Annex 1

Supplement clouds horizon

Confusion surrounds the impact that a windfall levy on government brownfield housing targets will have. **Chris Baker** investigates

Housing: critics of planning gain supplement worry that extra cost will discourage developers from using brownfield land

While the debate around the government's aspirations for house building continues, the details of how a land tax planned to fund infrastructure will deliver on brownfield sites remains to be seen.

Consultation on the planning gain supplement (PGS) idea was released as part of chancellor Gordon Brown's response to the Barker review in last month's pre-budget report (*Planning*, 9 December 2005, p2). But planning professionals and housing experts doubt whether it will have any real impact on areas where infrastructure is most urgently needed.

Under the proposed supplement, a developer's liability for the levy will be assessed when planning permission is granted for their scheme. But the fact that the PGS will only have to be paid once development gets under way has raised concern that volume house builders will be able to sit on land for up to five years, waiting for the supplement to be scrapped or become more favourable.

The government expects the "majority" of money raised through the supplement to be recycled locally, prompting fears that areas without large amounts of growth will be starved of cash. Critics are beginning to speculate that the supplement has been designed purely with greenfield locations in mind. This is a particular issue in London, where a flat rate could deter development on redundant land.

At the moment the smart money seems to be on a 50 per cent discount on the rate for brownfield locations. This would mean that developers would pay half of the 20 per cent of land value uplift that many believe will be applied under the PGS. But real concern remains over the proposal's implications for the huge complexity of developing brownfield sites.

"My view is that this is going to kill the goose that lays the golden housing egg," warns London Assembly planning and spatial development chairman Tony Arbour. "I cannot think of anything more likely to lead to a decline in the development of brownfield land. Gordon Brown wants to encourage it, but this proposal will not. It is a very ill thought out tax."

Arbour predicts that once developers discover that they are going to be taxed for planning to use a brownfield site to build housing, they will look for other ways of using the asset. "That was my experience of the land tax schemes of the 1960s," he recollects.

The most devastating potential consequence of the PGS for brownfield schemes is that such sites will not become available for housing, warns Arbour. "Owners might want to hang on to their land until they no longer have to pay such a tax," he reasons. "Developers are not long-term investors, but taxing them on redeveloping complex brownfield sites might make them change the way they operate."

Smaller developers might be tempted to buy up derelict land and sell it on to volume house builders with "deeper pockets" that might not mind land banking to maximise their returns, Arbour suspects. "A lack of land is a real problem, especially in suburban areas," he observes. "In my own borough of Richmond-upon-Thames there is no developable land that is not brownfield or in the hands of the Crown."

Developers deny accusations of land banking. They point to research published last year (*Planning*, 30 September 2005, p8) concluding that delays in the planning process are the main cause of development hold-ups. But others argue that the sheer lack of detail in the government's PGS proposal makes it almost impossible to guess how the tax will affect brownfield development.

Just before Christmas, Milton Keynes secured Treasury approval for its roof tax tariff system for funding infrastructure (*Planning*, 6 January, p2), which many see as a far better model for ensuring developer contributions than the PGS. But others are quick to point out that what works in a major growth area might not work everywhere.

Central Milton Keynes Project Board chairman John Walker admits to feeling somewhat in the dark over the PGS proposals, even though he is an ODPM adviser. He finds that in principle most people accept the idea of developers contributing some of the windfall profits from increased land value that come from planning permission. But he remains unconvinced that the PGS is "any better or worse" than section 106 agreements.

"The problem is that the consultation is so lacking in any precision about how it would work, how much money it would take and how it would be distributed," he argues. "I do not see how it will be linked in with delivery at a local level in the way that section 106 funding has been in some of the growth areas."

The fact that greenfield sites may be changing hands for large amounts even before they receive planning permission adds another element of unpredictability, he notes. "The supplement could work in all sorts of ways, but it is difficult at the moment to apply it to greenfield land. Defining what is brownfield and what is greenfield raises further issues."

Walker maintains that in some growth areas and other large developments, current arrangements have been adapted to work more with local services and may not necessarily need replacing. "Section 106 agreements are being used more strategically. The question has to be whether the PGS is better or worse," he insists. "I do not know because there is nothing about it in the consultation paper."

Arbour suggests there may be another solution. "One of the ways that we could encourage house builders and secure the release of more land is simply through less government interference," he claims. "But the key thing that has affected the housing market and made it very unaffordable has been the lack of availability of land."

He contends that a return to some form of mortgage interest relief to reduce housing costs and encourage developers to build more homes might be a way to deal with this issue. "In the short term it would have the affect of pushing prices up, but these things must be tackled," he asserts.