SHELTER

BACK TO THE FUTURE

THE NEXT GENERATION OF NEW TOWNS

In partnership with

NEW ECONOMICS FOUNDATION

Acknowledgments

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EXECUTIVE SUMMARY

The government's plan to build a new generation of new towns offers a unique opportunity to help address England's housing emergency, characterised by rising homelessness, unaffordable rents, and an under-supply of social homes.

This report urges the government to take a bold approach, led with a clear vision: to end homelessness and build strong local economies by putting social housing delivery at the heart of the new generation of new towns.

We draw on both the key lessons from previous new towns and the latest thinking about the mechanisms and policies to achieve the social and economic objectives we believe should be at the heart of the new programme. In combination, this could deliver new towns that are great places to live, help to address key features of the current housing crisis, and trailblaze alternative approaches to housing and placemaking that can serve as inspiration for elsewhere.

Learning from history

The post-WW2 new towns programme, led by New Town Development Corporations (NTDC or DevCos), successfully built vibrant, self-sufficient communities. DevCos had unique powers; they could acquire land at low cost (disapplying 'hope value'), plan entire towns, build infrastructure, and manage assets, all funded by long-term Treasury loans. This model ensured affordability, economic productivity, and repayment of public investment.

A bright and necessary future for DevCos

A private-led model, or reliance on mechanisms like Section 106 agreements (S106) would be insufficient to deliver the new towns we need. S106 has proven inefficient, delivering only a fraction of promised affordable housing, with billions in unspent contributions. DevCos, by contrast, can drive the large-scale, coordinated delivery needed for modern new towns.

Financing the new towns

In order to finance new towns that can deliver on the social and economic objectives we believe should be at the heart of this programme, the report advocates:

- Low-interest government loans and targeted grants.
- Flexibility to blend public loans with private finance, refinancing when beneficial.
- Land acquisition at existing use value to ensure viability.
- Long-term planning for social infrastructure funded through land value capture.

Disapplying hope value

The Levelling Up and Regeneration Act 2023 (LURA) has reintroduced powers to disapply hope value in land purchases, enabling the state to capture land value betterment to help finance new town delivery. The report advocates:

- Robust application of hope value removal across new town sites.
- Streamlined, consistent compulsory purchase processes to speed land assembly.

Community-led development

We argue that DevCos should embed Community-Led Housing models within new town development and delivery to:

- Boost social rent delivery.
- Ensure community stewardship of land and assets.
- Promote high design standards, sustainability, and long-term affordability.

Innovative taxation

As part of their role as trailblazers, new towns offer a unique opportunity to pilot:

- **Proportional Property Tax:** Replacing council tax and Stamp Duty with a fairer, value-based tax, shifting liability to owners and incentivising occupancy.
- **Split-rate Business Taxation:** Taxing land at higher rates than buildings to encourage productive land use and investment, while lowering taxes on businesses.

Conclusion

To succeed, the next generation of new towns must be driven by economic and social objectives, not short-term fiscal returns. The DevCo model provides the best route to create affordable, inclusive, and productive places. The government should use this opportunity to deliver transformative change in housing and economic development while piloting fairer tax systems that could inform and inspire national reform.

INTRODUCTION

At the end of World War 2, in the context of unprecedented destruction and facing an extraordinarily challenging economic and fiscal backdrop, the government decided to embark on a new towns programme.

The goal was twofold: rebuild a strained economy; and tackle the housing emergency. This movement was exceptionally successful in achieving its social and economic goals, creating thriving new economies and vibrant places that millions of people call home today.

The golden age of the new towns drew to a close with the rise of laissez-faire economics, as leaders put their faith in the magic of the market rather than the bricks and mortar built by DevCos and councils.

Today, we now face another housing emergency, with 165,000 children homeless in temporary accommodation and skyrocketing rents that leave parents forced to choose between feeding their families and keeping the roof over their head.

But there is light ahead in the tunnel. The new government has recognised that our housing system is broken and has championed the need for more social rented homes. Alongside investing £39 billion in a new 10-year Affordable Homes Programme, it committed to delivering a new generation of new towns.

The question now is not whether to build – but how, what and where? History has shown us that you cannot answer these questions unless you first have a crystal-clear vision for what you aim to achieve by building. It is our view that this vision should be to end homelessness and the housing emergency and to build the firm foundation of a strong economy by delivering homes that people can afford in places they want to live.

That means that every year we need to be building at least 90,000 genuinely affordable social rented homes with rents that are tied to local incomes.

A key pillar in delivering this housing revolution will be the next generation of new towns, so this paper reflects on the lessons learned from the historical new towns movement to help ensure we deliver sustainable, thriving communities with social homes at their heart.

Back to the Future: the Power of the DevCos

The last generation of new towns applied many of the principles of the Garden City Movement, such as land value capture, comprehensive green infrastructure, a commitment to community development, an emphasis on arts and culture, and employment opportunities for all within easy reach of home.

New towns differed from garden cities in terms of the delivery vehicle. Garden cities were delivered by private, limited-profit development companies, using philanthropic start-up funds with low interest rates. In contrast, the New Towns Act 1946 detailed how new, large-scale communities would be planned and delivered by government-appointed DevCos, funded by HM Treasury loans.

The new towns programme was driven by a scale of ambition for positive place-making that has not been rivalled since. In total, 32 new towns were designated in three phrases:

- **Mark One:** designated between 1946 and 1950
- **Mark Two:** designated between 1961 and 1966
- **Mark Three:** designated between 1967 and 1970

These 32 new towns, with two in Wales, five in Scotland, four in Northern Ireland and the rest in England, are now home to c.2.8 million people.[1]

DevCos were the critical vehicle for making new towns financially, economically and socially successful. Powerful organisations that acted as masterplanner and master developer, DevCos designed, planned and managed new towns. They had a range of powers and capabilities that was vital for success, including:

1. **Compulsory Purchase (CPO) Powers** – powers that enable certain bodies, known as acquiring authorities, to compulsorily acquire land, without the agreement of the owner, authorised by an Inspector/the Secretary of State. This acquisition must be in the public interest.[2]

2. **Disapplying hope value** – the ability to disapply the landowner's hope that the current value of their land will increase beyond the value of its existing use from the cost paid for the land[3]. This is financially integral going forward, with NEF's recent research demonstrating that doing so across the board would reduce the cost of a social house building programme of 90,000 homes by around one quarter (£4.5bn).[4]

3. **Planning powers** – the ability to design and plan the entire town and grant itself and other entities planning permission over the designated new town area. As the primary planning decision-making authority over the entire new town area, land values became suppressed without the need for CPO, as there was no credible hope that any other landowners within the designated area could secure alternative planning permission (see above).[5]

4. **Access to low-cost, long-term loan finance from government** – financed through 60-year, fixed interest loans issued by the Treasury.

5. **Land assembly at scale** – the ability and finance to acquire a huge number of sites allowing DevCos to design and plan the entire town and plan finances long-term. They had the power to decide which land would be retained to secure long-term commercial and residential rental income. This could be sold to private developers early in the new town's development to provide an injection of capital or sold 30 years later when the asset had matured.

6. **Power to build, own and manage land and property** – building commercial, industrial or residential centres and the flexibility to rent, sell and manage their asset portfolio as they saw fit, as well as creating and managing public parks and green spaces.

7. **Management and construction of public utilities** – including sewers, roads, and local public transport to ensure that the town had the appropriate infrastructure in place. The local authorities (LA) that would usually be responsible for these provided 'transfer' payments to DevCos to cover the cost of providing this vital infrastructure.

8. **Powers to implement a range of activities in service of the new town** – for example, marketing campaigns to attract people to the town, or providing loans to prospective tenants/homeowners to buy a car so that they could move to the town.

In more recent years, governments have relied on other development corporation models (including Mayoral Development Corporations (MDCs) and Urban Development Corporations (UDCs)). These largely focus on smaller scale regeneration or urban extensions – and crucially lacked the power to disapply hope value.

However, if the government is serious about a new generation of new towns it will be critical to revive and revitalise the DevCo model.

Learning lessons for future success

In 2014, the Town and Country Planning Association conducted a comprehensive study of the UK's post-World War 2 new towns programme. As Shelter were part of the steering group for this work, we can present key lessons learnt for a new generation of new towns. These are available in the annex paper, Lessons learned for a new generation of new towns.

Who creates hope value?

Land values are principally influenced by what land can be used for and its location. For example, agricultural, industrial or residential use and its proximity to infrastructure and a buoyant local economy. Land values are therefore largely a reflection of government policy and planning decisions, as well as the actions of both the state and wider community to increase the land's desirability. Residential land values can be over 100 times higher than agricultural.[6] So, when the government grants residential planning permission, it gifts the landowner millions of pounds for doing nothing.[7] Similarly, a new rail line paid for by the government can greatly increase nearby land values without the landowner taking any action. In the case of the Jubilee line extension, it resulted in an uplift in land values of over 50%.[8] The inelasticity of land supply in a desirable location when faced with increasing demand fuels asset price appreciation through no effort of landowners to contribute to the land's productive capacity.[9] This is due in part to its uniquely attractive investment properties alongside cheap credit expansion.

As such, the profits derived from land and its hope value are better described as 'rents', for they are completely unearned.[10] Even though the development of land appears to mask these rents as traditional profit-making, the excess returns from private housing construction solidify it as a principally rentier-based activity.[11]

> **If the government is serious about a new generation of new towns it will be critical to revive and revitalise the DevCo model**

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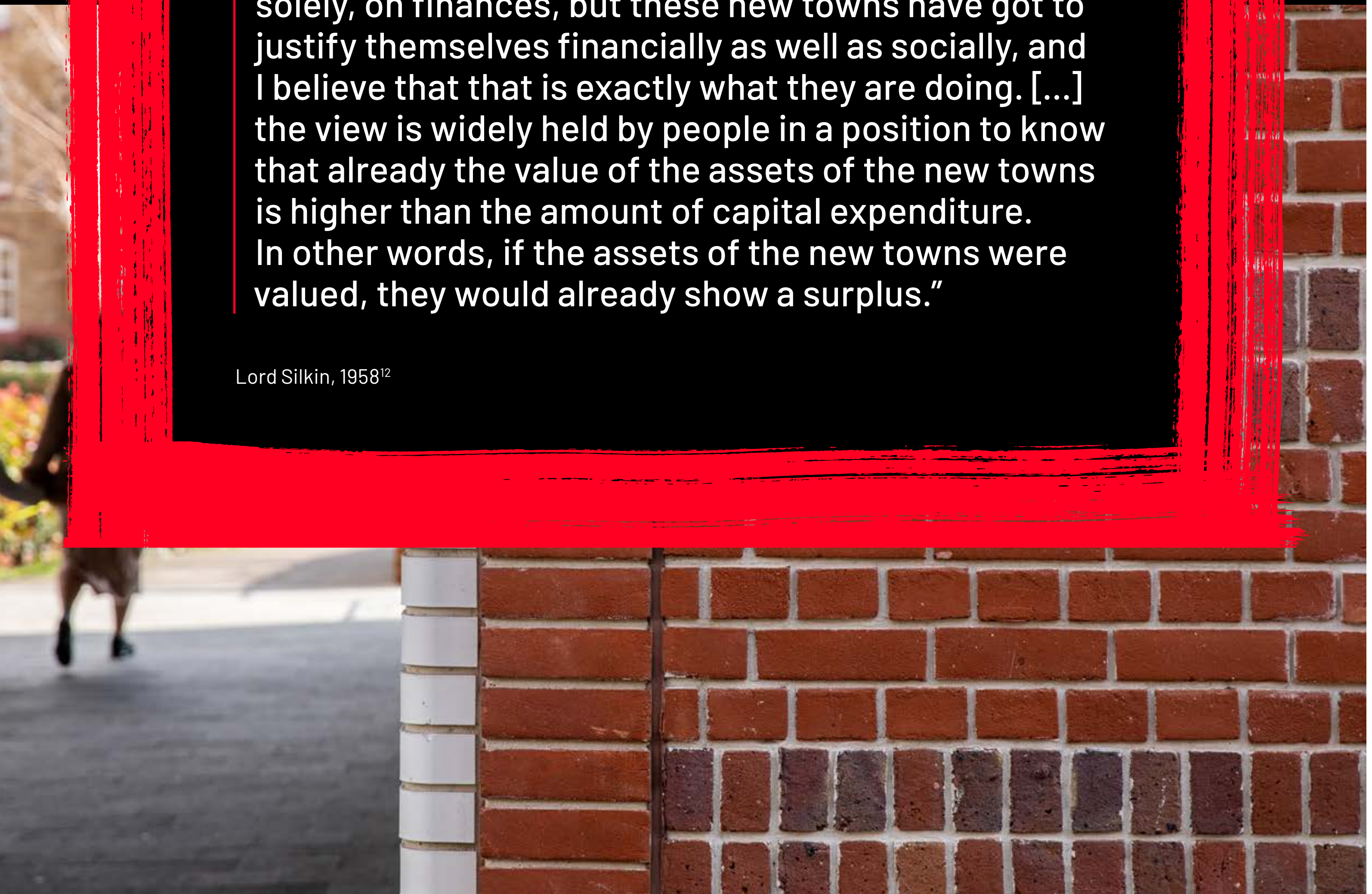
CHAPTER 1:

UNDERSTANDING HOW TO FINANCE THE NEW GENERATION OF NEW TOWNS



> "The case for new towns does not rest primarily, or solely, on finances, but these new towns have got to justify themselves financially as well as socially, and I believe that that is exactly what they are doing. […] the view is widely held by people in a position to know that already the value of the assets of the new towns is higher than the amount of capital expenditure. In other words, if the assets of the new towns were valued, they would already show a surplus."

