



PLANNING BULLETIN

GOVERNMENT ABANDONS THE PLANNING GAIN SUPPLEMENT

In his Pre-Budget Report of 9 October 2007, the Chancellor confirmed that the Government will abandon its proposed plans to introduce the Planning Gain Supplement (PGS). This was to be a tax, likely to be levied at a rate of around 20%, on all permitted developments created by the uplift in value of the land and buildings on the grant of planning permission.

Instead, after pressure from the property industry not to introduce the PGS, the Government intends to legislate in the forthcoming Planning Reform Bill for a new statutory planning charge to enable councils to capture greater levels of planning gain to support new infrastructure and housing. The Planning Reform Bill is expected to be laid before Parliament in November 2007.

The statutory planning charge will be in addition to Section 106 agreements.

The main features of the planning charge will be as follows:

1. Subject to low de minimis thresholds, residential and commercial development will both be liable to pay the planning charge.
2. Where appropriate Local Authorities will be able to use planning charges to supplement a negotiated agreement. Negotiated agreements will still be necessary to secure affordable housing and to address costs related to the specific development site.
3. Planning charges should be based on a costed assessment of the infrastructure requirements arising specifically out of the development contemplated by the development plan for the area (which comprises the regional spatial strategy and the local development framework), taking account of land values.
4. Planning charges should include contributions towards the costs of infrastructure of sub-regional and regional importance identified in development plans.

Planning charge policies in development plans will be tested through the development plan process, in consultation with developers, stakeholders and the community to ensure they support the viability of new development and levels of new housing required.

The Government considers that the planning charge will:

- Capture more planning gain to finance additional investment in local and strategic infrastructure, while preserving incentives to develop.
- Make the planning charge-setting process simpler and more certain. By giving a clear basis on which to set a planning charge to support the delivery of planned infrastructure.

- Provide a fairer means of securing contributions from developers for infrastructure. At present, infrastructure benefits for local communities are typically secured from major developments only.
- Encourage regions and local authorities to plan positively for housing and economic growth and for the infrastructure needed to deliver it, and, in the plan context, to decide priorities and detailed charging arrangements which reflect local and regional needs and circumstances.

Commentary

The abandonment of the Planning Gain Supplement will be welcomed by the property industry and many considered that, like the old development land tax, PGS could never be practically implemented.

However, developers will still have to pay through the planning system the inadequate funding of much needed infrastructure being sought by Central and Local Government.

Developers and investors of both commercial and residential property will need to ensure that they know what the planning charge or local tariff will be as part of their development appraisals and portfolio valuations.

This comes in at a difficult time for the UK property industry that faces increasing costs of development associated with the Government's sustainable and zero carbon development agenda, as well as the policy requirement to include on site affordable housing within mixed use developments.

Whether these measures, combined with the projected downturn in UK economy and difficulties of property funding in light of the Bank of England's intervention for Northern Rock, results in developers postponing or even abandoning their development programmes as a result of increased development costs, and hence potentially lower returns, remains to be seen.

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