local planning authorities separated into 20 bins. Planning decisions made by development corporations are excluded.
SOURCE: RF analysis of MHCLG, District Planning Application Statistics (PS2); MHCLG, Live Tables253a; MHCLG, Dwelling stock by tenure and local authority, England.

Finally, looking at prices – in the form of land values – rather than quantities of homes built, also points to planning as a constraint on the delivery of new homes. Property companies have suggested that obtaining planning approval for land can increase its price by as much as 10 per cent.[15] This can only be the case if planning is a binding constraint in that area. Consistent with this, Figure 5 shows that residential land on which one can build houses is worth far more than other types of land, suggesting that achieving planning permission dramatically increases the value of land. Across each region of England, residential land is worth well over twice industrial land, and over three times as much in the North East, West Midlands, South East, South West and London. We would expect land values to be higher for areas with planning permission, regardless of how stringent the planning system was, given obtaining planning permission is costly in terms of time and money. However, the scale of the uplift we see in England suggests there is a scarcity or uncertainty premium here, with planning acting as a constraint on residential development.

15 A Gray, How much is an acre of land worth with planning permission? The value of planning permission, Property Price Advice, October 2023.

FIGURE 5: **Residential land is worth far more across England than other land uses**

Land value estimates, £ per hectare, by type of land use and region: England, 2019



NOTES: Figures presented here are an average across local authorities in each region, or an average across Local Enterprise Partnerships for agricultural land. For residential land values, all non-London residential developments use figure calculated on the basis of 35 units, with a total floorspace of 3150 square metres, whereas in London assumptions differ on units and floorspace by local authority.
SOURCE: MHCLG, Land value estimates for policy appraisal 2019, August 2020.

All in all, we judge that the planning system has important interactions with housing supply and that the Government is right to pull the lever of planning reform to achieve higher levels of housebuilding. With this in mind, we now turn to the specific reforms to the planning system proposed by the Government, and the extent to which these are likely to be effective.

Higher, mandatory targets are a key part of the Government's planning reforms

Changes to housing targets will skew away from least affordable areas of England

Changes to local housing targets in England are at the core of the Government's proposed reforms to the planning system. These are targets set at a local planning authority level and determine how many homes authorities should be aiming to build each year. Local planning authorities currently calculate the number of homes required in their area over future years ('local housing need') using a formula known as the 'standard method'.

The very first of the policy changes set out in the Government's recent consultation on the National Planning Policy Framework sets out a plan to "make the standard method for assessing housing needs mandatory".[16] Making these calculations a 'mandatory' part of housing targets would reverse the decision taken in December 2023 by the previous Government to make these calculations "an advisory starting-point for establishing a housing requirement". That change effectively allowed local planning authorities to ignore their calculations of 'housing need' and set their housebuilding targets without reference to that figure (i.e. likely a lower target). In practice, making these targets 'mandatory' involves narrowing the criteria through which local planning authorities would be allowed to plan to build fewer homes than their calculation of housing needs requires. The proposed changes to the framework state that this will be possible "only when they can demonstrate hard constraints and that they have exhausted all other options". This is a welcome change to ensure local planning authorities are accountable for delivering the amount of housing that is judged to be required in their local area.

However, the more crucial change the Government has made in an attempt to boost housing supply is to alter the 'standard method' used by local planning authorities to calculate how much housing is needed in a given local area. As Box 2 sets out in more detail, this involves a revision to the expected growth rate of housing used as a 'baseline' for the calculation, scrapping the 'urban uplift' which increased targets by 35 per cent in some large English cities, and an increase in the 'affordability adjustment' that increases targets in areas with high levels of house prices relative to earnings. Taken together these changes increase the total number of homes local planning authorities are obliged to plan to build from around 300,000 homes per year to 370,000 homes per year.

BOX 2: **The calculation of Local Housing Need**

Local planning authorities are expected to calculate the number of additional homes required in their local area in future. The steps local planning authorities should use to calculate this number are set out in the National Planning Policy Framework, in the form of the so-called 'standard method'.

The current 'standard method' has four key steps:

- Baseline: As a baseline, local planning authorities use 2014-based household projections. These provide a projection of the number of additional homes that will be needed in future in an area based on previous trends

16 MHCLG, Proposed reforms to the National Planning Policy Framework and other changes to the planning system, August 2024.

in population growth and household formation.[17]

- Affordability adjustment: This baseline figure for additional households is then scaled up by 0.25% for every one percentage point the ratio of house prices to earnings is above 4. This is in order to increase housing targets in areas where affordability is particularly constrained.
- Cap: Increases in housing targets are capped at 40 per cent above the local planning authority's last published 'local plan' (if this has been updated in the last 5 years).
- Urban uplift: Housing targets for the main local planning authority in the twenty largest cities in England are then scaled up by 35 per cent.

The Government has proposed a significant simplification of this method, comprising of just two steps:

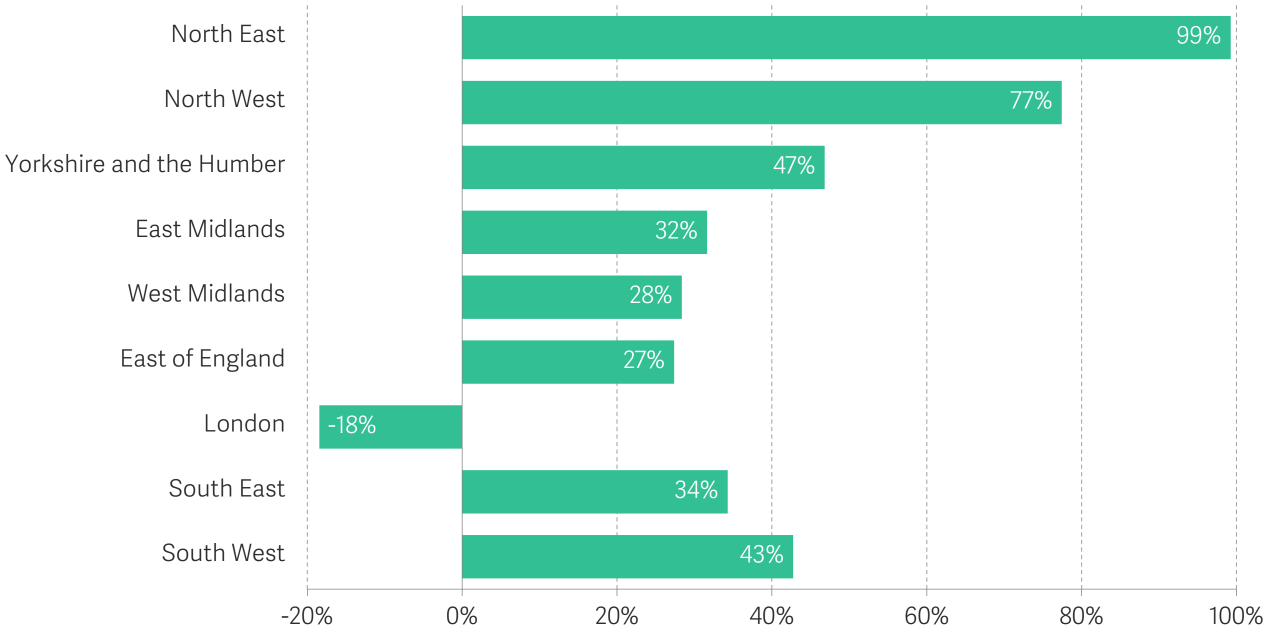
- Baseline: Instead of population projections, the baseline used to determine local housing need would be 0.8 per cent annual growth in the existing housing stock of each local planning authority. This is roughly in line with the average growth in England's housing stock over the past decade.
- Affordability adjustment: This baseline is then scaled up by 0.6 per cent (0.35 percentage points more than the previous method) for every one percentage point the ratio of house prices to earnings is above 4.

However, although the overall increase in the size of local housing targets is welcome, the net effect of changes to the method for calculating housing need has created some undesirable changes in how 'housing need' is allocated across the country. Moving from a baseline that takes into account the extent to which areas are expected to see population growth and increased household formation to a 'flat' baseline that reflects average growth rates across England over the last decade has the effect of redistributing housing away from areas expected to grow quickly in the future. This, coupled with the scrapping of the 35 per cent 'urban uplift' that inflated the housing targets of inner-city areas, means that, as Figure 6 shows, housing targets are set to nearly double in the North East, but to fall by nearly 20 per cent in London.

17 The 'standard method' uses 2014-based projections, despite more recent 2018-based data being available, as this is the last vintage of the data that MHCLG produced, before responsibility was passed over to the Office for National Statistics. The justification for retaining the 2014-based projections in the baseline of the 'standard method' was primarily to provide stability for planning authorities, and given they are significantly higher than more recent household projections, this also had the effect of producing more ambitious targets.

FIGURE 6: **London's housing targets have been reduced by nearly 20 per cent**

Average percentage change in local planning authority housing targets between existing and revised method, by English region: England, 2024



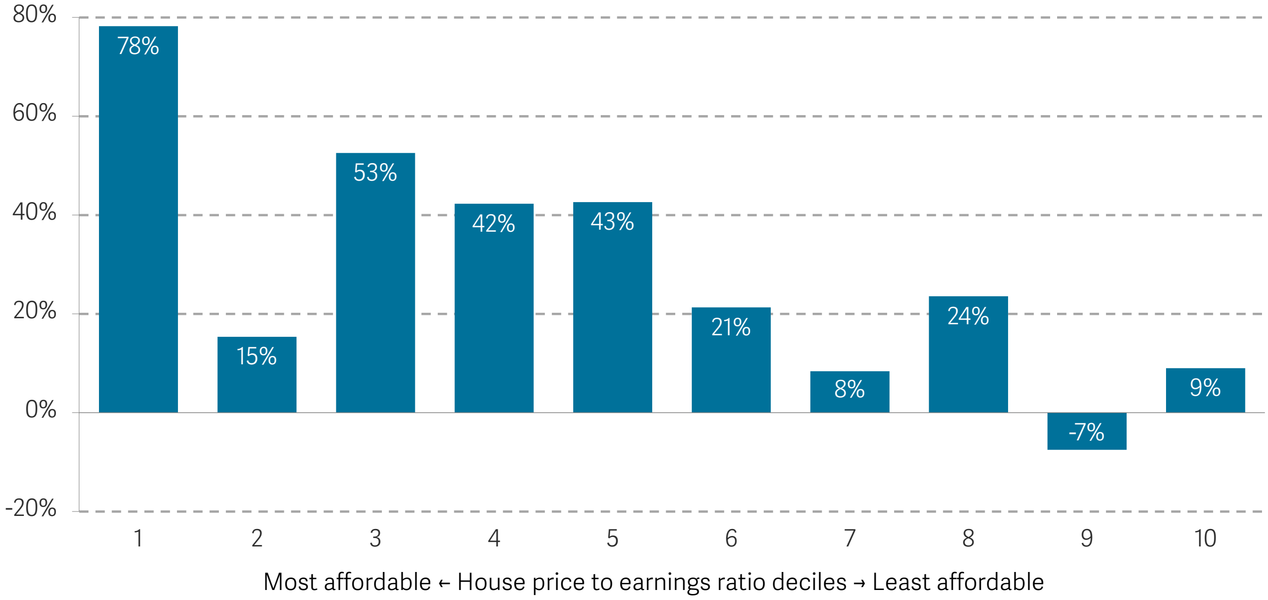
SOURCE: RF analysis of MHCLG, Outcome of the proposed revised method, August 2024.

We can also think about how these changes map onto measures of affordability. Although the 'affordability adjustment' in the calculation of local housing need has increased the extent to which housing targets in unaffordable areas are scaled up, scrapping urban uplifts and moving to a 'flat' baseline across England has meant that housing targets have increased proportionally by more in more affordable bits of the country. As shown in Figure 7, housing targets have increased by nearly 50 per cent on average across the most affordable half of local planning authorities (in terms of house prices relative to earnings), compared to just over 10 per cent on average for those in the least affordable half of local planning authorities. The reforms are motivated by affordability – "the worsening affordability of homes is the best evidence that supply is failing to keep up with demand" – but the new targets increase housebuilding by less in the most unaffordable parts of the country.[18]

18 Quotation taken from: MHCLG, Proposed reforms to the National Planning Policy Framework and other changes to the planning system, August 2024.

