

**SOUTH EAST ENGLAND REGIONAL ASSEMBLY
EXECUTIVE COMMITTEE**

Date: 15 September 2006

Subject: **The Barker and Eddington Reviews**

Report of: Planning Implementation Director

Recommendation:

The Committee is invited to consider and comment on the draft submissions to the on going Barker and Eddington reviews.

Purpose of Report:

This report updates members on the work of two major reviews commissioned by the Government: Kate Barker's review of the land use planning system and Sir Rod Eddington's review of the transport system. Both reviews are expected to form a major input into the Government's pre-budget statement in the autumn and the work associated with the Comprehensive Spending Review.

The key challenge facing the planning system is the timely delivery of infrastructure. Our work on implementation is extremely relevant to both reviews and it is therefore proposed that we submit details of our work for their consideration.

I. The Barker Review of Land Use Planning

- I.1 The Chancellor and the Deputy Prime Minister commissioned Kate Barker to undertake an independent review of the land use planning system in England in December 2005. The terms of reference for the review were:

To consider how, in the context of globalisation, and building on the reforms already put in place in England, planning policy and procedures can better deliver economic growth and prosperity alongside other sustainable development goals. In particular to assess:

- i Ways of further improving the efficiency and speed of the system*
- ii Ways of increasing the flexibility, transparency and predictability that enterprise requires*
- iii The relationship between planning and productivity, and how the outcomes of the planning can better deliver its sustainable economic objectives; and*
- iv The relationship between economic and other sustainable development goals in the delivery of sustainable communities.*

- I.2 The review was discussed by the Regional Planning Committee at its meeting on 22 March 2006. The Assembly subsequently submitted a response to the call the evidence which highlighted:

- i The need to ensure that the planning system operates effectively and retains its democratic accountability
- ii The need to recognise that the current planning system, as enacted by the Planning and Compulsory Purchase Act 2004 is relatively new and needs time to demonstrate its ability to deliver
- iii Successful delivery is not just the responsibility of the planning system itself
- iv The importance of clarifying the relationship between the Regional Spatial Strategy and the Regional Economic Strategy.

2. Interim Report

- 2.1 An interim report was published by the review team on 4 July 2006. This set out Barker's thoughts on key issues following the scoping phase of the review, and provides a detailed review of literature and stakeholder perspectives.
- 2.2 The interim report acknowledges that planning often involves making difficult decisions, and reaching judgements can be controversial. It highlights that there are a number of ways in which the planning system appears to be balancing competing interests in an effective manner, contributing to wider quality of life goals. The report emphasises that while it focuses on business concerns regarding the operation of the land use planning system, it accepts that it is vital that any final recommendations do not advance business interests above environmental and social ones.

- 2.3 Contrary to initial reports in the media at the time the interim report was published, Barker rules out a major overhaul of legislation. It is accepted that planning decisions involve gauging individual and community preferences to factor market values into the decision making process. Ensuring decisions are informed by the relevant economic, social, environmental and resource considerations through proper is acknowledged as being costly and time consuming but rightly seen as being a necessary part of the planning process. The interim report notes that the new planning system is bedding down and makes it clear that the final report will not propose fundamental change to the planning system. Instead it will consider how and whether planning can improve the efficiency and effectiveness of sustainable economic development while protecting or enhancing its wider sustainable goals.
- 2.4 The interim report identifies three issues that the review team will explore further in making its final recommendations:
- i Efficiency of process – how can the planning system be made more efficient so that it delivers high quality and sustainable outcomes while providing value for money
 - ii Efficient use of land – many of the ways that planning impacts on the economy relate to the supply of land, raising questions about whether current land supply is optimal for development
 - iii Flexibility and responsiveness – can the planning system be made more responsive to price-signals and changing economic circumstances at a local and regional level, while also providing the certainty that business values.
- 2.5 In drawing its conclusions the review team will take note of the emerging findings from a number of related reviews, including the Eddington review. The report makes it clear that in considering potential reforms it will take into account four critical issues;
- i It is important that participation and democratic accountability is maintained within the planning system
 - ii In an age of increased legal challenge, risk aversion among public bodies and private sector applicants is to be expected and this will necessarily have an impact on the speed and complexity of the planning system
 - iii Beyond an assessment of evidence relating to gold plating, the potential for reform of European legislation is constrained; and
 - iv There have been a number of changes to the planning system in recent years and constant change bears its own costs.