Lord Silkin, 1958[12]

Financial objectives of the original new towns programme

The original new towns programme was a social and economic development programme, focused on housing people and building new centres of productivity and growth. Most early new towns met these goals within or before their proposed timeframes.

The first generation of new towns were more financially successful, quickly entering into profitability. DevCos were given sweeping powers as outlined in the introduction. In particular they were able to buy land at or very close to existing use value.[13] They received low cost, low interest loans from central government, and the high concentration of social housing within new towns guaranteed income from tenants subsidised by benefits.

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It's not, however, just about saving money upfront; government-funded new towns are economically viable long-term projects. According to the Town and Country Planning Association, the £4.75 billion loan made to DevCos was fully repaid by 1999.[14]

The development of Milton Keynes, one of the UK's most successful new towns, was initially funded by a £90 million government loan in 1967.[15] This substantial public investment allowed for comprehensive planning and infrastructure development prior to private sector involvement, developing a stronger, cohesive foundation for growth. In Letchworth Garden City, funds from leaseholders and rents were applied to repaying the loans that supported the town's development. Over the years, this income has been utilised to support services, enhance the town, and continues to provide contributions to the Treasury.[16]

Later generations of new towns took longer to reach profitability because of higher interest rates charged by the government on loans and the higher cost of land.[17]

The financial legacy of new towns was further marred by the Thatcher government's ideological decision to wind up several of the towns early, where many were instructed to conduct a fire sale of assets on the open market before they had matured, meaning commercial and residential buildings were sold at a fraction of their worth.

How were the last generation of new towns financed?

DevCos were primarily funded through loan financing provided by the central government, with some grant funding, for example, to fund large scale infrastructure needs. Until 1987 the only form of debt financing allowed for DevCos were central government 60-year fixed rate loans.[18] Repayments were made in equal instalments at the rate of interest on the date the advance was made.[19] DevCos were not allowed to borrow privately, or at any different terms. These restrictions proved troubling for the DevCos of the later new towns, as they began borrowing when interest rates had risen significantly, and were therefore locked into those higher rates for the whole 60-year period.[20]

As well as government funding and social housing rents, DevCos also had other sources of income. DevCos built and owned offices, and shop and warehousing space which they could rent out to businesses over the long term. Importantly, as a new town became more established and demand increased, rents could rise. Over time, these assets 'matured' and could be sold for a profit. DevCos could build homes and sell direct to consumers or build commercial property and sell to investors or sitting tenants. Selling assets raised a one-time injection of capital to pay down on loans or invest in new construction. Buildings sold early on were sold at a fraction of their potential value, trading long-term gains for immediate cash. Also, interest payments generated significant revenue for some DevCos. For example, Harlow became a major lender of money to the Thames Water Authority. Due to income from these loans, Harlow, Bracknell and Stevenage were all required to pay back their significant excess profits to the Treasury in 1975.[21]

> **DevCos built and owned offices, and shop and warehousing space which they could rent out to businesses over the long term**

What lessons did we learn from the financing of the last generation of new towns?

DevCos must be able to buy land at scale, at the right price. While the government is likely to be tempted by a private led model to try and keep costs off-book, a large-scale new towns programme would not be viable without the ability to buy land at scale, at or close to existing use value. **Public-private partnerships, equity models or Private Finance Initiatives (PFI) would not be able to disapply hope value when using CPO powers to do this.**

The government's January 2025 CPO guidance notes that direct involvement of a private actor reduces the likelihood of being able to remove hope value, as it is unlikely to be considered in the public interest.[22] A DevCo-led model has clear public interest, even when selling or contracting land onto private actors. There needs to be clear and overriding demonstration of social value in the public interest for CPO, and/or the disapplication of hope value, to succeed. As noted in chapter 3, there are also problems relying on private models in securing genuinely affordable social rented homes. Therefore, a private-led model would not be able to deliver the next generation of new towns.

Government must make low-interest, long-term fixed loans available. DevCos should also be allowed to borrow flexibly from private markets and refinance to take advantage of lower-cost finance. The requirement to borrow only from central government at fixed 60-year rates became a major constraint, preventing DevCos from shopping around or refinancing when rates dropped. Today private capital is competitive so a blend of public and private investment is likely necessary. Public funds should be used strategically to unlock private investment.

> **Land acquisition at agricultural or brownfield values makes new towns viable**

Grant funding and reimbursements are critical, particularly for infrastructure. Without grants to cover infrastructure or reimbursements for services typically provided by local authorities, many DevCos would not have been financially viable. Grant funding will likely remain essential, especially to ensure a high proportion of social rent housing.

Land acquisition at agricultural or brownfield values makes new towns viable. Land costs rose sharply after the 1959 Town and Country Planning Act and the 1961 Land Compensation Act. The 1974 Myers case ruling extended these changes to new towns, making later developments much more expensive and harder to deliver.[23]

Post-war new towns were government and DevCo-led. Attempts to replicate this through private development corporations or public-private partnerships have been less ambitious and less successful, focusing on smaller urban extensions rather than large-scale placemaking.

Social rent protects DevCos from economic volatility. A high proportion of social rent housing was essential to the success of new towns. Guaranteed rents backed by welfare benefits gave DevCos financial certainty and adaptability. Low rents and secure tenancies also attracted residents quickly, helping to establish communities. Private building levels contract when people can't afford to buy, with a knock-on impact on the wider supply chain. By contrast, social housing demand was (and remains) almost insatiable, which makes social housebuilding resilient in times of trouble – i.e. it is 'counter-cyclical'.

Government needs determine what industries it wants to attract. This includes investing in building spaces that attract middle income industries as well as low- and high-skilled work, for example, in the foundational economy. A new town has the advantage of being planned, rather than simply duplicating what's worked in smaller developments elsewhere.

Location is a key factor. Southern new towns such as Harlow and Bracknell moved into profitability earlier because they were located in more high-demand areas. This is likely to still be true today, and new towns closer to high-value areas are likely to have the greatest impact on reducing government spending, if there's a very high proportion of social rent.

Political interference should be designed out. The mass sell-off of new town assets under Thatcher undermined years of planning to build an economy around industries that brought employment and value to the local area. Macroeconomically, this constituted part of a wider pattern of reduced public sector borrowing and personal/corporate taxation in favour of private borrowing and consumer spending.[24]

New towns need to be a political imperative. New towns were built in an extreme fiscal environment: the aftermath of a devastating World War that had left many areas destitute. Ultimately, post-war governments understood that unless they invested in social infrastructure, they risked upheaval from a broken economy and society.

Financing the modern generation of new towns

New towns are long-term projects. Over the lifecycle of the development, there will be several economic cycles, interest rates will rise and fall, political parties will gain and lose power, and the global context will shift. DevCos will need to keep building through consistent access to low-cost, long-term loans and grant funding.

If private debt held by DevCos is counted as 'public' expenditure, increased borrowing by them will impact overall government debt levels. As 'market producers', DevCos are by and large not funded through taxation. They generate revenue through rents, the sale of assets and the capture of land value uplift. It is not standard practice in Europe to class this type of debt on government books. In the UK, financial public bodies, including the Bank of England and public banks, have historically been excluded in debt definitions and rules.[25]

Excluding DevCos from the government's books would ensure they are able to reduce or increase private borrowing in accordance with fluctuations in market and government borrowing costs.

To drive down the cost of financing to the DevCo, the government should also make low-cost, patient capital available in the form of government loans and grants. It is likely the government would finance these loans by issuing gilts. Modern economists note that governments with monetary sovereignty can handle much higher levels of debt without resulting in higher gilt yields.[26] This is especially so if the government can instil confidence that that money is being used wisely to drive productive outputs. Since the introduction of Public Sector Net Financial Liabilities (PSNFL), the government's balance sheet may be able to net off the loans it provides directly to DevCos by counting both the asset (the loan to the DevCo) and the liability (gilt issuance) created when providing the loan. However, under current fiscal rules, it is likely that gilt issuance for DevCo grant funding will still count towards, and therefore be restrained by, the government's debt rule. One way to address this problem would be to change the definition of debt to exclude revenue-generating housing and infrastructure investment from the debt rule.[27] This call has been gaining momentum, as shown by high-profile support from key players in the housing association sector.[28]

Alongside debt-financing grants and loans, the government could use monetary-financing to sustain cheap finance for DevCos. This could insulate the government from fluctuations in borrowing costs. History suggests that the Bank of England's short-term interest rate on reserves will often be lower than long-term bond issuance rates over the decades of new town delivery.[29]

Monetary financing could be used when advantageous and would be especially cost-effective if the Bank of England moved to a marginal reserves system.[30] Fears of additional inflation risks from monetary financing are unfounded.[31] Since 2006, the Bank of England has controlled short-term interest rates and commercial bank lending as necessary via rate setting. Quantitative easing proved that levels of commercial reserves are no longer the key factor determining how much capital banks lend out. Further, Berkely and Ryan-Collins show that the institutional apparatus already exists for Parliament to spend as it chooses, regardless of issuing debt or any supposed restraints from the Treasury or Bank of England.[32]

The government is also able to issue a **new town gilt** – perhaps through the new 'Housing Bank' or the National Wealth Fund. Long-term data shows that larger government debt does not intrinsically result in higher borrowing costs.[33] Higher borrowing costs are more dependent on the market's confidence in what the government is investing in, and wider measures of fiscal health.[34] Therefore the government may be able to secure even more favourable rates if they issue bonds specific to the new towns project.

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Financing routes available to new DevCos.

Alternatively, it's possible that the **DevCo could issue its own bonds**. If the government is concerned about debt sitting on its own balance sheets, DevCos can issue their own bonds. While unlikely to receive rates as favourable as traditional government finance, factors including stronger governance arrangements, guarantees from the UK government (e.g. through the new Housing Bank), the assurance of a high degree of political autonomy and clear government investment could reduce perceived risk or drive down interest rates.

DevCos may also be able to access **municipal bonds**: in response to increasing costs of borrowing through the Public Works Loans Board, local authorities created the Municipal Bond Agency (MBA). There may now be an opportunity for DevCos to borrow from the MBA without the need to secure a credit rating from one of the major bond agencies, while still maintaining strict governance.

There is also an opportunity to raise capital by borrowing commercially – given the more mature and competitive **loan market**, providing DevCos with additional flexibility.

The government is likely to be tempted by the revival of a Private Finance Initiative (PFI) or equity model. However, there are serious challenges with such an approach.

There are challenges with a private-led development corporation.

The PFI model is when, instead of the government investing directly, it creates a long-term contract with a private party which designs, builds, finances and operates a public asset and related services. The intended benefits are the transfer of risk to private actors, cost certainty for government departments and an expectation that projects would be delivered on time.[35] However, there is little evidence that these benefits were ever realised, especially for housing delivery.

The NAO (National Audit Office) report into PFIs for housing found 21 out of 25 projects assessed experienced cost increases above estimates, 12 of which were over 100%. Because of this, the NAO was unable to demonstrate that PFI housing projects achieved value for money.[36] The NAO also found that financing costs for PFIs are between 2 to 3.75bps above the cost of UK gilts.[37]

With many legacy PFIs coming to an end, public sector bodies are now discovering the 'buy now, pay later' model is poor value for money. In particular, it can be very challenging to incentivise the provider to maintain the asset/property to a high standard.[38]

With strong governance and reporting requirements in place, the government can hold DevCos to account. The independence of DevCos, and their operation as a commercial vehicle means that they have the same financial imperative as a private actor to deliver to time and budget but without the added cost of paying dividends. Instead, value can be concentrated on delivering economic and social goals while maintaining financial security, for example, by building more social housing.

Housing associations and private developers will obviously have an important role to play in the delivery of new towns. DevCos can sell on land at development value to private actors and sub-market levels for housing associations, or even commission them to build. However, DevCos must remain the primary vehicle both for assembling and building.

DevCos must take a significant role in direct delivery.

Some actors have lobbied for the DevCo to limit its role to land assembly and town planning, and for delivery to be conducted entirely by private actors. This runs the severe risk of towns failing.

While new towns will make a return, it may take many years for this to materialise at scale. This requires an actor to be solely motivated by the interests of the new town and attracting people and industries with lower rents/prices. Speculative development, which focuses on maximising returns by building high-value homes for sale, is wholly unsuited to this type of long-term project.

A new town needs people to move there which means that homes must be built quickly. It is unlikely that the speculative development model would be able to attract enough buyers to an entirely new town at the price point that they need to achieve, unless they resort to selling overseas to long-term investors that are looking for a safe space to store their capital without any intention of occupying the property. This risks creating ghost towns rather than communities, or incentivising speculative landlordism, threatening the long-term financial prospects of the town.

By contrast, the new towns movement was successful because of the high concentration of social housing and infrastructure at the start, which established a community and the town as a place to live. As the government review of new towns concluded, 'it was the initial public sector house building that laid the foundations for future private-sector led growth, giving credibility to the development and reducing perceived risk'.[39]

Finally, a core value of the DevCo is its ability to masterplan the whole town in line with social and economic goals. The DevCo may seek to create an economic powerhouse by attracting a specific mix of industries, for example, creating a meditech hub between Oxford and Cambridge. This capacity is central to achieving the economic goals of a new town but is completely lost if the DevCo's powers are limited to those of a planning authority or land broker.

The damaging economic effects of uncoordinated development 'unrelated to the needs of the new town' were highlighted by contemporary experts during the fire sale of DevCo freeholds and undeveloped land in the 1990s.[40] This absence of economic planning in our placemaking has played a key role in the UK's productivity puzzle and why economic growth has been both uneven and elusive.

