



Planning-gain Supplement Audit: Final Report

Prepared on behalf of the BPF, the CBI, the HBF and the RICS

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Executive Summary

Knight Frank LLP was commissioned by a pan-industry alliance comprising the British Property Federation (BPF), the Confederation of British Industry (CBI), the Home Builders Federation (HBF), and the Royal Institution of Chartered Surveyors (RICS) to carry out independent research on how Planning-gain Supplement (PGS) would work in practice, including its effect on individual schemes and financial viability.

The Treasury and Department for Communities and Local Government published a consultation document on Planning-gain Supplement in December 2005. PGS, described as a *'fair, efficient and transparent levy'*, is meant to take forward recommendations made by Kate Barker in her independent review of housing supply in 2004. Barker proposed a Planning-gain Supplement as one method of overcoming shortcomings to the planning obligations system and challenges for infrastructure provision, both limiting housing supply.

The characteristics of PGS, as set out in the PGS consultation document, prompted concern amongst property developers and wider business interests that have significant interaction with the planning system. Considerable uncertainty remains regarding the proposals for PGS and the form a future arrangement for PGS might take. The Government received over 700 responses to the PGS consultation document, very few of which are in the public domain. Nevertheless, there is little empirical evidence of how PGS would impact on the actual viability of different types of development.

From July 2006 to September 2006, Knight Frank Planning carried out research on the impact of PGS on examples of property development. We appraised eighteen case studies for the effect of PGS, together with a number of interviews with developers and land owners to identify possible market responses to PGS should it be implemented. The case studies consist of 9 residential developments, 7 mixed-use developments, 1 industrial development and 1 example of mineral extraction.

Excluding householder applications, which make up roughly half of all planning applications in each year, it could be expected that PGS could apply to over 300,000 planning applications in any year. However, the payment of PGS will only be triggered on implementation of planning permission, and therefore it is less clear how many development schemes would be affected by PGS. PGS will result in the creation of a wider tax base for contributing to the funding of local and regional infrastructure by raising infrastructure funds from across a wide range of developments.

PGS would have a considerable and variable impact on the selection of developments we have studied. Our main findings are as follows:

- 1) ***The findings suggest that the planning-gain supplement as proposed at a modest rate and a scaled back Section 106 system, may not result in the necessary additional funds for local and strategic infrastructure to support housing growth, as envisaged in the PGS consultation document.***

The total planning gain contribution of all eighteen case studies under the current Section 106 system is approximately £375 m. Under a scaled back Section 106 system, together with PGS, planning contributions would be approximately £195m for a PGS rate of 10%, £279m for a rate of 20%, and £363m for a PGS rate of 30%. Overall, for this selection of case studies, this represents a reduction in planning gain, in relation to the case study examples included in the research, of 48% for a PGS rate of 10%, 26% for a PGS rate of 20%, and 3% for a PGS rate of 30%.

This result is drawn from our case studies. However further research might show that the increased funding generated from small scale developments taken at a modest rate, that might pose less of a threat to the viability of such schemes, could compensate for the loss of community infrastructure funding from the large scale developments. If not, then there would be pressure for a higher rate, which might push many smaller schemes into non-viability, thus requiring substantial funding from other government sources to meet the shortfall. Given these uncertainties, it is clear that extensive further research is needed to achieve sufficient public confidence that PGS would work effectively and meet the required increase in housing output. At present it is not clear whether this would be the case.

- 2) ***The impact of PGS on developments would be variable. In financial terms some developments would “benefit” from lower planning gain charges overall, whilst others would “suffer” a greater planning gain charge, when taking both the scaled back Section 106 contributions and the PGS charge into account and comparing this with the current Section 106 deals that are negotiated.***

It is not simply the case that all development would face a higher development tax burden were PGS to be introduced. The rate of the PGS charge would influence the extent to which any particular development would contribute more or less planning gain than under the current Section 106 arrangements. This could therefore be a significant factor effecting individual development viability, but will vary from case to case. It is not simply a matter that PGS would universally create an unsatisfactory tax on development gain.

- 3) ***Whilst relatively few in number, large scale urban expansion developments and large town centre developments would be likely to contribute significantly less planning gain with PGS and scaled back Section 106 agreements compared with current Section 106 agreements.***

At a PGS rate of 10%, 20% and 30%, the large scale urban expansion developments and large town centre development included as case studies in this research would (with the exception of one case at a 30% charge) have a reduced overall development tax burden, in comparison to the current Section 106 system.

Large scale developments, whether these are for urban extensions or major town centre schemes, currently contain planning gain packages comprising a significant amount of community infrastructure.

The current Section 106 arrangement, although contested and negotiated by developers and planning authorities, normally results in a planning gain contract that is viable to the developer whilst meeting wider community objectives. This approach is acceptable to developers on the basis that they retain some control over the delivery of the community benefits, since these will add value to the new development that is being undertaken. Under the PGS arrangement, this control would be lost as community benefits related to a site could no longer be negotiated under Section 106 agreements.

- 4) ***The largest impact of PGS is likely to be on relatively small scale development proposals compared with current arrangements. Our research indicates a possible adverse affect of PGS on schemes which have not had Section 106 agreements in the past, such as one example of industrial development. Minerals development would have to absorb the full impact of PGS.***

Certain types of development would be penalised by PGS through the imposition of additional costs, which would be offset by the reduction in Section 106 liabilities in other forms of development; one such example being mineral development.

5) *The calculation of the Planning Value (PV) is volatile, and to an extent subjective, with slight variations giving rise to the possibility of significantly higher PGS liability.*

Sensitivity analysis on the case study selection, where planning value was adjusted by +/- 5%, demonstrates the variability in the range of tax that could be raised at each PGS level. There is a potential difference of approximately £10m, £20m and £30m at the 10%, 20% and 30% tax rates respectively between the higher and lower sensitivity bands in relation to the eighteen case study examples alone. This small range of variation represents a fluctuation of 12% on the tax raised under each scenario. It is anticipated that in reality the variations in many assessments could be significantly wider. There is therefore likely to be considerable opportunity to mitigate the uplift in value in the preparation of self assessment to minimise PGS liabilities.

The significance of the sensitivity testing is that due to the way in which appraisals are cast to assess planning value, there are likely to be a range of value and cost inputs that might be applicable to particular development proposals. Future valuations of rents and sales prices are, inevitably, subject to considerable uncertainty. It is thus possible that there could be significant variations in the assessed planning value made by different valuers relating to the same property benefiting from the same planning permission. Thus there is likely to be a range of uplift in value, subject to PGS which may prove acceptable under the proposed self assessment method. In relation to development appraisals, making small changes to a number of variables can result in a wide range of residual value outcomes. The sensitivity testing simply illustrates how PGS payments might vary and indeed, the percentage change around a central figure could in fact be much larger than +/- 5% used in our case study examples.

6) *As proposed in December 2005, uncertainties in estimating the current use and planning values, upon which the PGS liability is assessed, would influence the behaviour of developers as they attempted to minimise PGS payments.*

It is possible to mitigate the uplift in value and hence reduce or increase the PGS payment that might be expected at a given rate of PGS. In the case of phased development, where there may be significant infrastructure or remediation costs, there may be benefits to developers in securing full planning permission for the entire development project and at least implementing part, triggering an assessment in relation to the whole proposal. The planning value, and consequently the uplift liable to PGS, would be reduced, compared with a more conventional approach whereby an outline permission might be first obtained followed by the grant of full planning permissions for phased development. This will need to be assessed on a case by case basis in order that PGS charges are mitigated.

7) *Enabling development will be more difficult to achieve with PGS and may harm the delivery of conservation and regeneration projects.*

There is likely to be a PGS down-side in relation to “enabling development”, where development value is used to cross-subsidise unviable development. This is likely to be the case, for example, where charities are involved in using their assets to provide enhanced benefits derived from property development.

1.0 Introduction

- 1.1 In December 2005, the Treasury and the then Office of the Deputy Prime Minister (now Department for Communities and Local Government) published a consultation document on Planning-Gain Supplement (hereafter described as PGS). Described as a *'fair, efficient and transparent levy'* by John Healey and Yvette Cooperⁱ in the joint foreword, the consultation on planning-gain supplement meant to take forward recommendations made by Kate Barker in her independent review of housing supply in 2004. Barker identified shortcomings to the planning obligations system and challenges for infrastructure provision, both limiting housing supply. She suggestedⁱⁱ:

If Government is to reform the planning system to bring forward more land for development, it will increase the potential for unearned gains from selling land for development. Consequently there is a strong case for Government to consider the use of a levy to allow the wider community to share more broadly in the development gains its actions will create; and

As the levy is part of a package of reforms designed to increase the supply of land brought forward for development and affordable housing, the result should be an increase in the amount of new housing overall. Indeed, many of these policies might not be possible without additional dedicated revenue to support growth"

- 1.2 Further to these recommendations, the consultation document on PGS explains the Government's proposals for a levy that will capture a portion of the increase in land value - *"at a modest rate"* - occurring when full planning permission is granted, with the two-pronged aim of helping to *"finance additional infrastructure while preserving incentives to bring forward land for development"*ⁱⁱⁱ. The consultation document also states that the Government believes that through PGS the wider community would be able to share in the wealth created by planning decisions in their area, *"given the sizeable uplift in land value that planning decisions often confer"*^{iv}. Furthermore, revenue generated by PGS would fund *"local and strategic infrastructure necessary to support and stimulate new development and contribute to long-term sustainability"*^v.
- 1.3 Knight Frank LLP has been commissioned by a pan-industry alliance of business and property organisations, comprising the British Property Federation (BPF), the Confederation of British Industry (CBI), the Home Builders Federation (HBF) and the Royal Institute of Chartered Surveyors (RICS), to carry out independent research on the effects of a planning gain supplement (PGS).

- 1.4 The purpose of the study was to investigate how PGS would work in practice, including its effects on individual schemes by testing different rates of PGS on different types of development and the consequent effect on financial viability.

- 1.5 The research was conducted from July 2006 to September 2006. It comprised reviewing published and unpublished research and industry responses to the proposed PGS, eighteen case study appraisals of the effect of PGS on proposed development/changes in land use, and interviews with developers and land owners to identify possible market responses to PGS being implemented.

2.0 Background to PGS

- 2.1 Kate Barker's report '*Delivering Stability: Securing our Future Housing Needs*', published in March 2004, first identified the possibility of a tax measure in the form of a PGS to extract some of the windfall gain accruing to land owners from the grant of planning permission.
- 2.2 Housebuilding has not been responding sufficiently to meet the needs of the country's ageing and growing population. The gap between supply and demand is increasing, and steps are necessary to ensure that more people get access to good quality affordable housing. The increase in housing supply in England and Wales over the next decade is a huge priority. To make provision for projected household growth of 209,000 per year, the Government says an increase in the rate of house building from 150,000 to "at least" 200,000 is necessary. In order to achieve the additional housing supply there is a need for extra financial resources to finance the necessary infrastructure.
- 2.3 A tax measure in the form of PGS would contribute towards the revenue needed to fund the infrastructure necessary to provide for Britain's huge need for housing. Barker noted a number of problems with the Section 106 system, including^{vi}:
- The value of contributions achieved varied widely between areas, and even between sites, in the same housing market locality;
 - Section 106 agreements are mostly attached to major housing schemes and many authorities will deal with applications of this scale relatively infrequently;
 - Negotiations can take many months, sometimes years, and are costly for both local developers and local authorities;
 - There may be asymmetries in negotiating expertise between the developers and local authorities, leading to unsatisfactory outcomes; and
 - Some local authorities may misuse Section 106 to delay or discourage development, by asking for unreasonably onerous levels of developer contributions.
- 2.4 Barker's recommendation included two options to increase revenue for infrastructure provision: reforming the current Section 106 system to increase certainty amongst developers and reduce negotiation costs, or the scaling back of Section 106 with an additional PGS alongside.
- 2.5 In Recommendation 24 of her report, Barker proposed that Section 106 be scaled back to direct impact mitigation of development but that affordable housing should be retained as a planning obligation. Development gain over and above this should not be allowed. It was also proposed that

local authorities should receive a share of the gain generated by a PGS to compensate for a reduction in Section 106, broadly equal to the sum they would have extracted under Section 106^{vii}.

- 2.6 Following the proposed reforms to the planning obligation system, Barker's recommendations were taken further with the publishing of a joint HM Treasury/HMRC/ODPM consultation on PGS on 17 December 2005.
- 2.7 Since the Barker Report, the Government has also put in place several interim measures in order to address the lack of clarity, lack of transparency and lack of consistency that accompanies the current system of planning obligations. A new circular on Planning Obligations – ODPM Circular 2005/05 - was published in July 2005. This circular sets out the statutory framework for planning obligations and it explains the policies of the Secretary of State that should be taken into account when negotiating planning obligations for applications. In July 2006, the Government also published further guidance on planning obligations and in August 2006, a model Section 106 agreement^{viii} (including standard heads of terms as: the transfer of property/open space/play areas/public squares/amenity space; community facilities; CCTV; affordable housing; public art; highway works; transport contributions; and education contributions) was published.
- 2.8 Empirical research conducted by the University of Sheffield and the Halcrow Group in May 2006 also confirmed huge variation in the number and value of planning obligations secured within local authority families and regions and within individual local authorities^{ix}. Only 6.9% of all planning permissions during 2003/04 included planning agreements^x. Affordable housing was the highest average value per obligation at just under £250,000, followed by Education (£118,000), Transport and Travel (£83,000), Community and Leisure (£59,000) and Open Space (£25,000)^{xi}. The total value of planning obligations agreed in England for the year 2003/04 was about £1.9 billion^{xii}. The Audit Commission ascribes the variance in the contributions negotiated by councils to: property values; absent or incomplete detailed policy and supporting processes; and existing spare capacity in local services^{xiii}. The Audit Commission very recently estimated that developer contributions vary from around £500 per dwelling to up to £30,000 per dwelling^{xiv}.
- 2.9 The extent of funding necessary to provide the infrastructure necessary to support housing growth nationally is as yet undetermined. To achieve more certainty on this, the Government is undertaking a cross-cutting review into supporting housing growth to inform the 2007 Comprehensive Spending Review, which would^{xv}:

- *"determine the social, transport and environmental infrastructure implications of housing growth in different spatial forms and locations;*

- *establish a framework for sustainable and cost-effective patterns of growth, including by examining the use of targeted investment through the Community Infrastructure Fund and Growth Areas funding to support the fastest-growing areas, and*
- *ensure that Departmental resources across government are targeted appropriately to provide the national, regional and local infrastructure necessary to support future housing and population growth"*

2.10 These findings, together with the current review undertaken by Sir Michael Lyons on local government funding, would have huge implications for future funding allocations to local government, and therefore funds available to encourage development. In order to achieve the Government's objective of sustainable communities, access to high quality public services – such as schools, health centres, parks and open spaces and public transport, will be required.

2.11 PGS has a number of objectives^{xvi}:

- *"To finance additional investment in the local and strategic infrastructure necessary to support housing growth, whilst preserving incentives to develop;*
- *To help local communities to share better the benefits of growth and manage its impacts;*
- *To provide a fairer, more efficient and more transparent means of capturing a modest proportion of the land value uplift; and*
- *To create a flexible value capture system that responds to market conditions and does not inappropriately distort decisions between different types of development"*.

2.12 Since the publication of the PGS consultation document, the media has reported considerable opposition from a wide array of interests in the development industry to what is being perceived as yet another tax^{xvii}. Considerable uncertainty remains regarding the proposals for PGS and the form a future arrangement for PGS might take. Most fundamentally, it is not clear at what rate PGS will be levied and thus the consequential impact cannot be considered with any clarity. Notwithstanding these difficulties this research considers the likely impact of PGS based on 18 case study examples at rates of PGS at 10%, 20% and 30% and compares the effect on landowners and developers with the current system.

