



Planning Costs and Fees

Final Report



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Ove Arup

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Department for Communities and Local Government: London

Department for Communities and Local Government
Eland House
Bressenden Place
London
SW1E 5DU
Telephone: 030 3444 0000
Website: www.communities.gov.uk

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Section 1

Introduction

1.1 Introduction

The main aim of this report is to provide data on the costs of the fee chargeable development management service and the relationship of those costs in terms of cost recovery to the fees charged to applicants seeking planning permission. The research also seeks to identify methods that would allow local planning authorities to calculate costs as a basis for locally set fees.

In addition, Government wishes to understand the cost, income and fee implications of a number of recent and potential policy changes:

- Planning performance agreements were introduced in April 2008 as a framework for the management of complex development proposals, with the assumption being that additional costs could be recovered through locally set pre-application charges.
- In October 2008, the Government set out revised permitted development rights for householder development. These have reduced fee income but are likely to increase demand for lawful development certificates, which attract a lower fee.
- The Killian-Pretty Review, published in November 2008, recommended further extension of permitted development rights to non-householder development, greater freedom to high performing local authorities to charge higher fees, and various areas for efficiency gains within local authority planning departments.

The Killian Pretty recommendations on permitted development are intended to remove nearly 40 per cent (31,500) of minor non-residential developments from the need to apply for full planning permission, saving over £30m per year in administrative costs to applicants. While these measures will also reduce fee income for authorities, Killian Pretty recommended the introduction of financial incentives (possibly in the form of higher fees) for better performing local planning authorities. Other measures proposed in this report would help to reduce administrative burdens on local authority resources, which will also allow resources to be better targeted.

It should be stated that the economic downturn has led to a fall in the overall number of planning applications, with a consequent impact on fee income, resource levels and cost recovery of fee-related development management.

1.2 Wider study context

The study team have undertaken previous studies for the Department for Communities and Local Government (DCLG) and its predecessors. These studies have supported previous fee changes (in 2005 and 2008). They also point to a number of important issues that are reflected in this report.

Current policy is for local authorities to achieve cost recovery through fees but they have suggested that this has only rarely been achieved in practice. This is because of the challenges of providing cost information that accurately reflects the complex and multi-department full costs incurred by authorities. Past experience suggests that officers work on both fee and non fee related work and the absence of time recording systems means that there are concerns about the accuracy of cost data supplied on this basis.

The issue of fee levels is pertinent given the importance of adequate resources in meeting expectations of increased speed, quality and delivery of planning decisions and delivery of development. Fee levels are also important in terms of the potential of a better system of fees to provide some of the additional resources needed. However, fee paying development management is one part of the local authority planning services and it sits alongside development planning and other significant activities such as heritage and conservation which are not covered by fees; it is very unlikely that fee increases alone can deliver additional resources to planning services as a whole.

The collection of robust and comparable costs would ideally be based on a common accounting framework that is based on the nature of the activity as opposed to the place in the management structure where that activity took place. Additionally there should be a consistent treatment of overheads and some form of time recording system for staff who are engaged in a range of different types of activity. With the publication by the Chartered Institute of Public Finance and Accountancy (CIPFA) of the first *Best Value Accounting Code of Practice* (BVACOP) in 1999/2000, a common accounting framework has already been proposed for all services, including planning and economic development. CIPFA have worked on the issue subsequently, including in recent work with the Planning Officers' Society.

Our previous studies suggest that the framework has not been followed in practice as closely as might have been hoped, especially as regards the identification of direct costs which arose in departments other than planning. This was evidenced by our earlier study for the Department, *Resources for Planning*, which also identified that the treatment of overhead costs varied significantly and that recorded costs were not (at that time) robust enough to be used to assess whether the resources devoted to the planning service were adequate.

The overall experience of these earlier studies suggests that there are a number of issues which need to be considered and addressed by this study. These are summarised below.

- The calculation of costs attributable to planning application fees is not straightforward because authorities do not treat fees and all costs associated with them as a separate “trading account”.
- Previous surveys have suggested that there are variations in development management costs between authorities and that the range of costs is affected by differences in accounting practice.
- Following the fee increase in April 2008 it is likely that levels of cost recovery are higher than in previous studies, meaning that a more detailed approach is required when estimating costs, involving work with individual authorities.
- Fees income varies depending on the number and profile of applications received, which requires authorities to make estimates about the level of future fees in setting budgets. This means that fees received do not always directly coincide with budget and cost assumptions.
- Some parts of the service in specific authorities may be under-resourced, meaning that surveys of costs may be artificially depressed relative to the costs of a quality service.
- The recent downturn in applications is also likely to have reduced fee income relative to costs in the short term because of the difficulties of adjusting costs including staff numbers quickly. However, there is also a need to consider implications for long term service capacity.
- There will always be a small element of cross subsidy in fees paid for individual applications and the costs of determining them, particularly whilst fees are centrally set by Government. This reflects the challenge in devising a system in which fees can be prescribed to reflect the complexity of application handling, without adopting a system of individually negotiated fees for specific applications.
- The implication of current fee charges is that larger applications are more complex. This may not be the case, especially for certain large scale employment uses (such as an application for warehousing in an established warehouse and distribution park). In contrast, the steps in the system and the diminishing costs per size unit are based on the assumption of scale economies. Larger applications are also by their nature the most variable in terms of cost recovery.
- There is a need to narrow the range of potential costs identified in the 2007 study. In reality, this was not a range but two different definitions of overheads and relates to the meaning of “full cost recovery”.

1.3 Study approach and method

The study has included working group discussions and the following evidence gathering exercises:

- surveys of all planning authorities; and
- detailed assessment of costs and fee recovery with case study authorities from the working group.

Working group discussions were supported by a number of background papers. Discussions were concerned with updating cost information, considering the scope of any changes to fee schedules and fee multiples and evaluating the practicalities of locally set fees, including possible accounting changes.

The surveys of all authorities was concerned with the structure of the functions that comprise the planning service, as well as staff numbers (by grade, salary band, full time/part time etc), work area resources, changes in resources and a range of other matters reported in Chapter 2.

We worked individually with authorities to update cost information in order to assess the impact of the April 2008 fee increases. We also examined the consistency of approach between authorities in calculating the cost of fee chargeable development management services.

Section 2

Cost recovery by planning authorities

2.1 Introduction

This section summarises the evidence gathered from surveys, case studies and the authority working group in relation to the issue of cost recovery. The evidence from each source is considered in turn, before conclusions are drawn on overall cost recovery.

