

Cities for Growth



Solutions to our
planning problems

Alex Morton



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I also owe an intellectual debt to those who warned during previous periods of reform that we needed a decisive break from our failed planning system – but were ignored in favour of minor revisions to 1940s-style local authority plans. We cannot afford to repeat this mistake.

Introduction

This report sets out a vision of England that recognises that urban areas can be beautiful, green and pleasant. It is about the opportunities we sacrifice by holding back our cities, and the economic and social costs of a failed and failing planning system.

Planning is largely about urban areas. The metropolitan regions that cover our great cities contain around a third of our population, and around half live in major or large urban areas. But the general trend is that the more urban the area, the greater internal migration away from it, with our cities supported only by high levels of international immigration. Outside their city centres our cities seem frozen, unable to regenerate, expand or develop on a large scale.

Larger cities drive up worker productivity and wages. Our cities' ability to expand and change is a critical factor in economic growth. We must free our cities if we are to meet the challenge of Asia's growing and increasingly competitive cities and raise quality of life.

This report shows how a better attitude towards planning and development can turn the tide and improve the prospects for our cities. It shows why our attitude toward development has become fearful and narrow due to a failing planning system that has huge negative effects. Our planning system has failed in two ways: we haven't built enough, and yet what we have built has all too often been of mediocre quality. You might think that there would be a trade off between quantity and quality. This report shows why that is not so.

Our centrally planned system fails to deliver what people want. It fails to compensate those who are affected by development properly. It creates pressure for ugly development. Unsurprisingly, its failures have created a fear of change in our communities.

The city suburb is the most desirable location for people in England, with 60% saying they would live there. Yet often our planning system's main goal seems to be stopping suburban city living. People want to combine a family home with green space and privacy with access to the opportunities of the city. Expensive places like Richmond, Fulham, Hampstead, Clifton in Bristol and Hallam in Sheffield show how development can be a positive. Green belts stifle our cities by protecting low quality land at its edge while forcing development into really rural areas and cramming more and more into packed cities.

New urban areas are no longer even considered as a possibility, despite their benefits and the fact that over two million people live in New Towns built since WWII. High land prices caused by restrictive planning laws squeeze out design quality: by making the price of development land so high that people cannot afford to build high quality homes.

Meanwhile, the brownfield development which everyone claims to support is made very difficult by pointless bureaucratic hurdles. Northern cities, far from

benefitting from the planning system, are damaged by it (e.g. by more expensive office space than Southern cities).

Last year, Policy Exchange published *Making Housing Affordable*. This report outlined some of the terrible social and economic costs of our under-provision of housing, from housing benefit spiralling toward £22 billion a year to the collapse of home-ownership. This report explores further the problems our local authority controlled planning system creates. It also discusses proposed government reforms. Under these; local plans remain key, and compensation for new homes is still given to councils. Neighbourhood plans are a good concept, but are too weak to drive change. A controversial presumption in favour of sustainable development bows to local plans. Councils will continue to decide housing numbers with central oversight, meaning not only too few homes but also legal struggles between central and local government.

Developers' model is bust. The cost of building a house is massively below what it can be sold for; the difference is inflated land prices, high as too little land is released. Because of the complexity of our plan-led system developers have become land speculators, leading to a dysfunctional system that can only build as house and land prices rise. Mortgage lending simply inflates land and house prices in our centrally planned system.

It's time for a full overhaul of the planning system. Local authority planning has been the centre of our system for the last six decades. It must be stripped back and a Presumption Against Interference by government should be at the heart of a better planning system. Local plans should focus on genuinely strategic issues rather than attempting to micromanage everything.

There should be a blitz on brownfield bureaucracy. Planning permission for brownfield development should generally be permitted if less than half of those nearby object, driving up quality while allowing many more homes. For greenfield development a statutory compensation system should exist for those affected by new homes, reducing political opposition, alongside giving quality control to those near development, not planning officials.

To ensure cities can flourish, control over development in the green belt should be given to local people. Only three out of ten people disagree with the idea that there should be some development in the green belt. A green belt levy on development should be created to pay for improvements to the green belt, creating parks and open spaces. This would be a return to the original concept of the green belt as an amenity for people. Statutory compensation for those nearby alongside greater control by those nearby would ensure high quality development.

This report also argues that we should start creating new urban areas again. Such big projects now sound rather ambitious, but it was the norm for most of the last century, from the Garden Cities to the New Towns and London and Liverpool Docklands. The regeneration around the site of the 2012 Olympics shows that large-scale developments are possible in Britain if we have the will to do it. Most fast growing countries are creating new cities.

We propose that where they can obtain local consent, new private sector 'Garden Cities' should be allowed to proceed near existing urban areas. This would allow us to combine high quality of life with the benefits of access to a major city. Building in such a planned and coherent way replicates the model

where the great aristocratic estates of London built beautiful areas because each property's value affected the value of its surroundings. These cities would also pay for major transport upgrades and new public buildings at no cost to the Government, a double boost for growth.

Garden Cities would drive massive construction projects while wider planning reforms allow the expansion of our cities from Leeds to Cambridge to London through desirable new suburbs and brownfield regeneration, driving forward economic prosperity. Northern cities will benefit hugely from a more flexible planning system through cheaper land for business.

Our stunted planning system, a product of a 1940s utopian vision of bureaucratic control has failed us for too long. Existing reforms are too timid and will not create the step change needed. This report shows Cities for Growth can create wider social and economic renewal.

“We need a system which puts much more of the value of a development into better building and gives a share of the profits to local people. Only then will NIMBYism fade... As matters stand, we are set for another damaging boom in house prices when interest rates eventually drop and the economy speeds up”¹

Nimbyism; the disease and the cure, CPS, 1990



Riverside, Richmond, London © Rolf Richardson / Spectrum:



Sion Hill, Clifton, Bristol © Destination Bristol

¹ *Nimbyism; the disease and the cure*, CPS, 1990

Executive Summary

Chapter 1: The Current Situation

Section 1: Why Cities Matter and the Stagnation in Our Cities

Our cities are critical to our society and economy...

- Nearly a third of people in England live in or around our seven largest cities. Around half live in 'major urban' or 'large urban' local authority areas. Eight in ten live in urban areas, defined as places with populations of 10,000 or more.²
- Despite this, people are often surprised to learn that just 10% of England is built upon. While our lives are urban, England as a whole is not.
- Urban environments affect quality of life; eight in ten are very or fairly interested in the built environment and say a better built environment improves quality of life.
- Cities raise their residents' productivity: specialisation is greater, competition and economies of scale increase, ideas and innovation spread faster. Harvard economist Ed Glaeser suggests in the modern "knowledge economy" these advantages seem even more important than they were during the period of the manufacturing-led economy. Cities are where 'clusters' of successful industry are created, such as finance in London, biotech in Cambridge, or the digital economy of Silicon Valley.
- These effects are powerful: One study found a metropolitan worker earns 20–30% more than a worker in a rural area, adjusting for worker characteristics. Others find an effect between 2.5% and 15%. A meta-analysis average found urban areas doubling gave a 6% productivity rise. Moving from a town of 50,000 to a city of 800,000 raises a worker's productivity and income by a substantial 25% or so.
- These "agglomeration effects", as economists call them, relate to total city size not density. City economies do not stop at city boundaries but include commuting hinterlands. The larger the city-region, the more productive the workforce. The top 600 cities in the world contain just 20% of global population but 60% of global GDP.
- Allowing more people to live in places where they can access the productivity increasing opportunities of large cities would enable a step change in Britain's economic performance.

...but Britain's cities have declined

- Cities are increasingly important yet our cities are declining unlike US and Asian cities. From 1951 and 2009 the share of UK population in what we term

2 All references cited in this executive summary are referenced in the full report

metropolitan areas fell from 40% to 31% (a 22.5% fall), yet in the USA the proportion living in metropolitan areas with over 1 million rose from 30% to 55% (up 83%).

- Our cities' decline has continued in recent years. Internal migration figures show that between 2000/01 and 2007/08 major urban areas lost 933,000 people, significantly rural areas gained 201,000 people, and the most rural areas gained 352,000 people, with medium sized urban and semi-urban areas accounting for the rest.
- These figures, showing that nearly a million people left our great cities, might seem surprising in the light of discussion about an "urban renaissance" over the same period. The very centres of our big cities did improve in the 1990s and 2000s, driven by a tripling of student numbers and the growth of single young people. But these demographic trends are now slowing, which will hit our cities hard. Looking at overall numbers, the main reason urban decline slowed in recent years (or in London's case, slightly reversed) was higher international immigration, which is likely to reduce.

The root of urban decline – our planning system – has wider social and economic effects

- Our dysfunctional planning system raises the cost of housing and business space. This has profound and wide ranging consequences.
- In terms of office space, six of the top 50 most expensive cities in the world are in the UK, while most other countries have just one or two. The LSE note in terms of commercial space Birmingham is the most expensive European city after Paris and London and Manchester cost more than Manhattan.
- Our planning system means cities with strong growth potential like Leeds, York, Cambridge, Oxford, and London are held back. Perhaps surprisingly for some, northern cities' office space cost more than southern cities' office space, slowing regeneration.
- Median English homes now cost seven times the median salary. House prices tripled from 1995 and 2010 (£66,786 to £208,757). As a result, home-ownership fell for the first time since 1918. Rents are rising rapidly, hitting £705 a month in August 2011, having risen 80% in ten years. In much of England family homes are unaffordable, to own or rent.
- More expensive housing means higher welfare bills and higher taxes. Housing benefit spending alone is expected to top £22.5 billion by 2015/16. Expensive housing also creates more demand for social housing, and increases the cost of employing public sector workers.
- Artificially high property prices damage growth by diverting funds to property speculation, not productive investment. Currently mortgage lending is rising £0.6 billion a month yet non-financial business lending is falling by £1.6 billion a month.

The planning system is to blame

- With only 10% of the country built on, we don't have a shortage of land, but a shortage of land with planning permission. For example, in Oxford/Oxfordshire a hectare of farmland costs £20,000. But land with permission for

industrial development costs £1 million and land with permission for housing £4 million per hectare. We have released too little land for commercial and residential use.

- Previous Policy Exchange papers show how even largely empty countries with tight planning law have seen property bubbles, while densely populated countries with better planning systems have enjoyed stability and affordable housing.
- While there was a housing bubble, house prices are due to supply and demand. Even after the bursting of the bubble and a small fall in prices, the cost of housing remains three times higher than in 1995. The idea higher house prices are mainly due to credit/demand is false. There is no car price 'bubble' despite car purchases using loans as rising demand creates higher supply. Supply constraints are the key factor.
- A great deal of work by Ed Glaeser, notably *Rethinking Federal Housing Policy*, shows how planning restrictions create land and housing bubbles.

