

**EXTRACT FORM THE HOUSING GREEN PAPER –
HOMES FOR THE FUTURE: MORE AFFORDABLE, MORE SUSTAINABLE.**

ENSURING LOCAL COMMUNITIES SHARE THE BENEFITS OF PLANNING GAIN

The Challenge: Identifying the best way for supporting infrastructure in local communities

27. The Government is committed to ensuring that local communities benefit from growth and are able to obtain the necessary resources to finance the infrastructure needed to support growth. Alongside the reforms to the planning system outlined earlier in this chapter, the planning system has a further crucial role to play, by helping to harness the value of planning permission to generate additional infrastructure funding and thereby unlock housing growth.
28. In some areas, the current system of planning obligations already delivers significant benefits for local communities, through developer contributions towards local infrastructure. Research by Sheffield University estimated that in England, in 2003/04, developers delivered planning obligations worth about £1.15 billion. But the challenge now is to ensure that local communities benefit more from the value uplift that the planning system generates.
29. The Planning-gain Supplement was originally recommended by Kate Barker²⁶, alongside a scaled-back system of planning obligations, as a means of generating extra resources through a proposed levy on the value uplift accruing to land granted planning permission. The Barker report followed extensive consultations in 2001 (on a mandatory tariff) and in 2003 (on an Optional Planning Charge). The development industry expressed concerns about these proposed approaches. The Government made clear in response to Kate Barker that we believe that it is right in principle that the public should share in the value uplift that comes when planning permission is granted.

The Planning-gain Supplement

The Government proposes that key features of PGS would be as follows:

- PGS would be levied at a modest rate to ensure that incentives to develop land are preserved.
- In England, planning obligations agreed under section 106 powers would be scaled back.
- In England, at least 70% of PGS revenues would be paid directly to the Local Planning Authority which granted the planning permission to which the PGS liability is attached. Payments would be made on a regular basis to ensure that local authorities could deploy PGS receipts in a timely way to support infrastructure growth.
- Local authorities would be expected to use PGS resources to secure delivery of infrastructure in pursuit of the objectives identified in their statutory Local Development Framework (LDF).

- The remaining share of all PGS revenues raised in a region would be returned to that region. Regions would have access to a fund for spending in support of regional infrastructure priorities in pursuit of the objectives identified in the Regional Spatial Strategy (RSS). This would enable regional PGS revenues to be spent on infrastructure projects or areas of the region where additional resources, particularly transport, are most needed.
 - PGS would not be introduced earlier than 2009.
30. The Government has twice consulted formally and in detail on its proposals for PGS27. The Treasury Select Committee, in its report on the Pre-Budget Report28 in January 2007 said “We welcome the measured way in which the Government is consulting on and taking forward proposals for a Planning-gain Supplement.” At Budget 2007, the Government explained that, in considering the responses to these consultations, it was also looking at levels of infrastructure need and the range of mechanisms for delivering this infrastructure. A full summary of consultation responses will be published in due course. The Government has made clear in both the Pre-Budget Report 2006 and in Budget 2007 that it continues to believe that PGS represents a workable and effective instrument, and it remains the Government’s preferred option for capturing additional planning gain.
31. On 11 July, the Prime Minister indicated to Parliament that a Planning-gain Supplement Bill is provisional within the third session legislative programme, because if, prior to the Pre-Budget Report, a better way is identified of ensuring that local communities receive significantly more of the benefit from planning gain, including to invest in necessary infrastructure and transport, and it is demonstrated that it is a better alternative, the Government will be prepared to defer next session’s legislation. The Government is continuing to prepare for legislation on PGS in the next session of Parliament.
32. The Government will however also continue to listen to representations from key stakeholders. Some have raised concerns about aspects of the PGS proposal, notably the proposed scale-back of planning obligations. For example, some stakeholders sought greater clarity on the extent and nature of the scale back if PGS were to be introduced. Others have advocated alternative approaches to capturing more planning gain through a reform of our current policy on planning obligations to enable wider using of standard charges. However, those advocates have themselves recognised publicly that such alternatives also have their disadvantages.
33. The Government, in the light of the representations it has received, is offering local authorities and developers a further opportunity to discuss alternative approaches to PGS.
34. To facilitate discussion the Government proposes to seek views from key stakeholders focusing on the following possible alternative approaches:
- Approach A: A lower rate Planning-gain Supplement, with a lesser scale-back of planning obligations. Planning obligations would continue to be based on the tests in Circular 5/05 ‘Planning Obligations’, rather than scaled-back to the extent proposed in the Government’s 2006 consultation document. The Circular 5/05 tests could be placed on a statutory basis as part of this approach. This would provide the certainty about local revenue streams that local authorities and developers have been asking for. Since PGS revenues would no longer need to compensate for a loss of planning obligation benefits, the rate of PGS could be potentially be lower than would be the case otherwise. Under this option, all PGS revenues would continue to be returned to the region from which they were raised for investment in infrastructure. There might, however, be a case for revisiting other aspects of the Government’s proposals regarding the allocation of PGS revenues (see box above) as part of this option;

- Approach B: A Planning-gain Supplement limited to greenfield sites. Again, planning obligations would continue to be based on the tests in Circular 5/05. PGS would be levied on greenfield sites only. On average, greenfield sites experience higher value uplift as a result of planning permission. This alternative could require EU State Aids approval;
- Approach C: A charging mechanism based on an expanded system of planning obligations. The Government would amend Circular 5/05 removing some or all of the policy restrictions. This would make it easier for local authorities to develop policies seeking standard charges to mitigate the impact of development, and fund strategic and sub-regional infrastructure, in particular transport. Charges would be set out in Development Plan Documents, and clearly linked to infrastructure need, with an evidence base justifying the charge level for different types of development; and
- Approach D: A statutory planning charge The Government could legislate to allow local authorities to require standard charges to be paid for infrastructure need, enabling them to capture planning gain more systematically. This would enable all local authorities to require developers to pay average standard charges, based on the total costs of infrastructure in an area. Milton Keynes is often cited by stakeholders as a model, but in practice it is a very special arrangement which relies on voluntary agreements with developers and on similar land values across a range of sites. A statutory charge would make it easier for local authorities to collect contributions to infrastructure costs in areas in which a large proportion of developments are of smaller-scale.

35. We are clear that the test of an effective approach to planning gain will be its ability to raise significant additional funds to support the infrastructure needed for development, in a fair and non-distortionary way, and in a way that preserves incentives to develop in a variety of circumstances.

Next steps

- Hold discussions prior to the Pre-Budget Report with key stakeholders to discuss possible changes to the design of PGS, particularly focusing on the proposed scale back of section 106 and on whether the alternatives they have proposed might be better.
- Further announcements will be made at the Pre-Budget Report.