3.0 The Main Features of PGS

- 3.1 This section considers the main features of PGS as detailed in the consultation document. It is not clear how any amended form of PGS might vary to the approach outlined in the December 2005 consultation document. We understand from discussions with the Treasury that the Government still wishes to introduce PGS, having regard to comments raised in the earlier consultation. For the purposes of our analysis, we have assumed that PGS will be implemented on the basis of the December 2005 proposals.
- 3.2 PGS will not be implemented before 2008^{xviii}.
- 3.3 It will capture a “*modest portion of the value uplift*” arising on land for which full planning permission has been granted. The consultation document does not give an indication of the rate at which PGS would be levied. The uplift is to be determined the moment after planning permission has been granted. Payment is required once development commences.
- 3.4 PGS will apply to all planning permissions – non-residential and residential - except for home improvements. During 2004/05 district planning authorities in England determined 645,000 planning applications. 53% of all decisions were for householder developments. County planning authorities, in dealing with planning applications that relate to minerals and waste developments, determined 1,858 decisions during 2004/05^{xix}. Whilst the numbers of planning applications determined varies from year to year, it could mean that well over 300,000 planning applications will be affected by PGS each year.
- 3.5 PGS would be payable under a self-assessment regime administered by HM Revenue and Customs (HMRC).
- 3.6 With the introduction of PGS, the scope for planning obligations will be reduced to those matters that relate specifically to the environment of the development site itself and affordable housing.

3.7 The table below describes the scope of planning obligations under a development-site environment approach^{xx}:

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

3.8 It should be noted that transport, aside from onsite and access roads and traffic calming, is left out from the above considerations. However, the consultation document states that: *“The Government will examine options for bringing highways agreements made under S278 of the Highways Act 1980 into line with any changes to the current system of planning obligations”*^{xxi}.

3.9 The *“majority”* of PGS revenues will be recycled directly to local level. However, a *“significant”* proportion would be used to deliver strategic regional, as well as local, infrastructure^{xxii}.

The PGS mechanism

3.10 The consultation document explains that PGS will be charged on the *“planning gain”*, i.e. the difference between the market value of the land with full planning permission – the planning value or PV – and the market value of the land in its current use, assuming no development potential – its current use value or CUV^{xxiii}.

3.11 PGS will be calculated as follows:

$PV - CUV = \text{uplift in value}$

$\text{PGS rate} \times \text{uplift in value} = \text{PGS liability}$

3.12 PV and CUV are assessed assuming unencumbered freehold with vacant possession in the whole of the site covered by planning permission. Contributions made under the reformed planning obligations regime would be taken into account for the PV^{xxiv}. The consultation also recognises that the expected costs of developing the land, including remediation costs, could affect the PV^{xxv}, and should these costs not be taken into account an unfair burden would be placed on brown field development land.

3.13 The amount of PGS payable in relation to a development would be assessed on the date of full planning permission, as this point is regarded as capturing the majority of the uplift in land value. The consultation document considers both average valuations and actual valuations and recognise that actual valuations may be fairer and more credible. Payment of PGS will be required only when development commences and once a Development Start Notice was submitted to the Treasury^{xxvi}. A single rate will be applied to all types of development to minimise distortion, although the consultation document raises the possibility of applying a lower rate of PGS to brown field development because of the importance placed by the Government on regeneration^{xxvii}. PGS will be payable by the developer or any other person who implement the planning permission on a self assessment basis and it will be an up-front cost^{xxviii}. However, the consultation document asks whether PGS should be paid at another stage in the development process^{xxix}. Should a developer fail to pay PGS, a Development Stop Notice will be issued. Transitional measures, to allow the market to adjust to the levy, will be introduced if PGS is introduced in 2008. It is not clear what these measures would be.

3.14 The characteristics of PGS, as set out in the consultation document, have resulted in considerable concern amongst property developers.

4.0 Reasons for Concern with PGS as Proposed

4.1 As proposed in the consultation document, PGS raises a number of concerns. The commissioning bodies of this particular research have highlighted a number of areas of concern, after extensive consultation with their respective members^{xxx}. These, in brief, include:

- PGS might curtail, rather than encourage, development.
- The effects of bearing the cost of PGS might be severe, in particular if payment is required before the value of the planning permission has been realised in the final product.
- Who bears the cost of PGS? The developer? The land-owner? Ultimately, PGS, compared with the current planning regime would only impact on housing prices if the supply of housing land being brought forward diminishes. In the short term, the net change to housing supply within market housing areas is unlikely to be significant due to unimplemented planning permissions. In the longer term, under PGS housing supply is likely to be reduced on the basis that the planning gain value captured is greater than at present.
- The proposed valuation procedure could add to a lot of complexity, as the nature of valuation is imprecise. PGS could result in lengthy disputes over valuation, stalling development.
- PGS is not suitable for all types of development, in particular brown field land, as this would impact on the Government's commitment to urban regeneration.
- PGS would remove the link between the developer, the development and direct community benefit.
- PGS would create a blockage in the planning system.
- PGS would not result in the revenues required, possibly affecting the provision of infrastructure at the right time and linked to proposed development.
- PGS would make development more costly and complex.

4.2 These concerns have been widely reflected in the general response to PGS^{xxxii}. We understand from the Treasury that they have received over 700 responses to the consultation document. These responses have not been published, apart from 44 summaries included in the ODPM Select Committee Inquiry Report^{xxxii}. Aside from largely anecdotal responses, the fact remains that there is little empirical evidence of how PGS would impact on the actual viability of different types of developments. The remainder of this report investigates 18 case studies in detail, discussing the implications of PGS for the respective developments under consideration.

5.0 Case Study Methodology

- 5.1 This research investigates 18 case studies. Knight Frank supplied four case studies, and the remainder of case studies came through the members of the commissioning bodies of this research. All case studies have been anonymised for the purposes of this research. The case studies consist of 9 residential developments, 7 mixed-use developments, 1 industrial development and 1 case of mineral extraction.
- 5.2 A simplified residual appraisal model was applied to each example of development, showing the effects on the development prior to PGS and after PGS. We followed the following process:
- 5.3 All of the development values that the proposal is expected to generate were calculated and summed. This results in identifying the Gross Development Value (GDV) of the development. Next, the development costs were stated, as provided by the developer. These would conventionally include costs associated with remediation, infrastructure enhancement, construction costs, professional consultancy fees, finance, contingency and the developer's return (profit). In cases where developer's profit was not included in the overall development costs, we assumed a 20% profit on development costs. A 20% profit level was chosen, on the basis that this percentage is frequently found to be used by developers providing an adequate return for risk.
- 5.4 For each case, we have clearly stated planning gain, or Section 106, contributions, i.e. the costs of social and physical benefits which were derived from the development through negotiation with the developer by the local planning authorities. In some cases where negotiations had not been concluded the developer's expectations were used.
- 5.5 The largest single component of these Section 106 contributions is normally affordable housing. This component will remain a matter for the local authorities to negotiate, based on need, if PGS is introduced. We have also included all other contributions as given to us by developers.
- 5.6 The total development costs were stated and then subtracted from the GDV. The resultant residual value should roughly equal the amount the developer paid for the land. In cases where we've been given land acquisition costs, and built these into overall development costs, the residual value represented an additional profit. If the residual value was below zero, it indicated a development that was not viable at the identified profit rate.

- 5.7 Once we had calculated the before PGS gross residual value, we established the revised Section 106 costs that would accompany the planning permission under a PGS system, applying the development-site approach as set out in Table 5.2 of the consultation document. In some cases this provided us with a revised residual value – which either demonstrated an impact on developer’s profit or the funds available for land acquisition, depending on the nature of the information we had for each development proposed.
- 5.8 Following this, we calculated the ‘uplift’ in land value by subtracting the Current Use Value (CUV) from the Planning Value (PV). In some cases we were given a CUV, whilst in other cases we had to estimate a value. The PV was taken as the GDV minus all development costs, developer’s profit and financing costs, thus the funding available for land acquisition. We had to make assumptions where land was bought after outline application stage, reflecting a hope value, or where ransom strips were involved.
- 5.9 Taking into account the uplift value, we calculated PGS liability at 10%, 20% and 30% of the uplift value, based on industry conjecture as to the level of PGS that might be set. We then subtracted this additional cost from the gross residual value calculated above and compared it with the before PGS gross residual value and/or developer’s profit depending on how we approached the case study.
- 5.10 With the exception of two very large residential led developments, we have not taken into account the effect of discounted cash flow and phased development costs.
- 5.11 All case study information was supplied by developers and/or bodies undertaking development. Any further assumptions made were clearly stated.

6.0 Case Studies

Case study 1: Extra care sheltered housing, East Midlands

This case study investigates the impact of PGS on an extra care sheltered housing scheme of 45 apartments with extensive communal facilities. The scheme is located on the edge of a market town centre in Lincolnshire.

Building commenced in March 2006. The site was formerly used as a farm machinery dealership.

Full planning permission was obtained in December 2005. A Section 106 agreement was settled and included a £95,000 contribution to off-site extra care affordable housing at an existing Council site in the town.

Case Study Name	Residential Development
Location	Market town, Lincolnshire
Previous use	Agricultural machinery Workshop/Showroom
Proposed use	Extra care sheltered housing with communal facilities
Other characteristics	Historic defunct planning permission retirement housing.
Site area (acres)	1.2
Number on units on development land	45 extra care sheltered apartments
Affordable Housing %	Yes, contribution to other site
Number of phases	1
Date of full planning consent	30th December 2005
Method of Finance	In House

		No PGS	With PGS		
Gross Development Value		£7,965,000	£7,965,000		
Development Costs					
	Abnormal Costs	-£150,000	-£150,000		
	Development Costs	-£4,646,257	-£4,646,257		
S106 Contribution - no PGS					
	Affordable Housing	-£95,000			
	Off site infrastructure	-£20,000			
S106 - with PGS					
	Affordable Housing		-£95,000		
Land acquisition costs					
		-£946,400	-£946,400		
Fees, Sales and Marketing (inc developers return and fees on land acquisition)					
		-£1,591,049	-£1,591,049		
Contingency (inc in development costs)					
Cost of finance					
		-£517,794	-£517,794		
Gross Residual Value no PGS		-£1,500			
Gross Residual Value before tax			£18,500		
Land value uplift					
	PV		£946,400		
	CUV		£450,000		
	Uplift		£496,400		
PGS				PGS @ 10 %	PGS @ 20 %
	@x%			£49,640	£99,280
Gross Residual Value after tax				-£31,140	-£80,780
Post PGS land value				£996,040	£1,045,680
% reduction from pre PGS value				-5.25%	-10.49%
					£1,095,320
					-15.74%

Assumptions

In this particular development 50% of the Section 106 agreement was payable upon the sale of 50% of the units. We have regarded the effect of the timing of this payment on the cash flow as insignificant as the development took one year to complete.

The CUV for the site, being an agricultural machinery workshop and showroom, is estimated by the developer at £450,000. This estimation does not take into account any hope value.

The site was allocated in the Town Centre Study for housing/retail and identified in the Urban Capacity Study. The site had a historic defunct planning permission for retirement housing.

The efficiency of a communal property such as the extra care sheltered housing in this example must be considered. The net saleable floorspace to gross floorspace derives the efficiency factor and for this particular development it is assumed to be only 66%.

Land acquisition cost would have reflected the local plan allocation for residential and retail development, and the fact that the site previously had been granted planning permission, although now expired, for retirement housing.

The gross residual value derived in this appraisal under the no PGS scenario is effectively 0 reflecting an adequate level of costs to returns including developers profit and land acquisition values.

Findings in relation to case study 1

The effect of PGS in this case study would be to reduce the site value with planning permission between 5% and 20% dependant on the tax rate selected.

At the low level of 10% it is questionable whether the costs of collecting the tax would be viable and at the higher level of 30% there would be a considerable propensity for land owners to withhold their land from the market, pending regime change, or policy failure.

If land is withheld as a consequence of PGS, there would be a detrimental effect on local community facilities. In the case of retirement housing, latent demand would increase which may harm affordability in existing private sheltered schemes as demand would increasingly outstrip supply.

Case study 2: Mixed use development, undisclosed location

The scheme consists of 1,250 dwellings, a large element of retail, a primary school and public open space. The site had planning permission for B1 granted in 1983, and partially implemented. The site straddles two local authority area boundaries. Detailed planning permissions were received in November 2005 and October 2005 respectively.

Case Study Name	Mixed use development
Location	Undisclosed location
Previous use	Extant planning permission B1 granted in 1983
Proposed use	Mixed use development
Other characteristics	Two planning consents and two S106 agreements because land straddles boundary of 2 LA's
Site area (acres)	56.7
Number on units on development land	1250 dwellings; 2 acres B1; 40000sqf retail; Primary School; Open Space
Affordable Housing %	30%
Number of phases	Phased development - unknown development period
Date of outline planning consent	Nov-05 Local authority A Oct-05 Local authority B
Method of Finance	Internal resources

		No PGS	With PGS		
Gross Development Value					
Private Housing		£199,864,000	£199,864,000		
Commercial		£21,155,000	£21,155,000		
Affordable		£27,312,000	£27,312,000		
Total GDV		£248,331,000	£248,331,000		
Development Costs					
Construction costs (housing and commercial development)		-£72,400,000	-£72,400,000		
Abnormals:					
Infrastructure on primary and development parcel routes		-£4,580,000	-£4,580,000		
Extended driveways and sustainable drainage		-£4,140,000	-£4,140,000		
Abnormal roads and sewers		-£3,480,000	-£3,480,000		
Off-site 278 works		-£3,050,000	-£3,050,000		
Abnormal foundations		-£2,680,000	-£2,680,000		
High levels of landscaping and POS		-£5,500,000	-£5,500,000		
Water supply		-£815,000	-£815,000		
Electricity supply		-£900,000	-£900,000		
Telecom		-£136,000	-£136,000		
Foul drainage improvements		-£1,500,000	-£1,500,000		
Provision of access		-£1,400,000	-£1,400,000		
Revision of access		-£480,000	-£480,000		
S106 Contribution - no PGS					
Primary School Provision	Local Authority A	-£2,700,000			
Education contribution		-£2,110,000			
POS commuted sum for off-site provision		-£1,060,000			
Community facilities and community care		-£900,000			
Transport, bus subsidy, car club, cycle and pedestrian		-£1,166,000			
Light transit route		-£90,000			
Library provision		-£115,000			
Public art		-£40,000			
Employment initiative	Local Authority B	-£650,000			
Community market		-£25,000			
Public art		-£40,000			
Off site POS and play		-£300,000			
Bus link		-£300,000			
Car club		-£50,000			
Public transport		-£10,000			
Pedestrian and cycling		-£30,000			
Contribution to bus passes for future residents		-£154,000			
Cost of providing 30% affordable housing		-£31,615,000			
S106 - with PGS					
Transport, bus subsidy, etc.	Local Authority A		-£1,166,000		
Car club	Local Authority B		-£50,000		
Pedestrian and cycling			-£30,000		
Cost of providing 30% affordable housing			-£31,615,000		
Land acquisition costs					
With the benefit of outline permission		-£59,000,000	-£59,000,000		
Fees, Sales and Marketing					
Consultant's fees		-£4,120,000	-£4,120,000		
Contingency					
(inc. in development costs)					
Cost of finance					
		-£17,645,000	-£17,645,000		
Developers Profit no PGS		£52,462,000			
Developers Profit before tax			£93,817,000		
Land value uplift					
	PV		£59,000,000		
	CUV		£56,700,000		
	Uplift		£2,300,000		
PGS			PGS @ 10 %	PGS @ 20 %	PGS @ 30 %
	@x%		£230,000	£460,000	£690,000
Developers Profit after tax			£93,587,000	£93,357,000	£93,127,000

Assumptions

Section 106 under the PGS scheme is probably over estimated as some aspects of Local Authority A's transport requirements would not fall under the new Section 106 requirements and would be removed. However as we have been provided with only one 'total' figure which would include the aspects that remain, we have kept the complete sum.

CUV is based on comparables for land in this area under this use (B1) it has been estimated to be worth a value of £1m per acre. As there are 56.7 acres, the CUV is estimated to be £56,700,000.

Findings in relation to case study 2

This case study relates to the redevelopment of a substantial land holding which has been allocated for B1 (High Tech Employment Development) and for which planning permission was granted in 1983 and partially implemented. The site was recently declared surplus to the landowner's needs and planning permission has been granted for a residential led scheme with a significant retail component, primary school and public open space.

