



All Party Urban Development Group
promoting sustainable development and urban renewal

Next steps

a regeneration agenda for
the next government

A report delivered by the officers

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On behalf of the All Party Urban Development Group

www.allparty-urbandevelopment.org.uk



About the All Party Urban Development Group

The All Party Urban Development Group is a cross party parliamentary body of MPs and Peers committed to progressing urban renewal and sustainable development in the UK.

The group was formed to raise the profile and understanding within Parliament of the regeneration process and the role that can be played by the private sector, particularly the property investment community. The group's remit is to take a holistic approach in the examination of all constituent elements that bring about truly sustainable communities, and to review policies that will increase the quality and pace of urban renewal and sustainable development nationally.

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Foreword

Three and half years ago, the All Party Urban Development Group (APUDG) was established to bring together the many conversations surrounding regeneration and development.

To unite these views, this political, cross-party body was created to examine issues ranging from employment to the energy efficiency of existing office buildings with a fully dedicated research team and the full backing of the sector it was examining.

Through the successful cooperation of the British Property Federation and Centre for Cities, and with continued support and interest from politicians and industry figures, the APUDG has published a total of seven reports.

Each report has significantly contributed to various debates and helped shape policy. Our reports have contributed to the formation of successful legislation such as the business rate supplement, business improvement districts and the community infrastructure levy.

We hope our reports will also prove to be a contributing factor to tax increment financing, display energy certificates for all existing non-domestic buildings and stamp duty reform to encourage institutional investors into the private rented sector.

Over the years, we have had the pleasure

of working with leading experts such as Sir David King, former government chief scientific adviser; Tony Travers, London School of Economics; Professor Michael Parkinson, Liverpool John Moores University; Sir Bob Kerslake, chief executive, Homes and Communities Agency; and leading industry figures such as Francis Salway, chief executive of Land Securities, the UK's largest commercial landlord; Ian Coull, chief executive of SEGRO; Malcolm Harris, chairman, Bovis Homes Group PLC; and Peter Vernon, chief executive of Grosvenor Britain and Ireland.

Input from such high calibre individuals, who lead the way for regeneration and urban development, has been crucial to the APUDG's success.

I am very grateful for the time that they and everyone else has given to the group.

I, and the other officers, are proud to be a part of the All Party Urban Development Group, the work that has been undertaken, and the contribution it has made to good policy making.

Clive Betts MP
Chairman

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Executive summary

This All Party Urban Development Group report looks at four key aspects of the urban development debate in the UK and sets out what we think should be the top priorities for the next government.

The areas we have selected are: prioritising public investment, freeing up local authorities to finance regeneration, improving the planning system and increasing the housing supply. In each area we propose one long term strategic priority over the course of the next government and one short term action that we think should be carried out in the first year of the next government.

The next decade looks set to be a difficult one for the urban development sector. A weaker supply of credit to the private sector will restrict the activity of developers and severe public spending constraints will limit regeneration expenditure from the public sector. The result will be that far less money is available for development over the next ten years than has been available over the previous ten.

Faced with this reality, the next government will be forced to make tough choices about where and how to spend scarce public sector resources. With a general election imminent, now is the time to set out what the top priorities should be for the next government.

1. Focus public sector investment on the areas that need it most.

Many of the UK's city centres do not need any more major public investments. Regeneration

money that is available should now be focused on the disadvantaged areas that are unable to attract investment without public sector support. Meanwhile, investments needed to increase the housing supply should be targeted at areas where demand is highest.

2. Localise business rates and introduce tax increment financing (TIF).

The next government should pick up the pace of devolution to local authorities by introducing TIF in its first year and then localise business rates before the next general election.

3. Limit planning reform after the first year of the next government and increase the use of planning performance agreements (PPAs).

The major parties have very different views on how the planning system should work. Whoever wins the next election should seek to implement their reforms in the first year and then allow the system time to bed down. Also in its first year, the next government should increase the use of PPAs by making sure they are offered by local authorities for all developments over a certain threshold value of private sector investment.

