



Better Homes, Greener Cities

Alan W. Evans
and Oliver Marc Hartwich





About Policy Exchange

Policy Exchange is an independent research institute whose purpose is to contribute to public understanding of and stimulate wider debate on a broad range of social, economic and political questions. Using an evidence-based approach to policy development, Policy Exchange aims to generate fresh ideas in support of strong communities in a free society.



About Localis

Localis is an independent research organisation which was set up to develop new ideas for local government. It organises seminars and commissions research relating to all aspects of local government.

About the authors

Alan W. Evans is Professor of Economics and Director of the Centre for Spatial and Real Estate Economics at the University of Reading Business School. He is the author of *The Economics of Residential Location* (1973), *Urban Economics* (1985) and *No Room! No Room!* (1988). He was co-editor of *Public Economics and the Quality of Life* (1977) and *The Inner City: Employment and Industry* (1980), and has published extensively in urban and land economics. His most recent books are *Economics, Real Estate and the Supply of Land* and *Economics and Land Use Planning*, both published by Blackwells in 2004. He has also carried out consultancy for the House Builders Federation, Ove Arup, Pro Svi (Milan), Hong Kong Centre for Economic Research and others.

Dr Oliver Marc Hartwich is a Research Fellow at Policy Exchange carrying out research on planning and housing policy in Britain. He was born in 1975 and studied Business Administration and Economics at Bochum University (Germany). After graduating with a Master's Degree, he completed a PhD in Law at the universities of Bochum and Sydney (Australia) while working as a Researcher at the Institute of Commercial Law of Bonn University (Germany). Having published his award-winning thesis with Herbert Utz Verlag (Munich) in March 2004, he moved to London to support Lord Matthew Oakeshott of Seagrove Bay during the process of the Pensions Bill.

Supporters

Bernard Sunley Charitable Foundation
Joseph Rowntree Foundation
Local Government Association
Localis

Special thanks

Andrew Barnett
Sandra Brown
Richard Ehrman
Rachel Kelly
Crispin Kelly
Matt Hancock
David Henderson
Dirk Maxeiner
Michael Miersch
Lee Searles
Mark Titterington
Martin Wolf

Cover photo

Townhouses, Ulla Rose
www.shutterstock.com

Better Homes, Greener Cities

Alan W. Evans
and **Oliver Marc Hartwich**



First published in February 2006 by Policy Exchange Limited
Registered charity, No: 1096300.

Policy Exchange
Clutha House
10 Storey's Gate
London SW1P 3AY
Tel: 020 7340 2650
www.policyexchange.org.uk

© Policy Exchange 2006
All rights reserved

ISBN 0-9551909-1-6
Printed in Britain by Heron, Dawson and Sawyer
Designed by John Schwartz, john@thefrontline.net

Contents

Executive Summary	7
1 The Way We Live Now	10
2 The Economic Basis for Planning	19
3 Thinking about Social Costs – Constraints	23
4 Planning and Development	26
5 Thinking about Social Costs – Taxes	31
6 Local Government and its Finance	38
7 Conclusions and Recommendations	49
Appendix 1: Response to Our Critics	51
Appendix 2: Executive Summary – <i>Unaffordable Housing</i>	54
Appendix 3: Executive Summary – <i>Bigger Better Faster More</i>	57
Notes	59

Executive summary

The need for change

The planning system should aim to balance people's housing demands against the needs of the environment. By using only a further one or two per cent of the 90 per cent of land that is undeveloped, the quality of British houses and neighbourhoods could be dramatically improved. Yet our system of town and country planning too often imposes the views of politicians, officials and planners on the population at large. We are told we ought to consume less land, to live in flats not houses, but rarely does anyone ask: "how do people themselves want to live?"

House prices and opinion polls clearly show that the British prefer to live in detached homes with gardens in green suburbs, but the planning system restricts this kind of development and instead delivers high-rise living in ever more crowded cities. So despite just ten per cent of the land in the UK being urban, new development takes place on the kinds of green spaces people actually use – like allotments, playing fields, parks and gardens – in order to save agricultural land. Nearly half the UK's playing fields have disappeared in the last fifteen years. Front gardens 22 times the size of Hyde Park have been lost in London alone. Our cities are becoming grey deserts.

This has serious implications for the health of the 50 million Britons who live in urban and suburban areas. Fewer trees means less oxygen, which inhibits good mental performance. Neighbourhoods with less greenery

are associated with lower levels of physical activity, leading to higher obesity rates. Easy access to green space also brings mental health benefits. Reversing the trend of high density development in favour of 'garden city' living is not just what most people want, it is good for us too.

Reforming the planning system

We do not want a development free-for-all, but successful reform of the planning system must ensure that the housing market is flexible enough to respond to local demands *and* that local residents are compensated for the negative impact of new development. The German and Swiss planning systems offer good examples of how to balance the needs of the environment with the demand for housing, and they both deliver affordable, high quality, spacious homes in green towns and cities.

There are clear benefits to developing – increased affordability, spacious homes, gardens, green neighbourhoods – but everybody recognises that there are costs too, especially if development takes place on 'green' rather than 'brown' land.

There are two ways of taking the social and environmental costs of building new homes into account, both of which involve increasing the cost of land in order to limit development: either by constraining the supply of land, or by levying some sort of tax on land. Constraining supply is more popular because it does not affect those who already own land or property. This group actually benefits from rising house prices, and the costs are borne

by those who do not own their own homes – the young and the less well off. Taxation is fairer because it affects both groups – owners and non-owners – equally. It also offers more benefits to the community, who can share in the profits of development currently reaped by landowners.

We therefore propose the following reforms:

1. Greater flexibility

The current centrally-directed, plan-led system places too much emphasis on trying to predict demand and too little on responding to local market conditions. As a result, the housing boom of the late 1990s led to no increase in the supply of new homes, pushing prices even higher. We propose the following reforms to create more flexibility in the planning system:

- Abolish the primacy of plan-led development, so that necessary development is possible even when it has not been anticipated.
- Introduce the presumption of a right to develop, so it is up to local authorities to show why development is undesirable.
- A greater recognition of the economic benefits of development as a material factor in the planning process.
- Introduce land buffers, which could be easily activated when more land is required.
- The planning system should be localised, putting communities in charge of their own development.
- There should be greater freedoms for property owners to switch between designated uses (commercial, residential etc).

2. Local government finance reform

Our preferred way of compensating local communities for the cost of development is to reform the system of local taxation. In Germany and Switzerland local councils are much more reliant on their local population to fund

their budgets. The social costs of development are compensated for by the tax revenues that every new resident brings. This additional funding can be used to improve services, upgrade infrastructure or cut taxes. By contrast, British councils rely on central government funding for 85 per cent of their revenue. New residents bring few benefits and many associated costs, so councils face strong incentives to oppose development. We endorse the solutions offered in Policy Exchange's 2004 publication *Nothing to Lose But Your Chains*, which proposed that:

- Local authorities should retain all existing Council Tax and business rate revenues.
- A proportion of income tax should be locally determined and kept by councils.
- Where possible, councils should derive 75 per cent – and not less than 50 per cent – of their funding from local sources.

3. Social Cost Tariff

Our first best option for accounting for the social costs of development – reform of local government finance – is unfortunately some way off. Another method is needed. We propose the introduction of a tax – the Social Cost Tariff – to allow communities to share in the benefits of development. It has the following features:

- Worth a maximum of £500,000 per hectare, variable downwards for contaminated brown field land or if councils wanted to 'go for growth'.
- Would replace all existing charges associated with development, such as Section 106 agreements.
- Should be entirely retained by local councils and used to enhance residents' quality of life.
- Local authorities would be set minimum building targets by central government and would lose revenue if they failed to build up to the minimum.

- All revenues from development above the minimum level would be retained locally.

4. Other recommendations

In addition, we also make the following recommendations:

- Building on the Local Authority Business Growth

Incentive (LABGI) scheme, local authorities should be able to keep council tax and business rate receipts associated with new developments.

- Equalise VAT at 5 per cent for both new build and refurbishment.
- No more development on urban green spaces within towns and cities.

1. The Way We Live Now

What people want and what they get

A planning system works best when it provides people with the homes they want. Although this may sound obvious, experience shows it is far from being so. Up to and including the present day, decision makers (and those lobbying them) have certain ideas about how people should live and what a planning system should achieve. Instead of following people's preferences, the views of politicians, government officials and planners are far too often imposed on the population at large. This has meant telling people what is best for them, treating them like children unable to make informed choices for themselves. So people are told they ought to consume less land to protect the countryside, and that they should live in higher density environments to save fuel. They have been led to believe that all this is necessary to achieve the overall goal of 'sustainable communities', but no one ever bothers to ask residents what they think a truly sustainable community actually is. Our planning system is a classic symptom of "the man in Whitehall knows best" tendency in government.

Western democracies often pride themselves on the individual being centre-stage in both the political realm and the market place. People are free (and expected) to decide who to vote for and what to buy and sell. Government interference with these decisions would most certainly be met with suspicion, if not outright resistance. It is not the government's legitimate role to dictate what clothes to wear, what food to eat and what

cars to drive. Most people today would certainly deny the state the right to shape such choices.

Of course economists should not tell people what to do either. Economics aims to be a value free science. In other words, the economist respects people's wishes and preferences. These are taken as a given and the aim of the economist is to try to show people how to achieve their goals. But the goals remain those of the people, not of the economist, who have the right to make their own choices. This freedom to choose is a cornerstone of liberal democracy.

When planning for housing began, the idea was to help people fulfil their housing aspirations while ensuring that their plans were mutually compatible. Planning was not a means of *limiting* choices or changing preferences but an attempt to *deliver* the housing that people wanted. As economists we believe that this should still be the core function of a planning system: to deliver what people want. This may seem an obvious, even trite, statement. But, as we pointed out in our first report, *Unaffordable Housing – Fables and Myths*, the reality is all too different. People's wishes as to how they want to live are being flouted.

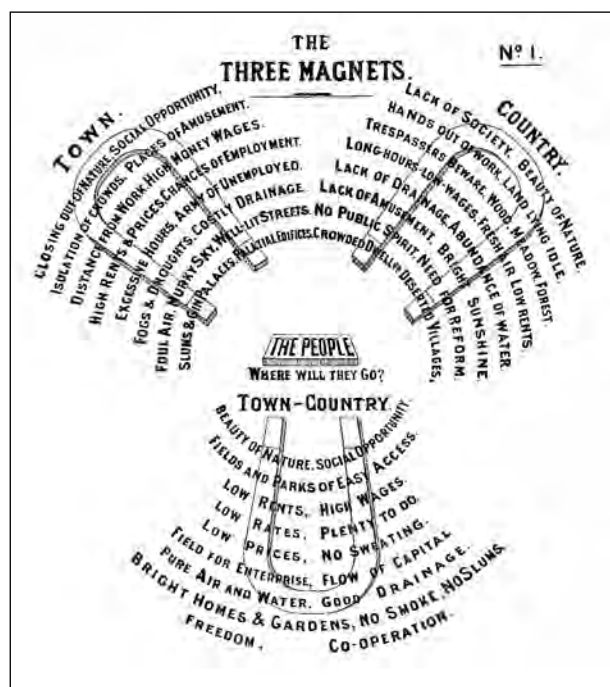
Of course, one should be careful with generalisations when it comes to preferences. Some people could never imagine leaving the countryside; to others an inner-city apartment is their ultimate desire. And not only do preferences vary between different people but the same person may have changing housing preferences during their life. Some might prefer a small inner city rented flat for their student years, a larger flat in their early careers, a suburban house at a later stage in life, and maybe a rural cottage for

retirement.

Despite these obvious difficulties, there are ways of finding out what people generally want. The most straightforward way is to observe which houses people rent and buy. One only has to look at the property market and compare prices. You do not need to be a real estate expert to find a clear pattern. The bigger a house, the nicer and greener its environment (location, location, location!), the more access to transport and amenities, the more detached it is from neighbouring properties and the bigger its garden, the more it will be worth.

These prices reflect more than just the cost of building these houses. They are so high because many people want to live that way: given the necessary means a large group would opt for this kind of housing. In economic terms the 'greenness' of the surrounding area is capitalised into the price of the houses. And research indicates that the higher the proportion of the surrounding area which is parkland or otherwise green, the higher will be the value of the houses.¹ This openness can be measured more directly by asking people to say how much keeping land undeveloped is worth to them. The figure of £10.8 million per hectare quoted in the Kate Barker's Interim Report as the value of 'urban core public space' (i.e. a city park) was obtained in this way.²

Another way to find out more about people's preferences is to actually ask them what they want. In our previous publications we quoted the results of two polls, one from England, the other from Switzerland. In England, an overwhelming majority said that they wanted to live in a house of some kind and only a tiny fraction nominated a flat as their first choice. In Switzerland, the factors that mattered most to people when choosing a house were 'light and sun', 'space and roominess', 'terrace or balcony' and 'a quiet environment'. In both countries people wish for quiet, greenery, space, and privacy. Another British opinion poll, carried out by Gallup for Strutt & Parker, reveals the kind of environment in which people would like to live.³ Interviewees were asked specifically about high-density living in certain environments. The results were telling. While 75 per cent could imagine



living in high-density property in a rural setting or a village, only 52 per cent could imagine it in a mixed commercial and residential area. High-density living in the city centre area was acceptable only to 28 per cent. So what really mattered to people was the environment they lived in. People want to live in places that provide them with the pleasures of a rather rural lifestyle while at the same time they value the advantages that cities offer. Of course, this is not a new discovery. In fact, it was Ebenezer Howard, in his visionary book *To-morrow – A peaceful path to real reform*, who drew the famous three magnets diagram. It showed that both town and country had features to offer that people valued highly, while others were regarded as less favourable. Positive characteristics about the town are employment and places of amusements, whereas the country could offer the beauty of nature and fresh air. His solution was to come up with an urban design that incorporated the best of both worlds, the idea of the garden city. It turns out that this is precisely what many people want, even one hundred years after the publication of *To-morrow*.

Letchworth Garden City

Ebenezer Howard's ideas were first applied in Letchworth, in north Hertfordshire, which still prides itself on being the world's first garden city. It is worth a visit as it holds some interesting lessons for British policymakers. It is ironic that John Prescott and his Office of the Deputy Prime Minister seem to be looking for ideas for their housing programmes in the American 'new urbanism' and 'smart growth' programmes of Oregon or Florida, when they could just take the 40 minute train ride from London to Letchworth to see how truly sustainable communities can be created.

Letchworth today welcomes the visitor with crisp and clean air; there is greenery as far as the eye can see. The gardens are generously sized, and there are large parks and playgrounds. The houses are welcoming and well maintained, and there are no monotonous housing estates. Each house seems to have a story to tell and adds to the colourful mosaic that is Letchworth. Then there are shops, churches, museums, schools and restaurants, too. The whole place does not look like a soulless urban sprawl but gives an impression of community and identity. And it is certainly a concept that still appeals: property prices, even for houses built one hundred years ago under 'affordable housing' schemes, are well above the regional average.⁴

The current planning system has actually grown out of the garden city movement, but over time its goals seem to have been reversed. The aims of the founders of town planning were not that people should live at high densities in apartment blocks. Visionaries like Ebenezer Howard or Raymond Unwin understood that people wanted to live in houses with space around them, both private and public, and set out to help them achieve their goals. Selling off playing fields would never have been part of their plans. Nor is it now what any but a tiny minority of the population want.

Yet this is what is happening. For example, between 1992 and 2005 out of the 77,949 playing fields nearly 34,000 disappeared⁵ as planning policies focus on developing within existing towns instead of letting cities grow

outwards. In fact, the Government has set a target for using at least 60 per cent of so-called brown field land for new development. This policy is meant to 'recycle' areas that were previously developed, and sounds like a reasonable idea. However, many of these brown fields look remarkably green. These are inner-city areas that nature has reclaimed. Many are now valuable havens for plants and animals in the cities, and they also provide recreational spaces for children and adults. From the statistical evidence we know that people prefer to live in green environments. Most would like to enjoy the clean air and greenery of the countryside, or at second best would like to live in green cities. Yet, with disappearing playing fields, the re-use of 'green' brown field sites and densification policies it becomes less and less likely that people will ever live in such an environment. A report by the London Assembly Environment Committee found that front gardens in London 22 times the size of Hyde Park have been paved over and lost.⁶ The use of global satellite imagery at a high level of detail tells us that the built up, as opposed to green, area of London expanded at an average rate of one and a half per cent per year in the nineties.⁷ Our cities less and less resemble the places where people want to live: they are becoming grey deserts.

It should hardly be surprising that this is bad news for nature too. The *Independent* newspaper has reported the mystery of disappearing butterflies.⁸ With gardens disappearing, cities getting denser and highly intensive agriculture surrounding the cities, butterflies have nowhere to go. As we pointed out in our first publication *Unaffordable Housing*, biological research has shown that there is no better place for butterflies (and other plants and animals) than what the opponents of development would derisively label 'urban sprawl'. It may be counterintuitive, but the wish to 'save nature' by increasing densities has produced the very opposite result.