The site has been acquired for redevelopment following the grant of planning permission at a figure of £59m which is only marginally above the assessment of CUV of £56.7m thus the uplift is comparatively small at only £2.3m. By comparison, in a PGS world, the value of the Section 106 agreement to the local community would be substantially reduced from approximately £41.35m to £32.86m.

Thus the Section 106 contribution would fall by approximately £9m and the compensating PGS payment at say 20% would only be £460,000. Thus in the short term the development stands to derive a substantial "super profit" and in this case would welcome PGS. In the longer term competing developers are likely to bid up the residual land value to reflect the higher profit that is likely to be derived and a new equilibrium would be reached at a competitive developer's profit of say 20% but with significantly higher land values. In this instance the landowner would similarly welcome PGS.

In common with other large scale developments with significant levels of community infrastructure, there remains a delivery risk. In this case the local authority would need to make good the deficit of about £9m from other resources, if the planning gain benefits currently envisaged are to be delivered.

Case study 3: Care home, North East of England

The development in this case is proposed by a charity that owns a number of care homes throughout England and Wales.

Many of its homes, due to their age and layouts, are relatively expensive to operate and maintain and are in need of improvement. In some cases the charity does not possess the funds that would be required to renovate these establishments to the level and standard of care that the charity wishes to offer existing residents and potential new customers

In this case study, one full application has been submitted to build a new care home. One outline application has been submitted for a residential 'enabling' development adjoining the existing care home that consists of 50 rooms. The proposed development is considered as a whole, as the viability of the whole project is dependent on both parts of the development. The charity owns the land.

The proposed new care home will be constructed alongside the existing care home. When construction of the new care home is complete a programme of demolition for the existing home will commence.

To part fund the new care home, the charity is dependent on selling the land with residential planning permission for sale to yield best value to fund the proposed care home.

Case Study Name	Extra care sheltered housing by charity
Location	Newcastle
Previous use	Care home
Proposed use	New care home
Other characteristics	Land for residential development to fund new care home
Total developable site area	Demolition of old care home
Number on units on development land	0.8486 Ha 2.11 Acres
Affordable Housing %	Land for residential land sale
Date of full planning consent	None
Method of Finance	Full planning permission for new care home
	Outline planning permission for residential development
	In-house

Stage 1:		No PGS	With PGS		
Intensification of the site	PV		£6,500,000		
	CUV		£2,000,000		
	Uplift		£4,500,000		
PGS			PGS @ 10 %	PGS @ 20 %	PGS @ 30 %
	@x%		£450,000	£900,000	£1,350,000

Stage 2:		No PGS	With PGS		
Demolition of old care home and land sale for residential development	PV		£1,325,000		
	CUV		£2,000,000		
	Uplift		£0		
PGS			PGS @ 10 %	PGS @ 20 %	PGS @ 30 %
	@x%		£0	£0	£0

Combined:		No PGS	With PGS		
	PV		£5,825,000		
	CUV		£2,000,000		
	Uplift		£3,825,000		
PGS			PGS @ 10 %	PGS @ 20 %	PGS @ 30 %
	@x%		£382,500	£765,000	£1,147,500

Assumptions

The CUV is based on £40,000 per room for a care home of 50 rooms, totalling £2,000,000.

The market value of the new care home that would be created with the implementation of the full planning permission is estimated to be £4,500,000. Thus, the total Planning Value on the site would be the value of the old care home plus the value of the new care home, i.e. £6,500,000.

This site is a two phase application comprising a full planning permission and an outline for residential development for "enabling" development. Therefore in valuing the total development there will be two PGS calculations: Stage 1 for the new care home, Stage 2 for the subsequent enabling development for which detailed planning permission has yet to be granted. There is no affordable housing or other Section 106 obligations of any consequence except in the no PGS world a contribution of £18,200 for open space. PGS will be payable in relation to the first stage development comprising a new care home. The cost of this will have to be carried by the charity who is both land owner and developer. This cost will be additional to the overall costs of £5.44m as estimated by the charity.

The charity estimates that the costs of developing the care home together with the surplus value which would be derived from sale of the housing land in the second phase would make good the deficit which will arise in a no PGS world.

Findings in relation to Case Study 3

The advent of PGS would cause hardship to the charity to the extent that the tax would not have arisen in a no PGS world as the development would not have been subject to any significant Section 106 costs. We consider that the enabling development may not in fact create a higher value than the current use value of the existing care home which is to be replaced. Arguably therefore the charity might simply chose to sell the redundant care home and not sell the cleared land for residential development. Either way, there would be no PGS payable in relation to the stage two development.

Interestingly, the introduction of PGS is likely to lead to a different behavioural response from developers. If for example, a single planning application were to be made for the redevelopment of the existing care home site for residential use together with the proposed replacement care home, a single valuation for PGS would take place on implementation of the development, the effect of which would be to reduce the overall PGS liability. This is because the uplift in planning value for the entire development would be "sub-optimal", compared with the total current use value. There would appear to be a loop hole which might effectively be used by land owner developers in particular whereby full planning applications are made for mi use schemes

only part of which are ever implemented. Whilst this is unlikely to avoid PGS payment, it would nonetheless create a device by which PGS could be reduced.

In relation to the actual case study, the charity would be adversely affected by PGS compared with the current position.

The effect of this case study is likely to be felt widely by charities with land holdings that are used to underpin investment in modern facilities. The effect of PGS will simply be to reduce the capital available for redevelopment projects at the expense of the charities beneficiaries.

Case study 4: Care home, Yorkshire and the Humber

The development in this case is proposed by a charity that owns a number of care homes throughout England and Wales.

The site contains a care home providing accommodation for 90 elderly residents, with on site care facilities, and 10 self contained dwellings in five buildings alongside. It also contains 10 bed spaces in an Elderly and Mentally Frail (EMF) Unit. The care facility has in the past been funded mainly through investment income, but the applicants now need to invest further in the care home to bring it up to modern standards and to secure its long term future. As a consequence, the applicants seek to develop the grounds of the home in a sensitive manner to generate funding for this work.

This application follows an earlier submission for outline planning consent made in July 2004. That application was withdrawn in December 2004. The current application now includes provision for parking spaces for patients attending the health centre adjoining the site, and for additional spaces in the EMF unit.

Therefore the proposal retains the existing care home, and proposes: construction of a 38 bed extra care home development alongside it; an extension to the EMF unit, the allocation of three separate areas for future residential development; the relocation of an existing bowling green within the site; and parking for seven cars to provide spaces for Health Centre patients.

Case Study Name	Extra care sheltered housing by charity	
Location	York	
Previous use	Care home	
Proposed use	Expansion of care home development Extension to EMF Unit, residential development, Relocation of bowling green	
Other characteristics	Relocation of bowling green	
Gross site area	4.857 Ha	12 Acres
Total developable site area	4.144 Ha	10.24 Acres
Number on units on development land	18 houses 27 apartments 38 extra care apartments	
Affordable Housing %	Being negotiated with the Council; 25%	
Number of phases	Unknown	
Date of full planning consent	Outline planning permission	
Method of Finance	In-house	

	No PGS	With PGS		
Gross Development Value				
Total GDV (inc. affordable housing)	£12,625,000	£12,625,000		
Development Costs				
Construction costs (inc. affordable housing)	-£6,465,942	-£6,465,942		
Contingency	-£323,297	-£323,297		
Road/Site Works	-£591,490	-£591,490		
Building Regulations	-£15,000	-£15,000		
Landscaping	-£105,000	-£105,000		
Provision of Children's Play Areas	-£15,000	-£15,000		
Relocation of Bowling Green	-£200,000	-£200,000		
Fencing/Boundary Treatment	-£25,000	-£25,000		
Provision of car parking	-£50,000	-£50,000		
Refurbishment and extension of existing care home	-£1,000,000	-£1,000,000		
Land acquisition costs				
Land owned by charity	£0	£0		
Fees, Sales and Marketing				
Disposal fees	-£194,808	-£194,808		
Marketing	-£125,000	-£125,000		
Professional fees	-£646,594	-£646,594		
Town planning	-£20,000	-£20,000		
Cost of finance				
Debit rate 6.75% credit rate 3.25%	-£1,173,423	-£1,173,423		
Profit for developer in hypothetical open market				
@20% of costs	-£2,190,111	-£2,190,111		
Residual value under S106	-£515,665			
Residual value under PGS		-£515,665		
Land value uplift				
	PV		-£515,665	
	CUV		£1,000,000	
	Uplift		£0	
PGS			PGS @ 10 %	PGS @ 20 %
@x%			£0	£0
Residual value under PGS			-£515,665	-£515,665
				-£515,665

Assumptions

The Current Use Value is based on estimation by the charity for land consisting of 8 bungalows and a bowling green. The charity estimates it to be worth in the region of £1,000,000.

Although we built in developer's profit, the charity would transfer any residual value to its national building programme.

All other figures were given to us by the charity, based on earlier development viability appraisals.

Findings in relation to case study 4

This case study would not appear to be viable based on the appraisals prepared by the charity's advisors as the scheme produces a deficit of over £1,000,000 when comparing GDV and development costs. A marginally more optimistic deficit of over £500,000 would still appear on the basis of our approach.

The planning approval does not provide for any Section 106 contributions besides the affordable housing, which we understand to be 25% of the total new provision. As the current use value, estimated by the charity, is considered to be approximately £1,000,000, there would be no PGS payable in this instance. It would appear that the development is still worth undertaking to replace current outmoded facilities to bring the care home up to modern standards. It is assumed that the charity will make good the deficit.

Case study 5: Urban Expansion Site, South East England

This case study investigates the proposal for an urban extension, comprising a mixed use development of up to 3,300 dwellings with associated shops and services, leisure, open space & community facilities, transport, drainage and utility infrastructure on 455 acres.

The development is on greenfield land and an outline application is currently being considered for the proposals.

Case Study Name	Urban Expansion Site
Location	South East England
Previous use	Agricultural
Proposed use	Resi / mixed use development
Other characteristics	
Site area (acres)	455 acres
Number on units on development land	3300
Affordable Housing %	30%
Number of phases	10
Date of full planning consent	none as yet
Method of Finance	in house

	No PGS	With PGS		
Gross Development Value	£662,000,000	£662,000,000		
Development Costs				
	Development Costs	-£257,000,000	-£257,000,000	
	Enabling Works	-£50,000	-£50,000	
	Infrastructre Costs	-£47,000,000	-£47,000,000	
S106 Contribution - no PGS				
		-£46,000,000		
S106 - with PGS				
				-£3,000,000
Land acquisition costs				
		-£115,000,000	-£115,000,000	
Fees, Sales and Marketing & Professional				
		-£45,000,000	-£45,000,000	
Contingency (inc in development costs)				
		-£26,000,000	-£26,000,000	
Cost of finance				
		-£38,000,000	-£38,000,000	
Developers Return				
		-£76,000,000	-£76,000,000	
Net present Value at 7% for 10 years no PGS	£24,500			
Net present Value at 7% for 10 years with PGS			£32,300,000	
Land value uplift				
	PV		£147,300,000	
	CUV		£2,153,060	
	Uplift		£145,146,940	
PGS			PGS @ 10 %	PGS @ 20 %
	@x%		£14,514,694	£29,029,388
Land Value after PGS			£132,785,306	£118,270,612
				£103,755,918

Assumptions

We have assumed that agricultural land in area is worth £4,732 per acre as per the Valuation Office Agency website, for January 2006, Agricultural Land Value Report. Therefore, CUV is based on $455 \times £4732 = £2,153,060$. The Net Present Value (NPV) is derived from a discounted cash flow model that Knight Frank has built for this development and is not a simple calculation of the figures presented here. These are themselves outputs of the model.

The analysis identifies the net present value of PGS payments that we anticipate the development would derive over the life of the project, however in reality these payments would be made on a phased basis, as detailed planning permission would be obtained for blocks of land sold out into the market and purchased by volume housebuilders who would then implement detailed planning permissions.

Findings in relation to case study 5

Working on the assumption that a full detailed planning permission is sought at the outset, any effect of the PGS liability would be reflected at a land value level. Based on a tax rate of about 20%, PGS would not adversely effect the expected land value to be derived by land owners from this project. A rate above this level would erode land owner expectations and would harm the potential for land to be delivered for new housebuilding. However, as we anticipate that an overall outline planning permission will be granted initially, followed by multiple reserved matters applications over the course of the development, the incidence of PGS will not fall fully on the land value, but rather erode developer's profit, since in this case, site acquisition would be triggered on the grant of outline planning permission through existing option agreements.

Where such option agreements are in place, and outline permission is sought, with detailed planning permission for primary infrastructure only, the initial PGS liability only could be argued to affect the land value associated with the infrastructure provision. Thereafter, any subsequent liability would fall to the developers to fund as detailed planning permission is obtained over time, as blocks of land are sold out to developers, who in turn secure their detailed planning approvals and implement development.

As with other large scale phased developments, if PGS is introduced, there will be a necessity for funding to be provided to adequately resource community infrastructure which would otherwise be supplied directly by way of Section 106 contributions. The fundamental issue for developers is whether the community infrastructure required will be supplied in an adequate and timely manner in order that confidence in the development is maintained from both residential purchasers and the volume housebuilders. There remains a delivery risk under PGS which would not occur under the contractual obligations contained within Section 106 agreements under the current system. If there is delivery failure, PGS would be responsible for reducing the

rate of new house building and potentially the value of the overall development. Delivery risk therefore remains a significant issue. Where community infrastructure delivery is not forthcoming, the master developers may need to fund such shortfalls themselves. Were this to occur, and coupled with the likely burden that the master developers may carry under PGS where land is purchased with only infrastructure permission, the developer's return may be reduced to an unacceptably low level.

Community infrastructure delivery risk is unlikely to be a significant factor in relation to the majority of very small residential and commercial developments and as a consequence it would be reasonable to assume that local planning authorities would be able to cope with administering and providing such new infrastructure as may be required. It is not clear whether there might be delivery thresholds above which local authorities would have difficulty in providing community infrastructure but we suspect that this is likely to be the case.

Case study 6: Residential development, East of England

The case study land here comprises of an assembled parcel of excess rear gardens over which the company has been negotiating for some 20 years. The final phase is due to be completed by spring 2007.

The prices paid for the land by the developer reflected the diminution of value of the original properties with a shortened rear garden. Abnormal development costs included piled foundations, public sewer diversion and pumped sewage disposal.

Full planning permission was obtained on 2 March 2006 for the erection of 4 four-bed, 3 three-bed, and 2 two-bed houses.

Case Study Name Small residential development
Location Hertsmere
 Previous use of site Back gardens of 7 properties
 Proposed use Residential units
 Number on units on development land 9
 Affordable Housing % 0%
 Number of phases 1
 Date of full planning consent 02 March 2006
 Method of Finance 70% bank, 30% in house

	No PGS	With PGS		
Gross Development Value	£3,343,590	£3,343,590		
Development Costs				
Abnormal Costs	-£1,449,000	-£1,449,000		
Development Costs				
Land Acquisition Costs	-£1,179,590	-£1,179,590		
S106 Contribution - no PGS				
Unspecified highway improvements	-£9,000			
Off site tree planting	-£2,750			
S106 - with PGS		£0		
Fees, Sales and Marketing	-£211,000	-£211,000		
Contingency (included in developers' profit)				
Cost of finance	-£118,400	-£118,400		
Developers profit no PGS	£373,850			
% profit on costs	12.59%			
Developers profit before tax		£385,600		
Land value uplift				
PV		£1,179,590		
CUV		£175,000		
Uplift		£1,004,590		
PGS		PGS @ 10 %	PGS @ 20 %	PGS @ 30 %
@x%		-£100,459	-£200,918	-£301,377
Developers Profit after tax		£285,141	£184,682	£84,223
% profit on costs	12.59%	9.64%	6.24%	2.85%
Impact on developers' profit		-2.95%	-6.35%	-9.74%

Assumptions

Contingency is included in the developer's profit of £373,850 as given by the developer.

