REAL SUSTAINABILITY

A response to the OPDC Revised Draft Local Plan (June 2017)

Executive Summary

Why it would be in the interest of the OPDC to expand Chapter DI1 in the Local Plan "Balancing Priorities and Securing Infrastructure Delivery", focusing on Policy DI1 b) vii (page 261) "*where appropriate, considering potential alternative funding and financing mechanisms*"

- The Revised Draft of the OPDC's Local Plan contains little consideration of financing mechanisms and it is not entirely clear from the document how the project is to be funded
- The only concrete proposals concern weak, one-off instruments (Section 106 Agreements and Community Infrastructure Levies) that are by definition unsustainable and have rarely worked out in favour of the public side of asymmetric public-private partnerships in the past
- If any large-scale urban development project is to be genuinely sustainable, especially in London, pressing economic and political realities (notably rising consciousness of the iniquitous social consequences of the dysfunctionality of the UK land market) can no longer be ignored in the planning process
- As both developer and planning authority, the OPDC is in a unique position to change the unsustainable, inefficient and unfair way in which public infrastructure is currently paid for and maintained in the UK
- If the OPDC does not take this unique opportunity, who will?
- Funds required for infrastructure development can be secured through land value capture mechanisms
- If the OPDC retains ownership of lucrative sites, permanent income—in the form of rent—can be secured to cover long-term operating costs, ensure sustainable development and create an enduring role for the corporation itself (or a suitable and appropriate successor)
- Experience both in the UK and elsewhere has shown that, when there has been strong political will and clear leadership, land value capture mechanisms have been advantageously implemented to fund initial development and then establish a virtuous cycle in which permanent revenue is generated to enhance housing and employment opportunities, protect the environment and improve quality of life in local communities: **real sustainability**

Introduction

The OPDC's Revised Draft of its Local Plan for Old Oak and Royal Park, published on 29 June 2017, is a conventional planning document. It is appreciated that the essential remit of the OPDC is urban planning but the Draft Plan almost entirely ignores critical economic issues that have long weakened the capacity of planning authorities to shape development in their local areas in the public interest and for the longer term. Sustainability is mentioned some 160 times in the Plan but none of these concern long-term financial sustainability, not even in the three pages of the 300-page report that focus on funding. The Old Oak and Park Royal project affords an almost-unique chance to avoid many of the mistakes made in such projects in the past, notably mistakes following on from poor funding decisions made at an early stage: if the OPDC does not take this once-in-a-generation chance to change the unsustainable, inefficient, socially iniquitous way in which public infrastructure is paid for in the UK, who will?

In the words of the government's Guidance on Local Plans: "[Plans] should make clear what is intended to happen in the area over the life of the plan, where and when this will occur and how it will be delivered". The failure to address the "how", despite the many admirable goals set out in the OPDC's Revised Draft Local Plan, is the elephant in the room.

Planners should not side-step consideration of the socially and economically damaging dynamics of the contemporary land economy, or assume that it is something that need only be considered later, when serious negotiations and discussions with developers have truly been joined. The financialisation of land and decisions about land use are inextricably dependent on the planning process and it is incumbent on any responsible planning authority to anticipate and resist huge pressures to put short-term considerations ahead of longer-term goals.

Our response to the Revised Draft Local Plan, set out below, considers: statements and initiatives from the Mayor of London; current realities in land markets (the 'land-credit feedback cycle'); and international experience with urban planning and infrastructure funding.

Statements and initiatives from the Mayor London

In November 2016, a review, commissioned by Sadiq Khan, the new Mayor of London, reported that, to date, the achievements of the Corporation, the context for its work and its leadership up to that point had all been lacking:

1. The Memorandum of Understanding (MoU) was *hastily entered into* with critical details of the deal remaining unclear and risks unquantifiable: "…significant work is required…to develop and structure a deal that recognises the complexities of the site."

2. The OPDC lacks the staff "to take forward the land deal work" and therefore to realise the project's full potential. It is not clear, from the revised Local Plan that this deficiency has yet been remedied or how the OPDC hopes to do so.