FIGURE 7: **Changes to housing targets have increased targets in more affordable areas of England**

Average percentage change in local planning authority housing targets between existing and revised method, by decile of house price to earnings ratio: England, 2024



NOTES: House price to earnings ratio deciles are calculated using a three year average of the latest published ONS data (2020 to 2023) for the workplace-based median house price to median earnings ratio by local authority (in line with the measure used to calculate local housing need).
SOURCE: RF analysis of MHCLG, Outcome of the proposed revised method, August 2024; ONS, Housing affordability in England and Wales: 2023.

The Government has justified its shift away from household projections by pointing to how outdated they are (based on 2014 data), and arguing that using households as a base for the measurement of future growth in housing need leads to "artificially low projections in some places, particularly where overcrowding and concealed households have suppressed household formation".[19] However, the shift to a baseline which imposes a 'flat' 0.8 per cent growth in housing stock across all local planning authorities is at odds with a strategy that maximises the growth of housing supply in less affordable areas of the country, where demand for housing is highest. Affordability is not the only relevant metric for where increases in housing supply should be targeted, and indeed the Government's announcements stress the importance of housing to "turbocharge growth".[20] But a method that has reduced housing targets in the rapidly growing, predominantly urban areas is unlikely to tick this box either.[21]

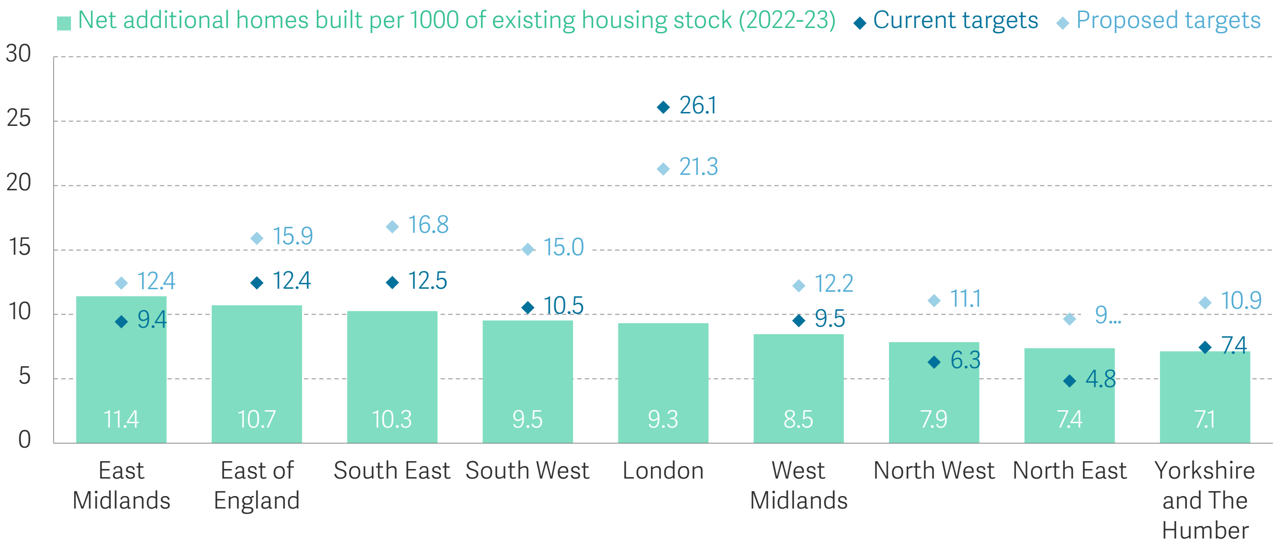
A reason to be more positive about the proposed changes to local targets is that the reductions to London's housing targets make them more realistic. As shown in Figure

19 Quotation taken from: MHCLG, Proposed reforms to the National Planning Policy Framework and other changes to the planning system, August 2024.
20 MHCLG and The Rt Hon Angela Rayner MP, Deputy Prime Minister on changes to national planning policy, July 2024.
21 E Fry & G Thwaites, The Growth Mindset: Sizing up the new Government's growth agenda, forthcoming.

8, even adjusting for the number of homes in the region, London's targets are hugely ambitious compared to current building rates. Around nine homes per 1,000 existing homes were added to the housing stock in 2022-23 in London, compared to over 26 which would be required by targets based on the existing standard method. This left average annual housebuilding in London over 60,000 homes short of the region's housing targets. And housebuilding in the capital would have had to increase by over 260 per cent to meet targets calculated using the existing standard method, which amount to nearly a third of all housing planned to be built in England. The reduction in London's housing targets using the Government's proposed changes reduces this shortfall against current housebuilding to just over 40,000 homes, requiring 21 additional homes per 1,000 existing homes. This would still require a near doubling of current levels of annual net additions to the housing stock in London. Given that the initial targets would never have been realised, reducing them will likely not reduce actual housebuilding very much.

FIGURE 8: **London's housing targets are unrealistic under the existing standard method**

Net additional homes per thousand of existing housing stock, 2022-23 outturn, and current and proposed targets, by region: England

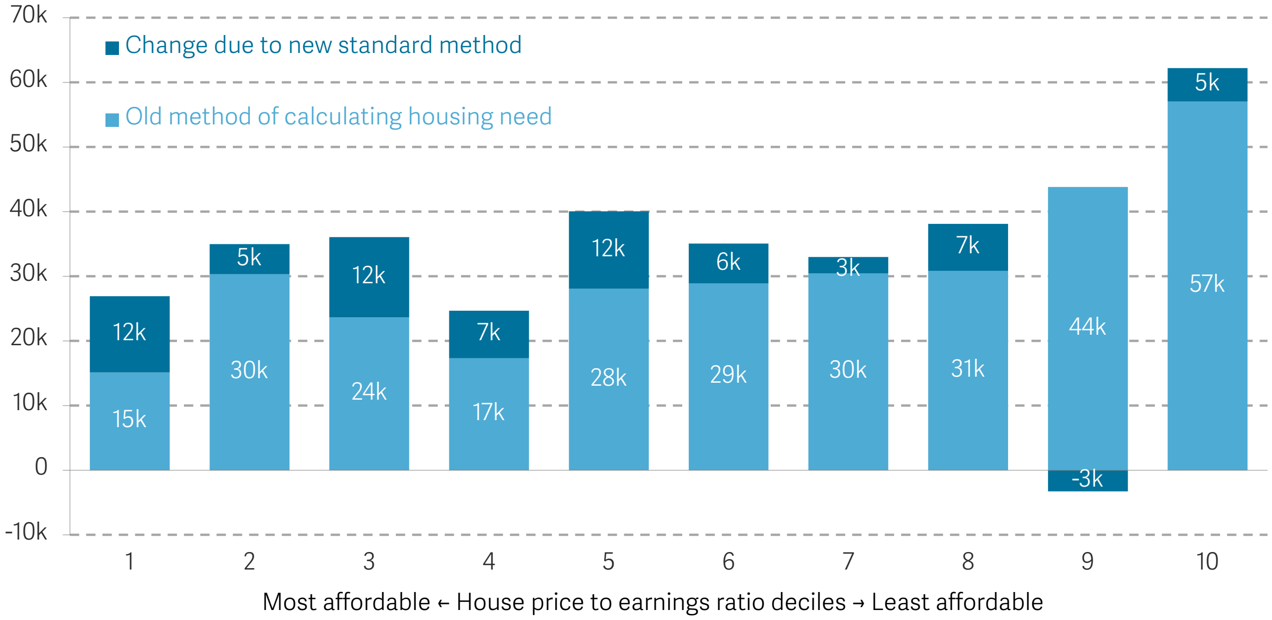


SOURCE: RF analysis of MHCLG, Outcome of the proposed revised method, August 2024; MHCLG, Live tables 100 & 118.

Moreover, housing targets are still higher in the least affordable parts of England in levels terms. As Figure 9 illustrates, despite housing targets rising proportionately by more in areas that are currently more affordable, the expansion of housing targets across the board means that nearly 30 per cent more homes are being planned for the most expensive half of local planning authorities in England than the least expensive half. Plans to build over 200,000 of the 370,000 required homes in areas with high levels of local housing demand are welcome.

FIGURE 9: **Overall, local housing targets remain skewed towards less affordable areas of England in levels terms**

Total change in local planning authority housing targets between existing and revised method, by decile of house price to earnings ratio: England



NOTES: House price to earnings ratio deciles are calculated using a three year average of the latest published ONS data (2020 to 2023) for the workplace-based median house price to median earnings ratio by local authority (in line with the measure used to calculate local housing need).
SOURCE: RF analysis of ONS, MHCLG.

In sum, the change to the calculation of local housing need places less weight on affordability, not more. However, given the current targets relied on unrealistically high allocations for London, and the proposed targets still target housing effectively according to affordability in levels terms, the damage it has done is minor.

The Government has also proposed changing how local planning authorities set out their housing strategies

The Government plans to strengthen the requirement on planning authorities to have up-to-date local plans. These documents set out the planning policies for a local planning authority, with a vision and framework for the future development of an area.[22] These are important, as they set a strategic direction for housebuilding at a local level, which can then be used as a reference point for planning committees when looking at

22 MHCLG, Factsheet: Local Plans (clause 6-11), accessed 29 August 2024.

applications. They are drawn up by local planning authorities through a process that includes developing and consulting on options for overall housebuilding strategies in the local area, providing local communities with an opportunity to input.[23] The creation of local plans therefore involves engagements with community groups, local businesses and the voluntary and community sector, among others.

Local plans are meant to be reviewed every five years, yet this is far from the reality on the ground. Currently, just one-third of local planning authorities have a local plan that is less than five years old.[24] The Government is currently consulting on how best to strengthen its ability to 'step in' if areas do not have up-to-date local plans, through revising or removing the criteria used to decide whether to 'intervene' and impose, for example, a "presumption in favour of sustainable development", requiring local planning authorities to "tilt the balance" towards approving development.[25]

These measures to improve the timeliness and relevance of local plans are welcome, given the opportunity they provide for constructive engagement in local planning strategies for the wider population, and the structure they provide local planning authorities when reviewing planning applications.

This focus on local plans sits alongside future legislation that promises to mandate areas to produce wider housing plans for city regions as a whole. This is a welcome change, particularly as a means of enabling England's second cities to integrate their housing strategies within a wider growth strategy for the city region.[26] Strategic planning is already in place in Greater Manchester, with the city producing a spatial plan, 'Places for Everyone', adopted in March 2024.[27] This began as the Greater Manchester Spatial Framework (GMSF) in 2014, with the current development plan setting out a strategy and land supply to meet housing, employment and sustainability targets, while minimising the extent of development on the Green Belt.

However, the Greater Manchester strategy also illustrates why the Government is looking to mandate strategic planning for combined authorities. Stockport, one of the constituent local authorities in Greater Manchester, chose to opt out of the plan during its early stages of development, undermining the creation of a full-city strategy. Under new proposals, elected Mayors will be supported to develop 'Spatial Development Strategies' for their areas, with universal coverage of strategic planning formalised in

23 Local Government Group, How planning works, May 2011.
24 MHCLG & The Rt Hon Angela Rayner MP, Housing targets increased to get Britain building again, July 2024.
25 MHCLG, Proposed reforms to the National Planning Policy Framework and other changes to the planning system, August 2024.
26 P Brandily et al., A tale of two cities (part 2): A plausible strategy for productivity growth in Greater Manchester and beyond, Resolution Foundation, September 2023.
27 Greater Manchester Combined Authority, Places for Everyone Joint Development Plan Document for Bolton, Bury, Manchester, Oldham, Rochdale, Salford, Tameside, Trafford and Wigan, March 2024.

legislation. This is welcome, given a wider geographic scope for spatial planning allows local planning authorities to deal effectively with the role different areas of a city should play in a growth and housing strategy, and allocate housing effectively over the city area, as well as how to manage contentious issues, such as the release of Green Belt land for development, at a city-wide level.