According to Table 5.2 of the planning-gain Supplement consultation document, all off site contributions fall away under PGS. As both Section 106 contributions relate to off-site improvements in this case, we assume no Section 106 costs will be paid with PGS.

Pre-planning permission land value was estimated at £600,000 by the developer which accounts for £25,000 for the value of each garden plus £60,000 loss of value to the retained property through loss of length of garden and increased proximity to new buildings, for each of the 7 properties.

We consider the CUV at £600,000 to be overstated on the basis that for the purposes of the PGS calculation the loss of garden value relates to third party land and not the subject site, where the agreed value was £25,000 per plot = £175,000. Thus, we assume the CUV is £175,000.

The land acquisition cost of £1,179,590 was paid following an earlier conditional contract to acquire the land subject to planning permission. It is taken to be the planning value (PV).

Findings in relation to case study 6

From our assessment, the scheme is marginal in any event and is not providing an adequate developer's return unless house prices continue to rise at a faster rate than building costs in the alternative with PGS. Irrespective of the tax rate selected, the scheme is unlikely to be viable.

In order for the development to become viable - given that the land has already been acquired - a more valuable planning permission would be needed which probably means developing at a higher density, but this may not be acceptable in planning terms and thus there is a strong likelihood that the effect of the tax will be to blight the site. It is important to note that land assembly and planning permission has already taken 20 years.

What would transitional arrangements be for schemes of this nature with regard to PGS?

Case study 7: Enabling Development, South East

This case study investigates enabling development of a Grade II listed farm house. The existing land use of the development site is agricultural, within the farm land boundary.

The development proposes the demolition of the former dairy buildings and detached former milking parlour and the conversion of the former farmhouse to form 2 dwellings; conversion of existing linked barns to create 2 dwellings; and erection of 2 dwellings with attached open garages, provision of parking and associated landscaping and external works.

Full planning permission was obtained in March 2006. The Section 106 agreement consisted of a unilateral undertaking. No financial contributions were made.

Case Study Name	Farm House Conversion		
Location	Home Counties		
Previous use	Agricultural		
Proposed use	Residential Units		
Other characteristics	Listed buildings		
Site area (Ha)	1.05	2.59	
Number of units on development land	6		
Affordable Housing %	None		
Development period	9 months		
Date of full planning consent	Mar-06		
Method of Finance	Loan		

		<u>No PGS</u>	<u>With PGS</u>		
Gross Development Value					
New built		£3,319,402	£3,319,402		
Listed building conversion		£2,049,466	£2,049,466		
Total GDV		£5,368,868	£5,368,868		
Development Costs					
	New built	-£984,000	-£984,000		
	Listed building conversion and demolition	-£2,130,597	-£2,130,597		
Dev cost total (excl fees + contributions)		-£3,114,597	-£3,114,597		
Other costs					
S106 Contribution - no PGS	Not applicable				
S106 - with PGS	Not applicable				
Fees, Sales and Marketing					
	Professional fees	-£40,385	-£40,385		
	Building and construction professional fees @ 12% on new build, 15% on Listed Building	-£437,670	-£437,670		
	Holding costs	-£16,000	-£16,000		
	Letting and sales costs	-£134,221	-£134,221		
Land valuation costs and lending fees					
		-£44,636	-£44,636		
Additional Costs identified by the developer					
	Inc: Land acquisition, associated fees, additional specialist professional fees	-£385,000	-£385,000		
Contingency					
	10% on listed building works, 5% on new build	-£262,260	-£262,260		
Cost of finance					
	Interest Charges	-£252,315	-£252,315		
Developer's profit on cost @ 20%					
		-£937,417	-£937,417		
		-£5,372,185			
Gross Residual Value no PGS		-£255,632			
Gross Residual Value before tax			-£255,632		
Land value uplift					
	PV		£0		
	CUV		£12,304		
	Uplift		£0		
PGS				PGS @ 10 %	PGS @ 20 %
	@x%			£0	£0
Gross Residual Value after tax			-£255,632	-£255,632	-£255,632

Assumptions

We excluded VAT on specific development costs (included in the original development appraisal for this development) as an additional cost as per paragraph 4.13 of the planning-gain supplement consultation document.

In this case we did not have an estimated CUV by the developer. CUV = market value of the land before planning permission according to the consultation document. We used Valuation Office Agency average figures for agricultural land and property in the South East as at 1 July 2005, the time the development took place.

The Valuation Office Agency value for the South East for 'mixed' farm land and the 'value of equipped land with vacant possession' = £11,718 per ha. We used this value to calculate CUV.

We have assumed the land owned is by the developer, and its value is therefore £1.

Findings in relation to case study 7

In the case of enabling development, by definition, there can be no uplift in value. Therefore, could PGS apply?

Case study 8: Regeneration, East of England

This case study is a potential major regeneration scheme in a highly socially deprived area in the East of England. The settlement requires major redevelopment as well as new sea defences, improvements to drainage, roads and flood risk management. The high abnormal costs, including potential compulsory purchase action, have rendered this development unviable without major government subsidy. The site is owned partly by private land owners and partly by the public sector.

The scheme had not yet sought a planning application as sufficient funding is still under negotiation and masterplanning is currently taking place.

Case Study Name	Regeneration Site	
Location	East of England	
Previous use	Mixed use residential	
Proposed use	Mixed use residential	
Other characteristics	CPO, deprived area, flood risk	
Regeneration Site area (Ha)	33.64	83.09 acres
Number of new units	122	
Affordable Housing %	0%	
Number of phases	2, 2 years per phase	
Date of full planning consent	not got yet	
Method of Finance	Govt Funding	

	No PGS	With PGS		
Gross Development Value	£29,000,000	£29,000,000		
Development Costs	Development Costs	-£17,900,000	-£17,900,000	
S106 Contribution - no PGS @£5000 per unit	-£610,000			
S106 - with PGS			-£610,000	
Land acquisition costs (CPO site, paid for through funding)	£0	£0		
Fees, Sales and Marketing	-£2,370,000	-£2,370,000		
Contingency	-£1,160,000	-£1,160,000		
Developers Profit	-£4,890,000	-£4,890,000		
Cost of finance	-£612,000	-£612,000		
Net Present Value S106 @ 5.5% for 4 years	-£613,000			
Net Present Value under PGS @ 5.5% for 4 years		-£613,000		
Land value uplift	PV CUV Uplift	£0 Not assessed £0		
PGS	@x%	PGS @ 10 % £0	PGS @ 20 % £0	PGS @ 30 % £0
Gross Residual Value after tax		-£613,000	-£613,000	-£613,000

Assumptions

All abnormal costs, such as compulsory purchase and site preparation, are paid for through government grant and therefore discounted from the developer's cash flow.

We have assumed that the Section 106 tariff is carried over as all money is for on-site works to enable the development to take place. All major work would be undertaken by public bodies through further grant.

The net present value is derived from a discounted cash flow model, bring the future value back to a present value at a rate of 5.50%. The duration of the development is 4 years.

Findings in relation to case study 8

This is one of very few regeneration case studies included in the research and whilst located in the East of England its characteristics are similar to those to be found in other regeneration areas in the North of England where public subsidy is required to encourage redevelopment.

This scheme will require significant public sector investment to overcome existing shortcomings in the provision of drainage, water supply, flood risk, sea defences and road improvements. The existing community suffers from high levels of social deprivation and thus programs for community support are also required. As a consequence of the very high cost of redressing the physical and social problems compared with the value of the residential development to be re-provided the planning value of the comprehensive scheme, assuming a single detailed planning permission, is unlikely to be positive. Therefore there can be no uplift in value from the CUV and hence there would be no payment of PGS.

In the alternative that the development was not to be the subject of a single detailed planning permission, there could arise a situation where PGS could become payable, for example redevelopment of smaller residential parcels might take place, were redevelopment to be phased following the injection of public money to provide much needed physical and social infrastructure. In that event land sold to developers and redeveloped would command a positive planning value which would be likely to exceed CUV, resulting in a value uplift and charge to PGS.

For public sector developers seeking to recover PGS, the preferable route to maximising PGS receipts will be to fragment regeneration schemes of this type in order that the costs associated with infrastructure projects are not carried by potentially value generating components of the development and thereby enabling those components to be sold in the open market with the benefit of outline planning permission, with the detailed

planning permission being obtained by the purchasing developer thereby triggering a PGS payment on subsequent implementation.

By contrast, where private sector land owners and developers are concerned with similar developments which will incur high cost components, then the preference will be to seek detailed planning permission for the entire development to minimise the uplift and consequent PGS charge.

Case study 9: Urban Village, London

This is a large scale, high density, strategic development in London. The developer has spent a considerable period of time bringing this scheme to fruition.

The development will consist of 700 new homes with 35% affordable housing, as well as a commercial element including new shops, cafés and a new marina adjacent to the canal.

The developable area is 54 acres, half of which is brownfield land formerly used as a storage depot, the remainder is Metropolitan Open Space.

A planning application was submitted in August 2000. The Council resolved to grant consent in September 2001 and the Section 106 agreement was signed in May 2002. The development started in November 2002 and has not yet been completed with 200 dwellings yet to be built.

Case Study Name	Urban village	
Location	London	
Previous use	Storage and sheds	
Proposed use	700 dwellings	Possible replan 1100 units
	Shops, cafés, medical centre, leisure centre and marina	
	37% of the site will be open space	
Other characteristics	Heavily contaminated brownfield site (50%)	
	Offices and 50% Metropolitan Open Space	
Site area (acres)	54 acres	
Number on units on development land	700	
Affordable Housing %	35%	
Number of phases	Uncertain	
Date of full planning consent	Sep-01	
Approval reserved matters	Mar-02	
Subsequent reserved matters approval	Uncertain	To change housing mix; 500 dwellings + 400 flats
Method of Finance	In-house	

	No PGS	With PGS		
Gross Development Value				
Combined revenue of open market housing and affordable housing	£155,000,000	£155,000,000		
Development Costs (inc contingency)				
Abnormal costs (decontamination)	£-1,000,000	£-1,000,000		
Construction costs	£-79,000,000	£-79,000,000		
S106 Contribution - no PGS				
Affordable housing	£-32,000,000			
Bus	£-1,170,000			
Footpath	£-225,000			
Education	£-2,700,000			
Passenger information	£-100,000			
Lighting	£-77,000			
Town Centre	£-50,000			
Cycle route off site	£-10,000			
Off-site playing field	£-50,000			
Sports club contribution	£-250,000			
CDT	£-750,000			
Marina	£-1,000,000			
Public transport	£-2,110,000			
Car club	£-100,000			
Public open space	£-1,000,000			
Highways	£-1,520,000			
Council's legal fees	£-300,000			
Job training	£-230,000			
				£-43,642,000
S106 - with PGS				
Affordable housing		£-32,000,000		
Footpath		£-225,000		
Lighting		£-77,000		
Marina		£-1,000,000		
Car club		£-100,000		
Public open space		£-1,000,000		
Council's legal fees		£-300,000		
				£-34,702,000
Land acquisition costs				
	£-27,000,000	£-27,000,000		
Fees, Sales and Marketing				
Professional fees	£-3,500,000	£-3,500,000		
Sales and marketing	£-7,000,000			
Cost of finance				
	£-7,000,000	£-7,000,000		
Contingency (included in Development costs)				
Developer's profit				
	£-20,000,000	£-20,000,000		
Development Deficit no PGS	£-33,142,000			
Development Deficit before tax		£-14,500,000		
Land value uplift				
	PV	£27,000,000		
	CUV	£24,000,000		
	Uplift	£3,000,000		
PGS		PGS @ 10 %	PGS @ 20 %	PGS @ 30 %
	@ x%	£300,000	£600,000	£900,000
Gross Residual Value after tax		£14,200,000	£13,900,000	£13,600,000

S106 costs with No PGS:	£-43,642,000		
S106 with PGS:	£-34,402,000	£-34,102,000	£-33,802,000

Assumptions

All values are listed as provided by the developer. The nature of this particular development changed over time; 500 dwellings have been completed; the developer plans to change the final phase to increase density by another 400 flats instead of 200 dwellings.

To distinguish on and off-site contributions under PGS, we used the classification provided in Table 5.2 of the planning-gain consultation document. The affordable housing payment represents a discount from open market values down to contract price.

The CUV was estimated by the developer to be £24,000,000. The PV is taken to be the land acquisition price which we understand reflects the planning permission.

Findings in relation to case study 9

The current development is unviable based on the costs and values supplied to us. It is therefore unsurprising that there is a proposal to increase the density of the development and provide a further 200 flats. The Section 106 costs currently equate to approximately £43m. On the basis of the PGS approach these would be reduced to about £34m i.e. a deficit of approximately £9m, but this expenditure would still be necessary to provide a socially cohesive development.

Although the scheme is not viable in its current form, it would still give rise to a significant PGS payment. This would increase the burden on the development which would need to be overcome together with the Section 106 deficit. This would mean further value generating development to secure this objective.

It is noteworthy that we understand that the developer is seeking a revision to the final phase to increase density by a net 200 units.

Case study 10: Major Development Site, East of England

This case study comprises a major new development proposal for approximately 9000 dwellings in a new town. The net developable area is 232 hectares (573 acres) from a gross scheme area of 580 hectares (1,435 acres). The developer will seek outline planning permission based on a mixed use town centre, local centres, an employment area and discrete residential areas. The new town will be served by high quality public transport in the form of a guided bus system. The master developers will seek full permission for strategic infrastructure including primary access roads and drainage bodies before releasing serviced parcels of land to house builders and commercial developers.

The site is partial brownfield with the associated abnormal costs of demolition and clearance.

Case Study Name	Major Development Site
Location	East of England
Previous use	Former airfield and barracks; golf course; and, agricultural land
Proposed use	Residential / Mixed use
Other characteristics	Immigration Centre
Site area (Acres)	1435
Number of units on development land	9000
Affordable Housing %	30%?
Development period	15 Years, 8 phases
Date of full planning consent	-
Method of Finance	Internal and bank loan

		No PGS	With PGS		
Gross Residual Development Value		£600,000,000	£600,000,000		
Development Costs					
	Preliminaries	£11,500,000	£11,500,000		
	Development Costs	£184,000,000	£184,000,000		
S106 Contribution - no PGS		£131,000,000			
S106 - with PGS			£3,200,000		
Fees, Sales and Marketing		£40,000,000	£40,000,000		
Land Acquisition Costs		£120,000,000			
Contingency (inc in GDV)					
Cost of finance		£24,000,000	£24,000,000		
Master Developer Profit no PGS IRR=		16.80%			
Master Developer Profit before tax IRR=			33.27%		
Land value uplift					
	PV		£600,000,000		
	CUV		£7,117,500		
	Uplift		£592,882,500		
PGS @ x%			PGS @ 10 %	PGS @ 20 %	PGS @ 30 %
			£59,288,250	£118,576,500	£177,864,750
Master Developer Profit after tax IRR=			26.73%	19.73%	11.49%
Difference between provision under S106 and PGS:			£68,511,750	£9,223,500	£50,064,750

Assumptions

This case study has been predicated upon the assumption that outline planning permission is to be obtained for the entire development in the first instance. Subsequently full planning permission is assumed to be obtained for the infrastructure investment works which in turn need to be constructed prior to the development of serviced development areas. In reality, in a PGS environment, the behaviour of the development community is likely to alter as land owner developers seek to mitigate the charge to PGS.

The CUV - assuming £5,000 per acre of the land, is approximately £7,117,500. The likely behavioural response to PGS will be to encourage the developer to seek detailed planning permission for both the initial infrastructure works together with full planning permission for sufficient land in order that the infrastructure costs can be used to mitigate PGS, but without giving rise to unacceptably high holding costs.

PGS is phased as per GDV phasing in model for simplicity. We have assumed that all the development costs identified by the developer remain, although some would fall under the Section 106 categories for removal. Costs and values remain constant during the development period.

The case study has been provided by master developers, and therefore a land trading model has been used. Full planning permission is assumed to be obtained by volume housebuilders following acquisition of serviced development areas.

We have assumed that any PGS payable on the grant of full planning permission for a spine road and related infrastructure development would be nominal.

We have assumed that the county council and local planning authority provides timely community infrastructure including schools, community centres and social provision that would have been provided under current Section 106 arrangements.