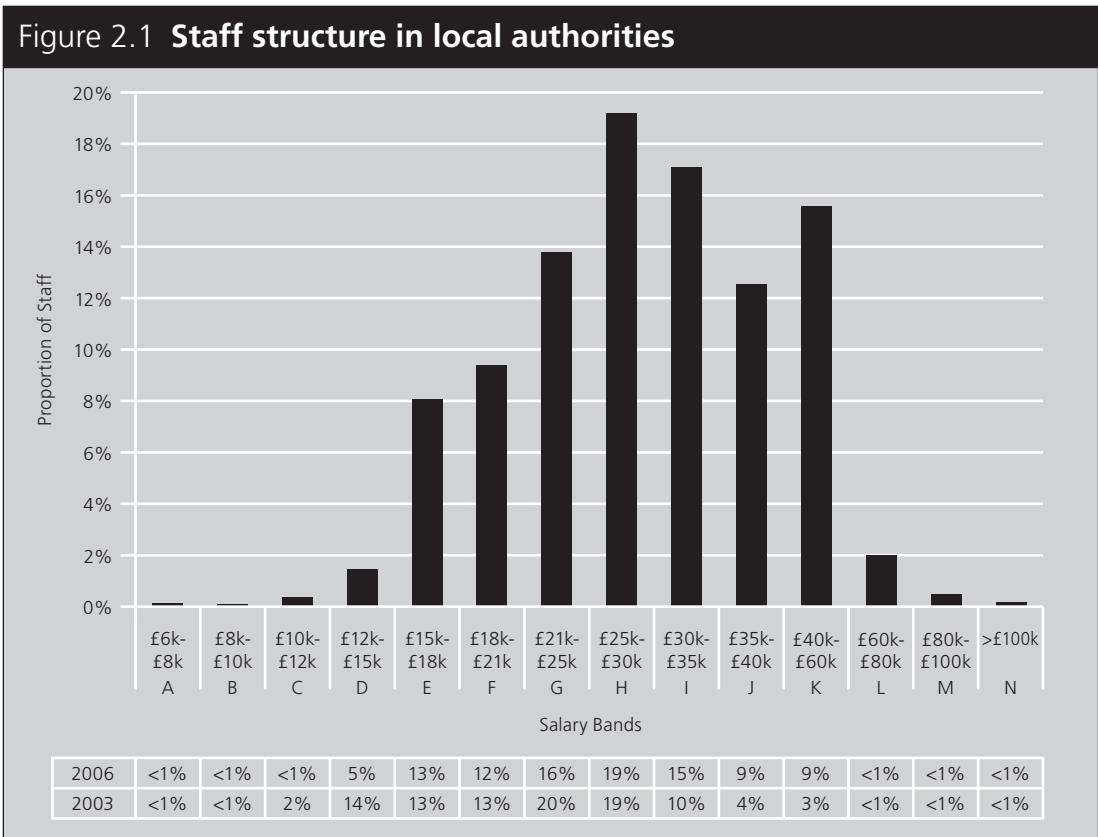
2.2 Results from local authority surveys

A survey was issued to all local planning authorities requesting information about:

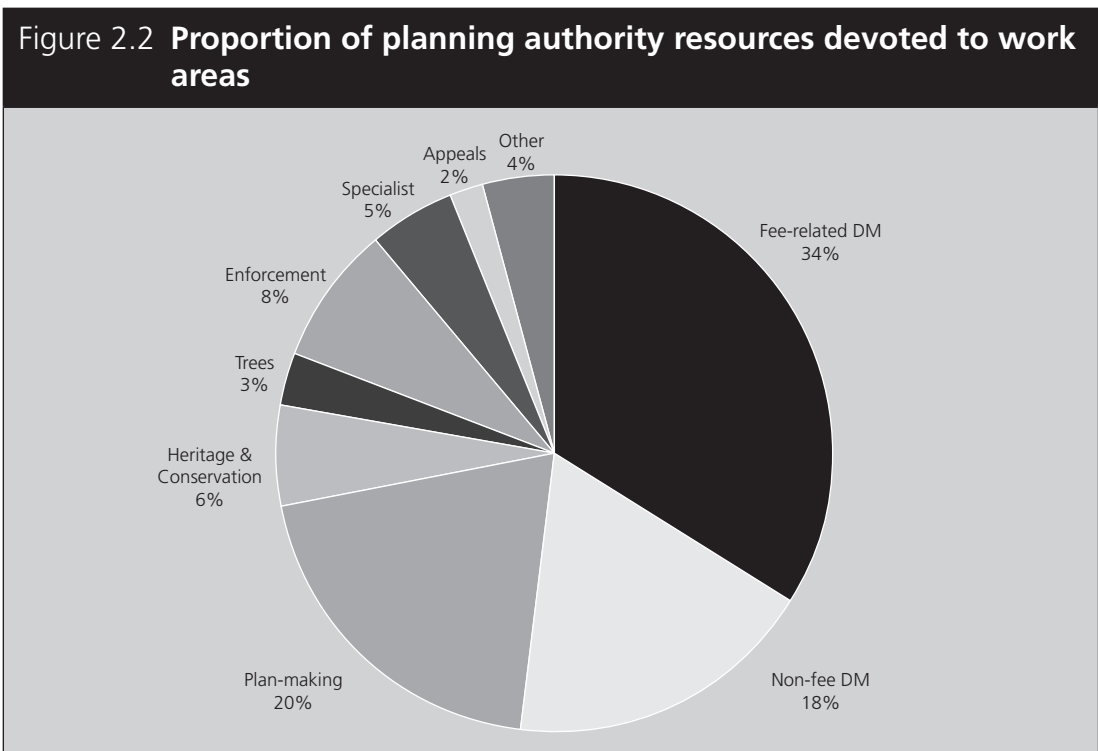
- planning service structure
- staff numbers, work area and approximate grade
- changes in staff levels over a four-year period
- current means of recording the quality of service
- current charging arrangements for pre-application advice, minor amendments and submissions to discharge conditions and
- opinions in relation to locally set planning application fees.

A total of 78 responses were received (equivalent to around a fifth of all local planning authorities) covering a range of authority types and locations. As with previous surveys undertaken, the planning service continues to be arranged in a variety of ways, including numerous examples where the planning function is split between departments and where planning policy (plan-making) is separated from development management. This variation is also reflected in the seniority of the person identified as having overall responsibility for planning (i.e. head of service or equivalent). **Fifty-seven per cent of respondents reported that the most senior person dealing with planning sat on the authority executive or equivalent management board.** Forty-three per cent of respondents said that their authority executive did not include the most senior person dealing with planning.

The structure of staff appears to be consistent with previous surveys. The results from this survey and previous research (percentages of total staff) are shown below in Figure 2.1.



Over time, the salary profile of staff appears to be increasing. However, as with previous data there appears to be consistent groupings representing ‘senior’ and ‘principal’ officers. Overall, the survey accounted for around 3,100 planning service staff.



Current work area resourcing illustrates that around **52 per cent of planning resources are applied to development management**, with a total share of 34 per cent for fee-related development management, and 18 per cent for non-fee development management. Around 20 per cent of staff time is spent on plan-making, 8 per cent on enforcement, 6 per cent on heritage and conservation, 5 per cent on specialist areas, 3 per cent on trees, 2 per cent on appeals, with 4 per cent left for other work areas.

Across those authorities that were able to supply staffing information for the four-year period (from 2006-07 to 2009-10, taking the beginning of the financial year in each case), around **two-thirds of local planning authorities had seen a decline in staffing levels**. The weighted average highlighted a 1.6 per cent decline across respondents, but the median value was closer to a 6 per cent decline. Almost 29 per cent of local planning authorities have lost more than 10 per cent of their staff in the last four years. The effect of this on cost recovery is to depress costs, since as staff numbers reduce so too does expenditure on planning, assuming a consistent distribution of staff.

Charging arrangements varied between authorities depending on the area assessed:

- thirty-five per cent of respondents charge for pre-application discussions, with charges split between fixed-fee and time-based charges
- twenty-one per cent of local planning authorities make a (normally standard administrative) charge for minor amendments to planning applications and
- eighty-nine per cent of authorities charge for submissions to discharge planning conditions imposed as part of a planning permission. In these cases, the charges were in line with national guidance.