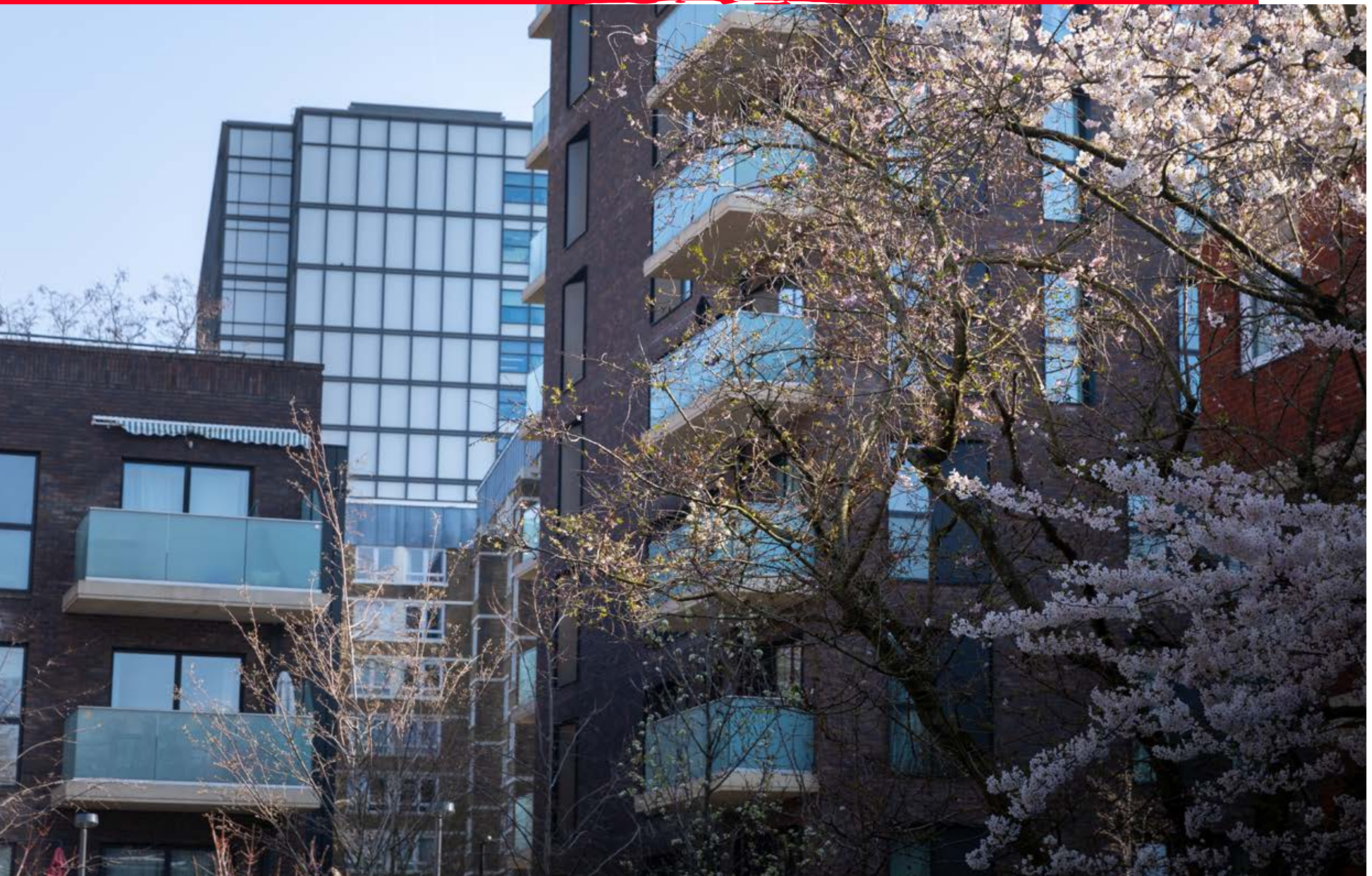
With many legacy PFIs coming to an end, public sector bodies are now discovering the 'buy now, pay later' model is poor value for money

Conclusion

Each DevCo will need the flexibility and capability to select the right mix of funding for the specific conditions of the new town. The government must use every power at its disposal to establish DevCos with the powers and finance to deliver, rather than interfering in their day-to-day running.

The goals of new towns must be economic and social rather than financial. New towns are likely to make a return on investment but a focus on fiscal return could risk failure to achieve these goals and ultimately represent poor value for money.

New towns with a high concentration of social housing have been built before and can be financed again. The government should take an ambitious and mission-led approach, to build prosperity and security for the country. The development of new towns can be the beginning of a radical transformation of our housing landscape.



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CHAPTER 2:

ENSURING HOPE VALUE BELONGS TO NEW TOWNS

Hope value and its role in new towns delivery

2023 marked a crucial change for housing and infrastructure delivery in the UK. **The Levelling Up and Regeneration Act (LURA 2023) restored select public bodies' ability to disapply hope value when acquiring land in the public interest.**

Capturing land value will be key to ensuring the financial sustainability of new towns and determining how much social housing can be delivered. The process DevCos have to go through to acquire land will directly impact how fast they can assemble sites and build out.

Land prices are the UK's single most expensive element of any new development (Figure 1), accounting for on average 73% of the price of a new build home. The steep rise in land prices has stymied the building of social homes and embedded the view that land is a financial asset. As land values have skyrocketed, social rent delivery has fallen off a cliff.[41]

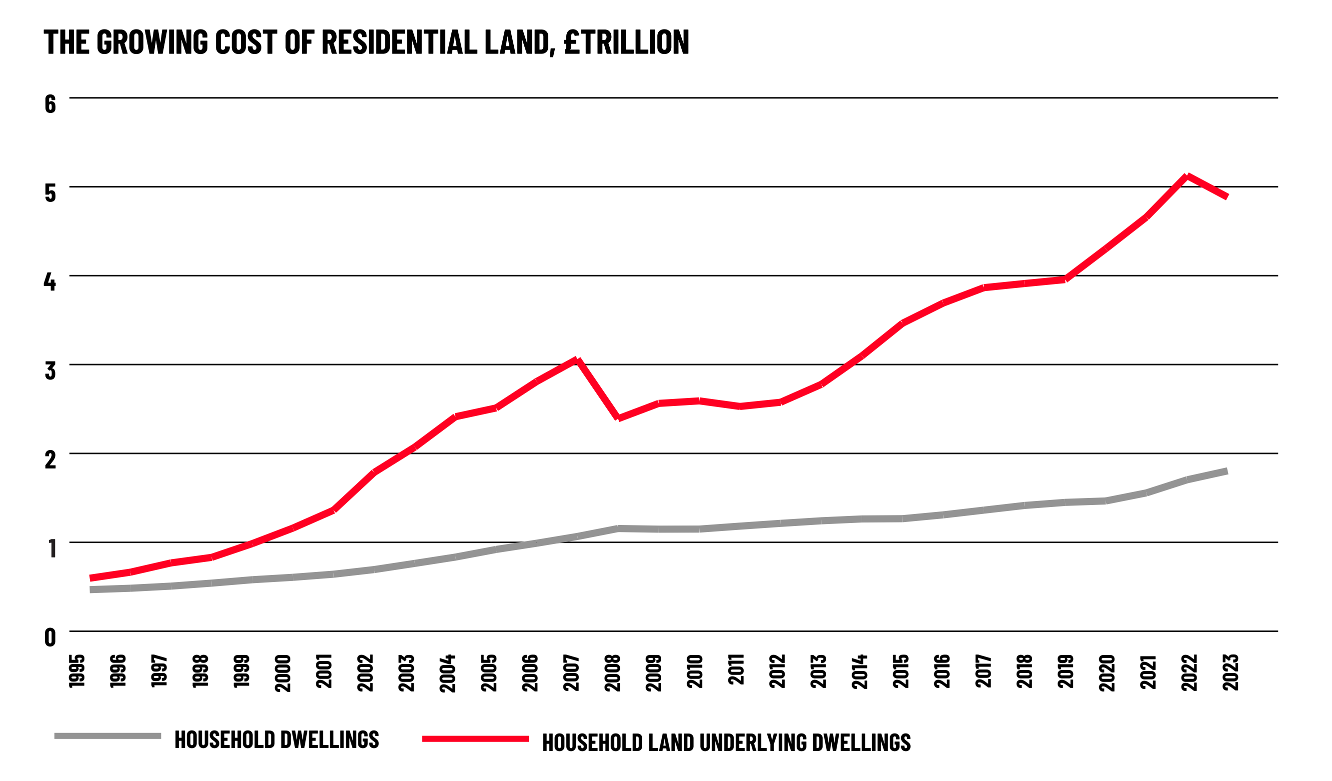
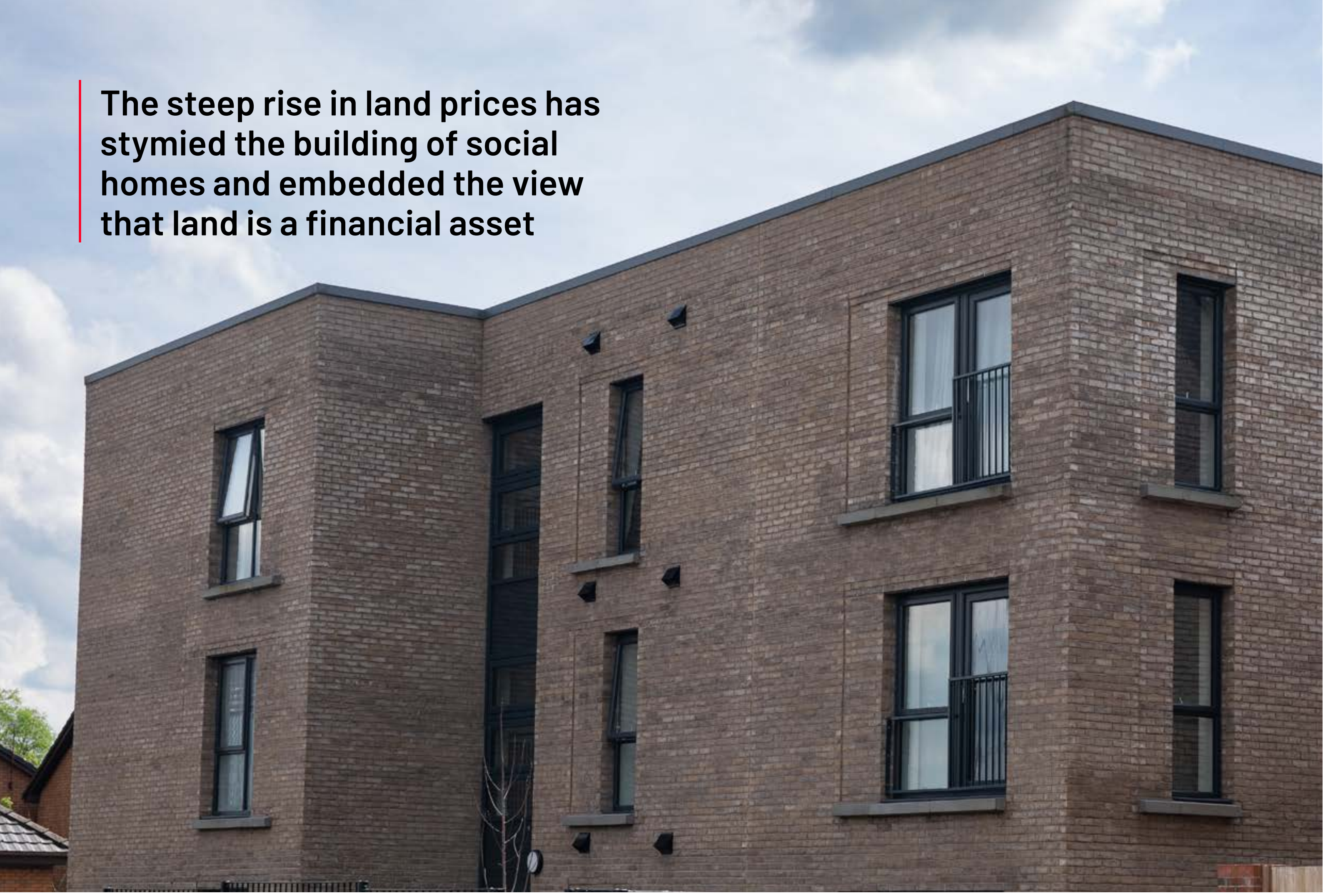


Figure 1 – The growing cost of residential land. Source: ONS, National balance sheet from the Office for National Statistics, 2023

The steep rise in land prices has stymied the building of social homes and embedded the view that land is a financial asset



Land could be an enormous barrier to new towns. If DevCos must buy land at a premium, this will take up the lion's share of available finance, leaving little for delivering social housing, schools, health facilities and community spaces.

Therefore, it will be critical to use (or threaten to use) strong compulsory purchase powers with a direction to remove hope value. Just as it is universally accepted that local authorities do not pay hope value compensation when refusing a planning application, DevCos should not be required to pay hope value when acquiring land designated within a new town site. In both cases, the decision on land use removes the prospect of planning permission sought by the landowner — and in neither case should compensation be paid for that lost hope value.[42]

Given that the rental profits from increasing land values are passively generated (see Introduction), there is a strong moral case for disapplying hope value. New town housing development is not possible without the support of large-scale public funding for the associated infrastructure.

Despite the moral justification for removing hope value and its wide-spread practical success, the changes from 1959-1961 (and the Myers ruling in 1974) undermined the delivery model by requiring the state to once again pay hope value when acquiring land. This created a 'price watershed' in land values.[43] Landowners began "gaining compensation for values, or betterment, which, put simply, do not belong to them".[44] Betterment was transformed from a public interest vehicle that funded critical social infrastructure into a key blocker of development that maximised individual's financial returns.