3. The Eddington Transport Review

- 3.1 As part of the 2005 Budget announcement the Secretary of State for Transport and the Chancellor commissioned Sir Rod Eddington to work with the Department for Transport and HM Treasury to advise on the long-term impact of transport decisions on the UK's productivity, stability and growth.
- 3.2 In July 2006 it was announced that it had been agreed that Eddington had agreed with the Secretary of State for Transport and Chancellor that he would finalise his advice ready for publication near to the 2006 pre-Budget report. It is understood that amongst the areas being given further consideration as part of the review are the relationship between transport and the planning system, and issues associated with governance.

4. Next Step

- 4.1 The single biggest challenge facing the planning system remains that of ensuring the timely delivery of infrastructure that supports planned levels of growth. The Assembly's work on developing the Implementation Plan that forms an integral part of the South East Plan includes much work that is at the cutting edge of spatial planning.
- 4.2 Although there has been no formal invitation for further submissions to either review our work on implementation is extremely relevant to them and it is therefore proposed that the Assembly submit details of its work for their consideration.
- 4.3 The content of the proposed submission is set out in the attached Annex. It draws heavily upon the submission already made by the Assembly to the Treasury's Cross Cutting Review into Supporting Housing Growth and the draft of the regional submission to the Comprehensive Spending Review.

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Implementing Spatial Planning Submission to Barker Review of Land Use Planning and Eddington Transport Review

1. We welcome the recognition within Kate Barker's interim report that the planning system is bedding in and that constant changes bears its own costs. Our experience, derived from the development of the South East Plan (the statutory Regional Spatial Strategy for the region), is that spatial planning is beginning to realise its potential to provide the strategic planning framework that is essential in order to deliver sustainable development.
2. As the Regional Planning Body we are required to take into account the capacity of existing infrastructure and the potential to increase that capacity when determining the appropriate level of growth. The evidence base we have gathered clearly shows the extent to which the region's infrastructure is under pressure. The region's role as a gateway to the rest of the country adds further pressure onto our infrastructure.
3. Work undertaken in the Growth Areas of Milton Keynes and Ashford has enabled the infrastructure requirements for these parts of the region to be identified in greater detail. However these two areas account for only 20% of the total amount of growth set out in the South East Plan. Outside of the growth areas there is only a limited appreciation amongst infrastructure providers of the scale and timing of growth proposals.
4. The single biggest challenge facing the planning system remains that of ensuring the timely delivery of infrastructure that supports planned levels of growth. It is our collective failure to satisfactorily address this issue in the past that is one of the key reasons for opposition to further growth. It is this dimension of the planning system that this submission concentrates.

A Regional Implementation Plan

5. We are working towards developing a single Implementation Plan for the South East that identifies the infrastructure requirements of the region in the light of the South East Plan and the Regional Economic Strategy. This will be a business plan for the sustainable delivery of growth. The Regional Implementation Plan will set out what investment is required, who needs to make the investment and when is it needed. It will identify how the key behavioural changes on which delivery of the regional objectives are dependent will be realised. It will also provide the basis for identifying the potential for funding from the private sector to contribute to the delivery of infrastructure.
6. For the first time the Regional Implementation Plan will provide a clear framework within which the investment decisions of key infrastructure delivery agencies can be co-ordinated towards a common set of agreed regional objectives.

The aim is to ensure that the Regional Implementation Plan is integrated with a number of plans and programmes at the regional level, including those addressing health and social issues, learning and skills, environmental infrastructure, sport and cultural infrastructure.

7. We have developed the Regional Implementation Plan through:
 - Partnership with the sub-regional areas identified in the South East Plan to identify in greater detail their infrastructure requirements on a consistent basis and to relate the provision of infrastructure to the delivery of outcomes
 - Liaison with key delivery agencies – e.g. the Environment Agency, the water industry, Highways Agency and Network Rail – in order to identify critical investments necessary to enable planned growth to come forward
 - Research to understand the timing and decision-making mechanisms associated with the delivery of infrastructure, including the role of pricing reviews associated with regulated industries, in order to ensure better alignment of investment decisions.
8. The Regional Implementation Plan will present the most complete picture to date of the region's infrastructure requirements. As part of the South East Plan, it will have the added weight of being part of the statutory development plan. Government has a critical role to play in supporting this approach by ensuring that national economic and spatial policies are consistent with this plan in their South East implementation.

