The Delivery of Public Interest Led Development in Scotland

A discussion paper

Steven Tolson and Archie Rintoul
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Background to the ‘Land Lines’ discussion papers

The Scottish Land Commission has commissioned a series of independent discussion papers on key land reform issues. These papers are intended to stimulate public debate and to inform the Commission’s longer term research priorities.

The Commission is looking at public interest led development as part of our strategic priority of ‘Land for Housing and Development’ as detailed in the Programme of Work. This, the second paper in the Land Lines series, is looking at the approaches adopted to achieve public interest led development.

The opinions expressed, and any errors, in the papers are the authors alone and do not necessarily reflect those of the Commission.

About the Authors

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Summary

Keywords
Land, housing, development, public interest led.

This paper is about delivery approaches adopted by public sector organisations to proactively participate in major development to achieve public interest policy objectives.

Spatial Planning played a proactive public interest role in helping to deliver WWII reconstruction and welfare state programmes. Some forty years later this positive delivery role of planning switched to a more reactive regulatory function when municipal programmes were replaced by market delivery solutions.

Who is responsible for delivering housing is essentially a political choice between municipal or market driven production. Certainly, more houses have been built using focussed municipal programmes than through market mechanisms. Production today is delivered from the state investing in around a quarter of new supply while planning tries to shape three quarters of new build housing through policy and regulation. However, there are many gaps in this approach which needs the involvement of the state. To fix those gaps the public sector should be seeking to use its covenant strength to raise funds, utilise its assets and capture enhanced development value to provide a greater role and investment in project delivery.

Capturing value is not new but requires greater determination and clarity. The debate is about how much of the development value can be captured without drying up land supply and having the confidence to use compulsory purchase orders to secure land.

Local planning authorities should proactively identify and appraise sites for development rather than acting as assessors of developer propositions. To do this, planning authorities need development economic skills to determine what is viable and how projects can be delivered whether this is from in-house sources or supported by a development agency.

Public interest led development needs the public sector to act as the ‘prime mover’ to bring clarity, purpose, confidence and intent. Dundee Waterfront project clearly demonstrates such attributes from directly investing in the project. The public sector can’t do everything but needs to establish development frameworks and champion wider participation from large and smaller organisations to broaden opportunity and competition that drives higher standards of choice and quality.
Successful public interest led development needs a commitment to doing things differently, a need to be radical and take some risks in order to achieve the goal of achieving places that people deserve.

### Eight action points for encouraging public interest development have been put forward:

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<td>Make the planning system more proactive in shaping public interest led development</td>
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<td>‘Prime moving’ should start first with publicly owned assets</td>
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<td>Put in place a multi skilled team of competent experienced professionals</td>
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LAND LINES
A series of independent discussion papers on land reform issues
Public Interest Led Development in Scotland: A discussion paper
1. INTRODUCTION

This paper seeks to identify what is required to deliver more public interest led development in Scotland by examining historical, recent and current project approaches as well as drawing upon other literature. The paper is intended to be an exploration of various development delivery approaches that have arisen from proactive state interventions.

The paper specifically seeks to address:

• how public interest led development works on the ground;
• the different public-private partnership models that could be used to deliver public interest led development;
• examples of where such models have been used successfully in Scotland and elsewhere; and
• the extent to which existing policy mechanisms are sufficient to enable more public interest led development to be delivered.

2. WHAT DO WE MEAN BY PUBLIC INTEREST LED DEVELOPMENT?

Public interest-led development occurs when a public sector body (local authority, regional development agency, government body) plays a leading role in initiating and driving forward major development in order to achieve particular public policy objectives.

Invariably, public interest led development involves some form of partnership between the public and private sectors, land owners, developers and investors.

In the past, the public sector has taken on the role of “Prime Mover” by taking the lead in coordinating key players, taking overall responsibility and providing the leadership. Traditionally the public sector intervened where development was unlikely to take place or not at the necessary scale, speed and quality to achieve particular public policy goals which were regarded as strategically important.

1Gulliver S and Tolson S, (2012), Creating and Delivering Great Places to Live- 10 propositions aimed at transforming placemaking, University of Glasgow & RICS Scotland
Public Interest Led Development as a Strategic Intervention

The use of public interest led development should, of necessity, be selective with straightforward regular and smaller scale developments taking place in the usual way. Clearly not all development should be, or needs to be, public sector led.

Public interest-led development occurs;

a) where the public policy objectives are high priority, urgent and strategically important

b) where the proposed development is large scale, complex, high risk and probably transformational.

Situations where public interest led development would be most likely to be appropriate would be large:

• **Strategically important ‘economic’ sites** which may target job growth through inward investment, to create a new economic ‘platform’ for the city/region, to create a new commercial/distribution hub

• **Urban regeneration sites**, that could be mixed use, have complexities that require site assembly and/or ground treatment and infrastructure provision to create a new or regenerated neighbourhood. A leading and current Scottish example of such action is Dundee Waterfront.²

²Dundee Waterfront Project https://www.dundeewaterfront.com/
Dundee Waterfront – A Council acting as the ‘Prime Mover’

Dundee City Council, in partnership with Scottish Enterprise, is acting as the champion and place investor in this £1bn public interest led investment along the City’s waterfront. This mixed use project on 240 hectares comprises of investment in business space, housing, leisure and hospitality and public transport and is expected to generate some 7,000 additional jobs. The project will take some 30 years and is aimed at linking the city centre to the River Tay and generally enhancing Dundee’s economic competitiveness.

Dundee’s inspiration for this project, crowned by a new Victoria and Albert Museum, came partly from the regeneration work undertaken in Bilbao that included a range of employment generating measures and upgrading their transport system in addition to the well-known Guggenheim Museum. While the V&A will no doubt act as a significant visitor attraction for the City, this ambitious publicly promoted development is seeking to attract significant commercial investment that will generate wider economic activity. As a case study Dundee Waterfront is an excellent example of the state being a determined ‘prime mover’ in generating a public interest led development.