Ambitious is realistic: setting a reduced market value and maximising gains

From 1946 to 1970, DevCos delivered 21 new towns across England.[45] Since then, "the ratio between agricultural and residential values has widened considerably from 35 in 1969 to 100 today".[46] Figure 2 illustrates the sheer scale of this divergence over the last 30 years alone.

While this has reduced land market efficiency and economic productivity by encouraging rent-seeking behaviour, it also creates an opportunity for the state as DevCos can capitalise on the greater levels of land value capture. While the LCA 1961 privatised these gains, LURA 2023 reopens the possibility to socialise them for mass public benefit.

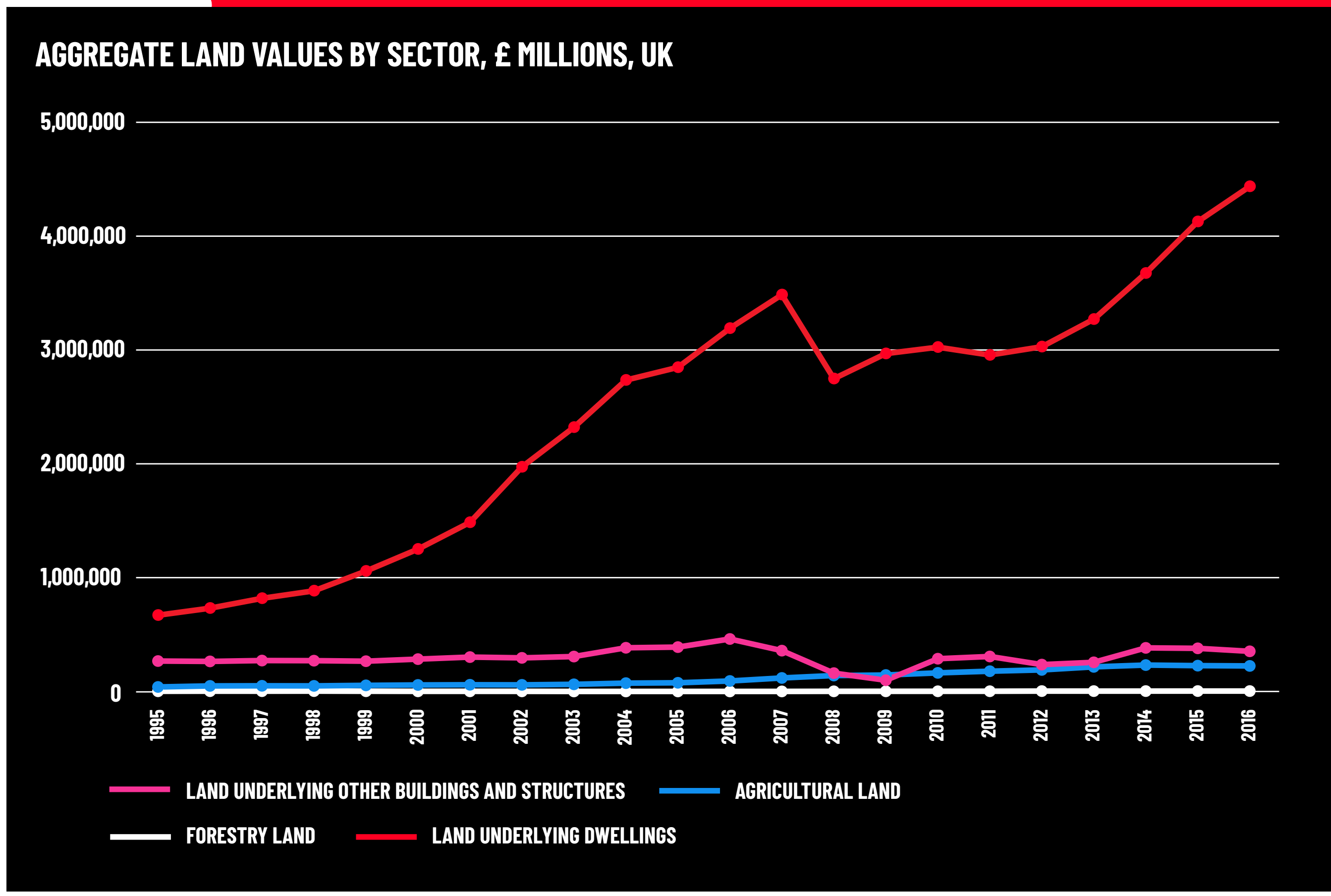


Figure 2 – ONS, Aggregate land values 1995 to 2016, Freedom of Information request.[47]

Increased land value capture through hope value removal will provide the vast majority of financing to deliver new towns, slashing up-front costs and servicing debt. Grant funding will step in to cover shortfalls and ensure high levels of infrastructure delivery are sustained. As Aubrey notes, this model has proven highly effective across many European developments, for instance the Vauban and Rieselfeld developments in Freiburg and the Netherland's Vathorst extension of Amersfoort.[48]

A recent report by Centre for Cities concluded that £193 billion could be captured over a 30-year period from land value betterment across 15 sites in England within the upcoming new towns programme.[49] As the report states, "dedicating half of this to cross-subsidising social housing would deliver half a million social homes, or approximately 18,500 per year".[50] Brownfield sites, arising mainly from urban extensions, are likely to constitute a greater share of the land within new settlements than the Centre for Cities' modelling incorporates, even if greenfield sites constitute larger total land sites. Analysis by NEF takes greater account of brownfield land and still shows that disapplying hope value on mass would reduce the upfront cost of building 90,000 social homes by around one quarter, or £4.5 billion.[51]

The ratio of land and house prices on the open market against initial acquisition costs for DevCos will determine how much land value can be captured for public benefit. When selling land, DevCos can accept a low land price in return for high social housing delivery, or a high price to maximise cash flow while still requiring a base level of privately-delivered social housing.

The government must be ambitious, remaining in line with the strong precedent that exists for acquiring land at around two times existing use value. A multiplier of two is broadly consistent with what was achieved in the post-war new towns[52] – this reflects actual market value of un-permissioned land within a new town's site[53] and is a principle commonly applied in other European countries such as Germany, France and the Netherlands.[54]

Existing use value is market value

Disapplying hope value does not mean the state pays below market value for land because the new lower price is the new market value. As Bentley explains, "the market value [of land] at any given point in time is a function of the policy parameters and those policy parameters can — and sometimes should — change."[55] This principle is commonplace across our market economy. Traders who buy shares that fluctuate in value due to changes in government policy do not proclaim that their shares have been driven below or above market price.

The principle that land valuation should adjust to reflect government policy is in line with how our land market already operates. The 'no scheme world' provision ignores prospective land value increases attributable to the associated CPO scheme and is an accepted element of determining land values.[56] Private developers are expected to consider and reflect local affordable housing requirements in the price they pay for land, as confirmed by the Parkhurst Road 2018 case.[57] If private developers choose to pay over this value, they are actually paying **above** market value, wrongly assuming they can maximise profit on the land regardless of planning policy. In the same way, hope value removal is a direct reflection of changed government policy.

We must also develop a framework that ensures public land is used to support the delivery of new towns. As Hill points out, public bodies must be able to dispose of land to DevCos at prices that support the achievement of public policy objectives. Current treatment of 'best consideration' rules which dictate public land disposals remain inconsistent and unclear.[58]

Consolidating DevCo powers to remove hope value and assemble land efficiently

To ensure the powers are effective in practice, landowners must believe that the threat is real and imminent, encouraging them to negotiate early and accept a fair premium before a CPO is used. To do this, it is important to speed up the CPO process (so that there are fewer barriers to using them) and ensure LURA powers to disapply hope value are firmly tested in court (so that landowners aren't incentivised to litigate).

The 1974 Myers case illustrates how legal interpretation can hinder delivery. Bernard Myers successfully argued for higher compensation after Milton Keynes Development Corporation (MKDC) compulsorily purchased his land. The Court of Appeal upheld that, while the land should be valued as if the new town had never been proposed (i.e. the 'no scheme world' principle), even without it, it could be assumed that the owner would have been granted planning permission to build houses as soon as ten years later.[59]

The judge stated in his ruling that the valuer's task must be to 'let his imagination take flight to the clouds [... and] conjure up a land of make-believe'.[60] This decision inflated land costs for MKDC, and subsequent new town development. It broadened landowners' claims to hope value, even in areas which had already been designated a new town site and that had no chance of alternative development, lacking infrastructure to support any residential construction.[61, 62]

When the 1961 Land Compensation Act was drafted, it was wrongly assumed that reintroducing hope value wouldn't impact land valuations within new town sites. It was believed, given that new town sites were in predominantly rural locations, the associated land had little prospect of attaining residential planning permission beyond being allocated as a new town.[63]

Moreover, the Act was intentionally designed not to override the 'no scheme world' principle, and although theoretically inconsistent – it excluded one factor influencing land value but included another – both hope value and the 'no scheme world' rule were meant to co-exist and be applied independently.[64] The Act included specific instruction to disapply the effects on land values from a new towns designation. This effectively brought the 'no-scheme principle' into statute in these cases.[65]

As the Myers case demonstrates, it proved far more complex and uncertain to determine compensation levels within new towns sites than was initially imagined by the 1961 Act. This complexity was exacerbated as areas of England became increasingly populated, further blurring the lines between when hope value should or shouldn't be applied.[66] Ultimately, the decision of a single judge to extend their consideration far beyond the practical and policy restraints relevant to the case drove forward a new system of land value compensation for new town sites.

LURA 2023 has now reestablished a consistent compensation system for state-led land acquisition, ignoring both hope value and the effects of the new town scheme on land values but it remains likely that any objections will concern the level of compensation offered.[67]

The government has begun to strengthen hope value removal and support efficient land assembly.[68] But it must do more to buttress the powers of DevCos and ensure a favourable environment for hope value disapplication within new towns.

Clear government backing will set landowner price expectations.

1. The NPPF must be clear that hope value disapplication in CPOs will be confirmed if they meet government criteria.[69]

2. Ensure strong case law is in place by encouraging an authority with significant resources, (e.g. Homes England/GLA), to include a section 14A direction in a CPO to remove hope value.[70]

3. Ensure DevCos have no direct private sector involvement, so that they can disapply hope value and use CPO powers. Current CPO guidance places limits on Section 14A directions where the private sector is directly involved.[71]

4. Consider giving DevCos greater flexibility in their statement of commitments to remove hope value. DevCos already have a legally binding social purpose, which should be sufficient assurance that hope value removal is justified.

5. Issue a directive to relevant councils to work with DevCos within or near their designated area to ensure the council cannot permission land without the DevCo's consent.

6. Expand the current definition of 'public interest' to include infrastructure vital to the delivery and functioning of new towns (e.g. transport).

7. Ensure DevCos are resourced and have sufficient legal expertise to effectively and efficiently progress a large caseload of section 14A CPOs.

An alternative route – a Land Assembly Right for DevCos within new town sites.

Beyond case-by-case hope value removal, there is an argument for the government to disapply hope value across the entirety of each new town's site. As a recent consultation by the Ministry of Housing, Communities and Local Government proposed, the Secretary of State could be granted a general power to "make a direction to remove hope value from the assessment of compensation for a specific category of sites where justified in the public interest."[72]

Applying this Right to Assemble Land within new town sites would build in greater certainty around compensation levels within the acquisition process for both DevCos and landowners, speeding up delivery and greatly reducing the need for CPOs. This would likely comply with Article 1 of the First Protocol (A1P1) in the European Convention on Human Rights because given the lengthy process of identifying and designating a new towns site it is very unlikely that a challenge could argue that the development could occur elsewhere.

Further strengthening and speeding up the CPO process.

There will be cases where landowners choose to hold out, making a fast and efficient CPO confirmation process critical. As new towns delivery will stretch over many Parliaments, this process must be consistent and objective, within an efficient framework.

CPOs made under Schedule 4 of the New Towns Act 1981 are currently subject to stricter requirements than CPOs made under section 14D of the Acquisition of Land Act 1981.[73] Unlike

Schedule 4 CPOs, the Secretary of State can defer confirmation of contested section 14D CPOs to an inspector. The government has now included an amendment within the Infrastructure and Planning Bill to grant a similar power to a Schedule 4 CPO.[74]

However, this should go further and include a presumption in favour of appointing an inspector where an objection is received, unless there are exceptional circumstances. Where no objection is received against CPOs which include a section 14A direction, the DevCo should be able to confirm its own CPO for social housing, health and education purposes. This is currently in the Infrastructure and Planning Bill for other public acquiring authorities and will help to reduce political interference over the lifetime of a new town.

Stakeholders have also told us that confirming contested CPOs with an inspector is generally a faster and more streamlined process than awaiting Secretary of State approval. It can help avoid confirmation backlogs, especially if accompanied with our proposed NPPF changes to ensure inspectors have clear instructions to approve CPOs without hope value if requirements are met.

It is vital that DevCos begin CPO proceedings as soon as possible with each land acquisition, regardless of whether the landowner may ultimately opt for voluntary sale.

There will be cases where landowners choose to hold out, making a fast and efficient CPO confirmation process critical

Conclusion

The success of new towns depends on DevCos acquiring land at as close to existing use value as possible during large-scale land acquisition and assembly to maximise returns, social housing and other infrastructure. Hope value removal is morally justified and consistent with the workings of our land and legal systems.

LURA 2023 provides a solid legislative basis. The government must now work to embed and normalise a state-led land acquisition system that unlocks rather than blocks the delivery of thriving new towns and builds the social housing this country needs.

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74 Planning and Infrastructure Bill. (2025) House of Commons, Session 2024-25, pp.132. Available at: https://bills.parliament.uk/bills/3946

CHAPTER 3:

SPOTLIGHT – THE CHALLENGES OF UNLOCKING SECTION 106 DELIVERY

Section 106 (S106) agreements are legal agreements between developers and local authorities that require developers to provide funding or measures, such as affordable housing or infrastructure, to offset the impact of new developments. However, there are serious flaws with S106 and it is currently an inadequate mechanism for securing a large number of social rent homes on the scale needed within new towns.

