

LAND USE AND PLANNING REFORMS: STRATEGIC CONTEXT, CHALLENGES AND POLICY RECOMMENDATIONS

This note sets out recommendations for promoting the scale and patterns of development required to improve the UK's regional and national productivity growth. This requires integrated action that cuts across departmental silos and goes beyond minor changes to the planning system. It therefore provides a context for assessing the effectiveness of draft policies and programmes currently being promoted by the government to meet its economic goals. It raises concerns that the recently published consultation on NNPF will not deliver the institutional capacity to take strategic cross-boundary decisions, to prepare and deliver local plans, nor to do away with the litigious culture that inhibits investment.

The UK's regional productivity inequalities are closely related to the different risk premia that investors ascribe to UK regions. Research at The Productivity Institute shows that at present the investment risk premia gaps between London and most cities and regions away from the South East are of the order of 250-300 basis points, equivalent to today's sovereign spreads between the UK and Romania or Chile, and as wide as the sovereign risk-premia spreads across the whole of Europe or the USA. Closing these investment attractiveness gaps is of paramount importance in driving productivity growth across all of the UK, especially in its economically weaker regions, and reforms to the land-use planning system are central to this challenge.

It is a misconception that there is an inherent conflict between the productivity growth, economic regeneration and the planning system, in that many of the economic development problems that we currently face arise from a lack of planning. Planning reforms can explicitly aid productivity growth by helping to address developers' and investors' needs for coping with risk and uncertainty, but the current lack of plans fails in this regard because decisions are determined on a case-by-case basis. Currently, some two-thirds of local councils in England have no up-to-date local plan and outside of London and Scotland there are no higher-level overarching strategic plans to guide them in determining developments which involve externalities and spillovers and are therefore 'larger than local' in their impacts. The result is that the current system is in effect plan-less, driven primarily by incremental local decisions and delayed whilst the strategic context for making decisions on major developments is 'sorted out' on an ad hoc planning inspectorate basis which has no capacity to address the economic development issues, and which excludes those outside the locality who are most affected. In such circumstances, the planning system creates a democratic deficit, as well as a strategic and economic development deficit. Central government must play the primary convening role which allows sub-central government to play

the key coordinating roles, in which parity of esteem and capacity at different governance levels become key to rebuilding an effective system.

In terms of promoting productivity growth and economic development, what is needed in England and Wales is not planning reform (often interpreted as more deregulation and liberalisation) but a profound shift away from our current plan-less ad hoc development control system to a genuine strategic planning system, as was the case in the postwar decades prior to its semi-dismantling. Currently, where they exist, local plans are reactive ad hoc development control instruments, rather than proactive development tools. Local plans, 'industrial' and energy strategies all need to be interlinked to deliver economic growth, reduce uncertainty and overall costs e.g. in transport. The purpose of having coherent integrated local, city, regional and national spatial planning frameworks is to allow for a coherent strategy of development to create synergies and additionality rather than conflicts across different areas of the country regarding the uses of land, the allocation of areas for growth, the location of infrastructure. This allows for the coordination of decision-making regarding investments which traverse different spatial areas, and this is especially important in areas of uneven development. Crucially, properly articulated multi-level (local, city, region, nation) strategic land-use planning must provide potential investors with confidence by securing immediate commitments where needed, while leaving open longer-term options that respond to medium and long-term uncertainties. This is essential to provide potential investors with medium and long-term clarity. The greatest beneficiaries of this enhanced clarity will be those economically weaker cities and regions which systematically face higher investment risk premia than more prosperous places.

In terms of housing, rather than the private sector housing completion rate, the main shortfalls in meeting UK national housing targets are primarily associated with the need for new social housing, with current shortfalls estimated as being as high as 90,000 houses per year to be delivered locally. At the same time, however, many of the adverse price-affordability aspects of housing experienced by many income groups are primarily a symptom rather than a cause of the fact that the UK is such a spatially unbalanced economy. The most serious housing-affordability challenges to economic growth are in and around London followed by the wider South East and political pressures for developing housing or even 'new towns' in the 'grey belt' areas of the green belt are overwhelmingly an issue for London and its immediate hinterland. They are of less relevance for regenerating urban areas and driving productivity growth in much of the country. Moreover, the history of new towns demonstrates that it is a combination of the specific institutional-design of the new town in terms of their land-owning, infrastructure and land-use powers - along with their location - being well-connected to large growing economic centres - that is crucial. These lessons are applicable to all regions.