Findings in relation to case study 10

In connection with the new settlement proposals, the effect of PGS will be to severely cut back the Section 106 agreement. This is because much of the anticipated expenditure under the current Section 106 proposals will comprise community benefit. Whilst we believe that the scaled back Section 106 agreement will provide some contributions, other than affordable housing, the majority of benefits will now be expected to be provided through PGS.

PGS would be payable following the implementation of subsequent phases of development. This could cause difficulties for the local authority and county council in providing the community infrastructure that will be required for a new settlement. At present, there is concern that the resources would not be invested in time to meet the needs of the new community. If these needs are not met then the volume housebuilders would have great difficulty in selling houses and persuading purchasers to locate within this development. This would be likely to harm take up and sales values and could be harmful to the overall delivery of the total development.

We have calculated that a PGS rate of 23.6% would return the same Internal Rate of Return (IRR) as the developers currently expect to achieve under the current Section 106 provisions.

Therefore, it would appear that if the PGS rate were to be set lower than 23.6% of the uplift value, then the overall tax take would be lower than would have been expected under a conventional Section 106 agreement. At 23.6% and above, the tax take would be higher and this would mean that there would need to be significant reductions in residual land value.

In relation to this specific case study, land purchase arrangements have already been entered into by the development partnership. Therefore if PGS were to work successfully, there would need to be very carefully considered transitional arrangements to prevent PGS compromising the development.

We are concerned that in the short to medium term, county councils and local planning authorities will not have the capacity and ability to bring forward the necessary community infrastructure required, even if the funds were to be provided in time by central government.

Case study 11: Extra care sheltered housing, South West

This case study investigates an extra care sheltered housing scheme in Gloucestershire. The development will consist of 41 apartments (3 storey) and 9 bungalows.

The site was previously used for residential purposes, with one dwelling and a former coal yard to the rear.

Full planning permission was granted in January 2006 with no Section 106 agreement. However, the developer had to make a contribution of £1,000 for the provision of a bench on a highway verge between the site and shops some 300 m away.

Building will commence in autumn 2006.

Case Study Name	Residential development
Location	Gloucestershire
Previous use	One residential unit; former coal yard to rear
Proposed use	Extra care residential scheme
Other characteristics	Vacant employment land; extant planning permission for 50000sqf offices
Site area (Ha)	1.62ha
Number of units on development land	41 flats (3 storey)+ 9 bungalows
Affordable Housing %	None
Development period	Uncertain
Date of full planning consent	23/01/2006; no S106
Method of Finance	In-house

	<u>No PGS</u>	<u>With PGS</u>		
Gross Development Value	£9,136,500	£9,136,500		
Total GDV	£9,136,500	£9,136,500		
Development Costs				
Construction costs	-£5,222,255	-£5,222,255		
Abnormal costs	-£141,000	-£141,000		
Construction Cost Total (excl fees + contributions)	-£5,363,255	-£5,363,255		
Other costs				
S106 Contribution - no PGS				
No S106 but provision for highway bench	-£1,000			
S106 - with PGS				
No contribution		£0		
Fees, Sales and Marketing included in developers' return	-£1,623,698	-£1,623,698		
Contingency included in fees				
Cost of finance	-£589,548	-£589,548		
Developer's profit included in fees				
Gross Residual Value for Land acquisition no PGS	£1,558,999			
Gross Residual Value for Land Acquisition before tax		£1,559,999		
Land value uplift				
PV		£1,559,999		
CUV		-£800,000		
Uplift		£759,999		
PGS @x%		PGS @ 10 %	PGS @ 20 %	PGS @ 30 %
		£76,000	£152,000	£228,000
Gross Residual Value for land acquisition after tax		£1,483,999	£1,407,999	£1,331,999
% change in residual land value with PGS		4.81%	9.69%	14.56%

Gloucestershire with an increase in GDV of 5%

	No PGS	With PGS		
Gross Development Value				
5% increase on £9,136,500	£9,593,325	£9,593,325		
Total GDV	£9,593,325	£9,593,325		
Development Costs				
Construction costs	-£5,222,255	-£5,222,255		
Abnormal costs	-£141,000	-£141,000		
Construction Cost Total (excl fees + contributions)	-£5,363,255	-£5,363,255		
Other costs				
S106 Contribution - no PGS				
No S106 but provision for highway bench	-£1,000			
S106 - with PGS				
No contribution		£0		
Fees, Sales and Marketing including developers' return	-£1,623,698	-£1,623,698		
Contingency included in fees				
Cost of finance	-£589,548	-£589,548		
Developer's profit Included in fees		£0		
Gross Residual Value no PGS	£2,015,824			
Gross Residual Value before tax		£2,016,824		
Land value uplift				
		£2,016,824		
		-£800,000		
		£1,216,824		
PGS			PGS @ 10 %	PGS @ 20 %
@x%			£121,682	£243,365
				PGS @ 30 %
				£365,047
Gross Residual Value after tax		£1,895,142	£1,773,459	£1,651,777

Assumptions

Contingency and developer's profit were included in the overall figure for fees as provided by the developer.

The Gross Residual Value (no tax) excludes the land acquisition cost of £1,560,000. Taking into account land acquisition cost, the development is just about viable.

The CUV was estimated by the developer as £800,000. The vendor has received offers in the region of £1 million but it could be assumed that it would have included an element of residential hope value.

Gross residual value calculated is broadly in line with the figure given by the developer.

Findings in relation to case study 11

The effect on the purchase price would be to reduce it by the amount of PGS.

The impact of PGS is likely to reduce site value with planning permission between 5% and 15% dependant on the tax rate selected. At the low level of 10% PGS, it is questionable whether the costs of collecting the tax would be viable and at the higher end of approximately 30% PGS there would be a considerable propensity for land owners to withhold their land from the market, pending regime change, or policy failure.

If land is withheld as a consequence of PGS, the effect on local community facilities would be detrimental. In the case of care homes, latent demand would increase and this may have the impact of harming affordability in existing private sheltered schemes as demand would increasingly outstrip supply.

PGS is highly sensitive to the way in which PV is calculated. A 5% variation in the GDV, shown on an additional sheet, has huge implications for the amount of PGS.

PV is not always the price paid for land in the market because land could be held for many years.

So, there could be great variability on the amount of PGS levied, with inequitable implications for some landowners/developers.

Case study 12: Mixed use regeneration, Wales

The scheme is a 60 acre brown field mixed use regeneration project with 600 residential dwellings, neighbourhood retail and employment land. The site was formerly a colliery site, bought from a private vendor.

An outline application was made in September 1999 and detailed approval was obtained in August 2002. Abnormal and infrastructure costs consisted of site servicing, ground remediation and retaining works. The development is currently still under construction.

Case Study Name	Mixed use regeneration
Location	Wales
Previous use	Colliery
Proposed use	Residential, retail and employment land
Other characteristics	Site owned by private vendor who bought as part of portfolio from British Coal
Site area (acres)	60 acres
Number on units on development land	600 residential units
Affordable Housing %	None
Number of phases	Uncertain
Date of full planning consent	Aug-02
Method of Finance	Existing group finances

	<u>No PGS</u>	<u>With PGS</u>		
Gross Development Value	£100,000,000	£100,000,000		
Development Costs				
Abnormal and infrastructure costs	-£20,000,000	-£20,000,000		
Construction costs	-£50,000,000	-£50,000,000		
S106 Contribution - no PGS				
Off-site link road	-£850,000			
Land compensation fund for highway works	-£85,000			
Education	-£5,000,000			
S106 - with PGS		£0		
Land acquisition costs				
	-£13,800,000	-£13,800,000		
Fees, Sales and Marketing				
	-£2,261,000	-£2,261,000		
Contingency (inc. in development costs)				
Cost of finance				
	-£2,500,000	-£2,500,000		
Developers Profit no PGS	£5,504,000			
Developers Profit before tax		£11,439,000		
Land value uplift				
	PV	£13,800,000		
	CUV	£5,000,000		
	Uplift	£8,800,000		
PGS		PGS @ 10 %	PGS @ 20 %	PGS @ 30 %
	@x%	£880,000	£1,760,000	£2,640,000
Developers Profit after tax		£10,559,000	£9,679,000	£8,799,000

Assumptions

Abnormal and infrastructure costs of £25m included site servicing costs, ground remediation and retaining works, and provision of a new school

All other figures are as given to us by the developer.

Findings in relation to case study 12

This regeneration site in Wales has a surprisingly high CUV of £5m and a PV of £13.8m which would result in a PGS charge of approximately £1.76m assuming a 20% tax on the uplift in value.

The effect of applying PGS rather than the current Section 106 agreement would in fact result in a doubling of developer's profit. This is largely due to the fact that the provision of a school would fall to local government to provide and that there would be no further scaled back planning contributions. Again, in common with a number of case studies and particularly those relating to regeneration where community benefit is likely to be needed, this case study shows that the development will provide very little if any direct benefit to the local community and moreover the PGS tax from this site alone will not equate to the value of contributions that would otherwise have been available under a conventional Section 106 agreement.

We have considered this case study on our static model approach. In reality a discounted cash flow appraisal would be more appropriate as this development is likely to take place over several years. A discounted cash flow model is likely to reduce the overall uplift and consequent PGS tax, but the overall effect will be very similar.

The developer is therefore likely to prefer a PGS approach in this instance.

Case study 13: Residential Development, South East

This case study investigates a large scale strategic residential development in the 'Southern Growth Area'. The site will consist of 3,500 dwellings on a greenfield land. The land is in multiple ownership, including a ransom strip worth £20m controlled by the local council.

This site will be purchased this year. 27.5% of the development will be affordable housing, an amount which was won on appeal in 2005 and it is expected that the development will start in 2007.

Case Study Name	Residential expansion
Location	Southern Growth Area
Previous use	Agricultural
Proposed use	Residential
Site area (acres)	Unknown
Number on units on development land	3500
Affordable Housing %	27.5% won on appeal
Number of phases	Unknown
Date of full planning consent	Won on appeal 2005
Method of Finance	In-house

	No PGS	With PGS	
Gross Development Value	£800,000,000	£800,000,000	
Development Costs			
Construction costs	-£386,000,000	-£386,000,000	
Infrastructure costs	-£140,000,000	-£140,000,000	
S106 Contribution - no PGS			
Allotment site	-£325,000		
Temporary ambulance facility	-£10,000		
Archaeology	-£472,000		
Archaeology display	-£311,000		
Bridleways	-£1,347,000		
Meadows monitoring	-£12,000		
Bus service contribution	-£1,181,000		
Bus shelter	-£208,000		
Bus subsidy	-£1,240,000		
Car lift	-£70,000		
CCTV	-£177,000		
Cemetery subsidy	-£123,000		
Cycle stands	-£20,000		
Play areas	-£2,526,000		
Farmland species plan	-£35,000		
Fire station	-£1,049,000		
Green waste site	-£108,000		
Home working infrastructure	-£1,489,000		
Household waste contribution	-£89,000		
Gas monitoring	-£25,000		
Landscape management plan	-£3,354,000		
Bridleway link	-£657,000		
Council legal fees	-£273,000		
Neighbourhood Trust	-£43,000		
Community centre	-£1,498,000		
Neighbourhood web site	-£21,000		
Police station contribution	-£150,000		
Primary school	-£10,344,000		
Public art	-£218,000		
Public Open Space gap funding	-£136,000		
Real time info	-£80,000		
Recycling facilities	-£38,000		
Renewable energy subsidy	-£136,000		
Roman quarry board	-£7,000		
Secondary community centre	-£1,792,000		
Secondary school	-£16,999,000		
Sports hall	-£2,441,000		
Sports pavilion	-£1,445,000		
Retail subsidy	-£50,000		
BRE green guide	-£152,000		
Training and economic development	-£54,000		
Transport interchange	-£262,000		
Travellers site access	-£150,000		
Travel plan co-ordinator	-£354,000		
Under pass upgrade	-£400,000		
Water butts	-£527,000		
Woodland fencing	-£123,000		
Affordable housing	-£25,000,000		-£55,147,000
Bonding	-£2,626,000		
S106 - with PGS			
Allotment site		-£325,000	
Archaeology		-£472,000	
Meadows monitoring		-£12,000	
CCTV		-£177,000	
Cycle stands		-£20,000	
Green waste site		-£108,000	
Gas monitoring		-£25,000	
Landscape management plan		-£3,354,000	
Council legal fees		-£273,000	
Public Open Space gap funding		-£136,000	
Recycling facilities		-£38,000	
Renewable energy subsidy		-£136,000	
BRE green guide		-£152,000	
Travellers site access		-£150,000	
Water butts		-£527,000	
Woodland fencing		-£123,000	
Affordable housing		-£25,000,000	
Bonding		-£2,626,000	
Land acquisition costs			
(min option payment)	-£30,000,000	-£30,000,000	
Ransom strip controlled by Council	-£20,000,000	-£20,000,000	(Still negotiating with Council)
Fees, Sales and Marketing			
	-£20,000,000	-£20,000,000	
Cost of finance			
	-£20,000,000	-£20,000,000	
Contingency			
Total costs:	-£696,147,000		
Developers Profit no PGS		£103,853,000	
% Profit on costs		14.92%	
Developers Profit before tax		£175,346,000	
		26.99%	

Land value uplift				
	PV		£50,000,000	
	CUV		£1,000,000	
	Uplift		£49,000,000	
PGS			PGS @ 10 %	PGS @ 20 %
	@x%		£4,900,000	£9,800,000
				£14,700,000
Developers Profit after tax			£170,446,000	£165,546,000
Developers Profit after tax			26.24%	25.48%
				24.73%
Total S106 (inc. Affordable Housing) without PGS:			-£80,147,000	
Total S106 (inc. Affordable Housing) under (not inc.) PGS:			-£33,654,000	
S106 deficit minus PGS contribution to infrastructure	S106 deficit who pays this?		-£46,493,000	
			-£51,393,000	-£56,293,000
				-£61,193,000

Assumptions

All costs listed were provided by the developer. The CUV has been estimated by the developer at £1,000,000. In this instance the ransom value was included in order to calculate the PV.

Findings in relation to case study 13

This scheme is of marginal viability under the current Section 106 agreement. Development costs are increased by a ransom payment, payable to the Council, thought to be in the region of £20m which together with the option payments derive a planning value of approximately £50m. The current use value based on agricultural values is about £1m and consequently there is a substantial uplift in land value which would be subject to PGS.

The consequence of applying PGS would mean that approximately £40m of planning gain measures would be stripped out from the current agreement. As with other large residential schemes, it is not clear how such developments could realistically come forward without the social and community infrastructure planned as local authority and county council resources are limited. The PGS derived from such large schemes would not appear to be sufficient to meet the planning gain deficit removed by the small scale planning agreements.

It will be apparent that the PGS tax, if levied at 20% on the land value uplift, would "only" amount to some £10m. A proportion of this sum is said to be hypothecated to central government and some will be transferred to the regional tier. Consequently, the local planning authority will only receive a reduced amount, well below the £80m of expenditure that would be derived under the existing Section 106 regime.

In order to generate a satisfactory development the developer will voluntarily provide some of the social infrastructure stripped out from current planning agreements to ensure that there is adequate social provision to facilitate the sale of the development product. This is likely to be beneficial to the developers in many circumstances as the developer will have control over the extent to which community contributions are made. However, from the Local Authority's stand point, they will lose control and it is likely that identified social needs will not be fully met (in particular areas such as community empowerment and training). This could lead to a situation where minimum standards only are met. Paradoxically if central government is aware that developers are prepared to meet social provision voluntarily this might encourage the use of PGS to provide a larger top slice into treasury funds which are not redistributed to local authorities.

Case study 14: Residential Development, East of England

The site was originally comprised of an office and garage; an industrial unit; and a bungalow. The former two land uses were occupied by an asbestos removal company and the bungalow was in private residential ownership.

The development is now complete. The prices paid for the land had a definite relationship to the existing use values of the commercial and residential premises. In each case, the developer felt it was marginal whether the vendors would accept the offers made.

Abnormal costs included decontamination of the site and removal of hazardous waste, ensuring conversions met sound and thermal requirements; and highway cross over costs.