Local developments impact local communities. For example, increased demand on local services, such as schools, healthcare facilities, transportation infrastructure, and community amenities that arise from population growth resulting from new housing developments. As such, S106 contributions were initially conceived to 'offset' these additional strains.[75] However, these planning obligations have evolved away from this original intention to become a crutch of affordable housing delivery in the UK.

S106 agreements do not hit targets

Government data confirms that 38% of all social homes and 47% of all affordable homes built annually (2021-22) are now delivered through S106 agreements,[76] representing 12% of all new homes built annually, in contrast to only 0.05% twenty years earlier. In 1992-93, nearly 57,000 social rent homes were completed through grant funding. This number has steadily decreased over the years, with a particularly sharp drop after 2010 following the onset of austerity. Our new research exposes significant shortcomings in the role that developer contributions play in delivering affordable housing across England. There are potentially billions of pounds of unspent contributions and pronounced regional inequalities in delivery rates, underlining the risks of overreliance on S106 agreements as our mechanism for delivering significant volumes of affordable housing delivery.

There are potentially billions of pounds of unspent contributions and pronounced regional inequalities in delivery rates

Last year, the Home Builders Federation estimated that English local authorities held over £500 million in unspent developers' contributions for affordable housing.[77] However, FOI data indicates billions of pounds sitting unused while the housing crisis deepens. Underspend primarily stems from financial contributions provided in lieu of construction obligations, effectively transferring the responsibility of allocating funding and procuring housing construction to cash-strapped local authorities. Without properly funded local planning capacity, thousands of affordable homes remain unbuilt despite funding having been secured.[78]

Local authorities with biggest underspend in Section 106 payments

Cambridgeshire	£89,827,430
Warwickshire	£84,274,028
Central Bedfordshire	£68,209,896
Kensington	£43,348,694
Cheshire West	£17,394,239

Money retained and unspent from Community Infrastructure Levy (CIL) and S106 contributions at financial year end 2022. Source: FOI requests

Recent research finds clear evidence S106 isn't delivering, due to the amount of homes that started to be built but were never completed. Only 48% of S106 agreements were deemed 'fulfilled' by local authorities over the nine-year period from 2015 to the present.

S106s have always caused the same problems

Older research tells the same story under vastly different economic circumstances. A 2005 Joseph Rowntree Foundation study, looking at the period 2000-2005, found only 51% of planning obligations were delivered as expected and on time.[79] The consistency of these figures across different political contexts and economic conditions suggests a fundamental inefficiency with the S106 system, rather than just enforcement or market dynamics.

The system was worsened by severe cuts to council planning departments, on which spending has decreased by 43% from £844 million in 2009/10 to £480 million in 2020/21.[80] While the government's ambition to recruit an additional 300 local planning officers is welcome news,[81] it will replace less than a tenth of the planners who were axed in the 2010s, leaving local authorities incapable of enforcing and procuring S106 agreements at an optimal rate.

These challenges manifest in stark regional inequalities. Analysis shows that of areas categorised as having 'very low' fulfilment rates, 71% were in predominantly rural or non-urban areas, and 61% were in the North or Midlands. This geographical distribution is significant as it reflects and potentially exacerbates existing economic disparities.

These patterns align with broader market dynamics – as seen in National Housing Federation data, which shows that while London delivered 17,230 affordable homes through S106 agreements in 2018/19,[82] the North East delivered only 790. London alone received nearly 40% of all S106 contributions between 2013 and 2018,[83] totalling over £1.5 billion, while the North East received just 2% during the same period.

Unlike grant-funded social rent models, S106 cannot act counter-cyclically, meaning it provides housing support even less so than usual during economic downturns when such support is most critical. Redcar's housing scenario provides a particularly acute example of these systemic challenges. Despite seeing its house building targets increase by 1,300% following a recent government review, FOI requests reveal that current S106 fulfilment rate remains dismally low at just 6%.[84]

S106 agreements suffer from myriad problems

Developer evasion through viability assessments is just one aspect of a more fundamental problem with the S106 mechanism itself. Even in cases where viability is not challenged and local authorities have strong enforcement capabilities, completion rates remain stubbornly low. Research suggests that even well-resourced planning departments struggle with completion rates, indicating that the problem goes beyond just enforcement capacity. For example, Wokingham, listed as one of the most prosperous local authorities,[85] had a completion rate of only 35%, with a low correlation between affluence and completion apparent throughout our data.

Recent data reveals a growing and particularly concerning trend: the increasing inability of registered providers to purchase S106-funded homes due to concerns about tenure or design inadequacies. Research from Savills highlights a critical lack of early collaboration in tenure and design specification, with providers raising issues about building defects, substandard construction, and insufficient sustainability requirements that would require costly retrofitting.[86]

While precise numbers are challenging to confirm, thousands of 'empty' S106 homes are estimated to remain without buyers, including hundreds across London. Swale Council in Kent provides a stark example, with around 500 expected houses remaining unbuilt after no registered providers were willing to purchase these homes.[87]

This is because housing associations and local authorities often struggle to afford the maintenance and management of these units in the current financial environment. Savills' research identified three primary barriers preventing registered providers from purchasing these properties: the cost of debt, the absence of long-term rent settlements, and insufficient grant funding.[88] The £39bn over 10 years announced in the 2025 Spending Review and 10 year rent settlement should assuage many of these concerns from the sector but issues still remain. In particular, providers have raised concerns about the poor quality of homes delivered through the S106 system and noted that many are not fit to meet future environmental standards, which would result in further cost to the provider to retrofit properties to comply with new standards.[89]

Even if local authorities have the finances to purchase properties, they may not be appropriate, with the quality and suitability of completed developments raising additional concerns about social equality. The 'poor doors' phenomenon, where separate entrances are created for residents of affordable housing units within mixed-tenure developments, represents just one manifestation of broader challenges in ensuring dignity and equality in developer-led affordable housing provision.[90]

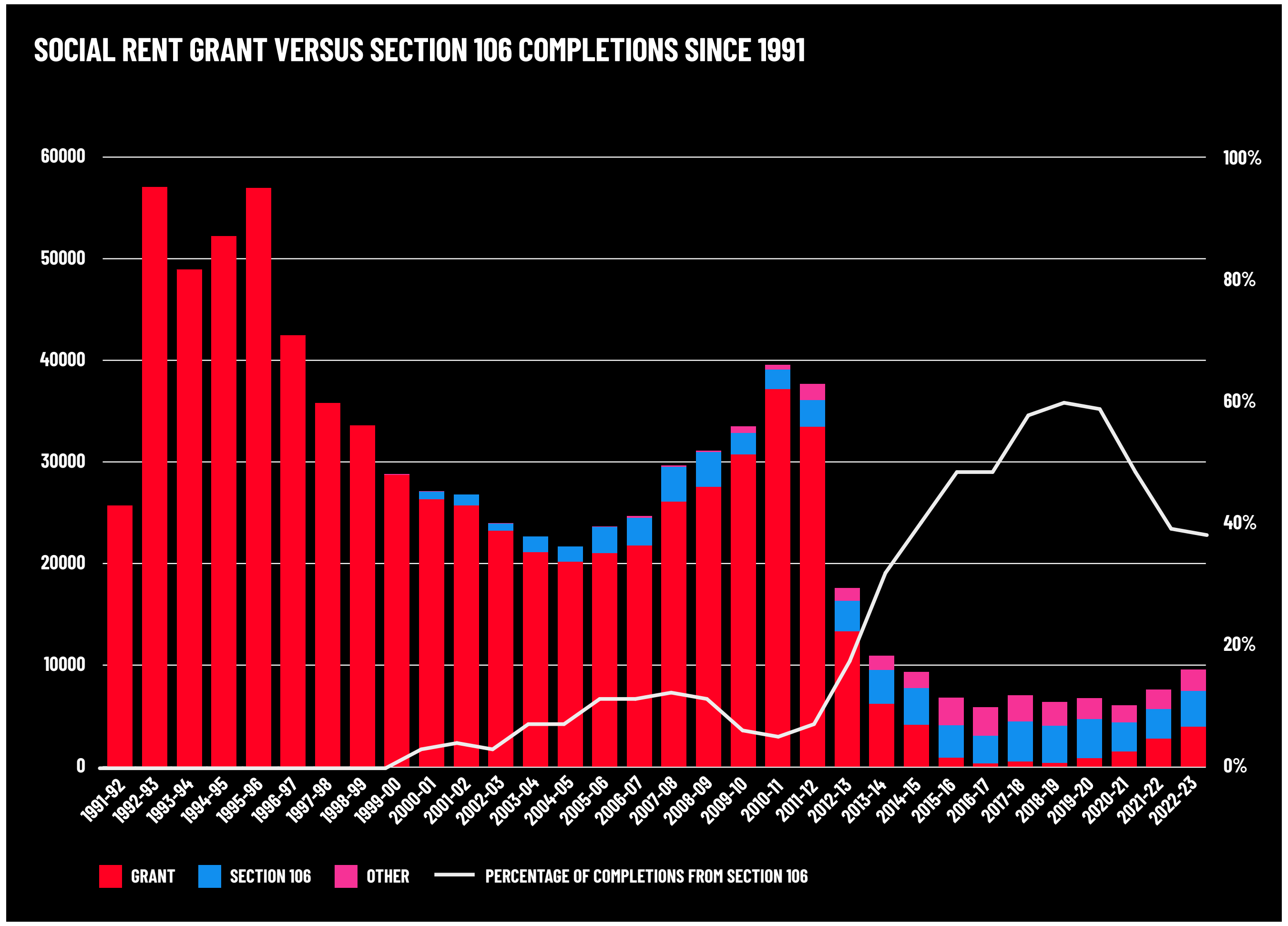


Figure 3 – Live Table 1000C: Additional affordable homes provided by tenure and provider, England, Completions by funding stream, MHCLG

While S106 has played a significant role in keeping affordable and social housing delivery alive since 2011, funding an average of 50% of all of social housing and 45% of all affordable completions over the past five years, it remains an inefficient sticking plaster for wider issues in our housing delivery system.[91] The billions in unspent contributions and thousands of unbuilt homes expose the risks of over relying on it to deliver the volumes of affordable housing required and the reality of a local authority system that has been stripped of its resource capacity.

It is critical that we have a clear national target for social rent to ensure laser focus on the most affordable tenure of home. To this end, it is very encouraging to see that the government has committed to at least 60% of the homes delivered through the new Social and Affordable Homes Programme will be for social rent.[92]

It is critical that we have a clear national target for social rent to ensure laser focus on the most affordable tenure of home

New Towns and S106

The scale and complexity of new town developments present unique challenges that go beyond the capabilities of the S106 system. In post-war decades, when local authorities were actively building homes, total housing completions often exceeded 300,000 per year.[93] This period of high output was driven by substantial public investment in housing and consequently fell as governments started to rely more on private development.

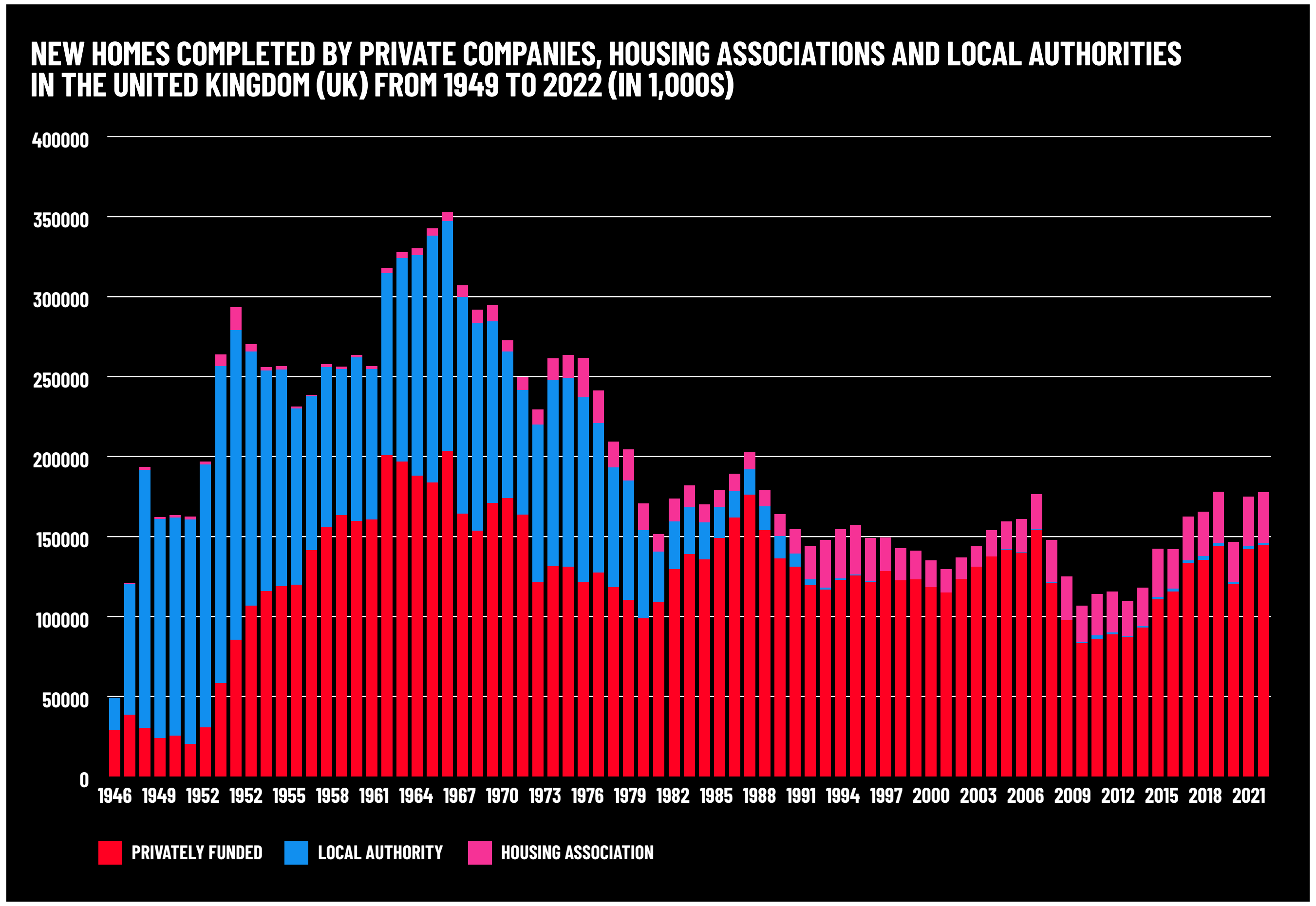


Figure 4 – Housing supply historical statistics for the UK, Table HB.W MHCLG[94]

Modern new town developments face significant challenges in creating financially viable, sustainable communities. Northstowe, a privately-led new town of up to 10,000 homes, has been earmarked by the Chancellor as a site of further development, one of eight locations outlined for new town development at the end of this year.[95] As of July 2024, Homes England, and two major developers have signed an agreement to accelerate the delivery of 3,000 homes in Northstowe, with 50% designated as 'affordable' (although not social) housing.[96] This exceeds the government's new town code's target of 40% and represents a significant milestone, if, indeed, it is achieved.