The legislative changes in the 2023 Act in part are intended to shift the system from being 'plan-less' to being planned by making the preparation of local plans mandatory, and further funding in

related policy areas should be conditional on plans being updated. The institutional capacity of sub-central government must be greatly enhanced (far beyond 300 extra planners!), but to promote economic development, other institutional and governance changes are urgently required.

POLICY RECOMMENDATIONS

The Productivity Institute, working alongside senior sector and industry professionals, recommends the following urgent actions are required for planning reform to foster growth and development:

Changes to the Planning System & Processes

- Simplifying local plan preparation by expediting the introduction of the National Development Management Policy framework proposed in the 2003 Act;
- Drawing up a national spatial strategy setting out a roadmap to ensure integration of all government departments whose policies impact on development, especially housing delivery, as well as being integrated with 'industrial' and energy strategies. Currently too many national policies that have major spatial impacts are not coordinated in a national strategy.
- Introduce a mandatory subnational level of spatial strategy between a national strategy and local plans at the level of combined authorities or counties. In each region, the institutional positioning of these would be aligned with how the Denham-Lidlington constitutional reform proposals are articulated locally.
- Improving the existing planning obligations system; rather than introducing the proposed and complicating Infrastructure Levy there is a need to set out in advance landowner and developer contributions in local plans to provide clarity and certainty to developers.
- Eliminating the implicit 'short termism' in planning by updating the current national planning guidance to remove the current form of the 'Viability Test' required on local plan proposals, whilst requiring the plan to demonstrate responsiveness to future uncertainties.
- Increase compulsory purchase order powers for derelict or unused land with minimal or no compensation where there is no current beneficial use of the site and there is a local blight cost and landowner resistance to pursuing public private partnership.

Housing

In terms of the delivery of housing needs, there are measures to make better use of existing housing stock and to better align taxation to housing policy as part of a fresh approach to delivering on the housing targets. The planning system can support this better on new build by:

- Setting up a rolling social-rented housing programme to deliver 900K homes by 2034, to be brought forward through local planning and supported by subnational financing and delivery mechanisms;
- Mandatory targets for new homes (including affordable and social rented housing) such that all local targets add up to national ones with targets agreed via regional/sub-regional bodies
- Land to be identified for meeting targets including policies on windfalls
- Strategic reviews of Green Belts, and removing the absolute presumption in favour of protecting the Greenbelt where there is not up to date review of the local plan;
- Modifying S106/CIL instead of implementing the Infrastructure Levy
- Tax reforms, including council taxes, aimed at improving local services, funding affordable housing grants and making better use of all existing housing stock.
- Increased funding to Further Education to fill existing construction industry skill gaps.

Local, City and Regional Economic Development

In view of the Government's announcement on 9th July 2024 that it intends to align UKIB and BBB under a new National Wealth Fund, alongside the experience of rotating finance vehicles such as the GM Housing Investment Loans Fund and Brownfield Housing Fund, the Jessica Fund in South Yorkshire, and the Chrysalis Fund in Liverpool City-Region, we recommend:

- The setting-up or scaling-up of local rotating finance vehicles in all combined authorities (CAs) aimed at local regeneration based initially on joint BBB-UKIB capital injections and professionally managed at arms'-length from the CAs with an independent and financially literate governing board:
- The creation and updating of up-to-date strategic land-use plans at the combined authority levels needs to be aligned with the remits and roles of the local rotating finance vehicles or institutions
- Fix transport in the north and midlands for both cross country rail and local services and empower Transport for the North with much greater strategic oversight, also including land use in and around transport infrastructure.

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