A dramatic boost to housebuilding will require significant changes to land use

With the Government proposing higher local housing targets, and more timely planning by local planning authorities on where to build, procuring enough land to build on is key. Another important pillar of the reforms addresses this challenge. This includes re-instating several requirements on local planning authorities that were diluted in the previous Government's December 2023 reforms. Most important here is the reintroduction of the requirement that local planning authorities must have an up-to-date register of sites that amount to a five-year land supply to meet their local housing need, plus a 5 per cent 'buffer' above this.

The Government's stated strategy is that they should prioritise building on 'brownfield' land, i.e. land which has been previously developed, stating that "the default answer to brownfield development should be "yes"".[28] More radically, the Government's proposals also include the release of certain types of Green Belt land for development. Currently, Green Belt land generally encircles cities, and is specifically protected from development so as to fulfil five purposes, including "to check the unrestricted sprawl of large built-up areas".[29] The Government is proposing that, where local planning authorities are unable to meet their targets using brownfield land, then they should release 'low quality' areas of Green Belt, termed 'grey belt'. The criteria for land to be considered 'grey belt' includes land that has been previously developed, or any other land in the Green Belt that makes "a limited contribution to the five Green Belt purposes".

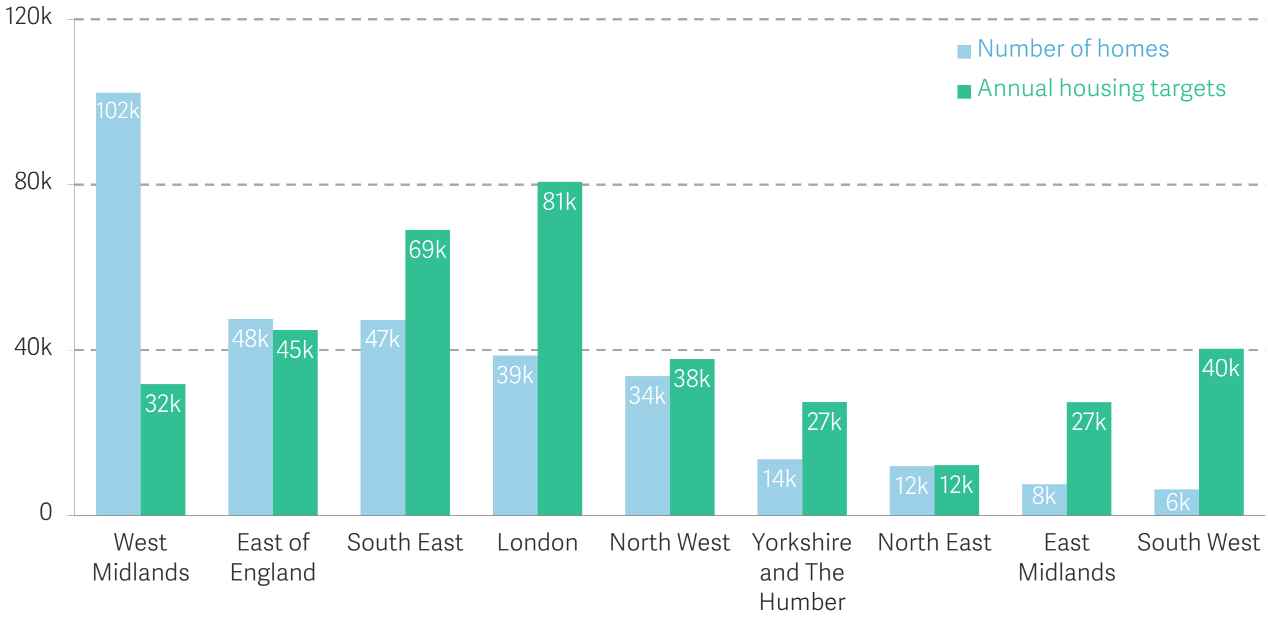
Industry estimates (which depend on identifying specific sites that could be considered 'grey belt') suggest around 100,000 to 200,000 homes could be built on currently available 'grey belt' land.[30] If we take land that is recorded as both Green Belt and previously developed as a proxy for 'grey belt' land, then we estimate that around 2,100 hectares of this land is currently available, which at current housing densities could support at

28 MHCLG, Proposed reforms to the National Planning Policy Framework and other changes to the planning system, August 2024.
29 The five stated purposes of Green Belt land are: "to check the unrestricted sprawl of large built-up areas"; "to prevent neighbouring towns from merging into one another"; "to assist in safeguarding the countryside from encroachment"; "to preserve the setting and special character of historic towns" and "to assist in urban regeneration, by encouraging the recycling of derelict and other urban land". For further detail, see: MHCLG, National Planning Policy Framework, December 2023.
30 Knight Frank, How can Britain's green belt boost housing numbers?, January 2024.

most 300,000 homes (see Figure 10) – but this is likely to be an over-estimate, as it does not account for any additional land required for non-housing infrastructure (e.g. roads) around these homes. Whichever is the better guide, it is clear that 'grey belt' alone is not the answer to the challenge of building 1.5 million homes – indeed, it amounts to less than a year's housing supply in all but two of England's regions.

FIGURE 10: **'Grey belt' land could realise land for an estimated 300,000 homes**

Estimated number of homes that could be built on 'grey belt' land and annual housing targets under new standard method, by region: England, 2022-23



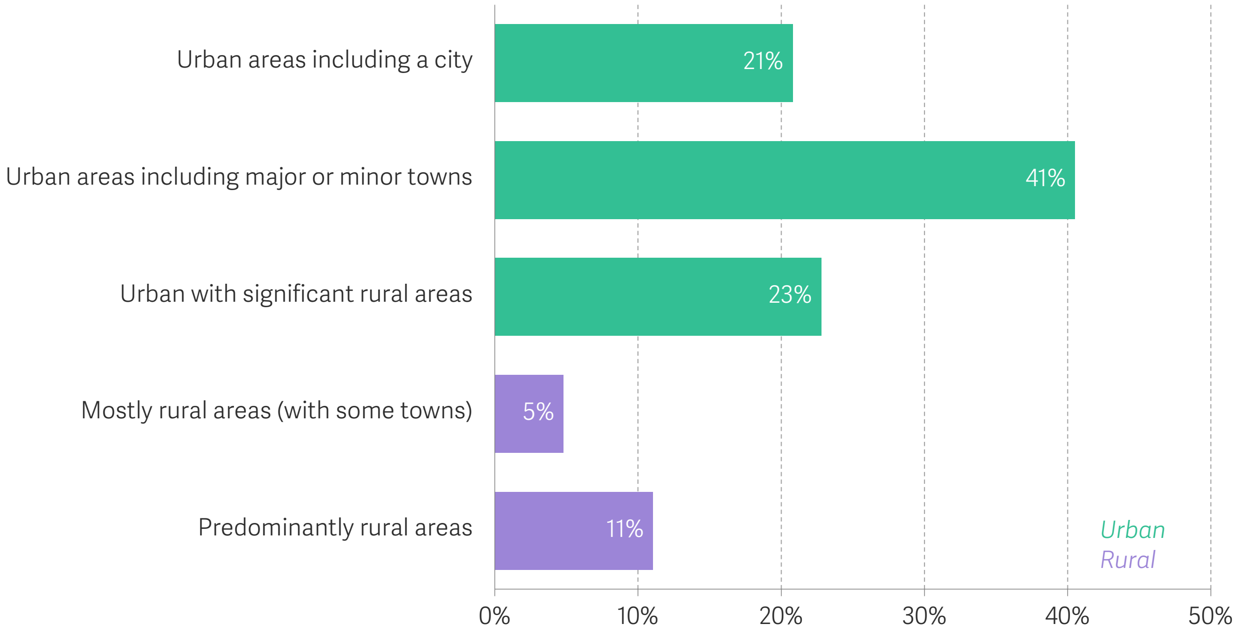
SOURCE: RF analysis of MHCLG, Land use statistics.

More positively, though, given the Green Belt in the most part deliberately surrounds cities, homes that are built on 'grey belt' land are at least likely to be close to urban centres, which are generally the areas of highest housing demand and lowest affordability. As illustrated in Figure 11, 84 per cent of homes that could be built on 'grey belt' land are within local authorities that are classified as at least partly urban, with over one-in-five in the most urbanised local authorities. Although this is not a guarantee that the specific plots of land that could be considered 'grey belt' would be well-connected to transport or utility networks, it does suggest that 'grey belt' land is broadly in the areas of highest housing need (and the areas where housebuilding is most likely to positively impact economic growth).[31]

31 E Fry & G Thwaites, The Growth Mindset: Sizing up the new Government's growth agenda, forthcoming.

FIGURE 11: **Nearly six in seven of the homes that could be built on 'grey belt' land are in urban local authorities**

Proportion of estimated number of homes that could be built on 'grey belt' land, by rural-urban classification of local authorities: England, 2022-23



NOTES: These urban and rural categories use ONS rural-urban classifications, 'mostly rural areas' relate to areas categorised as "rural including hub towns 50-79%" and 'predominantly rural areas' relate to the category "rural including hub towns > = 80%".
SOURCE: RF analysis of MHCLG, Land use statistics.

If we assume that local planning authorities are successful in releasing significant numbers of both brownfield and 'grey belt' land, then how much more land would be necessary to deliver 1.5 million homes?

Given that changes of use of existing buildings (such as the conversion of offices) adds to the Government's target of 1.5 million net additions, this brings the total number of homes that would require 'new' land to 1.4 million. There is currently nearly 8,250 hectares of vacant and previously developed land (i.e. 'brownfield) in local authorities in England that could plausibly be used for housing. This total excludes areas that are predominantly rural, and so will likely play less of a role in delivering the Government's housing targets, and assumes a small portion of currently vacant land (less than 15 per cent) will need to be used for other buildings, such as offices.[32] If we assume that a similar amount of brownfield is 'created' over the coming Parliament (for example, through demolitions of other structures), as has been the case over the last five years, then we can add a further 7,000 hectares of land to this total.

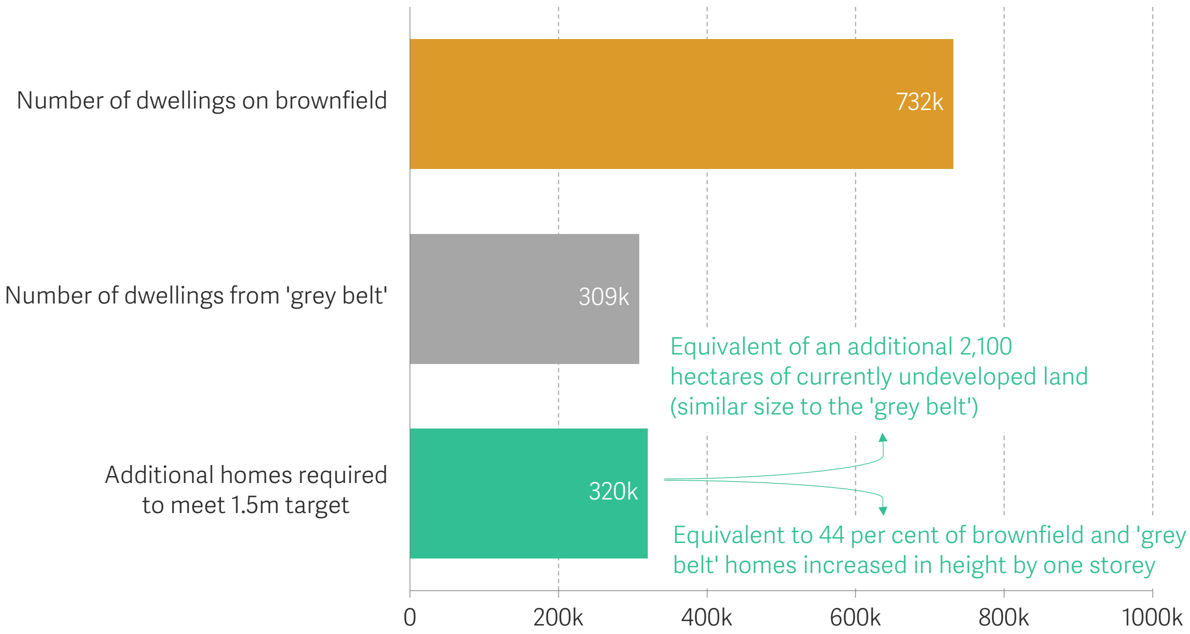
32 Here brownfield land is defined as land that is marked as 'vacant' but previously developed, under MHCLG's land classifications.