3. Lack of certainty about funding mechanisms might undermine the OPDC's ability to come forward with realistic development plans to make it possible for development in the Old Oak area "to work as a coherent whole." The OPDC lacks financial backing from central government and, despite laudable commitment to high standards of design and environmental sustainability, the inadequacy of its core funding means that potential developers will be powerfully incentivised to build too high and under-invest in community infrastructure. The issue of local authorities being pressured to meet costs that should properly borne by national government is not new but nothing in the OPDC's Local Plan suggests that, since publication of the Mayoral Review, significant progress has been made in either discussions with central government or the development of alternative funding modalities, even though the Corporation now has a new committed and experienced leader. If national government continues to refuse to assume a just share of the infrastructure-related costs, the OPDC must anticipate having to leverage additional sums through more innovative funding mechanisms to ensure efficient discharge of its dual roles as planning authority and developer, in particular realisation of the Mayor's declared ambition for 50% genuinely affordable housing.

4. We understand that the new Chair has had very little time to provide the leadership the Corporation undoubtedly needs. However, if the OPDC limits its role to that of a supercharged planning authority, it will not be well placed to provide the leadership that is essential in order to escape what Mayor Khan labelled a mess shortly after coming to office.

5. In the revised draft Plan, the importance of reasoned discussion, shared commitment to open and rational debate, and full engagement with stakeholders is repeatedly emphasised. While no one can be against promoting close working relationships or mutually beneficial collaborations and partnerships, we doubt that they will be sufficient should developer and community interests come into conflict (as they inevitably will). Although the Local Plan acknowledges that differences may arise between stakeholders and that the OPDC may have to consider making use of powers such as compulsory purchase, great reluctance is communicated vis-a-vis employing these powers or even exploiting the leverage it possesses as developer and planning authority. Unfortunately, with at least one major private landowner known to be well-resourced, determined and patient, reasoned discussion etc. may not be enough to deliver all that the OPDC hopes and expects. We believe the OPDC needs to rework its draft revised plan with respect to the means it can (and will) deploy in order to achieve the ends the Mayor and the OPDC itself values most highly.

6. From his vision statement 'A City for All Londoners' published in October 2016, it is clear that the Mayor attaches particular importance to exploiting public assets in the most effective and constructive way possible. He gives special importance to what he refers to as the intelligent use of land in London, in particular the significant part that is in public ownership:

   > "...land must be used intelligently - particularly in the context of a housing crisis that threatens the competitiveness of the city."

   > "…principles of 'good growth', with a target of 50% of new housing built across the city being affordable."

> "We will move toward this target using investment, public land, and a new approach to viability that sets out more clearly the contribution that developments should make."
>
> "Decisions taken about land use and spatial growth in London require a judicious balancing of needs and will need behaviour change from Londoners."
>
> "…all large and growing cities face similar challenges…I have tried to paint a picture of a modern city that is leading the way in responding positively to the pressures of growth and urbanisation - and implementing policies that prioritise quality of life, protect the environment and promote social integration."
>
> "…explain how to make a difference—using planning powers, investment and building on public land."
>
> "Delivering affordable products relies on a combination of funding sources—developer contributions, investments made by housing associations and Government, and the use of public land."
>
> "…using direct powers over land use and transport..."
>
> "…how we can deliver more infrastructure, more intelligently, for example by ensuring that mechanisms are in place to ensure that London as a whole benefits from the future uplift in land prices following development and by calling for the devolution of fiscal powers."

Specifically in response to the OPDC review he commissioned, the Mayor wants to make sure "…that this scheme meets the needs of the city". It is a declaration that undoubtedly accords with the wishes and expectations of many of his constituents, especially those who are finding it difficult to obtain housing they are able to pay for that also meets their needs. Although the mayor claimed that "…the fundamentals are in place now so we can get the best deal for Londoners" it is not clear from the OPDC Revised Draft Local Plan that the Corporation's ambitions reflect either the Mayor's determination to "squeeze every drop of potential out of this opportunity" or his emphasis on getting the fundamentals right. It may be unfair and ill-informed but the OPDC's revision of the Local Plan does not seem to us to provide evidence of a full and fully informed dialogue between the Mayoralty and the OPDC.