However, setting affordable housing targets alone does not ensure the establishment of a new town community; the Northstowe development had its first residents move in in 2017, and 7 years later, provisions are only now being made for significant affordable housing.

Unlike the original new towns, Northstowe has had to rely on a piecemeal approach to infrastructure and service provision.[97] The delivery of facilities has been severely delayed. Despite over 1,200 homes being occupied, Northstowe remains a service desert with few shops, no GP surgeries or community amenities.[98] The master developer for the first phase – L&Q Estates – has claimed it has met its planning obligations and sold land for a local centre to the district council in March 2021, whilst many infrastructural issues remain unfixed.

In contrast to DevCos, the S106 system, with its project-by-project negotiations and reliance on private sector initiative, lacks the capacity to drive forward large-scale, coordinated development over extended periods. These limitations suggest that any serious attempt to develop a new generation of new towns in England would likely require a fundamental rethink of how the current system of developer contributions would apply to these projects. While recent developments in Northstowe demonstrate that it's possible to secure high levels of affordable housing through agreements with developers, the challenges in delivering comprehensive community services and ensuring long-term viability highlight the need for a more holistic approach.

Alongside the investment in social housing via the Affordable Homes Programme at the Spending Review, the government should create a more effective system for delivering affordable housing, the government must introduce substantial increases in local authority planning resources, better mechanisms for ensuring design quality and sustainability, increased grant funding to support social rent development, and targeted interventions for areas with weaker housing markets. Only then can the government build the social homes we need to tackle the housing crisis and hit their own housing targets.

Beyond Section 106

A new towns programme should ensure that developers contribute their fair share of high-quality sustainable homes for social rent. This will require a fundamental overhaul of the role, remit and responsibilities of developers. In the current system, developers are incentivised to minimise their social housing contributions. With three main costs (land, build and section 106 requirements) and a 'required' fixed profit margin, developers see affordable housing and infrastructure contributions as the only flexible cost. Developers must compete with rivals to secure land so they maximise the amount they offer landowners for land and build costs are dictated by the price of labour and materials on the market. This means that they cut affordable housing contributions to maintain profitability.

We need to change this calculation. If government can make section 106 requirements fixed and non-negotiable, then developers must offer lower prices for land or innovate to drive down the cost of building (e.g. with modern methods of construction). Alternatively, in a new towns context, if a DevCo sells land to the developer at closer to existing use value, then it could demand a higher proportion of social housing.

> **A Planning Contract would set out clear, legally binding commitments between the planning authority (such as a development corporation) and developers or landowners**

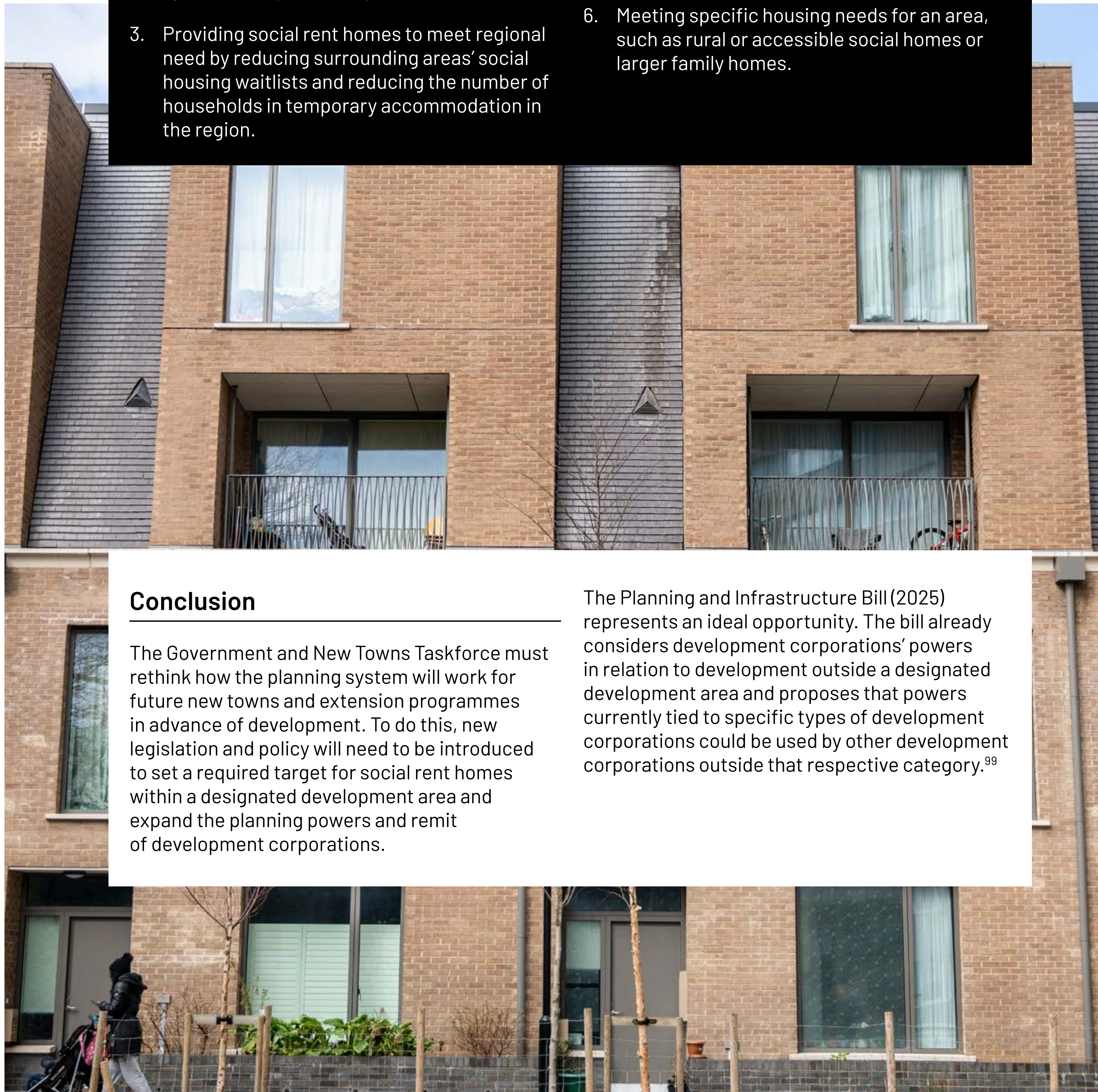
One way to ensure developers deliver on their promise is a 'Planning Contract'. While Planning Performance Agreements (PPAs) provide a template, their voluntary and non-enforceable nature is a key weakness. By contrast, a Planning Contract would set out clear, legally binding commitments between the planning authority (such as a development corporation) and developers or landowners, with enforcement mechanisms like fees or revocation of permission if buildout timeframes aren't met. Before negotiations, developers must demonstrate their scheme serves the public interest—defined in line with the Levelling Up and Regeneration Act 2023 (e.g. affordable housing, health, and education facilities), but expanded to cover public transport and other local or regional needs. All criteria must benefit prospective, new, and existing residents. A higher planning fee, scaled to scheme size, would fund a streamlined approval process and boost planning capacity. This approach would close viability loopholes seen with S106 and deliver more good-quality, energy-efficient social rent homes.

Once criteria are met, planning contracts must:

- Be initiated with a higher planning fee than typical applications.
- Include a robust community engagement plan, covering those in temporary accommodation and on social housing waitlists.
- Set requirements for essential infrastructure (e.g. water, sewage, electrical grid improvements) to be built in advance.
- Deliver a minimum % of social rent homes onsite.
- Set agreed timeframes and milestones for full delivery, with sanctions or forfeitures if social rent homes aren't delivered as agreed — avoiding reneging on terms and limiting developer-led, profit-driven decisions during planning and delivery.
- Require the planning authority to process the application within an agreed timeframe.
- Ensure higher fee payments are reinvested in planning and delivery capacity.
    - Where no development corporation exists, this can fall to the Local Planning Authority, Combined Authority or other relevant body.
    - Any unspent fees at the end of the development corporation's remit would transfer to the relevant authority to support local planning and delivery.

Examples of criteria for housing schemes to enter planning contract negotiations

1. Meeting a nationally set social (rent) housing target by central government.
2. Meeting the onsite social housing target set by the development corporation.
3. Providing social rent homes to meet regional need by reducing surrounding areas' social housing waitlists and reducing the number of households in temporary accommodation in the region.
4. Providing permanent social rent homes for construction or other trade workers involved in the initial development phases of a new town or extended settlement.
5. Housing key workers including nurses, doctors, teachers and transportation workers and maintenance workers at associated facilities, in social rent homes.
6. Meeting specific housing needs for an area, such as rural or accessible social homes or larger family homes.



Conclusion

The Government and New Towns Taskforce must rethink how the planning system will work for future new towns and extension programmes in advance of development. To do this, new legislation and policy will need to be introduced to set a required target for social rent homes within a designated development area and expand the planning powers and remit of development corporations.

The Planning and Infrastructure Bill (2025) represents an ideal opportunity. The bill already considers development corporations' powers in relation to development outside a designated development area and proposes that powers currently tied to specific types of development corporations could be used by other development corporations outside that respective category.[99]

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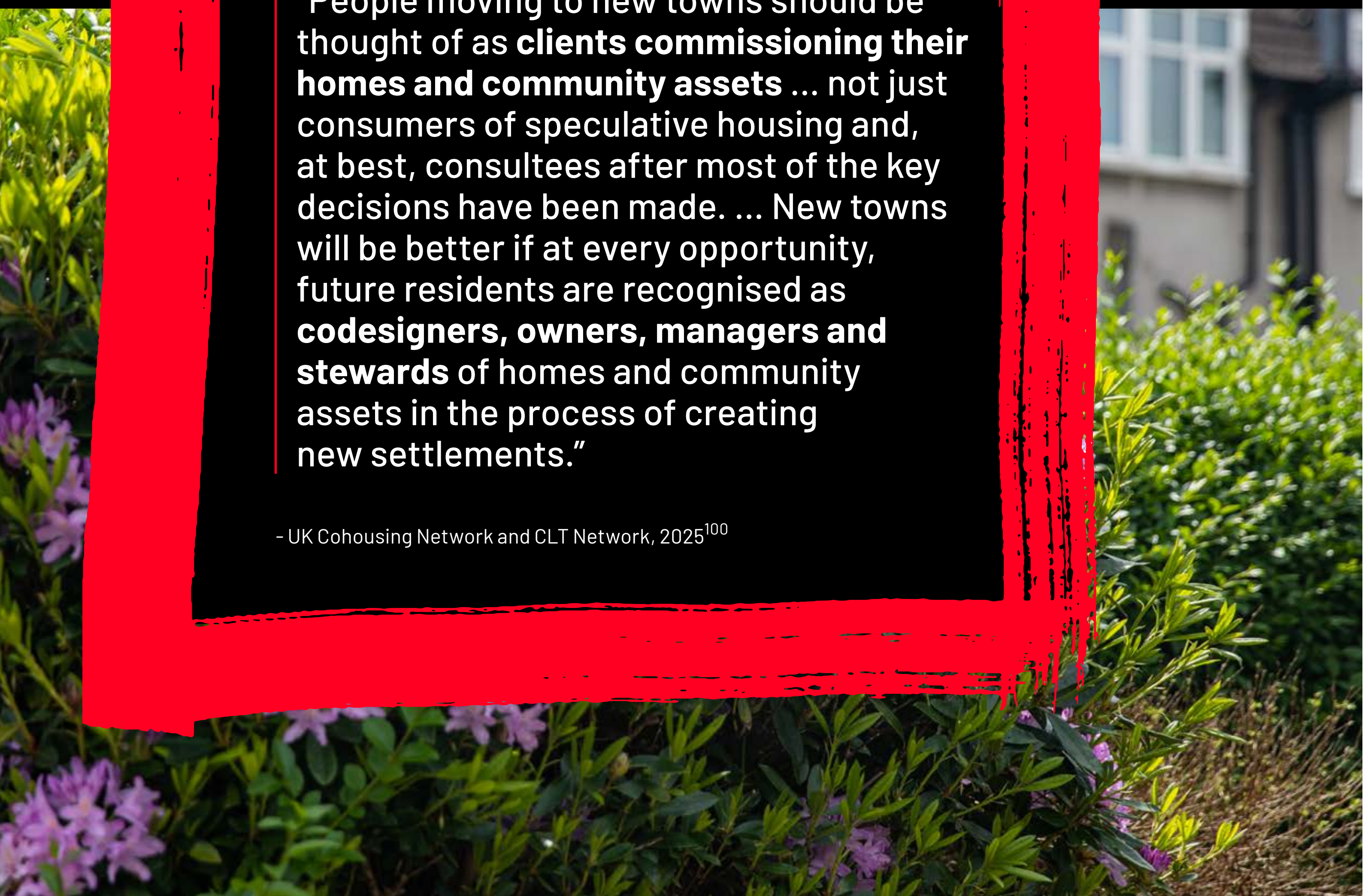
CHAPTER 4:

COMMUNITY-LED HOUSING AND THE DEVELOPMENT CORPORATION MODEL – A COMBINED STRENGTH



> "People moving to new towns should be thought of as **clients commissioning their homes and community assets** ... not just consumers of speculative housing and, at best, consultees after most of the key decisions have been made. ... New towns will be better if at every opportunity, future residents are recognised as **codesigners, owners, managers and stewards** of homes and community assets in the process of creating new settlements."