The project operated by a dedicated team within the Council’s City Development Department is led by Mike Galloway a chartered town planner and urban designer. Mike Galloway and his team have driven the project from its inception in 2000 and with consistent support from politicians they are applying a stable ‘patient capital’ investment approach to this project which is more synonymous with continental European practice than the UK.

Other state regeneration included the Scottish Urban Regeneration Company (URC) initiatives in the last 10-15 years. The large scale redevelopment of part of the East End of Glasgow by the Clyde Gateway URC\(^3\) consortium is an example of local authorities co-operating on a key urban regeneration project where there are substantial issues of remediation, dereliction and market failure. Another version of state involvement was the Commonwealth Games Athletes Village 2014\(^4\) where the Scottish Government and Glasgow City Council worked with a development consortium for a specific purpose of accommodation for athletes which thereafter was developed into a new regenerated housing district in Glasgow’s east end. With the exception of Dundee Waterfront the state has largely moved away from direct participation towards an enabling role with development responsibilities thereafter being passed to the private sector.

\(^3\)Clyde Gateway URC http://www.clydegateway.com/
\(^4\)Commonwealth Games Athletes Village http://c-c-g.co.uk/project/commonwealth-games-athletes-village/
• **Housing sites or series of identified large housing sites as part of a national programme to accelerate housing supply** such as a new community, an edge-of-town extension or a new suburb. In the past housing expansion areas of the 1960/70s were delivered by public sector New Town Corporations and Local Authorities acting in partnership with the public housing agency. In the last 30 years large housing development has usually been delivered by private means either by private land owners such as those in Aberdeenshire at Grandhome⁵ and Chapelton of Elsick⁶ or large scale developer led projects such as the expansion settlements in Perth, Dundee and Stirling and the Winchburgh Village project⁷ in West Lothian.

### Winchburgh Village, West Lothian

In 2005 the Winchburgh Village Development project was structured as a partnership between local landowners and Cala Group Ltd. In 2009 Winchburgh Developments Ltd became the lead developer funding a first phase of 550 houses and retail area from 100% private equity. The project includes some 3,500 houses, a variety of public facilities and commercial premises on 347 hectares around the village of Winchburgh.

The estimated gross value of the project is £1bn and proposals include a railway station, canal marina and a new M9 motorway junction. This is a private investment approach by Winchburgh Developments Ltd (WDL) who are responsible for master planning, negotiating planning consents and Section 75 agreements and investing in infrastructure including school capacity contributions, various community facilities and open space. This infrastructure work is carried out on a phased basis with serviced land being sold to house builders and commercial developers.

Currently there are six developers who are building houses including affordable housing on the development with an estimated 500 dwellings being constructed in five years. This output is projected to increase to 600 dwellings by the end of 2018. It is planned that from 2019 around 180 dwellings will be constructed per annum with the project being completed within a further 15 years. The delivery of Winchburgh Village is recognised as an investment approach with cash flows appraised over a 20+ year period. This long term commitment makes the project highly sensitive to market demand cycles, production costs (labour and materials), the cost of finance and risks associated with all elements of the project. WDL is also looking at ways of increasing participation with smaller scale developers and custom build projects.

Up until now the project has received no public funding although West Lothian Council is proposing to fund two secondary schools through Public Works Loan Board (PWLB) funding with that loan being partially serviced by a development charge per completed dwelling. A tri-partite agreement is also to be entered into between the Council, Scottish Government and WDL to provide a risk sharing arrangement for the Council’s PWLB funding for schools.

⁵Grandhome [http://grandhome.co.uk/](http://grandhome.co.uk/)
⁶Chapelton of Elsick [http://chapeltonnewtown.co.uk/](http://chapeltonnewtown.co.uk/)
⁷Winchburgh Village [http://winchburghvillage.co.uk/](http://winchburghvillage.co.uk/)
3. WHY IS PUBLIC INTEREST LED DEVELOPMENT REQUIRED?

There are Three Main Reasons why Public Interest-Led Development is Required

1. We have an unbalanced housing provision where there is a critical lack of housing supply of the right type, built in the right place and at the right pace.

2. Housing is driven by ‘statistical’ housing completions that lack wider perspectives. There’s a big gap in multigenerational choice due to a polarisation of offer between affordable housing and a market supply that is orientated towards family accommodation when small households dominate the way we live.

3. The Economic Advisers to Scottish Government said “Too much development in Scotland is of mediocre or indifferent quality”. There’s a negative impact on Scottish economic competitiveness with a substandard ‘Scottish Offer’ to attract and retain skilled and talented people and act as a catalyst for new business investment. A good example of public investment seeking to improve the ‘offer’ is North West Cambridge where the University of Cambridge acting as the ‘prime mover’ in seeking to attract ‘world class’ academics and researchers by investing in a £1bn project.

North West Cambridge – University of Cambridge

A mixed use project that includes proposals for 3,000 dwellings, 2,000 student bed spaces, ‘local centre’, primary school, health centre, retail, district heating and 100,000sqm of research facilities. The purpose of this project is that the University of Cambridge recognises that in order to maintain its high academic status it has to attract world class academics and researchers by having high quality accommodation, facilities and environment.

The main focus on public interest led development is inevitably housing. Other development uses have traditionally been delivered by the market except in cases where there is a need for the state to boost specific economic action or where the state is obliged to adopt an enabling role where there is market failure. Housing is connected to people’s welfare therefore one can recognise that the state is active in affordable housing matters through regulation, policy and finance, while private activity is shaped by the state largely through the planning system.