Local planning authorities were reminded of the 2007 DCLG consultation on planning application fees, which asked how people felt in principle about the idea that each local authority should be able to fix its own (non-profit making) planning charges in future. This question was asked again of local planning authorities as part of the survey, and 36 per cent of respondents were in favour and 64 per cent were against. This, of course, reflects officers' views and not corporate opinions. It also reflects concerns about the complexity of potential arrangements and of additional workload.

2.3 Results from case studies

All authorities on the working group were asked to act as case studies and 11 participated in providing detailed data. These participating authorities are judged to form a good cross section of authorities in terms of location, context, authority type and scale. Collectively the data provided to us relates to in excess

of over 22,000 applications per annum. Data obtained from the authorities included actual trends and forecast trends for a number of key income and cost variables for financial years 2006-07 to 2009-10, including:

- application fee income
- pre-application fee income
- direct staffing costs and on-costs
- overheads
- bought in services and
- outsourced elements.

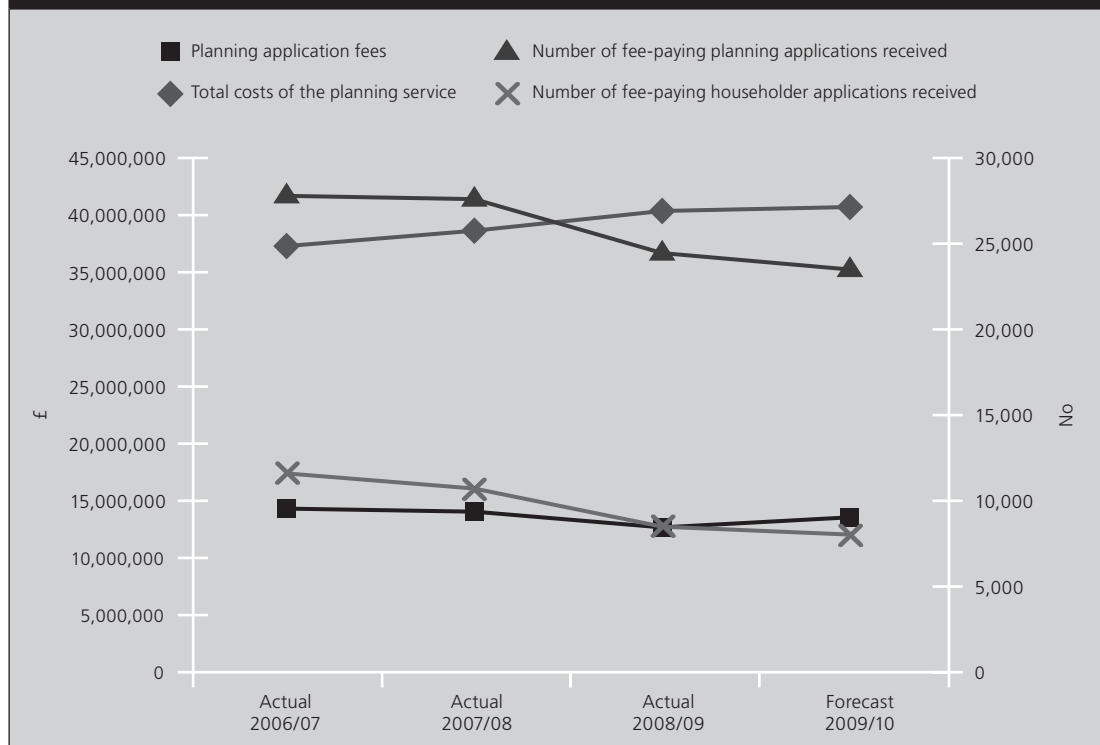
On receipt data was compared with typical values and ratios obtained in this and earlier studies, and queried where there was deviation. This led to revisions to some data, largely as a result of misunderstandings and differences in accounting definitions used by the authorities. This was principally in relation to the definition of overheads and a common issue was that overhead data tended to relate to the planning department or development management section alone, rather than the full overheads carried by the authority, and often missed costs of accommodation, consumables, and so on. Generally the data was of a better quality than has been provided in previous surveys, possibly because the authorities concerned had a clear interest in the subject and a good awareness of their costs.

As might be expected, some data provided related to specific trends in the authority. Nevertheless, it is possible to identify a number of generalised findings, which are summarised below (and aggregated across the 11 authorities in Figure 2.3):

- **Applications and Fee Income.** Authorities experienced a fall in all applications after April 2008. The income from fees received has also declined. However, the fee increase in April 2008 has helped fee income to remain stable. This fits with authorities' perception that the most recent fee increase has had "no effect". Only one authority experienced a very small increase in fee income after April 2008. If application numbers had remained on a steadier trend, we estimate that total fee income would have risen by around 10 per cent after April 2008.
- **Householder applications** have declined, particularly after April 2007, but are forecast to level out in 2009-10, which is slightly counter-intuitive given changes to the General Permitted Development Order.
- **Costs.** Costs have risen in all authorities by around 4 per cent per annum since 2006-07. This largely reflects inflation, principally of staff costs, and no "real" increases in resources.

- **Forecasts.** Most authorities were forecasting an upturn in fee income in the financial year 2009-10. However, they acknowledged that this was optimistic and partly designed to avoid local budget cuts.
- **Application fees.** Application fees funded about 38 per cent of the total planning service in 2006-07 (including forward planning and non-fee work as well as fee-related development management), falling to 31 per cent in 2008-09. The survey of all authorities described above suggested that development management activity now accounts for around 34 per cent of planning service activities, having reduced by around 6 per cent.

Figure 2.3 **Comparison of recent trends in application fee income, total costs and planning applications**