If we make a generous assumption that 50 per cent of this brownfield land could actually be built upon, then there could be room for 730,000 homes on brownfield land across England in non-rural areas. This is higher than the proportion of brownfield sites that currently hold planning permission, which is around 45 per cent – and viability challenges remain, given that brownfield land, particularly that previously used for industry, can be expensive to remediate, meaning that many sites may not be viable for private developers. Nonetheless, our estimate of 730,000 more homes from existing brownfield land remains lower than estimates based on analysis of local planning authorities' registers of brownfield sites: some estimates imply that around 1.2 million homes could be built on existing brownfield land.[33]

Taking an additional 730,000 homes built on brownfield land as a plausible estimate, and adding the estimated homes that could be built on 'grey belt' land above, would realise land for over one million homes (Figure 12). To meet the Government's targets, this would mean land for over 320,000 more homes would potentially be needed. This would require around an additional 2,100 hectares of currently undeveloped land to be built on (a similar amount as we suggest could be released from the Green Belt as 'grey belt').

FIGURE 12: **Land for a further 320,000 homes would be required, after a brownfield and 'grey belt' first approach**

Estimated number of homes that could be built on brownfield, 'grey belt' land, and remaining homes that would be required to meet the Government's targets: England



SOURCE: RF analysis of MHCLG, Land use statistics.

33 CPRE, Record breaking number of brownfield sites identified for redevelopment, December 2022.

The above analysis assumes that additional housing will be built at the same density as current homes. However, densification is a key strategy that could be used to minimise the extent to which land availability constrains housing supply. Densification of existing residential land has yet to be a prominent feature of the Government's housing strategy, which is surprising given the UK currently has relatively low-density housing, particularly in its second cities.[34] As an illustrative example, the additional undeveloped land in Figure 12 would not be required were new homes on brownfield and 'grey belt' land built at a higher density than currently; the shortfall is equivalent to 44 per cent of these homes having an additional storey.

In summary, a 'brownfield first' approach is welcome, and the release of 'grey belt' land will likely result in land for a small, but not negligible, number of homes. It remains difficult to see how the Government's housing targets will be met without building on currently undeveloped land, or densification of existing housing.

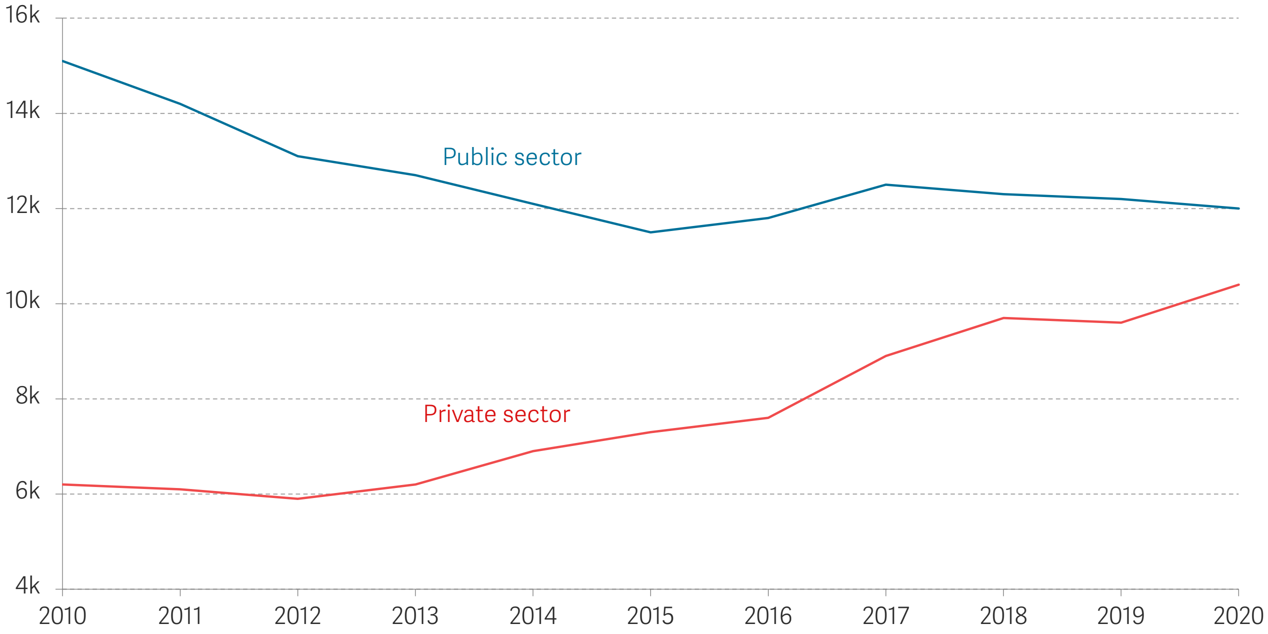
The Government has also pledged to increase the capacity of local planning departments

Aside from increasing targets, and finding the land available to meet them, the Government has also expressed ambitions to increase the resources available to local planning authorities to deal with a higher level of applications. In their manifesto, the Labour Party pledged funding for 300 more public sector planners. But this is a drop in the ocean compared to the exits from the sector seen in recent years, with the number of planners in the public sector falling from just over 15,000 in 2010 to 12,000 in the latest data.[35] An increase of 300 planners translates to fewer than one additional planner per local authority in England, and represents less than 10 per cent of the total fall in public sector planners since 2010. Such a small increase is unlikely to have a material impact on equipping the planning system for kickstarting housebuilding to the levels required.[36] On the other hand, as Figure 13 shows, the increase in private sector planners since 2010 outweighs the fall in public sector planners, so, in principle, trained planners do exist to fill these newly-created vacancies.

34 P Brandily et al., A tale of two cities (part 1): A plausible strategy for productivity growth in Birmingham and beyond, Resolution Foundation, September 2023.
35 HM Treasury and The Rt Hon Rachel Reeves MP, Chancellor Rachel Reeves is taking the immediate action to fix the foundations of our economy, July 2024.
36 S Metcalfe, How the government can build more homes, Institute for Government, August 2024.

FIGURE 13: **300 additional planners would reverse less than 10 per cent of the total fall in public sector planners since 2010**

Number of planners working in the public and private sector: UK



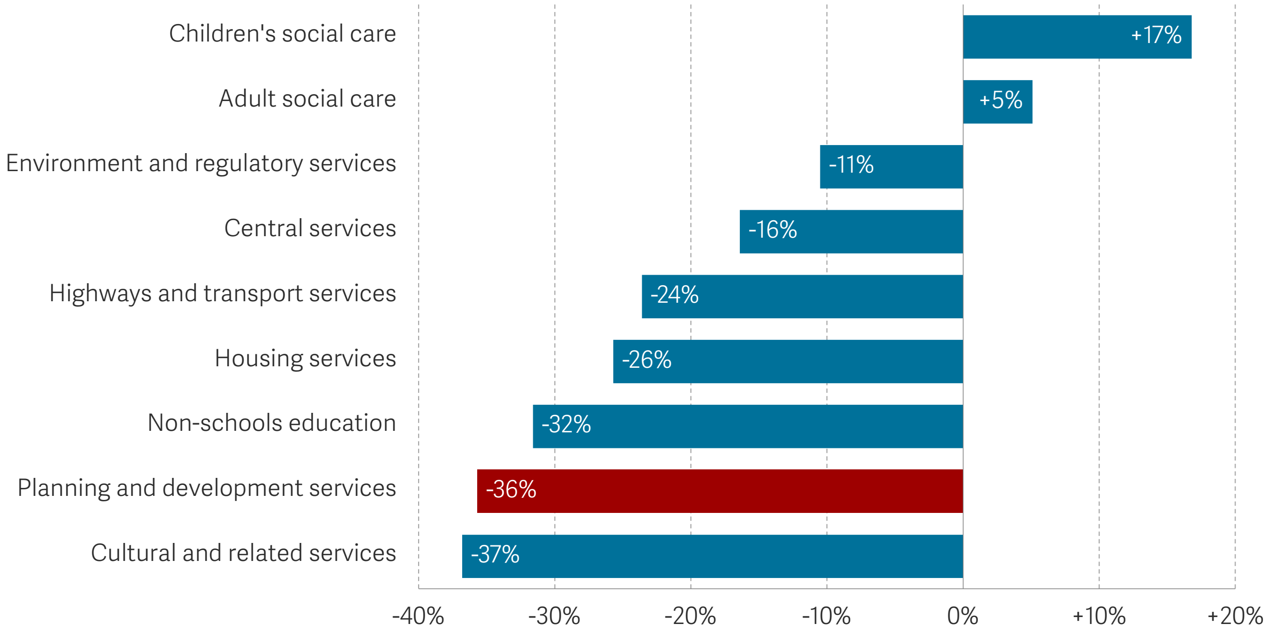
SOURCE: Royal Town Planning Institute, State of the Profession 2023.

The falling number of public sector planners is in part driven by the wider financial challenges facing planning departments, with the funding available for planning and development services cut significantly over the past decade. Although increases to planning application fees have been announced, and additional powers for local planning authorities to set their own fee structures floated, this is unlikely to reverse the significant budget squeeze affecting many local planning authorities. Figure 14 shows that, among local government services, planning services have been among the hardest hit, facing a real-terms spending cut of 36 per cent since 2010.[37] Given this context, further funding commitments from the Government may be necessary to place local planning authorities on a stable footing, although the promised Planning and Infrastructure Bill may yet address these challenges.

37 National Audit Office, The local government finance system in England: overview and challenges, November 2021.

FIGURE 14: **Planning departments have faced significant cuts**

Percentage change in real local government net expenditure, by service: England, 2010-11 to 2019-20



SOURCE: National Audit Office, The local government finance system in England: overview and challenges, November 2021.

The Government could go further with more radical planning reform

The above measures amount to a welcome, but relatively cautious, reform of England's planning system thus far. Whether this will be successful in dramatically increasing housebuilding remains to be seen, but there are more radical planning reforms that could be implemented should the current measures fail to deliver at scale. This would likely involve a shift from England's discretionary planning system towards a zoning or 'rules-based' system as is in place in many other countries. In such a zoning system, residents and local councillors would feed into local plans in order to set out areas for development. But once such a plan is implemented, developments in line with the plan would proceed automatically, rather than being decided on a case-by-case basis as is done now.[38]

Some have argued that this type of zoning is the key to unlocking housing supply, leading to the more efficient use of land and increasing the amount of land available for development.[39] It would also provide more certainty in a system which the IMF currently describes as "highly unpredictable".[40] However, zoning could also limit housebuilding through a failure to designate enough residential space or the prevention of housing

38 T Bell, Great Britain? How we get our future back, The Bodley Head, June 2024.
39 A Breach, Planning for the future: How flexible zoning will end the housing crisis, Centre for Cities, June 2020.
40 A Carella, P Deb & N Haider, Construction planning reforms for growth and investment – United Kingdom, IMF, July 2024.