The rise of Asia's cities makes the challenge even more urgent

- Over a billion people are expected to move to Asian cities between now and 2030. Already 75% of China's GDP comes from the 45% who live in urban areas.
- Urbanisation will continue to drive Asian growth forward. By 2025 China will have 23 cities of more than five million inhabitants, 221 of more than one million inhabitants, and 95% of China's GDP will come from its urban areas.
- From the 55 science parks in Chinese cities to the IT hub of India's Bangalore, cities in Asia are already moving forward at a dizzying pace; half of the city of Shenzhen's industrial output comes from high tech manufacturing and Shanghai is now closing with New York, London and Hong Kong as one of the world's main financial hubs.
- High-growth developed countries have a positive view of development. Singapore and Hong Kong reclaim land from the sea. Hong Kong's new towns have housed 3.3 million people since the 1970s. Whole new urban areas like New Songdo (in Korea), and Masdar (in the UAE) are being built.

Section 2: Where Have we Gone Wrong?

Our local authority plan led planning system is utterly dysfunctional

- Our cities are controlled by a dysfunctional planning system that builds both mediocre quality development and too little. The planning system was built by the 1945 Government as part of a socialist command economy.
- The planning system should exist to mediate between private individuals, provide core services and control special cases. Instead it controls all decisions around land and the built environment according to a template based on command economics.
- The main aspect of the 1947 Town and Country Planning Act, which endures to this day, was to presume all significant changes to private property must be

authorised by local authorities. Local authorities would create local plans to guide these decisions.

- Later legislation strengthened local authority plans. They are the core of our planning system. These local plans are very long. The main Liverpool plan is around 300 pages, the main Leeds plan 500 pages, the London plan over 300 pages (boroughs add more on top). In addition councils issue supplementary guidance.
- Local authorities were told to update their plans over seven years ago. But such is the complexity of planning documents many are only now close to completion. Plans are often out of date, with out of date plans carried forward or 'saved'.
- Plans contain endless minutiae. They cover everything from exactly what type of bike stands are allowed to the detail of car park design (with fascinating guidance on the colours and textures of tarmac to use, and so on). The London plan covers everything from reducing air conditioning to creating precisely 40,000 new hotel bedrooms by the year 2031. Barnet has 183 'saved' policies ranging from synthetic sports pitches to shop fronts to minicab offices to housing to retail.
- Local plans also ration commercial land according to what they think business needs.
- This leads to absurd policies. Last decade planners decided light industry in Barnsley in 2018 would need space for 500 extra jobs, while in 2018 Sheffield's retail and leisure industry would need space for 680 posts, rationing land accordingly. This is almost Soviet.
- Land is often rationed based on unrealistic plans; of 56 cities in England, 26 want to grow their green industries, 33 their advanced manufacturing, and 39 their creative sectors. But we should want all sectors to grow and become more productive.
- Local authorities block developments with little local spending and jobs even if these are essential to the wider economy (e.g. logistics hubs). Much commercial space is unsuitable for modern needs (e.g. lacks IT, wiring, or temperature control capacity, or the ability to receive regular deliveries) but planners prevent its use being changed.
- The National Audit Office finds positive planning decisions take 98 weeks due to this mind-boggling complexity.

Planning cannot incorporate prices and rations land for housing using household projections

- Local plans use 'household projections' to set housing targets, guessing the size and speed new households form at – e.g. Leeds estimates it needs 3,100 homes in the year 2013/4, and also estimates the size of properties needed and whether they are flats or houses, then creates enough planning permissions on private land to hit this target.
- This system is deeply flawed. Firstly, it cannot use prices. The recent London plan, for instance, ignored the fact that the average detached family home costs £600,000 and argued London "needed" just 34,000 homes a year due to 'new households'. The language of such projections is telling: they are not about responding to what people might want, but about what planners think they *need*.

- Household projections can show diminishing “need” even as prices rise. As prices rise fewer households form, i.e. as people can’t afford a home of their own, or are forced into a smaller home than their family need.
- Household projections ignore existing households taking up ‘extra’ space (e.g. 47% of owner occupiers have 2+ ‘spare’ bedrooms) and downplay migration to an area.
- Councils use household projections even though they know they are flawed as they want to cut housing requirements. Later sections explain fears about development.

Local planners interfere even where no market failure exists – especially on brownfield

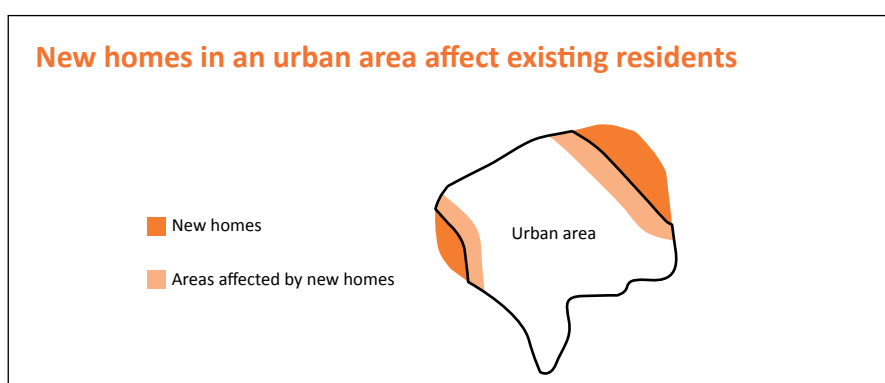
- A planning system is necessary because market failures exist in the built environment.
- For example someone ripping down a very rare historic Tudor building or turning a house to a chip shop has an immediate, clear and large cost to society or those nearby.
- New building will normally have some effect, either positive or negative on those nearby – what economists call externalities. The role of planning should be to manage these externalities. But planning rules go well beyond this.
- Plans discourage brownfield development in cities because it doesn’t fit with ‘the plan’. Rules around ‘change of use’ allow councils to stop empty or derelict offices being turned into homes, even if neighbours don’t mind.
- Planning goes well beyond what is reasonable for listed buildings. Even internal alterations to Grade II listed buildings (94% of all listed buildings and almost any pre-20th century building) require planning permission. This simply makes it harder to use these buildings and increases chances of dereliction.
- In terms of ‘permitted development’ – what you can do with your own property, rules are ridiculously tight. For instance, even if no neighbours complain, an extension that is more than 10% of your floor space can be blocked by the council for no good reason.
- This all has a particularly negative effect on brownfield and city sites.

Too much planning simply aims at stopping (popular) suburbs in our cities

- We need new homes to be more popular. A key point is that planning is often anti-suburban, particularly in cities, yet this is the most popular type of housing.
- A key text is the 1999 Rogers Report. It argued plans should minimise car use, only allow high density with minimal private green space, and build flats not homes. This approach has been dominant among planners since then.
- By 2005/6 around 47% of new homes were 1 or 2 bed flats, up from 18% in 2000/1. In most cities this was higher (e.g. in Leeds the proportion was 62%).
- Planners also refused to allow car spaces. Central Government required no more than 1.5 car spaces per development from 2000 to 2006. Councils took their cue from this. But this didn’t reduce car use. People just bought existing homes and concreted over front gardens; one survey found 17% of households have now done this.

- People like suburban living. 60% want to live in a city suburb, while just 5% want to live in a city centre. Research in Leeds showed the main factors for leaving the city were that people wanted a home not a flat, needed more living space for children, and wanted green space.
- People like suburban homes. 59% say their favourite home is detached (bungalow or village house), 30% medium density (Victorian terrace or modern semi), and just 2% a modern loft. Less than 1% say their favourite home is a tower block.
- Building the wrong type of housing alienates people. 55% would accept detached and semi-detached housing in their area, while just 21% would accept new flats. 69% say the quality of what is built near them is more important than the quantity, and only 9% disagree. Lack of car spaces in new developments particularly antagonises local people who worry they will lose the car 'spot' on their street.
- London shows how much people will pay to live in cities, and almost all other cities have desirable suburbs like Clifton in Bristol, Hallam in Sheffield, or suburbs of Manchester like Cheadle. Suburbs allow city life with greenery and quiet. People rate living in a quiet area as the most important factor when choosing an area to live.
- DCLG found that, bar the tiny City of London, suburban Richmond upon Thames had the highest satisfaction with the local area as a place to live. Twelve of the top 20 spots were urban or suburban, only eight were rural or semi-rural.
- Ending congestion does not mean ending suburban growth. In the USA around 90% of metropolitan areas have 90% of people commuting by car, with an average commute of twenty-four minutes. These areas just create offices in suburbs.
- In the USA the fastest growing cities are suburban. These expanding suburban cities also have the highest satisfaction ratings, 70% higher than other areas.

Planning fails to deal properly with the externalities of new development



- As noted, planning should be about externalities. Economic studies show a single positive or negative factor changes house prices. Being near a park can raise house prices by 5–7%, a view of open space can raise prices 4–8%. A view of pylons cuts property values by up to 9%. People worry about externalities, even if they don't grasp the economic theory behind it. New homes change the feel of an area and given that 'neighbourhood' is the number one attribute

for a home in one poll, and eight-in-ten put the appearance of an area as very important to them, this effect is large. The effect on traffic and public services are other important externalities. Major developments (e.g. Poundbury in Dorset) can shift land prices in the surrounding area noticeably – either up or down.

- Beautiful cottages or Georgian style-terraces or a new park are likely to increase existing residents' quality of life and house prices. Conversely, building squashed, unattractive homes, right up against existing properties, with insufficient car spaces will obviously reduce existing residents' quality of life and house prices.
- Because our system is 'socialist' it tries to weigh up all costs and benefits in the single local plan. Thus externalities (which fall on individuals **not** the local authority as a whole) are dealt with badly by our current planning system and simply ignored in most cases.
- Large developments internalise externalities; aristocratic creations like Pimlico or Bloomsbury are attractive because the whole area was owned by one family. When the same people who are adding new buildings to the edge of a development also own the existing properties nearby they have a strong incentive to make sure new building is high quality. Modern development corporations like the Docklands Development Corporations were similarly in a position to internalise externalities.
- There are also externalities in terms of public services. New residents usually need capital spending (schools, roads and so on). These concerns need to be adequately addressed, or services for existing residents suffer.
- Failure to deal with externalities explains why reasonable people often become NIMBYs and planning needs to deal with them better in order to work effectively.

Council level incentives don't work; Section 106 failed

- Local authorities are compensated for allowing development through Section 106 agreements with developers. They were worth £5 billion at the height of the boom, or almost £30,000 per home.
- Incentives for local authorities work for other countries, but England has very large local authorities. Germany has 13,000 municipalities, the French Communes number 36,000. We have just 326 local authority planning bodies.
- That's why, despite the large scale of these incentives, they did not spur enough building: the benefits were spread thinly across the local authority as a whole, rather than concentrated on those who had been affected by development.
- They also went to council priorities not local ones. Often this meant building social housing alongside new developments. While this was a financial benefit to the local authority it often increased opposition from those directly affected by new homes.

Guidance cannot create good design and high land prices squeeze out quality design

- There are often calls for more of a 'focus' on design to reduce opposition to development. But national guidance in the form of Planning Policy Statement 1 contains many statements on design (e.g. "planning authorities should plan

positively for the achievement of high quality and inclusive design for all development”). Its predecessor mentioned design 62 times. Local plans and guidance also have many rules on design quality. The point is this all fails.