Long-term funding clarity and affordability

9. Identifying infrastructure requirements needs to take into account the likely of level of funding available. Equally Government needs to set indicative levels of funding for the medium to long term that enable delivery agencies to develop proposals that are capable of timely delivery. The Regional Implementation Plan can reflect a high degree of certainty in relation to short term infrastructure costs. However, the Government's guidance counsels against pre-determining the solutions to longer term problems. The assessment of longer term infrastructure costs will therefore by necessity be an estimate. This reinforces the need for indicative regional budgets and an outcomes focus, so that we avoid 'gold-plating' and arrive at solutions that are both deliverable and affordable.
10. In preparing the South East Plan we have estimated the quantum of funding required to support the delivery of planned growth and have concluded that approximately £38bn of capital investment is required to deliver the South East Plan for the 20 year period to 2026. This figure is now two years old and excludes the investment required in utilities that should be provided through the regulatory regime.
11. Based on current levels of funding, we estimate a funding gap of between at least £4bn and £8bn for the period to 2026. The biggest areas of concern are transport infrastructure and affordable housing. If the level of public

sector funding available is reduced as a consequence of the Comprehensive Spending Review, this funding gap will increase. This will in turn raise doubts about the ability to deliver required levels of growth.

Funding flexibilities

12. An appreciable amount of the infrastructure investment is determined by funding formulae. There is an urgent need to address the time-lag between needs arising and becoming reflected in the formulae. This problem is most acute in areas of rapid growth such as the designated Growth Areas (Milton Keynes South Midlands, Thames Gateway and Ashford) plus potentially any new Growth Points. One solution – and incentive for growth - is to allow authorities to retain increases in their tax base. Delays in the delivery of “enabling technologies” (particularly ICT) can severely constrain local economic performance.
13. The position of all but three of the region’s local authorities on the funding ‘floor’ also creates a barrier to the delivery of infrastructure. For these councils the ‘floor’ effectively removes borrowing support – a case of giving with one hand and taking away with the other. This problem affects more authorities in South East England than any other region, and must be urgently addressed; Buckinghamshire for example, is having to cut £18m from its transport budget because it cannot meet the revenue costs of the capital expenditure. Authorities still above the floor are also adversely affected by the scaled reduction in funding that finances the minimum grant increase awarded to authorities below the floor.
14. A critical variable currently overlooked by the current funding arrangements is that of construction price inflation, and in particular its impact relative to the general rate of inflation. At present the difference in inflation is such that the buying power of public sector budgets is being cut in real terms year-on-year. The regional transport budget for example is increased by 2% a year, while construction price inflation is rising by 6%. The impact of the London Olympics is likely to aggravate this disparity in the South East especially.
15. It follows that where delays arise in authorising proposals cost increases are inevitable. For example, the increased costs of the A3 improvement at Hindhead derive from the time that has elapsed since the report of the Planning Inspector was submitted to the relevant Secretaries of State. Government must review the timeliness of its internal decision making procedures to avoid adding such unnecessary costs.
16. The Sustainability Appraisal of the South East Plan has identified the critical role that behavioural change has to play in delivering the objectives of the South East Plan. Investing in behavioural change can reduce the need for and cost of infrastructure. Such an approach however requires the Government to review the balance between capital and revenue investment.

It may also require higher levels of investment initially to achieve a step change that ultimately delivers wider policy objectives at lower cost to society as a whole.

Alignment of investment plans

17. The Regional Implementation Plan highlights the need to achieve a more effective alignment of the investment plans managed by key delivery agencies, including those managed by Government departments. It has also shown the importance of our agreed regional priorities being more clearly reflected in the priorities of Government departments.
18. The Regional Assembly has commissioned an overview of the decision-making processes and timescales for a range of critical areas of infrastructure investment. Such an overview has never existed previously. We are now working with local authorities at the sub-regional level to understand better the practical inter-relationships between infrastructure providers. We have found that infrastructure providers, particularly those operating within the private sector, have yet to appreciate the extent of the investment necessary to support planned levels of growth.
19. We see a role for Government in instructing the independent economic regulators to give greater weight to the importance of delivering wider public policy objectives when determining future pricing regimes. This is particularly the case with regard to water, energy and rail. For example, evidence gathered by the Assembly and the Environment Agency has identified the likely investment required in pipework, new standards and demand management, new reservoirs and sewage treatment works to support growth. Future regulatory reviews must be required to take these investment requirements into consideration in determining future pricing regimes if the water industry is to be capable of funding the necessary investment.
20. There is also a need to reflect more strongly the wider public interest in regulatory frameworks in order to facilitate investment that encourages behavioural change. This may be a situation in which additional investment is required in the short term in order to reduce longer term costs to society.
21. We have commissioned a piece of research specifically focused on examining the role of economic regulatory frameworks in facilitating delivery of spatial planning objectives. The outcome of this work will be reflected in the Regional Implementation Plan.
22. The existence of different funding streams for infrastructure is not in itself an insurmountable problem, although it could be argued that it makes delivery unnecessarily complex. The key issue is to ensure that the funds available are targeted at the priorities for investment and that where separate funding streams exist their allocation is co-ordinated effectively.