It is now well understood how access to nature affects human well-being (see box *Green cities and health*). However, in today's British cities connecting with nature is getting increasingly difficult. How understandable then

Green cities and health

It may be pleasant to live in green cities, but does this also have a measurable effect on health? Medical research suggests it does. The British Medical Journal recently published the results of a pan-European study investigating the connection between greenery and obesity.⁹ While the results were controlled for age, sex, socio-economic status, and city of residence, and excluded respondents who reported having a physical handicap or constraint, the results showed a clear pattern: "For respondents whose residential environment contains high levels of greenery, the likelihood of being more physically active is more than three times as high, and the likelihood of being overweight and obese is about 40 per cent less. Conversely, for respondents whose residential environment contained high levels of 'incivilities', the likelihood of being more physically active is about 50 per cent less, and the likelihood of being overweight or obese is about 50 per cent higher". The article concluded: "Higher levels of greenery ... in residential environments are associated with being physically active and not being overweight or obese; efforts to promote activity and reduce weight should take into account environmental facilitators and barriers".

While green cities encourage people to be more physically active, there are other factors that make green cities healthy cities. The World Health Organisation (WHO) has published guidance for local planning authorities on how to build healthy cities. Its title is telling: *Green cities, blue cities*.¹⁰ The WHO explains that greenery is an essential part of a healthy environment as it absorbs carbon dioxide and emits oxygen. Trees' leaves collect dust and their phytoacids act as bactericides; many plants are also effective noise barriers. Last but not least, by regulating the micro-climate they help to deal with the problem of urban hot-spots.

In his fascinating book *Green cities and why we need them*¹¹ David Nicholson-Lord devotes a chapter to the positive health effects of greenery in the cities. Among the many effects medical research has found, he mentions the following:

- The air in grey cities contains only 10 to 12 per cent of oxygen, whereas a more typical value would be above 20 per cent. Oxygen is vital for mental performance and cellular health. Cancer cells, for example, grow more slowly in an oxygen-rich environment.
- Urban trees help keep the air moist and oxygen-rich. A mature tree transpires more than 450 litres of moisture a day; a beech tree can produce enough oxygen for ten people. They also provide shade and reduce wind speeds which can help to save up to 25 per cent of a building's energy costs. US researchers have calculated that the net value of a tree, after subtracting planting and maintenance costs from its climatic value, is around £270.
- Plants and trees are also good for mental health. Hospital patients with trees outside their windows required nearly two thirds less drugs than those whose windows faced a brick wall. People going for a walk in the park in their lunch breaks were considerably happier and less aggressive than people spending their breaks indoors, as well as being more productive in their work.

There can hardly be any doubt that green cities make a positive contribution to health and human well-being. Low-density cities with parks, gardens and trees can not only provide a great habitat for birds and butterflies, but an environment in which human beings lead healthier lives.

that so many people want second homes in the countryside or abroad. When people's main homes fail to meet their expectations and needs, it is only by going far away from home that people can make up for the lack of nature.

In our first report we set out how, over the last 60 years, the British planning system has affected the housing we

occupy. We showed that the system has resulted in British housing being old, poky, and expensive when compared to other developed countries. Nor has the planning system delivered a good environment for the vast majority of the population: those that live in towns and cities. Whatever may have been its early achievements in terms of slum clearance, new towns, and reduced urban

densities, planning policies in the last quarter of the twentieth century have gradually failed to deliver their earlier aims. Policy at the end of the century was to increase densities, a policy reinforced and strengthened in the twenty first century. In fact, the government recently published figures that showed how successful (on their terms) it has been. In all English regions the densities of newly-built developments increased markedly between 1997 and 2004.¹² The aim is now to ‘save’ land even at the cost of the degradation of the urban environment, as houses and flats are crammed into the existing towns and the idea of new towns is consigned to history. It could be argued that the sole achievement of the system has been, at considerable cost, to preserve rural and open land from development. The environment of the rural few has been preserved at the expense of urban many. It would no exaggeration to say that planning policy has come to be controlled by the vociferous Campaign to Protect Rural England, which presents itself as the spearhead of an “army of Nimbys”.¹³

“ A minority have successfully propagated the myth that Britain is so overcrowded and short of land that every acre has to be treated as precious ”

We tried to identify a better system for the urban majority (remember over 80 per cent of British people live on just ten per cent of the land) in our second report *Bigger Better Faster More – Why Some Countries Plan Better Than Others*. We looked at planning systems in four other countries: Germany, Switzerland, Ireland and Australia. Both German and Switzerland’s planning systems have features that ought to be adapted to the British context.

But the general lesson was one that most economists would regard as obvious: reduce as far as possible government control and intervention. Where intervention is necessary leave this, as far as possible, to be done at local government level. Ensure that fiscal and other incentives are aligned with controls so that the actions of government and citizens are coordinated and distortion of the economy is minimised. This is the approach we have tried to follow in this, our third report. Being aware that politics is the art of the possible we have put forward a number of proposals, some of which might be regarded as unnecessary if others were adopted; in other words a ‘belt and braces’ approach. Our hope is that even if the ‘braces’ are rejected as unfashionable, the ‘belt’ can be used to prevent disaster.

The availability of land and the myths of densification

At the heart of the housing problem is a mistaken view of the availability of land. A minority have successfully propagated the myth that Britain is so overcrowded and short of land that every acre has to be treated as precious. We dealt with the various arguments used to support this myth in our first report. Less than ten per cent of the total land area is urban; land is not needed for agriculture when much rural land is ‘set aside’ to avoid overproduction; an urban or suburban area has greater biodiversity than most rural areas, certainly more than land which is farmed intensively. Sir Peter Hall, the distinguished geographer and planner, has put forward similar arguments in a detailed publication for the Town and Country Planning Association. He castigates the planners and architects, who want “high density urban forms”, and their “journalistic camp followers” for promoting what he calls “the land fetish”. As he says, “we have made a fetish of land, without ever considering what we actually need it for”.¹⁴ We need to develop a more balanced view about the possible uses of land and its social value. The current imbalance is demonstrated by the massive difference

between the price of land in agricultural versus residential use.

The high price of land available for housing is a consequence of its restricted supply. The demand for housing has increased because of a growing population, an increased number of households, longer life expectancy and, not least, increasing incomes. So, as the supply of land is constrained, the increased demand is reflected in higher and higher prices both for housing and for land which can be used for housing. 60 years ago the price of land for housing was a little more than the price of land for agriculture because it was necessary to give some incentive to the farmer or land owner to sell. Now the price of agricultural land in southern England is about £5,000 per hectare while the price of land with planning permission for residential development is about £2 million per hectare. At the minimum density now permitted of 30 dwellings per hectare each house is, on average, some £65,000 higher in price than they would be if there were no constraints. Land costs therefore account for between 30 and 40 per cent of the £200,000 average price of a new semi-detached or terraced house in the South East.¹⁵

It is a fact of economic life that as things become more expensive they will have to be used more intensively. So it is with land. As land and housing becomes more expensive people are forced to buy less of both, that is to live in smaller dwellings with smaller gardens, or in multi-storey apartments with no gardens at all.

As we have already said, there is no general demand for flats; given a free choice the general preference is for houses. There is an *economic* demand for flats, but only because houses are too expensive. Nevertheless, the fact that flats sell when they are built can be cited as evidence by the economically unsophisticated that this is in fact what people want. One very senior planner has indeed put that point to us. But that is to misunderstand the economic forces which determine the result.

Densification is also sometimes regarded as a desirable end in itself, not just because it saves land, though the two

may be difficult to disentangle in practice. Given the British preference for houses over flats this can come across as elitist. The argument follows that we do not like living at high densities because architects have failed to provide the sort of environments that would persuade people to change their minds. If only we had better trained architects then, when they could see what could be built, the British would want to live at much higher densities.

There are a number of problems with this argument. Note first that few of the members of the Urban Task Force, the chief proponents of this viewpoint, live in apartments. Lord Rogers, who leads this group, himself lives in two terraced Georgian houses knocked together in Chelsea with a view of green space outside. Other members of his committee do not seem to practice what they preach either. Tony Burton is the policy director for the National Trust, an organisation that wants to build a new low density housing development in the very centre of the Green Belt near Cliveden in Buckinghamshire.¹⁶ With its commercial hat on the National Trust understands perfectly that there is huge unsatisfied demand for spacious housing in green environments, yet from a policy perspective it argues against any development of this kind.

Thus there is more than an element of the elite telling others what they should want, or settle for. And people may not find these environments as desirable as the architects might wish. This, of course, has happened before. In the 1950s and 1960s, following the teachings of Le Corbusier, tower blocks were built for subsidised local authority housing. Many were built but very few of them are still regarded as desirable environments by those forced to live in them, and they fell out of favour until recent densification policies have made them fashionable again. But why should they succeed this time?

Finally, the fact of unmet demand for housing militates against good architecture. As Rogers himself has pointed out, developers often employ a well-known firm to draw up plans for the purpose of obtaining planning permis-

Back to the future: how densification backfired in Islington

Listening to politicians and planners or reading government publications, the impression one gets is that they have found a blueprint for the future – a plan to develop ‘liveable’ and ‘sustainable’ communities. Usually such concepts go hand in hand with making existing settlements more dense, making people live in flats rather than houses; in short, ignoring precisely those features that are popular with residents.

The question about these current policies should not be whether they will succeed but whether they will succeed this time, because the idea of solving the country’s housing crisis by submitting to such a grand plan is not new. In the 1960s, large tracts of poor-quality tower blocks were built all over the country. They represented an idea turned into concrete – the utopian vision of the French-Swiss architect Le Corbusier, who once summed up his functionalist approach to housing in the famous phrase “the house is a machine for living”. Le Corbusier envisaged suburbs in which flats, shops and amenities were assembled in large square blocks. Today, 40 years later, we can see all too clearly that this ‘concrete idea’ failed miserably, and people are trying to demolish the tower blocks and erect houses in which they really want to live. The irony of this is that all too often the future can be found in the past, as existing tower block residents campaign for a return to precisely the kind of housing that was demolished to make way for the tower blocks.

One telling example is taking place in Islington, a now fashionable part of London well known for its trendy lifestyle, with Italian espresso bars next to Japanese sushi restaurants and English antique stores. Not too far away from this sunny site of Cool Britannia things look less appealing. The Packington Estate’s name may be taken literally, for here tenants live at high density in 538 flats in six-storey high housing blocks. On the site of the estate there used to be some 200 Victorian terraced houses which the council bought up in the early 1960s. They were then demolished to make way for this new vision of living. Controversy has dogged Packington ever since it was built. Building quality was poor, and in 2003 the council finally had to admit that in the event of a gas explosion there was a danger that the buildings could collapse. As a consequence, all gas cookers were removed from the flats and several other precautionary measures were taken. But this problem was only the tip of the iceberg. Further surveys revealed that the buildings failed to meet current regulations, and finally it was decided that the best way to deal with the problem was to redevelop the whole estate. In other words, it needs to be torn down and rebuilt.

Interestingly, the organisation that represents the residents of Packington Estate has a clear idea of how the area should be redeveloped, very much in line with the Victorian houses which were demolished four decades ago. In their briefing paper *Our Vision for Packington*, the residents write: “First of all, we do not want another ‘estate’ of blocks of concrete – we want a community. We want to be reintegrated into the wider community. We’ve been separated from our neighbours in the surrounding streets since our estate was built in 1969! ... We have great concern about many households sharing the front door and communal areas of blocks of flats. This is what we have now. It does not work; it only needs one antisocial person to ruin it for everyone else. ... We also consider that refuse collection and keeping the corridors clean and safe is more difficult when you have blocks of flats. We want terraced houses, even with two or three flats in them.”

Whether the residents will succeed in their campaign seems doubtful, however. With the current government’s emphasis on densification, it seems more likely that the failed tower blocks of the 1960s will be replaced with high density flats. What remains is a double paradox. It was unpopular to knock down the Victorian terrace houses to build a multi-storey estate, yet it was done. The project failed because it was poorly constructed and residents did not like the high density lifestyle. At the point when problems had become too big to be ignored, however, the mistakes of the past are about to be repeated. All the while, people’s preferences remained the same – they want space, greenery, privacy and community. A simple focus on density cannot be a substitute for this. The solution for the future would be to learn from the mistakes of the 1960s and return to settlement patterns that were successful in Victorian or Georgian England.

sion. Then, having gained that permission in principle, they use a cheaper, less skilled firm to draw up new plans at the same density for cheaper-to-build homes with less aesthetic merit. When housing is expensive architectural quality is a luxury that can be dispensed with; the homes will sell anyway.

Living at higher densities is thus something forced on the British and justified by the argument that they ought to like it and it is good for them. Of course, some people were initially attracted by the idea of living in compact environments, but soon realised that high density living was not at all what they had actually aspired to (see box *Back to the future*).

It is also argued that living at higher densities is good for the natural environment because, in some way, building at higher densities increases sustainability by reducing the use of fossil fuels. The intuition behind this is simple, and simplistic – if people live and work close together they will travel less.

One significant problem with this argument is that very few other countries seem to be going to such lengths, probably because it is actually a very slow and inefficient way of influencing fuel consumption. Often, for example, many of the newer high density developments in Britain are actually being constructed in the suburbs, far removed from any jobs, so that travel to work is not reduced.

But the principal problem is that if the use of fossil fuels needs to be reduced in a relatively short time, say in the next twenty years, as most environmental activists would argue, then this needs to be done through the tax system. In that way everybody is affected and everybody has to respond, by buying more fuel efficient cars for example. Since cars are replaced every ten years or so the response will be rapid. But when less than one per cent of the dwelling stock is replaced each year it would take decades for the operation of the planning system to have any effect on the use of fossil fuels.

Even if jobs and dwellings are grouped together at a high density in towns or suburban centres, if travel is cheap people may simply live in one area and work in

another. And this possibility is the greater when more than one person in a household is working and both are relatively skilled. The chance that both will find jobs in the same area is slight, so that at least one of the partners travels to another area. The result is a network of journeys so that, as Sir Peter Hall has recently pointed out, southern England is turning into a “very complex, highly-networked mega-city-region” with smaller towns linked together rather than being self-contained and operating in isolation.¹⁷

“ Living at higher densities is thus something forced on the British and justified by the argument that they ought to like it and it is good for them ”

Besides, one should not forget that people who live at higher densities are more likely to have second homes and will travel more on weekends to leave the cities behind. In fact, this is likely to more than cancel out any fuel savings made by living at higher densities in the first place. Evidence from the Netherlands suggests that changing density had no impact on individual fuel consumption at all – what fuel was saved during the week was used at the weekend as people travelled out of their towns and cities to enjoy the countryside.¹⁸ It is quite ironic that even the Campaign to Protect Rural England seems to acknowledge this correlation, for on their website they promote the protection of the Green Belt as a necessary measure to provide an “escape from the city”.¹⁹ In other words, we densify existing cities to protect the countryside so that we can provide a refuge for those people who are forced to live in high density neighbourhoods and who then have to burn fuels to drive to these far away green places! Has it ever occurred to these campaigners that people

living in greener environments would feel less of an urge to escape from the cities and thus burn less fuel? Clearly, if the density effects on fuel consumption are negligible at best and non-existent at worst, one should stop using this argument in favour of higher density housing.

The thinking behind the densification argument is simplistic, as we have said. It is notable that over the past five years, as more and more new dwellings have been built as flats, fuel consumption has not decreased. Indeed total non-commercial fuel consumption remains more or less the same as it was when Labour came to power in 1997.²⁰

The need for change

We have established that the UK planning system delivers housing which is expensive and small, and that the arguments used to support it are arguable at best and in our view fallacious. It is not true that we have a shortage of land or that we want to live at higher densities. A more detailed elucidation of these arguments can be found in our first report, *Unaffordable Housing*, the executive summary of which we have included in Appendix 2.

We have also established that other countries pursue different planning policies; policies which result in housing which is neither expensive nor small. Our second report, *Bigger Better Faster More*, examines why this is the case. A summary of our analysis can be found

in Appendix 3. It is evident that there is a need for change.

The problem with UK housing is clearest in the concern over affordability, where there is a contradiction at the heart of policy. There is a desire to minimise the amount of land being built on by redeveloping existing urban land. But in the face of increasing demand this results in rising land and house prices. These high prices are a consequence of planning policy but they are also, economically, a part of that policy. Homes are then said to be 'unaffordable'; key workers are excluded from decent housing. This is followed by a demand that housing should be built which is 'affordable', in other words, subsidised. But this then limits the land available for unsubsidised 'market' housing, so the price of that housing further increases. Some housing is made more affordable but only by making the rest less so. This effect is magnified if developers are forced to pay a levy for affordable housing or have to make a percentage of the development affordable once planning permission is granted.

Of course these economic interrelationships are little understood. This is largely because the planning system is based on the allocation of land through a physical planning system, not on an understanding of markets. As we noted in our first report, it is the view of most planners that it is up to them to plan and for the market to follow. But just following, as the children of Hamelin found, may lead you to where you do not want to be.

2. The Economic Basis for Planning

Externalities and planning controls

We would not wish to argue that there is no need for any controls over land use. Much of the study of urban economics, the economics of towns, as it has developed as a subject over the last half century, has been concerned with the role of what economists call externalities – the impact on others of the legitimate activities of people and of businesses. These externalities are endemic in cities because in cities people live and work close to each other. To take a very simple example, a bonfire in the garden of a cottage in the country affects no one else. A similar bonfire in a suburban garden can affect everybody living nearby. The same is true of buildings: a building constructed in a city affects the environment in which many other people live and work.