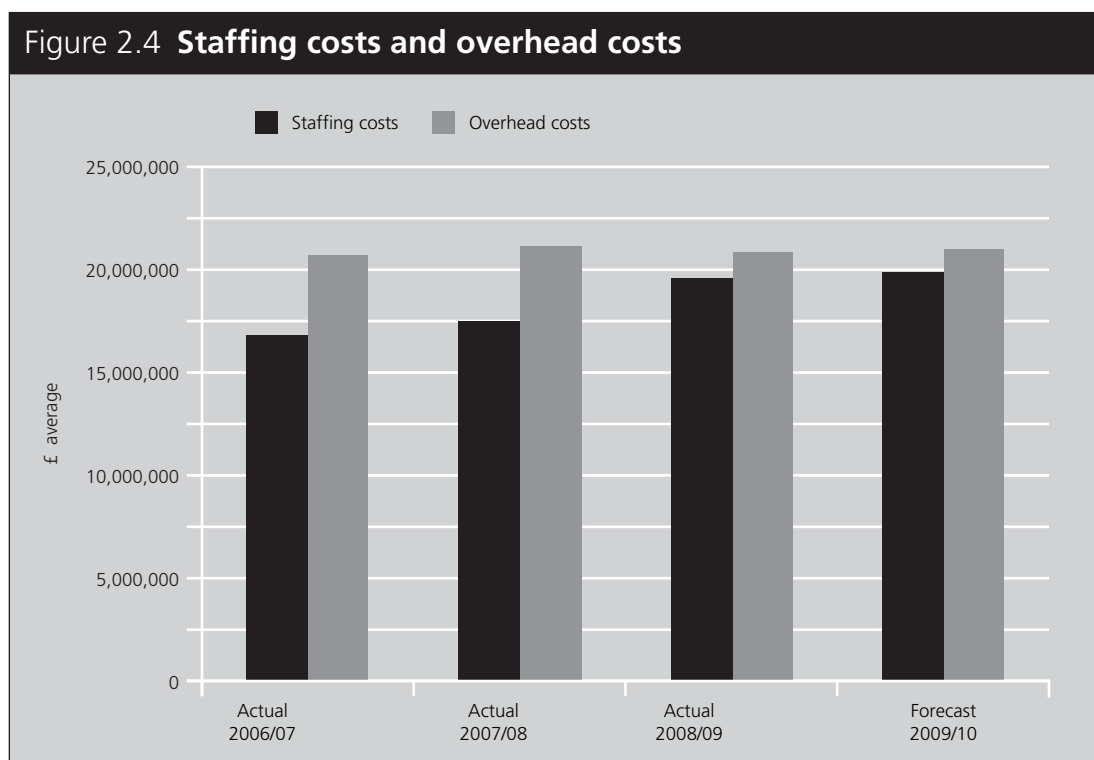


Pre-application fee income is of limited significance. Five of the authorities in our sample charge for pre-application services. In three cases, the income is a matter of tens of thousands per year, with the remaining two authorities receiving £100,000 and £200,000 per annum respectively.

In line with convention, **overheads** have been considered alongside salary costs and as a per cent of direct salary costs. By overheads we mean the costs of the service that are not salary payments and include accommodation, consumables, and so on. The results by year are shown in Figure 2.4. In comparison with previous exercises, overheads have been more consistent across authorities. However, we believe that they are still understated. In particular, very few authorities account for recharges and we still doubt that costs incurred outside the immediate planning department are fully reflected. There is also still some

confusion as to the activities within the planning service that should be covered by fees, with an expectation that fees should be covering more areas than fee paying development management activities.

In general staffing costs have risen in recent years, despite overall reductions in staff numbers, while overhead costs have remained stable. This means that expressed as a proportion of salary, overhead costs have fallen from 123 per cent to 106 per cent in 2008-09. This estimate of overheads is based on CIPFA definition and excludes core democratic costs.



2.4 Cost Recovery on Planning Fees

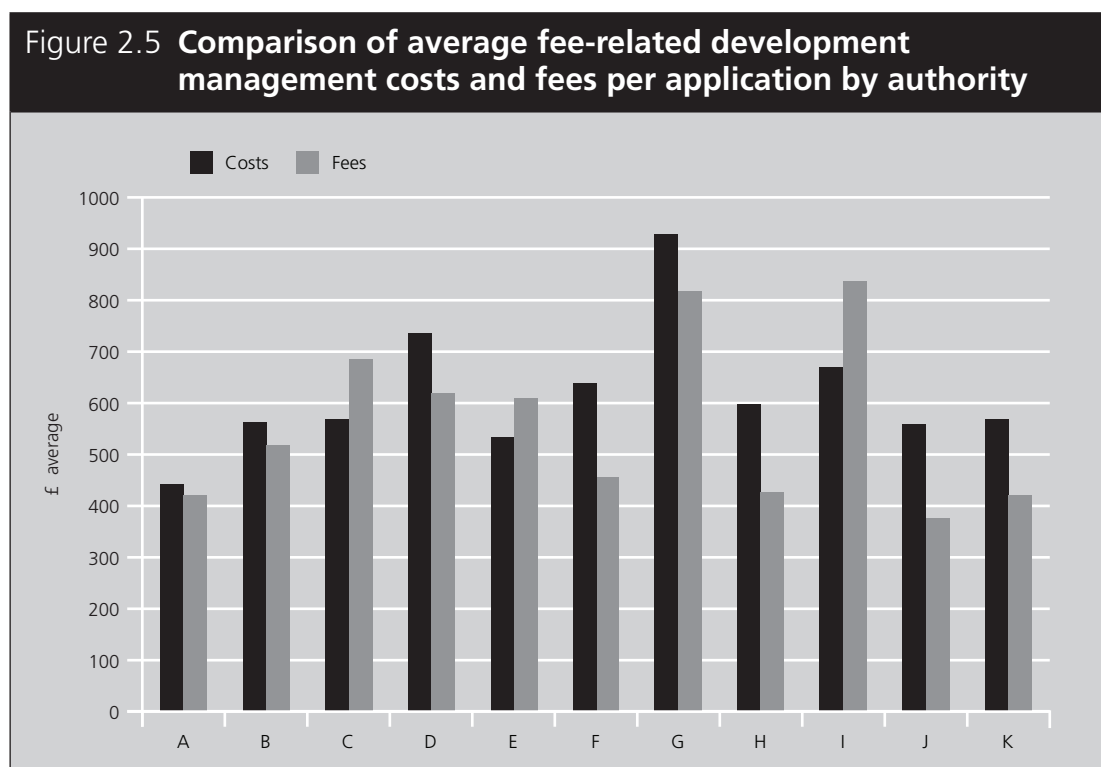
The decline in applications in the last few years means that fee income has declined from 38 per cent of overall planning service costs in 2006-07 to 31 per cent in 2008-09. This suggests that an increase in excess of 20 per cent in fees would be necessary to restore contributions to 2006-07 levels, despite increases in April 2008. This broad finding raises the issue of whether fee increases should be used to compensate for losses of applications or whether authorities should be expected to reduce their costs to match a reduced workflow. As suggested above, local authority development management staff numbers have reduced by about 6 per cent, but this reduction has been outweighed by cost inflation and, overall, costs are up (Figure 2.4). This is in spite of the number of applications falling by 15 per cent in the case study authorities, over the period from April 2006 to April 2009.

These trends raise questions as to whether fees should be expected to cover shortfalls in income over costs, where application numbers have fallen and authorities have not adjusted their costs. Authorities on the working group

generally made the case for retention of capacity in order to ensure that skills and resources are available “when the upturn comes” and investment from Housing and Planning Delivery Grant and other initiatives does not go to waste. This would equate to about a 20 per cent increase in fees as identified above. This position is supported by analysis of the downturn in applications in the 1990s, and the resulting impact that this had on the capacity and quality of the planning services in the early 2000s (when performance fell significantly short of targets). Private sector representatives in this study thought more emphasis should be placed on matching resources to workload, stressing efficiency as an important element of funding. We suspect that the correct position lies somewhere in the middle ground. Authorities have reduced their staff to reflect reduced workload and this trend is likely to continue, regardless of fees. At the same time overall costs have also risen, in large part due to normal inflationary pressures.

Our base assessment is based on the average cost of handling applications and the average fee received, over the four year period for which data has been collected. This controls for reduced applications as the calculation takes account of the number of applications and fees received for them, rather than simply comparing costs with fee income.

The results of this assessment by case study authority (represented as authority A, B, C, etc) are shown in Figure 2.5, which compares average costs and fees. Overall, although it is clear that some authorities are over-recovering on fees, on a combined basis, an overall increase of 10 per cent on fees is required to cover costs. This is based on overall average costs of £619 per application and an average fee of £563.



