CABINET **23RD FEBRUARY 2006**

PLANNING-GAIN SUPPLEMENT: A CONSULTATION

Report by Planning Policy Manager

1. INTRODUCTION

1.1 The Government in 2003 commissioned Kate Barker of the Bank of England to produce an independent review of housing supply. In response HM Treasury have produced this consultation and are seeking views upon it by the 27th February. The Cabinet is asked to note the report and endorse the comments made.

2. SUPPORTING/BACKGROUND INFORMATION

2.1 Planning Gain Supplement (PGS) is a proposed new tax, to be levied by central government on land that has the benefit of planning permission. It builds on Kate Parker's original recommendation that Government should capture a portion of land value uplift arising from the planning process. The new tax would be used in order to fund a range of infrastructure that is needed to support her independent review of ways to increase the housing supply.

2.2 Planning Gain Supplement would largely replace the S106 contributions for infrastructure funding currently secured by local authorities. The Government wishes the new tax to be seen as a 'fair, efficient and transparent levy' (foreword of consultation document).

3.0 FEATURES OF THE PROPOSED PGS

Calculation and Payment

3.1 The basis for calculating PGS would be the 'planning gain' i.e. the difference (the uplift) between the land value with full planning permission and the land value in its undeveloped or existing use. The value with planning permission would be determined by the nature of the development (residential, commercial or mixed use), location, density and market conditions. A chargeable person is identified, who will be liable for the PGS, through a new statutory Development Start Notice.

3.2 The PGS would be calculated at the time that full planning permission is granted or at determination of each stage of reserved matters (of which there can be many), although it is proposed that PGS would not be collected until commencement of each stage of development. This would make for a very fragmented payment system.

3.3 The percentage likely to be payable is not given in the document, although it is suggested that a lower rate may be introduced for brown field land, and that there could be a threshold below which PGS would not be payable, but this would be very low. There is no intention to levy PGS on home improvements.

3.4 Payment of PGS it is proposed, would be at the commencement of development by the developer, who would then be most likely to pass the charge onto the landowner.

Implications for S106 Planning Obligations

3.5 The introduction of a PGS would be accompanied by a scaled down planning obligations system, limiting planning obligations to 'those matters that need to be addressed in order for the environment of the development site itself to be sustainable, safe, of high quality and accessible, and the provision of affordable housing.' The analysis provided by Government is as follows;

Included in new scope of Planning Obligations	Outside scope of new Planning Obligations
Affordable housing	Education provision
On-site landscaping	Health provision
On-site roads & traffic calming	Community centre
Access road	Bus service
Open space	Fire station
Mix of uses	Employment & training
Mix of housing types	Labour initiatives
Flood defence	Town centre management
Street lighting	Cultural facilities
Phasing & timing of development	Leisure facilities
Landscaping	
Design coding	
Environmental improvements	
Operational effectiveness	

3.6 The Government proposes to make this range a defined statutory list.

Allocations of PGS Revenues

3.7 If PGS is implemented then the Government will commit to the following key principles;

- A significant majority of PGS revenues will be recycled to the local level for local priorities, and will ensure that local government overall will receive more funding through PGS than was raised through S106.

- PGS revenues will be dedicated to financing additional investment in the local and strategic infrastructure necessary to support growth. The government anticipates that an overwhelming majority of PGS funds will be recycled within the region from which they derived.

3.8 The first bullet point is of significant concern. The level of certainty that the funding will be greater than that already coming through S106 needs to be further explained.

3.9 The government is consulting on the mechanisms for allocating PGS revenues to the local level. The 2 options are as follows;

Option 1. To distribute PGS revenues to the local level as grants in direct proportion to the revenues raised.

Option 2. To recycle revenues back to the local level as grants on the basis of a formula specifically connected to PGS revenues, which acted as a proxy for need. This would inevitably be more complicated and less transparent to local developers and communities, but would benefit communities delivering housing in areas of low land values.

3.10 The consultation paper then goes on to add that a significant proportion of PGS revenue would be used to deliver strategic regional infrastructure. The government proposes this could be done through an expanded and revised Community Infrastructure Fund (CIF), and is seeking views on the appropriate geographic coverage and eligibility criteria. Additional CIF funds are required in any case to assist in making good the existing shortfall and the PGS funds should be spent only on the services where planning obligations were previously applicable. What is not clear from the PGS consultation document is how CIF will provide funding for the strategic infrastructure requirements.

3.11 Finally as part of the 2007 Comprehensive Spending Review, a crosscutting review to determine the social, transport and environmental infrastructure implications of housing growth will take place.

4. IMPLICATIONS FOR HDC

4.1 There are concerns regarding the issue of how and what level of funding will be returned to the local area. How much will end up in a ‘central pot’ and be re-distributed nationally? Funding for specific purposes should be ringed fenced and not put into a ‘central pot’.

4.2 What is meant by the local area as there is a contradiction in the text when in the same paragraph it states that an overwhelming majority of PGS funds will be recycled within the region from which they derive.

4.3 There is also a need for further explanation as to how the funds earmarked for strategic infrastructure will be handed back to local authorities. A development in our district may well end up in paying for infrastructure in Cambridge.

4.4 Local Authorities may have to make bids for the money taken for strategic purposes. Will we be any more successful than in the past when we have applied for resources through the Community Infrastructure Fund?

4.5 There is a concern that the ability to negotiate for affordable housing will be curtailed as the levy will top slice the development gain from a site leaving a smaller amount to pay for items on the more local list.

5. RECOMMENDATION(S)

5.1 That members note the contents of the report and endorse the comments in section 4 above.

BACKGROUND INFORMATION

Planning-gain Supplement: a consultation December 2005 (HM Treasury)

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