Empirical experience

All the following quotes come from a book entitled "Rethinking The Economics of Land and Housing" by Josh Ryan-Collins, Toby Lloyd and Laurie Macfarlane, a must-read for every urban policy maker and planner who wants to understand how our housing market has come to drive "deepening inequality and social exclusion, poor prospects for sustainable growth, intergenerational conflict and risks of financial instability that have at their root poor policy choices concerning land and housing over many decades."

In addition to academic—historical and economic—research, the authors present detailed case histories—from the UK and elsewhere—of different models of urban development that illustrate how innovative funding mechanisms can drive efficient allocation of public resources and fair distribution of the wealth—uplift in land values—accruing from public sector investment, as well as ensuring the long-term economic sustainability of large-scale regeneration projects:

a) *Outright public ownership of land*.

   Public ownership can take key urban locations out of the market and empower public bodies to collect and use land/economic rents in ways that benefit the public they exist to serve. Public ownership and long leases on publicly owned land can be used to generate income that can be used to support ~~of~~ a range of public benefits. Outright public ownership is "an approach that is likely to work most successfully where public sector entities are willing and able to purchase sufficient land for entire settlements: at this scale, the public body can easily capture all of the land value created by the development of a new town, as New Town Development Corporations did so successfully in the UK".

   Elsewhere, the government of Singapore owns around 90% of the land that comprises the state and leases land to private developers. When the long leases it creates come to an end the land will be re-leased on new terms that are consistent with current government plans and the maximisation of public revenues. Singapore's management of its land economy now "provides the Singapore government with a handsome source of public revenues: in 2012 alone government receipts from land sales totalled the equivalent the equivalent of £9.1 billion."

b) *New Towns.*

   A retrospective study of *Transferrable Lessons from New Towns* published by the Department for Communities & Local Government in 2006 sought to"…draw conclusions from the New Towns experience that can inform policy and implementation", noting that "central to the delivery of all the New Towns during their phase of major growth were the New Town development corporations" and that "successful local economic development requires the kind of strong local powers and financial capabilities of the early NTDCs".

   Under the sub-heading 'Lessons on delivery – land acquisition, disposal and financing', the study listed the following essentials:

   - All necessary land for delivery should be acquired well in advance of anticipated development and ownerships consolidated as much as possible;
   - The additional land values created by development should, as far as possible, be available for subsidising provision of public facilities and investments necessary to promote further developments. [whilst noting that: The mechanisms for achieving this will in many cases differ from the New Towns];
   - Where public land ownership is involved then the pattern of using additional value to underwrite other development may not differ significantly from what occurred in the New Towns. Care should however be taken to ensure that any returns to public agencies based on enhanced values are retained within the Growth Areas concerned;

- Central government should be cautious in expecting any early financial return from the Growth Area based on enhanced values if it wishes to maintain the growth momentum and create attractive and sustainable communities;
- Finance from central government is likely to be critical in establishing the growth momentum in the early phases;
- In the longer term it is important to ensure that public financing arrangements to delivery organisations are sufficiently flexible to avoid problems which may arise from interest rate rises of the type which created problems for the later New Towns;
- Notwithstanding all the earlier lessons, the pace of delivery will reflect overall economic conditions and, if to a lesser extent, those prevailing in the more immediate sub-region of the individual Growth Areas.

c) *A leading role for the state/a state agency in real estate management, acquisition and disposal*.
In Hong Kong, the largely state-owned Mass Transit Railway Corporation (MTRC, often described as a “a property development firm doing a side business of rail") was originally supplied by the government of Hong Kong with seed-corn loan finance and empowered to develop land above its stations and tracks. The MTRC was able to purchase undeveloped land —at prices based on the undeveloped value of sites— and then find commercial partners willing and able to help develop it. Housing was sold back into the private sector to recoup infrastructure costs while the ownership of lucrative commercial spaces was retained to generate income (rent) to make the MTRC the most profitable transit system anywhere in the world; this not only keeps its citizens’ travel costs down but also allows MTRC to make substantial contributions to public funds.