Overall this result largely reflects our findings in 2007, if the 10 per cent increase is assumed to reflect general cost inflation. This is a reassuring finding given that a similar method was adopted in 2007. However, it does not address authority concerns that even after the 2008 fee increase, fee income still fell short of costs (before inflation is considered). We suspect that this perception has arisen because increases were offset by falling application numbers.

A number of factors need to be taken into consideration in relation to these estimates and the results shown above:

- a number of authorities are still likely to be understating their overhead costs based on accounting structures
- in the absence of time recording authorities are not always aware of the proportion of development management time that is fee-related
- notwithstanding accounting differences, costs and application profiles vary by authority type and location, meaning that cost recovery can only be achieved at a national level given current nationally-set fee levels. This is a significant factor that may support the introduction of locally-set fees
- because authorities use CIPFA definitions, core and democratic costs are excluded.

2.5 Views of the working group

A working group of 16 local planning authorities, together with representatives from the Local Government Association (LGA), the Home Builders' Federation and British Property Federation, met three times during the project period. Local authorities selected included those nominated by the Planning Officers' Society (POS), the LGA or DCLG and those that had provided reasonably accurate cost information for the fees study undertaken in 2007. The final group were chosen to be broadly representative of the range of local authority experience, particularly in terms of authority type and size, location and urban/rural context.

The working group had a number of roles. These included:

- providing an update of 2007 cost analysis to assess the impact of the 2008 increase
- assessing local authority and applicant experiences, including lessons learnt from other local charging regimes such as building control
- assessing possible changes to the fee system, including changes to fee schedules and fee multiples and the practicalities of locally set fees, including possible accounting changes.

Where appropriate the views of the working group have been fed into Section 3 of this report.

The group were unanimous in agreeing that planning application fees should continue to relate to the full recovery of costs incurred in determining applications, rather than serving as a means of encouraging or deterring development. Although cost recovery since the 2008 fee increase has improved, it has not caught up with costs and for most authorities full cost recovery has not been achieved. Part of the problem is that fees increases are not annual, which means that fees consistently lag behind costs (because of inflation). Furthermore, the lack of advance warning of fee increases has a significant impact on planning service budgets and the ability to accurately estimate fee income when setting budgets. The group felt that there needed to be a simplified way of calculating any fee increase and that a small annual increase would be appropriate.

Costs for local planning authorities continued to increase as a result of the introduction of the single application form (due to scanning costs, the need to introduce document management systems and maintenance costs of the software). Planning Portal applications resulted in the transfer of costs to local planning authorities, who need to reproduce paper copies of plans for local amenity groups and members. Workload has also increased for local authorities in other related areas, such as environmental assessment, design and access statements, Environment Agency/Health and Safety Executive and other statutory bodies giving standing advice but leaving decisions to the authority. This means that the average cost of dealing with an application is increasing (see section 2.4 above).

Section 3

Future options for fees

3.1 Introduction

This section considers possible changes to fees above and beyond the overall recommendations of Chapter 2. This includes the implications of the Killian Pretty Review, redefinition of overheads for the purposes of cost recovery, locally set fees, changes to fees in the light of General Permitted Development Order revisions, free resubmissions, changes to the structure of fees and reserved matter applications.

3.2 Improving the estimation of overheads

This section is concerned with the definition of overheads and the extent to which certain areas of cost should be included or apportioned.

The term “overheads” refers to the costs incurred in delivering the fee paying development management service over and above direct staff costs (expressed as salaries). The combination of direct staff costs and overheads is the “full cost” that fees would be expected to cover in a full cost recovery situation.

Relevant overheads are defined in POS Best Value Guide (Chapter 5, sections 4.7 and 4.9), which suggests the need, on a total service basis, to include expenditure relating to:

- bought in service costs from other areas of the local authority (covering areas such as legal, environmental health, personnel/recruitment, and so on)
- outsourced service costs from external parties (possibly covering areas such as consultants or other local authorities)
- cost components of the planning service – including accommodation, telephone, ICT equipment (hardware and software), stationery, reprographics, postage, publications, copyright, travel, training, recruitment, planning committee and any other areas not included within the outsourced or bought-in areas and
- core/Democratic costs

This is not the adopted approach. This is because there is another definition of overheads, taken from CIPFA's Best Value Accounting Code of Practice (BVACOP), which does not include costs associated with the Corporate and Democratic Core. This is the definition councils should use when reporting "total cost" within their service expenditure analyses.

Local authority partners agreed that there was no real case for excluding core and democratic costs from any service cost and thus supported the use of the POS rather than CIPFA approach. This would increase costs attributable to the planning service, but would also vary heavily according to the delegation arrangements in place, (such as the number of planning application decisions deferred to Members).

Local authorities also unanimously agreed that any assessment of a council's overall cost of service needs to sum to the total of all costs incurred and this will necessarily include staff costs associated with leave, sickness, training and other time which is not directly related to any specific service/activity. This "downtime" is effectively another type of overhead which should be included in both CIPFA's "total cost" and the "full cost" (however defined) of the fee paying development management service. If the costs of delivering the fee paying development management service are calculated by breaking down the costs of the whole planning service (based on an analysis of productive time), then "downtime" would automatically be a proportionate overhead. However, any calculation of costs from the bottom up would require an additional element for downtime. This means that from our previous work, it was the upper figure including downtime that was the correct measure. The current study has adopted this approach by taking a total shares approach.

There are instances where a cost may be a direct staff cost in one organisation but an overhead in another. For example, one planning section may employ its own administration and secretarial staff whereas another receives this service from another department, or one may employ its own minerals expert while another buys the expertise in from a third party. Both for CIPFA's total cost purposes and for full cost recovery purposes the important thing is not the distinction between which costs are "direct" and which are "overheads", but that both types of cost are identified and included in full. In the current study we are uncertain that costs outside of the planning service are fully reflected in findings. A full audit which specifically aims to capture planning service costs would be required, since current accounting structures are focused towards total cost accounting at an authority level.

However, this different balance between direct costs and overheads serves to complicate analyses of overheads as a proportion of direct costs and could potentially undermine a generic approach to establishing full costs by applying an "overhead mark up percentage" to direct staff costs. There are two distinct but challenging aspects to the calculation of appropriate overhead costs for inclusion in total cost:

- identifying what overheads should be included and
- calculating the relevant amount.

The identification of overheads for planning can be achieved by working through a check list of possible cost headings, such as that used in the Local Planning Authority Costs Pro Forma circulated as part of this project, although it is difficult to generate a comprehensive list.

Calculation of the appropriate amount to be included is often a matter of judgment, although CIPFA has published guidance on the general principles to be adopted. These calculations, and the rationale which underpins them, are likely to come under more scrutiny in a full cost recovery scenario, especially in the current financial climate. If locally set fees are to be allowed in future, this level of scrutiny of overheads (and of the apportionment of direct time between different activities/applications) is likely to increase still further.

Issues concerning the identification and calculation of the overheads/total cost of planning in a particular local authority will be more or less complex depending on the approach the authority corporately takes to this aspect of accounting. Current accounting practices as regards the treatment and apportionment of overheads and internal recharges vary, with some operating comprehensive recharging arrangements, although probably only to the level of the overall planning service, but others adopting a more high level, end of year, minimal approach.

3.3 Implications of the Killian Pretty Review

A number of recommendations made by the Killian Pretty Review have implications for fee income for local planning authorities. Some of these have been discussed elsewhere in the report (such as the expansion of permitted development for non householder development).