A further argument for some form of planning is the need to coordinate the construction of infrastructure. An absence of control is feasible, indeed something close to an absence of control exists in a number of countries, but the consequences can sometimes be, literally, disastrous. For example, in southern Italy mud slides near Avellino, south of Naples, were attributed to illegal building and tree clearance.²¹ In Foggia, on the other side of the peninsula, the collapse of a block of flats killing 64 people was attributed to the lack of enforcement of building regulations.²²

There is thus a need for some kind of coordination. The problem, however, is how to achieve the right

balance. Yes, new building may negatively affect those living nearby; they may not want it ‘in their back yard’. But no system can allow those negatively affected to have a virtual veto over new development. And the British planning system is too close to that position. There is, to use another piece of economic terminology, an ‘insider-outsider’ problem. Those already there have far greater power than those who are not there but might be. This means that new development will be arranged to suit the insiders, not those who are going to move into the new housing when it is built.

Examples of this can be seen throughout southern England. It is not obvious, from an environmental point of view, why houses should be demolished along main roads and blocks of flats built there. Nor why new housing should be built at high densities alongside railway lines. But few of the existing residents will care about preserving the environment at these locations because it is already damaged by the presence of the transport routes. The fact that the environment of the new residents is worse than it would be further away is disregarded since they are outsiders and have no input. But from the point of view of the environment as a whole, and for the population as a whole, the end result is perverse.

We should also ask ourselves how depressingly low our ambitions have fallen if we are only prepared to countenance building houses on land that is already spoilt in some way. Such a view is possibly unique in the history of

mankind. Formerly we aimed to make ourselves comfortable in environments in which one wanted to live. We are now told that we must be content to live on previously developed sites next to noisy transport routes, or in degraded areas like disused quarries, to save those green spots where we would actually *prefer* to live, although no-one would ever be permitted to do so.

The paradigm case is that of rural land. A virtual veto has existed on the development of new towns since the 1960s and urban development has been increasingly constrained. Land in the town next to the railway or the main road is developed to preserve equivalent amounts of rural land. The urban environment is worsened to preserve the rural. The quality of life of the many is worsened to preserve that of the few.

“ Put simply the problem is this: the land market is, from an economic point of view, very imperfect. There is no central point of exchange and information is a long way from perfect ”

Any new system has to balance the costs and benefits of development better than the current system; our task is to suggest how this might be done.

Constraints, the land market and the supply of land

We showed in our first report that, in relation to the supply of housing, the British planning system is to all intents and purposes a Soviet style central planning system in which targets or production norms are laid down centrally for the nation and then reallocated down to the regions and local planning authorities. It has evolved to mediate between demographic need, as

perceived by central government, and the reluctance of most local authorities to allow or encourage enough development. What is usually overlooked is that centrally determined targets would be completely unnecessary if local planning were more responsive to local demand. It is unresponsive because of the lack of incentives local communities, planners and politicians face. Whether they engage in planning or not will hardly affect their local budgets as about three-quarters of a typical local budget depends on grants from central government.

In fact, we have a great deal of sympathy for local authorities because new development often costs them money. They are highly dependent on central government grant, which is slow to adapt to rising local populations. Meanwhile, local authorities have to provide a number of services to new residents out of their existing budgets. This means that existing residents face either poorer services or higher Council Tax – no wonder extra development is so unpopular! As we pointed out in *Bigger Better Faster More*, those countries with a more localised system of taxation (Switzerland) or a clear link between central government grants and local population and tax revenue figures (Germany) have also managed to create very responsive housing markets. But they did so without being pushed to it by nationally determined targets. In fact, to a German the very notion of national targets for house building seems absurd. Why should central government engage in something that local people will always understand best?

One could argue, of course, that from a physical planning point of view the British planning system appears problem-free – land is allocated so a supply is ensured. But it does not take account of the operation of the land market, our understanding of which is now somewhat greater than it was when the system was initiated. Put simply the problem is this: the land market is, from an economic point of view, very imperfect. There is no central point of exchange and information is a long way from perfect. So, within an existing urban area, owners whose land might be developed may not know

this and may never have thought of selling. Outside urban areas owners may not wish to sell but to continue their farming activities or just continue living there. Developers therefore have literally to search for sites to acquire.

Having found a feasible site, planning permission has to be obtained before it can be developed. Since this may not be obtained, or because less may be permitted than expected, developers will frequently acquire an option to buy the site rather than buying it outright. If it is a large site the developer cannot, and would not normally wish to, develop and sell all the houses at the same time. In all likelihood the site will be developed and released for sale in phases.

What all this means is that the linkage between the allocation of land for housing in the development plan and its development for housing is not direct. This is nowhere clearer than in the way local planning authorities generally assume that some of the housing to be provided in the five year plan will result from ‘windfall gains’. Land which no one had thought of as ripe for development at the time the plan was drawn up comes onto the market because, say, a factory closes down or a public house closes.

The indirectness of the linkage between plans and development has been described as an ‘implementation gap’. It is inevitable that not all of the land designated in the plan will be developed in the period and probable that not all of the expected windfall gains will occur. The result is that even if the planners were to allocate the correct amount of land in the plan the market would not operate in the perfect and efficient way in which it is presumed to. There will be a gap between plan and actuality. The problem is in fact an information problem – it is virtually impossible to gather the information necessary effectively to plan a system as complex as a housing market.

One could of course blame the market for this. If only it operated perfectly there would be no problem. If only developers built all the houses and put them straight on

the market. If only owners did not hold on to get a higher price. And so on.

Certainly in that sense the market is to blame, but blaming it does not solve the problem. Its inadequacies have to be allowed for and taken into account. And these inadequacies mean that one cannot allocate the smallest possible amount of land thought to be needed for housing and expect that this will satisfy demand and result in stable house prices. Local councils actually allocate less than this for political reasons, because they lack the incentives to opt for higher levels of development. All this necessarily results in an inadequate housing supply and rising land and house prices. Thus the problem is not the market, but clumsy interference with market processes through planning.

One way to modify the present system would therefore be very simple. It would be to allocate in each period a deliberate oversupply of land, or rather an apparent oversupply which would, in practice, constitute an adequate supply. We acknowledge that the Government’s considerations seem to go in this direction, if one thinks of the proposal of a rolling 5-year supply of housing land within a 15-year time horizon that can be found in a consultation document from the Office of the Deputy Prime Minister.²³

In her final report Kate Barker also made a recommendation of this kind. She states that “local plans should be more realistic in their initial allocation of land, and more flexible at bringing forward additional land for development”, because of the ‘implementation gap’ described above. She goes on to recommend that local authorities should allocate a further amount of land, a buffer, to improve their plan’s responsiveness to changes in demand. Additional land should be brought forward from this buffer when there is “evidence of local housing market disequilibrium”.²⁴

The difficulties with this proposal are that of timing and whether it goes far enough. First, it is difficult to respond quickly to evidence of housing market disequilibrium. Evidence has to be collected on, for example,

‘worsening market affordability for lowest quartile earners’. Then this information has to be considered, analysed and checked to ensure that any house price rise is not a mere blip in the trend. Once a decision has been taken to allow the additional land to be released, planning permission has then to be obtained by developers, contracts agreed, and the houses built and sold. The gap in time between the signalled market worsening and the actual increase in the supply of housing has to be at least two years and is likely to be of the order of three or four. During this period market conditions will almost certainly have considerably worsened.

This problem of timing is endemic to a centrally planned system. In a market system it is up to the market participants to make their separate decisions. A rise in prices signals to producers that an increase in production would be profitable. But some respond early and some late, so that the rise in prices is tempered earlier than it would be with an all or nothing central decision which is necessarily late.

Moreover, given the volatility of the UK housing market, experience over the past 40 years tells us that it is inevitable that at some point in the cycle the release of the buffer stock will be triggered. It would far better that local authorities should always be required to provide for land

for housing which would be some 40 per cent greater than their actual estimate – above and beyond the additional land called for by Barker – in order to allow headroom for the market to respond to variations in demand. After all, one would expect that the buffer would consist of land which it was anticipated would be included in the following period’s plans for development anyway. So, either it is developed somewhat earlier than it would otherwise have been or it is not developed during the current planning period and can then be part of the land allocation for the following period. If the land allocation in an area for a period ceased to be a straitjacket and was made a more comfortable fit, the market would be more flexible and less constrained.

We may note, in passing, that Kate Barker’s final report appeared in March 2004, when house prices in most of England were high and escalating. At the time of publishing, two years later, the ODPM is *still* considering its response to this recommendation, indeed recently asked for comments on proposals for a rolling land supply and long-term planning horizons. In and of itself this delay is a conclusive argument against the centralisation of planning for housing, and in favour of leaving responses to changing market conditions to entrepreneurs rather than civil servants and politicians.

3. Thinking About Social Costs – Constraints

The balance of constraints and the value of land

Economic analysis of externalities usually revolves around the use of taxes. It is argued that the cost of an external harm – such as the impact on the environment, an increase in pollution or the loss of an amenity – should optimally be reflected at the margin by a tax that has to be paid. The taxed individual or organisation will then continue its activities so long as paying the tax costs less than suppressing the externality. But while this is the basic theoretical position of so-called ‘welfare economics’, in practice environmental taxes are rare and controls are much more frequent.

This is so for a number of reasons. First, to implement a tax the government needs to acquire information as to the actual social costs of the externality. If the costs are fairly low it is usually easier and more efficient to leave things alone – the costs of intervention may outweigh the benefits. Besides, without government intervention those involved will arrange their affairs so that the social costs are minimised. For example, many activities involve some noise and so some noise nuisance is inevitable, but social norms (usually) prevail which prevent the noise level becoming socially unacceptable.

Second, and probably most importantly, controls are politically more acceptable than taxes. This is because taxes tend to be universal while controls generally allow those already engaging in the activity to continue to do so.

For example, a tax could be imposed on second homes in an area, or, alternatively, a control could be imposed to prevent the use of any further houses as second homes. A tax on second homes, if it were general – and it would be seen to be unfair if it were not – would be unpopular with existing second home owners. But they would be very happy with a control since they already have their second homes and a control would increase the value of their house. Town planning controls that constrain development are politically acceptable for this reason: because they favour the existing users – the insiders – at the expense of any new entrants – the outsiders.

Instead of a tax being levied, planning controls restrict the supply of land and drive up house prices. In the example we gave above, second homes will cost more. From a welfare economics perspective, the increase in price should be an implicit measure of the social cost of the externalities caused by building and owning that home and should, in theory, be equal to the value of any tax that might be set. Specifically, in the case of new green field development, the amount by which the price of land for residential development exceeds its value for agricultural use is an implicit measure of the estimated social cost of developing the land for urban use.

The relationship between constraints on the supply of land, the price of land for residential development and the social cost of development is not well understood. But to understand the logic of this relationship consider what ought to happen if the price difference between agricul-

tural land and land designated for housing is not equal to the social cost of developing that land. Suppose, for example, that the social and environmental cost of development on a green field site is estimated to be £500,000 per hectare, and that its value as agricultural land is negligible. Then suppose that the market price of land for development is £400,000 per hectare, a figure lower than the estimated social and environmental cost. A developer willing to pay the market price of land for residential development would develop the site. But the figures indicate that, from a welfare economics point of view, this would be wrong. Instead of allowing such development, the constraints and controls should be further strengthened until the price of land rises to reach the level at which the price difference does equal the estimated social or environmental cost.

But if this is accepted the opposite must also be true. If the value of the site for development were £1 million or £2 million per hectare, then it is obvious that the value of the development clearly exceeds the social cost of developing the land. From a welfare economics point of view, the substantial difference between the two indicates that constraints should be relaxed and development allowed until the price of land for residential development equals the social cost of developing that land. It is a question of balancing the social costs. Of course, many people dislike putting a monetary value on social or environmental impacts. But the problem with this view is that even if the social costs are not calculated they are implicit in the operation of any planning constraint. They are implicit because, at some level, the operation of the constraint is based on a view that its benefits outweigh its costs.

The problem is that, in the political arena, proponents who gain from the constraint exaggerate its benefits and play down its costs. And if the costs of *not* developing are dispersed among many people who are difficult to identify, while the benefits accrue to a definable small group, then the operation of political process tends to benefit the smaller and better-defined group. So rural residents – the small, well-defined group of insiders – vociferously claim

that more green field development will mean that England will soon be covered in concrete, and their voice has a disproportionately large impact. The absurdity of such claims hardly ever stops their proponents from using them.

And that will be England gone?

How often have we heard someone say: “If we allow more development then the whole of the countryside will be lost in just a few decades”? A simple look at the figures helps to put this view into perspective.

Let us assume that ten per cent of England is urban (the real figure is probably even slightly lower, as suggested in *Unaffordable Housing*). That leaves ninety per cent of the whole country non-urban by definition, around 117,086 square kilometres. Multiply this by one million and you get the figure for non-urban square metres in England: 117,086,000,000 square metres. Of course, some of it is used for non-urban settlement or is in locations that are difficult to use for housing, but the rest could in theory be developed.

In continental European countries that allow more development than the UK, the average person consumes around 400 square metres of land. This includes land used for things like housing, roads, hospitals and infrastructure, but also green space such as gardens, parks and playing fields. If just five per cent of non-urban English land (5,854 square kilometres) were developed at this rate, this area would provide continental-style settlement for nearly 15 million people – more than double the predicted growth of the English population by 2031.²⁵ The reality is that, despite the scare stories, England is easily capable of providing the land need to comfortably house a growing population without any risk of the countryside being ‘concreted over’.

Nevertheless a number of proposals have recently been made which move in the direction of putting an explicit value on the social cost of urban development. And, conversely, there are social costs to constraint, costs which we outlined in our first report, namely that the British have by far the smallest new homes in western Europe, that our stock of homes is the oldest and our housing the most expensive, with gardens becoming a

luxury for the few. And these costs are becoming increasingly obvious.

A price threshold

One such proposal has been made by the British economist Paul Cheshire and the American economist Steven Sheppard.²⁶ They argue that a calculation should be made of the social cost of developing open land. This would then constitute a threshold value. If the price offered for such land exceeded this threshold value, then, it is argued, the implication is that the value of the land to society developed for housing exceeds its value to society in its undeveloped state. Within the British planning system, a price greater than this threshold would constitute a material consideration generating a presumption of permission being granted.

The price threshold that they suggest is £700,000 per hectare. This would appear to be a fairly high figure and in practice the threshold figure should probably be lower. Nevertheless, as they note, the price of land for housing in the vicinity of Reading, to the west of London, was about £2.2 million, far higher than their suggested threshold of £700,000, with the implication that the constraints now in force are far tighter than is socially optimal.

A difficulty with the proposal is that a figure set nationally, unless it were significantly lower, would probably restrict development in some areas but allow what might be regarded as too much development to occur elsewhere. It would operate best once the housing market reached some sort of equilibrium. But getting to that equilibrium from our current situation, which is so distorted by constraints, will not be easy.

4. Planning and Development

Plan-led development

When the Bill for the 1991 Planning and Compensation Act was passing through Parliament, an amendment was introduced at the behest of the Campaign for the Protection of Rural England under which the Unitary Development Plan (UDP) of an area was made the primary material factor in determining whether any planning application was to be permitted.²⁷ Its effect was further to constrain new development, as might be expected from the source of the amendment.

The impact of the change in the long run is most obvious in the statistical evidence on the number of houses built over the ensuing years, and particularly in the lack of responsiveness to changes in market conditions. While the number of dwellings built each year increased in the 1980s as house prices increased, and fell in the early 1990s as prices fell, the number of dwellings built each year remained largely static for the next ten years, and supply failed to respond to increasing prices as it had ten or twelve years earlier.

Thus it could be said that the aim of the 1991 Act had been achieved. Only what was in the local authorities' plans was being built. It might be said that the planning profession could be congratulated on having achieved its objective of removing housing supply from the effects of market forces; truly now the planners planned and the market followed. However, a situation where house prices were rising rapidly, but where the number of houses

being built was at the lowest level for over 70 years, however satisfactory it might be at the local level, was unsatisfactory at the national level. One consequence was Kate Barker's inquiry into the supply of housing, the final report from which suggested various ways in which planning stimuli could be introduced into the system to somehow mimic a market response. But why try to do this in a complicated way, by introducing further forms of regulation, when a simpler way is at hand? Why not actually allow housing supply to respond to market forces?

It is as though we are so wedded to our faith in the Ptolemaic system in which the universe revolves around the earth, that, to make it accord with our observations, we add more and more epicycles to the system so that we can continue in the orthodox faith and avoid the Galilean heresy that it is the earth that revolves around the sun, even though this is a much simpler theory.

With the 1991 Act the planning system became apparently simpler but in practice became more complicated. As those who have been involved in the system over the years will know, the making of planning decisions has become increasingly legalistic. The question at issue has ceased to be whether what is proposed is, on balance, good or bad, but whether it is in accord with the plan. And the plan, and what is proposed in the plan, has to be in accord with Planning Policy Guidance issued by central government. Planning appeals before an inspector increasingly seem to turn on barristers citing bits of the

UDP and sections of the Planning Policy Guidance: each, of course, citing the bits which favour their case.