- However, the main thing holding down the quality of new development is high land values. Put simply, if you have to spend more on acquiring land, you are left with less to spend on good design and materials in the building that goes on it.
- The cost of land is at typically £30,000–40,000 per home and rises towards £100,000 in some areas, meaning quality design or materials are simply unaffordable luxuries.
- Higher land costs also explain why the UK is building ‘shoe box’ homes, with the average home getting smaller and smaller due to high land prices. Because first time buyers have limited choice this also negatively affects quality.
- Finally planners and local people often have different ideas about what quality means. Local people like suburban homes and allowing car spaces. Planners fight this.

Green belts that are not that green and make our cities greyer

- Originally only for London, green belts now cover 12% of England, around all major cities and also smaller cities with growth potential like York, Oxford and Cambridge.
- Policy states that “the quality of the landscape is not relevant to the inclusion of land within a green belt or to its continued protection.” Roughly 60% of the green belt is just intensive farming. The green belt is unlike Areas of Outstanding Natural Beauty or nature reserves chosen due to the quality of the landscape, views, or wildlife.
- Originally councils had to purchase land for the green belt, but not after 1947, removing any cost to councils in creating green belt. So instead of focussing on valuable areas of countryside, the green belt became a blanket policy.
- In CPRE polling, the two things people most associate with the green belt are woodland and open spaces. Only around a third associating farming with it.
- Despite this mistaken belief that green belt is necessarily more attractive or open to the public, only 30% of people disagree that some of the countryside around England’s towns and cities should be developed for housing and other development.
- By preventing cities from spreading outwards, green belts force them to become denser. Between 1992 and 2005 we lost almost half of our playing fields. In London we lost the equivalent of 22 Hyde Parks worth of front gardens.
- Current planning policy means the green belt being sacrosanct to protect our ‘valuable green space’, yet satellite data shows that the built up area of London in the 90s grew at 1.5% a year as we destroy the urban green spaces we treasure the most. It is little consolation to a child growing up in a dense, grey, inner city that miles away on the urban fringe there is a little more intensive farmland than there otherwise might be.
- Making our cities less green and pleasant also makes them less competitive, as cities increasingly compete on quality of life. It also pushes development

into really rural areas just outside the green belt, where development is even more unpopular.

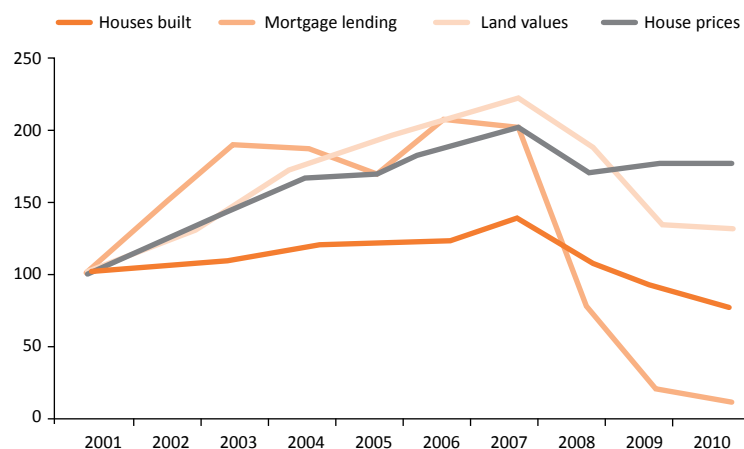
We don't allow new urban areas to be built

- Around 2 million people in around 500,000 homes live in the 22 New Towns created from the 1940s to the 1970s where New Town Development Corporations compulsorily purchased land at agricultural values and used this to build new towns.
- The New Towns have a mixed record, with problems created by 'innovative' designs and homes. Those linked to wider successful regions have flourished (e.g. Milton Keynes has one of the highest private sector jobs growth in the country).
- In recent years the 1979–97 Government blocked new urban areas, including refusing planning permission for four new county towns. The 1997–2010 Government tried and failed to impose development in specific locations via Regional Spatial Strategies.
- New urban areas have three advantages; firstly, they 'internalise' externalities, as building a new urban area means that each street impacts on its neighbours, which encourages master planning and desirable development. Secondly, they focus development, meaning less development is needed elsewhere. Thirdly, they allow infrastructure, transport and development to be planned in a coherent way, rather than tacking on new developments onto areas where infrastructure may already be strained.
- New urban areas could also be built immediately by new players given difficulties that the development industry is in (explored below), difficulties caused by the planning system.

Planning has created a dysfunctional development model, reliant on ever more credit

- Their model needs rising house and land prices to be able to build. If (our very high) land prices drop, this should not matter to a builder. Their share of the value should come in from construction. Because land takes two years to get planning permission developers have built two years' worth of land banks as a buffer (300,000 homes) so they have certainty about a future stream of work. They are forced to take on the risk associated with land ownership. Land banks are the creation of our system.
- Major house builders are heavily hit by falling land prices. Land is a high proportion of final value so if it falls in value between them buying it and selling it (as part of a home), they take heavy losses
- Developer arguments that they need more credit to build are false. Between 2000 and 2007 mortgage lending doubled. This mainly raised land and house prices, as the graph alongside sets out. As the share of 1–2 bed flats rose from 18% to 47% from 2000–1 to 2005–6, house prices, land prices and mortgage lending doubled but the increase in housing construction in terms of space (e.g. m²) was perhaps 10%. More lending, in the face of supply constraints created by planning barely raised output but pushed up prices steeply.

Housing construction, mortgage lending, land values and house prices between 2001 and 2010



- Given houses cost much less to build than the average £165,000 to £200,000 they sell for and have tripled since 1995 we would expect current housing output to be strong. Yet instead in 2010 house building fell to a record low of just 102,000 homes.
- Developers are left waiting for undersupply to create a rising market again, and hoping that land prices will not fall. But to achieve long-term house price stability, land prices must fall, as construction workers' and commodity prices rise. Government cannot have both stable house prices and the current development model.
- The dysfunctional model encouraged by our planning system is not anti-competitive in a legal sense. But complex planning acts a barrier to entry. In 2007 house builders' profit margins were 17% versus 5% for supermarkets. Developers survived the credit crunch as 25% of the mortgage market was bailed out (over £300 billion worth of assets). In most other countries with better planning regimes, there are a larger number of builders, more self-building, and a more competitive market.
- Government should promote supply side reform, rather than try to prop up the current model with more credit. Credit needs to go to business investment, not mortgages.

We have ignored the political dimension of planning

- In the past the local authority plan led system at least delivered a reasonable quantity (if not quality) of new homes. But this was thanks to political forces that have disappeared. In the early 1950s only 32% of people owned their home. Cheaper homes and rents were very attractive to the electorate. In addition, there was limited hostility to new council homes as council homes went to low income workers.
- Labour and Conservative councils also perceived a political benefit from building council homes (Labour councils), and homes for first time buyers (Tory councils).

- The point at which social housing budgets were cut back sharply from the 1980s coincided with the rise of NIMBYism as home-ownership pushed well past 60%. Social house building schemes reduced and pressure to build to keep down rents and house prices fell as ownership rose. Rising wealth and expectations also increased opposition to the mediocre development usually proposed, and ownership meant a strong incentive to reject such development.
- If local authority level planning was once adequate, it isn't now. We now face a situation where around 70% own their home. Externalities must be brought into the system for reform to work.

Section 3: Proposed Reforms Must Go Further

Radicalism not restrictive and prescriptive local plans is necessary

- Under the reforms currently underway, local authority land rationing and control remains at the heart of planning.
- The draft NPPF created a “Presumption in Favour of Sustainable Development”. But this defers to up-to-date local plans. Once these exist, it only requires that local plans must be adequate, up-to-date and use relevant evidence.
- A Presumption in Favour of Development existed from 1947 to the early 90s but annual construction fell (361,885 homes in the 1960s, 217,498 homes in the 1980s).
- The local plan is still supreme in the new framework. Local authorities have had seven years to draw up new local development frameworks (up to date local plans) that are still unwieldy and fail to tackle our planning problems.
- The NPPF requires local plans to develop ‘strategic policies’ and requires that local authority plans are as prescriptive as present (e.g. banning suburban development).
- There is no real relaxation – even for uncontroversial brownfield development.
- The NPPF recommends the household projection model is a key part of the evidence base and should continue to be used. This means plans will continue to undersupply land. Since the scrapping of the Regional Spatial Strategies a planned 200,000 homes have been scrapped by councils, suggesting they are happy to build less.
- The NPPF refers to prices. But prices cannot be used in our system. Attractive areas see high prices because they are attractive. Tunbridge Wells Borough Council land is more expensive than Medway Unitary Authority. So Tunbridge and other areas would be swamped with new homes under a pricing system without regional housing strategies. In addition London would have to resemble Manhattan.
- In theory the government could still try to push development under this system by getting planning inspectors to force local authorities to allow more building.
- However, attempts to superimpose top down pressure for more building onto the local authority-led planning system have been tried and failed before. The 1980s saw “Planning by appeal”. Top-down circulars required councils to build more but local plans ignored this, meaning planning inspectors over-ruled them. The Labour government’s “Regional Spatial Strategies”, which tried to impose higher

housing targets on local people, also failed. On both occasions, there was local anger at being overruled from the centre, eventually forcing the system to be scrapped. Nor did the top down approaches yield much even while they lasted – just 162,000 private homes a year in the 1980s, and even less in the 2000s.

- Despite their failure, local plans may cause huge headaches because insufficient housing targets over 20 years still sound large enough to alienate and frighten people, councillors and MPs.
- There is also no change proposed on critical issues such as the green belt, new urban areas, and land rationing for businesses purposes.

Compensation for new residents and development is still incorrectly aligned

- A New Homes Bonus for local authorities, worth £1 billion, has been introduced to encourage development and deal with the externalities of new residents on public servants. Section 106 is retained. A Community Infrastructure Levy worth £1 billion is to be created, split between local people and councils. To put these figures into context it is worth recalling that Section 106 raised £5 billion a year at its peak.
- As discussed later, incentives for local authorities work in other countries because local authorities there are much smaller, and so money raised is spread less thinly.
- The Community Infrastructure Levy, or CIL, is too small and split between local people and councils. Meanwhile, for local people near to new development CIL will be just a few hundred pounds spent on local infrastructure.
- The New Homes Bonus is welcome to deal with the externalities new residents create but it is not an incentive; if we build 200,000 homes a year it would be just £5,000 per new home, enough for capital spend on new school buildings and roads, nothing more.
- Section 106 (the largest, most opaque and indirect incentive) remains, despite failing to encourage development. Further councils can use Section 106 not CIL, and given they keep all of Section 106 (rather than splitting it with local people) it is likely some may not set a CIL at all.