The Killian Pretty Review also set out proposals for revising the timescale based performance targets and refocusing a national performance indicator on the overall quality of service provided by councils in handling applications, rather than simply on the time taken. The recommendation was that the current time target based national indicator should be replaced with a new 'satisfaction with the planning application service indicator'. This indicator would measure customer satisfaction including the availability and quality of pre-application advice. They also recommended exploring opportunities for providing financial incentives to the authorities that perform well and deliver high levels of satisfaction. One of these might be enabling them to charge higher planning application fees in reflection of the higher quality of service that they provide.

The charging of higher fees based on quality of service indicators is very much linked to the discussion of setting fees locally (see section 3.4). There is a need to be wary in allowing such discretion as it would (unless very strictly controlled)

break the link with cost recovery. One possibility would be to set a base national fee which authorities who performed well could increase by a specified percentage of 10 per cent.

The proposed introduction of an indicator that assesses service quality and satisfaction was generally welcomed by the working group, who felt that assessment of timeliness wasn't as useful. If timeliness was going to still be assessed, it would be better to measure the average time taken by authorities to determine applications (as opposed to measuring performance against the eight and thirteen week targets), as there was little incentive for authorities to determine applications once they had gone over the target time.

The review also suggested giving authorities greater flexibility to determine how best to notify the public about planning applications (in other words, allowing them to decide whether to use local newspapers). This suggestion was generally welcomed by the group, principally because the need for press notices is a significant cost to authorities.

The Killian Pretty review also recommended widespread dissemination of the findings of the National Process Improvement Project on the application process. This identified opportunities for financial savings and suggested the use of a business process improvement approach and benchmarking, which could reduce costs (as well as improve customer experience and satisfaction). However, it was noted that the delegation arrangements had a significant impact on the costs of the development management function and in order to achieve savings, authorities would need to more clearly identify their overhead as suggested above.

3.4 Locally set fees

The Killian Pretty Review recommended that Government explores opportunities to provide financial incentives to authorities that perform well and deliver high levels of satisfaction (either by allowing them to charge higher planning application fees or through changes to the Housing and Planning Delivery Grant).

We think that many "major" applicants would be willing to pay higher fees for a more satisfactory service, but this approach raises issues which would need to be considered, including:

- generally high levels of satisfaction with an authority do not guarantee satisfaction to all applicants
- applicants probably perceive that they are already paying higher fees for a higher quality service
- the approach implies a two tier system of performance, and suggests that all authorities will be able to charge higher fees in the long term as performance improves

The second working group meeting considered the potential for locally set fees as an alternative arrangement, for some or all authorities, to the system of nationally set fees operational since 1980.

Consideration of the costs, benefits and risks of setting fees locally would be an essential precursor to any change but there are also practical implications which would need to be thought through. These relate to:

- the information which would be required for budgeting purposes
- the monitoring which would be required
- the range of management responses available if budget assumptions prove to be wrong and
- reporting and accountability arrangements

In the example of all fees being set locally, accurate budgeting would require robust information about the actual costs likely to be incurred in determining different types of application together with good projections of the number and type of application likely to be submitted. This would give a total income projection and thus indicate the totality of staff and other resources which will be required and affordable.

However, the volatility of planning applications, both in terms of their volume and their nature, means that the initial projections might be inaccurate and regular monitoring and re-projection of income would be required. If expenditure is to reflect income levels then regular reviews of both overall staffing levels and of how staff are deployed will be necessary.

Even if a council is content that the planning service is budgeted for as a single entity, and held to account at the level of its “bottom line”, it is probable that applicants would expect the local planning authorities to maintain actual financial information at a more detailed level for applications where fees are set locally. There is an argument that to be fully accountable to applicants, local planning authorities would need to gather information about both their costs and the fees they receive for each category of application so that they can demonstrate that the resources generated by locally set application fees are being applied towards the determination of those applications. Clearly, a consequence of this argument, if there were to be many different categories of application for which fees are set locally, is that there would have to be more detailed information than if there were only a few. The system for cost allocation would have to be robust, probably involving an audit trail including time recording evidence.

The number of different categories required for accounting purposes depends on the number of different fees which are set and the level of cross-subsidisation between types of application considered acceptable. For example, if different fees are set for householder applications (one dwelling) and for

householder applications (> one dwelling) but cross subsidisation between the two categories can be justified, then they could be accounted for together. If not, separate records would be needed.

If the local setting of fees was to be restricted to particular categories of application, then additional detailed budgeting, monitoring and reporting requirements could be limited to those particular categories of application, with all others accounted for as a single category.

There is also the question of what is meant by “accounted for”. One model would be similar to a series of trading accounts, one per category of application, with actual costs (including direct costs and all overheads) allocated into the trading account as expenditure and fees received being the income. The expectation would be that, over a period of time, each trading account (i.e. each category of application) would break even.

This in turn begs the question as to how local planning authorities might be able to establish what their costs are for each category of application. Over time, if good cost allocation models are developed, the maintenance of trading accounts will provide information which can be used to assess what the various fees should be. However, in the early days of a new system, more “rough and ready” methods may be required to assess costs for fee setting purposes. These could include:

- statistical analysis of past costs and activity levels
- derivation from first principles of the time (and any non-staff related costs) that should be required to determine particular types of application or
- a combination of the two approaches

Our recommendation is that if locally set fees are to be pursued then the following approach should be adopted:

- fees should remain linked to cost and not performance, although there could be penalties (or refunds) available to applicants where the service fails to meet agreed basic performance standards
- each authority should be required to make an audited estimate of the base costs of its fee-related development management service, based on the POS definition of overheads and time recording evidence
- fees should be set so as to cover identified costs in the authority with a limited flexibility around cost estimates
- there should be powers for the Secretary of State to cap (or uprate) fees in instances where he believes the system is being misused or if performance targets are being missed
- planning service costs should be regularly audited and accounts published

3.5 Reflecting changes to GPDO

On 1 October 2008 changes were implemented by amendment to the General Permitted Development Order (GPDO) to extend permitted development rights for householder applications. DCLG estimated that approximately 25 per cent of planning applications would be taken out of the system by the proposed changes. The saving in the planning fee and other associated costs was estimated to be £875 per application (£725 for the administrative cost per development and £150 application fee). DCLG recognised that potential savings for local planning authorities was dependent on the number of cases taken out of the system and the resulting increase in lawful development certificates. However no national statistics are collected on how many lawful development applications are made to local authorities, so this is difficult to compare.

At the time of writing data was only available for two quarters since the changes had been made to the GPDO. Based on data from the case study authorities, summarised in Figure 2.3, there is however no clear evidence that this category of application declined at a greater rate than the overall trend decrease in all applications in the period since enactment. Indeed householder applications declined at a greater rate in 2007-08 and even in 2008-09 all applications declined at a faster rate. Authorities also do not anticipate any change in trend in 2009-10; rather they expect that householder applications may increase, although this position is likely to be aspirational.

In addition, in the initial phase homeowners have tended to approach councils to ask for guidance and have applied for certificates of lawful development to ensure they do not undertake unauthorised development. The working group thought that (if anything) the overall workload had slightly increased, with the need to give more advice in response to enquiries and only slightly fewer householder applications being submitted. The working group also reported that there had also been a corresponding increase in enforcement work and some increase in the demand for certificates of lawfulness was also noted. Measuring the change in householder applications due to alterations made to permitted development rights was challenging in the wider context of a decline in applications generally.