Sometimes this can become rather absurd. For example the current Planning Policy Guidance Notes on Housing (PPG 3) and Transport (PPG 13) both lay down that though a local government may require that the number of parking places required in connection with a new housing development should not exceed some maximum, it cannot require that there should be at least some minimum. The provision of parking spaces is left to the developer. Even though existing local residents may fear that cars will be parked on the street outside their houses and cause congestion, the application cannot be refused on the grounds that there is insufficient parking!

What is needed is to get away from a system which is legalistic, set up to deal with the question as to whether what is proposed is in line with the directions ('guidance') of central government. It is this centrally-directed, centrally-planned, non market-oriented system which has resulted in fewer houses being constructed now than at any time since the 1920s, and in new homes which are, on average, much smaller than the new dwellings being built in continental Europe, the United States, Australia, Japan – indeed just about everywhere else in the developed world. The system needs to be changed to take account of market forces *and* of the negative externalities which can result from development.

The constraint on land supply and the limits of planned development are not, unfortunately, the only restrictions that exist within the planning system. Strict limitations on designation of use also make the planning system more sclerotic than it should be. Should not property owners be able to change the use of their properties to suit the market, be it residential and commercial, provided there is no great impact on their neighbours?

Introducing greater flexibility has been successful before. In the early 1980s there was a huge surplus of industrial space and an acute shortage of offices. As a result, office rents and costs soared. In 1987, the then

Environment Secretary Nicholas Ridley responded by introducing a new Use Classes Order which permitted automatic change of use between light (not heavy) industrial use and office.

Local authorities resented this loss of control but it worked. Ever since then supply has been much better able to respond to the demand for office space, to such an extent that we now have an oversupply of old-fashioned business space in London and the South East. Now, when there is an acute shortage of housing, local authorities are very wary of allowing this to be converted to residential usage – in order, they say, to protect employment. But if office and industrial land and buildings were allowed automatic change of use to housing many of the current blockages and shortages would be overcome.

“ Just as the British increased consumer expenditure as house prices rose, so there was the probability that they would cut their expenditure as and when house prices fell ”

In other words the question asked in respect of any proposal should not be “Is this in accord with the plan?” but “Is this development desirable and will the benefits to society which would result from it exceed the social costs?” Whether it is in line with guidance from central government should be almost wholly beside the point. For example, at the present time the Deputy Prime Minister reserves the right to call in for reconsideration housing developments which are regarded as too low density. But why should this be regarded as acceptable? Is it in the interest of sustainability? Should he not then also need to approve car production? Should not car manufacturers be prevented from producing and selling bigger cars which use too much fuel and occupy too

much space? It would not even be suggested because the proposal would be regarded as absurd. In a free market society government or its agencies lay down basic regulations, but after that the manufacturer decides what to produce within these parameters. Should this not also apply to housing?

The question at issue should be “Is this development desirable, balancing the social benefits against the social costs?” The answer will vary over time and place; sometimes the benefits of building will outweigh the costs, and sometimes the opposite will be true. This is undoubtedly a more complicated question for the planning committee or inspector to answer than “Is this in accordance with the plan and with the directions of central government?” But then every entrepreneur has to make these difficult decisions as to costs and benefits and future demand. Centralising guidance and plan-making leads to eventual economic collapse, as, post 1989, everyone should be aware.

It may be that the planning profession would regard this as turning the clock back. So be it. At some point this is inevitable because central planning carries with it the seeds of its own destruction, as what is planned becomes increasingly detached from what is required. The Soviet system lasted 70 years, the other centrally planned economies less than that. And then the clock had to be turned back. On that basis the British system of town and country planning is nearing the end of its life.

The presumption of a right to develop

In most countries, such as Germany or Switzerland, there is a presumption of a right to develop land; this right may be limited but it exists. In the UK the Town and Country Planning Act of 1947 nationalised development rights. Since then they have nominally been owned by the state and only exercisable by the owner of the land with the permission of the state.

Although formally such a presumption used to exist in the UK, even under the 1947 Act, it hardly mattered for

practical planning purposes. In the early 1980s, under Margaret Thatcher, it was the minister then responsible for planning, Michael Heseltine, who tried to reinforce this presumption, but without much success. For example, a company called Consortium Developments Ltd was formed by a group of house builders to try to obtain permission for the development of, in effect, privately financed new small towns in south east England near London. It made a number of applications, all of which were turned down both by the relevant local authorities and on appeal. The most interesting of these was a site called Foxley Wood to the south west of London towards Basingstoke. It was notable for the fact that the application was supported by the then Department of Trade and Industry on the grounds that there was a shortage of labour in the area. Despite this it was turned down by the Inspector but called in by the Secretary of State Nicholas Ridley, who was clearly minded to approve it. Before he could do so, however, he was replaced as Secretary of State by Chris Patten, who confirmed the Inspector’s refusal. The application was notable for the recognition of the need for housing for economic reasons, and it is evident that it might have been approved. But the hostility of those living in the vicinity was more powerful and stalled the proposal. After failures like these the presumption to develop soon fell into oblivion again and was formally abolished in the early 1990s.

Deadlock

The presumption of a right to develop might be regarded as desirable, but it has to be recognised that the local inhabitants – the insiders in the British context – have greater weight politically than the outsiders – those who might live in the houses and might fill the vacant jobs. From a national point of view there may be a need for development, but this national gain may not be seen as sufficient to outweigh the local loss experienced by those living near the development.

What is wrong with our modern housing estates?

There is nothing new about housing estates, though we do seem to have got much worse at building them. It is hard to imagine many modern schemes getting listed building status, but that is just what speculators in the 18th and 19th centuries ended up achieving. They too dispensed with the services of an architect and made do with pattern books for their designs, just as volume house builders do today. So what has changed?

Our fixation with protecting our environment from new housing has kept the supply of building land as tight as possible. What land does get planning for development is eagerly fought over by the house builders. To make the winning bid they need to reduce all other costs, particularly what they are going to spend on the actual houses, so though we may reduce the amount of building that goes on, those houses that do get built are the cheapest builders can devise.

This cheapness comes through standardisation. Each builder has their collection which, when rolled out across a site, leads to the 'anywhere but nowhere' feel of the modern estate. In the 1980s these collections tended to be homogenous. Each estate had a consistent aesthetic, often Georgian, and the houses tended to be the same size. Since then, pressure to 'fit in' has meant creating groups of buildings in one location that are designed to look like they might have developed organically over time. This is achieved by a melange of local materials: one house has red brick and clay tiles, its neighbour has stock brick and slate; one is a coach house, the other is a town house. Experienced on site, this attempt to 'fit in' gives the feeling of a crudely made fake.

There is also a wider issue complicating how our housing estates look – the overt political agenda contained in the local development plans, which often flies in the face of what consumers want. For example, the Sustainable Communities Plan is avowedly anti-car. But narrowed roads and restricted parking have not meant that those living on new estates have adapted their behaviour; instead residents cause chaos by parking on the pavement, while explaining that the bus routes and timetable do not suit their lifestyle. These are places designed to an idea of how people *should* live, not how they actually *do* live.

We also need to conquer our common ignorance of what design could offer us. This ignorance is shared equally between the public and the professions responsible for creating the estates. Architects need to lose their reputation for extravagance and start to learn what things cost, advocating possibilities ranging from the conservatism of Poundbury, the Prince of Wales's scheme in Dorset, to the modern complexity on display at New Hall near Harlow. We in turn need to appreciate the basic lessons of what their manipulation of light, materials and space can do for us – with the same openness we show to modern design in our cars and our MP3 players.

For example, central government may predict that a certain number of dwellings may be necessary in an area to house the increased number of households generated by the growing children of the existing population. But the British population is highly mobile. And so we have heard it argued at an appeal that since the children of the local inhabitants will move away when adult, so new homes should not be built in the area since these will only be occupied by people moving there from elsewhere, in effect other people's children. Since the inhabitants of each area feel the same way, the situation is a recipe for deadlock, with each group

arguing that the necessary new homes should be located somewhere else.

How to break this stalemate is a problem which has to be resolved. One factor which has to be taken into account is the high rate of owner occupation, a feature of the British housing market in which it differs from Germany, but not from most other European countries. It is evident that if there is a proposal which might possibly diminish the value of the family home, owner occupiers have an incentive to oppose it. Even if the possible loss is small, the home is almost certainly the household's largest investment, and in many cases is the whole of their

capital. It must be recognised that any policy which aims to increase ownership levels is likely to exacerbate this problem. That is not to say that this is wrong *per se* – there are good social and economic arguments for increasing ownership rates – but rather to say that the risk of entrenching the ‘insider-outsider’ conflict must be acknowledged and accounted for in other ways.

The situation is different where homes are rented. A development which might negatively affect rents would not be of great concern to the occupiers. Indeed they might actually favour it. The landlords, being fewer in number and quite possibly not resident in the area would wield less political ‘clout’. Certainly, where the possible negative effect of a development would be small and doubtful, which is the usual situation, renters would be much less likely to oppose the proposal than owner occupiers who would be much less risk adverse.

Side payments

A possible solution to the stalemate was put forward a number of years ago by one of the authors.²⁸ It was suggested that those putting forward planning applications should be permitted, even encouraged, to buy off opposition by what economists call ‘side payments’ to local residents. The original motivation for this proposal came from participating in a public inquiry into a planning application for two thousand houses to be built on land adjacent to an existing village, which itself consisted of two thousand families. The proposal was, needless to say, strongly opposed by the existing householders. Calculation of the possible increase in land values if the development was approved suggested that the increase in the value of the land on which the development was to occur would approach £80 million. If, say, each of the households in the existing village were paid £20,000 in compensation it seemed unlikely that more than a very few would continue their opposition to the development. Yet, even after allowing for this cost of £40 million, the profit accruing to the owners of the land

would still be close to £40 million, a sum which would seem to be a sufficient economic incentive to sell their land.

Needless to say the planning appeal resulted in the local authority’s original refusal being upheld. The insiders defeated the outsiders. The developers and land owners were painted as motivated solely by greed as against the ‘disinterested’ opposition of the local residents motivated solely by concern for the local community. The real outsiders, those seeking homes, were the losers but they were unidentifiable and therefore ignorable.

Of course the local residents are, as we have already indicated, highly motivated by concern over any possible diminution in the value of their property. If every house in the village had fallen in value by, say, five per cent as a result of the development, the amount would have been negligible compared with the compensation suggested above, but if no compensation is on offer, concern over a possible fall is certainly justifiable. But the fact remains that even when the benefits of the development would far exceed the social costs, and even where the costs would be small relative to the benefits of the project, the British system gives undue weight to the putative losses, blocking development which would be of benefit to the wider community.

A problem with the proposal for side payments mentioned above – and it is a problem which leads us not to suggest it now – is that such an approach can encourage opposition from those who see that they may be bought off. Even with Section 106 agreements as they currently operate we know of at least one case where the representative of a local opposition group said that they were not actually against what was proposed in principle, but that they would oppose it in order to be bought off by concessions made in the form of planning obligations. In order to avoid that, perhaps it would be worth thinking about the Swiss solution that contains a mechanism whereby new development will automatically create an extra local tax revenue – regardless of whether there had been local opposition to the development or not.

5. Thinking About Social Costs – Taxes

Environmental impact fees: the Rogers Report

Chapter 9 of the 1999 Rogers Report *Towards an Urban Renaissance* proposes that some form of environmental impact fee could be designed to reflect “the full costs of land release”. It argues that “there is a series of wider environmental impacts which are not currently taken into account within the existing system of planning obligations and planning gain”. These environmental impacts are listed as “increased air pollution caused by increased road traffic use, increases in energy consumption and greenhouse gas emissions, loss of countryside and landscape, damage to biodiversity, impacts on historic and cultural resources, soil erosion and loss, pressures on waste and water management systems”.²⁹

There is, as is implicit in our earlier discussion, something to be said for this approach. Unfortunately, the report tends to overstate the costs and to include things which would be better dealt with in other ways. The benefits of development – bigger and better homes, healthier cities, more biodiversity in gardens etc – are not even mentioned. Thus it would be wrong to make a one-off charge for the traffic and energy consumption associated with a new development. These environmental impacts are ongoing and occur in relation to existing as well as new buildings, and are therefore best dealt with through other forms of control and taxation. Energy consumption by everyone, not only those moving into new houses in the suburbs, should

be taxed at the level which ensures that its use is at the optimal level, whatever this might be, whoever is using it. Making an additional charge for new development is ‘double counting’ and inefficient.

But the calculations suggested could certainly be made and environmental impact fees calculated. The Rogers Report, however, proposes that the fee should be added to the existing land cost. This fails to recognise the role that existing planning constraints already play in restricting the land available for development in order to account for the environmental costs, a process we explained in Chapter 3. Thus what is being proposed is that if the social cost of allowing development is calculated as, say, £500,000 per hectare, and the current price of land for residential development were £1 million per hectare, then under the Rogers proposal the developer should not only pay the full price for the land but an additional environmental impact fee on top of that cost.

Of course, as the report acknowledges, we are “in the foothills of an important but complex debate where the guiding principle is a sound one but the implementation strategy is far from clear” so that, for example, “in terms of energy and water efficiency at least” new properties will tend to be more efficient than older buildings. What we are doing is contributing to this debate to assist in the climb out of the foothills.

The problem with the Rogers proposal is that it ignores the role that constraints already play in taking account of social costs. This means that the developer is effectively

asked to pay for the social and environmental impact of development twice: once through the high price of land, and then again through the impact fee. Once it is understood that the charges would largely replace the constraints, not be added to them, then a system of the kind proposed would be feasible. This is because the price paid for land would fall to take account of the fact that an environmental impact fee had to be paid. The price of land, the £1 million cited above would represent the most that developers would pay in the absence of the fee; with the fee this maximum would fall to £500,000.

Such a system would mean that if the environmental impact fee were calculated and paid, planning obligations fulfilled, and the owner of the land compensated for its sale, then there would be no reason whatsoever to prevent or forbid development of the site. All the negative costs would have been covered. Local authorities could, for example, use the additional revenue generated by the impact fees to build a leisure centre, upgrade the road system or even cut council tax. In southern England, where land prices for residential development are in excess of £2 million per hectare, this approach suggests that a great deal more development should be permitted since the social benefits, which are reflected in the high value of land for development, would clearly outweigh the social costs, which are reflected in the level of the environmental impact fee.

A Planning Gain Supplement: the Barker Report

In her final report Kate Barker recommends the introduction of a tax called a Planning Gain Supplement.³⁰ This idea was also presented in the 2005 Pre-Budget Report and is currently under consultation. Such a tax would be paid upon the granting of planning permission and would in part replace and in part be additional to contributions made under Section 106 agreements, i.e. planning obligations.

We mention it here because although it resembles the impact fee put forward in the Rogers Report its motiva-

tion is different. As explained earlier, the environmental impact fee would cover the social costs of development, whether paid as such, or, alternatively, existing as a shadow price, as in the Cheshire/Sheppard version. Barker's primary objective, however, would appear to be to raise tax revenue: "The government should use tax measures to extract ... a greater proportion of the increase in value accruing to land owners from the sale of their land for residential development". As such it follows historically in the steps of a series of such taxes, the most recent being the Development Gains Tax in operation between 1974 and 1985 (for rather longer, it is worth noting, under the Conservative government elected in 1979 than under the Labour government which enacted it).

“ Local authorities could, for example, use the additional revenue generated by the impact fees to build a leisure centre, upgrade the road system or even cut council tax ”

It is also worth noting that the reason given for abolishing it by the then Chancellor, Nigel Lawson, was that insufficient revenue was raised through the tax to compensate for the administrative cost of operating it. The rate then in operation was 60 per cent. Since the Barker report talks of a rate which would not be substantially greater than that which currently accrues to local authorities through Section 106 agreements (i.e. a rate nearer to 25 per cent than 60 per cent), it does not look as though the tax would raise significantly more than might have been derived from the old Development Gains Tax.

Nor could the rate be substantially higher if, as the Barker Report implies, it is only to be paid in respect of residential and not commercial or industrial development. A high rate would mean that the price of land for residential use would fall significantly below the price of

Taxing roofs – an incentive to plan?

In our reports we have frequently underlined the importance of incentives in the planning process. Where councils have little or no positive financial incentives to engage in planning they are less likely to develop a favourable attitude towards development. If, however, they know that engaging in planning for development will contribute positively to their budgets they will generally be keener on allowing development, and in many cases will actively promote it. This could clearly be seen in the German and Swiss cities that we visited for our previous report *Bigger Better Faster More*.

In England, however, the situation is very different. For council budgets in this country it hardly makes a difference whether the council plans for 10,000, 1,000, 100 or no new dwellings at all. The fiscal situation depends to a large degree on grants from central government. Local sources of income are small in comparison. So when it comes to planning, councils often face a negative incentive: while new development will almost always require some capital spending – be it providing new infrastructure or upgrading existing infrastructure – they hardly get any benefits from such development. This is why a council leader once told us that he would actually prefer to block all new development in his area, if he could only get away with it. Planning for development simply does not pay.

It is because of this (dis)incentive structure that central government has to set house building targets for local councils. If it were in the councils' own interest to deliver an adequate housing supply, such national targets would be unnecessary. Councils would deliver the housing of their own accord. This explains why national house building targets are unheard of in Germany and Switzerland.