Quality will not substantially increase under the new system

- Neighbourhood plans, as envisaged, will not fundamentally change the planning system. If they replaced or overrode local authority plans that would be a different matter. But as envisaged, local authority plans remain supreme. The NPPF requires plans set out 'strategic' policies on issues like housing, transport etc. Anti-suburban goals are embedded within the system in local plans. Neighbourhood plans are optional and many places will not have them. As neighbourhood plans must emerge from 21 people who live, work or electorally represent an area, councils will control neighbourhood planning. People simply do not have the time to run such plans.
- If more than one group comes forward to represent a neighbourhood, councils will decide which one proceeds, making council control even stronger.
- Once councils allocate housing, neighbourhoods cannot reject it, meaning neighbourhoods are in a very weak position. The neighbourhood plan is a one

off. If people are not happy with what comes forward and vote against it local authorities regain total control.

- Because councils earmark land for housing this will de facto set housing densities. If local plans set out they need 3,000 homes, and allocate 60 hectares this sets density at 50 homes a hectare. Neighbourhood plans then can't challenge this.
- High land prices paid by developers for land means high densities, small houses, and little for materials. RIBA criticised 'shoebox homes' recently, and developers claimed there was no money for bigger homes (but left out this was due to high land prices).
- If land is bought for £1–2 million pounds per hectare, the amount that could be used to pay for landscaping, green space, or materials will be minimal. Developers will simply reject neighbourhood plans as 'unrealistic' given high land prices.

Chapter 2: Achieving Cities for Growth

Section 4; New Urban Areas; Private Sector Garden Cities

New privately developed urban areas in England

- Government should enable the creation of new urban areas: private sector Garden Cities. These would allow the cash reserves being hoarded by companies (over 6% of GDP) to be spent, here and now.
- New Garden Cities would concentrate development and internalise externalities. A group of businesses or investors could come together as a Corporation to create a new Garden City, just as past Corporations created New Towns.
- Subject to democratic control, set out below, this would allow major new urban areas.
- Politicians should not lead on this. If they do the Garden Cities would be gimmicky and prone to the kind of intervention that now holds some New Towns back or puts people off supporting them, e.g. the last government's plans for "Eco-Towns".
- Instead, just as the old private master planned developments are, they would be attractive because their developers would internalise externalities to maximise value.
- Garden City Corporations would draw up their own planning system within wide limits. These would be voted on in the proposed City boundaries (discussed below).
- These Garden Cities should only have one requirement; that they are linked to existing urban areas so inhabitants benefit from agglomeration effects. A Garden City of 200,000 near a city of 200,000 boosts the productivity of 400,000 workers.
- These Garden Cities would be profitable; a square kilometre of Garden City with 2,500 homes in it worth £250,000 each would sell for £625 million. Even after all costs, including compensating residents, are covered, this would create a huge profit.

- Previous development corporations like Docklands used the planning gain they generate to pay for new infrastructure. Similarly, Government should also set a national infrastructure levy on the Garden Cities. A levy of £25 million per kilometre of Garden City would raise £1 billion from a new city of (initially) 100,000 people, able to pay for 100 km of motorway linking the new town with the rest of the country.
- The Corporation should control what transport infrastructure this is spent on, to avoid wasting it on white elephants. This would dramatically increase infrastructure spend at no cost to Government and build what business and people actually need.

Approving a new Garden City

- In the past, new towns were simply imposed on nearby residents. In our proposal local people would have to vote to approve Garden Cities through a referendum. The threshold could be set above half (e.g. 60%) given the nature of the change.
- Why would people vote for a new Garden City to be build near or around them? The creation of such new cities would generate a huge amount of value, some of which should be shared with the existing residents. As we have seen, the granting of planning permission raises the value of land dramatically. On a city-scale this is even more so, because as well as planning permission, the land becomes more valuable because it is now in an (attractive) city.
- Existing residents within the boundaries of a proposed Garden City should be offered 75% of their home's value if the development goes ahead. If homes need to be compulsorily purchased owners should be offered 150% of their house's value. Those living just outside the new Garden City should receive 25%.
- On top of this they would stand to gain more as their home becomes more valuable. Villages which have become part of successful New Towns like Milton Keynes have tended to do well (for example, Stony Stratford, a village that is now part of Milton Keynes has higher house prices and has retained its high street and unique feel). Even those who chose to move out would be much better off.
- Taking average house values then this would be £150,000 for those offered 75%, and £50,000 for those offered 25% – major incentives that will encourage a yes vote.
- Garden Cities could compulsorily purchase agricultural land at three times fair value.
- Government should consider ways to allow this while hedging risk for developers.
- These Garden Cities should also be allowed, given the referendum, on green belt sites if they commit to 30% of their area being open green spaces.
- These Garden Cities are likely to spread around England, around London and the South East, creating a new 'brain belt', but also around other growth areas like Leeds. This is not just about the South East. HSBC see seven cities as key to future growth; London, Bristol, Brighton, Newcastle, Glasgow, Manchester and Leeds. All could benefit from nearby Garden Cities.

Section 5: Wider Planning Reform; Taking us out of the 1940s and Giving Local People a Say

- Planning is central to revive our cities. People are mostly leaving our cities and heading to rural areas because they cannot find the attractive, spacious, private homes with greenery they want. Our more successful cities, from Leeds to Cambridge to London must grow as they need to in a politically acceptable way.
- We need to move beyond the recent cycle where we just cycle between national and local government control, meaning a radical break from the 1940s planning system.

A Presumption Against Interference, not plan-led development

- A blitz on brownfield bureaucracy is necessary to reinvigorate our cities.
- Local government should not be seen as having wide ranging and all encompassing rights over private property. A Presumption Against Interference should run through the planning system, replacing the concept of the local authority plan-led system.
- This should state that the presumption is people should be free to do as they will with their property except where clear justification or requirement for intervention exists.
- To achieve this, the planning system needs an overhaul to remove bureaucracy and micromanagement from the system. Three examples of this bureaucracy would be: change of use; listed buildings; and permitted development.
- For change of use, this should be restricted to clear externalities (e.g. home changing to pub). For the 94% of Grade II listed buildings, requirements around internal changes require re-examination. For permitted development (e.g. extensions) this needs to be relaxed. If a majority of neighbours affected don't complain, councils should not be able to block change.

Limiting the scope of local plans and better use of the New Homes Bonus

- Local plans should be stripped down. Local authority plans should be prevented from attempting to set out density targets, housing “need”, spatial plans, business “need”, or requirements on residential or commercial property (e.g. style, size, car spaces).
- Local plans should instead set out how areas will respond to new residents, major strategic issues such as roads, utilities, and strengths they want to focus on.
- They should be short, positive, flexible documents – not attempts to manage local economies, ration land, or control private property rights.
- As part of this, councils should set out how they will use the New Homes Bonus (NHB) to cater for needs of new residents (e.g. paying for new school places or roads). This is essential to reduce hostility to new development.
- Realistically, the NHB cannot be an incentive to release land given how large local authorities are. In the system outlined, local authority incentives no longer matter because local plans no longer ration land.

No longer rationing land using central planning (e.g. central planning)

- This new system would end rationing of land using central planning which massively under-supplies land as needed. Land markets would become much more flexible.
- This would remove the need for large 'threatening' numbers being used in local plans.
- Brownfield land would then be easily recycled in this system to more homes.
- Commercial land would no longer be rationed out by local authorities.

Residents, not officials, will act as quality control

- Planning is legitimate because of market failures such as externalities. Those who live near new development bear a cost. They have a direct incentive to enforce development quality. If a majority of people are content to allow changes to property near them, councils have no right to interfere with private decisions.
- Attempts to 'impose' design quality by Government will fail as they have done before. In any case what a local planner decides is 'quality' may be the exact opposite of the suburban home with garden and parking space most people want and would allow to be built in their area. Local materials and window space will be more important than density or abolishing car spaces, which just antagonises local people.
- Therefore on brownfield sites, if less than half of people in the immediate vicinity of development object (numerically or in terms of floor space) planning permission should automatically be granted unless very exceptional circumstances apply.
- Exceptional circumstances would have to be very tightly defined (e.g. a school converting to flats despite a shortage of classroom places). Immediate vicinity means changes have an immediate visual/direct impact on the property or close physical proximity (e.g. within 50 metres).
- This could result in higher density and higher quality development (e.g. in Outer London) or low density development, but the point is it could not make an area notably worse rather than better.
- It is a better way of ensuring quality than endless diktat and bureaucratic control.
- Local people would then decide what might make them organise to block a development (the 50% bar stops unreasonable individuals halting development).
- This will drive up quality and aesthetics, which is what people care about, though other issues will also come into play (e.g. does the layout discourage crime?)
- Due to current high land costs creating odd short-term incentives, gardens and green space should be handled separately with very high hurdles to allow development on these sites, unless a site was being redeveloped, in which case a loss of <20% of green space should be allowed.

Greenfield development should be controlled by residents, who should receive statutory compensation

- We cannot just build on brownfield. Government data shows vacant and derelict brownfield land might be enough for 1 million homes, not enough

for more than a few years. In London, the figure showed enough space for just 30,000 homes, yet more than a million extra people are expected to move to the city in the coming decades.

- In addition, while some commercial and retail space could be converted into housing, as shown our commercial space is internationally expensive and we need more development suitable for modern needs in terms of both office and retail space.
- Our brownfield obsession is like our focus on the 1% of property that is long-term vacant and 1% of second homes. It avoids what we need – which is some greenfield development – done in an effective way that builds attractive homes.
- On greenfield sites, if less than half of people in the immediate vicinity of development object (numerically or in terms of floor space) planning permission should automatically be granted once statutory compensation (see below) is paid unless very exceptional circumstances apply.
- ‘Immediate vicinity’ should be judged by the same two points of immediate impact and proximity, though proximity should be wider in greenfield sites (e.g. 100 metres) as the effect of losing green space is significant.
- The rules around ‘immediate vicinity’ would be policed by planners or representatives of the Land Chamber (previously the Land Tribunal).
- This system recycles high land values into better development as local people can throw out poor quality schemes but accept good quality schemes. Design will no longer lose out to high land prices.
- We all know what good quality design looks like and where development improves an area. What we need is a system that gets those with a direct interest to police this.

Fair compensation; abolish Section 106 and CIL to create greenfield statutory compensation

- Council-level incentives don’t work. Section 106 should be abolished. It gives rewards for development to councils when the cost is borne by local people, pitting them against each other. With a reduced local authority plan led system Section 106 is not needed.
- Policy Exchange will soon publish work on how to build more social housing without increasing spending, on top of those created by a new Right to Buy.
- As noted earlier, there is clear evidence that being near green space raises property values. For greenfield development there should be compensation from the rise in land values (often hundreds of thousands or millions of pounds). With Section 106 gone then this can be recycled into a statutory compensation scheme for greenfield development.
- A statutory compensation scheme would be better than CIL. Those in close proximity to development and significantly visually affected should receive 10% of the value of their home. Those being balloted but not in this group should receive 5% of the value of their home. There should be minimum/maximum caps (e.g. £4,000 and £50,000).
- Given the average house costs – £200,000 according to the DCLG – this would mean an average of £20,000 for those significantly visually affected and £10,000 for the remainder in the immediate vicinity.