4. Focus on increasing the housing supply and adjust stamp duty to encourage greater investment in the private rented sector.

Increasing the housing supply should be a key priority for the next government. This will require a carrot and stick approach that combines both targets and incentives. To encourage greater investment in the private rented sector by institutional investors, stamp duty on bulk purchases should be adjusted so that it is levied on the taxable value of each unit.

Introduction

The economic context

The UK has emerged from recession but the recovery is looking decidedly weak. The economy posted growth of just 0.1 per cent in Q4 2009 and the average of independent forecasts suggests that total GDP growth during 2010 will be only 1.4 per cent¹. The return to growth is also likely to be uneven. Cities like Hull, Birmingham and Newport have been much harder hit by the recession than places like Cambridge, Reading and Brighton and their recovery will probably be much slower².

As this group's summer 2009 report³ showed, the commercial property sector has been badly affected by the credit crunch and the recession. For the foreseeable future, property developers and regeneration companies will be constrained (relative to the past ten years) by a weaker supply of credit. The private sector will be more risk averse, less willing to invest in marginal projects and less able to fund infrastructure. Not all cities and sub sectors of urban development will be affected in the same way, just as they have not all been affected in the same way by the recession. However, the overall picture will be considerably more challenging than it has been over the past ten years.

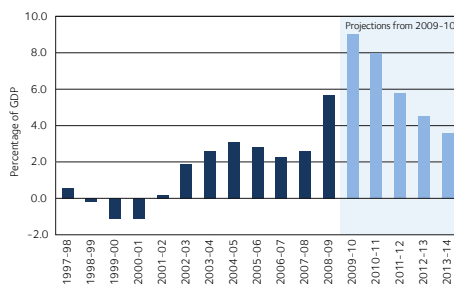
The fiscal context

According to the 2009 pre-budget report (PBR), the Treasury now estimates that the UK's structural deficit⁴ for 2009-10 will be

9.0 per cent of GDP (see figure 2). The current government intends to halve the deficit over the course of the next spending round, which runs from 2011-12 to 2013-14. While tax increases will cover part of the gap, spending cuts will be needed to cover the rest.

Capital spending on regeneration, housing, transport and other infrastructure will be hit hard during the spending squeeze. Labour has increased capital investment significantly over the past ten years, and had planned to stabilise net public sector investment (capital spending) at about 2.3 per cent of GDP per year. Even the Treasury's own projections now see capital expenditure falling to 1.3 per cent of GDP over the medium term. As the Institute for Fiscal Studies has pointed out, this is a level of investment that Gordon Brown has previously argued would "leave the country run-down and ill-equipped for the future"⁵.

Figure 2: Cyclically-adjusted public sector net borrowing, 1997-98 to 2013-14



Source: HM Treasury

¹ HM Treasury (2010) *Forecast for the UK economy: a comparison of independent forecasts*, London: HM Treasury

² Centre for Cities (2010) *Cities Outlook 2010*, London: Centre for Cities

³ All Party Urban Development Group (APUDG) (2009) *Regeneration and the recession: unlocking the money*, London: APUDG

⁴ The structural deficit is an estimate of the difference between public spending and tax receipts over the course of the economic cycle.

⁵ Emmerson C. (2009) *Chronic underinvestment?*, London: Institute for Fiscal Studies

Introduction

The political context

The challenge of bringing the public finances back under control will be the key issue for the next government and will shape the political debate in the run up to the general election. So far, however, announcements from the main parties about intended spending cuts are probably best described as a 'phoney war'⁶.

Figure 3 summarises the positions of the main parties on public spending and urban development. One of the big themes likely to be found in all of the parties' manifestos is localism, though they each have their own versions of it.