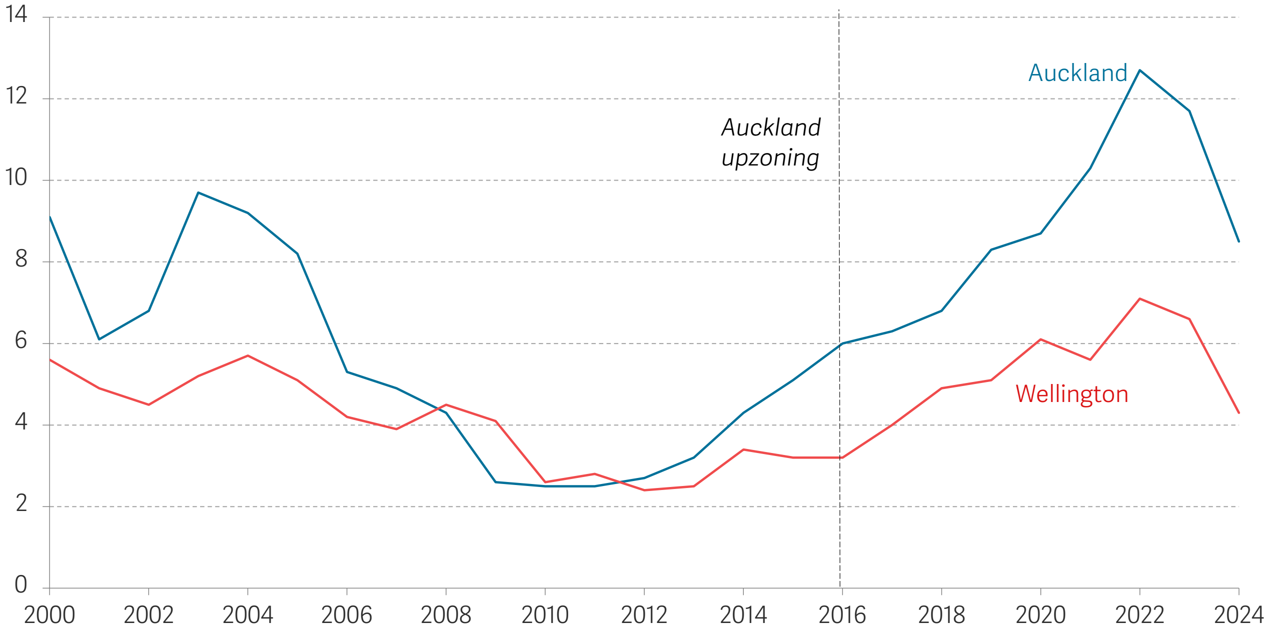
being built up to a level of density that would perhaps otherwise be the case in a more flexible system.[41]

Moving to a zoning system might also make it easier to densify England's built-up landscape, if it included relaxing laws around 'building up'. This was successful in Auckland, New Zealand, which in 2016 launched a form of 'upzoning' for nearly three-quarters of its residential land.[42] The result was a significant increase in the number of new dwellings consents compared to other cities in New Zealand. For example, the number of new dwellings consented per 1,000 residents increased from six in 2016 to around 13 in 2022 in Auckland, while the increase in Wellington was a more modest three to seven.

FIGURE 15: **Upzoning in Auckland boosted planning consents**

Number of new dwellings consented per 1,000 residents, Auckland and Wellington: New Zealand

SOURCE: Stats NZ, Building consents issued: March 2024



There has been some mixed success in implementing a much smaller-scale version of this type of planning in England already, such as in Croydon. In 2018, the ruling Labour administration in Croydon published guidance which allowed homeowners to redevelop family homes into medium-rise apartments of multiple units, so long as they retained the building materials and form of the area.[43] This was a rules-based approach that applied to the whole borough, with no exceptions, in effect creating a mini zoning system in Croydon (when it came to this specific type of development). As a result, annual new dwellings in

41 G Salutin, Beyond the comfort zone, Social Market Foundation, April 2024.
42 R Greenaway-McGrevy & P Phillips, The impact of upzoning on housing construction in Auckland, Journal of Urban Economics, July 2023.
43 J Burn-Murdoch, What Texas can teach San Francisco and London about building houses, Financial Times, 23 February 2024.

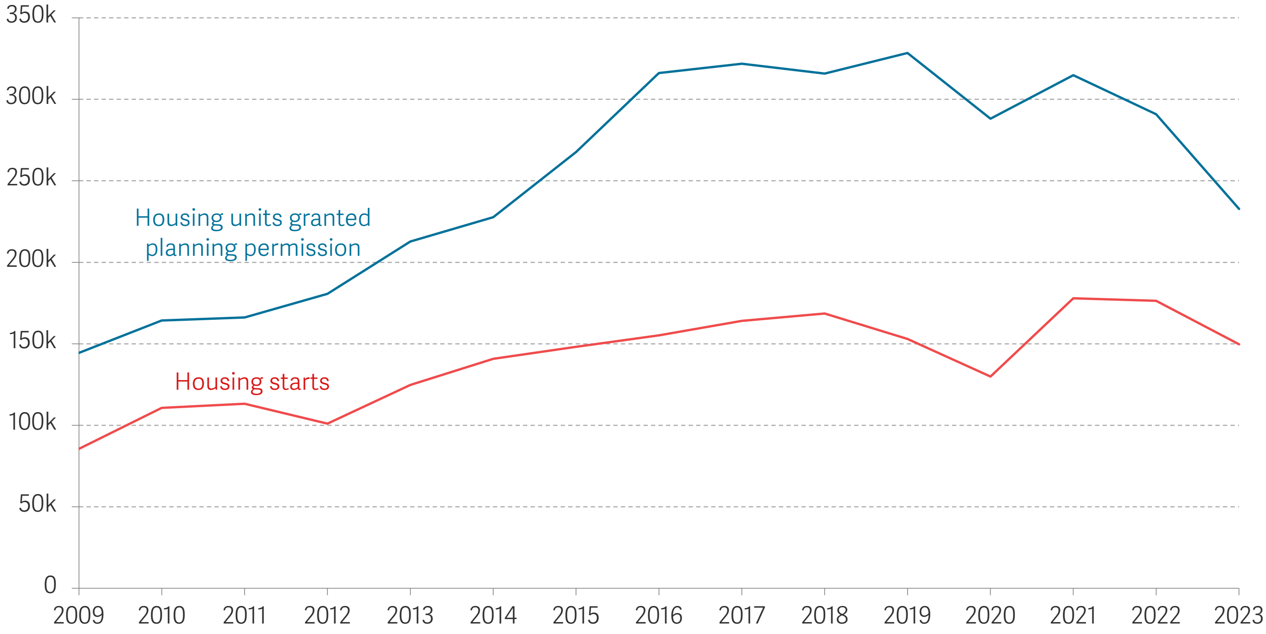
small developments more than tripled in Croydon from less than 200 in 2018 to over 600 by 2021.[44] However, the policy was not universally popular and was repealed in 2022, when the Council (and Mayoralty) changed hands in the local elections in May that year. More ambitious reforms to planning are, therefore, certainly possible should the 1.5 million target look to be unachievable, although some of these would inevitably face political or popular opposition.

Planning reform may not be sufficient to radically increase housebuilding

However, reform of the planning system may not be the 'silver bullet' that unleashes the dramatic increase in housebuilding the Government has promised. Even if the planning reforms proposed are successful in making it easier for developers to gain planning permission, there is evidence this may not straightforwardly correspond to proportionally higher housebuilding. As Figure 16 shows, even when planning permission is granted, not all these housing units get built. Although the number of annual housing starts and housing units granted planning permission see similar trends over time, there remains a sizeable gap between the measures. For example, in 2023, there were over 80,000 fewer starts compared to the number of housing units that were granted planning permission (with the caveat that this gap has narrowed over the 2020s so far).

FIGURE 16: **Housing starts increase with higher planning permissions, but there is a substantial gap between permissions and starts**

Number of housing units granted planning permission and housing starts: England



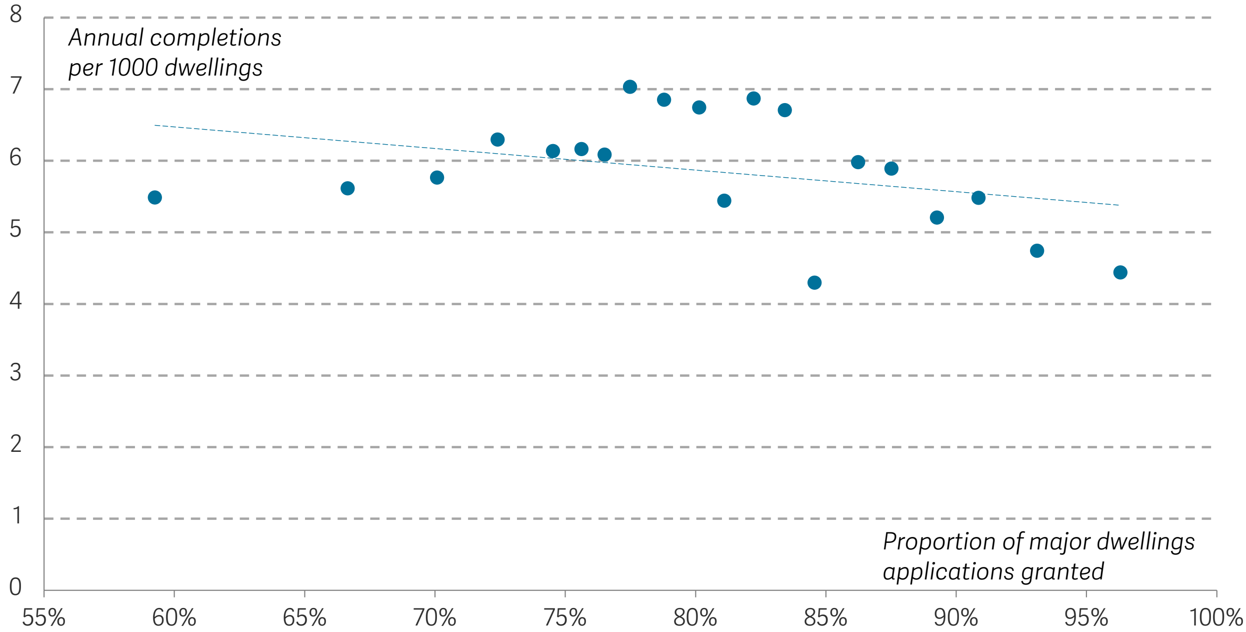
SOURCE: Glenigan planning permission data: snapshot as at 23 May 2024; MHCLG, Table 244.

44 J Burn-Murdoch, What Texas can teach San Francisco and London about building houses, Financial Times, 23 February 2024.

Moreover, the evidence linking planning approvals and the supply of homes is mixed. Although, as set out in Figure 4, there is evidence that areas that approve more applications relative to their size build more homes, there is also evidence available that appears to contradict this. Figure 17 plots the number of major dwellings applications (planning applications for ten or more dwellings) approved in different local planning authorities against the number of annual completions per 1,000 dwellings. Here, we see no positive relationship between approval rates and housing completions. This may in part be down to areas with very high approval rates, but low numbers of applications, who therefore build very little. But it does problematise the straightforward assertion that areas that approve more applications are stronger housebuilders.

FIGURE 17: **There is no strong relationship between approval rates and completions, unlike total approvals and completions**

Average number of completions per 1,000 dwellings and major dwellings applications approval rates by local planning authority: England, 2009-10 to 2023-24



NOTES: Major refers to planning applications for 10 or more dwellings. Bin scatter plot used with local planning authorities separated into 20 bins. Planning decisions made by development corporations are excluded.
SOURCE: RF analysis of MHCLG, District Planning Application Statistics (PS2); MHCLG, Live Tables253a; MHCLG, Dwelling stock by tenure and local authority, England.