The development consisted of three phases. Planning permission was obtained as follows:

1. Full planning permission 6 May 2004: conversion of offices and workshop to form 6 flats.
2. Full planning permission 19 August 2004: demolition of existing industrial unit and erection of 1 bungalow and 3 two bedroom flats and 3 one bedroom flats with associated parking and landscaping.
3. Full planning permission 21 March 2005: demolition of existing dwelling house, the erection of one flatted block comprising of 6 two bedroom flats with associated parking and landscaping.

Case Study Name	Small residential development
Location	Knebworth
Previous use	A - an office and garage B - an industrial unit C - a bungalow
Proposed new use	Residential units
Number of units proposed	18 flats; 1 bungalow
Affordable Housing %	0%
Number of phases	3
Number of years	1
Date of full planning consent	Phase 1: May 2004 Phase 2: August 2004 Phase 3: March 2005
Method of Finance	70% bank, 30% in house

	No PGS	With PGS		
Gross Development Value	£3,074,471	£3,074,471		
Development Costs				
Abnormal Costs	-£1,296,000	-£1,296,000		
Development Costs				
Land Acquisition Costs	-£1,247,000	-£1,247,000		
S106 Contribution - no PGS	£0			
S106 - with PGS		£0		
Fees, Sales and Marketing	-£216,000	-£216,000		
Contingency (inc. in development costs)				
Cost of finance	-£136,889	-£136,889		
Developers profit no PGS	£178,582			
% profit on costs	6.17%			
Developers' profit before tax		£178,582		
Land value uplift				
PV		£1,247,471		
CUV		£775,000		
Uplift		£472,471		
PGS				
@x%		PGS @ 10 % £47,247	PGS @ 20 % £94,494	PGS @ 30 % £141,741
Developers' profit after tax		£131,335	£84,088	£36,841
% profit on costs	6.17%	4.54%	2.90%	1.27%
Impact of PGS on developers' profit		-1.63%	-3.26%	-4.89%

Assumptions

The development consisted of 3 phases, the details of which are as follows:

- Phase 1: Conversion of offices and workshop to form 6 flats, including variation of condition 4 to reduce parking available for a Chinese Takeaway.
- Phase 2: Demolition of existing industrial unit and erection of 1 bungalow and 3 two bedroom flats and 3 one bedroom flats with associated parking and landscaping.
- Phase 3: Demolition of the existing dwelling house, and the erection of one flatted block comprising of 6 two bedroom flats with associated parking and landscaping, and amendments to parking layout previously approved which consisted of the erection of 1 bungalow, 3 two bed flats and 3 one bed flats.

For the purposes of this research, however, we investigated the implications of PGS as if this development too place in one phase, with one PGS payment.

CUV was determined based on estimates given to us by the developer. These were as follows:

Commercial premises	£475,000
Bungalow	£400,000
Abortive planning fees	£100,000
Total	£875,000

Based on the planning-gain supplement consultation document's definition of CUV, it will not take into account abortive planning fees. Thus, the CUV is taken to be £775,000.

Findings in relation to case study 14

In our assessment, this scheme is unviable from the outset. PGS will only make it worse.

According to the developer, sites of this nature require a very large overhead to a) procure and b) to build out. In the case of PGS, this scheme will not take place.

Case study 15: Residential Development, Undisclosed Location

This case study investigates a large scale strategic development, relating to 850 dwellings forming part of a 4500 dwelling and mixed use scheme.

Eighteen per cent of the site is owned by the developer, which was obtained through option agreements from local farmers. The remainder of the land belongs to another public sector body.

The Section 106 agreement for this development was signed in December 2005. Reserve matters are expected to be approved in November 2006, upon which the development will start.

The other public sector body have to meet their share of Section 106 costs. However, the developer will pay for and deliver the infrastructure on the public sector body's land, as they have no capital. As such, the land is paid for by way of a barter. The public sector body intends to sell the land provided for affordable housing.

Case Study Name	Residential expansion	
Location	Undisclosed location	
Previous use	Agricultural	
Proposed use	Residential	
Other characteristics		
Site area (acres)	6.65	as part of 35 acre site
Number on units on development land	855 dwellings	as part of 4500 dwelling and mixed use scheme
Affordable Housing %	35%	255 units
Number of phases		
S106 signed	Dec-05	
Reserve matters approval	Expected Nov 2006	
Method of Finance	In house	

		No PGS	With PGS	
Gross Development Value				
Revenue		£145,000,000	£145,000,000	
Development Costs (Excl major infrastructure)		-£66,000,000	-£66,000,000	
S106 Contribution - no PGS (19% pro-rata)				
	For whole site	Pro-rata S106		
Off-site traffic calming	-£400,000	-£76,000		
Bus subsidy	-£3,723,000	-£707,370		
Bus shelter maintenance	-£30,000	-£5,700		
Real time bus information	-£102,000	-£19,380		
Off-site foot/cycle	-£1,400,000	-£266,000		
Green travel	-£230,000	-£43,700		
Off-site bus infrastructure	-£44,480,000	-£8,451,200		
Off-site haul route	-£340,000	-£64,600		
Flood lit all weather pitch	-£481,000	-£91,390		
Primary school multi-use	-£217,000	-£41,230		
Changing rooms	-£280,000	-£53,200		
Grass playing pitch	-£174,000	-£33,060		
Car park	-£179,000	-£34,010		
Allotment gardens	-£340,000	-£64,600		
Local Open Space	-£1,017,000	-£193,230		
Major Public Open Space	-£1,444,700	-£274,493		
Nature Conservation	-£255,000	-£48,450		
Nature Conservation Centre	-£250,000	-£47,500		
Interim open space	-£732,000	-£139,080		
Open space maintenance	-£1,423,000	-£270,370		
Canal maintenance	-£200,000	-£38,000		
Off-site landscaping	-£770,000	-£146,300		
Heritage and conservation	-£320,000	-£60,800		
Secondary school and sports	-£7,074,000	-£1,344,060		
Primary school and sports	-£2,945,000	-£559,550		
Primary school and sports	-£2,945,000	-£559,550		
Library	-£800,000	-£152,000		
Community services contribution	-£45,000	-£8,550		
Sustainable community contribution	-£75,000	-£14,250		
Local art	-£300,000	-£57,000		
Emergency services fitting out	-£100,000	-£19,000		
Regeneration contribution	-£6,500,000	-£1,235,000		
Administration contribution	-£362,000	-£68,780		
Recycling	-£53,000	-£10,070		
Off-site highways	-£37,000,000	-£7,030,000		
Off-site drains	-£2,069,000	-£393,110		
Affordable housing		£0		
				-£22,620,583 (19%pro-rata excl AH)
S106 - with PGS				
Green travel			-£43,700	
Grass playing pitch			-£33,060	
Car park			-£34,010	
Allotment gardens			-£64,600	
Local Open Space			-£193,230	
Nature Conservation			-£48,450	
Nature Conservation Centre			-£47,500	
Interim open space			-£139,080	
Open space maintenance			-£270,370	
Canal maintenance			-£38,000	
Affordable housing			£0	
				-£912,000
Land acquisition costs				
		-£8,958,500	-£8,958,500	Difference: -£21,708,583
Fees, Sales and Marketing				
Professional fees		-£4,500,000	-£4,500,000	
Cost of promoting site over 8 years		-£6,000,000	-£6,000,000	
Sales and marketing		-£6,800,000	-£6,800,000	
Cost of finance				
		-£8,000,000	-£8,000,000	
Developer's profit				
		-£22,000,000	-£22,000,000	
Contingency (included in development costs)				
Gross Residual Value no PGS		£120,917		
Gross Residual Value before tax			£21,829,500	

Land value uplift					
	PV		£8,778,000		
	CUV		£104,500		
	Uplift		£8,673,500		
PGS			PGS @ 10 %	PGS @ 20 %	PGS @ 30 %
	@x%		£867,350	£1,734,700	£2,602,050
Gross Residual Value after tax			£20,962,150	£20,094,800	£19,227,450

Assumptions

The developer's profit of £22,000,000 was provided by the developer.

The overall scheme consists of 4,500 dwellings: 850 dwelling units represent roughly 19% of the total 4500 dwellings.

18% of the land is owned by the developer (previously under option from local farmers). The remainder of the land is owned by a public body.

The developer is paying for and delivering infrastructure on the public sector body's land. The developer provided us with total Section 106 costs for the whole site. In order to determine Section 106 costs for this site, each payment was worked out at a pro-rata of 19%.

Land acquisition: £14m plus £33.15m subsidy for infrastructure and servicing costs. We have assumed only 19% of this cost is paid in this phase because of the simplified nature of the model. The affordable housing contribution, to be provided to the public sector body as serviced land, is included within the figure of £33.15m. Hence the amount for affordable housing under the Section 106 agreement is 0.

The CUV of £550,000 is as estimated by developer; for agricultural land.

The PV is an estimate, taking into account the open market value of the land at £1.32m per acre, thus $1.32m \times 35 \times 0.18 = £8,778,000$

Findings in relation to case study 15

In the case of this development, the developer was expected to provide the land for affordable housing (i.e. 255 dwellings) to be made available free to the RSL and serviced at the developers/landowner's cost. The only recovery is on house build cost.

This case study is part of a large phased development. Our analysis is relatively simplistic and has not been based on a cash flow approach. However, the PGS payable whilst appearing relatively modest at approximately £2m on a development with a Gross Development Value of £145m disguises the fact that approximately £22m of community infrastructure would be stripped out of the planning-gain agreement. We are advised that the public sector body has no resources and is already reliant on the developer to fund infrastructure investment as part of the land acquisition costs. It is therefore improbable that a public sector

agency would be able to meet the contributions which would fall outside of the new scope of planning obligations.

In order to provide a socially cohesive urban extension it will be necessary for the social infrastructure to be provided, since without this there will not be sufficient demand from consumers to purchase the new housing stock. Ultimately there would be no alternative other than for the developer to nonetheless make these contributions if the development is to be successful. The effect would be for a voluntary arrangement to be reached between the developer and planning authority, the costs of which would necessarily be borne by the developer. To ensure an adequate rate of return, the developer would need to reduce payment to the landowner to reflect this burden.

In this case, some £22m would need to be deducted from the land acquisition price. Given that the land acquisition costs are £14m, it is unrealistic to expect any land owner to put his land holding onto the market at a negative value.

Case study 16: Mineral Development Case Study, East of England

This scheme comprises the extension of a sand and gravel quarry. Planning permission is forthcoming and the Section 106 agreement is being prepared. Following mineral extraction, estimated to take 3 years, the site will be restored: 35 Ha for unremunerative nature conservation after use and 10 Ha good quality agricultural lands.

The Section 106 relates to the creation and dedication of public footpaths and bridleways within the site. There are no financial contributions to be paid under the agreement, although off-site infrastructure improvements need to be made which is directly related to the development.

The site is in the ownership of two private land owners and is presently in agricultural use.

Case Study Name	Extraction of minerals
Location	East of England
Previous use	Agricultural
Proposed use	Extension of sand and gravel quarry
Other characteristics	Extension 1.4 million tonnes
Site area (Ha)	54 HA (Extension)
Number of units on development land	Not applicable
Affordable Housing %	Not applicable
Development period	3 years of extraction
Date of full planning consent	Forthcoming
Method of Finance	
S106 costs	Site needs to be restored; 35 ha unremunerative nature conservation afteruse and 10 ha good quality agricultural land

		With PGS		
Land value uplift	PV	£2,855,000		
	CUV	£315,000		
	Uplift	£2,540,000		
PGS	@x%	PGS @ 10 % £254,000	PGS @ 20 % £508,000	PGS @ 30 % £762,000

Assumptions

For reasons of commercial confidentiality, the minerals company supplying information was reluctant to provide full costs associated with the development and operation of this site although they did provide an estimate of CUV, PV and costs of obtaining planning permission.

Findings in relation to case study 16

In relation to the Section 106 agreement with and without PGS there is unlikely to be any change as the planning-gain agreement only relates to restoration costs. Thus, there will be no slimmed down Section 106 arrangement.

The full effect of PGS will be felt by this development. We understand from the developer that PGS at 20% of the uplift in value, i.e. £508,000, would represent 18% of the developer's overall profit margin. Mineral extraction is a low margin business, and therefore this will result in a considerable impact on business activities.

In future cases where the cost of PGS might play a role in negotiating land value in advance of obtaining planning permission, the developer's expectation is that the PGS tariff will reduce land value, and therefore the land owners' propensity to bring forward land. If this is the case then existing aggregate operations will continue to operate with dwindling output until such time as the sales price rises to a level that is sufficient to overcome the tax burden of PGS and a new price equilibrium is established.

Given that the majority of aggregates find their way into the construction industry the effect in the longer term will be to disproportionately increase the cost of minerals and therefore increase overall construction costs.

Case study 17: Mixed use expansion, East Midlands

In this case study a mixed use expansion was proposed on a site formerly used for industrial and commercial purposes as well as a swimming bath. Much of the site comprised of factory buildings. The new development will consist of department stores, new retail accommodation, a cinema, public squares, cafés and restaurants, a car park, pedestrian bridge, bus interchange and refurbishment of existing shopping centre.

A large proportion of the site was owned by the local authority with the remainder in private ownership. The development of the site was agreed by SPG with the Council in 2003. Resolution for outline consent was obtained in 2004. The Section 106 agreement was settled in January 2005.

The scheme will include a residential element, 18% of which would consist of affordable housing.

Case Study Name	Mixed use expansion to commercial development East of England
Number of acres for development	
Number on units on development land	
Other characteristics	Residential and retail expansion on existing retail development
Original site use	Commercial, industrial and swimming baths
Site ownership	Local authority and private sector
Affordable Housing %	Contribution paid for 26 units
Number of phases	1 3 years
Outline planning consent	2004
Reserve matters	Jan-05
Method of Finance	In house

	No PGS	With PGS		
Gross Development Value (including all new space, rental stream and yield)	£372,500,000	£372,500,000		
Development Costs (including finance)	-£245,378,000	-£245,378,000		
S106 Contribution - no PGS				
Affordable Housing	-£1,500,000			
Public realm and transport	-£1,635,000			
Other off site contributions	-£130,000			
Pollution monitoring	-£25,000			
S106 - with PGS				
Affordable Housing		-£1,500,000		
Pollution monitoring		-£25,000		
Land acquisition excluding fees	-£39,032,000	-£39,032,000		
Fees, Sales and Marketing				
On land acquisition	-£640,000	-£640,000		
Professional fees, pre and post construction	-£26,721,000	-£26,721,000		
Contingency				
Developers Profit	-£57,439,000	-£57,439,000		
Cost of finance included in development costs				
Additional Profit no PGS	£0			
Additional Profit before tax		£1,765,000		
Land value uplift				
	PV	£40,797,000		
	CUV	£37,000,000		
	Uplift	£3,797,000		
PGS		PGS @ 10 %	PGS @ 20 %	PGS @ 30 %
	@ x%	£379,700	£759,400	£1,139,100
Additional Profit after tax		£1,385,300	£1,005,600	£625,900

Assumptions

The developer estimates the CUV of the land to be £37,000,000. This valuation is based on negotiations pre CPO. Negotiations took place with each individual landowner based on existing use. Value is also related back to what the developer can pay for the development.

The market value of the site with detailed planning permission for the retail development (PV) is assumed to be £40.8m. This is based on residual valuation appraisal, assuming the costs provided by the developer and the scaled back Section 106 agreement. We understand the development will be undertaken in a single phase

Findings in relation to case study 17

Due to the relatively high CUV compared with the PV for this retail development, the uplift will be low and PGS liability small. This is not to be unexpected, particularly for large provisional schemes in city centres. The PGS at a 20% charge would amount to about £760,000 which is 0.2% of development costs. Interestingly, the value of the community benefits foregone would be approximately £1.7m. The developer stands to gain about £1m additional profit on these assumptions.

In order for the community benefit to be made good, compared with the current planning system, the local authority would need to find £1.7m through the PGS levy and other funding sources. It is questionable whether in fact this would happen; although it is conceivable in theory at least that the local authority could make good this deficit from other PGS contributions elsewhere in their urban area.