Figure 3: What the parties are saying on public spending and urban development

Labour

- Introduced a Fiscal Responsibility Bill enshrining into law the requirement to halve public sector net borrowing (PSNB) over four years. PSNB should be 5.5 per cent of GDP by 2013-14, and public sector net debt should be falling in 2015-16.
- Committed to RDAs, with sub-regions (such as the Manchester and Leeds city regions) operating within this framework.
- Committed to regional spatial strategies (RSSs) and a national housing target of 240,000 per year.
- Introducing an Infrastructure Planning Commission to speed up delivery of major infrastructure projects and looking into tax increment financing.

Conservatives

- Emergency Budget to be held 50 days after entering government. Public spending cuts to be made between 2010-11. Eliminate most of the structural current budget deficit over the first parliamentary session.
- More power for local authorities, including proposals for local enterprise partnerships – groups of authorities – to take over from RDAs, and elected mayors in England's twelve largest cities.
- Get rid of the regional planning tier (including targets) and strengthen the role of local authorities in the planning process.
- Increase local authority incentives for house building by matching council tax on new homes for six years.
- Introduce a Business Increase Bonus, allowing local authorities to keep the business rates uplift, over the national average, for six years.

⁶ Wolf M (2009) 'End Britain's phoney fiscal war', *Financial Times*, June 5, 2009

Liberal Democrats

- Timing of cuts should be based on the state of the economy, but deficit should be reduced more quickly than under government's plans. Have dropped a number of costly signature policies, like abolishing tuition fees.
- More financial power for local authorities, including the full localisation of business rates and replacing council tax with a local income tax.
- Streamline and abolish some of the RDAs and get rid of housing targets.
- Give local authorities more control over planning and housing.

This report

This report takes account of the UK's economic, fiscal and political context and focuses on four key aspects of the urban development and regeneration debate. In each area it highlights what the All Party Urban Development Group thinks should be the top strategic priority for the next government and it identifies one specific short term action that should be taken forward in the first year of the next government.

- **Section 1:** Prioritising public money
- **Section 2:** Freeing up cities to finance regeneration
- **Section 3:** Speeding up the planning process
- **Section 4:** Increasing the housing supply

Section 1

Prioritising public money

With economic conditions still fragile and the fiscal position set to constrain public spending over the next ten years, the prospects for property development remain highly uncertain. The UK's next wave of urban development and regeneration will be conducted against a much more challenging backdrop than we have become used to and policy makers will be faced with tough choices about where and how to spend public sector money.

RECOMMENDATIONS

Strategic priority – prioritise regeneration and housing investments on those areas that need it most

Many of the UK's major city centres do not need any more regeneration investment. Regeneration money should now be focused on the disadvantaged areas that are unable to attract investment without public sector support. At the same time, housing investment should be targeted at those areas in the south east where the housing supply problem is most severe.

Practical step – conduct a review to decide where regeneration and housing investment should be prioritised

HM Treasury is already conducting a review of regeneration spending as part of its Public Value Programme. Housing investment should be included too, and, as well as deciding how much these

budgets will be cut, the programme should analyse where the remaining investment should be spent.

Strategic priority – greater prioritisation will be needed

Struggling cities which already suffered from high unemployment, like Hull, Barnsley, Doncaster and Wigan, have been hit harder by the recession and have seen larger increases in the share of people claiming Jobseekers Allowance than those cities where unemployment was low. A recent report for The Northern Way by Professor Michael Parkinson shows that regeneration projects in smaller cities have been more affected by the recession than projects in their larger counterparts⁷.

This is particularly damaging for many of these small cities (and deprived neighbourhoods across the country) because they were struggling to attract investment even before the recession and had made much less progress on regeneration than many other cities. By contrast many of the UK's larger cities, such as Leeds, Manchester and Sheffield, attracted significant public investment over the past decade and have seen their city centres rebuilt and revitalised.

When the upturn does come around, developers are much more likely to get started on relatively low risk projects in more economically buoyant areas because those investments are easier to deliver and offer

⁷ Parkinson M, Evans R, Jones G, Karecha J, Meegan R (2010) *The Credit Crunch, Recession and Regeneration in the North: what's happening, what's working, what's next?*, Newcastle upon Tyne: The Northern Way

higher returns.

