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Evidence to the RSA City Growth Commission

I am grateful for the opportunity to submit evidence to this review.

As Chief Executive, successively, of Ashford Borough Council and Milton Keynes Council I have been Chief Executive of the two local authorities that – between them – have over the past ten years delivered the highest percentage rates of housing growth in the country, so I believe I have a useful perspective to contribute.

I should make clear that I am writing in a personal capacity; but the points I will be making have all been shared with elected members all political groups on the council and many of them feature in the report of a recent Overview and Scrutiny Review Group on Infrastructure Funding.

My 'evidence' is in the form of some key messages supported by a presentation pack (click View and Notes Pages if necessary, to see the text accompanying each slide), with notes on how we have been able successfully to facilitate large scale housing growth and economic prosperity in Milton Keynes over a sustained period.

My evidence addresses the key barriers that cities experience in seeking to facilitate large scale housing and GVA Growth. As such, this evidence is particularly relevant to local authority areas that are experiencing (or planning) rapid growth: different considerations may well apply to areas facing more modest, incremental growth.

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Key Messages (relevant to large scale development: low level, incremental growth may face different issues)

1. **'It's the infrastructure, stupid'**
   - In the years before 2008 there was a progressive shift from strategic infrastructure being delivered by public authorities (and utilities) in line with predicted demand to a model where responsibility for as much as possible was placed on developers (via section 106 planning obligations). In a strong housing market that was manageable. However,
     - In was arguably inequitable (existing residents/businesses also benefit from new infrastructure),
     - It loaded huge costs onto developers (which mostly had to come off land values), and Kate Barker 's analysis seems to have overlooked this factor,
     - It required developers to invest huge sums up front, at risk, and since 2008 it has been very difficult to finance this,
     - The legal mechanism (section 106) also requires detailed item by item negotiation with developers and armies of lawyers (all seeking to pare back the commitments given to development control committees), and with service providers (especially highways authorities, but also NHS, Environment Agency etc) to pin down the funding and delivery of the infrastructure, and
     - In many cases, large bits of infrastructure require contributions from a number of developers, which gives rise to further problems (and delay) as they seek to offload costs onto each other and/or argue about who should go first.
   - Problems with the funding, financing and delivery of strategic infrastructure have therefore been a major inhibiting factor in efforts to facilitate housing growth and related economic development
   - There are no 'missing millions': by the time the cost of strategic infrastructure has been taken into account most major sites are at the margins of viability and/or land values actually paid are at the margins of what the landowners will accept

2. **'Planning' is not the problem**
   - Successive Governments' efforts to reform and free up the planning system are proceeding from an incorrect premise
     - They have been sold a 'line' by developers that it is 'planning' and the associated detailed negotiation of section 106 agreements that is a major barrier to housing delivery, when the reality is that Development Control is merely the forum in which all the challenges of delivering infrastructure (see above) have to be resolved,
     - Most local areas/Local Planning Authorities want to secure prosperity, additional jobs, new housing of a range of types and tenures and to attract new retail and cultural facilities. But many areas' actual experience of housing growth is that

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it has a negative impact on their quality of life because of the failure to provide necessary infrastructure in time, leading to queues at road junctions, competition for jobs, lack of school places, pressure on community facilities, inadequate provision of affordable housing etc. When local people and local planning authorities oppose growth or reject planning applications they are often being perfectly rational, not NIMBYS,

- Conversely, robust plan-led development can provide the solution by giving greater certainty to utilities, Regulators and public sector bodies responsible for strategic infrastructure; and most Planning Authorities go well beyond statutory requirements in terms of co-ordinating the funding and delivery of infrastructure in order to facilitate appropriate development.

- However, delivering the step increase in housing supply that is generally recognised to be necessary, will require the creation of large, properly planned new communities, if development is to be both sustained and sustainable. Large-scale development, whether in the form of urban extensions, new towns or garden cities, will inevitably have a significant lead time before new houses start to be delivered. Short term expedients such as the presumption in favour of sustainable development, if councils cannot demonstrate a 5 year housing land supply, do nothing to encourage proper, strategic place-making. The absurd consequence is that Milton Keynes, with a proven history of delivery and thousands of houses with planning permission, is struggling to demonstrate a 5 year supply and faces the real possibility of incoherent "planning by appeal".