Looking to why we might be seeing constraints on housebuilding unrelated to planning, the Competition and Markets Authority (CMA) and others have argued that private developers simply do not have commercial incentives to build at greater pace. The CMA's study this year cited possible constraints (alongside planning) on housing supply such as the build-out rate – the rate at which housebuilders build on sites that have been granted planning permission. Their report describes the phenomenon of a 'local absorption rate', whereby developers build out houses only at a rate at which houses can then be sold without a fall in price.[45] Further, the Letwin review in 2018, which focused on the issue of slow build-out rates, noted with regard to developments sites that "the homogeneity of the types and tenures of the homes on offer on these sites, and the limits on the rate at which the market will absorb such homogenous products, are the fundamental drivers of the slow rate of build out".[46] These both point to constraints on England's housebuilding beyond the planning system.

Ultimately, although we judge that there is some convincing evidence that planning reform is likely to be necessary, it may not be sufficient to boost housebuilding. The Government should see planning reform as part of a broader range of policies to kickstart housebuilding, as opposed to a 'silver bullet'.

Turning planning permissions into homes will be demanding for the construction sector

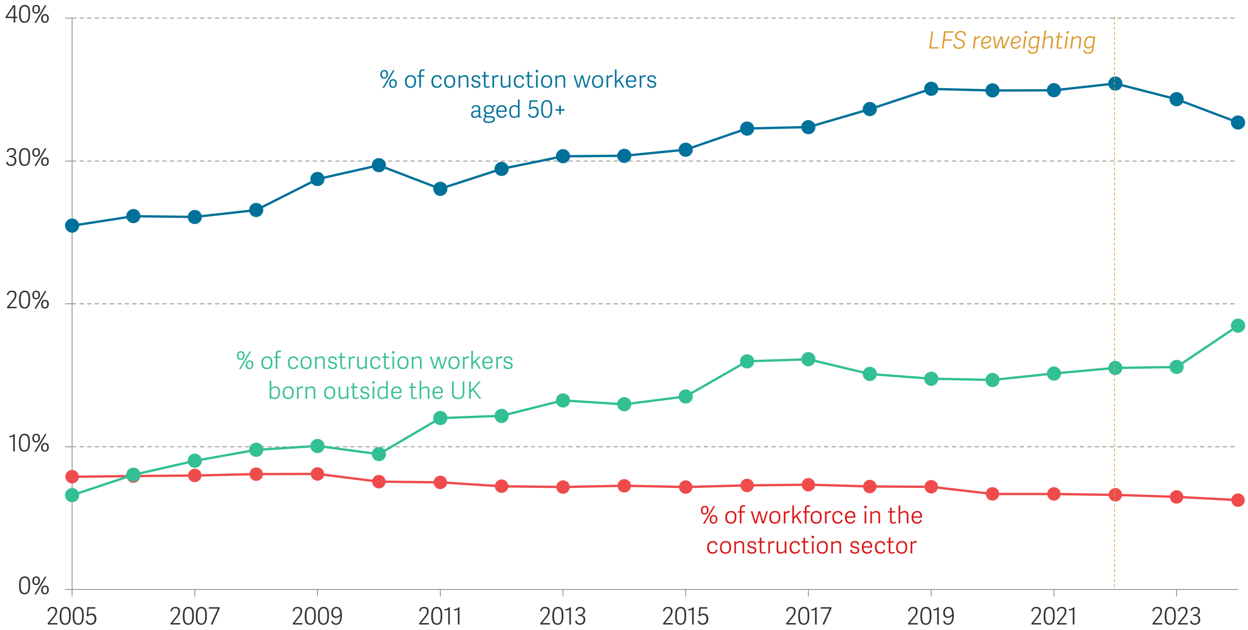
In this vein, even if planning reform delivers a dramatic ramping-up of planning approvals, this does not guarantee that these will automatically convert to homes being physically built. For example, a different possible type of constraint on housebuilding is that a boost to planning approvals is achieved, but there are not enough workers or materials to build them. And there has been significant concern expressed by industry bodies around the construction sector's capacity to build homes at a larger scale, with the Construction Industry Training Board suggesting the Government plans would require over 150,000 additional workers in skilled construction trades.[47]

As Figure 18 shows, there are reasons to be concerned about the future capacity of the UK's construction labour force. The proportion of England's workforce that is in the construction sector has fallen from 8 per cent in 2005, to just over 6 per cent nearly two decades later. And the composition of England's construction workforce has also changed, and, like many sectors, is increasingly reliant on an aging workforce and workers born outside the UK. The proportion of construction workers aged 50 or over rose from around one in four to a third between 2005 and 2024, and the proportion of workers born outside the UK more than doubled from under one-in-ten in 2005, to nearly one-in-five today.

45 Competition and Markets Authority, Housebuilding market study, March 2024.
46 MHCLG and HM Treasury, Independent review of build out: final report, October 2018.
47 P Foster, J Oliver & J Pickard, Labour's homebuilding plans at risk from skills shortage, industry says, Financial Times, July 2024.

FIGURE 18: **The construction workforce is increasingly older, and born outside of the UK**

Proportion of workers in the construction sector, and proportion of construction workers aged 50 or over / born outside of the UK: England, 2005 to 2024

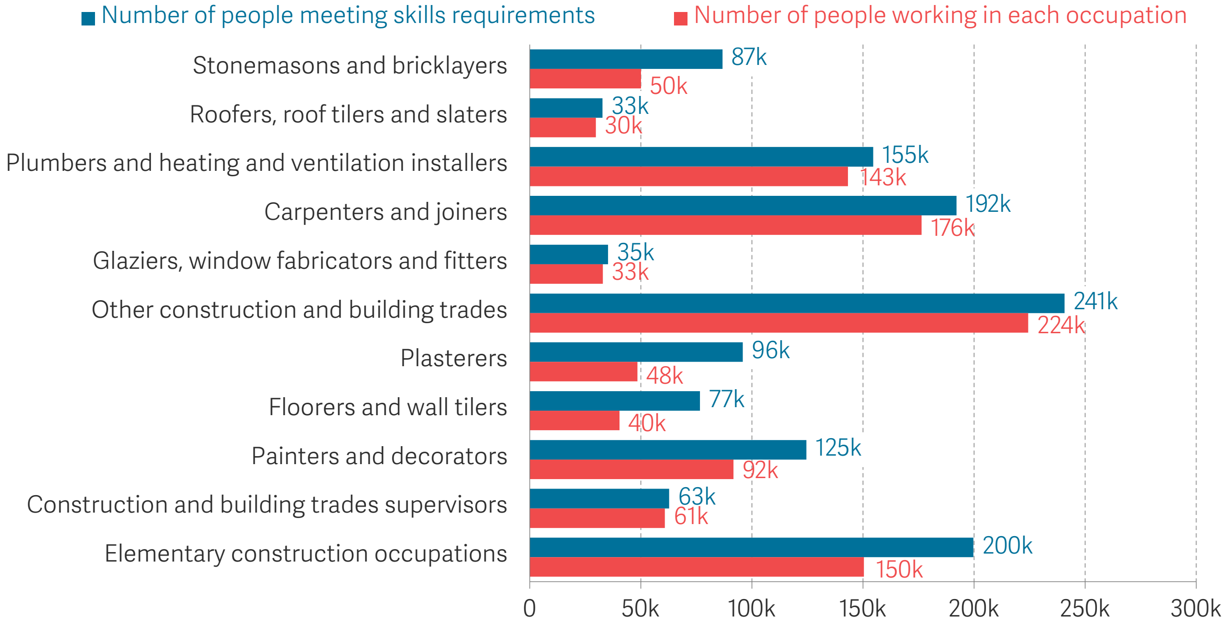


NOTES: Sectoral classification relates to workers' main jobs. Discontinuity in Q2 2022 due to ongoing Census 2021 reweighting of LFS data.
SOURCE: RF analysis of Labour Force Survey.

On the other hand, there are reasons to be cautiously optimistic about the ability of the construction sector to rise to the challenge set by much higher housebuilding targets. Figure 19 shows estimates of the supply of workers in the UK that have the relevant skills to work in the construction industry by the Office of National Statistics (ONS), which significantly exceed the number of workers currently in these professions. For example, the UK's Labour Force Survey records 50,000 workers in the profession of stonemason or bricklayer, but the ONS' skills estimates suggest 87,000 workers in the labour force have the skills to work in this profession – an additional 37,000 workers. This suggests there is a wider pool of potential construction workers in the UK's workforce, which could be drawn on should skills shortages become a constraining factor in housebuilding.

FIGURE 19: **There are many workers with the skills required to perform jobs in the construction sector**

Number of workers in the workforce meeting the skills requirements for a given occupation, and number of workers currently working in that occupation: UK, 2022



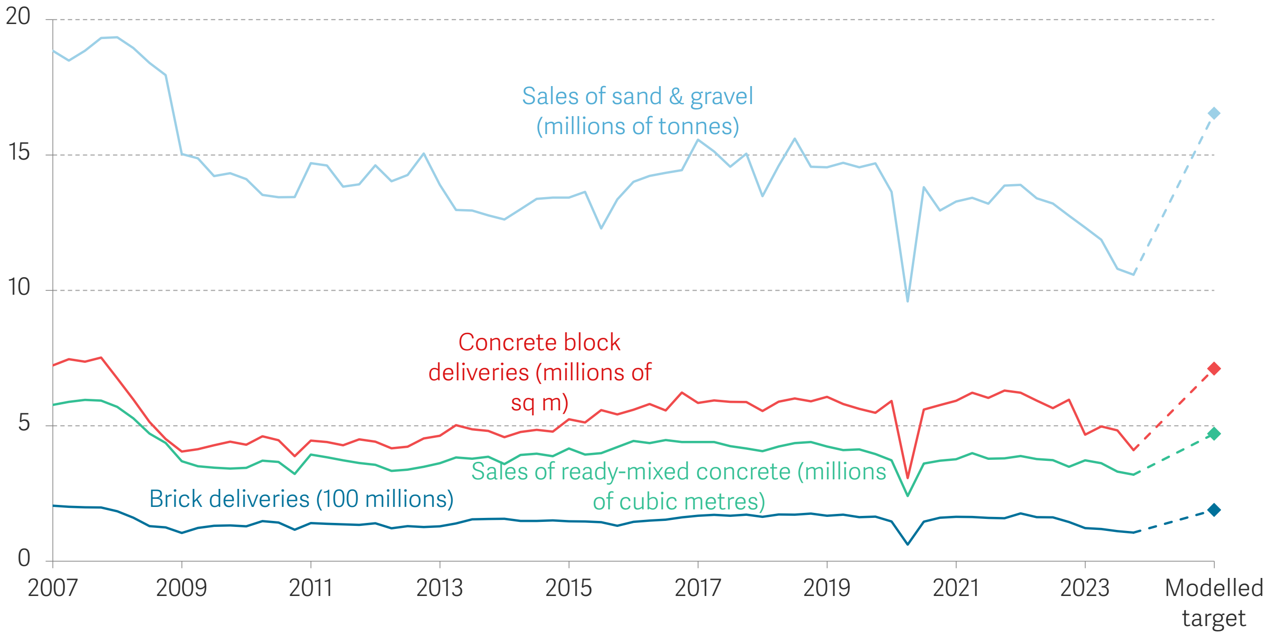
SOURCE: RF analysis of Labour Force Survey; ONS, Skills supply estimates in the UK: 2012 to 2023.

The availability of construction materials to build homes is a further possible constraint on the sector. If the demand for construction materials were to expand in proportion to the expansion of the housing stock targeted by the Government (this will be an overestimate, given that construction materials are also used for other, less rapidly growing, forms of infrastructure), then the quantities required would be much higher than current supply. As shown in Figure 20, assuming a 28 per cent increase in the demand for various common building materials would require supply to return to levels seen before the financial crisis. Although this is within historical precedent, the decline in demand for these building products in the wake of the financial crisis resulted in permanent 'mothballing' of factories, making it challenging to return to these levels of production rapidly.[48] This is likely to be a challenge for the sector should a dramatic increase in housebuilding materialise via the removal of planning constraints.