Even before the recession started, the UK's urban renaissance was unfinished business and there was still a lot of work to do in deprived areas. That task is now more difficult, but it is no less urgent. Regeneration spending may be curtailed but some level of spending will continue. This remaining spending should be focused on those deprived areas most in need and least able to attract private investment on their own.

On housing, the failure to meet the demand for new housing in the south east restricts labour mobility and limits opportunity as well as economic growth (see section 4). Delivering more housing in the south east should be seen as part of an integrated economic strategy for the UK and sufficient resources should be dedicated towards enabling an increase in supply.

Practical step – conduct a review to decide where regeneration and housing investment should be prioritised

In order to support the more effective prioritisation of capital investment that will be required over the next five to ten years, the next government should conduct a review of this kind of expenditure. HM Treasury is already conducting its Public Value Programme to find savings in regeneration, public sector IT projects and other areas. Housing should be included on this list.

One outcome of the review should be a clear set of criteria about where regeneration and housing investment should be invested over the next government. The review could produce lists of places that would not be eligible for public investment in these two spending areas. This would provide a clear signal of the government's priorities to developers and investors.

Section 2

Freeing up cities to finance regeneration

The need to find ways of funding new regeneration projects will be a key challenge for the next government⁸. The current infrastructure financing system suffers from over centralisation, financial fragmentation, weak strategic coordination and a lack of capacity and skills⁹. Since the recession, only projects that have support from the public sector or have guaranteed tenants have been able to continue. For the time being, the days of speculative development are over¹⁰.

RECOMMENDATIONS

Strategic priority – pick up the pace of devolution to local authorities by localising business rates

The next government should commit to localising business rates between the 2010 general election and the following one as a real step toward devolving decision making power to local government. Localising business rates would also provide local authorities with a strong incentive to support economic growth.

Practical step – legislate for tax increment financing (TIF) in the first year of the next government

We recommend that the next government introduces a national TIF scheme within the first year of the next

government. This tool will be critical in providing the necessary funding for urban infrastructure investments.

Strategic priority – greater local powers needed, including localisation of business rates

Despite some reforms, the UK remains one of the most centralised countries in the developed world. Local authorities only raise about 19 per cent of their revenues from local taxation compared to the OECD average of 55 per cent¹¹.

This lack of power slows decision making and restricts the capacity of local authorities to respond effectively to local opportunities.

We think the problem of over centralisation should be addressed through the localisation of business rates. This would not only give local authorities more financial freedom, but it would also give them a stronger incentive to grow local business at a time when the UK will be desperately in need of new jobs.

Localising business rates would be a major reform. It would take time to implement and there would be a number of issues that would need to be resolved: equalisation to ensure that poorer areas do not get left behind; the Revenue Support Grant would need reform; and restrictions put in place so that local authorities do not unfairly shift the tax burden from council

⁸ OECD (2005) Economic Survey of the United Kingdom 2005: executive summary, Paris: OECD

⁹ APUDG (2006) Loosening the Leash - How local government can deliver infrastructure with private sector money, London: APUDG; APUDG (2009) Regeneration and the recession, London: APUDG

¹⁰ Parkinson M, Evans R, Jones G, Karecha J & Meegan R (2010) The Credit Crunch, Recession and Regeneration in the North: what's happening, what's working, what's next?, Newcastle upon Tyne: The Northern Way

¹¹ Blochliger H & Petzhold O (2009) 'Taxes or grants: what revenue source for sub central governments?' OECD Economics Department Working Papers No 706

tax on households to business. To tackle this the government would need to specify a set of increments from which councils could choose to set their business rates.

Practical step – introduce TIF in the first year of the next government

Our previous reports have also strongly supported the introduction of TIF to help cities invest in vital infrastructure improvements¹². TIF allows a city to borrow against the expected increase in tax revenues associated with a new development. By calculating a future stream of benefits, typically over a period of 20 years or more, and hypothecating a proportion of that revenue, a city is able to raise money to fund infrastructure improvements in the present.

