The British Property Federation

1. The British Property Federation (BPF) represents the real estate sector – an industry with a market value of £900bn which contributed more than £60bn to the economy in 2016. We promote the interests of those with a stake in the UK built environment, and our membership comprises a broad range of owners, managers and developers of real estate as well as those who support them. Their investments help drive the UK’s economic success; provide essential infrastructure and create great places where people can live, work and relax.

2. Over half of commercial property is rented - the sector is one of the most successful in the world at attracting domestic and overseas long-term investment capital into the renewal of the UK’s towns and cities. Such large, long-term, patient investors are critical to the urban redevelopment and regeneration of our country, and crucial for creating and maintaining modern and productive work places.

Local government funding cuts and their impact

3. We welcome the opportunity to contribute to this inquiry. We consider it to be one of the most important of this session. We say that, because we observe that a lot of concerning outcomes that affect our industry have at their root cause a lack of local authority resource.

To give some examples:

a. **Planning** – Inflation adjusted spending on planning has seen the most severe cuts of any local authority service, down by 55 per cent from £47 per person in 2010/11 to £21 per person in 2017/18.

<table>
<thead>
<tr>
<th>Service</th>
<th>2010/11</th>
<th>2017/18</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adult social care</td>
<td>£306</td>
<td>£276</td>
<td>-10%</td>
</tr>
<tr>
<td>Highways</td>
<td>£121</td>
<td>£72</td>
<td>-40%</td>
</tr>
<tr>
<td>Environmental services</td>
<td>£111</td>
<td>£88</td>
<td>-20%</td>
</tr>
<tr>
<td>Culture</td>
<td>£70</td>
<td>£40</td>
<td>-43%</td>
</tr>
<tr>
<td>Housing</td>
<td>£53</td>
<td>£28</td>
<td>-48%</td>
</tr>
<tr>
<td>Planning</td>
<td>£47</td>
<td>£21</td>
<td>-55%</td>
</tr>
</tbody>
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Source MHCLG [https://www.bbc.co.uk/news/uk-england-47125587?ocid=socialflow_twitter&ns_source=twitter&ns_mchannel=social&ns_campaign=bbcnews]

A recent National Audit Office report has also shown that the overall decrease in numbers of local authority planning staff between 2006 and 2016 was 15%.

The context is also important. During this period, planning departments have faced significant policy reform, with the introduction of the Community Infrastructure Levy coming...
into effect in 2010 and the new NPPF in 2012. Looking ahead, council are being encouraged
to incorporate more policy requirements in their local plans to capture more development
value and that all requires resource.

The Government is also trying to rapidly increase the amount of homes being delivered,
from 124,720 in 2012/2013, to 300,000 by the mid-2020s.

The sector has already sought to plug some of the gap in funding through supporting a rise
in planning application fees, which came into effect in January 2018. This is not
hypothecated, however, and it is therefore not clear whether it is helping to maintain and
increase planning resource.

A lack of planning resource is not just a statistical issue, however, that is centred on
development control. It also has wider quality and strategic implications. If we want our high
streets to adapt well to significant structural change we need pro-active planning. If we want
great places, and to build beautifully, we need enough planners with the qualifications and
time to devote to such important objectives.

The demands on local councils we think will only increase. Resilience, adaptability, and
efficiency in the built environment is a growing issue and crucial to not only sustainable
development into the future, but also to meeting the UK’s legal obligations. We have had
(be it anecdotal) representations from members to say that there is a serious deficiency in
local authorities’ skills in sustainability through the pre-application planning process.
Government, however, has ambitions to increase minimum energy efficiency standards,
mandate biodiversity net gain though planning, phase out gas heating and enforce a new
low-carbon future homes standard by 2025 – not to mention other policy commitments, for
example flowing from the Hackitt Review. Local authorities are going to need the requisite
skills to implement these significant policy aspirations.

b. Enforcement of housing standards – Recent research by the Residential Landlords
Association has shown that councils across England have cut the amount they are spending
on enforcement work to tackle criminal landlords by a quarter in less than 10 years.
According to analysis by the RLA, whilst spending by local authorities in England on housing
standard activities was £44.5 million in 2009/10, by 2017/18 that had fallen to £33.5 million,
a drop of £11m. This leads local authorities to seek other ways of raising revenue. For
example, local selective licensing schemes that capture far more landlords than they need
to.

c. Other insidious ways to raise funds locally – We see this most acutely in sectors like
purpose-built student accommodation, where issues of interpretation over council tax, that
once went in favour of the sector, now go against it, which ends up going against the policy
intent not to charge students council tax. Different local authorities are interpreting the
rules differently, such is their desperation for income, and that leaves our sector facing a lot
of inconsistency. The same has been true of waste charges on student accommodation,
which local authorities have sought to push despite clear policy guidance from Government against this.