The connection between incentives and planning activities is too obvious to be overlooked. Very recently, attempts have been made in England to reconcile the need for development with the fiscal needs of the councils. While these may only be first steps, they go in the right direction. The best example of this new approach is Milton Keynes.

In Milton Keynes, the well-known Section 106 agreements have been creatively transformed into a so-called 'roof tax', i.e. a flat-rate developer contribution for infrastructure spending. For each house completed developers now have to pay a total of £18,000. Initially, this new 'tax' will apply to some 15,000 new dwellings, which are to be built at a rate of around 3,000 dwellings per annum.

This may be a good first step in the right direction, but clearly there are arguments for and against the Milton Keynes 'roof tax'. Let us consider the positive arguments first. The roof tax has simplified the application of Section 106. Where a developer and a planning department would usually argue and negotiate extensively about the developer's infrastructure contribution, the flat rate tariff has made things easier and more transparent for both sides. It also seems that the tax did not aggravate housing affordability problems, which would suggest that it is effectively paid by the landowners. And finally, the certainty of future funding allows the Milton Keynes planners to plan further ahead. As Jane Hamilton, Chief Operating Officer of Milton Keynes Partnership, explains, the roof tax programme "is a much more strategic approach that lets us plan properly for the future. It should help ensure that we get new infrastructure to meet existing and future community needs".

But the Milton Keynes approach is not without problems, either. It is likely that roof taxes will lead to affordability problems in the future. In fact, we identified such developer levies as the main cause of Australia's affordability problems in our previous report. There is also no doubt that local planners and politicians would often prefer a continuous income stream generated from new development instead of a one-off upfront payment. Yet at present such an option is not available to them, so the roof tax remains as a positive solution.

land for other urban uses. This would certainly discourage the conversion of such land to residential use, and with respect to green field sites, discourage development for residential rather than other uses.

The tax proposals also involve significant potential for disagreement. For the Planning Gain Supplement to be correctly calculated, estimates would have to be made of the development land's value both with and without planning permission. The arguments involved in making these estimates would likely – as happened with the Development Gains Tax – make the administrative costs of operating the tax too great.

The problems associated with taxes of this kind underline how difficult it can be to introduce completely new forms of taxation, particularly if the overall intention is to increase revenues rather than for them to remain neutral. One of consequences of higher land taxes is an unwillingness to bring forward land for development – many landowners will feel that there is a good chance that a future government will abolish the tax, as happened twice in the UK with development taxes since 1945. Thus not only might the tax be expensive to administer, it might also reduce the amount of land brought forward for development and bring in less money than envisaged. The key, we believe, is to take an evolutionary rather than revolutionary approach to taxation, and seek to use existing taxes to create the right incentives for local government to plan for development.

Taxes and planning

This brings us to the subject of the relationship between taxes and planning. It is not one of which British economists can feel proud. This is because, except for taxes specifically targeted at the profit derived from property development such as the Development Gains Tax, planning policy and fiscal policy have been disconnected and often contradictory. Ministers responsible for planning policy have sought to achieve objectives which they consider to be desirable and politically popular, while at the same time successive

Chancellors of the Exchequer have separately sought to achieve different objectives which they have also thought desirable and popular.

The fact that the objectives of the two conflict is rarely seen and probably even less often understood. Since policies with contradictory objectives can both win votes one has some sympathy with the politicians, but might have expected better from their advisers.

“Successive Chancellors of the Exchequer have separately sought to achieve different objectives which they have also thought desirable and popular”

This contradiction has never been clearer than from the mid-1960s through to the mid-1990s. During this period the politically popular policy of restricting land supply increased in relative importance. It was, apparently, thought desirable that the British should use less land and occupy less space. At the same time, however, at least at the beginning of the period, public housing was subsidised, rents were controlled, and mortgage interest was fully tax deductible. Thus the tax system encouraged expenditure on housing, while the planning system sought to provide less space. Only gradually was mortgage interest tax relief phased out. Indeed it took a quarter of a century from 1976, when a limit was first imposed on the sum on which relief was allowable, to the final abolition of any form of relief. Moreover at no point did any Chancellor claim that this relief was being phased out because it increased the demand for land for housing and this was undesirable for planning reasons. Such reasons as were given related solely to the rationalisation of the tax system, and, in practice, mortgage interest relief appears to have been phased out so as to avoid rises in the basic rate of income tax.

Nevertheless the apparent lack of any perception of the connection between the tax system and the planning

system is almost astonishing, and it persists today. VAT is not charged on new housing; capital gains tax is not charged on the primary home.

Furthermore, with the change from domestic rates to the community charge at the end of the 1980s, followed by the change from the community charge to the Council Tax at the beginning of the 1990s, the level of taxation of housing was significantly reduced. This was done by increasing the level of grant from central government and was intended, in each case, to make the changes palatable by reducing the increase in the amount paid by those whose taxes would otherwise increase substantially. The result was to reduce significantly the level of taxation of larger houses and, overall, to increase the demand for housing in the long run. The conflict with planning policy implicit in the changes was rarely, if ever, discussed. At the time the emphasis was on how local government should be paid for. The British public may, of course, be in favour of lower taxes on houses and, at the same time, also in favour of constraining land supply. But the government's economic advisers should have been more perceptive.

Currently the greatest contradiction is between the structure of the Council Tax and the objectives of the planning system. The tax is set in eight bands. It is a significantly higher percentage of the value of the cheapest and smallest houses than it is of the larger and more expensive. Indeed once in the highest band the tax paid is the same whether the house is valued at £1 million or £10 million or more.

One can understand why it has this structure. It was designed (cobbled together?) as a replacement for the politically disastrous Community Charge which was completely unrelated to house values but was a head or poll tax. A property element which allowed the poorest to pay less tax than with the Community Charge while those with larger houses paid more, but not as much as they had with domestic rates, was an acceptable political compromise at the time. And given its turbulent political history, successive governments have been reluctant to revisit the problem.

Nevertheless, the position at present is that larger homes are taxed proportionally less than smaller. Yet at the same time the planning system seeks to encourage the construction of smaller dwellings rather than larger ones!

The contradiction has been at its most perverse in relation to second homes in rural areas. Politically it is thought desirable, from a planning point of view, to encourage the existence of affordable homes for workers in rural areas, and to discourage the use of the existing houses as second homes for urban residents. But if someone wealthy enough to do so buys up two adjacent cottages and makes them into one dwelling, then he or she will be rewarded for this by a reduction in the Council Tax payable below the total amount payable before on the two cottages. And until recently, and possibly still in some areas, if the new dwelling were declared a second home then the tax payable would be halved.

The lack of appreciation of the impacts on the housing market of the operation of the major taxes on housing is extraordinary. There might well be good arguments against taxing homes proportionally, but if we accept that argument we must also be aware that it will encourage people to own larger homes than they might otherwise have done.

The latent contradictions between fiscal and planning policies recently became very evident with regard to the Self Invested Pension Plans (SIPPs), which are due to start this year. It was forcefully pointed out by a number of commentators that it did not seem logical that someone wealthy enough should be able to buy a second home through their pension scheme and write off the cost of doing so against tax. Once again fiscal policy was set to provide a financial incentive for something which planning policy was seeking to resist. Perhaps it can be seen as a positive development that this kind of investment was disallowed, albeit at the eleventh hour and less than four months before the new system was to come into force. Thankfully, the Chancellor of the Exchequer announced this correction in his 2005 Pre-Budget Report.

Similar arguments apply to the structure of the VAT in relation to housing. It is not charged on new dwellings

but is charged on most forms of refurbishment and on the extension of an existing dwelling. Presumably, when VAT was first introduced in Britain in the early 1970s, it was not charged on housing, as it was not on food and children's clothing, on the grounds that these were in some sense necessities. But the price of housing has been considerably increased since then by planning constraints. It is illogical that one arm of government should view new homes as a necessity, the price of which should be kept down, while another arm of government seeks to make it more expensive so that people will consume less.

In practice, of course, the absence of VAT does not make housing any less expensive. Over virtually the whole country it means merely that the price of land with planning permission for residential development is higher. Furthermore, the imposition of VAT on refurbishment and extension, and the absence of a charge on new building, provides an unwonted stimulus to the demolition of existing dwellings. Charging a uniform rate of 5 per cent – the minimum allowed under current EU regulations – on new build, whether in the form of a single dwelling or an extension to a dwelling, would remove this idiosyncratic stimulus without discouraging new building; building which is discouraged far more effectively by the planning system.

Site or Land Value Taxation

A theory which surfaces periodically, and which has a devoted band of supporters, is that if a site is under-utilised, and if the tax payable was based on the most profitable use of the land rather than on its existing use, then this would provide a strong incentive for land to be developed quickly. Since development would then occur faster, supporters of the tax argue, more houses would be built and shortages would disappear.

There is, however, a particular problem with the adoption of a Land or Site Value taxation scheme in Britain due to the nature of the British planning system.

How do we know what the best use of a site might be? Under a zoning system, where development in line with the zoning ordinance is always permissible, we do know. But with the British system we do not because planning permission might not be granted. Suppose, to take an actual example, that a site is occupied by five houses and that it is believed that it could be profitably developed and a large block of flats constructed. How do we know beforehand that planning permission would be given? In this example it was not, though several applications for different scales of development were made. But how would district valuers know beforehand what the decisions of planning committees would be? What would happen if they tried to second guess? Self-evidently the cases where they were mistaken but over-optimistic would cause more scandals than the cases where they were mistaken but unduly pessimistic. There would be an irresistible temptation for district valuers to assume that the current use is the most profitable use. Of course, once planning permission for a development was obtained the land could be revalued, but by then the need to provide an incentive for development would have vanished. In practice the tax would be one which was levied on the value of the land in its current use, and raised to a higher level only when planning permission had been given for an alternative use. In that way it would be similar to the Planning Gain Supplement, and the same arguments apply against it.

The problem is that the theory which underpins the arguments in favour of Site Value Taxation assumes the absence of a planning system. It assumes that the development of the land is entirely under the control of the landowner for whom the 'carrot' of profitable redevelopment is not enough incentive. A 'stick' is needed – a Site Value Tax – to encourage the economically optimal level of development. But the landowner is not free to make these decisions, and the value of his land is not only determined by the market. A UK-style planning system both restricts the land that is allowed to be developed and controls the nature of the develop-

ment on that land. So the value of a landowner's site is dependent on the vagaries of the state, i.e. the state 'creates' value with its designation of the land. Thus Site Value Taxation is, in practice, incompatible with the UK planning system, for it would only have the effects intended by its advocates in the absence of such a planning system.

The optimistic view of the effects of a Land or Site Value Tax also ignores the political problems likely to result from implementing it. This is easily demonstrated by an example. If a widow continues to live on in a house after her children have left home and her husband has died why should she pay a tax based on the full value of her property? Why should she be forced to move? This argument was one which was successfully used against the old domestic rates, which were based on the value of the property, because the rates were replaced by the Community Charge, which was in turn replaced by the Council Tax. Unlike the rates this is not a pure property tax, and has some features of a service charge, so if only one person is living in a property the tax payable is reduced by a quarter. Although the economic

argument would be that, in order to ensure efficiency, the tax should not be reduced, the cause of equity carries more weight than the cause of efficiency. The Council Tax is already subject to complaints from people willing to go to prison because they believe it is unfair to people who have retired and live on pensions. A Site Value Tax which was effective in the eyes of its proponents in encouraging the efficient use of land would cause a similar political reaction in the cause of equity.

Last but not least, proponents of Site Value Taxation also overlook another economic effect. They argue that the owners of land which is under-utilised should be 'punished' by the tax. But any landowner who does not make the most out of his property is punished already by what economists would call 'opportunity costs'. This means that the landowner suffers the income he forgoes by not making the most out of his property. Given the level of British land prices, such opportunity costs are already high. It is not clear that adding further costs in form of a Site Value Tax would significantly change landowners' behaviour.

6. Local Government and its Finance

Development and local government finance

The British system of local government finance is extremely finely tuned. It is designed to ensure that each local government receives exactly the grant from central government to which the latter feels it is entitled, in order to provide exactly the sort of services which central government thinks it should. Very little of a local authority's income is obtained locally. This is the result – largely unintended – of reforms at the end of the Thatcher era: the introduction of the Community Charge and the Uniform Business Rate (now the National Non-Domestic Rate), and then the replacement of the former by the Council Tax. In each case the grant from central government was increased to make the change palatable to the electorate. Before all the changes, local authorities on average raised half their funds locally; since then the proportion raised through local taxation had fallen to about fifteen per cent, the remaining 85 per cent coming from central government and other sources.

The local government finance system as it stands strongly discourages new development. New commercial or industrial development does not directly increase local government revenue at all. The National Non-Domestic Rate is collected on the new property by local government and then passed on to central government, which may then, after some delay, increase the grant paid to allow for increased expenditure associated with the new development.

Residential development does result in increased Council Tax revenue for the local government, but it also results in considerably greater expenditure on providing the services required by the new residents – remember Council Tax only covers fifteen per cent of total costs – expenditure which it hopes to recoup when its grant is recalculated. In practice the recalculation can take up to three years to come into effect. It follows that allowing new residential development puts a strain on the finances of the local government in which it occurs.

This differs considerably from the cities and cantons of Germany and Switzerland which we looked at in our second report. In those countries the local authorities seek to attract development, since new development will bring increased tax revenues which can be used to improve the community and its services. This either happens directly through local and cantonal incomes taxes (Switzerland) or through government grants directly linked to local population or tax revenue figures (Germany). By contrast, the only communities in Britain which have an interest in attracting development are those with relatively high unemployment. Even so, their interest is in attracting employment not in providing housing, which might also strain their finances. Thus while in Germany and Switzerland authorities to a large extent see themselves as competing for residents, even in prosperous areas, this is not true in Britain, particularly *not* the prosperous areas. The local authorities do not see themselves as competing for financial resources – only, possibly, for prestige.

Exacerbating these disincentives is the fact that local governments have so little room for manoeuvre. If only fifteen per cent of their income is under their control, then a one per cent increase in total expenditure has to be paid for by an increase in Council Tax of about seven per cent. There is little scope for councils to increase expenditure on services above the level permitted by central government without encountering substantial voter resistance. In a growing area this means that the tax will be permanently higher than in a static area, and higher than in an area where the population is declining. Compare this to the Swiss experience where growing areas often manage to cut their tax rates.

This financial disincentive is in addition to the political disincentive. The existing residents, the local voters – the insiders – will be putting pressure on their councillors to try to ensure that permission for development is refused. Indeed the only incentive, and one which has come about almost by accident, is in the form Section 106 agreements, payments for local infrastructure by the developer. But the nature of this incentive is constrained by the fact that the new infrastructure is supposed to be related to the new development, i.e. if the new development did not take place the new infrastructure would not be necessary. Obviously rules can be bent, obfuscation can occur, but even Section 106 agreements, as they currently exist, provide only a very limited incentive to local government to permit development.

Given this situation – the financial disincentive to allow development coupled with the political disincentive to do so – it is scarcely surprising that local governments have, in effect, to be instructed by central government as to how many dwellings they will be expected to provide for in the next planning period. Nor is it surprising that these instructions result in argument and discussion as local authorities attempt to reduce the number they are supposed to permit, or simply fail to ensure that the requisite numbers are provided. In contrast, in Germany and Switzerland local governments do not need central government to be motivated to plan for development.

Nor is there a conflict between central or state governments and local communities about development policies. The task of the upper tiers of government is one of coordination, not control. In effect, local communities in Germany and Switzerland are competing for inhabitants, and because they are competing they are trying to offer their prospective (and existing) inhabitants ever better deals, which include green, pleasant cities and modern, spacious dwellings. In doing so, the Swiss have also managed to keep their tax rates low. One cannot help but wonder why such an alternative (better housing, greener cities, lower taxes, stable house prices) should be difficult to sell to the British public.

So how can the British system be altered to ensure that local government does have some incentive to permit development? Necessarily there has to be some positive financial incentive which balances the local political disincentive to allow development. There are a number of possibilities, each of which we will explore.

Local taxation

In our previous report we showed that the cities and cantons of Germany and Switzerland seemed to be far more in favour of promoting development than local authorities in Britain, or, indeed, in Ireland or Australia. A major reason for this was that local governments in the former countries obtained a share of the income tax levied on their resident population. An increase in the population led directly to an immediate increase in their revenues which would balance, and could exceed, the consequent increase in expenditure. Since income would certainly exceed expenditure if the new households had higher incomes, there was a particular incentive to attract higher income households.

Proposals that local government in Britain should be financed by a localised income tax have a long history. It was recommended by a Committee set up in the 1970s under the chairmanship of Lord Layfield to review the system of local government finance. The recommenda-

tion was not adopted, either then or by the Conservative government of Mrs Thatcher, which came to power in 1979. Indeed policy in the 1980s and early 1990s was directed towards exerting more and more control over local government expenditure and activities.