The present government is reviewing the idea of introducing TIF in the UK and the Conservatives have expressed interest as well. However, whatever the outcome of the general election, for TIF to go ahead the Treasury will need to be persuaded that the public sector debt implications are manageable, particularly given the current fiscal context. This probably means that TIF will require some element of central oversight.

In the absence of localised business rates the operation of TIF will require legislation to allow local authorities to capture a portion of the uplift in their tax receipts. We view TIF as realistic short term action, with localisation of business rates following in due course.

TIF in Nine Elms, Battersea Power Station

Battersea Power Station is one of London's most iconic buildings and has been the subject of a number of abandoned development proposals. As a result the current Nine Elms development, that surrounds the power station, has a very high profile. The scheme covers an area of 190 hectares and currently includes a number of different land uses both public and private.

The Nine Elms development could create up to 27,000 jobs¹³ and result in 16,750 new homes (accommodating 39,200 new residents), but the project currently faces a funding gap, making the regeneration of the site unviable.

CBRE have estimated that once the regeneration of the site is complete, the annual business rate tax take for the Nine Elms Opportunity Area could rise by £104.9 million. If the development partnership, which includes Wandsworth Council, was able to retain part of this uplift using the TIF mechanism, it could fund a loan and pay for the initial infrastructure costs over 11 years. It has been estimated that over a 20 year period the increased business rates from this project could provide the Treasury with a revenue stream of £1.5 billion at net present value.

¹² APUDG (2006) *Loosening the Leash - How local government can deliver infrastructure with private sector money*, London: APUDG; APUDG (2009) *Regeneration and the recession*, London: APUDG

¹³ Gross jobs

Section 3

Speeding up the planning process

The UK's planning system is frequently criticised for being too slow, with planning delays costing the economy an estimated £2.7 billion per year¹⁴. Despite a period of significant reform the planning system still has a number of failings. However, change in itself has a cost, particularly in terms of creating confusion and uncertainty, and stakeholders across the public and private sectors are now keen to see less reform and more stability.

RECOMMENDATIONS

Strategic priority – limit planning reform after the first year of the next government

The major parties have very different views on how the planning system should work. Whoever wins the next election should seek to implement their reforms in the first year and then allow the system time to bed down.

Practical step – minimise transaction costs by increasing the use of planning performance agreements (PPAs)

PPAs have been shown to increase certainty on a development but, as of yet, are not widely used. Government should therefore make PPAs available for large, complex developments and set a threshold value of private sector investment in a development to trigger their use.

The three main political parties have a very different view on how the planning system should work

In the recent past the planning system has been subject to significant reform. The changes intended to improve the speed, responsiveness and efficiency of the system. However, there is little consensus as to whether this has been achieved. As we move towards the general election the major parties have very different views on how the planning system should function.

Since 2004 the Labour Party has undertaken an almost continual process of planning reform. The Barker Review reported in 2006, which led to The Planning White Paper (2007) and Planning Act (2008). In late 2008 the Killian Pretty Review was published, suggesting new ways of improving the planning application process. This was all on top of The Planning and Compulsory Purchase Act (2004). Changes have been made to the planning policy statements (PPSs) framework, regional spatial strategies (RSSs) have been introduced and the community infrastructure levy (CIL) is about to come into force.

The Conservatives have suggested that, if they win the next election, they want to 'shake up' the planning system and introduce a more local approach to development, which they have called Open Source Planning. The Conservatives have stated

¹⁴ Barker K (2006) *Barker Review of Land Use Planning: Interim Report – Analysis*, London: HM Treasury

that they would scrap RSSs and return their powers to local authorities. They would also streamline the PPSs, replace the Infrastructure Planning Commission and simplify the proposed CL.

The Liberal Democrats' views on planning are less clearly formed, but broadly they support the Conservatives' wish for a more local approach. They would transfer planning powers to councils and scrap regional housing targets. They would also give councils new powers to intervene in areas like second homes.