From a cost perspective removing the simpler applications from the system means that what is left behind is by definition the more 'complex' or controversial householder applications, and the current fee was not covering the costs of dealing with these. This means that it is premature to conclude on any increases in householder fees at this time. Nevertheless, the likelihood is that numbers of simple applications will decline and average complexity will increase, which supports the case for current fee increases. It is also possible to consider other measures to increase income from householder applications in way that incentivises better practice by removing the householder "free go". This is considered further below.

Killian Pretty also recommended a further extension of permitted development rights to non-householder development. This has been the subject of a separate study by White Young Green which also reported in November 2008. Their proposals are:

- to considerably expand the scope of permitted development for non householder development, with the expectation that this will remove 15,000 minor commercial and non residential developments from the need to obtain planning permission (about 10 per cent), with resultant cost savings
- revising and expanding the prior approval system to make obtaining planning permission simpler for a further 16,500 minor commercial developments, through the proposed introduction of Minor Development Certificates with a lower fee of £150 (compared to the current fee for minor development of £355). It is estimated that this would equate to a further 11 per cent of minor applications

Similar issues are likely to be raised in relation to fees by these proposed changes to the GPDO with the result being that the remaining minor applications are also likely to increase in complexity. Staffing is increasingly a factor as recruiting and retaining experienced staff is hard. Whilst non MRTPI staff and technicians can be used to handle straightforward householder applications more experienced staff are needed for the less straightforward or more complex applications. This adds to the cost of dealing with those applications.

3.6 Changing “free go” arrangements

Members of the working group highlighted the increasing number of free householder resubmissions following withdrawal and refusal and suggested that this was a growing cost burden. Although “free goes” have potentially increased as a consequence of performance targets and withdrawals for applications as a whole, the context of the householder “free go” was thought to be driven by other factors. These include using “free goes” as a substitute for pre-application discussions, as a first attempt to get by with limited information, and as an attempt to test lower quality or larger proposals.

Pre-application discussions are more cost efficient because they generally involve a single meeting, rather than consideration of an application. They also avoid abortive work on the part of the applicant.

Working group members were asked to supply data on trends in resubmissions for householders. This suggested up to 15 per cent of householder applications were resubmissions. Removal of the “free go” could therefore result in proportionate cost savings. The risk of additional household appeals needs to be taken into account, particularly in the light of a streamlined appeal process.

The working group did not support removal of the “free go” for other application types. This was because this provided scope for more favourable negotiated outcomes on larger schemes and avoided appeals.

3.7 Changes to fee structure

In addition to possible alterations to the level of fee charged, future options for fee charging should also consider the options associated with changes to the structure of fees. These potential changes can be broadly divided into:

- **Changes to the basis of calculating fees**, such as the use of dwelling numbers, site area or floorspace and also the way in which fees are defined in relation to mixed use applications.
- **Changes to the fees thresholds**, which covers the maximum fees chargeable.
- **Changes to the scale of fees**, covering aspects such as the size of ‘multipliers’ used in calculating fees, and the level at which one application category moves to the next application category so as to create a taper or shift in the rate at which a fee is levied.
- **Potential for deregulation or simplification**, as compared to greater specificity for applications. Greater specificity, with a larger number of fee categories or more tightly defined boundaries between fee categories, would serve to reduce the cross-subsidy in cost recovery levels both between and within fee categories. However, this would lead to an increase in the complexity of the fees regime.

A wide range of options and possible alterations have been considered in the context of practicality, efficiency, stakeholder opinion, and impact on cost recovery. Of the options considered, the following potential changes were felt to warrant further consideration by DCLG in future fee revisions or consultation exercise:

- As outlined in previous reviews of planning application fees, there is scope to combine fee categories to simplify the regime and reduce its complexity. This could apply in the case of buildings applications (removing the 40sq m, 75sq m and 3,750 sq m thresholds), agricultural buildings (removing the 465 sq m, 540 sq m and 4,215 sq m thresholds), glasshouses (removing the 465 sq m threshold), and advertisements (combining on site, in the locality and other advertisements).
- Fees for mixed use applications could better reflect the costs of determining those applications (increasing cost-recovery and reducing cross-subsidy with other categories) if they were calculated on the basis of the sum of uses, as opposed to the current means of considering the major use. The fees for each component use could still be subject to a maximum fee in the same way as the fee is currently calculated. This could

also be extended to hybrid applications where an application is for outline consent for part of a site and for full consent elsewhere within the same site.

- Maximum fee levels should be monitored, including monitoring the incidence of maximum fee applications. Previous research indicates that very few applications reach the maximum fee cap, but those that do are believed to have a disproportionate burden on the resources of the planning service.
- Planning fees for change of use applications should be further explored to examine the cost recovery within existing fee categories. The Working Group felt that the current categories did not reflect the increasing complexity of the workload and range of uses that such an application can cover.
- Any move towards reclassifying the basis for calculating fees, such as using development value or construction costs, would make calculations simpler but would represent a fundamental shift in policy away from linking planning fees to the cost of determining applications.
- Any consultation exercise should consider the balance of resources required in handling outline planning applications, which in process and cost terms are becoming increasingly convergent with applications for full planning consent.
- The scale of fees in terms of the multiples used – both the size of multiples and the number of multiples before the maximum fee cap is reached – are felt to be appropriate at current levels.

3.8 Fees for reserved matter applications

Circular 04/08 sets out the current position on the fees to be paid for reserved matter applications. Under this guidance each separate application for approval of reserved matters is charged at the same rate as for a full planning application, with reference to the categories appropriate to the development as a whole. The sum paid for the related outline application being considered is irrelevant in this context. Where an authority receives a number of reserved matter applications they take the fee to be paid over that which would be incurred for a full application; additional reserved matter applications only attract a flat fee regardless of the complexity size, or type of the reserved matter application.

Discussion with the working group revealed that the key issue was that the fee for outline applications no longer properly reflected the scope of work required at this stage, which was akin to dealing with a full application. This was because the assessment of environmental impact assessments, full consultation, and so on were required at this stage and so it would be more appropriate for any

subsequent reserved matter applications to attract a reduced fee, perhaps at the same level of outline applications. On this basis, outline applications should attract the same fee as a full application.

Section 4

Summary of conclusions and recommendations

4.1 Cost recovery by planning authorities

4.1.1 Results from local authority surveys

- Around 57 per cent of respondents reported that the most senior person dealing with planning sat on the authority executive or equivalent management board. Conversely, 43 per cent of responding authorities have no such representation.
- Over time, the salary profile of staff appears to be increasing with continued groupings equivalent to 'senior' and 'principal' officers.
- Around 52 per cent of resources are applied to development management, split further into 34 per cent for fee-related development management and 18 per cent for non fee-related development management.
- Two-thirds of respondents had seen a decline in staffing levels, with a median decline of close to 6 per cent, and almost a third of respondents have lost more than 10 per cent of their staff compared to four years ago.
- Thirty-five per cent of respondents charge for pre-application discussions.
- Twenty-one per cent of respondents charge for minor amendments to planning applications.
- Eighty-nine per cent of respondents charge for submissions to discharge planning conditions.
- Sixty-four per cent of respondents were opposed to the principle of locally-set fees.

