

Planning Gain Supplement Consultation  
Room 2-32  
HM Treasury  
1 Horse Guards Road  
London  
SW1A 2HQ

27 February 2006

Dear Sir or Madam,

**RE: PLANNING GAIN SUPPLEMENT: A CONSULTATION RESPONSE**

The South East England Regional Assembly welcomes the Government's consultation on the Planning Gain Supplement, as a specific response to the long-standing inadequacy of infrastructure funding in support of planned levels of growth.

Through its work on the development of the draft South East Plan the Assembly has called for increased funds for infrastructure investment. The Assembly, its County Council partners and the Government Office for the South East commissioned work on the problem to identify both the scale of the problem and possible solutions. The conclusions of this work were that public investment in infrastructure provision was increasing, particularly in the Growth Areas, and combined with improved planning obligations mechanisms this should meet a substantial part of the envisaged need over the next 20 years. Nevertheless, a potential funding 'gap' of several £billion over the 20 year lifetime of the Plan remained. Additional funds and improved implementation processes will be needed to meet the gap and facilitate timely delivery of infrastructure.

The announcement by Government that it will be instigating a Comprehensive Spending Review across all departments in 2007 to '*Ensure that departmental resources across government are targeted appropriately to providing the national regional and local infrastructure necessary to support future housing and population growth*' is particularly welcome. However, increases in spending can only come from two sources, further public investment through general taxation, or additional contributions from the private sector. Given the forecast political and economic climate it seems implausible that a general increase in public spending can be contemplated, beyond the increases already achieved in the last five years. The alternative is to draw more funds from the increase in value when land receives permission for development in order to fund the wider supporting infrastructure required either directly or indirectly.

The South East England Regional Assembly therefore supports, in principle, the proposals to introduce a PGS as a specific response to the long-standing inadequacy of infrastructure funding in support of planned levels of growth. This support is however, subject to the resolution of a number of specific but significant concerns about its operation, including:

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- The power to collect the levy is devolved to the local level and the revenue generated should not be used to subsidise infrastructure provision in other regions;
- Simple and effective arrangements to ensure that the funds generated are made available to the appropriate local and regional authorities, in a manner, which has a clear relation to permissions granted and also recognises the requirements of a two-tier system. The net revenue should not be used to fund national programmes.
- Transitional arrangements – the timescale for introduction needs further clarification to avoid a potential hiatus in the development process. A possible phased introduction of the full PGS rate should be considered.
- The inclusion of affordable housing under a revised planning obligations system should be given further consideration, as it could imbalance the simplified planning obligations provision.

Further detail on these matters is provided below.

#### Why a PGS and not a tariff?

The consultation document supports the use of a 'strategic tariff' similar to that recently approved by the Treasury for the expansion of Milton Keynes, in the period running up to the introduction of PGS. The Assembly previously supported the introduction of a low level PGS as a complement to the widespread introduction of a tariff based approach. However practical experience has shown that whilst this approach works well in the Growth Areas this is due to their unique circumstances, including significant greenfield development, the existence of dedicated delivery vehicles, and a 'ringmaster' to forward fund key infrastructure and recycle revenues. In the majority of areas these conditions are unlikely to exist and consequently an approach based on the PGS is more likely to enable the region to capture a greater proportion of the uplift in land values to the benefit of the local community.

However, the infrastructure planning approach developed in Milton Keynes and Ashford which necessarily underpins the tariff approach may have considerable benefit to provide detailed estimates of infrastructure costs and inform the transparent allocation of PGS revenues and their co-ordination with other funding sources, especially in areas experiencing significant growth. Local infrastructure plans, closely tied to Local Development Frameworks, should therefore be considered as a tool to ensure timely and appropriate infrastructure delivery to planned development.

#### Revenue Implications of PGS

The primary test against which the PGS proposal should be judged will be the extent to which it delivers additional resources over and above existing arrangements. In other words, the extent to which the following statement from the PGS consultation document is realised:

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*“As an essentially local measure, a significant majority of PGS revenues will be recycled directly to the local level for local priorities. This will help local communities to share better the benefits of growth and manage its impacts, and will ensure that local government overall will receive more funding through PGS than was raised through s106.”*

The Assembly has commissioned research to estimate the extent to which the introduction of the PGS in the form proposed would generate additional monies. Initial findings suggest that the PGS (at an assumed rate of 20%), alongside scaled back s106 arrangements, would indeed generate considerable additional revenue at the regional level. (There is, however, still likely to be considerable mismatch between PGS revenue generated and infrastructure needs across the region, reflecting the variable relationships between land values and planned levels of development). Of course this will only be additional as long as PGS revenues are not used by Government as a substitute for mainstream funding. The Assembly seeks reassurance that this will not be the case and believes it can best be achieved by devolving collection to the local level.