Realising the Value of the Green Belt

- If we don't allow some development around the edges of our towns and cities, we just increase pressure in the urban areas and more rural areas where we value green space the most. The green belt has been "washed across" many existing developments (including part of Heathrow airport). In many ways, places already near to build up areas are the most appropriate places to build.
- Just a third of the green belt is not either used for intensive farming or already built on. This third contains the most valuable parts of the greenbelt. Areas that are particularly attractive or valuable should be given additional protection and become an Area of Outstanding Natural Beauty or Site of Special Scientific Interest.
- Development would be allowed using the same process for greenfield development elsewhere, with the same requirements for consent and compensation. This would ensure only quality developments were allowed.
- On top of this a "green belt improvement levy" should be created (e.g. £150,000 per hectare developed). This would go to as local an elected level as possible to be used purchasing restrictive covenants or buying land so that people knew that most of the local green belt would be preserved – and made more attractive.
- In this way we can turn the green belt from intensive farmland people cannot access into meadows, woods and country park spaces – fulfilling the original purpose of the green belt of creating attractive green space around our cities.
- We would gain, not lose, if a small part of the least attractive green belt became large, attractive, well planned suburbs like Fulham, Richmond, Clifton, Didsbury etc.
- This system should have safeguards around individual homes and new urban areas would be handled separately as set out above.
- Demand for housing is finite. Construction costs money. A rise from 10% to 12% of England being built on is possible (though this would be a huge increase). However, there is no chance of "concreting over the whole country" as scaremongering suggests.

What benefits would this really bring? Aren't people just fundamentally against development?

- These reforms would allow the long period of moderate land price deflation necessary to increase quality and create stable house prices. This would be a huge boost to the economy and help increase development acceptability.
- At present we run the risk of 'zombie developers' holding back the recovery, using their skills at acquiring the limited land released and then just sitting on it waiting for the market to turn. This will simply prolong the current stagnation.
- We need to accept that a major shake up of development is needed and prepare for this.
- This system can support greater transparency, allow smaller developers to come forward, pushes larger developers to better quality, and ensures developers have to build trusted brands that compete on quality not land acquisition (as at present).
- Under this system (and only in this or a similarly reformed system) can we create short-term planning permissions to minimise land hoarding and speculation, as planning should become much simpler and faster.

- Polls show people are more pro-development than often thought. Most polls show clear majorities in favour of building more homes in their area (in theory). With safeguards this is even higher. One poll found 73% would support new homes if well designed and in keeping with the local area.
- This is not about making all development suburban, but given clear preferences for suburban homes and living to boost our cities we need suburban development. It is about real control and compensation for development – a modern planning system.
- A number of polls have found people two-to-one in favour of building more homes in their area. Reforms that dealt properly with externalities and created a less adversarial system could unlock this in-principle support for development. Simply creating better council consultation processes, which is what current reforms are becoming, will fail.
- This is not just about the South East. The top ten cities in terms of private sector job creation in both absolute and percentage terms between 1998–2008 included Bristol, Newcastle, Preston and Portsmouth. Two of the six most rapidly growing cities are in the South, two in the East of England, and two in Yorkshire. Northern cities are crippled by higher office costs than Southern ones.
- It is about focusing planning on what matters not pointless minutiae as current plans do. In the 1930s it was a boom in construction, housing numbers doubling, which buoyed us in the aftermath of the Great Depression.
- Reform will also boost productivity, reduce sterling, increase productive investment and much more – explored in our upcoming 2011 Autumn Growth Statement report's planning chapter.

The power of planning in job creation: case studies

Preston enjoyed the third fastest rate of private sector job creation of any town in England between 1998 and 2008. Preston achieved this via a planning system more liberal than most of England: the opposite of the restrictive, high density, anti-car policies that planners like.

Preston had been zoned to be part of the Central Lancashire New Town, which was begun but then abandoned. However, the planned new town left behind a positive legacy. Business could make use of a network of roads and sites around the edge of the city and land with planning permission already granted. Preston also benefited from heavy car use with access to the M6 motorway, the M55 to Blackpool and the M65 to Burnley and Blackburn. Getting a few big things right - transport and land availability - enabled the town's success.

Similar effects can be seen in Milton Keynes - a New Town that continues to see growth as a positive. Milton Keynes experienced the second fastest rate of private sector job growth of any city. Favourable geography and ready land availability count for a lot. New Garden Cities and allowing expansion elsewhere could harness these advantages.

These successes are all the more striking in the light of the failure of many of the regional regeneration policies Britain has tried. Preston and Milton Keynes are two different places that show the potential for planning reform to improve growth in Britain.

Chapter 1

The Current Situation

1

Why Cities Matter and the Stagnation in our Cities

Part A: Why Cities Matter

(I) The Social Aspect

The share of England's population living in Metropolitan areas is 18% (West Midlands, Tyne and Wear, Greater Manchester, West Yorkshire, Merseyside, South Yorkshire). Another 13% live in Greater London, a total of 31%.³ The ONS note the share of England's population living in 'major' or 'large' urban local authorities is around half, including smaller urban areas like Nottingham or Brighton and their hinterlands on top of these larger cities. The share of England's population in 'urban' areas is 81% (defined as all areas with population of 10,000+).⁴ Those who live in smaller urban or rural areas enter larger cities for work, leisure or other purposes. Given this level of urbanisation our quality of life will reflect the quality of our cities.

Dynamic, growing places powered the rise of England in the 19th century; when in Victorian Britain cities like Glasgow, Birmingham, Sheffield, Liverpool and Leeds saw their populations grow by a rough factor of ten.⁵ Edinburgh and Bristol reflect Georgian Britain's optimistic viewpoint. The dynamism of our Victorian cities is reflected in their architecture.

The feel of cities is still very much something we note today. For instance, in the rapidly growing countries in East Asia there is a sense of colossal transformation, dynamism and change. There is a feeling that these cities hold the key to a future way of life that is better than what went before. In the USA places that have been built in recent years are green and spacious (and not just for the wealthy, but the average person).

Churchill once said, "We shape our buildings, and after our dwellings shape us". The terrible concrete monstrosities that still blight our cities are an example of how urban living can go wrong. (Less than 1% of people say that their ideal home is a council high rise.)⁶

84% of respondents in a recent survey said that they are very or fairly interested in how the built environment in their area looks. 85% of people said better quality buildings and public spaces improve their quality of life and the quality of the built environment makes a difference to how they feel.⁷

Interestingly 60% of people say that they would like to live in a city suburb, and another 5% in a city centre. Given that most urban areas are towns, and only around 30% live in large metropolitan areas, not fulfilling this is a social failure.⁸

³ ONS Mid-2010 Population Estimates, ONS, available at their website

⁴ Rural and urban areas: comparing lives using rural/urban classifications, ONS, 2010

⁵ The Victorian Economy, F Couzet F and A Forester, 1982

⁶ Architectural Superstars Leave English Cold, MORI, 2002

⁷ Architectural Superstars Leave English Cold, op cit

⁸ Occupier Demand Survey; Research Summer 2007, Savills Research, 2007

Meanwhile, England's land is still largely rural. Of England's total land mass of 132,300 km², 115,700 km², was classified as 'green space' in 2005 (87.5%). 2.5% is water, meaning that just 10% of England is urban.⁹

(II) The Economic Aspect

As well as the backdrop to our lives, cities are the bedrock of economic life. 50% of the global population lives in cities, but cities generate well over 80% of global GDP. The top 600 cities by economic clout contain just 20% of the world's population, but generate around 60% of its GDP.¹⁰ Yet cities are not just where wealth is generated. Cities boost workers' productivity and the bigger the city, the bigger the increase in workers' productivity.

Harvard professor Ed Glaeser found that workers in metropolitan areas with a labour pool of at least 500,000 earned a 34% premium compared with those that lived in non-metropolitan areas, and 10% more than those who were part of a metropolitan area with less than 500,000 workers.¹¹ This premium fell to between 20–30% depending on how you then adjusted for other factors, e.g. it falls to 27.5% if you adjust for education, experience and race, while controlling for job tenure and occupation reduces it to 25.5%.

Another study by Geoffrey West, a mathematical physicist who turned his attention to studying cities, found that GDP in cities tended to be about 15% higher for every doubling in urban population. He found that this was part of a wider increase in economic productivity (e.g. patent registration showed a similar pattern), that rose in a non-linear way as city population rose.¹²

Another recent study by Ciccone and Hall found that half of all differences in inter-state productivity in the USA were down to different employment density; between those states with a scattered workforce and those with a workforce in large metropolitan areas (this is not about density of urban areas themselves).¹³

This pattern also holds when we look at international evidence. French academics found that as employment density in France doubled as urban size grew, earnings rose by a premium of around 5%. Even adjusting for major variables, a premium of 2.7% still existed.¹⁴

It is also important to note that adjusting for the relevant variables may underplay cities' strengths. If cities force workers to become more skilled because of greater competition and because specialised jobs force them to improve their skills, we cannot 'adjust' productivity for skill levels, because if workers were not in cities, they would be less skilled.

An economic study took an overview of the research on how cities raise productivity and stated a doubling of an urban area resulted in a 6% productivity boost for the workforce.¹⁵

We can get a sense of how big these effects are if we look at them in more familiar terms. This last estimate suggests that a worker on the median full time UK wage (£25,948),¹⁶ moving from a town of 50,000 to a city of 1.6 million would see their productivity/wages eventually rise by 33% to £34,724, a rise of £8,776.

⁹ *Land Use Statistics, Generalised Land Use Database 2005*, ONS, available at their website

¹⁰ *Urban World: Mapping the Economic Power of Cities*, McKinsey, March 2011

¹¹ E Glaeser and D Mare, *Cities and Skills*, Hoover Institution Working Paper E-94-11, 1994

¹² L Bettencourt et al, *Growth, innovation, scaling and the pace of life in cities*, The National Academy of the Sciences of the USA, 2007

¹³ *Productivity and the density of economic activity*, A Ciccone, R Hall, 1996

¹⁴ *Estimating agglomeration economies with history, geology and worker effects*, Combes et al, 2008

¹⁵ *A meta-analysis of estimates of urban agglomeration economies*, Regional Science and Urban Economics 39, Melo, P., D. Graham, et al., 2009

¹⁶ *2010 Annual Survey of Hours and Earnings*, ONS, 2010

How population size of a workforce and this workforce's productivity relate (positively)

Population Size	50,000	100,000	200,000	400,000	800,000	1,600,000
Productivity	1	1.05	1.102	1.157	1.215	1.276
Wage (assume initially on median UK wage)	£25,948	£27,245	£28,607	£30,038	£31,539	£33,116

To take the thought experiment further, you might imagine millions of taxpayers all doing the same thing. The effect on Britain's growth rate would be substantial. If in the next two decades the 30 million UK taxpayers¹⁷ moved to an urban area four times as large (e.g. from a town of 50,000 to a town of 200,000, or a town of 200,000 to a city of 800,000), productivity would rise by around 12%, increasing the size of the UK economy, which in 2010 totalled £1.3 trillion¹⁸ by 12%, or around £146 billion, and adding around 0.6% to our annual GDP growth rate. This alone would be enough to abolish the UK deficit.