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9 North West Cambridge Development http://www.nwcambridge.co.uk/
For around three quarters of the 20th Century municipal housing was the main focus on housing supply to rectify health and welfare matters and rebuilding war damaged stock. Different parts of the state delivered municipal housing including central government, local authorities, new towns, development agencies and associations. Between 1945 and the 1970s political commitment for municipal housing was reasonably aligned, with a recognition that it was essential to build at scale to address the housing shortfall.

History clearly shows that planning is a tool of political ideals generally being ‘active’ in state led action and ‘passive’ in market led action. The planning system is 70 years old, with its first 35 years being a proactive mechanism to assist in the delivery of radical post war ‘welfare state’ public interest reforms and a substantial municipal investment programme. Therefore, Planning was an important implementation function for public interest-led development. However, in the last 35 years this implementation function has declined with planning becoming increasingly a reactive regulatory process that tries to steer markets in addressing ‘needs’ as well as ‘wants’.

New Towns – an early example of Public Interest Led Development

Scottish New Towns were established under the Local Government (Scotland) Act 1947 which provided funding and compulsory purchase powers to New Town Development Corporations to address acute shortages of housing. The Scottish New Town Development Corporations were able to borrow for land acquisition, develop infrastructure, build public sector houses, schools and social facilities as well as developing industrial and business space. The Corporations had skilled multi-disciplined professional teams in property development and investment to deliver their programmes.

The build rate was substantial with East Kilbride at its peak developing over 1,200 houses per annum\(^{10}\) which was significantly greater than any private or public sector development that has happened in Scotland in the last thirty years. Delivery was by way of a partnership with private construction partners providing infrastructure so that serviced land could be sold at full development value, having acquired the land at a little more than existing use value.

A key point was that the Corporations took most of the risk as well as most of the reward. The New Town approach was an example of a Public Interest Led Development that partnered with the private sector to build successful communities. It is an experience that could be replicated today.

This investment commitment and participation by the state in public interest led development lost support from the 1980s due to a shift in political philosophy. However, there were 17,129 Scottish housing completions in 2016 compared to 42,630 in 1969.

\(^{10}\)South Lanarkshire Council, (2012), East Kilbride – The Making of a Tow
Erskine, A New Town Approach between Renfrewshire Council and the Housing Agency

Adopting similar principles to New Town development, Erskine was delivered through a co-operative approach between Renfrewshire Council, and the government agency, the Scottish Special Housing Association (SSHA). This planned community comprised of around 50% affordable housing developed by SSHA. Schools and social facilities were developed by the Council, which also sold serviced land for private housing and commercial development.

This example of public interest led development partnership between a local authority and a Government body was performed, unlike the New Towns, without the need for special legislation. This approach of direct public investment in infrastructure is the same as the Dundee Waterfront development and can be implemented under the current legislation.

Decline in Housing Suppliers

It is not only housing numbers that are down but the number of suppliers has substantially decreased in the last 30 years. In 1988 small builders in the UK were responsible for 40% of the housing supply; however, this has now fallen to 12%\(^1\).

The House Builders Federation (HBF) also pointed out that in recent years there has been a trend for Planning Authorities to make large scale land releases as part of their local development plan policies. This has compounded the polarisation of fewer suppliers due to small builders lacking the resources and finance to enter into large scale land agreements. Therefore, not only is there a problem with people accessing housing but this is compounded by small companies struggling to acquire sites with land allocations moving towards large scale sites that take longer to build and sell. Therefore one reason that there is a slow pace of delivery is due to large sites allocated by the planning system developed by a handful of participants. This is different to the allegation that builders hoard land.

The major housebuilders’ duty is to their shareholders, and they will produce the range of houses which will maximise shareholder value, which may well differ from the range of house types and tenures which the community requires.

If we really want to widen the supply of housing, have the right types and in the right places then the state has to play a much greater role as the ‘prime mover’ by ensuring that there are more participants in the ‘place production process’ and having more tailor made proactive policies and actions from the Scottish planning system.

\(^1\)House Builders Federation, (2017), ‘Reversing the Decline of Small Housebuilders’
4. THE COMPLEXITIES OF LAND ACQUISITION AND VALUE

Getting hold of land is a key barrier to progress and while the state can acquire land competitively it also has the ability to call upon its compulsory purchase powers. The processes and practical workings of compulsory purchase and land compensation are complex and need to be simplified.

Compulsory Purchase Orders (CPOs)

There is no doubt that Compulsory Purchase is necessary for public interest led development. It is hardly possible to carry out large scale redevelopment without some use of CPOs, as there may be landowners in a large scale project that can act as a barrier to development.

The current rules of compensation were formulated in the Acquisition of Land (Assessment of Compensation) Act 1919, which introduced six basic Rules to be observed by official arbiters in assessing the value of land for compulsory acquisition. It provided that, in Rule 2, the basic measure of compensation was to be “the amount which the land if sold in the open market by a willing seller might be expected to realise”. Although some minor changes have taken place in the six Rules, the current legislation is essentially much the same, and the basis of valuation on compulsory purchase is regarded as being “Market Value”.

The Scottish Government recognises the need for reform in order to improve procedures for regeneration and infrastructure provision and there is an intention to enact reforming legislation before the end of the current parliament. Although the extent of the reforms is not yet known this represents an opportunity to modernise the legislation to assist the whole important land assembly process.

Land Value Capture

‘Land Value Capture’ has had a much higher profile in recent years. This may be a result of the substantial increase in land values over the past twenty years, coupled with the realisation that many of our housing problems will not be solved without the large scale construction of affordable housing of one type or another.