48 T Macalister, Brickmakers lay off hundreds of workers, The Guardian, November 2008.

FIGURE 20: **Increasing the supply of building materials would return these to pre-financial crisis norms**

Sales and deliveries of sand, gravel, concrete and bricks: Great Britain



SOURCE: RF analysis of Department for Business & Trade, Construction building materials, August 2024.

Finally, the construction sector overall would not need to expand if housebuilding instead reallocates and displaces other construction activity. Although this may be a reason to be more relaxed about whether construction constraints will limit housebuilding over the near-term, this reallocation would obviously have negative effects on other forms of important construction activity.

Public investment is likely to be key to delivering the Government's social housing ambitions

If, as set out earlier, private developers lack the incentives to build homes at the pace required, how else could the Government boost housing supply? Periods in the post-war years where England has delivered a sustained boost to housebuilding have been where the state has provided significant investment. As illustrated in Figure 21, at the peak of 20th century housebuilding in 1968, nearly two-in-five homes were built through the public sector, compared to just under a quarter of homes in 2023. This has in part been down to the state's ability to provide housing at pace in periods when the private market has been unwilling or unable to, and to acquire low-cost land (Box 3). The Government's promise to "further reform compulsory purchase compensation rules", to ensure land can be acquired in as cost-effective a way as possible, is therefore a welcome step in the direction of boosting housebuilding through the public sector.

BOX 3: Post-war housebuilding

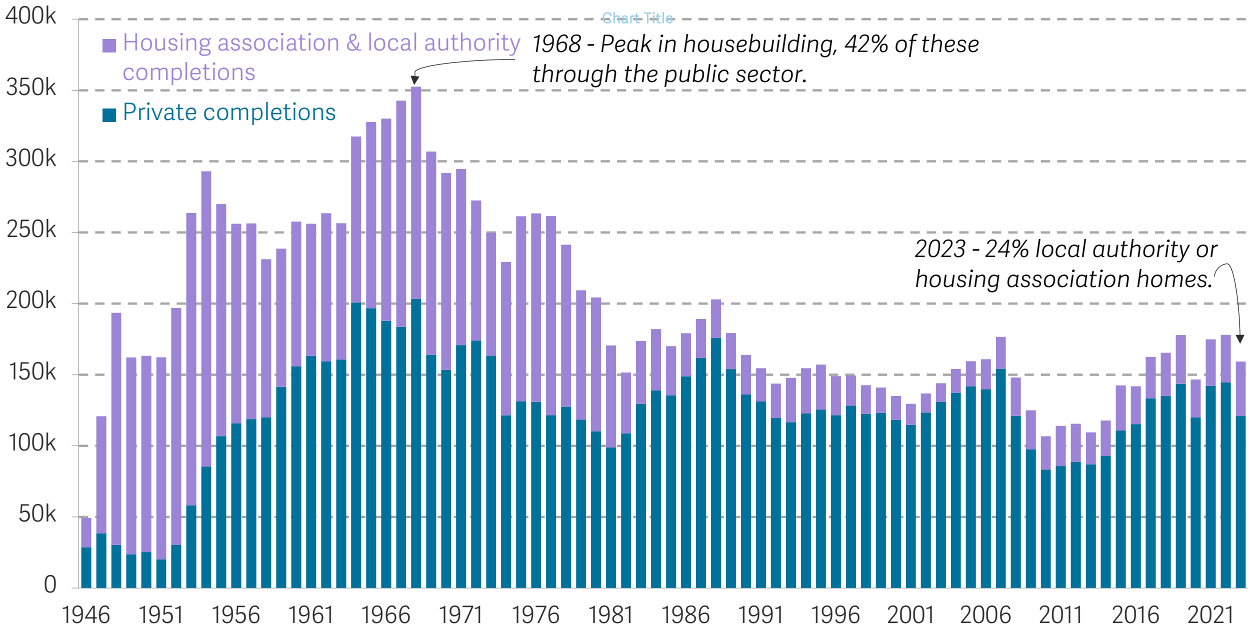
In the post-war years, successive governments took advantage of powers in the Town and Country Planning Act 1947 and the New Towns Act 1946 to compulsorily purchase land at close to pre-existing prices.[49] This cheap land meant that public investment could drive up housebuilding quickly. The Town and Country Planning Act 1947 was the birth of today's planning system, in that it created the need for planning permission for both construction and change of use of a building.[50] But it suppressed private housebuilding, meaning that public investment had to increase to compensate.[51]

Further legislative changes including the Town and Country Planning Act 1959 and the Land Compensation Act 1961 led to compensation arrangements for landowners that limited the government's ability to purchase land at low cost. This hindered public investment into social housing, something which has lasted to this day, and explains the sustained fall in housebuilding since 1970 – the time when the impact of those two pieces of legislation fed through into completions owing to the lag between councils purchasing plots of land and houses being built on those plots.[52]

49 Housing, Communities and Local Government Committee, Building more social housing, Third report of session 2019-21, July 2020.
50 Housing, Communities and Local Government Committee, Building more social housing, Third report of session 2019-21, July 2020.
51 S Watling, Why Britain doesn't build, Works in Progress, May 2023.
52 Housing, Communities and Local Government Committee, Building more social housing, Third report of session 2019-21, July 2020.

FIGURE 21: **Nearly two-fifths of homes were built by the public sector at the height of post-war housebuilding in England**

Number of permanent dwellings completed, by tenure: England, 1946 to 2023



NOTES: This measure relates to the total number of completions of new dwellings, and does not for example include the effect of demolitions or changes of use on the housing stock.
SOURCE: DLUHC, Live table 244.

Moreover, the possible scale of delivery isn't the only reason to focus on public investment as a means of delivering the Government's housing targets. Thus far we have primarily focussed on what the Government needs to do to meet its target of 1.5 million additional homes by the end of the Parliament – but the tenure mix and quality (see Box 4) of the housing delivered also matters, with the Government emphasising its commitment to social housing. Currently, the Government has committed to meet with "major developers ... to ensure that they commit to matching our pace of reform", to mandate that 50 per cent of homes built on 'grey belt' land are affordable housing with a "focus" on social rent, and to introduce more flexibilities in the current Affordable Homes Programme, bringing forward "details of future government investment at the Spending Review".[53]

53 MHCLG & The Rt Hon Angela Rayner MP, Housing targets increased to get Britain building again, MHCLG, July 2024.

BOX 4: The need for more homes comes at the same time as tough new energy standards, but these should not be used as an excuse to slow supply

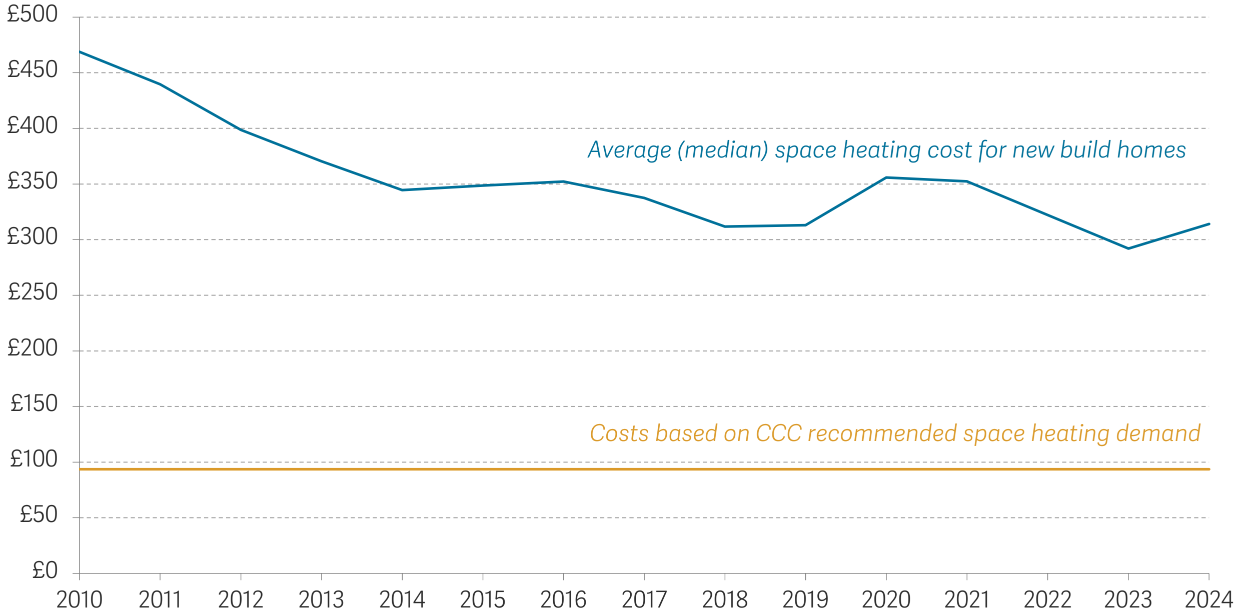
The need to increase housing supply coincides with incoming stringent rules to reduce energy consumption and carbon emissions from new homes. Decarbonising homes remains a black spot in the UK's journey to net zero – emissions have not materially fallen for a decade – and new homes are the easiest part of this puzzle to solve.[54] Costs to insulate homes and install clean heating systems are lower if incurred when homes are being built than were they to be retrofitted, and there is no disruption to families if they are not yet living in these houses.

The Future Homes Standard is expected to come into effect in 2025 (although a delay is not inconceivable considering this is now just a few months away) and ensure that now homes have 'world leading' levels of energy efficiency, cutting per-home emissions by 75-80 per cent compared to current standards. [55] More efficient homes also mean lower bills for occupants, and Figure 22 shows that there has been something of a hiatus on making new homes more efficient for over a decade, and that there is a significant gap between current performance and limits suggested by the Climate Change Committee.[56] Closing this gap would mean a reduction in heating costs of £230 for new homes compared to those built over the past five years.

54 Climate Change Committee, UK Housing: Fit for the future?, February 2019.
55 DLUHC, The Future Homes and Building Standards: 2023 consultation, March 2024.
56 The Government is yet to finalise details of the Future Homes Standard, and as such we have used the upper bound of the 15-20 kWh per year per square metre recommendation from the CCC.

FIGURE 22: **There is a sizeable gap between the energy efficiency of new homes and levels recommended for the Future Homes Standard**

Average annual heating costs for new homes, at current gas prices, by construction year: England



NOTES: Chart shows costs of energy use only and only for gas-heated homes, standing charges excluded. Figures based on current (Q3 2024) retail gas prices and based on an 80 square metre home. Energy use values extracted from modelled space heating demand under the SAP process which was then converted to a kWh per square metre figure for all new properties awarded an EPC certificate in that year. CCC heating demand limit is based on the upper end of the recommended 15-20 kWh per square metre recommendation.
SOURCE: RF analysis of DLUHC EPC register, DESNZ Energy price indices, CCC data.

Further, the Future Homes Standard will ensure that new homes are not connected to the gas grid, instead being largely heated by heat pumps. The UK is highly exposed to international gas prices, especially in our homes which are predominantly heated by gas. Just 14 per cent of new homes sold in England in the first half of 2024 are heated by heat pumps,[57] a significant improvement on the average of 4 per cent observed from 2010 to 2022, but a far cry from what is needed to make a material dent in the carbon emissions produced from the nation's housing stock.