Constant reform has a cost

Reform was necessary to improve the system, but constant reworking is unhelpful to local authorities and businesses, causing disruption and uncertainty which in turn increases costs. Clearly the system is far from perfect. There are changes that still need to be made and steps like the government's current process of updating the PPSs, creating a clear and more robust framework to guide local decision making, remain important.

However, the public and private sector both report fatigue and want the reforms that have been implemented (and in many cases are still being implemented) to be given time to take effect¹⁵. The amount of change that has taken place in recent years means that there is considerable confusion and uncertainty over how the system is now

meant to operate in practice.

Strategic priority – give the planning system time to bed down

Whichever party forms the next government should aim to act quickly and implement any outstanding or proposed changes to the planning system within the first year. Following this final phase of reform, it should seek to give the planning system a period of time to bed down. This would allow certainty to increase and the functioning of the system to improve.

If the Conservatives win the next election, they should be mindful of the disruption that will be caused by any major changes they make to the planning system. Removing the regional planning tier in particular needs to be carefully managed and the party should produce a clear plan as to how responsibilities will be reassigned.

A Labour government should continue its incremental reform of the planning system through the Killian Pretty Review and the Penfold Review, but should be mindful that continual change has a cost.

Practical step – increase the use of PPAs to reduce transaction costs

The need to minimise the transaction costs¹⁶ involved in delivering urban development and regeneration projects has been a recurring theme in this group's inquiries¹⁷. An online

¹⁵ Written submissions to APUDG

¹⁶ Transaction costs are the costs of coordinating and enforcing the terms of a transaction. In urban regeneration, these can roughly be classified as any costs not directly related to the production of a site. For example, a site's construction costs would not be categorised as a transaction cost, but negotiations between developers and local authorities about planning or design changes would.

Section 3

survey, carried out for this report, found that transaction costs have increased from around nine per cent of total development costs 10 years ago to around 14 per cent now¹⁸. Two of the most significant sources of transaction costs are delays in the development process and a lack of certainty and clarity. Delay incurred was cited by 36 per cent of the respondents to our survey as the largest source of transaction costs on a development.

Through the use of PPAs delays can be minimised and uncertainty reduced on large scale, complex projects. A PPA is a project management tool which takes the form of a signed agreement between a local authority and developer. Agreed at the beginning of the development process, a PPA sets out details on a project's timescale, required resources and joint decision making framework.

A guide to using PPAs has been drawn up by the British Property Federation, which the Communities and Local Government Department has explicitly endorsed. The aim of the guide is to increase awareness of PPAs among the developer community, in particular.

The Advisory Team for Large Applications (ATLAS) has also published a guidance note, *Implementing Planning Performance Agreements*, which aims to build on the experience and set out best practice. These guides are a step in the right direction but more action must be taken to increase the

use of PPAs.

Despite the fact that PPAs have proven to be a very effective way of minimising uncertainty and smoothing the development process, they have not been widely used. In 2008-09, their first year of operation, only 13 planning decisions were taken where a PPA had been used¹⁹. The limited uptake of PPAs so far suggests the need for further government action to increase their use. PPAs should be made readily available for all developments over a certain size. For example, the threshold could be a certain value of private sector investment. Local authorities could also be required to refund a developer's planning application fee if they fail to make a decision within the time schedule specified in the PPA.

¹⁷ APUDG (2006) *Loosening the Leash - How local government can deliver infrastructure with private sector money*, London: APUDG; APUDG (2009) *Regeneration and the recession*, London: APUDG

¹⁸ Survey results are based on 20 respondents and are therefore indicative.

¹⁹ Decisions made under section 70 of the Town & Country Planning Act 1990

Section 4

Increasing the housing supply

The UK needs to build more houses²⁰. Our failure to match the increased demand for housing with a sufficient supply has long been a feature of the UK housing market and is one of the main reasons that house prices have ballooned over the past decade. Such high house prices are bad news for the economy because they limit labour mobility. Increasing the housing supply, particularly in areas of high demand, should be seen as one of the top priorities for the UK's economic and regional policies over the next decade.