This is made more difficult by relatively high house prices, which directly translate into higher land values, which in turn renders it more difficult for public bodies to acquire land for housing development. At the same time, a large amount of money has been spent on public works, particularly infrastructure works, which open new areas for development, giving windfall gains to landowners.
This can be seen in many cases, such as Bertha Park\textsuperscript{12} near Perth, where the construction of a new publicly funded junction, flyover and road alignment has allowed the development of a 2,500 house development. Another example is in Inverness, where one of the benefits of the new West Link Road\textsuperscript{13} is that it opens up new areas for large scale housing development, at public expense, again with gains enjoyed by landowners. Few would now disagree that some form of Land Value Capture would be both fair and reasonable, and would assist the Scottish Government and local authorities to build the infrastructure and housing which we need, and help promote the use of public interest led development.

Unfortunately, whilst there have been many attempts to deal with the issue of land value capture it has never been satisfactorily resolved. It is important that we learn from this experience.

There have been a number of recent land value capture proposals that largely concentrate on methods of ensuring that the state can acquire land at less than the current market value, as determined by compulsory purchase rules. A number of people have put forward proposals that would enable local authorities to acquire land at existing use value and this has received some support. However, such proposals have been tried before and there are questions around the assumption that there are significant gains to be captured. Such matters will be dependent on locational value, the physical and technical circumstances of the site and its connections with infrastructure and services. The notion that ‘hope value’ will be removed is not supported by Scottish case law.

Some proposals have been put forward whereby public bodies would be able to acquire land at existing use value while other parties would be required to purchase at development land value. If only existing planning consents are allowed to be taken into account, then different compensation levels could apply to adjoining areas of land where one of the parties had applied for planning permission and the adjoining owner had not. Such proposals create a potential injustice which may be of concern to both courts and politicians. This two tier approach appears to be inequitable, unfair and difficult to justify. A similar approach was taken in the Town and Country Planning (Scotland) 1947 Act which attracted significant problems and a high degree of resentment.

There is no doubt that receipts from development charges or land value capture would be beneficial for contributing towards public interest led developments or other forms of large scale housing or infrastructure projects. However, historical and contemporary evidence clearly demonstrates that notwithstanding legislation and well intentioned policies there are substantial technical, legal and moral matters to surpass before a fair system of compensation can be established for all parties.

\textsuperscript{12}Bertha Park, Perth \url{https://www.springfield.co.uk/developments/45_perth_bertha_park}
\textsuperscript{13}Inverness west link road \url{https://www.highland.gov.uk/info/1523/transport_and_streets/128/the_inverness_west_link}
A more collaborative approach of sharing the residual value after infrastructure development is completed is a fairer and more sustainable method of utilising the uplift in value between existing and development use. It is for the state, working co-operatively, to take the lead on determining what place specification is required to make a development that is in the ‘public interest’. When the public interest led development specification is defined, then one can calculate the values and the cost that would be required to deliver such a project. What funds are left over will determine what share of the residual land value is appropriate for the land owner.

### The Valuation Approach of Public Interest Led Development Land

**Total Sales Income (Gross Development Value)** – income derived from the sale of serviced development lots and plots

less

**Total Development Expenditure** – determined by the public interest led development specification that includes the cost of all infrastructure works and fees plus a profit margin for undertaking the enabling infrastructure works and subsequent plot sales taking into account risk and uncertainty and the cost of finance that reflects the time taken to undertake the project

equals

**Residual Development Land Value.**

Essentially, the Residual Development Land Value is the net price for the ground assuming a planning consent has or will be granted to undertake the project but no works have been carried out.

### 5. HOW PUBLIC INTEREST LED DEVELOPMENT CAN BE DELIVERED

Public interest led development is about taking the time to make good places that create a positive environment that enables people to properly function and achieve their full potential through high levels of co-operative interaction, exchange and stewardship. This section seeks to explore various options of how such development can be delivered.
A National Development Agency

Given that the market is unable to achieve all of our housing requirements, a Scotland wide long-term strategic multidisciplinary approach is required that targets large scale propositions in the right locations at the right pace to maximise social and economic beneficial impact.

To achieve the scale and pace of production that is required, a range of Scottish professional built environment organisations and 3rd sector bodies have called for an expert development agency in Scotland that could address and co-ordinate all of the above challenges.

Property development is a complex and skilful activity that only succeeds when there is a deep understanding and experience of all the interactions of the income and expenditure elements together with the externalities of regulation and policy. As a public body, such an Agency could either be equipped with legislative powers or work with Scottish Local Authorities to acquire land, source funds and bring skilled experienced stimulus to enable development and investment to occur.

The Royal Institution of Chartered Surveyors (RICS) Scotland published an extensive Report in 2014, by the RICS Scotland Housing Commission14, and one of its principal recommendations was for a Housing Land Agency, which could work in partnership with local authorities and the community to:

- acquire land and deliver infrastructure
- sell off land to developers, ready to build, without the need to discuss S75s etc
- to encourage choice and innovation and widen economic activity reserve areas for purchase by small and medium sized house (SME) builders, build to rent, self/custom build and co-housing
- deliver houses at the pace that is required by the public rather than shareholder interests
- deliver projects by detailed development agreement and design guidance reflecting the requirements of the Agency, the community and local authority.

The RICS proposals are similar to the recommendations of the Scottish Planning Review Panel15, which called for an Infrastructure Agency. Both the Planning Review Panel, the RICS Housing Commission and Kate Barker’s update on her Review of Housing Supply16 are consistent in their view that for public interest led development and infrastructure investment there needs to be a promoting body. This substantial support for a national development agency, all of which is evidenced based, comes from academics, economists and the professional built environment community. Such a proposal is not something new but built on both evidence from good continental European current practice and practice that has been employed by Scottish public organisations in the past.

14 The RICS Scottish Housing Commission Report, (2014), Building a Better Scotland
16 Barker K, (2014), Housing: Where’s the Plan
Infrastructure is a Key Public Interest Investment

Research has demonstrated that under investment in housing infrastructure is more significant than in other sectors whereas state activity in continental Europe highlights the opportunity of using patient long term capital to help fund infrastructure investment. Investment in wider public infrastructure is a significant liberator in attracting private sector investment and participation.