The idea resurfaced more recently as a policy promoted by the Liberal Democrats, both to give more independence to local authorities and as a means of redressing the regressive character of the Council Tax. Even more recently it has again been recommended in an independent review of the system of local government finance, this time by Tony Travers and Lorena Esposito under the auspices of Policy Exchange.³¹ Unlike the Liberal Democrats they did not propose to replace the Council Tax with a local income tax, but instead to keep the Council Tax and allow local authorities to control and retain a proportion of existing income tax receipts, while localising receipts from the National Non-Domestic Rate. Given this, it should not surprise readers that we too would favour such a proposal, since a localised income tax system would link in with our own recommendations. Certainly a system of local government substantially financed through local taxes (and this would potentially not only include a localised income tax, but also other kinds of local taxation such as business rates or the Council Tax), and financed to a much smaller extent than now by central government grants, would provide the necessary incentive to local governments to think in terms of promoting development in their areas.

Other taxes and grants

A localised income tax is our preferred solution to the problems we have outlined. To prevent an increase in the overall level of taxation, this would result initially from a sharing of current revenue from the income tax, so that a part would go to local authorities and a part to central government. The actual tax rate in the first instance would remain unchanged, though it would be open to local authorities to vary their local rate. In this way local

authorities would become more independent of central government and, therefore, more concerned to promote the development of their own economies, since their fate would now be in their hands. Of course other similar solutions are possible. For example, while the local tax rate might not be variable, local authorities could receive a fixed share of the income tax generated locally. Alternatively local sales taxes might be permitted, allowing, again, an income to be generated locally.

Another alternative is to allow local councils to retain all the Council Tax they receive from new residents. The government has introduced the Local Authority Business Growth Incentive scheme (LABGI) to give local authorities some financial benefit from growth in their business rate base. This scheme should be expanded, so that not only the business rate but the Council Tax receipts associated with new development would be hypothecated to the local authority, ideally in perpetuity but at the very least for a significant period of time, say ten years. As Michael Lyons points out in his Interim Report on local government, “There is little financial gain for a local authority if the number of businesses or houses, or the population of its area increases”.³² Ring-fencing these funds would help rectify this situation.

We also consider the highly complex formula used to distribute Revenue Support Grant – central government’s payments to local authorities to help them fulfil their statutory duties – as being ripe for reform. There is enormous emphasis, in England particularly, on ‘equalisation’ across local authority areas. In practice this means that money is redistributed away from wealthier areas, up to the Treasury, and then back down to poorer areas. While this ensures similar levels of funding across the country, it provides a massive disincentive to authorities to ‘go for growth’. Why try and grow your tax base, numerically or in terms of tax take per person, if you are simply going to lose those additional tax receipts? As well as weaning local government off central government grants, changing to a system whereby these grants are more closely linked to local population levels and tax

Newbury and Vodafone

Some readers may think that we exaggerate the negative view of local governments in already prosperous areas towards new development. We do not. But to illustrate the problem we have only to point to the proposals put forward by Vodafone in the late 1990s for a new head office in its home town of Newbury. The company had expanded extremely rapidly with the increase in demand for, first, car phones, and, later, mobile phones. By the end of the 1990s it had become, in terms of capitalisation, the largest company quoted on the London Stock Exchange. It had also become a major international company owning or sharing in mobile networks round the world.

Its head office remained in Newbury – a small town in southern England located about half way between London and Bristol. It did not wish to move to London or elsewhere. Obviously its head office functions increased and proliferated; by 1997 these functions were spread around some 50 different buildings in Newbury. To rationalise this situation Vodafone proposed building a new head office just outside Newbury, on the edge of the settlement boundary but on land not zoned for development. But the construction of such a building did not fit in with the town's development plan for the period, and so the proposal came before the Environment Committee, which was required to put forward a recommendation for either refusal or approval to a full council meeting, which would then determine the application. A recommendation for refusal from the council's planning officers was endorsed by the committee, albeit on the casting vote of the chairman.

The probability that permission might not now be given aroused considerable controversy in the area. Those against the development suggested that instead of building in Newbury, Vodafone should move its head office functions and locate its head office elsewhere, for example in Reading or in Swindon, each some twenty miles away along the M4 motorway. Those living in Newbury and working for Vodafone – it was, it need hardly be said, the largest employer in the town – would either commute to this new location or try to find other jobs.

Finally, but not necessarily of course, common sense did prevail. On a vote of the whole council, following a six-hour debate, the recommendation of its Environment Committee was overruled and permission was given by a majority of 25 to 18.

Though Vodafone's importance to Newbury's economy did finally carry the day, it did so only by a narrow margin. From the local council's viewpoint there was no financial incentive to allow the new head office, since the revenue from the National Non-Domestic Rate levied on it would go wholly to central government. Only the fact that a large number of voters were employed directly or indirectly by Vodafone and would have had their lives disrupted by a move finally swayed the council. After all, one survey of local opinion found that 87 per cent of respondents thought that the company should remain in Newbury and build its new headquarters there. The perceived negative impact of the development on voters not employed by Vodafone was presumably the factor which had earlier carried greater weight with the Environment Committee.

It is worth noting that if the new industry had not been represented by a single large company, but by a group of firms, it would probably not have been allowed to expand within the town. Each of the firms would have been seen separately, and each would have been expected not to expand or to move. It is for this reason – because small firms lack the political 'clout' of large firms – that the McKinsey Global Institute's Report on the competitiveness of the British economy identified the British planning system as stifling the development of 'clusters' of firms in new industries.³³

revenues would provide further incentives to local authorities to plan for development.

All of these solutions imply a radical reform of the British system of local government finance in order, from

our viewpoint, to provide an incentive to local authorities to permit development. As stated earlier, others have thought such a shake-up of the system highly desirable for other reasons. It can scarcely be desirable that local

expenditure in the UK is so tightly controlled at the centre. It is a denial of local democracy. It is also runs counter to the idea of subsidiarity, a concept which the British government uses to defend its control of things regarded as of only local (i.e. national) concern against the centralising tendencies of Brussels. Subsidiarity should logically apply also to the relationship of local authorities to Whitehall.

Nevertheless we have to recognise that, given that we start with a tightly controlled and centralised system, recommending a complete shake-up in order to promote development is less likely to be regarded with favour than a recommendation which altered the status quo as little as possible. So we now turn to setting out a second-best solution, which retains some central control but allows local government more flexibility at the margin.

Formalised Section 106 Agreements

Failing, as we have said, a more fundamental reform of local government finance, one option would be to reform the current unsatisfactory situation with respect to Section 106 agreements. At present local governments give permission for a development, whether for residential or commercial purposes, and are then free to negotiate with the developer for contributions to be made to cover the cost of infrastructure related to the development. Monies received from this source cannot, however, be put into the general revenue stream, but only into paying for things associated with the development.

Local governments have recently been under pressure from central government to standardise these contributions, so that developers know what is expected and the negotiations over the agreements are not long drawn out. As a result they are increasingly coming to resemble a standard impact fee per dwelling. For example the town of Reading has recently published a 30-page document setting out its justification for just such an impact fee, one that varies with the size of the dwelling but is about £14,500 for a three-bedroom house.³⁴ This amount

includes a substantial contribution towards school building construction, on the grounds that such a house would cause a family with older children to move into the area (£9,500). It also includes a contribution to the Local Transport Improvement Plan (£3,000), and contributions through Section 106 agreements are intended to pay for the whole of the cost of this plan.

While a charge for school building may perhaps be justified on the grounds of urban expansion, it is evident that a Local Transport Improvement Plan would be necessary even if no new development took place, and also that the main beneficiaries will be existing residents and firms. The justification, when closely examined, starts to become a rationalisation, based, it would appear, on a view that if the population remained the same the transport system would not need to be improved. Even with respect to school expansion the argument is not completely watertight. Earlier school expansion which was financed through loans is presumably being paid for out of taxes, so that the new residents pay not only for school expansion but also, through their taxes, for past school building, improvement and expansion.

Even when Section 106 agreements are very specific there is a high possibility that expenditure is wrongly targeted. Who has not seen the roundabout newly constructed at the entrance to the new supermarket, or the new pedestrian crossing or width restriction outside a new housing development? They are there because the developer can be required to pay for them there. But it is usually evident that such expenditure would normally rank low in the borough's order of priorities, and that the money would be better spent elsewhere.

Finally local authorities vary considerably in their attitude towards planning obligations. It is not unknown, even in southern England, for a borough to have no officer whose primary task is to deal with Section 106 agreements.

However, formalising Section 106 agreements into fixed 'roof taxes' still represents an improvement on the current system, in which the negotiation of these agree-

ments is extremely patchy, bureaucratic and inefficient. As we saw earlier with the Milton Keynes example, using a fixed 'roof tax' clarifies costs for the developer, makes a contribution to infrastructure costs and other council priorities, and provides authorities with a reliable revenue stream. They also build on a charge that developers, and by implication landowners, already have to pay. As such they represent a step forward from the status quo.

A Social Cost Tariff

To recap, from our earlier discussion we drew three conclusions. First, there is perceived to be a social cost in using undeveloped land – green field sites – for development, and the perceived social cost seems to be in the order of £500,000 per hectare. Second, the constraints which currently operate raise the actual land cost, in most areas, far above this level. But third, a system of payments under Section 106 agreements has grown up through which part of the increase in land values resulting from the award of planning permission is diverted to local government. We would argue, however, that the infrastructure costs for which these payments are designated are not necessarily associated with the development for which they are paid, and, indeed, that it can be regarded as inequitable that these payments should be made only by the inhabitants of new homes.

The position is highly unsatisfactory. The sums are obtained because they can be: without such contributions a developer knows that planning permission will not be given. The skill of the local authority, or its officers, lies in drawing up rationalisations that can be presented as justifications for the largest sums of money that they think they can obtain. We would therefore propose sweeping away the whole process of justification and rationalisation and laying down some kind of standard fee. But what kind of standard fee? On what would it be based? There are two alternatives: to base it on the land used or on the number of dwellings completed. We would prefer the first of these – the more radical solution – but we will first set

out a possible scheme based on an impact fee per dwelling.

The crucial question is why is this fee being paid? As we have argued, to base it on the argument that it is necessary for new infrastructure is a rationalisation. More realistic is that it should be regarded as akin to the environmental impact fee proposed in the Rogers Report. What then should be the value of this fee? Clearly it should be based on an actual estimate of environmental and social impact. The values which people put on open land vary considerably, but a table of such values is given in Kate Barker's Interim Report, with figures varying from £20,000 per hectare (for intensively farmed land) to over £10 million (for urban park land). For land at the edge of urban areas the values arrived at were about £200,000 (Green Belt) and £540,000 (forested land). A fairly generous estimate of the community's valuation of land at the edge of existing urban areas would seem to be £500,000 per hectare.

Thus the development of this land can be said to have a social cost to the community of £500,000, for which it should be compensated. We will call this compensation a Social Cost Tariff (SCT). We propose that the monies received should go directly to the local authority in which the development occurred, to be used in whatever way they wish. It would replace all other fees and charges associated with development, including Section 106 agreements.

Social Cost Tariff – per dwelling

The Social Cost Tariff can be converted into a figure for each dwelling. At an average density of 30 dwellings to the hectare (somewhat above the average density in 1997 but below the current average of 40 per hectare), this would result in fee of about £17,000 per house. At present central government instructs local authorities as to the number of dwellings it expects them to build in their areas during the next planning period. Since, if these houses are built, each local government will receive the income from via SCTs, the grant from central government should be reduced accordingly. This would give local government a strong incentive to allow development

The social and economic cost of development

We can all agree that developing green field sites has some social or environmental cost, but how great is that cost and how do we take account of it when making decisions about development?

Estimating the social costs associated with development is essential if we are to evaluate the effectiveness of alternative policies; if no value is put on these social costs, however tentative, it is impossible to make comparisons. And when this happens, the way is open to those who shout loudest and lobby hardest to ensure that other people bear an unfair burden of the costs. In the case of housing, the countryside lobby claims that the cost of development is incalculably high. In doing so, they ensure that land remains undeveloped, thereby transferring the costs of *not* developing – living at high densities in small and expensive homes – to those people who do not already enjoy the large homes with gardens that they do.

The best evidence that we have of the level of social cost is cited in Kate Barker's Interim Report, which suggests a figure of about £500,000 per hectare, but if the academic's hackneyed response that further research is required applies anywhere it applies here! But about £500,000 is the best estimate that we have at the moment.

How should we use this estimate? One proposal is to use it as a 'threshold'. Cheshire and Sheppard propose that if the value of the land put forward for development would, after paying all the other costs associated with the development, be greater than this threshold, then this should be a 'material factor' in considering the application, suggesting that planning permission should be given.

Another proposal would be that, instead of being paid as part of the cost of the land to the landowner, an environmental tariff of some kind should be paid. This is the thinking behind the environmental impact fee proposed in the Rogers Report.

It should be noted that a fee of £500,000 payable to central or local government is much more likely to deter development than the use of the same figure as a threshold. The reason for this is that in the case of the threshold the money goes to the landowner as part of the cost of the land, while in the case of the fee it goes to government. Thus the incentive to the owner to sell land for development is much greater with the threshold.

This argument also applies to the Social Cost Tariff (SCT), our proposed solution. At the present time the value of land in most of Britain is much greater than £500,000 per hectare, so there would be no shortage of landowners willing to bring forward their land for development. However, if the amount of development increased so that land prices fell to little more than the cost of the SCT and agricultural value of the land combined, then landowners in some areas would become more reluctant to sell. But if the SCT accurately values the social cost of development then this situation represents a system in equilibrium, compared to the present situation of high land prices and implicit disequilibrium.

The motivation of Kate Barker's Planning Gain Supplement (PGS) is quite different from those outlined above, which start from a consideration of the social and environmental cost of development and a desire to take these into account. The idea of the PGS is to take a share of the profits that accrue from development and the grant of planning permission, and pass them through to government. So, while both our SCT and Barker's PGS have some similarities, this convergence occurs from different directions and with different intended outcomes.

at least up to this expected level. If they did not they would face funding shortfalls and be forced to either cut services or raise their Council Tax rates.

If local authorities are allowed to retain *all* the income from SCTs then any additional housing built over and above the expected number will result in additional

funding. This should not be clawed back by any reduction in central government grant, i.e. money derived from development above this minimum level would be completely additional. Local governments would thus have a strong financial incentive, not only to allow construction up to the level anticipated by central government, but to go beyond this level. Thus the current political incentive to restrain development will be balanced by a financial incentive to permit development.

Social Cost Tariff – per hectare

The problem with a SCT which is paid per dwelling is that encourages local authorities to allow large numbers of small dwellings to be crammed together at a high density. That way the local authority maximises its income but minimises land use. As we outlined in *Bigger Better Faster More*, the result of such a system in Ireland has been precisely to encourage these ‘starter’ homes, but to discourage the larger homes into which people can move when their income and/or family increases. The environmental cost of these high density developments is also higher since the urban environment being created is worse than it would be with a lower density.

In our view the SCT should be paid as a rate based on the social cost of the use of the land, i.e. £500,000 per hectare for green field development. This would ensure an adequate payment for what is regarded as the social cost of development – the loss of the green field site – while ensuring that the development is not distorted. It would also be in line with the Rogers Report’s suggestion of an Environmental Impact Fee.

It should be noted that the same system can and should be applied to commercial and industrial development. Since the SCT is an amount per hectare it does not have to be respecified for different types of development, i.e. per house for housing and per square metre for a factory. It is, after all, the social cost of the development of green field sites which is at issue; any variation in the level of SCT between different uses would distort the pattern of use by discouraging one use rather than another.

The SCT of £500,000 per hectare that we propose would be a national maximum. However, it is important that local authorities that wish to should be able to reduce SCT on a given piece of land. Local authorities in areas where the cost of land is much lower than in the southern England might wish to lower their SCT to encourage development and ‘go for growth’. Similarly, where land is contaminated in some way the social cost of developing it for housing will be lower than elsewhere, and local authorities will be happy to receive a lower tariff than they might otherwise have done. But this should be a local decision driven by local needs and not by regional or national governments.

Apart from trying to include the environmental and social impact in the cost of development, we would also expect the system to give more freedom to local government. The local government grant would be reduced by the amount raised through the development of housing required by the minimum central government targets, but revenues raised over and above this by local government would remain at the local level. Given that we are currently building fewer homes than we need, this would represent a net gain to local government revenues. A further benefit is that a greater proportion of local government revenue would come from local sources, achieving a healthier balance of funding between local and central government. Local accountability will be further enhanced because, with the creation of incentives to develop, it would again be possible to localise other features of the planning system, for example decisions on density levels, design codes and the designation of Green Belt land. Over time one would expect our proposals to increase the total supply of housing, so that the price of housing would fall in real terms and become more affordable.

Brown field sites

When considering the Social Cost Tariff, there remains the problem of brown field sites. Since the mid-1990s

Of Green Belts, green fields, and open land

Green Belts and green field sites are not the same, though they are often confused either accidentally or deliberately. Green Belts are designated as such by statute and are protected from development. About fourteen per cent of England is designated as Green Belt, more than the proportion that is urban. A further large proportion of the land area is designated as Areas of Outstanding Natural Beauty, Sites of Specific Scientific Interest or National Parks and similarly protected. Within urban areas some open land may also be protected. Within London large tracts of undeveloped land are designated as Metropolitan Open Land. About half of the land area is therefore neither urban nor covered by any statutory protection. Green field sites could lie within a Green Belt but most, it is obvious, do not.