RECOMMENDATIONS

Strategic priority – focus on increasing the housing supply in areas of high demand

Increasing the housing supply should be a key priority for the next government. This will require a carrot and stick approach that combines both targets and incentives. The next government should pilot incentives to increase the housing supply.

Practical step – alter the stamp duty regime to increase investment in the private rented sector

Stamp duty is charged at increments (one, three or four per cent) based on the cost of the property, but, as a result, bulk purchases are usually taxed at four per cent with such purchases being calculated as an aggregate cost at the highest threshold.

This reduces the incentive for larger scale investments. The tax treatment should be altered so that stamp duty is charged on the taxable value of each unit.

Too few houses are being delivered in the right places

In 2007, land for house building in the south east fetched £5 million per hectare, up to 400 times the value of the equivalent land allocated for agricultural use²¹. This is a clear market signal that not enough land is being made available for new housing by local authorities.

The popular impression is that the south east is full and does not have enough space for more development. However, even in the south east only 12 per cent of the total land has been developed so there is still plenty of space for new houses to be built.

Faced with strong local opposition to house building, many local authorities (and their political leaders) do not have a strong enough motivation to bring forward new land for housing. They have no mechanism to capture the economic benefit of development²², meaning that their ability to compensate existing residents for the negative side effects of building more houses is limited.

²⁰ Barker K (2004) *Delivering Stability: Securing our Future Housing Needs*, London: HMT; National Housing and Planning Advice Unit (NHAPU) (2007) *Affordability Matters*, London: CLG; Gibb K, O'Sullivan T & Glossop C (2008) *Home Economics: how housing shapes city economies*, London: Centre for Cities

²¹ Nickell S (2009) 'Housing' in Uberoi et al (eds.) *Options for a New Britain*, Hampshire: Palgrave Macmillan

²² Including the value uplift in land prices created when planning permission is granted.

Section 4

Case study: house building in Oxford

Oxford suffers from high house prices and poor affordability. The household affordability ratio in the city, the ratio of lower quartile house prices to lower quartile earnings, is 8.8. This is 39 per cent more than the national average. In South Oxfordshire the affordability ratio is 9.8.

Oxford, and its surrounding sub region, has plans for an extensive house building programme, with the RSS setting a target of 40,700 homes to be built by 2026. The Oxfordshire county area has a target of 55,200 houses over the same period.

To meet the target for the Oxfordshire county area 2,760 houses need to be built per year, but between 2006 and 2009 on average only 2,100 houses were built, 24 per cent less than the necessary number²³. While this can partly be explained by the impact of the recession, there has also been significant resistance to plans to build new homes on parts of the city's green belt, including a legal challenge. It suggests that stronger incentives may be needed to encourage the residents of the city and its hinterland to allow Oxford to expand²⁴.

The two main parties have taken different approaches to dealing with the housing supply challenge. Below we set out the main mechanisms that exist or have been proposed.

Labour

Housing targets: The Government's approach to increasing house building numbers has centred on using national targets, based on an assessment of need and delivered through RSSs. In the Housing Green Paper the Government committed to raising house building numbers to 240,000 houses per year by 2016²⁵.

The target approach has increased house building numbers, but not to the required level. In 2007–08, at the height of the boom, 168,140 houses were completed, a 20 per cent increase on the number built in 1998–99²⁶. The negotiation of targets in many areas has been difficult and has been subject to challenge.

Housing and planning delivery grant (HPDG): This reward, created in 2007²⁷, incentivises local authorities to improve the delivery of housing and other planning outcomes. The HPDG is fairly complex. It is made up of nine elements, including net additions above a delivery floor, demonstration of housing land supply and meeting the 13 week target. The HPDG is also fairly small in size, the total

²³ The County definition is used rather than the sub-region so that CLG building numbers can be analysed.

