House of Lords Built Environment Committee Inquiry into the Next Generation of New Towns, Module 3 – Construction and Development [1]

Financing determines whether new towns succeed

1. Much of the debate around new towns has focused on planning reform, construction capacity, labour shortages, utility connections and modern methods of construction. These are all important issues. However, they are not, in our view, the greatest barriers to successful delivery. With the luxury of a magic money tree, many of these problems could be overcome.
2. Therefore, the greatest overlooked challenge is financing. Successful new towns are multi-decade infrastructure and financing programmes. Until this distinction is recognised, Government risks repeating many of the mistakes that have characterised previous generations of new towns. We have submitted many case studies to previous stages of this enquiry. Financing influences almost every other challenge.
3. A new town requires significant investment before the first resident arrives. By contrast, the financial return from development arrives gradually over many years as homes are built and sold.
4. This creates a fundamental timing mismatch in which Infrastructure expenditure is concentrated at the beginning, but development revenue is generated over decades.
5. High-quality transport, attractive public spaces, schools, parks, utilities and environmental improvements all increase the long-term sustainability and resilience of communities. The challenge is finding an appropriate mechanism to finance it. If financing is constrained, infrastructure is commonly delayed, reduced or renegotiated through viability discussions.
6. Current development models place heavy reliance on developers financing infrastructure through equity, commercial borrowing and future house sales. This creates understandable commercial pressures. It is an entirely rational commercial activity of developers when they seek to:

- minimise upfront expenditure;
- phase infrastructure as late as possible;
- negotiate down planning obligations where viability becomes challenging;
- minimise capital tied up over long periods.

[1] https://committees.parliament.uk/submission/3942/#/evidence/3942/call-for-evidence

7. However, this does not necessarily align with the interests of future communities.
8. In parts of the United States, long-term public financing mechanisms allow qualifying infrastructure to be financed over many decades through municipal bond markets and future local tax revenues. Although England has different institutional arrangements, the underlying principle deserves consideration.
9. Public infrastructure generates public value over many decades. There is therefore a strong argument that at least part of its financing should also be long-term. Infrastructure that is genuinely essential for creating successful communities should be financed appropriately rather than postponed because of short-term cash flow constraints.
10. Financing structures can improve cash flow, reduce project risk and increase the likelihood that high-quality infrastructure is delivered at the appropriate stage of development. There may also be lessons from major infrastructure programmes. Projects such as utilities, railways and regulated networks are routinely financed over very long periods because they create public assets with long operational lives.
11. It should be recognised that larger settlements can offer important opportunities. However, they also require larger upfront infrastructure commitments, longer delivery periods, longer financing periods, more complex governance arrangements and greater exposure to inflation, interest rate movements, political change and market cycles.
12. Government should therefore avoid assuming that larger settlements automatically produce better outcomes. Land value capture is insufficient to deliver new town infrastructure and affordable housing even in the bigger settlements.
13. It should also be recognised that financing must take into account the very long periods before a new town can be commenced, and the build-out rate once it is started. Without Government intervention to fund and build non-market houses (and/or corporate build-to-rent), the private sector is unlikely to deliver more than 250 dwellings per annum. This figure is based on extensive discussion during the examination of the North Essex Garden Communities. For the private sector, delivery rate is around one home per week per outlet, and it is unlikely that more than five outlets could compete on one site. It is occasionally possible to achieve higher build-out rates, but not on average. This has a significant and important impact on viability and on when infrastructure can be delivered, and it is essential that this is recognised.
14. All new towns should be subject to Treasury Green Book appraisals to ensure best value and best outcomes for taxpayers and communities. We note that in the case of the North Essex Garden Communities, the Planning Inspectorate agreed that the Green Book was relevant, and the Inspector's report included the need for a Green Book compliant optimism bias/contingency, for example.

Recommendations

15. If Government wishes to create new towns that become sustainable, thriving communities rather than decades-long building sites that produce houses without supporting infrastructure and affordable homes, financing should move from the margins of policy discussions to their centre.
16. Rather than focusing solely on how to accelerate construction, Government should examine:

- whether current financing mechanisms encourage timely infrastructure delivery and whether financing structures used internationally could be adapted for England;
- whether greater use of long-term infrastructure finance could improve delivery and reduce risk;
- the extent to which Government financing intervention is required;
- how best to implement the (mandatory) Treasury Green Book;
- whether new towns should be assessed as long-term infrastructure programmes rather than simply housing developments.

About the Community Planning Alliance

The Community Planning Alliance[2] is a national umbrella group for over 750 communities[3], all are campaigning against inappropriate development in their areas, and all disagree that decisions are being made in the 'public interest'. We have extensive knowledge and experience of the planning system, and our aims include seeking increased community participation, better environmental protections and the right homes and infrastructure in the right places.

[2] https://communityplanningalliance.org/
[3] https://www.google.com/maps/d/viewer?ll=52.97433203327261%2C-1.0471043976708527&z=7&mid=1nFg3i1Ft5-K4LadaEMCb0wr17-I33Kk