Nevertheless, it is easy to confuse the two. Sometimes this confusion is accidental, and sometimes it is deliberate. Certainly, because Green Belts are regarded by the general public as sacrosanct, any suggestion that building might be permitted on green field sites may be cried up as 'Green Belts threatened'. Conversely, when Margaret Ford, the chairman of English Partnerships, the Government's regeneration agency, was asked recently if she was 'concreting over the countryside' she replied: "I can honestly say that ... we're only building on brown field land ... or on sites ... that have been zoned for development for many years. There's not a single part of the country where we're building on Green Belt land".³⁵ Her answer is absolutely correct, but it does invite the unwary reader to read "green field" where she says "Green Belt".

Certainly surveys suggest confusion in the public mind. The survey *Public views of development options in the South East*, financed by the Joseph Rowntree Foundation, found that people were more favourable to development on open land than on green field sites, and the authors suggested that this might be because people confused 'green field' with 'Green Belt'.³⁶

It is therefore necessary for us to be clear and specific. Nothing that we have said in our reports has threatened Green Belts. But we argued at the beginning of this paper that the aims and objectives of the founders of British town planning had become either neglected or distorted, and that is certainly true with respect to Green Belts, and the London Green Belt in particular. So it would be remiss of us not to point out what has happened.

The original idea put forward in Abercrombie's plan for Greater London was that a Green Belt should be a fairly narrow strip of land which would primarily provide open space and recreational land for the residents of the city it surrounded.³⁷ But when Green Belts came to be enacted they were seen by the shire counties adjoining the urban areas that a Green Belt could be used, not as a resource for the residents of the nearby urban area, but as a barrier against intrusion into these more rural counties by the urban residents. To achieve this the idea of providing for recreational facilities was dropped and the Green Belts considerably widened. So, in relation to London, the area of the Green Belt is substantially greater than that of the urban area.

The conversion of 'a sports jacket into a straitjacket' had two effects. As we know, land in the urban area became more expensive and it became both difficult and costly to provide the recreational facilities within the urban areas, as had originally been planned. So, as Stephen Inwood bitterly concludes in his review of the history of the post war Green Belt, the end result for Londoners was that "children playing on London's increasingly busy streets, and without most of the local parks that Abercrombie had promised, could console themselves with the thought that ten or fifteen miles away there was a belt of agricultural land that they would never be allowed to spoil".³⁸

Another consequence of the Green Belt has been longer journeys to work. As rising house prices within contained urban areas have pushed workers out beyond the Green Belt, commutes have lengthened and car use increased. Were the current planning system seriously concerned to reduce fuel use and car use, as is often claimed, some reconsideration of the role of Green Belts would certainly be in order. And since the planning system is not primarily geared towards sustainability in its consideration of the role of the Green Belt, we have to assume that the concern over densification, although portrayed as being about sustainability, is actually poorly thought through political posturing.

there has been political pressure to build dwellings within existing urban areas on so-called brown field sites. The arguments used to promote this are, as we showed in *Unaffordable Housing*, simplistic at best and sometimes downright wrong. For example, a simple intuitive view would be that building houses on former agricultural land would reduce biodiversity. In fact the empirical evidence shows that the reverse is true. Biodiversity is greater in low density housing developments, with their gardens and verges, as species settle in and accommodate themselves to the changed ecology.

Moreover, so-called brown field sites are often very green. They include playing fields and allotments, as well as the gardens of existing houses. The densification of urban settlements, although supposedly based on the recycling of brown land, has actually resulted in the 'greenness' of the urban environment being reduced and its 'brownness' increased. Yet the evidence shows, not surprisingly, that people value open space within urban areas more than they do open space outside towns. The current system seeks, paradoxically, to destroy the former to save the latter.

Can we adjust the incentives to take account of this? The conventional policy would be that the tax imposed should be less on brown field sites than on green field sites, to encourage development on the latter. But if the SCT on green field sites is set at a level that is meant to provide some measure of its greenness, the implication is that on sites within urban areas 'greenness' should be still more highly valued. After all the figures given in the Barker Report on people's environmental valuation of open land indicate that a much higher value (£10.8 million per hectare) is put on the value of green land within urban areas than on the same acreage outside urban areas (£20,000 to £1.3 million per hectare).³⁹

Since the figure of £10.8m is substantially greater than the value of urban brown field land for redevelopment almost anywhere except in the inner cities of London or other conurbations, it seems wrong to allow the further destruction of 'greenness' within existing urban areas. In

our view, the creeping degradation of the urban environment has already gone too far. Certainly the redevelopment of urban sites should occur, and should continue to occur, but we would propose that the percentage of a 'brown field' site which is actually green – gardens, parks, playing fields, allotments and so on – should remain no less after redevelopment than it was before. At present the pressure to redevelop brown field sites encourages developers to pick off the sites which are the easiest to develop, and these often turn out to be, for obvious reasons, those which are least developed, that is those where the proportion of the land which is 'green' is highest. There should therefore be a moratorium on all development on 'green' brown field sites within urban areas. Within the 'brown' portion of the site, however, equity would suggest that the SCT should be calculated on the same basis as green field sites. Local authorities would be able to vary the SCT downwards to encourage development on contaminated land or land containing derelict buildings requiring clearance, and it would be up to local authorities alone to decide on the appropriate balance between brown and green field developments in their areas.

A word of caution

It is our view that the use of Social Cost Tariffs to compensate local communities for the loss of amenity associated with the development of green land will, in conjunction with our other proposed changes, dramatically improve the balance between the supply and demand for housing, enabling more people to live in the kind of spacious homes in green environments they desire.

However, as we noted earlier, they remain our second-best solution for several reasons. First, they still require central government to hand down building targets rather than providing local authorities with the full range of incentives to develop. This not only undermines local autonomy on development, which we are keen to

promote, but also puts too great a reliance on centrally-determined figures, which as we have shown here and elsewhere are often wrong. Second, they do not provide an ongoing revenue stream in the same way that localised income tax or ring-fenced council tax receipts would. We have tried to compensate for these shortcomings in other ways. Extra flexibility can be built into the planning system through the presumption of a right to develop, the use of land buffers and a tariff-based system. And although the SCT is not an ongoing revenue stream as such, by planning for a given level of development each year a local authority can rely upon it to provide a fairly constant income stream.

While the introduction of the SCT will certainly act over the medium term to reduce real house prices from their historically high levels, its existence also means that

in the long run they will never fall to a level as relatively low as, say, can be found in Germany or Switzerland. One could argue that this is as it should be – there is a social cost to developing the land and it needs to be taken account of, even if this translates to higher house prices. But it is also worth noting that in Germany and Switzerland this compensation for the social cost of development is achieved through the greater tax and grant revenues that development brings. The social cost is accounted for, but in a way that does not have an upward impact on house prices. As we said at the beginning of this chapter, this remains our preferred solution, and it underlines our view that the introduction of the SCT must not be seen as a cure-all solution but as staging to post to further reform, reform that must involve radical change to the system of local government finance.

7. Conclusions and Recommendations

Over the past 50 years town planning has lost sight of its original objectives, those of providing decent homes and a decent living environment for the people of Britain. Particular groups have been able to get policies favourable to themselves adopted because the economic costs they impose on others have not been seen. So, as we have just said, Green Belts – which were intended to be relatively narrow and primarily used for recreation – were put in place and expanded in width, but continued to be used for farming. The shire counties used Green Belts to hold back the influence of the nearby city. The recreational uses disappeared and the Green Belts became green blankets – or more accurately green barriers – designed to keep urban inhabitants from spoiling the lives of those living in the countryside. And often they were not even very green, i.e. not places of ‘unspoilt’ nature but of industrialised and intensive agriculture.

Development came to be increasingly restricted, so that everywhere controls were imposed to prevent what was labelled ‘urban sprawl’ – a settlement pattern that we now know provides the best foundations for an environmentally friendly and healthy lifestyle. In consequence land prices rose, and house prices too, as demand increased but the supply of land did not. The increase certainly gratified existing house owners, but they failed to realise that what they were getting for their money, as generation succeeded generation, was both more expensive and smaller. So, in the end, Britons found themselves with the smallest, oldest and most expensive new homes in Western Europe.

In our report we have shown that there are ways to improve this situation. We believe that it is possible for Britons to enjoy stable house prices, affordable accommodation, green cities and modern, spacious houses – very much like their neighbours on the continent. To sum up, we believe that two major sets of reforms are required to tackle Britain’s housing crisis. The first is reform of the planning system itself:

- Planning is a means to an end and not an end in itself. Therefore we think it is necessary to **get rid of the presumption of plan-led development**. Development must be possible where it is necessary, and it should not be impossible just because it was not previously envisaged in the plan.
- Planning should include **land buffers** which could easily be activated when more land is needed than the amount that was thought necessary at the time the plan was set up.
- The **presumption of a right to development** should be introduced into planning. It would then be necessary for the authorities to demonstrate why development was undesirable and not the other way around.
- The **economic benefits of development** should be recognised to a far greater degree as a material factor in the planning process.
- The **planning system should be localised**, with local authorities being placed in charge of densities, brown vs. green field ratios, design codes and Green Belt

designation, with freedom to vary the Social Cost Tariff downwards if they wish to 'go for growth'.

- The planning system should be made **more flexible**, with greater freedom to change between planning designations and an extension of permitted development rights.

The second set of reforms should be applied to the existing fiscal incentives and the system of local government finance:

- **VAT should be equalised** at 5 per cent for both new building and refurbishment.
- Local authorities should be confronted with the results of their planning activities through budgets that reflect the degree of development in the local community. This can be achieved through either **more local taxes** (e.g. a localised income tax) or **government grants directly linked to local population figures or tax revenues**. This will shift the balance between local and central taxation and budgets, but it should not increase the overall level of taxation as such.
- **Receipts from existing taxes associated with new development**, such as Council Tax and business rates, **should be hypothecated to the local authority**.
- **Formalised Section 106 agreements** could give an extra incentive to local communities to allow development.
- The introduction of a system of **Social Cost Tariffs** would provide an even better incentive, and compensate local communities for their loss of amenity. They

would internalise the costs of development, provide an incentive to 'go for growth' and be entirely retained locally. Social Cost Tariffs would replace all other charges associated with new development, including Section 106 agreements.

In this paper we have put forward a number of proposals to try to free up the planning process in Britain. The aim is to make it more responsive to the needs and demands of the population as a whole. And while this book has made a number of technical and legislative proposals to bring about the required change, we must not lose sight of why this change is needed. A localised, incentivised planning system will bring many benefits – more affordable homes, better neighbourhoods, less pressure on social housing – benefits that our centralised planning system has failed, and will continue to fail, to deliver. There is a challenge for house builders too. A leap in the supply in housing must not mean more boring boxes in drab neighbourhoods. Their goal must be diversity, innovation and a real desire to satisfy communities' needs.

What has been provided over the past 30 or 40 years has increasingly diverged from this. As we demonstrated in our first paper, we have had a Soviet style centrally planned system of housing provision imposed on us because it suits various interests. And we know from our experience with the Soviet Union how successful a centrally planned economy can be in providing what consumers want! Our hope is that it is not too late to change.

Appendix 1:

Response to Our Critics

We were happy to find that our first report, *Unaffordable Housing*, elicited numerous responses in the national press and elsewhere. Most of these were positive. Ferdinand Mount in the *Daily Telegraph*, Martin Wolf in the *Financial Times* and Hamish McRae in the *Independent on Sunday* wrote particularly glowing reports. Two reviews were not so favourable: one by Alice Miles in the *Times*, the other by Max Hastings in the *Guardian*. Since as well as being a noted journalist and author the latter is also Chairman of the Campaign for the Protection of Rural England his negative reaction might be regarded as predictable. But his response was not a knee-jerk reaction but a considered response, a contribution to the discussion, so it is in that spirit that we wish to respond to his article.

Before that it may be worth spending a little time dealing with Alice Miles' response. In her view, it would seem the housing problem could be solved by (i) imposing swingeing taxes on second homes, (ii) forcing developers to develop their land banks, (iii) compulsorily purchasing houses which have been vacant for more than six months, (iv) not allowing people to buy homes to let, and (v) by replacing the income tax by a land tax. Certainly the last of these would have some impact on the demand for housing, but we discussed the problems associated with Site Value Taxation earlier.

As regards the other suggestions, since everybody agrees that housing is too expensive in Britain, one result is that most people who own a second home own one

abroad, in France, or Spain, or anywhere where housing is cheaper. Most of the rest are people such as MPs who have to have two places to live, so that the impact of any such tax would be negligible. And the high price of housing in Britain is, as we showed in *Unaffordable Housing*, a major reason why the vacancy rate in Britain is the lowest in Western Europe. The development of land banks would only have a short-term impact, if it could occur. But a major reason for the existence of these land banks is that obtaining planning permission is an uncertain process. It can take years and no house builder wants to be in the position of having no development project to go on to once the current one is finished.

Thus, at best, Alice Miles' proposals would have a small short term but no long term impact on the supply of housing, and one of her proposals – stopping people buying to let – would have no impact at all, since it is the unmet demand by households for homes to occupy that is the problem, not whether they are for rent or sale.

Turning now to Max Hastings' contribution, one of the points we made was that the average British home is smaller than in almost every other western European country, and that the average *new* home is smaller than in *every* other country in Western Europe; probably, indeed, smaller than in any other developed country. Max Hastings points out, correctly, that a major factor leading to increased demand for homes is that households are becoming smaller. Thus even a static population would require more homes to be built. But, he argues, "if many

dwelling are to be occupied by only one person, this makes the case for building small units, for congratulating ourselves on conserving space”.

Maybe, but the same demographic changes are occurring elsewhere in Western Europe, and there they are building larger homes. A reason for this is that there, as well as in Britain, incomes are increasing and with higher incomes people want more housing space. The British planning system chokes off this demand by causing prices to increase so that people can afford less. Thus our argument based on transnational comparisons still holds. British housing is smaller and more expensive than in other developed economies. This has implications for the demographic profile and by implication for the economy of the UK, with parents living in cramped accommodation producing fewer children in an already ageing population.

He goes on to state that “many British families are overhoused, with permanently unused rooms once their children leave home”. The implication of this is left unstated but it is, presumably, that if only these older people moved into small flats then the housing shortage would disappear. Maybe this would solve the problem – it would certainly ameliorate it – but how are they to be forced to move if, as it would seem, they do not want to? Is the government to use dictatorial powers to compel people to move, when they might instead wish to keep the spare rooms to entertain their children and grandchildren when they visit? But Max Hastings knows that such dictatorial powers are not going to be imposed. Nor are punitive taxes going to be levied on housing to ensure its more efficient use. Nor should they be. The problem of housing demand is not going to be solved by that route.

He goes on to argue that we are promoting green field development, and that, in the interest of promoting sustainable development, “the last thing that we need is a policy that promotes long-range commuting, and its associated energy demands”. The problem with this argument, from the point of view of the CPRE, is that the main policy currently promoting long range commuting

is the continuing policy of preserving, at all costs, existing Green Belts. These constrain development on the edge of existing towns and cities, and cause prices to rise within those built up areas. So people buy cheaper homes on the other side of the local Green Belt and commute long distances across it to work. Since at most only fifteen per cent of the new housing required can be built on existing ‘brown field’ sites, it follows that much of the new development required would in any event have to be on green field sites. The question is where these green field sites are to be. The logic of Max Hastings’s argument is that they should be on former Green Belt land on the edge of existing urban centres. This would also make current planning policy consistent in its stress on sustainability. But we are not sure that this would be regarded as politically popular, even with the CPRE. Moreover given the integrated network of towns and cities which exists it is not clear that the new homes required should be built in extensions to existing towns or in new towns and villages. We have an open mind on that subject.

With one point that Max Hastings makes we would wholly concur, and it is worth quoting the paragraph in full: “It is a curse of British life that so many of us perceive a house as a store of value rather than as a place to live. If low income families feel themselves obliged to buy a house as their most plausible source of financial security in old age, this means there is something gravely wrong with the British savings and pensions systems, as well as with the British housing market, which indeed there is.”

We agree, but while Max Hastings gives no solution we are trying to provide both an analysis and a solution. The British have learned over the last 50 years that housing almost invariably increases in value in real terms. Having learned this they have acted on the basis of this experience, as he suggests above. The British finance system has actually been very efficient in ensuring that people can borrow a high proportion of the cost when they are quite young. Paradoxically, the only other country in the world with a similarly restrictive land policy is South Korea, where the finance system has been so inefficient that

people have had to save something like 60 per cent of the cost of a home before they can buy it. The result has been a high rate of savings, while in Britain people save little and rely on their house to increase in value.

The cycle of expectations can only be broken by ensuring that house prices do not continuously increase. Hence Kate Barker's argument that the average rate of increase of house prices should be brought down from 2.4 per cent, the UK average, to 1.1 per cent per annum, the European Union average. If this could be achieved then expectations would change and the British would cease to believe quite so confidently that housing will inevitably increase in value. But this can only be done in two ways, by reducing demand or increasing supply. Demand could be reduced by substantially increasing the level of taxation on housing, by doubling or tripling the level of Council Tax, say, or imposing a substantial property or land tax. But no government which wished to stay in power could do this. Nor is there any good reason for doing so, because we have no shortage of developable land. Politically the tax increases which would be necessary are non-starters. That leaves increasing the supply of housing as the only politically acceptable policy. In the end it is better to be unpopular with the CPRE than polit-

ically unpopular with every owner-occupier and renter, wherever they live.