- UK Cohousing Network and CLT Network, 2025[100]

Communities are leading in the creation of their own neighbourhoods up and down the country, placing social homes at their heart. This builds upon a long and ongoing tradition of Community-Led Housing (CLH) as a proven way to help meet the needs and challenges of people across England.

DevCo-led new towns present a once in a generation opportunity to empower the CLH sector to build significant numbers of social rent homes, and benefit from the social and economic impacts they deliver.

There is a wide variety of different CLH models, all of which should play a role in the next new towns. Several organisations have led the way in championing CLH models. A recent UK Cohousing Network, Community Land Trust (CLT) Network, and Nationwide Foundation collaboration[101] explored a range of CLH delivery models within new towns, highlighting the case for their inclusion. The reports ultimately reinforce the case for the DevCo model, providing insights that should form the basis for how the government and DevCos establish and maintain the widespread inclusion of CLH models.

> **There is a wide variety of different CLH models, all of which should play a role in the next new towns**

One such model of CLH are the aforementioned Community Land Trusts. CLTs are non-profit, community-led organisations that develop and manage land and housing to meet local needs, particularly for social and affordable homes. Their mission is to ensure that homes remain genuinely affordable in perpetuity, putting community benefit above private profit. CLTs are driven by a commitment to giving local people control over development in their area, helping to tackle housing inequality and create sustainable, inclusive communities.

As with the direct delivery of social housing across England, the high cost of land is currently a major barrier to CLT-led social rent delivery. But when a DevCo acquires the land within a new town site at or close to existing use value, the state can provide CLTs with the low cost or free land they need for large-scale social rent development.

In contrast, private-led new towns, critiqued in Chapter 1, fail to guarantee a significant scale of CLT involvement. The government must take up the DevCo-led model of new town development. They must instruct these bodies to centre CLTs within their plans, now and into the future.

The rationale for widespread CLT delivery and ownership in the upcoming new towns programme

Expanding high quality social rent delivery.

Shelter's 'Brick by Brick' report in 2023, set out the case for meaningfully involving communities in housing delivery through CLTs.[102] Their involvement centres efforts on meeting local housing needs, creates new opportunities to deliver social rent homes, and builds community empowerment and wealth alongside improved social cohesion. Recent CLT Network analysis demonstrates that within five years, CLTs could deliver 7,600 social rent homes every year.[103] This represents 8% of the total annual 90,000 new social rent homes needed.

Throughout the development of a new town, inclusion of CLTs would increase housing delivery, especially social rent homes. CLTs are essentially an additional delivery vehicle to build social rent homes, alongside local councils, housing associations, and private developers. Recent research by the Nationwide Foundation found that over 90% of community-led housing groups see affordability as a priority issue.[104] Three-quarters of CLT homes are currently let at either affordable rent or social rent.[105] It is widely accepted that if there was sufficient grant funding, those affordable rent homes would be delivered for social rent.[106]

Moreover, CLTs diversify and expand the housebuilding industry and address the shortage of SMEs. The Bacon and Letwin reviews showed the dominance of the speculative development model, centred around a small number of large firms, obstructs build out rates and forces out competition.[107] Since 1988, there has been a reduction from nearly 40% of new homes built by small and medium sized enterprises (SMEs) to 10% in 2020.[108] The DevCo model is an achievable and powerful opportunity to push back against land monopoly trends and empower smaller developers like CLTs to grow and prosper.

CLTs drive high standards in housing delivery, beyond current requirements.[109, 110] Although efficiency requirements will soon increase, the Nationwide Foundation report found that the high levels of energy efficiency across the community-led housing sector meant these households on average save 6% on their housing costs in comparison to equivalent EPC D-rated homes.[111, 112] This is equivalent to £490 per year, and would help drive up the standard of private builders in the face of rising consumer expectations.[113]

Community ownership – designing and stewarding long-term thriving communities.

The positive impact of wide-spread community ownership of land within the next generation of new towns is far reaching. Evidence shows CLTs are highly capable of delivering good quality social rent homes, and designing and constructing thriving, healthy and environmentally sustainable neighbourhoods and social infrastructure.[114] CLTs are able to design places to meet a wide range of needs and desires, fostering strong relationships between inhabitants and the place they live.

This is in contrast to what Susan Newman, Professor of Economics at The Open University, describes as the private housing-led "homogenisation of architecture and interiors ... designed to maximise resale or rental value by being inoffensively neutral".[115] New towns will initially lack the historic or cultural buildings that can humanise our urban fabric. Therefore, diversity and distinctiveness of design become especially salient for the marketability and success of new towns as attractive places to live.

CLTs are highly accountable to their residents, and by providing communities with a significant stake in their area, they encourage high-quality service delivery and management. Multiple case study analysis by the CLT Network shows the capability of CLTs to successfully manage homes in small and large communities.[116]

In comparison, the Competition and Market Authority's 2024 Housebuilding Market Study revealed the inability of private companies to manage neighbourhoods and their components effectively, sustainably, and in the long-term public interest.[117] In place of high-quality, long-term stewardship, residents face significantly expensive bills for services that underperform or that they do not receive.

With 80% of newly built properties in 2021-22 sold by the 11 biggest builders being subject to estate management charges from private companies, it is paramount that new towns are protected from private sector practices that could threaten their success.[118] As recommended by the CLT Network, 'private management companies and other unaccountable forms of place stewardship and governance should be explicitly ruled out' within new town developments.[119]

Securing value for current and future generations.

Widespread community ownership of land in a new town helps capture land value for the community rather than private profit. Communities can generate revenue through rents, stewardship charges, and other means, with CLTs freed from high land costs thanks to cheap or free land from the DevCo. This enables reinvestment in public benefit, including social rent homes, parks, nurseries, workspaces, and affordable small business units, supporting long-term local institutions and high-quality place management.

Practical recommendations for incorporating CLTs into the DevCo model

DevCos, CLTs and land.

DevCos are well placed to identify parcels of land suitable for early transfer to CLTs, ensuring those plots are appropriately located to avoid phasing issues, and designing planning frameworks that make CLT involvement part of the default delivery pathway.[120]

CLTs are especially well-placed to help ensure sufficient demand for land within new town sites in the early stages of development. They can provide the initial anchors to encourage other builders to engage in delivery,[121] as well as providing a stable flow of homes throughout the construction of a new town.

In cases concerning public land, land transferred to CLTs should ideally be structured as an endowment; free or low-cost land held permanently for community benefit, enabling the CLT to generate income over time.

DevCos should set out minimum expectations for CLT involvement across phases to ensure their involvement is practically carried through into detailed planning and developer agreements.[122]

> **CLTs are especially well-placed to help ensure sufficient demand for land within new town sites in the early stages of development**

Land transfer process.

Throughout the delivery timeline of a new town, it is vital that the DevCo ensures transparency and clarity regarding land transfers. This is where the DevCo 'advertises' potential opportunities, but communities should still be able to identify and bid for sites and properties.

DevCos should establish standard processes and partnership pathways.

While urban extensions may benefit from neighbouring, pre-existing CLTs, wholly new settlements will require support for community formation from scratch. DevCos can take proactive steps to seed new CLTs for the new town itself. They can work with local authorities and provide support through partnerships with regional CLH enablers, funding early-stage organisational development, delivery toolkits and facilitating links between local residents, new arrivals, and potential board members.[123]

Where there is a nearby CLT already operating, DevCos can support expansion, co-governance models, or parallel structures as appropriate to context.

Where necessary, further support should be made available for CLTs in the form of matched funding, grants, or development management support in the early years.

Additional steps should be taken to actively involve a diverse array of residents. For example, making additional support to community groups available if needed.[124] There are many councils currently demonstrating best practice by empowering communities while delivering a high standard of governance and finance arrangements.

DevCos need to take a holistic perspective to value generation.

CLTs will help DevCos to deliver on their social and economic objectives, providing an opportunity won rather than a financial opportunity cost. The long-term gains from a well-capitalised CLT can more than offset financial betterment over time.[125] Especially a CLT that accepts referrals from the social housing waiting list, delivers homes at social rent, and manages local infrastructure.

> A study of Kennett Garden Village exemplifies how public-led land acquisition can help shape a site's development and stewardship model. When financial capacity ran short, the local authority passed delivery to a private housebuilder, but only after ensuring land and responsibilities were allocated to a local CLT. The CLT now stewards homes, open space, and amenities, and sits on the project board to help shape ongoing development.[126] In Chichester, a community development trust was originally seeded through a Section 106 requirement linked to a private-led scheme. It has since grown into a financially resilient stewardship body and now manages 14 separate community assets across multiple developments.[127]

Conclusion

Extensive evidence shows that widespread involvement of CLTs within the next new towns will bring a huge array of benefits to their delivery and stewardship. Unlike private-led new town delivery models, the DevCo model is uniquely suited to involving and empowering communities to deliver social rent homes and build thriving neighbourhoods. The upcoming new towns must capitalise on the support of CLTs, and secure the social, economic, and financial rewards that they are proven to deliver.

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CHAPTER 5:

NEW TOWNS AS A UNIQUE OPPORTUNITY FOR LAND AND RESIDENTIAL PROPERTY TAX, AND BUSINESS RATE REFORM

New towns are an opportunity to create productive, efficient, equitable and sustainable places to live and work.

Taxes are an important lever in this, as levies like Council Tax and Business Rates disproportionately burden lower income groups and businesses, drive inefficiencies in the economy, discourage productive investment in favour of speculative rentier activity and do not support the green transition.[128]

Alongside many other organisations, Shelter and the New Economics Foundation (NEF) have called for national tax reforms. These include a Proportional Property Tax (PPT) to replace Council Tax, and the conversion of business rates into a split-rate taxation system that applies to both the business owner and the landowner.[129] 75% of households would pay less tax under PPT and many businesses would also benefit from a split-rate taxation system.

Despite broad agreement that Council Tax and business rates are outdated, UK governments have yet to act, likely because of political concerns around transitioning households, landlords and businesses to a new, untested tax system.[130]

As new towns are a near-blank canvas, tax reforms can be implemented before construction begins. Reforms would help create equitable places to live, unlock investment that would spearhead a surge in productivity, and support the green transition. It also provides an opportunity to trailblaze progressive tax reforms and build the wider case and evidence base for a national roll-out.

> **Reforms would help create equitable places to live, unlock investment that would spearhead a surge in productivity, and support the green transition**

New towns as trailblazers for Proportion Property Tax

PPT, as advocated for by the Fairer Share campaign, would abolish Council Tax and Stamp Duty Land Tax, replacing them with a flat levy on the cost of a property and shifting payment from occupiers to owners.[131] Unbuilt properties with planning permission should also be taxed.

PPT includes surcharges for second homeowners and foreign buyers and exclusively maintains Stamp Duty for them. Set at a flat rate of 0.48% of a property's value, it is designed as a minimum to be revenue neutral.[132]

Of course, the revenue from applying PPT within a new town's setting may be unpredictable at least initially, but the rate can easily be flexed as required, and income will steadily rise as property values increase. This would have the benefit of:

1. **Nurturing shared prosperity and a strong economy** – removing excessive taxation from lower income groups helps raise living standards and drive greater economic activity and productive investment.[133] Increasing lower income households' spending power boosts consumer demand, making new towns attractive for businesses and fosters equality conducive to better economic performance.[134] And, as well as dampening property speculation, it helps shift capital flows into more productive outputs, stimulating greater economic activity.[135]

> **Increasing lower income households' spending power boosts consumer demand, making new towns attractive for businesses and fosters equality conducive to better economic performance**

2. **Homes more likely to be occupied** – PPT includes surcharges on second homeowners and foreign buyers, reducing speculation and ensuring residential properties are used as homes, rather than stagnating as unproductive assets.[136] Evidence suggests that targeted abolition of Stamp Duty will help make new towns an attractive place for current and prospective owner-occupiers,[137] and could encourage under-occupiers to downsize.
3. **Discouraging delays from developers:** PPT can include every unbuilt home from the point an original planning permission expires providing additional revenue and discouraging developers from slowing build out. The government is currently exploring a similar concept in the form of a Delayed Homes Penalty.[138] While planning contracts within the DevCo model we've proposed reduce the initial need for a Land Value Tax on residential land, this will be increasingly important as towns grow and landownership changes and develops.
4. **A fairer, progressive tax system** based on up-to-date property values, rather than 1991 house prices. Today, a property in Bolton worth £150,000 pays £2,719 in Council Tax a year while an £8 million mansion in Westminster pays just £1,656.[139]

Addressing the challenges of PPT in new towns

PPT in high land value areas may result in disproportionately high taxes for higher value property owners compared to those in the rest of the country. To address this and ensure affordability, the government can flex the flat rate at which PPT is charged and allow people to defer liability for PPT under an equity-based deferral scheme until their home is sold.[140]

New towns as trailblazers for split rate taxation

A split rate tax would replace business rates with two new taxes: Land Value Tax and a business property tax.