Examples include London’s Crossrail development and growth points at public transport inter-changes such as Paddington, Lewisham and Stratford. Infrastructure value capture is as important as land value capture as such investment has the ability to liberate a whole raft of subsequent action.

Investment in infrastructure should not be considered as a cost to the public purse but as an asset that will release tangible long term public interest value and returns. In national terms Scotland is witnessing such investment in the electrification of a railway system but this infrastructure investment principle also needs to be applied within our towns and cities. For example, the new Amsterdam and Freiburg suburbs (ijburg and Vauban) would not have worked without the municipality connecting these suburbs to the city centre by way of additional tram lines. The new large scale development at Shawfair, to the south east of Edinburgh, could not have been built without a new station and the reopening of the Borders Railway.

Infrastructure is the key building block for public interest led development. Infrastructure in good accessible locations connects people and generates sustainable economic growth. The Wolfson Economics Prize winners, David Rudlin and Nick Falk established that the extension of existing infrastructure either through urban development or settlement extensions was more economically beneficial than establishing new communities. Clearly such considerations raise important public benefit questions as to whether excursions into adjoining greenbelt land on the edge of towns is more appropriate than jumping to new pastures elsewhere.

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17 Falk N, (2017), Town and Country Planning
20 Shawfair, Edinburgh http://www.shawfair.co.uk/
21 Falk N and Rudlin D, (2014), Uxcester Garden City, Second Stage Submission for the Wolfson Economics Prize
Planning Policy and Choosing the Right Sites for Public Interest Led Development

It is often the case in a Local Development Plan exercise that the local planning authority invites developers to submit their own proposals. The effect of this is to turn the exercise into something like a competitive tendering exercise between developers who may have land option holdings on parcels of ground on the edge of settlements. Planning authorities effectively transfer planning duties to the private sector to promote their site as being appropriate for development that meets a raft of social, economic and environmental criteria. This planning development process is not a public interest led development approach but a reactive assessment of the best or least worst to be analysed. The planning bar should be set higher.

Planners are less likely to form judgements on economic and technical matters as they are unlikely to be equipped with the required property economic skills to carry out a development analysis. This lack of expertise was acknowledged by the Heads of Planning Scotland in their letter in May 2016 to the Chief Planner for Scotland in response to draft Scottish Government guidance on ‘Net Economic Benefit and Planning’.

“The ability to scrutinise the authenticity, robustness and accuracy of figures supplied with any [planning] submission, and thereafter to draw firm conclusions about the economic benefits of a proposal, requires the skills of an economist….. in specific instances the council may require a submission to be professionally reviewed to provide a comprehensive assessment of the case.” HOPS, 2016

What Heads of Planning were pointing out was that with diminished resources the technical and economic scrutiny of planning applications may be beyond the competence of the planning official. In practice instead of obtaining professional inputs from colleagues within the local planning authority or wider Council resources, planners are finding it necessary to get external expert advice to assist them in carrying out their statutory planning functions.

In effect the process for identifying appropriate land for development has been outsourced and semi-privatised by placing the responsibility to undertake investigations with the commercial developers. This transfer may well reduce the local planning authority’s risk and expenditure but it inevitably pushes statutory planning into a reactive role that loses control of planning developments particularly for the wider public benefit.
Any infrastructure requirements that are offsite and are not material to the value of the housing development will inevitably be treated by the developer as a cost to the project rather than examining wider investment benefit that may accrue over the long term. Of course public regulations will require much of the infrastructure to be ‘fit for purpose’ but it is the developer that is driving the development design proposals and this is not necessarily always compatible with investing in the public interest.

This transfer of duties and tendering approach to planning for new developments differs to the many development practices that occur in continental Europe where the municipality has skilled people within their planning teams who can determine where and what the development should be and thereafter takes an active role in establishing a physical investment framework for a range of participants to undertake development.

Given the considerable large scale project risks that involve land assembly and uncertainties around the availability of infrastructure funding, the market will only participate where there is clear demand, good levels of value and growth potential. All other locations are reliant on the state taking responsibility to drive and support the delivery of large housing schemes.

6. THE INGREDIENTS FOR A PUBLIC INTEREST LED DEVELOPMENT DELIVERY MODEL

Any successful and robust delivery model will require the state to act as the ‘Prime Mover’, be prepared to financially invest in the project and resource themselves with sufficient professional skills, experience and expertise which this next section will explore before presenting potential models.

Prime Moving State

History tells us that the only time in living memory when large-scale mixed housing development has actually been delivered is when the public sector has taken the lead in the form of the New Town Development Corporations.

However, while the state can act as the ‘prime mover’ and agent for delivery it must be recognised that the ‘top down’ patrimonial ‘needs must’ approach of successive post war Governments is no longer appropriate in a climate where we have a greater call for community co-operation and action. Therefore public interest led development with the state still acting as the ‘prime mover’ needs to be much more collaborative, with the state and communities working for a localised approach of ‘collective benefit’. The delivery methodology must adopt a holistic approach that might involve the following:
a) the Right Public Policy Mechanisms – Public interest led development should be large scale to address shortfalls and mis-matches in the housing system and enable wider economic, social and place transformation. The shortfall in housing provision in the right place should be addressed within our National Planning Framework policy. Such a policy approach was adopted in the Netherlands in 1988 with the 4th Spatial Planning Framework known as ‘Vinex’ which saw a national project of 500,000 houses delivered in partnership with provincial and municipal governments and developer, group and individual interests between 1993 and 2010.

The Scottish Government’s proposed Planning Bill recognises that the National Planning Framework should be more closely aligned with regional priorities. Such collaboration could be achieved on similar lines to that of the Dutch Vinex programme.