In South Korea, around half of all residential land development and almost all industrial land development is carried out by the Korean Land Corporation (KLC). The KLC has been in existence since 1975 and has played a central role in the development of the South Korean economy. The KLC’s tasks include: acquiring idle and vacant land, developing and selling the land for residential use, and developing new towns. It is widely believed that the KLC has played critical role in keeping housing and land affordable in South Korea with house prices as a ratio of income falling from a base of 100 in 1995 to 62.3 at the end of 2013.

d) *Land pooling*.
In the Netherlands a strategy that relies on land pooling has had significant impact on the proportions of economic rent obtained from land which are available to support developments for public benefit, as opposed to increased private profits and property/asset values.

e) *Community Land Trusts*.
Land trusts are bodies founded with the objective of using land and the rents that come from land ownership for the common good. Establishing a Community Land Trust in the OPDC area (and consistent with its combined role as planner and developer) could help local people to help themselves: enabling the intended beneficiaries of a development programme to become custodians and recipients of the economic rent receivable from the land on which

their homes and community facilities have been built. It would ~~is~~ surely an appealing way of sharing out benefits in the common interest, and of empowering, engaging and involving the individuals and families most directly invested in the project's long-term success and sustainability.

The OPDC has obvious advantages when it comes to facilitating the establishment of one or more CLTs and its lukewarm reference to them in the Revised Draft Local Plan should be something on which the Corporation reflects very carefully.

Vicious Cycles and Virtuous Cycles

It would be a very great pity if lessons from planning and development strategies and policies that have been designed and implemented in different parts of the world had to be learnt again.

There is plenty of evidence that the current London government under a new Mayor is seeking to make the most of what has been learnt in the past about how to pay for the development of infrastructure and housing. The contemporary zeitgeist for more intelligent and social responsible development and planning was evident in this year's report of the London Finance Commission (LFC) entitled "Devolution: A Capital Idea", which urged the Greater London Authority, in collaboration with national government, to find ways of 'capturing some windfall gain [from development] using land value capture mechanisms…to help fund investments which cause land value uplift in the first place'. Transport for London took this work forward and published a comprehensive report entitled *Land Value Capture: Final Report* which makes direct reference to international experience, noting that: "…there is a vast theoretical and empirical literature that supports the idea that the benefits of transport schemes (alongside place-making interventions) get capitalised into higher land values"; however the same report also states that "…existing value capture mechanisms extract only a small fraction of land value gains from transport investment, in an *ad hoc* and poorly targeted manner."

We agree with that assessment in general, but note that, where there has been strong political will and clear leadership, obstacles to the well-ordered and efficient administration of land value capture (LVC) have been overcome. What is clear, from Hong Kong, South Korea and, most especially, Singapore, is that high quality development programmes have been made possible by sustainable and demonstrably fair LVC systems which have made it possible for public authorities to meet a large portion of the costs of urban development from increases in land values. Increases for which no single individual or small group of individuals can plausibly claim credit.

There is a fundamental choice for public policy makers —and for urban planners in particular. Do they continue, albeit reluctantly, to accept the role that they have been assigned in a hugely destructive cycle of land financialisation? A vicious cycle in which credit creation underwrites pre-existing locational and ownership advantages, benefiting a very small number of people. Or, do they play as constructive and enthusiastic a part as they can in promoting a virtuous cycle?

The virtuous cycle is one in which the fruits of investment in urban spaces make it possible to generate the revenues that are needed to improve the environment, enhance housing and employment opportunities, and thereby improve the quality of life of all citizens.

Response to the Consultation on the Revised Draft Local Plan

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