Cities boost productivity for many reasons

1. **Specialisation** reaches a higher level in urban areas, leading to greater and more focused expertise, and a better range of services for customers.
2. **Proximity** means innovation is more rapidly disseminated, both smaller firm led innovation and industry-wide technological change.
3. **Competition** is greater as cities have more workers, producers and consumers.
4. **Facilitating entrepreneurship**. Entrepreneurs more easily emerge with spin-off concepts from existing firms or networks in a supportive environment (e.g. Silicon Valley).
5. **Economies of scale** are more feasible with larger populations.
6. **Labour pooling** tends to offer both a wide variety of skills to employers, while creating an informal safety net for workers, particularly creative workers.¹⁹

These six points are in no way exhaustive. In fact they overlap and reinforce one another. Greater proximity means firms adapt more quickly to innovation in ways of working and producing, while increased competition accelerates the search for innovation and change.

As well as the many generic advantages of cities, firms benefit from locating near to similar firms, creating groups or 'clusters' of industry. This strong effect had been noted for a long time but little explored until Michael Porter's work in the 1990s, notably his seminal 1990 work, *The Competitive Advantage of Nations*, explored the concept of 'clustering', and why similar firms benefit from being located close to each other. For example, supply chains and support industries locate in clusters, e.g. tyre manufacturers locating near car manufacturers. Idea sharing benefits companies making similar goods or services. Clustering is critical to success, from 20th century West Midlands car makers to 21st century IT in Bangalore.

Particular sectors also locate in specific cities. Demand for highly numerate PhD students is naturally met by locating near a university (e.g. Silicon Valley near

¹⁷ Number of individual income taxpayers by marginal rate, gender and age, 1990–91 to 2011–12, ONS, 2011

¹⁸ Real Time GDP database, ONS, available at their website

¹⁹ Richard Florida's *The Rise of The Creative Class* argues this informal safety net is increasingly important.

Stamford University). The tourist industry is clustered in historic or otherwise attractive cities or areas (e.g. Bath, Edinburgh). High rents dissuade business from clustering, housing costs can dissuade clusters by driving away labour. As the economy changes particular sectors and clusters will grow. For instance Cambridge growing now is more important than ever due to cutting edge research being economically more critical than a few decades ago.

Clusters can emerge for almost accidental reasons, making it hard for politicians or planners to predict their creation. The City of London's post war growth was spurred by its central time zone and shared language with the USA, as well as decisions on regulations and taxation made in the USA under the Kennedy and Johnson Governments. Perhaps one of the most important ways clusters thrive is through being allowed to grow as they need to.

The term city or urban area in this body of research is generally used to mean the overall urban economy, not political or administrative boundaries. Glaeser uses the USA's "Metropolitan Statistical Areas" or "Primary Metropolitan Statistical Areas".²⁰ These "have at least one urbanized area of 50,000 or more population, plus adjacent territory that has a high degree of social and economic

integration with the core as measured by commuting ties."²¹ EU data focuses on similarly defined Larger Urban Zones, while the UK has 'Travel To Work Areas' (TTWAs). The TTWA's use 'self-contained' economic areas, defined as units where a minimum of 66% and 75% of residents work within the boundaries of that area,

with the lower threshold for smaller populations.²² Commuting workers boost a city as much as those living centrally, while data shows urban areas located closer together see their workers' productivity increase. Places like the Ruhr are in effect one economic unit.

Political boundaries often can hurt cities. Most planning, for example, is done on a local authority basis, but economic success in cities is reliant on a wider economic base projecting into the local authorities around it. Public policy must not focus on arbitrary political limits. A semi-rural area next to a city may resist development strongly, to the detriment of the entire population of the existing city.

Part B: England's Cities are Stagnating

Our urban population decline post-WWII was not inevitable

Since WWII our major cities have largely been in decline. Between 1951 and 1991 the share of the UK population in the metropolitan areas of Great Britain declined, dropping from 40% in 1951 to 32% in 1991, or by about 20%, falling only slightly since.²³ Meanwhile, the USA saw its share of their population in metropolitan areas rise almost 40% between 1950 and 1990.²⁴ While these figures are not directly comparable, as 'metropolitan' is defined differently in the two countries, the trend is clear; our metropolitan areas declined 20% while the USA's rose by nearly 40%. Declining population in the UK was due to policy failures.

“Clusters can emerge for almost accidental reasons, making it hard for politicians or planners to predict their creation”

²⁰ F Glaeser and D Mare, *Cities and Skills*, op cit

²¹ *Update of Statistical Area Definitions and Guidance on their Uses*, OMB Bulletin No 09-01, Office of Management and Budget, 2008

²² *2001 Travel-To-Work Areas Methodology*, ONS, 2007

²³ *Population of metropolitan counties, 1891, 1911, 1931, 1951, 1971 and 1991: Dataset ST30111*, ONS, available online, and *Mid-2010 Population Estimates*, ONS, available at their website

²⁴ *Urban Growth and Population Redistribution in North America: A Diverse and Unequal Landscape*, Centre for Urban and Community Studies, LS Bourne, 1995, from US census data, and 2009 based on US census data

Share of population in metropolitan areas in Great Britain, 1951, 1971, 1991, 2011

	1951	1971 (% change since 1951)	1991 (% change since 1951)	2010 (% change since 1951)
All seven metropolitan areas	40	36 (-10%)	32 (-20%)	31 (-22.5%)
Metropolitan areas (bar London)	23	22 (-4.5%)	20 (-13%)	18 (-22%)
London	17	14 (-18%)	12 (-29.5%)	13 (-24%)

Share of population in metropolitan areas in the USA census

	1950	1970 (% change since 1951)	1990 (% change since 1951)	2009 (% change since 1951)
All metropolitan areas	56	68 (+21.4%)	77.5 (+38%)	83.8 (+49%)
All metropolitan areas with populations >1 million	30	40 (+33%)	50 (+66%)	55 (+83%)

Internal population movement is continuing away from our cities

Since the start of this century, some urban populations have stabilised, some continue to fall but more slowly, and in London's case, even expand slightly. This stabilisation is related to higher international migration since the mid-90s. Internally population continued to flow from our cities throughout the past two decades. The ONS noted that in the data for the period 1991–2001 “There is a pretty regular association between ‘urbaness’ and net migration rate. The highest rates of net loss are recorded for Inner and Outer London... At the rural end of the scale, the two types of rural district recorded a stronger rate of net gain than the mixed urban/rural districts.”²⁵

The table below shows local authority internal population flows in the early- and mid-2000s.²⁶ In the table, ‘rural 50’ means those districts with less than 50% of their population in large towns, and ‘rural 80’ means those districts that have less than 80% of their population in large towns. ‘Major urban’ areas are the metropolitan districts. As can be seen, the pattern is relatively consistent movement from urban to rural areas. City populations are propped up by increased immigration. Drilling into this data shows this includes London, where rising population is down to international migration. Also people are not going to commuter hinterlands but overwhelmingly rural areas, far outside the economic spheres of our cities.

²⁵ Population movement within the UK; Focus on people and migration, ONS, 2005

²⁶ Internal migration with the UK during the year to June, ONS, available at their website

Internal migration within the UK during the early to mid 2000s

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Major urban	-101.7	-134.2	-144.8	-148.1	-111.1	-97.4	-103.6	-92.1
Large urban	-7.5	-9.0	-11.0	-12.2	-9.1	-6.4	-15.2	-8.3
Other urban	-3.0	-3.7	-2.1	-4.7	-2.6	-6.4	-9.7	-2.5
Significant rural	20.8	31.1	31.8	30.2	24.2	22.0	22.2	19.3
Rural 50	38.5	47.2	50.5	52.6	38.4	35.8	44.6	32.8
Rural 80	41.6	52.5	53.4	53.3	38.0	35.9	44.3	32.8

The ‘urban renaissance’ is weaker than thought and relied on demographic change that is now ending

This data suggests that the impression of ‘urban renaissance’ is false, or at least rather misleading. Should immigration fall, the UK’s urban centres will resume their decline. The term ‘urban renaissance’ only really means that city centres largely tend to be more pleasant and economically viable than they used to be.

Even this inner city renaissance is due to two and a half decades of favourable demographic shifts. Urban areas have benefited from a shift to a consumption orientated and service based economy and a large growth in the number of younger, leisure orientated households focused on consumption, not having families. Since 1985, the UK economy as a whole has grown by 76%.²⁷ In that same period, student numbers have nearly tripled from 937,000 in 1985/6 to 2.5 million in 2006/7.²⁸ Delayed marriage and family formation has created rising numbers of young households living outside traditional family homes. The average age of first marriage rose from 23.1 in 1981 to 29.9 in 2008 for women and from 25.4 in 1981 to 32.1 in 2008 for men,²⁹ and now 75% of those aged between 16–29 don’t live with a partner.³⁰

A recent study on inner city living highlights these trends; “most city centre residents are young and single, without children. A lot of them are students, some are professionals.”³¹

Recent immigration and demographic trends have offset the general decline of our cities in recent years. But family formation can only be delayed so far; student numbers are likely to stabilise: half of students already enter higher education and tuition fees are rising. The current government is also committed to lower immigration. Trends that supported our cities in recent years will reverse.

Housing imbalances hurt low skill workers the most

The refusal to allow urban change is viewed by some as a positive. The logic goes: if people cannot move to Surrey, they will stay in South Shields. Ever higher housing costs in the South will force jobs or employers to go to the North, ‘rebalancing’ our economy. But this is false. Higher housing costs do not prevent more skilled or richer households flowing to a booming region. It merely prevents low skilled workers moving to the region, worsening inequality rather than reducing it.

What does this mean? Firstly, excluding London, the most skilled workers are moving out of our cities fastest. Below is a table showing the in/out internal

27 Real Time GDP database, op cit

28 Review of higher education finance & pay data, Joint Negotiating Committee for Higher Education Staff, 2008

29 Marriages in England and Wales 2009, ONS, 2011

30 Chapter 2; Household and Families, Social Trends 40; 2010 Edition, 2010

31 City people; city centre living in the UK, Centre for Cities, 2005

migration ratio for workers with different skill levels for the 1991–2001 period for the 26 largest urban areas in the UK excluding London. The ratio is below one in all groups, so for each UK resident moving out of urban areas, less than one person moved back in. However, for every higher managerial or professional person moving out, 0.8 moved in, while for every low skill worker moving out, 0.91 moved in. A sorting effect is occurring.

In/Out migration ratio (individuals moving in for each individual moving out) for 26 major UK urban areas, in each skill group³²

Higher Managerial and Professional	Lower Managerial and Professional	Intermediate skill	Low skill
0.80	0.80	0.84	0.91

This makes perfect sense – high skill workers have the greatest mobility. If most people want to leave our cities, those most able to act on this will be high skill workers, and those least able to act on it are low skill workers. People want to move to rural areas but only some can afford to do so, trapping a shrinking pool in cities with fewer high earners.

