

NEED *not* GREED OXON

Planning for Real **NEED** not Speculator **GREED** in Oxfordshire

LAND VALUE CAPTURE – FUNDING INFRASTRUCTURE, BRINGING
HOUSE PRICES DOWN

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'As we leave the European Union, we will forge a bold new positive role for ourselves in the world, and we will make Britain a country that works not for a privileged few, but for every one of us.' Statement from the new Prime Minister Theresa May, 3 July.

SUMMARY

1. The UK planning system is now largely in the hands of landowners and large scale developers. These, very slowly, deliver exorbitantly priced housing while contributing very inadequately to the associated infrastructure costs - at great profit to themselves and great dis-benefit to society. Land value capture of development land on behalf of the community would help transform the situation.

THE CASE FOR COMMUNITY LAND VALUE CAPTURE

2. It has long been recognized that when the state (usually through local government) creates value by declaring land developable the state - ie., we, its citizens - should be a beneficiary of that value increase. This principle has been intermittently accepted and incorporated into law by British governments. In 1947 the Town and Country Planning Act nationalized all development value. This was amended 5 years later. Further attempts to secure community benefit from land value capture were made through the 1967 Land Commission Act and through the 1975 Community Land Act. Both fell with a change of government.

3. Post war New Towns, most recently Milton Keynes, were however built with land acquired at close to existing land use value, so that the value uplift could be reinvested in local infrastructure. Currently all major parties have now accepted the Town and Country Planning Association (TCPA) Garden City Principles, including (Principle 1) that of land value capture for the benefit of the community, should be applied in building the new generation of Garden Cities.

4. Whether or not that will happen, the reality in the planning system in the rest of the country is that, under the terms of the 1961 Land Compensation Act, the landowner, solo or in conjunction with a developer, takes all the “unearned increment” of increased value resulting from gaining planning permission. This leads to land values jumping by a vast amount (typically a factor of 20) and to many multi-millionaires being created from the windfall gains.

5. In partial compensation to the community there is an obligation under an Article 106 agreement, or more recently a Community Interest Levy (CIL), for the developer to contribute to infrastructure costs and, in the case of larger scale developments, to sell or rent a proportion of the housing at “affordable” prices. The weaknesses of such agreements are however apparent. Complex and controversial to negotiate, they often lead to delays both in finalizing agreement and in implementation thereafter. Almost invariably the developer is in a stronger position. Almost invariably too such agreements fail to deliver sufficient funds for adequate infrastructure. It is even rarer for infrastructure to be delivered in advance of house building – or even in parallel with it.

6. The level of house prices is also a national concern. The argument that building more homes will make them more affordable has been discredited. A recent study (the Redfern Review, carried out by a major house builder, Taylor Wimpey) suggests that even if we increased house building up to 300,000 units a year this would reduce prices by only 0.6%. A much more relevant factor is the high cost of the land, typically a third of building costs, which makes it extremely difficult for the developer, particularly after he has taken his generous profit margin (nowadays typically 20% of selling price) to sell at genuinely affordable prices.

7. A recent paper by Peter Jay for Need not Greed Oxfordshire has shown that even if they can pay the deposit, average earners in

Oxfordshire can afford to pay less than £150,000 to get on the housing ladder. Yet prices very rarely start below £250,000. The Chief Executive of Berkeley Homes, a major house builder in the Oxfordshire area, was paid over £23m last year. At the same time his company have successfully argued that they cannot possibly meet the 40% (laughingly entitled) “affordable housing” provision laid down in South Oxfordshire District Council policy, and have agreed to provide only 25% for a major new development in Wallingford. So the rich get richer as housing firm profits, dividends to shareholders and multi-million pound bonuses for chief executives rise steeply. By contrast, getting on the housing ladder by purchase, or renting suitable accommodation, remains an impossible dream for hundreds of thousands of our fellow citizens.

8. It is in many ways astonishing that until now the housing debate in the national media almost invariably fails to take this fundamental point into account, or to note how much better the situation is in continental Europe, where the principle of community land capture is widely established and enforced. In the Netherlands, France, Denmark and Germany, with far stronger and more pro-active planning systems and much greater involvement by social sector banks, land is often taken over for development by local authorities at , or at a little more, than its existing agricultural or industrial use value. Housing is cheaper, higher quality and more environmentally friendly and, along with better community facilities and infrastructure, constructed much faster.

9. The government has accepted in principle that there should be community land value capture for Garden Cities - yet not apparently elsewhere in the planning system. At last however common sense is breaking through and critics are increasingly focussed on the need for fundamental reform. A recent paper by Thomas Aubrey of the Centre for Progressive Capitalism urges amendment of the 1961 Land Compensation Act so that land designated by Local Plans for transport or housing should not take account of any prospective planning permission when deciding on the level of compensation. He estimates that this would release an extra £172 billion for public spending on infrastructure over the next 20 years. If, he says, the government is serious about making the economy work for everyone such reform should feature in the forthcoming Housing White Paper.

10. There are a number of practical difficulties if we were to go down this route. One is the minimum area of land below which the tax would not apply – if for example someone wanted to sell off part of their garden to build a second house. And whatever minimum area or number of houses is agreed sellers would often try to break down the sale of their land into smaller component parts to avoid or minimize their tax liability. Another problem is the widespread use of options to purchase agreed between landowners and developers before planning permission is given. These are undeclared, and in some cases already spent. To avoid tax, these could be artificially swollen by developers confident of getting planning permission to, say 50% or 75% of the purchase value to minimize the amount liable for tax.

11. These are not insuperable obstacles to any government prepared to force full disclosure and to use the full range of fiscal options open to it. But given the inevitable complexities it would be wise to press for government to accept the principle, and for Whitehall to work out how it would be applied.

12. We know that government is indeed already looking at this issue. We have potentially powerful allies in councils fighting constantly losing battles with developers to get the resources needed for adequate infrastructure, in the large numbers of people who feel excluded from the housing ladder – and from all those who know that the planning system is broken and unfit for purpose. The battle is necessary, and winnable.

13. This paper does not attempt to set out detailed campaigning options. But for us in Oxfordshire perhaps the most obvious first step is to secure agreement to support and champion the principle of Community Land Value Capture from our district, city and country councils –and perhaps to make this an issue in the forthcoming May OCC elections.

February 2017