²⁴ This is Oxfordshire (2010) *Anti-housing campaigners want city 'not to become Swindon'*, 12 January 2010

²⁵ Communities and Local Government (CLG) (2007) *Homes for the future: more affordable, more sustainable*, London: CLG

²⁶ CLG (2009) *Housing and Planning Statistics 2009*, London: CLG

²⁷ It replaced the Planning Delivery Grant created in 2002–03.

allocation for 2009–10 is £135 million. The combination of its complexity and small scale has meant that the HDPG has not radically altered behaviour²⁸.

The Conservatives

Council tax incentive: The Conservatives have been critical of housing targets. They have proposed matching the increase a local authority receives in council tax receipts for each additional house built for six years. The average additional house would attract an incentive of around £8,500 over the six year period²⁹. A 25 per cent top up would be applied for delivering affordable housing. The incentive would replace the HPDG with a total pot of £1.25 billion per year from 2014–15 onwards.

While substantially larger than the HPDG, the Conservatives' council tax incentive still might not be big enough to convince some local stakeholders that house building is necessary. One issue is that we are not exactly sure what size of incentive would be appropriate.

Currently, there are doubts as to whether the proposals for the incentive would encourage house building in areas of high demand³⁰. If the scheme instead weighted the additional council tax incentive according to the affordability ratio in a local authority or used thresholds (e.g. it was only applied in local authorities that have an affordability ratio 25 per cent above the national average), a larger incentive would exist in areas of higher demand.

Strategic priority – increasing the housing supply requires a carrot and stick approach

On their own, neither the target nor the incentive approach is likely to succeed. While targets have forced up house building numbers in some cities, in others they have been met with resistance and have failed to raise the housing supply sufficiently.

The next government should pilot incentives in high demand areas to test their viability before rolling them out. The incentive approach, while attractive, is largely untested. It may have major cost implications and would benefit from being modified to encourage house building in areas of high demand.

A pilot programme would provide much needed data on the size of the incentive required and how it would impact on behaviour in practice. It also seems likely that a system of targets would need to be retained. At the very least some kind of target would be needed to judge whether the incentive approach is delivering enough new houses.

Practical step – remove disincentives for investment in the private rented sector

Another important aspect of the UK's housing challenge is the need to increase supply in the private rented sector. The private rented sector can aid labour mobility by providing

²⁸ Nickell S (2009) 'Housing' in Uberoi V, Coutts A, McLean I & Halpern D (eds.) *Options for a New Britain*, Hampshire: Palgrave Macmillan

²⁹ Based on English council tax band D average of £1,414 in 2009–10

³⁰ While council tax rates do vary across the country with higher average rates generally being levied in the south east, the differences are quite small.

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another option in cities where housing remains expensive. In order to increase supply, government needs to encourage more investment from institutional investors.

One of the problems here is that the UK's stamp duty regulations do not encourage this kind of institutional investment. Stamp duty is charged at increments of one, three or four per cent. However, bulk purchases are usually taxed at the top rate of four per cent because the aggregate cost of the properties exceeds the upper threshold. This makes investment less appealing for institutional investors.

This anomaly should be removed so that stamp duty is paid on the basis of the aggregate of the taxable value of each unit. This recommendation was put forward in the *Rugg Review (2008)*³¹, and is now being consulted on by HM Treasury³². In order to keep this recommendation fiscally neutral the thresholds at which each increment is paid, or the percentage charged, may have to be changed.

This change alone will probably not be sufficient to raise investment in the private rented sector to the desired level and in the medium term the next government may have to look at other reforms that encourage more institutional investment. However, addressing the stamp duty disincentive would represent a good, practical first step.

³¹ Rugg J & Rhodes D (2008) *The Private Rented Sector: its contribution and potential*, York: Centre for Housing Policy, the University of York

³² HM Treasury (2010) *Investment in the UK Private Rented Sector*, London: HM Treasury

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