Dutch VINEX 1988-2010 4th Spatial Planning Framework – A National Investment for “Competitive Place” & Sustainable Economic Growth

- The Vinex was a national project for delivering 500,000 houses lead by National Government in collaboration with provincial and municipal governments
- While being a housing led initiative, the Vinex focus was on urban growth, competitiveness and sustainability
- Development was targeted on public transport connections with a substantial commitment to public infrastructure
- The national Vinex project was instigated by a centre-right Government supporting state intervention and enabling planning without political ideological barriers.

b) Councils and Communities Working Together – The recently published Planning Bill refers to the need for a greater alignment between spatial plans and community plans (objective 1) and allowing community bodies to create their own ‘place plans’ which should form part of the local development plan. Such proposals address the ‘collective benefit’ at the policy level but it is also necessary to consider how such plans can be implemented. An example of a Council and Community working together is the Vauban development in Freiburg, Germany.

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24 Sperling C, (2008), From Military Area to Model District – Sustainable Neighbourhood Design, a communicative process, conference paper to CABE Urban Design Summer School
Freiburg acquired the former barracks in 1992

Freiburg municipality wanted to create a sustainable development to keep young families within the City thereby lowering emissions, congestion and keeping economic activity within Freiburg

Students and people on low incomes who were having problems accessing housing formed their own community group. The group developed a plan for the conversion of some of the old barracks for housing. An affordable design and self-help was employed to keep costs low. Loans were provided to the Group by the state and individuals. Around 1,000 people (20% of the Vauban project) live within this community group development

The community group formalised into the ‘Vauban Forum’

In 1994 the site was master planned for a population of 5,000 people and development quickly commenced thereafter by Freiburg municipality working with the Vauban Forum

The municipality restricted development to a community led approach comprising of self-build and co-operative housing

The municipality invested in infrastructure including a public tram connection

The development was based on sustainable design principles at a density of 100 dwellings per hectare based on a final population of 4,588 people.

c) Councils acting as leaders and drawing on input from communities. The Vauban case study is typical of a continental European approach where municipalities do the big things by orchestrating land assembly, preparing master plans based on well-informed evidence and carrying out the infrastructure framework to enable housing and apartment blocks to be readily serviced.

This physical framework, which might be described as the ‘place framework’, can then be infilled by a range of smaller participants whether they are small scale builders, self/custom build or community led housing. It is essential that these public interest led processes are considered as investment propositions rather than development operations.
Another example of a European municipality working with community groups is at Tübingen\textsuperscript{26} in southern Germany. As was the case at Vauban, the municipality acquired a former French barracks and took the role of master developer/investor in a public interest led development including master planning and infrastructure development. The Tübingen municipality ‘prime moving’ action created the development framework for local building co-operatives (‘Baugruppen’) building upon plots that were serviced by the municipality. Subsequent research undertaken by the University of Tübingen\textsuperscript{26} concluded that the benefits arising from this public interest led development were:

- reduced costs (15\%-20\% less than developer’s price);
- higher design and specification standards;
- good resale value;
- community created its own place;
- community grows together; and
- social balance mix of all ages, incomes, social and ethnic backgrounds.

Selection of Delivery Methodology

The key question is whether the State will participate actively or passively? It is quite common in continental Europe as is also the case at Dundee City Council that the Planning and Development department has a competent multi-disciplinary experienced team to deliver the project. Alternatively a national agency may provide expert guidance and facilitation where a council lacks such investment and development competence.

This role was previously played by the Scottish Development Agency and subsequently by Scottish Enterprise but physical development activity was generally withdrawn some years ago. Some 14 years ago Urban Regeneration Companies (URC) were also trialled as regeneration public interest vehicles in parts of Scotland. Another relatively recent Scottish example in facilitating public projects has been the Scottish Futures Trust whose primary function is to ensure better value for tax payers’ money in the delivery of vital public infrastructure projects. The evidence highlights that in public interest led development the State needs to act commercially adopting entrepreneurial practices to encourage and enable wider investment participation as well as seeking public benefit objectives. It is also important to have development partners engaged at the earliest opportunity in order to inform and shape investment with knowledge, skills and experience.

\textsuperscript{26}University of Tübingen, (2012), Municipality-led development with extensive user participation – The Tübingen development strategy by private building cooperatives, conference paper Trondheim
The State Financially Investing in the Project

With the switch from public investment to private investment in projects over the last 30+ years many skills in delivery and project investment have been lost and risk aversion has increased. However, despite austerity budgeting, state organisations remain a solid covenant in terms of investor interest. The following are some investment funding approaches that the state could consider:

• The Scottish Government or local authorities could borrow money directly for infrastructure through Prudential Borrowing or the Government could provide a ‘Fund Guarantee’. Dundee City Council helped fund their Dundee Waterfront through Public Works Loan Board funding
• The Government or other public organisation could issue bonds for the whole programme
• A Partnership Proposal with Scottish local authority pension Funds acting as the Institutional Investor to provide long term investment funds with a guaranteed return
• The Scottish Investment Bank could provide long-term funding for physical development projects, particularly housing and infrastructure. This would help to de-risk large scale and complex projects. There are many European models of municipal banks. Municipal banks operate a cautious business model. Local tax paid by the municipal bank is kept in the community with funds used for housing, infrastructure and SME investment. Examples of Municipal Banks are Sparkassen, KfW in Germany and Bank Nederlandse Gemeenten (BNG) in the Netherlands, Kommunekredit in Denmark and Kommuinvist Sverigese AB in Sweden
• Create a mutual funding structure that could be developed so that local funds could be used to fund local activity. In the UK the state plays a minimal role in providing credit to Small and Medium sized Enterprises (SMEs) In Europe one in three SMEs are funded by a co-operative bank.