3. **Government policy seems not to take account of development economics/timescales**
   - Analyses of a range of major sites (1,000+ dwellings) suggests that the cost of 'exceptional' items (i.e. strategic or off site infrastructure – new roads/junctions, flood prevention works, schools, health facilities, other community facilities, strategic open space etc) is around £20-30m per 1000 houses. Government policy ignores this reality,
   - If that cost has to be financed by the developer (before house building can start) it is risky, difficult to persuade the banks to lend the money and (therefore) expensive, which further reduces the viability and/or quality of the development,
   - In any sensible model, government would de-risk the situation for developers either by providing a chunk of direct funding for infrastructure (more than recovered by additional stamp duty, income tax, business rates, corporation tax etc) or by taking a share of the risk; and contributions from developers would come at/near completion – i.e largely out of cashflow from sales. This is the

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thinking behind the unique and successful Milton Keynes Tariff, set up in 2004 and which has supported sustained housing growth in Milton Keynes right through the recession (see details in separate presentation/notes pack),

- The Community Infrastructure Levy does not meet the requirements of the situation because it does not involve any forward funding; will produce much less overall than either the MK Tariff or a sensible application of Section 106; and will be difficult to apply to strategic infrastructure because of the restrictions on pooling. From the developers' point of view it is also payable largely upfront and provides no guarantee that the infrastructure necessary to enable or enhance their investment will actually be delivered,
- Just to illustrate the general point, Milton Keynes has a published Local Investment Plan (LIP) which sets out the £1billion of strategic infrastructure that will need to be put in place to achieve our Core Strategy housing and jobs/GVA growth targets (28,000 dwellings and 45,000 jobs) over the period to 2026. This is a massive programme and much of the infrastructure takes years to plan, finance and deliver. (We are currently on track, but it's a constant struggle.) It requires a stable planning context and long term stable funding commitments. Having to 'bid' for short term funding (e.g. must be spent by March 2016) is wasteful and inefficient. We deploy all our New Homes Bonus into the LIP and it's a very useful, flexible resource to plug gaps that would otherwise appear in the programme, but it's clearly very vulnerable to political decisions to stop it, top slice it or whatever, which would jeopardise the whole programme,
- Utility infrastructure in particular (water, wastewater treatment, electricity, gas, telecoms) is often overlooked because the cost does not fall on developers and is funded out of the relevant utility price mechanism, i.e. by all consumers in the region – but it can take a lot of effort to get the utilities to incorporate major investment requirements in their Asset Management Plans, and then persuade the Regulators to approve it (especially as they are under pressure from sponsoring Departments to keep bills down). Another reason why major housing growth requires a stable long term planning framework.

4. **Government policy on housing growth also fails to take account of the revenue consequences of growth for local authorities and other service providers (health, police, courts etc)**
   - The cost of providing local authority services to each dwelling is around £3,000 per annum, so an additional 1000 homes equates to a revenue pressure of £3m per annum. Additional council tax (at an average of around £1,200 pa) will cover about 40% of that cost. Fees and charges for various services (if the new communities behave like existing communities) will cover another 20% of that cost. The remaining 40% has traditionally been covered by

Government grant through the (retrospective) application of a population factor in the calculation of Revenue Support Grant. In the past this has taken about 3 years to work through, so fast growing areas have taken a revenue hit of around £3m per 1,000 dwellings over those 3 years. That is now of course mitigated by New Homes Bonus, but it would be rash for any authority to build expectations about New Homes Bonus into its revenue budget; and in any event (as highlighted above) in fast-growing places NHB is entirely absorbed in helping to fund the various major gaps in the funding for strategic infrastructure, so NHB is not a solution to the revenue problem,

- More significantly, the operation of the business rate retention mechanism will effectively 'freeze' local authority funding from Government at 2011/12 levels for 8 years (until the 'reset'). Milton Keynes Council may derive a modest benefit from retaining a share of the increase in business rates – in our case we will only get about 30% of the increase, an estimated £400-600k per annum; but that will be swamped by the lack of any recognition for the additional revenue pressure arising from housing and population growth. If we achieve our Core Strategy targets of 1,750 dwellings per year, we will be a net £2m per annum worse off, and that cumulates up each year: £4million in year 2; £6million in year 3 etc. So an intended incentive has been turned into a major financial disincentive to facilitate housing (and related economic) growth. And the biggest penalty falls on those fast growing areas that are doing their best to achieve the national target to increase housing supply!
- If this kind of inequitable revenue penalty for facilitating growth continues, and local services are cut or decline in quality as a result, existing communities may again be acting completely rationally in opposing further growth.

<u>Tangible Policy Proposals</u>

1. An equitable revenue funding regime for local government that at least recognises (or doesn't penalise) those with rapid population growth

2. Enable authorities who are facilitating (or credibly plan to facilitate) housing and GVA growth above certain thresholds (eg 1,000 dwellings pa) to operate outside the CIL regime and to put in place "tariff" type arrangements to collect and pool funds towards the cost of strategic infrastructure

3. Put in place long term stable policy and capital funding commitments to areas that credibly plan to achieve high levels of housing/GVA growth. A commitment to provide, say, 20% of the total infrastructure cost on a <u>planned</u> basis plus up to £50m of forward-funding that would eventually be repaid, would de-risk private sector investment, unleash development, enhance values and more than pay for itself in enhanced economic activity and additional financial receipts to the Treasury.

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