However, heat pumps, insulation and solar panels will add to build costs, estimated at £4,400 per home.[58] These extra costs for developers prompted the previous Government to express concerns that ambitious standards could act as a drag on new home construction by reducing profits or reducing the viability of some projects. This argument is not new: the Zero Carbon Homes scheme that was set to

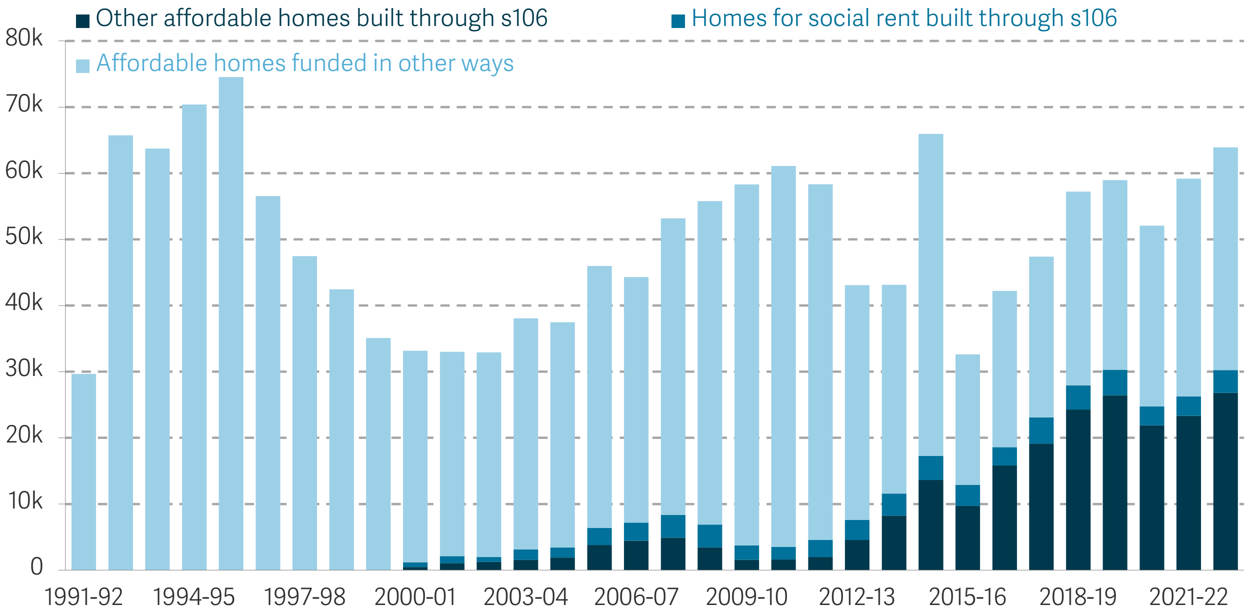
57 Source: RF analysis of MHCLG EPC Register data.
58 DLUHC, The Future Homes Standard – Consultation-Stage Impact Assessment, December 2023.

come into effect in 2016 was cancelled at the last minute on the basis of similar concerns, leading to the construction of more than a million new homes in which families will face higher energy costs than they need to.[59]

Much of the Government's current proposals relate to encouraging further building of affordable housing through the private sector. This relies on private developers delivering affordable homes under planning obligations such as section 106, which requires that they factor affordable housing into their development plans (with the amount being negotiated site by site), so as to 'mitigate' impacts of development on the local area. As shown in Figure 23, the number of affordable homes built through section 106 accounts for just under half of all additional affordable homes built in 2022-23, and 14 per cent of all new builds over this period. Assuming a similar ratio of building through section 106 to total new builds would suggest that the Government's higher housing targets would mechanically add around 40,000 affordable homes to the total stock over the Parliament. This is equivalent to nearly 8,500 additional affordable homes per year, or a 13 per cent increase in affordable housing supply compared to 2022-23, returning affordable housebuilding to early 1990s levels.

FIGURE 23: **Just under half of additional affordable homes built last year were funded through section 106**

Number of additional affordable homes built, by tenure and funding type: England



SOURCE: RF analysis of MHCLG, Live Table 1000.

59 The then-Government announced it was scrapping new energy efficiency rules that would have come into effect in 2016 in July 2015. Source: HM Treasury, Fixing the foundations: Creating a more prosperous nation, July 2015.

However, private developers are often accused of negotiating down their section 106 obligations, and under-delivering affordable housing on the basis that it reduces the commercial viability of their housing development.[60] This is particularly likely to be problematic in areas with low viability to begin with, such as brownfield land with high remediation costs. And it is likely to be especially problematic in the Government's proposal to mandate 50 per cent affordable housing in developments built on 'grey belt' land, "subject to viability".[61]

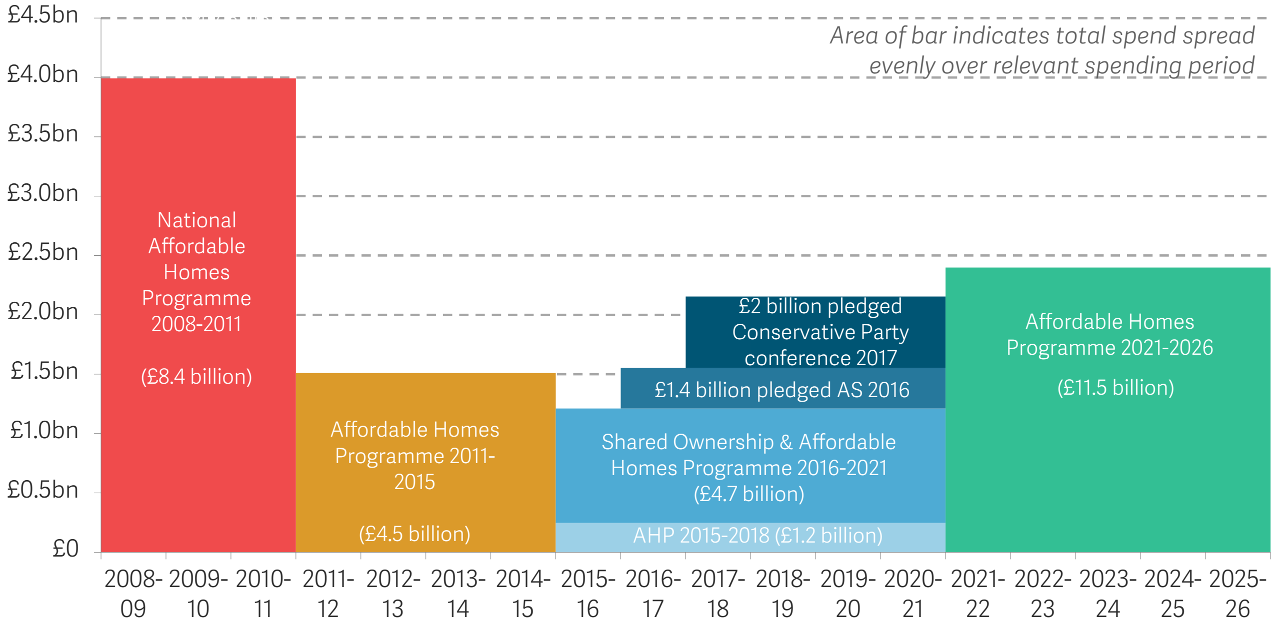
This approach to building affordable housing is also unlikely to deliver the type of affordable homes England needs. Very little of the 'affordable' housing that has been built in recent years is for social rent, the most affordable and stable tenure type. Instead, homes have been much more likely to be built for 'intermediate rent' (rates set at least 20 per cent below market rents, as opposed to the 50-60 per cent below market rents that is typical for social rent housing), or shared ownership. Just 15 per cent of all affordable homes built in 2022-23 were for social rent, down from 87 per cent back in 1992-93.

It is likely, therefore, that boosting the stock of affordable housing, and particularly social rental homes, will require significant government investment. At present, the main vehicle for funding affordable housing is the Affordable Homes Programme. As shown in Figure 24, this is the most generous funding programme for affordable housing in real terms since 2011, with £11.5 billion of funding committed over five years (2021-22 to 2025-26). However, many affordable housing providers have called for more flexibility in how these funds are able to be used, particularly for the maintenance of the existing affordable housing stock rather than building new homes.[62] Wider financial pressures have reportedly reduced the extent to which housing associations are able to take the risk of further development alongside the costs of maintaining their existing stock, with almost £2 billion of unspent funds from the Affordable Homes Programme returned back to the Government in 2022-23.[63] Future announcements about funding for both the Affordable Homes Programme, and more broadly to place housing association funding on a stable footing, will therefore be crucial to whether the Government is able to realise its ambition for "the biggest boost to social and affordable housing in a generation".[64]

60 F Rankl, Developer contributions, House of Commons Library, July 2024.
61 P Cheshire, Labour's planning reforms – building on grey belts and missed opportunities, August 2024.
62 Southwark Council, Securing the Future of Council Housing: Five solutions from over 100 of England's council landlords, September 2024.
63 J Gardiner, DLUHC admits handing £1.9bn of housing funds back to Treasury, Housing Today, 12 July 2023.
64 Labour Party, Rayner says Labour will deliver "biggest boost to affordable housing for a generation", October 2023.

FIGURE 24: **Funding for the current Affordable Homes Programme comes to an end in 2026**

Affordable housing commitments over time, 2024-25 prices: England



NOTES: The Affordable Housing Programme 2015-18 was operational only between April 2015 and November 2015, at which point it was replaced by the Shared Ownership and Affordable Housing Programme 2016-2021. Annualised funding commitments in nominal terms at the point they were announced have been deflated annually to 2024-25 prices then added together to create a new real commitment that is then split evenly over the spending period.
SOURCE: Chartered Institute for Housing, UK Housing Review, various.

Conclusion

Stepping back, the Government's focus on dramatically increasingly housing supply is encouraging given the acute housing affordability pressures across the country. With the first steps of the Government's policy programme to achieve this now announced, it seems clear that the planning system (and private developers) have a central role to play in its ambitions to deliver 1.5 million homes over this Parliament. Given the highly discretionary and varied way planning policy currently operates across local planning authorities, reform of the planning system is a plausible route to boosting housebuilding. However, the Government's planning reforms (as they are currently) remain relatively modest, with the scope for more radical reform possible. And it is unlikely that planning reform alone will deliver either the scale of housebuilding increase the Government hopes to achieve, or the tenure mix it would require to substantially increase the country's stock of affordable homes. Ultimately, the reforms to the planning system that have thus far been announced must be delivered alongside direct public investment in social housing if they are to deliver the expansion in the affordable housing stock that is so badly needed across the country.

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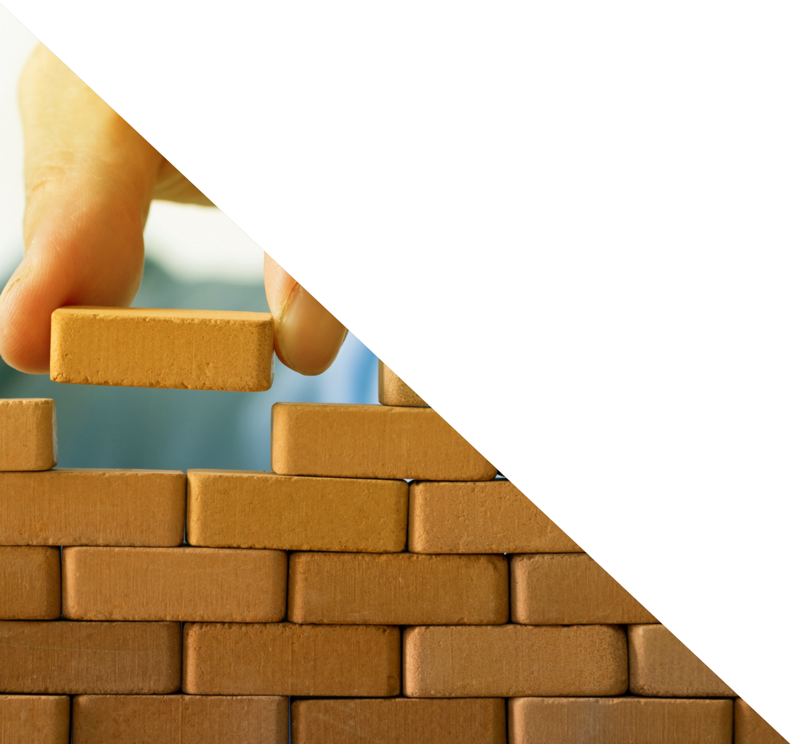

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