In this case study, in view of the likely fall in revenue to the local planning authority which would have otherwise paid for public realm benefits, the likely response may well be to cut back on these improvements. This would be counter to the government's objective outlined in PPS1 where the importance of design in creating sustainable communities is emphasised.

Case study 18: Industrial development, South East

This case study details the first speculative phase of a 28 unit industrial/warehouse scheme totalling 16,063 sqm (GEA) on 4.08 Ha part of 11.3 Ha site. The development will consist of 11 leasehold units and 17 freehold units of various sizes. This scheme is currently being developed and should be completed during 2006.

The development took place on brown field land that was formerly used as a gas works. The site was acquired by the developer in April 2005 for £2.1m (£515,000) per Ha. Outline planning permission was obtained in August 2003. Reserve matters were approved in August 2005.

Prior to the reserve matters approval, the developer undertook some remediation of contamination in accordance with the Outline Planning Permission.

Case Study Name	Warehouse Development	
Location	Hampshire	
Previous use	Gas works	
Proposed use	Industrial/warehousing units	
Other characteristics		
Number of Ha for development	4.08	(of 11.3 in total)
Number on units on development land	27 industrial units	(17 freehold, 11 leasehold)
Affordable Housing %	0%	
Number of phases	1 year	
Outline permission	26 November 2003	
Reserve matters approval	16 December 2005	
Method of Finance	Internal resources	

	<u>No PGS</u>	<u>With PGS</u>		
Gross Development Value				
Freehold sales return	£8,803,125	£8,803,125		
Capitalised value of retained freehold interest	£8,342,036	£8,342,036		
Total Gross Development Value	£17,145,161	£17,145,161		
Development Costs				
	Abnormal Costs	-£3,339,000	-£3,339,000	
	Development Costs	-£6,885,000	-£6,885,000	
S106 Contribution - no PGS	£0			
S106 - with PGS		£0		
Consultants fees	-£966,000	-£966,000		
Site Acquisition Costs	-£2,100,000	-£2,100,000		
Contingency	-£664,500	-£664,500		
Developers Profit @25%	-£3,488,625	-£3,488,625		
Gross Residual Value no PGS	-£297,964			
Gross Residual Value before tax		-£297,964		
Land value uplift				
	PV		£2,100,000	
	CUV		£0	
	Uplift		£2,100,000	
PGS @x%			PGS @ 10 %	PGS @ 20 %
			£210,000	£420,000
				PGS @ 30 %
				£630,000
Gross Residual Value after tax		-£507,964	-£717,964	-£927,964

AssumptionsGross Development Value Calculations:**Freehold units for sale:**

Freehold sales given to be £9.1m with unit sales rates of £100-115 psft. There are 17 freehold units in total.

Unit 1	12055
Unit 2	8740
Unit 3	8740
Unit 4	7912
Unit 5	792
Unit 6	4854
Unit 7	4854
Unit 8	4854
Unit 9	4865
Unit 10	2573
Unit 11	2573
Unit 12	2573
Unit 13	2573
Unit 14	2573
Unit 15	2573
Unit 16	2573
Unit 17	2573
Average	4602.941

Average sales price per unit	£517,831
Total Freehold sales revenue	£8,803,125.00

Retained Investment:

Leasehold rental value per annum £650,000 with rental values between £7.25 - £8psft as provided by client.
There are 11 leasehold units, with one split into two areas for let.

Unit 1	14069
Unit 2	14026

Unit 3	9429
Unit 4	9978
Unit 5	7330
Unit 6	7373
Unit 7	7384
Unit 8	3757
Unit 9	3800
Unit 10	3520
Unit 11	3423
Unit 12	3434
Average:	7293.583

Average rental value per unit:	£55,614
Total rental value per year	£667,362.88

Capital value of leasehold interest per annum

Assumed yield rate 8%

CV= £8,342,036

Abnormal costs in the case study include remediation costs of £1.248m and the provision of necessary infrastructure of £2.091m.

The contingency figure is based on 5% of the total development costs.

The developers profit value is based on 25% of total development costs, and contingency to reflect the additional risk of remediating the former gas works site.

The CUV of the land is assumed to be £0, taking into account the huge abnormal costs for remediation of the site.

The PV was taken to be the site acquisition cost, with outline planning permission (granted November 2003). It is likely that the PV would be higher with full planning permission which was granted in December 2005.

Findings in relation to case study 18

The effect of PGS on sites with depressed current use value due to the relative high costs of remediation will be disproportionately significant.

In this case the CUV is 0 due to the high costs of remediation (£3.39m). The risk is that PGS will further blight brownfield sites of this type and the effect will be to encourage developers to avoid these sites. Developers would naturally turn towards greenfield development sites and previously used land with low costs of remediation. This consequence would be counter to government policy, seeking to maximise the reuse of brownfield land.

7.0 Limitations of the Research

- 7.1 Eighteen case studies represent a small selection when over 300,000 planning applications could be affected by PGS in any year. We do not claim the case studies to be a representative selection of developments in any year. The types of development that come forward on an annual basis very much depend on local context, and market conditions. The case studies included in this research are a selection of random developments, which developers/landowners have agreed we could include by anonymising certain details.
- 7.2 It should be noted that we have taken the details of Section 106 agreements as remaining similar in the before and after PGS scenario allowing for the 'scaling back' as indicated in the December 2005 consultation document. In reality, it is likely that Section 106 agreements as a result of being scaled back by PGS could look considerably different. Affordable housing contributions, for example, may be increased or decreased dependent upon the view taken by the local planning authority on need relative to expectation of contributions that might be secured from Government from PGS.
- 7.3 Our model is static, and hence, we have been able to assess the likely impact of PGS on developer's profit, land value and possible Section 106 "deficit". However, aside from these possible site-specific impacts, it is evident that the behavioural impact, should PGS go ahead, may be significant. We have been able to assess some of the likely behavioural impacts from conversations with developers, but the full impact of PGS on the whole of the development industry remains to be seen.

8.0 Findings

- 8.1 This research investigated the impact of a planning-gain supplement on eighteen property developments. It is important to note that these eighteen case studies represent a very small selection if it is to be taken into account that over 300,000 planning applications in any year could be affected by PGS.
- 8.2 Our case study examples are not necessarily representative of the effect that PGS could have on different types of planning applications. Indeed, it would be impossible to do so within such a small selection. The majority of the case study examples included in this research comprises residential and mixed-use developments. We have included one industrial development and one example of a mineral extraction site.
- 8.3 Our case studies illustrate and discuss the implications of PGS for developers and landowners based on a simple 'static' scenario. We cannot predict whether these developments would still have taken place within a PGS environment, however, we have spoken to a number of developers, the feedback of which is reflected in the findings.
- 8.4 It is evident that PGS would have a considerable and variable impact on the selection of developments we have studied. Whilst the site-specific implications have been discussed in detail in relation to each case study in Section 7, overall, this research demonstrates that the likely effects of PGS would be as follows:

- 1) ***The findings suggest that the planning-gain supplement as proposed at a modest rate and a scaled back Section 106 system, may not result in the necessary additional funds for local and strategic infrastructure to support housing growth, as envisaged in the PGS consultation document.***

The total planning gain contribution of all eighteen case studies under the current Section 106 system is approximately £375 m. Under a scaled back Section 106 system, together with PGS, planning contributions would be approximately £195m for a PGS rate of 10%, £279m for a rate of 20%, and £363m for a PGS rate of 30%. Overall, for this selection of case studies, this represents a reduction in planning gain, in relation to the case study examples included in the research, of 48% for a PGS rate of 10%, 26% for a PGS rate of 20%, and 3% for a PGS rate of 30%.

This result is drawn from our case studies. However further research might show that the increased funding generated from small scale developments taken at a modest rate, that might pose less of a threat to the viability of such schemes, could compensate for the loss of community infrastructure funding from the large scale developments. If not, then there would be pressure for a higher rate, which might push many smaller schemes into non-viability, thus requiring substantial funding from other government sources to meet the shortfall. Given these uncertainties, it is clear that extensive further research is needed to achieve sufficient public confidence that PGS would work effectively and meet the required increase in housing output. At present it is not clear whether this would be the case.

Table 1: Comparison of total planning gain under current Section 106 with a combined scaled back Section 106 system + PGS

No.	Case Study Name	Case Study Location	S106 under current system	S106 with 10% PGS total	S106 with 20% PGS total	S106 with 30% PGS total
1	Residential Development	Market Town, Lincolnshire	£115,000	£144,640	£194,280	£243,920
2	Mixed Use Development	Undisclosed	£41,355,000	£33,091,000	£33,321,000	£33,551,000
3	Extra care sheltered housing by charity	Newcastle, North East of England	£18,000	£450,000	£900,000	£1,350,000
4	Extra care sheltered housing by charity	Yorkshire and the Humber	£0	£0	£0	£0
5	Urban Expansion Site	South East England	£46,000,000	£18,564,694	£34,129,388	£49,694,082
6	Residential development	Hertsmere, East of England	£11,750	£100,459	£200,918	£301,377
7	Enabling Development	Surrey, South East	£0	£0	£0	£0
8	Regeneration Site	East of England	£610,000	£610,000	£610,000	£610,000
9	Urban village	London	£43,642,000	£35,002,000	£35,302,000	£35,602,000
10	Major Development Site	East of England	£131,000,000	£63,000,000	£122,800,000	£182,600,000
11	Extra Care sheltered housing	Gloucester, South West	£1,000	£76,000	£152,000	£228,000
12	Mixed use regeneration	South Wales	£5,935,000	£880,000	£1,760,000	£2,640,000
13	Residential development	Southern Growth Area, South East	£80,147,000	£38,554,000	£43,454,000	£48,354,000
14	Residential development	Knebworth, East of England	£0	£47,247	£94,494	£141,741
15	Residential development	West Country, South West	£22,620,583	£1,779,350	£2,646,700	£3,514,050
16	Mineral Development	East of England	£0	£254,000	£508,000	£762,000
17	Mixed use expansion	Leicester, East Midlands	£3,290,000	£1,904,700	£2,284,400	£2,664,100
18	Industrial Development	Portsmouth, South East	£0	£210,000	£420,000	£630,000
Total generated:			£374,745,333	£194,668,090	£278,777,180	£362,886,270
% Reduction in overall planning gain under PGS				48.05%	25.61%	3.16%

Research conducted by the University of Sheffield and the Halcrow Group in May 2006 found that less than 7% of all planning permissions have Section 106 agreements, and which therefore contribute to “capturing” development value through planning gain. This figure does not represent the number of planning permissions actually implemented. Under the proposed PGS system it is thought that some 300,000 permissions per year would be caught by PGS. Again, it is more difficult to estimate the number of planning permissions that would actually be implemented, and therefore trigger PGS. As far as we are aware there is no data available that would allow a clear frequency distribution to be formed and from which it might be possible to infer the level of PGS that would be raised at possible PGS tax rates, although it might be possible to infer this in connection with residential development by reference to local authority monitoring of supply. Residential and other developments will be required to pay PGS on implementation. In this regard, the research demonstrates that PGS will result in the overall widening of the tax base to contribute to community infrastructure at local and regional level. For purposes of simplification, the Government, in the PGS consultation document, made it clear that a single PGS rate will be adopted across the country.

Although the Government envisages a single rate for PGS across the country, it has been estimated that some regions would require a far lower PGS threshold in order to make up for the revenue that would be lost because of a scaled back Section 106 system. Rowley and Crook (2006) estimated that for the North, Yorkshire and Humber and North West, a PGS of less than 2% would compensate for lost Section 106 revenues. For the West Midlands it would be 3.3%, for London 5%, for the East of England 8.4%, and, for the East Midlands and the South West a rate of round around 12% would be necessary. For the South East a rate of almost 20% would be required^{xxxiii}. A more extensive analysis of the possible implications of PGS in this regard is necessary, but the widening of the tax base under PGS could potentially result in significant cross-subsidisation of development between different regions.

It is not clear at this stage what the cost of administering and collecting PGS will be. We understand that there has been no published assessment of this by the Treasury. On the basis that there would be a large number of relatively small value calculations, questions about the cost of collecting the charge relative to the tax yield need to be considered, particularly as the costs for preparing Section 106 agreements will be additional in most cases where these are currently expected, although in a scaled back form. It is possible that the additional costs of collecting and redistributing the tax raised may prove unacceptably high.

It is understood that the Treasury is considering simplified assessment and collection system whereby over 50% of assessments would be accepted, on a similar basis to Inheritance Tax

(IHT) and Capital Gains Tax (CGT) assessments. This might mean that the system could be open to abuse in view of the difficulty in accurately assessing Planning Values. Should a high level of intervention be necessary to agree assessments, the collection of the charge could be unworkable and uneconomic.

It appears that there may be a difficult trade-off in relation to cost of collection and accuracy of assessments. Further consideration of these costs needs to be assessed before a decision on whether PGS would be an efficient development gain tax is made.

- 2) ***The impact of PGS on developments would be variable. In financial terms some developments would “benefit” from lower planning gain charges overall, whilst others would “suffer” a greater planning gain charge, when taking both the scaled back Section 106 contributions and the PGS charge into account and comparing this with the current Section 106 deals that are negotiated.***

It is not simply the case that all development would face a higher development tax burden were PGS to be introduced. The rate of the PGS charge would influence the extent to which any particular development would contribute more or less planning gain than under the current Section 106 arrangements. This could therefore be a significant factor effecting individual development viability, but will vary from case to case. It is not simply a matter that PGS would universally create an unsatisfactory tax on development gain.

- 3) ***Whilst relatively few in number, large scale urban expansion developments and large town centre developments would be likely to contribute significantly less planning gain with PGS and scaled back Section 106 agreements compared with current Section 106 agreements.***

At a PGS rate of 10%, 20% and 30%, the large scale urban expansion developments and large town centre development included as case studies in this research would (with the exception of one case at a 30% charge) have a reduced overall development tax burden, in comparison to the current Section 106 system, illustrated in Table 1.

As part of their submission to the Treasury PGS consultation document, English Partnerships have analysed the effect of PGS on a number of large scale residential developments on greenfield and brownfield land^{xxxiv}. In the cases of three developments on brownfield sites, with proposed developments of 250, 376, and 420 residential units and other mixed uses, English Partnerships demonstrated a reduction in overall planning gain contribution per unit, in some

cases significantly, in comparison to the current Section 106 system. English Partnerships has also studied three cases of residential and other mixed use developments on greenfield sites in the Milton Keynes area, including proposals for 720, 1000 and 2250 residential units. Two of the case studies of green-field development demonstrated an increase in planning gain contribution per unit under a combined scaled back Section 106 system with PGS. English Partnerships drew the conclusion that the differences pre and post PGS are not as dramatic for greenfield sites, as for brownfield sites.

Our case study selection demonstrated that currently substantial Section 106 obligations are expected from large scale strategic developments. Therefore, a reduced planning gain liability through scaled back Section 106 and PGS could theoretically increase the viability of these projects, where land has already been purchased or higher land values could be supported where land purchases are subject to option agreements, a matter also emphasised in the English Partnerships' submission on the PGS consultation document^{xxxv}. However, the implications of reduced planning gain contributions would be that these large scale developments will contribute less to the funds necessary to build schools and other community facilities, as well as training programmes and funding allocated to establish community development trusts. It is not clear how the Government foresees providing local government with the necessary funds to plough back into large scale strategic developments for the provision of essential community infrastructure. PGS would require there to be a significant change to the way in which funding of community infrastructure takes place. It is not clear at present, the extent to which reallocation of PGS funds from other small scale projects would be able to adequately fund such deficits. Any possible time lags between residential development taking place and the provision of necessary community infrastructure could affect the quality of residential developments, and the ability to establish sustainable communities.