23. The opportunity exists to promote a new approach to the allocation of funds available for infrastructure investment, that comprises three steps:
- Identify the infrastructure required to support growth
 - Prioritise the list of infrastructure requirements
 - Provide guidance/advice on the allocation of the funds available in accordance with the prioritised list of infrastructure requirements.
24. We have already adopted this approach in our RFA advice on investment in transport infrastructure. It enables guidance to be given to delivery agencies as to the most appropriate source of funding for their particular proposal. Where a number of potential funding streams exist this avoids the need for duplicate bids to be developed. Extending this concept one stage further, the development of the Regional Implementation Plan provides the opportunity for Government to reduce both the number of funding streams and the competitive bidding processes associated with them.
25. The region has two partnership Boards in operation – the Regional Transport Board and the Regional Housing Board – both now chaired by the Regional Assembly. The Boards operate on a consensus basis to provide advice to the Government on investment priorities.

Increasing the contribution from the private sector

26. Even if existing levels of public sector funding are maintained, there will clearly be a funding gap in the region. We need therefore to increase the contribution from the private sector towards the cost of infrastructure provision. We want to encourage public private partnerships to maximise leverage and increase the scale and scope of investment opportunities. There needs to be a clear public sector commitment to exploring the use of local asset-backed vehicles involving private sector institutional investors to fund and drive regeneration projects over the long term.
27. Research commissioned by the Assembly into the potential benefit of a Planning Gain Supplement (PGS) suggests that such a levy would increase the contribution from the private sector, possibly in the order of £3bn in the period to 2026. It is on this basis that the Regional Assembly gave a cautious welcome to the principle of PGS. We have also looked at local, as compared to central, administration, collection and distribution of a PGS levy. This supports the Assembly's position that a PGS levy should be collected locally. PGS needs to be part of the town planning system rather than part of the taxation system. Such an approach would increase confidence within communities that the impact of incremental development will be properly addressed. It would also support the argument emerging from the Lyons' review that local authorities have the key role in place-making.
28. PGS will not, by itself, simplify the planning obligations regime. A legislative distinction between matters related to the development of the site environment and off-site matters is likely to be impossible to achieve in

practice. There is a need to reconsider the proposal that most of transport and all health and education expenditure should come from PGS and not S106. Our research suggests that a better alignment might be to fund site-related and community related items from S106, leaving PGS for more strategic items. In addition at the local level the allocation of PGS funds ought to co-ordinated through a Local Infrastructure Plan that forms part of the LDF.

A regional infrastructure fund (RIF)

29. Although closing the funding gap will in itself be important, the issue remains as to how to ensure the timely delivery of infrastructure. This requires two conditions:
- Clarity about investment priorities so that public sector funds are targeted to support specific proposals, thereby enabling delivery agencies to plan with greater certainty
 - An ability to forward fund infrastructure in order to bring forward private sector development that will subsequently at least partially offset the infrastructure costs.

The Regional Implementation Plan delivers the first of these. The Regional Infrastructure Fund will deliver the second.

30. The proposal is to establish a Regional Infrastructure Fund (RIF) as a revolving loan fund that can be fed, inter alia, by PGS revenue streams and any strategic tariffs payable under s106 agreements. The primary purpose of the Regional Infrastructure Fund is to assist in the timely delivery of regionally or sub-regionally significant infrastructure that supports delivery of planned growth. The RIF would not support delivery of infrastructure where its delivery can be secured in a timely way with certainty through traditional funding mechanisms.
31. The RIF will need to be established initially with funding from the public sector; however once it is established and the risks/benefits associated with it become more clearly defined, it is possible that the RIF would be sufficiently attractive to encourage private sector investment interest. This could bring with it a commitment on the part of the private sector to underwrite part of the risk element associated with the RIF.
32. The potential to deliver a transformational change in infrastructure delivery lies in the opportunity to use the RIF creatively with delivery agencies to make things happen on the ground, as well as to lever in additional private sector resources. Drawing on experience at a more local level within the region, our proposition is that a private company limited by guarantee – the Regional Investment Company - would be established to manage the RIF. The company would be accountable to the regional board and would focus to on the priorities in the Regional Implementation Plan. The RDA would be the initial shareholder and would attract private sector investment into the RIC such that the public sector involvement would taper over time. Funds

raised by the RIC would be additional to the funding available within the region for infrastructure.

33. We are working with colleagues in the South West region to prepare a detailed prospectus for consideration by Government as part of the Comprehensive Spending Review.

South East England Regional Assembly

September 2007