4.1.2 Results from case studies

- Authorities had experienced a fall in applications after April 2008, and fee income has also declined.
- Householder applications have declined, but are forecast to level out.
- At the same time costs have risen, mainly reflecting inflation in staff costs.

- Most authorities are forecasting an upturn in fee income in the coming year, although this is in part designed to protect budgets.
- Application fees funded around 38 per cent of the total planning service in 2006-07, falling to 31 per cent in 2008-09.
- Income from pre-application discussions is of limited significance when compared to income from planning application fees.
- Overhead costs appear consistent across authorities when compared to their staff costs. It is likely that these are still being underestimated.
- Current cost estimates are based on the CIPFA framework, which doesn't include and allocate core and democratic costs to services. The POS framework does, and is the preferred definition to fully account for the costs of the planning service.

4.1.3 Cost recovery on application fees

- The 15 per cent decline in applications has translated into decline in fees, from being equivalent to 38 per cent of the service cost down to 31 per cent of the service cost. This would suggest a 20 per cent or more increase in fees to reach 2006-07 cost recovery levels.
- Some authorities are over-recovering on fees, which will always be the case under a system of nationally-set fees. However, a comparison of average costs (£619 per application) to average fees (£563) suggests an overall increase of 10 per cent on fees is required. This is assumed to largely reflect cost inflation.
- In the absence of time recording systems authorities are not always aware of the proportion of their service which is covered by application fees.

4.1.4 Views of the working group

- The group were unanimous in agreeing that fees should continue to relate to cost recovery and not be used to encourage or discourage development.
- Local authority members were keen for fees to be annually altered, with advance warning to aid budgeting.
- Costs continued to rise as a result of the single application form, in printing online applications for third parties and members, and in increased documentation associated with applications.

4.2 Future options for fees

4.2.1 Improving the estimation of overheads

- There is no case for excluding core and democratic costs from any service cost as at present.
- Analysis of a council's overall total cost by service or activity needs to sum to the total of all costs incurred, and this will necessarily include staff costs associated with leave, sickness, training or other time which is not directly related to any specific service/activity.
- In the current study we are uncertain that related costs outside the planning service are fully reflected in findings. A full audit specifically looking to capture planning service costs would be required since current accounting structures are focused towards total cost accounting at an authority level.
- The identification of overheads for planning can be achieved by working through a check list of possible cost headings, such as that used in the Local Planning Authority Costs Pro Forma circulated as part of this project, although it is difficult to generate a comprehensive list.
- Calculation of the appropriate amount to be included is often a matter of judgment, although CIPFA has published guidance on the general principles to be adopted. These calculations, and the rationale which underpins them, are likely to come under more scrutiny in a full cost recovery scenario, especially in the current financial climate.
- Current accounting practices as regards the treatment and apportionment of overheads and internal recharges vary, with some operating comprehensive recharging arrangements, although probably only to the level of the overall planning service, but others adopting a more high level, end of year, "minimum necessary" approach.

4.2.2 Implications of the Killian Pretty Review

- The charging of higher fees based on quality of service indicators is linked to the discussion of setting fees locally.
- The suggestion by the Review to give authorities greater flexibility to determine how best to notify the public about planning applications was generally welcomed, as the need for press notices is a big cost for authorities and the working group members felt that flexibility would be an improvement.
- Delegation arrangements have a big impact on the costs of the development management function and in order to achieve savings authorities would need to more clearly identify their overhead as suggested above.

4.2.3 Locally set fees

- We think that many “major” applicants would be willing to pay higher fees for a more satisfactory service.
- Consideration of the costs, benefits and risks of setting fees locally would be an essential precursor to any change but there are also practical implications which would need to be thought through.
- In the example of all fees being set locally, accurate budgeting would require robust information about the actual costs likely to be incurred in determining different types of application together with good projections of the number and type of application likely to be submitted.
- The volatility of planning applications, both in terms of their volume and their nature, means that the initial projections are unlikely to be accurate and regular monitoring and continued projection of income would be required.
- There is an argument that to be fully accountable to applicants, local planning authorities would need to gather information about both their costs and the fees they receive for each category of application so that they can demonstrate that the resources generated by locally set application fees are being applied towards the determination of those applications.
- If the local setting of fees were to be restricted to particular categories of application, additional budgeting, monitoring and reporting requirements could be limited to those particular categories of application, with all others accounted for as a single category.
- Our recommendation is that if locally set fees are to be pursued then the following approach should be adopted:
 - Fees should remain linked to cost and not performance, although there could be penalties (or refunds) available to applicants where the service fails to meet agreed basic performance standards.
 - Each authority should be required to make an audited estimate of the base costs of the fee-related development management service based on the POS definition of overheads and time recording evidence.
 - Fees should be set so as to cover identified costs in the authority with a limited flexibility around cost estimates.
 - There should be powers for the Secretary of State to cap (or uprate) fees in instances where he believes the system is being misused or if performance targets are being missed.

- Planning service costs should be regularly audited and accounts published.

4.2.4 Reflecting changes to GPDO

- Potential savings for local planning authorities as a result of reduced householder applications are dependent on the number of cases taken out of the system and the resulting increase in lawful development certificates.
 - Based on data from the case study authorities, summarised in Figure 2.3, there is, however, no clear evidence that this category of application declined at a greater rate than the overall trend decrease in all applications in the period since enactment.
 - Underlying the absence of any change is the “settling in” of the new arrangements.
 - The working group also reported that there had been a corresponding increase in enforcement work. Some increase in the demand for certificates of lawfulness was also noted.
 - It is premature to conclude on any increases in householder fees at this time.

4.2.5 Changing “free go” arrangements

- Members of the working group highlighted the increasing number of free householder resubmissions following withdrawal and refusal and suggested that this was a growing cost burden.
- Pre-application discussion are more cost efficient because they generally involve a single meeting, rather than consideration of an application. They also avoid abortive work on the part of the applicant.
- Working group data on trends in resubmissions for householders suggests that up to 15 per cent of householder applications were resubmissions.
- Removal of the “free go” could therefore result in proportionate cost savings. The risk of additional household appeals needs to be taken into account, particularly in light of a streamlined appeal process.
- The working group did not support removal of the “free go” for other application types. This was because this provided scope for more favourable negotiated outcomes on larger schemes and avoided appeals.

4.2.6 Changes to fee structure

- As outlined in previous reviews of planning application fees, there is scope to combine fee categories to simplify the regime and reduce its complexity.

- Fees for mixed use applications could better reflect the costs of determining those applications.
- Maximum fee levels should be monitored, including monitoring the incidence of maximum fee applications.
- Fees for change of use applications should be further explored to examine the cost recovery within existing fee categories.
- Any move towards reclassifying the basis for calculating fees, such as using development value or construction costs, would make calculations simpler but would represent a fundamental shift in policy away from linking fees to the cost of determining applications.
- Any consultation exercise should consider the balance of resources required in handling outline planning applications, which in process and cost terms are becoming increasingly convergent with applications for full planning consent.
- The scale of fees in terms of the multiples used – both the size of multiples and the number of multiples before the maximum fee cap is reached – are felt to be appropriate at current levels.

4.2.7 Fees for reserved matter applications

- The working group revealed that the key issue was that the fee for outline applications no longer properly reflected the scope of work required at this stage. Work involved is similar to dealing with a full application.
- On this basis outline applications should attract the same fee as a full application.

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