Table 2: Comparison of Section 106 agreements under the current system against the likely deficit created under PGS

No.	Case Study Name	S106 under current system	(S106&PGS) - (S106 no PGS)		
			Difference @ 10%	Difference @ 20%	Difference @ 30%
13	Residential development	£80,147,000	-£41,593,000	-£36,693,000	-£31,793,000
15	Residential development	£22,620,583	-£20,841,233	-£19,973,883	-£19,106,533
5	Urban Expansion Site	£46,000,000	-£27,435,306	-£11,870,612	£3,694,082
9	Urban village	£43,642,000	-£8,640,000	-£8,340,000	-£8,040,000
10	Major Development Site	£131,000,000	-£68,000,000	-£8,200,000	£51,600,000
2	Mixed Use Development	£41,355,000	-£8,264,000	-£8,034,000	-£7,804,000
12	Mixed use regeneration	£5,935,000	-£5,055,000	-£4,175,000	-£3,295,000
17	Mixed use expansion	£3,290,000	-£1,385,300	-£1,005,600	-£625,900
4	Extra care sheltered housing by charity	£0	£0	£0	£0
7	Enabling Development	£0	£0	£0	£0
8	Regeneration Site	£610,000	£0	£0	£0
1	Residential Development	£115,000	£29,640	£79,280	£128,920
14	Residential development	£0	£47,247	£94,494	£141,741
11	Extra Care sheltered housing	£1,000	£75,000	£151,000	£227,000
6	Residential development	£11,750	£88,709	£189,168	£289,627
18	Industrial Development	£0	£210,000	£420,000	£630,000
16	Mineral Development	£0	£254,000	£508,000	£762,000
3	Extra care sheltered housing by charity	£18,000	£432,000	£882,000	£1,332,000

Large scale developments, whether these are for urban extensions or major town centre schemes contain planning gain packages comprising a significant amount of community infrastructure. Whilst these benefits are frequently costly to provide, the benefits derived flow to both occupants and users of the new development as well as the wider community. As the planning gain system has shifted from a mechanism that is expected to make good “planning harm” caused by development, to one where planning benefit is increasingly expected by way of contributions to meet wider and often pre-existing socio-economic deficiencies, local planning authorities are increasingly seeking such contributions from development.

The current Section 106 arrangement, although contested and negotiated by developers and planning authorities, normally results in a planning gain contract that is viable to the developer whilst meeting wider community objectives. This approach is acceptable to developers on the basis that they retain some control over the delivery of the community benefits, since these will add value to the new development that is being undertaken. Under the PGS arrangement, this control would be lost as community benefits related to a site could no longer be negotiated under Section 106 agreements which begs the question as to how the community benefits, stripped out of current Section 106 agreements would be provided? As stated above, whilst it is feasible of course that PGS collected from many smaller developments could be hypothecated to meet these shortfalls, but the scale of these deficits running to tens of millions of pounds may not readily be funded, particularly where there may be a number of competing developments in the Growth Areas, for example in the Thames Gateway, Ashford, Cambridge and Milton Keynes. To the extent that this community infrastructure were not provided, this would seriously compromise housing delivery as purchasers would locate elsewhere where social cohesion is established. The large urban extensions and new settlements in the Growth Areas offer the opportunity to deliver the rapid increase in housing delivery that the Government is seeking; without adequate community infrastructure that would be guaranteed under current Section 106 arrangements, PGS could paradoxically cause a reduction in housing delivery that society remains anxious to achieve.

Section 106 agreements offer a powerful mechanism to internalise external costs associated with development; PGS could break that linkage in relation to large scale developments. Faced with making good community infrastructure deficiencies in a PGS environment, it may be tempting for future administrations to seek to cut corners, for example by reducing public realm expenditure and thereby condoning development of a lower quality, particularly if other government funding sources are insufficient.

A further likely consequence of the reduction in planning gain benefit at the local level, on the basis that the local planning authorities believe that the community benefit deficits will be made good through a regional reallocation of PGS funds, would be to reassess the affordable housing expectation from large scale development. At present, there is a growing trend to define the level of affordable housing by reference to viability modelling, the GLA's Toolkit model being a prime example. Frequently, aspirational affordable housing levels cannot be met due to the fact that development is expected to also meet other planning gain objectives, including for example the provision of new schools. On the basis that community infrastructure is taken out of the viability equation through PGS, it is likely that local authorities will wish to look again at affordable housing expectations and seek to increase these, through capturing the reduction in the planning gain expenditure that under PGS would be retained by developers (as enhanced profit) and landowners (as increased land value). It is important from a planning policy perspective that the level of affordable housing sought in relation to any development should nonetheless relate to local authority planning policy and need for affordable housing. Changing the balance of affordable housing would have an iterative affect on the value of such large scale projects and would be likely to lead to yet further protracted negotiations over the scaled back Section 106 agreements on the matter of viability. This is unlikely to speed up planning gain negotiations as the proponents of PGS are anticipating.

- 4) ***The largest impact of PGS is likely to be on relatively small scale development proposals compared with current arrangements. Our research indicates a possible adverse affect of PGS on schemes which have not had Section 106 agreements in the past, such as one example of industrial development. Minerals development would have to absorb the full impact of PGS.***

Certain types of development would be penalised by PGS through the imposition of additional costs, which would be offset by the reduction in Section 106 liabilities in other forms of development; one such example being mineral development. Mineral extraction is a low margin business, with long lapses in the period between extraction and receiving receipts. For other types of development, such as residential, the return is more imminent. . There is a concern from the minerals industry that PGS will impose a disproportionate cash flow burden on developers that could threaten project viability and the supply of essential minerals^{xxxvi}.

For mineral development, the factoring in of PGS as an additional cost in acquiring sites for new development will result in a competitive disadvantage. It is presumed unlikely that the PGS burden would be passed onto landowners in royalty reductions. This could reduce the supply of mineral bearing land coming forward to the market. If the liability of PGS is then fully

absorbed by the minerals developer, in the short to medium term it will result in a significant disadvantage compared to other established sites that supply minerals. PGS will reduce profit margins significantly as illustrated in the minerals case study included in this research.

Commenting on this case study, the CBI minerals group agreed, emphasising that the levying of PGS on mineral developments could result in the reduction of the supply of minerals, as fewer projects will be undertaken. Coal extraction in the UK, for example, could be adversely affected by PGS, as producers are in competition with an international market.

PGS as an additional development cost could result in a competitive disadvantage for some developments. Two of our case studies considered the impact of PGS on schemes providing extra care sheltered housing. These are two examples of schemes that will suffer under PGS as a result of an increased planning gain contribution. Under normal circumstances, these schemes have a lower level of net floor area for sale than other residential developments, because of the provision of communal facilities shared by residents. Should PGS be taken into account as a possible additional cost, impacting on negotiations with land owners in determining land value, these developers will be at a disadvantage to other residential developers who are able to get a higher return in terms of the net floor area for sale, and who, therefore, might be able to absorb the additional cost.

5) *The calculation of the Planning Value (PV) is volatile, and to an extent subjective, with slight variations giving rise to the possibility of significantly higher PGS liability.*

When PGS liability is assessed, the planning value will be appraised based upon the valuer's assumptions of the site's characteristics and its worth in the marketplace, having regard to the quality of the planning permission, complete with conditions and scaled back Section 106 obligations. Inevitably these value assessments will be to a degree subjective. In the case of development appraisals, there are far more opportunities for differences in assumptions to be made, compared with assessments of worth of standing property investments. Relatively small difference in assumptions used in development appraisals can cause large variations in value to be derived. Planning Value (PV) is therefore a "volatile" factor in the calculation.

A sensitivity analysis was performed on our eighteen case studies. The planning value was adjusted by only +/- 5% and the new PGS liability due was calculated thereon. Table 3 below shows the sum total amount of PGS generated by all of the case studies.

Table 3: Sensitivity Analysis at +/- 5% PV on total PGS levied at 10%, 20% and 30%

		PGS @ 10%	PGS @ 20%	PGS @ 30%
Planning Value Sensitivity	+5%	£88,976,907	£177,953,815	£266,930,722
	0%	£84,109,090	£168,218,180	£252,327,270
	-5%	£79,306,273	£158,612,545	£237,918,818

The sensitivity allows for the effect of potential negotiations to be demonstrated when calculating the PGS liability. In practice, due to the number of subjective judgements relating to abnormal costs, site clearance, remediation, general building costs, fees, finance rates and appropriate return for risk, apart from judgements over the length of time the development process might take and the potential for occupancy voids, the variation in PV could easily be greater than the 10% value range demonstrated in the sensitivity assessments undertaken in this study.

In practice it is to be expected that developers would seek to diminish the uplift and consequent tax liability, by seeking to lower the PV and increase the CUV of development projects. However the CUV is by definition easier to value and there will be less room for negotiation and for that reason a sensitivity analysis on this component has not been performed.

The results of this analysis show the range of tax that could be raised at each PGS level. There is a potential difference of approximately £10m, £20m and £30m at the 10%, 20% and 30% tax rates respectively between the higher and lower sensitivity bands in relation to the eighteen case study examples alone. This small range of variation represents a fluctuation of 12% on the tax raised under each scenario. It is anticipated that in reality the variations in many assessments could be significantly wider. There is therefore likely to be considerable opportunity to mitigate the uplift in value in the preparation of self assessment to minimise PGS liabilities.

6) *As proposed in December 2005, uncertainties in estimating the current use and planning values, upon which the PGS liability is assessed, would influence the behaviour of developers as they attempted to minimise PGS payments.*

From our analysis of a number of the case studies, it is apparent that through adjusting planning proposals, it is possible to mitigate the uplift in value and hence reduce or increase

the PGS payments that might be expected at a given rate of PGS. This is therefore likely to result in a shift in the way in which developers seek detailed planning permission for developments, particularly larger proposals. For example, in the case of phased development where there may be significant infrastructure or remediation costs, there may be benefits in securing full planning permission for the entire development project and at least implementing part, triggering an assessment in relation to the whole proposal. The planning value, and consequently the uplift liable to PGS, would be reduced. Furthermore the value would take into account the full costs of any necessary infrastructure investment, which would not be taken into consideration on subsequent full permissions based on an outline permission for the whole site.

7) *Enabling development will be more difficult to achieve with PGS and may harm the delivery of conservation and regeneration projects.*

There is likely to be a PGS down-side in relation to “enabling development”, where development value is used to cross subsidise unviable development. This is likely to be the case, for example, where charities are involved in using their assets to provide enhanced benefits derived from property development. This is demonstrated in two of our case studies, in relation to development to assist in providing capital from development projects to meet the cost of conserving listed buildings and other heritage assets at risk. In these cases, PGS would still apply and cause the need for yet further enabling development, to overcome the PGS charge and still meet the subsidy required. PGS would therefore detract from the discretionary use of the planning system, employed by landowners and local planning authorities in the case of enabling development.

Similar effects are likely to arise where the planning system is used to create value to meet the cost of regeneration and remediation costs. In such cases, PGS would result in a reduction in the cross subsidy available and could cause a failure to provide sufficient cross subsidy for enabling development to occur.

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- ⁱ John Healey is the Financial Secretary of the Treasury. Yvette Cooper is the Minister for Planning, Department of Communities and Local Government.
- ⁱⁱ As quoted in the Treasury and ODPM Planning-gain Consultation document, December 2005, p. 5.
- ⁱⁱⁱ See Treasury and ODPM Planning-gain Consultation document, December 2005, p. 7.
- ^{iv} See Treasury and ODPM Planning-gain Consultation document, December 2005, p. 7.
- ^v Ibid.
- ^{vi} See Barker, 2004, p. 67.
- ^{vii} Barker, 2004, p. 68.
- ^{viii} DCLG, Planning Obligations: Practice Guidance, July 2006; DCLG, Model Planning Obligation (Section 106), August 2006.
- ^{ix} University of Sheffield and Halcrow Group, May 2006, 'Valuing Planning Obligations in England', p. 3.
- ^x It is important to note that this finding was based on a survey response rate of 31% or 109 local authorities (excluding county councils) out of 354 local authorities in England and a 33% response rate amongst county councils or 12 responses out of 36 county councils in England.
- ^{xi} University of Sheffield and Halcrow Group, May 2006, 'Valuing Planning Obligations in England', p. 22.
- ^{xii} Ibid, p. 41.
- ^{xiii} Audit Commission, Securing community benefits through the planning process: Improving performance on Section 106 agreements, August 2006, p. 13.
- ^{xiv} Audit Commission Press Release, 'Councils could achieve more for their communities from planning agreements', at www.audit-commission.gov.uk, downloaded on 8 August 2006.
- ^{xv} Office of the Deputy Prime Minister: Housing, Planning, Local Government and the Regions: Third Report, House of Commons, 23 May 2006, paragraph 135.
- ^{xvi} Treasury and ODPM, December 2005, Planning-gain Supplement: a consultation, p. 8.
- ^{xvii} See amongst others: Planning Magazine, 'Supplement Clouds Horizon', 27 January 2006, www.dcservices.co.uk; Planning Magazine, 'Government Plans for PGS to be scrutinized by select committee', 3 February 2006, www.dcservices.co.uk; Planning Magazine, 'Planning Officers Society Warning', 10 February 2006, www.dcservices.co.uk.
- ^{xviii} Treasury and ODPM, December 2005, Planning-gain Supplement: a consultation, p. 10.
- ^{xix} Department for Communities and Local Government, Development Control Statistics: England 2004/05.
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- ^{xxi} Treasury and ODPM, December 2005, Planning-gain Supplement: a consultation, p. 28.
- ^{xxii} Ibid, p. 32.
- ^{xxiii} Treasury and ODPM, December 2005, Planning-gain Supplement: a consultation, p. 12.
- ^{xxiv} Ibid, p. 12.
- ^{xxv} Ibid, p. 12.

^{xxvi} Treasury and ODPM, Planning-gain Supplement: a consultation, December 2005, p. 15-16.

^{xxvii} Ibid, p. 19.

^{xxviii} The consultation document does not refer to the possibility of phased payments, something that is recognised as giving the current Section 106 system some flexibility by developers. The consultation document appears to refer to an upfront payment in the following wording: “The period between the grant of planning permission and commencement of development is often critical for land acquisition and financing. By the time the development starts, those carrying out the development have either secured sufficient interest in the land comprising the development site or have received approval to develop from the landowner(s) and have usually secured financing for the construction” (p. 15).

^{xxix} Chapter 3 – issues for consultation, p. 18.

^{xxx} Submissions by the BPF, CBI, HBF and RICS to the PGS consultation document.

^{xxxi} See for example the responses published in the ODPM: Housing, Planning, Local Government and Regions Committee: Planning-gain Supplement, Volume II, Written Evidence, 27 March 2006.

^{xxxii} ODPM Select Committee Inquiry Report: Housing, Planning, Local Government and Regions Committee, Planning Gain Supplement, Volume II, Written Evidence, 27 March 2006.

^{xxxiii} Rowley, Steven and Crook, Tony, ‘North fears southern siphon’, in Planning Magazine, 28 July 2006, p. 20. The calculations referred to in this article were based on further projections of research undertaken on 3,940 planning obligations from 109 local authorities for 2003/04. Assumptions were made about an increase in the values of planning obligations for 2004/05 (from just under £2 billion to £2.8 billion). The average values per planning obligation were split to demonstrate affordable housing contributions, development-site contributions (in this case presumed to be transport and open space) and the other contributions that would fall away under a scaled back S106 system for each region. Data on regional land values and alternative land values were then used, together with assumptions about the scale of regional housing development and site remediation costs. The researchers estimated from this the uplift in land values should the land be subject to planning permission. By removing affordable housing and site environment contributions from this figure, the researchers were able to estimate the development value uplift available for taxation in each region. It should be noted that whilst this research provides interesting findings, it is based on the projections of average values of planning obligations of a sample of more or less 31% of local authorities across England – See University of Sheffield and Halcrow Group, 2006, ‘Valuing Planning Obligations in England’. Furthermore, by basing PGS calculations on the land potentially available for development, market conditions and behavioural responses can’t be taken into account, which may result in vastly varying amounts of planning applications coming forward or not.

^{xxxiv} See English Partnerships, Response to Planning Gain Supplement, February 2006.

^{xxxv} Paragraphs 3.1 and 4.1, pages 7 and 12, English Partnerships, Response to Planning Gain Supplement, February 2006.

^{xxxvi} Memorandum received from the CBI Minerals Planning Gain Supplement Working Group, 3 September 2006.