Investing in Property Investment Skills and Experience

Reference has to be made to New Town Development Corporations having multi-disciplinary professional teams who developed significant skills and experience in delivering public projects. These skills have long been lost with property advice now often provided by either ‘arm’s length’ departments or private sector consultants.

It is common practice in continental Europe to have teams of multi-disciplinary built environment professionals who have practical day to day knowledge and experience of planning, design, property investment and development. As the responsibility of delivery has been moved to the private sector these skills have been lost. Therefore, it is essential that any ‘prime moving’ activity must recognise that the first investment is to have a skilled planning and development team.

27Steven Tolson, (2015), Liberating Small Action from a Scottish Mutual Banking Structure RICS Briefing Paper
7. THREE POTENTIAL MODELS OF THE STATE ACTING AS PRIME MOVER

There are three essential models of the State acting as the ‘Prime Mover’:

**Model 1: A Full Participant in Action Making**

A public interest led development has the full participation of the State which invests in land, organises funds and is active in the project recognising that as the developer and investor they will be taking either full risk or more likely sharing risks with other participants. This is what was undertaken at the Crown Street Regeneration Project in Glasgow.28

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**Crown Street Regeneration Project**

The Crown Street Regeneration Project was established by the Scottish Development Agency (later to be Glasgow Development Agency – GdA) as a partnership between Scottish Homes, Glasgow City Council, the local housing association, local community bodies and GdA. A full time Director and team were appointed and local office established paid for by GDA. GDA acquired the development land from the City Council with land assembly requiring smaller interests to be compulsorily acquired. A fully funded masterplan with clear funding streams were put in place by the public agencies; GdA and Scottish Homes. Each site was sold with a design brief to both small and large developers in competition. Long-term management and maintenance issues were established with the housing association and community. This process was complex and required significant commitment and determination.

Crown Street Regeneration Project was highly influenced by good continental European practice and was a leading exemplar cited by the Urban Task Force and subsequently influenced Dundee Waterfront Project. It could be argued that the state doing the front end work and then simply transferring it to the private sector removes hassle and risk but it also needs to be considered whether this form of development is to a standard that is always in ‘the public interest’.

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**Model 2: A Facilitating Participant that Transfers before Action**

This is where the state adopts an enabling role which might include land assembly issues, master planning and planning in principle along with perhaps some enabling works and then transfers the land assets and risks to third parties to complete. Such an approach is being adopted to a degree by Glasgow City Council and the City of Edinburgh Council for a number of regeneration projects.

28The Scottish Government, PAN 83 Planning Advice Note: Master Planning
Model 3: Partnering Participants in Action Making

This could perhaps be called the ‘pragmatic approach’ whereby the state enters into a partnership with a private investor who can bring funds and property expertise to the project. This partnership approach requires the state to invest in the project and thereby accept some risk but retain greater control. An example of this is the Local Asset Backed Vehicle approach being adopted by Oxford City Council29.

Barton Oxford LLP, A Case Study of a Local Asset Based Vehicle

With pressure for additional housing and a desire to have a more integrated and sustainable city, Oxford City Council wanted to participate in the creation of a new neighbourhood. In addition to delivering an additional 885 dwellings, the project would produce wider regeneration and infrastructural benefits for the City.

Recognising that they had neither the capacity nor the expertise to deliver such a project the City Council elected to enter into a joint venture partnership with Grosvenor Development Ltd. This Local Asset Backed Vehicle was established by the Council putting its land into the partnership with Grosvenor providing funding and their property development and investment expertise.

The partnership vehicle is a 50/50 arrangement with funds comprising of equity and debt finance. The Council preferred such a course of action as it allowed them to play a full participatory role in the development. This included having a greater control on the quality of development, the pace of the development and ensuring wider economic benefits. As project investment was in infrastructure rather than services the partnership was established without a EU public procurement process. The actual development was undertaken on a plot by plot basis with individual developers.

29 Barton Park Oxford http://www.bartonparkoxford.com/
8. CONCLUSIONS AND THOUGHTS FOR DISCUSSION

This discussion paper argues that to provide public interest led development the state has to act as the ‘Prime Mover’. The state needs to take responsibility, bring leadership and generally be prepared to accept some risks and uncertainties. As the ‘Prime Mover’ the state is required to participate well beyond policy, regulation and procurement processes. It requires commitment to invest long term in public projects and deliver a return on the capital employed as well as directly acting in public benefit activity.

The paper provides some historical references to post WW2 development highlighting how the state’s involvement has switched from ‘active’ to ‘passive’ largely as a result of changing political ideology. The method of housing delivery in Scotland, as elsewhere in the UK, is dominated by large corporate organisations but this is not the case in many continental European countries.

Private sector developers are often criticised in the UK but the models of public private partnership reflect the intent and political will that has seen the state’s full participatory role move to a more reactive model that relies on policy and contractual relationships. This paper suggests that a more collaborative partnership model in which the state invests in partnerships with the private sector to maintain control by combining assets and skills to achieve public interest objectives would be preferable.

There is little doubt that spatial planning is heavily influenced by politics. Indeed the very existence of town and country planning was directly related to the 1947 Act where planning was seen as an essential delivery mechanism for the radical reforms of the welfare state. The focus on welfare continues with most Scottish housing policies being orientated towards affordable housing with private sector supply being regulated by planning policy although such policies have failed to meet all public interests. If spatial planning is to play an important role by switching to a more proactive central position for the delivery of good public interest led development then wider skills in the planning department are needed. There are several action points that can be drawn from this paper:

**Action Points for Encouraging Public Interest Led Development**

1. **Make the planning system more proactive and participative in public interest led development.** This needs both a cultural shift in practices and also to resource planning with teams that have multidisciplinary built environment skills and experience that include land and property economics. However the most significant support for proactive planning needs to come from politicians at both national and local levels. Planning input is about generating value rather than expending money.
2. Create a financial sector that reflects a commitment to support local action. A call for community involvement in land reform and community empowerment agendas will struggle to be realised if there is not adequate access to local mutual and municipal banking funds as is the case in continental Europe. This is a long term assignment therefore in the short term Government needs to provide the necessary guarantees to de-risk proposals and enable lending to smaller players.