The consultation clearly indicates that home improvements will be exempt from PGS, however it also states that the case for a further threshold to exclude smaller developments will be kept under review. The case for a small site threshold is not clear. The cumulative impact of small sites on infrastructure needs can be considerable and is not adequately addressed by the present system. PGS should therefore seek a contribution from that source.

#### Revisions to S106 Arrangements

Given the undoubted problems with the present system, which have been frequently rehearsed, the proposal to scale back S106 has attractions but it will need to be tightly drawn to ensure developers do not pay twice for provision in the revised obligations. The proposed inclusion of affordable housing provision could provide difficulties in that context and it is suggested that the Government give this issue further consideration.

Nevertheless the sound planning arguments for retaining affordable housing within the remit of S106 are acknowledged, particularly in relation to the ability to deliver on-site provision thereby promoting mixed sustainable communities.

#### Differential PGS rate for Brownfield Land

The consultation paper states that Government will consider introducing a lower rate of PGS for brownfield sites in order to promote environmentally desirable behaviour changes. However, as the consultation paper acknowledges brownfield sites differ significantly, in terms of their abnormal costs. As long as these abnormal costs (eg site remediation and assembly) are included within the Current Use Value of the land, thus reducing the planning uplift on which PGS is levied we see no reason why brownfield land should be subject to a different rate of PGS.

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### Recycling of Revenues

The principle of effective recycling of revenues for local and regional action is a critical requirement. The consultation makes the Government's commitment clear that the substantial majority of PGS should be devoted to local provision. This is essential and the Assembly's view is that 100% is retained within the region from which it is collected.

Local authorities in particular will need to have influence over the application of the revenue generated, and politicians regionally and locally will need confidence in the system in order to give assurances to their communities on the delivery of infrastructure in a timely fashion. To this end it is imperative that PGS captured in the South East is used to fund infrastructure investment in the South East. The Assembly would not support the redistribution of PGS revenues between regions. The collection of PGS revenues by individual local authorities would help provide this level of certainty and is one that the Assembly strongly advocates.

One issue not addressed in the consultation paper is how the revenue raised through the PGS will be allocated in a two-tier system. While this issue is not insurmountable there is clearly a need for this aspect of the proposal to be given further consideration.

### Regional Infrastructure Fund

The consultation paper suggests that a significant proportion of PGS revenues would be used to deliver strategic regional infrastructure and the Government proposes this is done through an expanded Community Infrastructure Fund.

However, one issue not fully addressed by the introduction of PGS is that of timing of infrastructure delivery. A particular concern is that there has been a serious time lag, with infrastructure provided several years after development has taken place. The timely and assured provision of infrastructure will determine the deliverability and sustainability of the Government's proposals for improving the supply of housing. With PGS payable upon the commencement of development it will not in itself be available to forward fund the delivery of infrastructure. However, by giving greater certainty in respect of the scale of contributions from the private sector it should enable the potential of the 'ringmaster' approach to be extended more widely across the region. In particular the certainty that PGS would bring could potentially support the Assembly's proposal to establish a Regional Infrastructure Fund to advance fund the delivery of infrastructure. In its advice on Regional Funding Allocations, submitted to Government in January 2006, the South East advocated the establishment of a revolving loan fund to be known as the Regional Infrastructure Fund to forward fund key pieces of strategic infrastructure. Initially pump primed by adding an additional 10% contribution to the Regional Funding Allocation within the current spending review period; it would then be enhanced through the application of Planning Gain Supplement when PGS begins to generate revenue. The RFA submission sets out how the Regional Bodies would propose to prioritise this additional funding in accordance with emerging Regional Strategies.

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### Transitional Arrangements

New legislation will be required to implement the system, which would not be introduced prior to 2008. Planning permissions granted prior to the appointed date would not be subject to a levy. The arrangements for transition will clearly be important if developer confidence is not to be damaged and more detailed consideration to transition arrangements will be required. One possibility would be to phase the introduction of the levy, to give time for the development industry to adjust.

### Conclusion

In conclusion, the Assembly gives a cautious welcome to the proposals which are sound in principle and should be further developed to ensure PGS:

- is collected and administered locally;
- collected in the South East should not be used to subsidise infrastructure in other regions;
- provides greater certainty and consistency in a way that the current S106 regime does not;
- accords with the principle that the 'developer pays';
- proposes a relatively low rate of tax;
- proposes relatively simple assessment and administrative arrangements;
- commits to using the majority of funds locally, but would also make funds accessible for a regional strategic need;
- could potentially provide a funding stream that would underpin the proposed Regional Infrastructure Fund;
- maintains the principle of locally agreed planning obligations albeit on a simpler basis.

Finally, I would like to emphasise that the Assembly would very much welcome the opportunity to play an active and constructive part in the resolution of the concerns identified.

Yours faithfully,



**Paul Bevan**  
Chief Executive