We would also agree that this country "needs protection from mindless development; and that local communities deserve a say – though not a NIMBY veto – about what happens around them". That is why we have set out the kind of proposals that we have in this report, with planning for housing completely devolved to the local level.

There is one point that he makes with which we would certainly disagree. Despite the low prices of property and the higher level of urbanisation in The Netherlands and much of Germany than in southern Britain, "who would choose either as an environmental role model?" Neither of us have spent much time in The Netherlands, and one of us is German and might be expected to be partisan, but the English author has travelled extensively through western Germany and would argue that it is actually a very good environmental role model. And that is the point. It is possible to have a pleasant rural environment, inexpensive housing, and a pleasant uncrowded urban environment. It is not necessary, as the British system does, to sacrifice everything for the sake of the first – you can have your *Kuchen* and eat it too.

Appendix 2:

Executive Summary of *Unaffordable Housing*

The British planning system

Although various attempts at controlling development in Britain had occurred earlier – the first ‘green belt’ was introduced in Elizabethan times – full control was only established by the nationalisation of development rights in the 1947 Town and Country Planning Act. The purpose of the Act was to allow the government to plan development in the same way that production was planned in many other industries at the time.

The development plans that resulted from this Act, which were based on predictions of need, also introduced Green Belts. These were not, as is now assumed, intended to constrain development, but instead intended to prevent the piecemeal ‘ribbon’ development that had occurred in the 1930s.

Inevitably these predictions of need proved wrong but, over time, they became regarded as production norms to be fulfilled by the planning system, regardless of other economic factors or indeed people’s actual housing desires. The level of development being politically controlled, the government became susceptible to the arguments of interest groups that wished to preserve their local environment by limiting the building of new houses – Not In My Back Yard (NIMBY).

What was intended to be a system where the state carried out development to ensure that the population were provided with a good standard of housing eventu-

ally became one in which the planning system was used to restrict development, particularly in rural areas. This resulted in higher prices as increasing demand was not met by increasing supply.

The economics of planning

People seem to believe that planning constraints are costless, but there are serious economic consequences to restricting development. By ignoring the role of supply in determining house prices, planners have created a system that has led not only to higher house prices but also a highly volatile housing market.

Our rigid and nationalised planning system is also delivering the wrong kind of housing. In a March 2005 MORI poll, 50 per cent of those questioned favoured a detached house and 22 per cent a bungalow. Just two per cent wanted a low rise flat and one per cent a flat in a high rise block. But houses and bungalows use more land, so while in 1990 about an eighth of newly built dwellings were apartments, by 2004 this had increased to just under a half.

Our housing compares poorly by international standards too. Britain has some of the smallest and oldest housing in Europe, and what is being built now is even smaller than the existing stock. Yet despite this, house prices in the UK have risen much more strongly than other developed countries, meaning that despite real growth in our incomes we are not able to afford more and

better housing, in the way that we can afford better cars and food as we get wealthier.

The myths of the planning system

How has this situation come about? In a country that was among the first to roll back the government's role in the economy, why do we still plan our housing in the way we do? And why do we accept the outcomes of this system, which forces us to live in crowded, old, small and expensive housing of a type we do not want?

One reason is that the political alliance to save the countryside is very strong, but to be successful there have to be a number of arguments that resonate with voters. By analysing these arguments we discover that they are as much folk myths as the view that British housing is the best in Europe:

- *Britain is a small, overcrowded country* – in fact only around eight per cent of land in Britain is urban, half the figure in the Netherlands and lower than Belgium, (West) Germany and Denmark. We are living in crowded and dense cities, not a crowded and urbanised country.
- *Southern England is especially crowded, so new development should take place in the North* – in fact the North West is the most urbanised region in England, and the South West and East Anglia are among the least urbanised.
- *But the South is full of towns...* – development is usually near major transport links, giving the impression of over-urbanisation. In addition, there is the psychological effect of travelling between cities – one travels slowly through urban areas but speeds through rural ones, giving a false impression as to the level of development.
- *We're all getting older and will want smaller houses* – in the last 32 years the number of households has risen by one-third, outstripping the growth of the housing stock. Besides, many older people do not

want to move out of their houses, and nor should they be forced to.

- *We need agricultural land to be self-sufficient* – Britain has one of the highest proportions of land given over to agriculture in the world, and we produce agricultural surpluses. We are fully integrated in the world economy and rely on imports for almost everything, especially energy – being self-sufficient in food alone is pointless.
- *Cities are bad for environment* – interestingly, it seems that the kind of low rise, low density housing that planners and guardians of the countryside dislike is better for biodiversity than monocultural farmland.
- *We need to live at high densities to protect the global environment* – the planning system's emphasis on using brown field land often increases fuel use, as these sites are not always near existing development or people's work places. Taxation is a much more effective tool for reducing fuel usage.
- *Building on brown field sites is always better* – the number of brown field sites is heavily restricted, perhaps only fourteen per cent of the houses we need could be built on them. If we are only going to use these sites then house prices will continue to rocket and we will be living in very dense, crowded, high rise accommodation – just what we do not want.
- *There are lots of empty buildings we could use* – our vacancy rate is very low internationally, and some vacancy rate is required for the market to be flexible. There is a strong argument for saying we would actually benefit from a higher vacancy rate.

Reasons for change

Having dealt with the myths surrounding housing, we should look at the positive reasons for changing our planning system. Rising house prices only benefit a small minority of the population – older homeowners who are trading down. Younger generations are deprived of the

opportunity to buy houses of a size that their parents bought.

Just as importantly, British cities are becoming increasingly unattractive because green fields outside those cities are saved at the expense of densifying existing settlements. Cities are becoming monotonous agglomerations of small, low-quality dwellings, increasingly provided in tower blocks.

Constraints on the supply of land have led to increases in house prices. This accentuates the instability of the economy because people increase their spending as the value of their houses goes up (and decrease it as the value of their houses falls). The increase in land and house prices also makes it less attractive to work, live and do business in England. This has a long-term negative effect on growth.

Conclusions

Our planning system set out to predict and provide the housing we need, but as the flaws in the socialist model of provision became obvious it evolved to become a system that constrained development in order to protect the countryside. This has significant costs – we now live in some of the oldest, pokiest and most expensive housing in the developed world. A number of arguments are presented to support this situation, but these can be shown to be false. Our next report will look at how other countries succeed, and fail, to provide better and more affordable housing. In our final report we will offer our recommendations for reform, which we hope will enable the British to at long last enjoy the quality of housing they desire.

Appendix 3:

Executive Summary of *Bigger Better Faster More*

In our earlier report *Unaffordable Housing* we showed that Britain's centralised system of planning restricts the supply of housing. As a result, Britain has some of the oldest, pokiest and most expensive homes in the world. Our search for better alternatives took us to four countries with similar demand side pressures to find out how their planning systems succeed (and fail) to provide high quality, spacious homes at affordable prices. Our experiences in Germany, Switzerland, Ireland and Australia are revealed in Policy Exchange's latest publication *Bigger Better Faster More*.

Key statistics

All five countries show similarities in the factors affecting the demand side of the housing market, such as growing populations, smaller households and increases in

wealth. But while demand factors are not too dissimilar, housing outcomes and prices are:

- *Age of dwelling stock* – 38.5 per cent of homes in the UK were built before 1945, compared with just 27.2 per cent in Germany and 17.9 per cent in Ireland.
- *Average new dwelling size* – the UK and Ireland are building small new homes at just 76m² and 87.7m² respectively, compared to 109m² in Germany and 205.7m² in Australia.
- *House prices* – over a period of more than three decades, real house prices in Ireland, Australia and the UK went up by around three per cent per annum while they remained stable in Germany and Switzerland.

We investigated why some countries were able to combine these upward demand pressures with stable house prices and spacious housing, while others were not.

Figure 1: Housing statistics compared

	GER	SUI	IRL	AUS	UK
Average annual population growth 1970-2005	0.16%	0.45%	0.98%	1.32%	0.24%
Decline in average household size 1980-2003 (persons)	-0.3	-0.27	-0.7	-0.4	-0.3
Persons per km ²	230.9	181.4	57.1	2.6	246.9
Average annual growth of GDP per capita 1970-2003	1.4%	0.9%	4.4%	2.0%	2.1%
Age distribution of dwelling stock – pre 1945	27.2%	n/a	17.9%	n/a	38.5%
Age distribution of dwelling stock – post 1945	72.7%	n/a	82.0%	n/a	61.5%
Average size newly-built dwellings (m ²)	109.2	n/a	87.7	205.7	76.0
Average annual real house price growth 1970-2003	0.05%	0.22%	3.32%	2.89%	3.87%

Findings

Green and Pleasant Cities:

Germany's Localised Planning System

- Central government grants are linked to population and tax revenues, so local politicians compete to make their cities attractive – both in the sense of pleasant places to live and places that draw more inhabitants.
- The right to develop property you own, subject to conditions developed by all the federal tiers of government, is enshrined in the constitution.
- The main responsibility for planning lies with local planners and politicians, so plans are responsive to local needs and the environment. Plans are binding and subject to judicial review.
- Germany's planning system has delivered house price stability, spacious homes and green cities despite a similar population density to the UK.

Competing for Taxpayers:

Why Swiss Planners Build What People Want

- Switzerland's political structure is highly devolved. It allows the cantonal and sub-cantonal tiers of government to determine local tax rates.
- Tax autonomy leads to tax competition between councils and cantons. Providing inadequate land for housing means councils risk losing inhabitants – and therefore tax income – to neighbouring areas. On the other hand, council areas attracting new inhabitants are able to lower their tax rates or improve services.
- There has been virtually no real house price inflation in Switzerland for more than three decades, while at the same time Swiss houses have become bigger and better, allowing more and more Swiss to live in the houses they desire.

Housing the Celtic Tiger:

Ireland's Short-sighted Construction Boom

- Ireland's housing boom has led to impressive increases in house building, but these came too little and too late to prevent rampant house price inflation.

- Ireland's unresponsive, centrally planned system of development failed to react to the demand pressures of the economic boom. This resulted in a 'quick fix', with large numbers of small, often low-quality houses on monotonous estates added to the bottom segment of the market.
- However, the lack of additional housing at the top end of the market means that, as first-time buyers seek to trade up, they find themselves unable to afford better homes for their families.

Death of a Dream:

Planners versus the Traditional Australian Home

- The Australian desire to create a home away from 'home' (their European roots) has led to a strong cultural preference for spacious houses with big gardens – 'the Great Australian Dream'.
- Various Australian (state) governments have threatened this dream by reducing the quantity of land released for housing and by levying homebuyers to provide infrastructure. Both policies have had a strong upward impact on Australian house prices.
- In Sydney, 78 per cent of the purchasing price is typically paid for the land, not for the house itself. So land-use planning has actually created a shortage of land – in a country with a population density of only two persons per square kilometre.

Conclusions

In Ireland and Australia, with planning systems derived from the UK's, restrictions on the supply of land, densification policies and central planning fail to provide the kind of homes people want, and lead to high real house price inflation. Successful planning systems, as found in Germany and Switzerland, leave planning decisions to local planners and politicians while ensuring that they face the full costs and benefits of their decisions. In our final report we will apply these lessons to the UK and produce a set of reforms aimed at giving Britain the housing it deserves.

Notes

- 1 Paul Cheshire and Stephen Sheppard, On the price of land and the value of amenities, *Economica*, 1995
- 2 Kate Barker, Review of Housing Supply: Interim Report, December 2003, Table 1.6
- 3 Strutt & Parker, Changing Perceptions - A survey of people's attitudes to high density housing, 2001
- 4 'Cheap Cottages Exhibition' at the Letchworth First Garden City Heritage Museum, 2005
- 5 The National Playing Fields Association, press release, 1 August 2005
- 6 London Assembly Environment Committee, Crazy Paving - The environmental importance of our front gardens, 2005
- 7 Stephen Sheppard, Shlomo Angel, and David Civco, The Dynamics of Global Urban Expansion, <http://www.williams.edu/Economics/UrbanGrowth/WorkingPapers.htm>
- 8 Independent, July 18, 2005: The mystery of Britain's disappearing butterflies
- 9 Anne Ellaway, Sally Macintyre and Xavier Bonnefoy: Graffiti, greenery, and obesity in adults: secondary analysis of European cross sectional survey, in: *British Medical Journal* 2005, pp. 611-612
- 10 World Health Organization/Regional Office for Europe, Green cities, blue cities, Copenhagen 1997
- 11 David Nicholson-Lord: Green cities and why we need them, New Economics Foundation, 2003
- 12 HM Treasury/ODPM, Housing policy - An overview, 2005, p. 56
- 13 Nimbys called to arms to save the countryside, *Times*, September 9, 2005, p. 19
- 14 Peter Hall: The Land Fetish, TCPA, London, p.5
- 15 NHBC, New House-Building Statistics - 3rd quarter 2005, p. 20
- 16 <http://www.clivedencampaign.org>
- 17 Peter Hall: Planning for the Mega-City-Region, Town and Country Planning, September 2005
- 18 David Nicholson-Lord: Green cities and why we need them, New Economics Foundation, 2003; Daniëlle Snellen, Urban Form and Activity-Travel Patterns - An Activity-Based Approach to Travel in Spatial Context, Eindhoven 2001
- 19 <http://www.cpre.org.uk/campaigns/planning/greenbelts/what-is-the-problem.htm>
- 20 Annual Abstract of Statistics, 2005, online
- 21 Ermetere Alacci, Intervista/Interview, *Acquarello*, 1998
- 22 G. Piccinato, Intervista/Interview, *Acquarello*, 2000
- 23 Office of the Deputy Prime Minister, Planning for housing provision, 2005
- 24 Kate Barker, Review of Housing Supply: Final Report, March 2004, Recommendation 9, p.43
- 25 Office of National Statistics, News Release, 20 October 2005
- 26 Paul Cheshire and Stephen Sheppard, The Introduction of Price Signals into Land Use Planning Decision Making: A Proposal, *Urban Studies*, April 2005
- 27 Mark Pennington: Planning and the Political Market, 2000, p.73
- 28 Alan W. Evans: No Room! No Room!, London, 1988
- 29 Urban Task Force, Towards an Urban Renaissance, 1999
- 30 Kate Barker, Review of Housing Supply: Final Report, March 2004
- 31 Tony Travers and Lorena Esposito, Nothing to Lose But Your Chains: Reforming the English Local Government Finance System, Policy Exchange, August 2004
- 32 McKinsey Global Institute, Driving Productivity and Growth in the British Economy, 1998
- 33 Office of the Deputy Prime Minister, Lyons Inquiry into Local Government, December 2005
- 34 Reading B.C., Supplementary Planning Guidance: Planning Obligations, September 2004
- 35 New homes are right up her street, *Observer*, 3 October 2005
- 36 Stephen Platt, William Fawcett, and Robin de Carteret, Housing Futures: Informed Public Opinion, 2004
- 37 Patrick Abercrombie, Greater London Plan, 1944
- 38 Stephen Inwood, A History of London, 1998, p 834
- 39 Kate Barker, Review of Housing Supply: Interim Report, December 2003, Table 1.6



Policy Exchange is an independent research institute whose purpose is to contribute to public understanding of a broad range of social, economic and political issues. Using an evidence-based approach to policy development, it generates fresh ideas in support of strong communities in a free society.

Localis organises seminars and commissions research relating to all aspects of local government.

Better Homes, Greener Cities is the third report from Policy Exchange's award-winning research on the UK's planning system. The first, **Unaffordable Housing**, established that our centrally planned system of delivering housing has given Britain the oldest, pokiest and most expensive homes in the world. **Bigger Better Faster More**, the second instalment, looked to four other countries – Germany, Switzerland, Ireland and Australia – for inspiration, and found that localised and incentivised planning systems deliver the best housing.

In **Better Homes, Greener Cities** Evans and Hartwich argue that local communities should once be put in charge of their own development. They argue for reform of local government finance, greater planning flexibility and the introduction of a tax – the Social Cost Tariff – to compensate residents for the costs of development. This would encourage local authorities to “go for growth” and deliver the kind of spacious homes in green communities that people want.

Praise for **Unaffordable Housing** and **Bigger Better Faster More**

“Two outstanding new pamphlets from Policy Exchange” Martin Wolf, *Financial Times*, 7 October 2005

“Pamphlet of the Year” *Prospect* Think Tank Awards 2005

“The very model of the good think tank publication ... It is hugely challenging – and perhaps paradigm-shifting in its conclusions ... it is also extremely well and accessibly written, and excellently produced and presented” Lord Adonis, September 2005

“A broadside ... in support of the Prescott view that restrictive planning law is the principal impediment to satisfying demand” Sir Max Hastings, President of the Campaign to Protect Rural England, *Guardian*, 17 August 2005

“Brilliant” Ferdinand Mount, *Daily Telegraph*, 20 July 2005

“A tough-minded set of answers” Hamish McRae, *Independent on Sunday*, 17 July 2005



£10

ISBN 0-9551909-1-6

Policy Exchange
Clutha House
10 Storey's Gate
London SW1P 3AY
www.policyexchange.org.uk