Land Value Tax (LVT) – Land under commercial property, or land with the best-permitted use being industry and commerce would be subject to an LVT levied on the owner of the property, as opposed to businesses. Land under empty commercial property, and vacant or undeveloped land can also be taxed, encouraging more efficient use.

Business Property Tax (BPT) – This tax would be based on a proportion of rateable value attributable to the property alone, excluding the value of the underlying land. The value of property is typically less than half of total rateable value; on average about 25% and as little as 10% in London where land values are very high. This means that businesses would pay tax on what would typically be a much smaller proportion of overall rateable value than the owners of commercial property.

Tax rates – Land would be taxed at a higher rate than property. NEF's 'A Taxing Problem' paper illustrates rates of 35% on the rateable rental property value, and 54% on the rental value of land. However, the exact rate should be at the discretion of policymakers.[141] The LVT would be set nationally while the BPT would be set locally.

The benefits of split rate taxation for new towns

More productive.

New towns must quickly become thriving places with a wide range of commercial activity to attract residents and vice versa. A split rate tax would generally lead to lower taxes on business occupiers and therefore encourage more businesses to make new towns their home and drive demand for renting commercial property.[142] Under this system, business occupiers are likely to be less impacted by tax rises as land values rise,[143] especially attractive to SME enterprises and helping to foster a diverse economy.

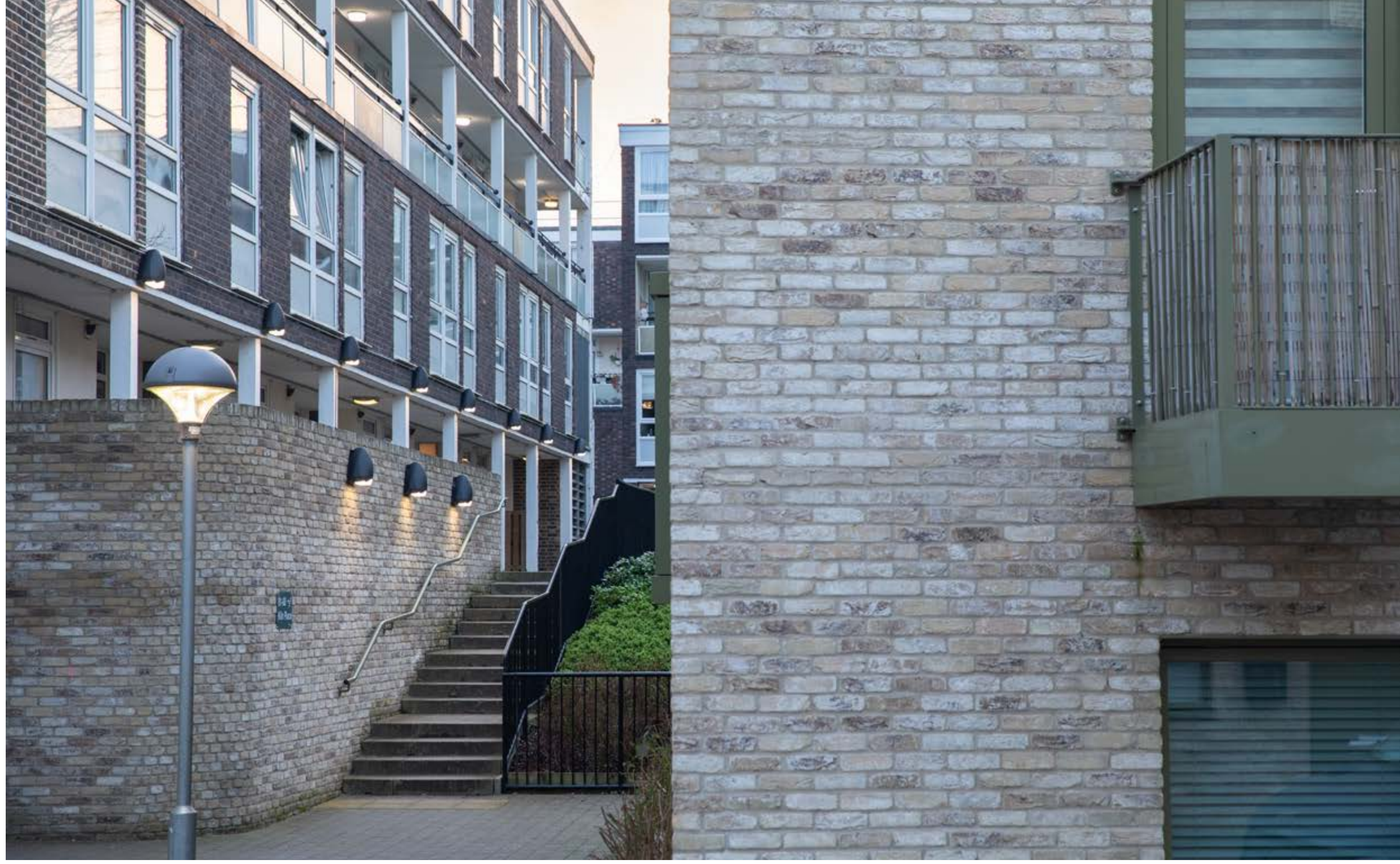
More efficient.

By applying to land as well as property it would discourage speculative land holding and encourage both development and productive uses,[144] ensuring commercial land strengthens the local economy, even if sold on by the DevCo. Today, the lack of a substitute tax for undeveloped commercial land and temporary relief for empty buildings encourages the unproductive use of land.[145] As business rates are solely focused on commercial property, businesses are discouraged from doing anything that might raise the rateable value, but reducing the rate of tax on the building that a business occupies and shifting this onto the land value would encourage businesses to invest in their own property.[146]

Today, the lack of a substitute tax for undeveloped commercial land and temporary relief for empty buildings encourages the unproductive use of land

Fairer.

It would ensure that both landlord and occupier, who both gain a benefit from the property, pay a share of the tax. Business renters' bill will be far lower than today as it will be based on a much smaller proportion of value. Although landlords may pass on some costs to the occupier, anything less than a 100% pass-through would represent a gain for businesses. By basing part of the reform on rateable values, as opposed to capital values, a split rate tax would also reduce the potential for sharp changes in bills for business owner-occupiers.



Addressing the challenges of a split rate tax in new towns

A common criticism of LVT is that assessing land values and land ownership is difficult. Masterplanning by DevCos will immediately help crystallise best-permitted use for sites within a new town. The initial ownership of the designation site by a DevCo will make a land registry far easier and identify those liable for LVT.[147] Regular revaluations would help to further discourage speculation.

A split rate tax on commercial land and property alongside PPT will greatly reduce the risk of tax-motivated conversions from commercial to residential property. However, if this problem does arise, the government can introduce a commercial-to-residential transfers levy. As would be the case if the existing system continued, as a new town is built out and populated, the government will need to subsidise the initial local tax take from commercial land and property to fund local services.

It could prove difficult to embed a new town's split rate tax within the national business rates retention and redistribution schemes. However, if implemented nationally, split rate taxation would deliver a fairer tax revenue distribution and increase LA control.[148]

Driving the net zero transition through green taxation systems

New town tax systems can be designed to minimise environmental impact and support a fair transition to net zero, drawing on models like the Green Land Value Tax (GLVT), which combines a land and building charge while offering energy usage discounts linked to EPC ratings to encourage energy-efficient buildings.[149] While new town construction should already meet high energy standards, applying green discounts within property tax systems can further incentivise improvements, provided state support protects lower-income households and exemptions or progressive rates ensure fairness.[150]

Conclusion

Across England, current property taxes, business rates and the absence of any land tax are unfairly burdening businesses and lower income households, and damaging the productivity and efficiency of our economy. This next generation of new towns can start addressing this inequity and dysfunction, designing in economic strength and sustainability from the start. PPT and a split rate taxation system can provide the foundations from which these new local economies can thrive.

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CONCLUSION

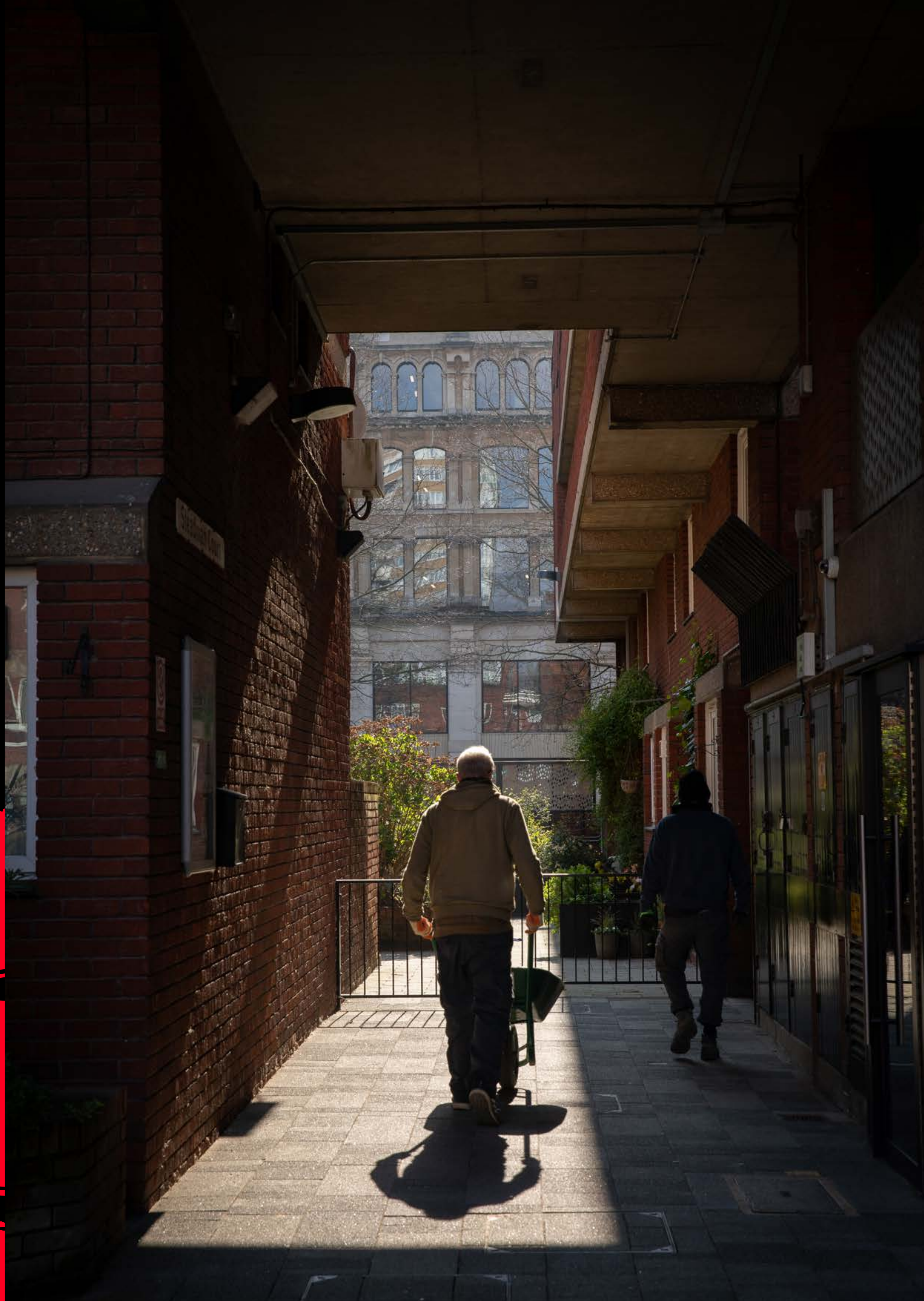
The evidence is clear that for new towns to succeed, it is essential they are led by public DevCos and must put social homes at the heart of their development. DevCos must be given the flexibility to thrive by accessing finance through a range of public and private routes and have economic and social objectives at the centre of everything they do.

It has been proven time and again that solving the housing emergency cannot be left to the private sector. And while private finance and resources are a powerful partner and major contributor to the viability of new towns, the leadership and direction of future developments must be the role of government, not the market.

To empower DevCos to plan, build, and manage successful new towns of the future, this government must ensure that DevCos are:

- Publicly owned/led to avoid the drawbacks and pitfalls of private finance initiatives and private-led attempts to build large scale developments.
- Largely autonomous entities working within clear nationally-set aims that can plan the long-term development of new towns (inc. the use of land and assets) to maximise public value without undue political interference;
- Fully financed with long-term government loans, public grants, and the ability to access private finance too.
- Able to effectively acquire land within a new towns site at (or close to) existing use value, utilising the power or threat of section 14A CPOs to remove hope value or through a new Land Assembly Right.
- Required to adopt the 'planning contracts' model that maximises timely social rent delivery when selling land to housing developers rather than relying on traditional s106 methods.
- Effective at involving and empowering CLH models within the development of new towns, including to build and manage community infrastructure and social rent homes.
- Able to charge progressive levies on residential and commercial property/land that stimulate productive investment, dampen speculation, and foster shared prosperity.

The DevCo model is the only credible route to delivering new towns effectively – enabling them to flourish with high levels of social rent. The government must do everything in its power to support it.



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