3. Have the public sector playing a greater participatory role as the ‘prime mover’ in public interest led development. The state cannot rely on funding a minority of the housing system in the hope that the market will properly cover the majority of the supply. The volatility of markets and its vulnerability to wider economic shocks highlights the case for the state to become more involved in acting as the ‘prime mover’. This would involve directly investing in projects, particularly urban projects, that address immediate social and economic requirements but also provide a framework for transforming places and sustainable investment that extends beyond political cycles.

4. Ensure that public interest led development includes the public. One might think this is a fairly obvious thing to say but even with the advent of community empowerment, community interest still lags behind in the process. Communities have to fight for a place at the table and seek a more co-operative approach from public organisations and developers. The Planning (Scotland) Bill recognises that there has to be a stronger relationship between spatial planning and plans prepared by communities. After all most of the owners of the place assets will be the citizens therefore they should be part and parcel of the decision making process. The Vauban Forum had to work hard to get their objectives fulfilled with the Freiburg municipality but they are now seen as the operators and stewards of the place.

5. Act as the ‘Patient Place Investor’. Creating public interest led development has to find its place in the queue of public policy and action. The state is short of money and needs the cash now whereas a public interest proposition is not short term development activity but long term investment. Continental Europe understands this and has the benefit of stable, pragmatic coalition politics that are required for an investment culture to operate. For this reason councils have to be bold and act as investors that don’t require instant returns but recognise that assets have to be nurtured for longer term gains.

6. Capturing Cash from the Land Value. Given the shortage of public cash, proposals have been put forward to capture cash by taking a greater share in the uplift of land values as a result of a changing use. This sharing of the uplift as a result of a planning decision in the public interest is not unreasonable. The key question is what level of share is reasonable, fair and appropriate? Some have suggested, buying land at a lower existing use value in order to fund the project but history suggests that such an approach is fraught with complex issues that could create an adversarial quagmire and potential litigation. What is important is that the state takes a share in the value uplift as a result of planning consent and any public infrastructure works.
7. **Prime Moving should start on your own Land.** There have been calls for the state to acquire private land to roll out public interest led development along the lines adopted for New Towns. This, of course, can be done providing there is a commitment by the state to borrow funds such as public works loan board or through the raising of bonds and be motivated in using compulsory purchase powers. However, for pragmatic and wider benefits and where the state wants to act as the ‘prime mover’ in public interest led development, activity should be initially on land they already own. While some Scottish councils have arm’s length development companies these often undertake smaller scale economic development rather than large scale public interest development and do not compare with the municipal led developments championed in continental Europe.

8. **Shape Public Interest Led Development by Policy and Regulation.** In theory the state can orchestrate and shape a public interest led development through planning policies and regulations providing such matters are determined by strong and informed political support and competently exercised by planning officials. To be a ‘prime mover’ Planning Officials need to robustly apply Policies and Regulation including proactively selecting sites for Local Development Plans that are most appropriate for development rather than reacting to a developer tender bidding process. The selection criteria requires a more detailed appraisal exercise of what infrastructure and public facilities are required, what kind of housing is necessary to have a balanced mix of tenure, types and age groups that go beyond needs and wants and include other opportunities such as self/custom build and smaller lot sizes for SME builders. The simple message is that residential developers do not invest in communities as their income comes from building houses. Therefore if public interest led development is not undertaken by the state then more proactive Planning is needed to achieve public interest objectives.

9. **Professional Skills and Competence.** To implement such an approach there needs to be a commitment for planning departments to be staffed with a wide range of people with multidisciplinary professional skills and experience that includes designers and surveyors who can create viable policy and regulation, act as facilitators and also negotiate to get things that are delivered in the public interest. Multidisciplinary teams were the norm when planning was a more proactive functioning activity. Unfortunately, with a switch from proactive planning to more reactive functioning, many planners lack understanding in design and property economics and are not exposed to, or familiar with, the day to day detail of how projects work and markets function. It is difficult to see how a public interest led development can be delivered by planners alone.
10. **Working Co-operatively.** None of the public sector led development exemplars that have been analysed in this discussion paper have been provided by a single organisation. All successful projects are delivered in partnership and those partnerships are created not by ‘arranged marriages’ but genuine commitments from all interests to deliver a successful project. Of course some parties will have differing motivations but all of them must recognise that it is only by working together will they achieve their goals. We have cited the ‘Vinex’ project in the Netherlands as an example of all tiers of government participating in the delivery of 500,000 houses in just over 15 years. If Scotland were to adopt the ‘Vinex’ national planning approach in Scotland this would be equivalent to an extra 17,000 houses per annum for the next 10 years which would certainly produce a significant increase in production. Scotland shouldn’t fear such an ambition as it has previously delivered a large scale municipal partnering approach between a local authority and national housing agency as well as substantial action through New Town Corporations. The key point is that in Europe and in Scotland’s New Towns, delivery action was delivered by a political will to borrow over the long term. It is entirely possible for the State to undertake public interest led development but this can only work where the State adopts a long term investment commitment.

The issue of public interest has for over 2,000 years challenged the likes of Epicurus, Thomas More and Ebenezer Howard in seeking to create well-functioning places which provide the basis for a happy life within a good community. Policies which lack ambition will not provide the answers. In Scotland, we need to be motivated, radical and committed if we are going to develop the communities which the Scottish people deserve.
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