d. **Investment in commercial property** – This has attracted a lot of attention over the past year. Much of the commercial property investment made by local authorities remains strategic investment in local assets. This can help unlock regeneration, often generating additional private investment through joint venture partnerships, and is to be welcomed. Some local authorities, however, have borrowed via the Public Works Loan Board, and used this money to make pure investment plays – even investing outside of their own borough or county in more than a few cases. This generated widespread criticism and the Government took steps in the last Budget to curb the use of council borrowing to invest in income generating property assets outside of the local authority’s immediate domain. The Local Authority Investment Code has been amended and the guidelines now state that: ‘borrowing solely to invest in a yield bearing opportunity is borrowing in advance of need’. However, it is worth noting that this does not prevent local authorities from investing their own capital receipts.

e. **Calls for new tax raising powers** – inevitably as local finance has become ever more squeezed, there are calls for new forms of taxes to help pay for things that would have been funded through general taxation previously. An example would be to introduce new forms of land value capture.

f. **Support for local authority ambitions** – Most local authorities we encounter are ambitious. They want to do the best for the communities they serve, but increasingly they do not have the resource to focus on the strategic issues that will shape their long-term future.

4. We recognise that we are not alone in feeling such pressures, and that frontline local authority services are under significant pressure, whether that be social care, special needs education, fighting the causes of crime, or highways maintenance.

5. We are therefore realistic that any additional funding from Central Government to Local Government is not going to change some of the issues identified above overnight, but we must start somewhere, and the current Spending Review is a good starting point. We would also like to see more ringfencing where new funds are raised to focus on supporting a specific service, such as raising planning application fees.

**Local government taxation**

6. The general observation we would make is that the functioning of the council tax and business rate systems has not been applied as intended and therefore both taxes have been undermined. More generally, they have not been modernised to keep pace with changes in the property market, nor making good use of technological advancements in valuation practices. Valuations have never been uprated for council tax since the system was introduced in 1993. Scheduled business rate valuations have also been missed. Whole sectors have emerged, such
as purpose-built student accommodation, and yet the regulations have never been updated to reflect this.

Council tax

7. Funding pressures are not just caused by less Central Government funding, but also additional spending pressures and various constraints on how local authorities raise funds locally. The Federation has long supported council tax reform. Valuations should be brought up-to-date, and there should be additional bands to better differentiate high-value property, as has been done in Wales.

8. In terms of revenue raising, the rules on council tax referendum are far too constraining. For the sake of a 3 per cent increase, the costs and hassle of running a referendum are not worth the additional revenue raised. The mere fact a referendum has never been held indicates the rules do not provide enough headroom. We understand why central Government might wish to protect local taxpayers from excessive local tax demands, but the cap should be to prevent extreme demands, or several year-after-year demands that significantly exceed wage growth. Local councils should have more flexibility to raise revenue locally than they are currently being given.

Business rates

9. One of the mooted ways of ensuring there is more funding locally is business rates retention. In theory, this could be positive, encouraging local authorities to expand their business tax base, and therefore support development and growth. However, as we have already highlighted, there needs to be the staff in functions such as planning and economic development, to help create and support such opportunities, and in many local authorities they are simply not there anymore.

10. It must also be recognised that business rate retention, whilst supported by us, will be working against other factors that could reduce income. We have rehearsed in other evidence to the current Treasury Select Committee inquiry on Business Rates, the increasing burden of business rates and how that is becoming untenable. The impact will be different on different localities, but overall, we cannot see revenue growing significantly from the existing business rates base. More generally, a move away from bricks and mortar towards electronic commerce is undermining the local business rates base, most apparently in the retail sector, with empty units on some of the nation’s High Streets. Shifts between different uses will also have positive and negatives impacts on revenue that need to be factored.

11. Though not a direct point on revenue-raising the business rates system should be equitable and reflect as best as possible economic circumstances. Regular revaluations better achieve that, and we would like to see valuations ideally move to an annual cycle.

How much is enough?
12. We are not well placed to answer this question and so can only rely on others’ figures. The Local Government Association has stressed that councils face a funding gap of more than £3 billion in 2019/20. Also, that between 2010 and 2020, councils will have lost almost 60p out of every £1 the Government had provided for services.

13. What we can therefore stress is that the trajectory should be reversed and that the 60% that has been lost, should be reversed. That is not something that can be done overnight, but Government should set a positive trajectory that seeks to restore funding over the next decade to 2010 levels in real terms and taking account of any growth in locally generated funding, budgets accordingly.

Conclusion

14. We have sought in this evidence to draw out some of the real impacts that a lack of local authority resources has on our sector, and some of the other consequences this has. Perhaps the most concerning aspect of a local government financing crisis, however, is the opportunity costs. We deal with council members and council staff on a very regular basis. They are generally local people, who have a passion for their locality, and an ambition to make it better. They are well positioned to know what their localities need, but a lack of even basic resource means they are unable to pursue their ambitions. More strategic, long-term functions have been whittled away, as councils seek to continue to protect day-to-day service provision. We would urge the forthcoming Spending Review is an opportunity to start to provide local government with the resources it needs to provide not only the vital services, but the focus and vision that will make the UK a better place in the long term.

April 2019

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1 Property Data Report 2017, Property Industry Alliance