London is a different case. While London is not immune to internal migration from it, it receives such high levels of international immigration London's house prices rise. These high house prices act as a filter, meaning that only high skill UK workers can afford to enter. As London's house price gap with the rest of the UK grew, London's share of the graduate population rose from 20 to 22% over 1995–2008.³³ More graduates went to London as they believed higher earnings would cancel higher housing costs. Less skilled workers could not move to London, because they simply could not afford housing, particularly family homes.

1991–2001 census data shows this sorting effect. During this period, for every individual in the Higher Managerial & Professional group who moved out of London, 1.33 similarly skilled individuals moved into London. For each low skill individual who moved out of London then 0.71 similarly (low skilled) individuals moved into London. London's workforce was segregated more, not less, by high housing costs.

In/out migration ratio across skill groups for London³⁴

Higher Managerial and Professional	Lower Managerial and Professional	Intermediate skill	Low skill
1.33	1.21	0.99	0.71

This is all because of, not despite, rising house prices in London. The average detached house price in London is £600,000.³⁵ By contrast, the average detached home in the UK was £357,000, a gap of £243,000. This grew by a factor of six from just £37,000 in 1992. What is happening is high housing costs block low

32 *Migration and socioeconomic change; a 2001 census analysis of Britain's larger cities*, op cit

33 *Growing by Degrees; High Skill Workers in Liverpool*, Centre for Cities, 2009

34 *Migration and socioeconomic change*, Joseph Rowntree Foundation, 2007

35 *Table 511 Housing market: simple average house prices*, DCLG, available at their website]

skill workers moving to London, while allowing high skill workers to continue to migrate there.

This leads us to two policy conclusions:

- Allowing too little housing to be built in areas simply exacerbates inequality as it disproportionately affects different skill groups – what is likely is that low skill UK workers are simply pushed out of the area.
- If we want to stem the flow to rural areas and/or help our cities then we need to make them more attractive to high skill workers who are currently leaving our cities.

Part C: The Wider Cost of Failure

The wider cost to Government

Our failure to allow city expansion has had a negative impact across our economy and society. In particular, the refusal to allow cities to expand has created high housing and commercial costs that damage government, society and the economy.

There was a bubble in the UK's housing market created by speculation on top of an endemic problem of undersupply. This bubble's existence is indicated by continuing ongoing difficulties in the credit market, and the fact that by 2009 25% of the UK mortgage market was supported by the Bank of England.³⁶ The bubble was created by a failed planning system that didn't allow adequate building (unlike Spain and Ireland, where booming economies were inflated by the Eurozone's low interest rates designed for France and Germany).

Incidentally, the fact there was a house price bubble that has not fully unwound means Government should be wary of affordable housing schemes, first time buyer schemes, shared equity etc. These mostly try to reflate prices and ignore the heart of the problem: the planning system. They tend to be pushed by those with a vested interest in high house or land prices.

House prices are a mix of demand and supply, with supply the predominant long-term determinant. The UK saw a lower rise in mortgage debt than many countries,³⁷ but between 1995 and 2006 the UK saw the second highest real terms growth in house prices after Ireland.³⁸ No one would argue that cars are too expensive because you obtain a loan to pay for them – because supply expands as prices rise. No one wants a large mortgage.

In the USA, where a single interest rate prevailed, the Harvard professor Ed Glaeser has done work on how planning regulations increase house prices in many areas. In *Rethinking Federal Housing Policy* he demonstrates a strong influence of planning on prices, with a 0.6 correlation between an index of planning constraints and house prices.³⁹ In cities with strong economies and high planning constraints house prices rose, whereas in cities with strong economies and low planning constraints more homes were built.

Glaeser's work also showed that the housing bubble was worst in areas that had greater restrictions. Areas that were less restricted saw prices rise 34% while rising 81% in the more constrained areas between 1996 and 2006. Increased planning constraint meant that demand fed into high land values, not extra homes.

³⁶ CML research paper: *the outlook for mortgage funding markets in the UK 2010–2015*, CML, 2010

³⁷ *The World Economic Outlook, Housing and the Business Cycle*, IMF, 2008

³⁸ K-H Kim & B Renaud, *The Global House Price Boom and its Unwinding*, Housing Studies, Volume 24 (pp7–24), 2009

³⁹ *Rethinking Federal Housing Policy*, E Glaeser, 2008

It was this correlation Paul Krugman noted in his 2005 famous article predicting that house price rises were unsustainable and a mixture of planning induced bubble and speculation.⁴⁰ The only areas where lots of homes were built but land prices rose were in states like Nevada or Arizona where the Federal Government owns a great deal of land and rationed the release of this centrally, creating a speculative bubble based on the assumption Government would be too slow in releasing land. (Over 80% of Nevada is owned by the Federal Government.)⁴¹ Areas with limited planning restrictions and normal land markets saw a smaller bubble. By failing to allow the expansion of our cities we are storing up wider costs to Government and laying the ground for the next housing bubble and a disaster for the Government in future.

In addition, there are huge direct costs due to housing undersupply. Firstly, there is the cost of housing benefit. This is now predicted to hit £22.5 billion by 2015/6.⁴² This is after including the housing benefit changes that have generated so much controversy and which will save around £1.7 billion a year, a fraction of the total.⁴³

As well as housing benefit but there is increasing pressure on the government to try to increase the supply of affordable and/or social housing. Households with incomes of up to £60,000 are encouraged to apply for government subsidised 'affordable housing' schemes.⁴⁴ Council waiting lists in 2010 stood at 1.75 million, one in 12 households, and would likely be more except many now despair of being housed, so long is the wait.⁴⁵

With the traditional cost of building a new social home at around £60,000 for social rent, reducing this by building is unaffordable.⁴⁶ While affordable rent has cut the cost of new social homes, it did so by allowing housing associations to borrow against higher rents in future – rents that, even before the recession, came in two out of three cases direct from the housing benefit budget.⁴⁷ Such Government 'savings' are largely redistributing budgets.

As *Making Housing Affordable* showed, the solution must be to make housing overall more affordable. Waiting lists fell 1979–1997 because much more stable housing costs reduced demand for social homes and encouraged tenants to exit the sector.

The wider cost to society

The very high cost of housing in the UK means for many family life is simply impossible. Home-ownership fell for the first time in the 2000s in over 80 years.⁴⁸ The median house cost seven times the median salary in England in 2010.⁴⁹ House prices (mix-adjusted) tripled between 1995 and 2010, from £66,786 to £208,757.⁵⁰

Average private rents have also shot up. Just before the millennium they were just £403 a month.⁵¹ By August 2011 they were £705 a month, rising by 80% in just over ten years, and hitting over £1,000 a month in London, and still rising at over 4% a year.⁵² This rise is what drove housing benefit bills. Rents are still rising even as house prices stagnate and are likely to do so even if prices fall, as house prices have outstripped rents in recent years. With such housing costs it is nearly impossible for those on low to moderate incomes to afford a family.

In terms of social inequality and social mobility, housing is redistributing and concentrating wealth. In 2010 the Government Equalities Office found

40 *That Hissing Sound*, New York Times, August 8th 2005

41 *Federal Real Property Profile*, US General Services Administration, 2004

42 *Housing Benefit, Benefit Expenditure Tables, Medium Term Forecast*, DWP, available at their website

43 *Impact of changes to Local Housing Allowance*, DWP, available at their website

44 See the Government's Homebuy website at www.homebuy.co.uk

45 *Table 600 Rents, lettings and tenancies; numbers of households on local authority waiting lists*, DCLG, available at their website

46 *House of Commons Written Answers*, 20th April 2007, Column 793, Hansard

47 *Table 718 Rents, lettings and tenancies: household units receiving housing benefit*, DCLG, available at their website

48 *Table 801 Household characteristics, tenure trend, from 1918*, DCLG, available on their website

49 *Table 577 Housing market: ratio of median house price to median earnings by district*, DCLG, available at their website

50 *Table 502 Housing market: house prices from 1930, annual house price inflation, United Kingdom, from 1970*, DCLG, available at their website

51 *Table 734 Rents lettings and tenancies, mean private rents by region*, DCLG, available at their website

52 *LSL buy-to-let index*, LSL property services, 19th August 2011, available at their website

that “inequality in housing wealth represent one of the starkest inequalities in Britain”.⁵³ Social mobility is being affected.

The wider cost to our economy

Top six fastest growing cities in the UK 1999–2009

Milton Keynes	Norwich
York	Cambridge
Swindon	Leeds

Our urban stagnation hits our economy. Successful cities are held back by an inflexible planning system. The top six cities in terms of population growth between 1999 and 2009 are shown in the box alongside.⁵⁴ The range was 13.6% and 8.5%. As a comparison, the top five major cities in the USA grew by 36–47%

in the last ten years, much faster.⁵⁵

Allowing urban growth would help rebalance the UK. With York, Leeds, Cambridge and Norwich, two of the top six fastest growing cities are in Yorkshire, two in East Anglia, and two in the South East.

This isn’t just about specific cities flourishing but about future growth industries and clusters. The Government created Enterprise Zones. But this is much less effective than simply allowing natural growth. There are legitimate regional policies but restricting success is counterproductive. If you can’t build what you need where you need it, then no amount of warm words from politicians will encourage you to invest in the UK. Cities like Oxford and Cambridge – which could be the hubs of the future – are being held back.

Our planning system also fails to provide competitive employment space in almost all of our cities. The LSE found recently that:

“Office space in London is not just more expensive than anywhere else in the world; it is some three times as expensive as the next most expensive city in Europe, Paris, and more than three times as expensive as in Manhattan. Even more telling, perhaps, are the costs of office space in British provincial cities. Birmingham was the next most expensive European city after Paris, and Glasgow, Edinburgh and Manchester were all more expensive than Manhattan; office space cost twice as much in any of those smaller and not very prosperous British cities as it did in San Francisco.”⁵⁶

Commercial research shows we have six of the top 50 most expensive cities in the world.⁵⁷ Most other countries only have one or two. Our office space and retail space is often unsuitable for modern needs, e.g. rewiring offices or better climate controls are hampered by issues around listed buildings, employment space is in the wrong place, or shops cannot use modern delivery methods, as discussed in the Policy Exchange report, *More Homes: Fewer Empty Buildings*.⁵⁸

“Commercial research shows we have six of the top fifty most expensive cities in the World. Most other countries only have one or two”

⁵³ *An anatomy of economic inequality in the UK*, Government Equalities Office, 2010

⁵⁴ *Cities Outlook 2011*, Centre for Cities, 2011

⁵⁵ Table 21 *The 50 Largest Metropolitan Statistical Areas in 2009 – components of population change: 2000 to 2009*, US Census Bureau, available at their website

⁵⁶ *Office space supply restrictions in Britain; the political economy of market revenge*, P Cheshire and C Hilber, 2008

⁵⁷ *Global Office Real Estate Review*, Colliers International, 2010

⁵⁸ *Terminal Illness or Gradual Decline: A Review of GB Shop Vacancy in 2010*, Local Data Company, 2011

The cost of office space in selected parts of the UK⁵⁹

Location	Office Suit over 1000m ² (£/m ²)
The City (London)	460
Birmingham	280
Leeds	250
Manchester	250
Newcastle	230
Cambridge	230
Oxford	225
Liverpool	200
Reading	200
Enfield	150

Changing the planning system is not just about allowing the South of England to grow and flourish. A particularly negative effect of our planning system has been to stifle regeneration in northern cities. Cheap, high quality, office space encourages businesses to relocate. But as the table shows, office space in the North and Midlands (outside of central London) is more expensive than office space in the South. Leeds and Manchester have higher office space costs than Cambridge, Oxford, Reading and Enfield, Newcastle costs as much as Cambridge, Enfield is cheaper than Liverpool, Liverpool is as cheap as Reading. This hits competitiveness.

These are all just the direct effects of our failing planning system. By creating high prices the rigid planning system has wider macroeconomic consequences:

- Competition is reduced due to higher barriers to entry and exit caused by planning.
- We have higher emigration and lower in-migration of skilled workers due to high housing costs.
- Domestic investment is distorted toward property speculation, rather than productive investment.

To take just one of these (the third point) in some more detail, then in early 2008, for instance, lending to individuals for mortgages ran at over £20 billion a month versus around £10 billion to companies, with much company borrowing going to commercial development.⁶⁰ Figures released in October by the British Banking Association show that in the past six months, average net mortgage lending rose by £0.8 billion a month, but lending to non-financial business fell by £1.6 billion a month.⁶¹

These points and the data behind them are set out in the planning chapter in our upcoming Autumn Growth Statement report and 2007 report, *The Best Laid Plans: How planning prevents economic growth*.

⁵⁹ *Property Market Report 2011*, Valuation Office Agency, 2011

⁶⁰ *Trends in Lending, April 2009*, Bank of England, 2009 also see BoE inflation reports from mid-2000s

⁶¹ *High Street Banking, September 2011*, British Banking Association, 2011

Part D: The Challenge from Asia's Cities

Our urban stagnation contrasts with Asian cities dynamism. Asia's rise is the economic challenge of our lifetime. China is now the world's second largest economy,⁶² and its rapid growth, rising incomes and strong economy are driven by urbanisation. According to McKinsey, "urbanisation and China's robust economic growth have gone hand in hand... cities have been the major drivers of China's GDP growth over the past few years".⁶³ The urban 45% of the Chinese population produce 75% of its GDP, while the rural 55% produce 25% of its GDP.⁶⁴ Urban Chinese workers are three times as productive as rural ones.

Yet China's urbanisation is only half complete. By 2030, it is estimated that China's urban population will have reached 1 billion, a substantial majority of China's population, pushing the proportion of China's GDP generated by cities from 75% to 95% in 2025.⁶⁵ Places like Shanghai are growing a rate that defies belief. Between 1990 and 2007 Beijing's population grew from over 10 million to over 16 million, and Shanghai's from 13 million to over 18 million.

Six more Chinese megacities (with populations of over 10 million) are predicted in the next 20 years with Beijing and Shanghai's populations expected to climb to over 20 million. Below these megacities are a further 23 Chinese cities expected to have a resident population of more than 5 million and another 221 cities with more than 1 million by 2025.⁶⁶ By contrast, only London (as an economic entity) has more than 10 million in Western Europe, and the UK has no other areas with more than 5 million and just 11 urban areas with more than 1 million residents.⁶⁷



⁶² *World Economic Outlook countries database 2011*, International Monetary Fund, available at their website

⁶³ *Preparing for China's urban billion*, McKinsey Global Institute, March 2009

⁶⁴ *Preparing for China's urban billion*, *ibid*

⁶⁵ *Preparing for China's urban billion*, *ibid*

⁶⁶ *Preparing for China's urban billion*, *op cit*

⁶⁷ *Total resident population; Urban Audit Data, 2004*, Eurostat, available online at their website

These Chinese cities are aiming to compete globally across the board. China has the third highest patent rate globally,⁶⁸ and is second in published articles in international scientific magazines.⁶⁹ Shenzhen has one of China's 55 new science parks and 50% of the city's industrial output is from high-tech industries.⁷⁰ Shanghai was ranked as the world's fifth most important global financial centre.⁷¹ Chengdu is where Intel makes many of the world's computer chips and is focusing on bringing manufacturing and high skilled research together.⁷²

And China is only part of the picture. The Asian Development Bank estimates that the urban population of Asia will grow by 1.1 billion in the next 20 years.⁷³ Such urbanisation will push up worker productivity, driving these cities forward. Of the top 600 cities in the world by GDP, 136 new developing country cities are predicted to enter the list by 2025 and roughly a third of the 380 developed city regions will exit.⁷⁴ India alone is predicted to see its urban population rise to 590 million by 2030 up from 340 million in 2008, with 68 cities with resident population of over 1 million, 13 cities with over 4 million residents and six megacities with populations over 10 million. Urban India will create 70% of all new jobs in the country and India's cities are on course to produce 70% of India's GDP by 2030.⁷⁵

The competitive threat to the UK from these cities is huge, particularly given the UK's much higher wage levels, and success breeds success. Asia's economic success is why three quarters of banking and hedge fund staff expect the job creation in their area to be in Asian finance centres like Singapore or Shanghai.⁷⁶ Bangalore, the IT hub of Indian outsourcing feeds its own success. We face a huge shift – and the UK's planning system and steady urban decline is a colossal handicap in a changing world.

Expanding urban areas; Hong Kong and Singapore, South Korea and UAE

High income countries that are not stagnating have a positive view of development and growth. For instance Singapore has consistently increased its land mass through reclamation. It is keen to expand its already substantial financial sector. To this end it has announced Marina Bay a 360-hectare project to extend the downtown district.⁷⁷ Whilst the development includes residential, retail, hotel and recreational space, the focus is on new commercial opportunities exemplified by the construction of One Raffles Quay.⁷⁸ Taken altogether, the Marina Bay development will be double the size of London's Canary Wharf.⁷⁹

Hong Kong, again a rich high growth economy has built nine new towns housing around 3.3 million people since the 1970s. The MTR East Rail Line and a road network connect the new developments. Plans for developing more three more towns in the New Territory exist.⁸⁰

As in the UK, in many high income countries the capital, a magnet for economic activity, is under strain. South Korea's response is the development of a distinct city integrated into Seoul's metropolitan area – New Songdo City.⁸¹ Built on 1500 acres of reclaimed land, New Songdo City will have a subway connection to Seoul and subway links throughout. Bus, road and rail links as well as linkages to the existing Incheon subway system and the Seoul Metropolitan Rapid Transit (SMRT) will tie Songdo into Seoul's transport system and ensure a single economic unit is created.

The UAE is building Masdar, a planned new town beside Abu Dhabi International Airport. Its purpose is to be a research cluster in green technologies.

68 *Patented in China*, Thomson Reuters, 2008

69 *Knowledge, networks and nations, Global scientific collaboration in the 21st Century*, the Royal Society, 2011

70 *Preparing for China's Urban Billion*, op cit

71 *The Global Financial Centres Index 9*, Z/Yen Group, March 2011

72 *Preparing for China's urban billion*, op cit

73 *Urban Development*, Asian Development Bank, available on their website at <http://www.adb.org/urbandev>

74 *Urban World, Mapping the economic power of cities*, McKinsey Global Institute, 2011

75 *India's urban awakening: Building inclusive cities, sustaining economic growth*, McKinsey Global Institute 2010

76 *Banking set of Asian jobs boom*, City AM, Monday 23rd May 2011

77 *Marina Bay Singapore*, Urban Redevelopment Authority, Singapore, see website at <http://www.marina-bay.sg/vision.html>

78 *Marina Bay Singapore*, Singapore Urban Redevelopment Authority, ibid

79 Speech by Ms Grace Fu, Singapore's Minister-of-State for National Development, 18th March 2008, text available at <http://www.ur.gov.sg/pr/text/2008/pr08-27a.html>

80 *Provision of Land and Infrastructure*, Civil Engineering and Development Department, 2011

81 For details on the New Songdo City project see the official website at <http://www.songdo.com/>

Masdar covers 6 square kilometres and is designed to initially accommodate 40,000–50,000 people and 1,500 businesses, with 60,000 people being expected to commute to the city.⁸² The city is fully integrated to the Abu Dhabi transport networks and is linked to the airport and the capital by road and rail. Again the goal is to link it as part of a single economic unit to the capital.

We need to change our attitudes

England should not look like Singapore, Shanghai, Abu Dhabi, or the US suburbs. But these places do realise that cities cannot stand still, and if they do, this is a negative, not a positive. We need to focus on how we get the attractive homes and the necessary employment spaces in expanding cities if we are to maintain quality of life and rising living standards.

82 For details on the Masdar City project see the official website at <http://www.masdar.ac.ae>

2

Where have we gone wrong?

Part A: Our planning system is seriously dysfunctional

Our dysfunctional planning system controls our cities and leads to two linked problems:.

1. We do not build enough.
2. We do not build to a high enough quality.

There are many reasons why our planning system is failing, related to the key point that the planning system tries to do too much and in so doing, fails to deliver on its key objective, correcting market failure. Some key elements of this failure are that:

- Planning cannot incorporate price and ration land by central planning mechanisms (e.g. using household projections)
- Local planners interfere even where no market failure exists
- Much planning aims to stop (popular) suburbs
- We ignore development externalities around quality and public services
- Council-level incentives don't work
- Guidance cannot create good design and high land prices squeeze out quality design
- Green belts are not that 'green' and stifle cities
- We don't allow new urban areas to be built
- Planners assess business needs rather than business directing growth
- House builders' model is broken and relies on ever growing credit
- We ignore the political dimension of planning

Unfortunately, many of the factors above interrelate and strengthen each other, creating a cycle of ever-deteriorating quality and quantity of development. This section explains these failings.

Local authority planning is the heart of our planning system

For 64 years local authority planning has been the heart of our system. The 1947 *Town and Country Planning Act* changed planning in this country dramatically, setting up a system of local authority plans that remains in place to this day.

The 1947 Act was about state control over private property. We went from a system where you had the right to do what you wanted with property (with

limited exceptions), to a system where you could only do what was allowed by Government (with limited exceptions). The Act also required local authorities to create local plans to control and guide development. As part of this, some environmental goals were given to councils, but this was a minor issue at the time. The view the 1947 Act and planning is about ‘protecting’ the countryside is false.

The role of these local plans grew over time even as central planning was rolled back elsewhere. The Conservative Government’s 1990 *Town and Country Planning Act*, and Labour’s 2004 *Planning and Compulsory Purchase Act* further enshrined the importance of ‘the plan’ in Section 55 of the 1990 Act, now replaced

by Section 38 of the 2004 Act, which states “If regard is to be had to the development plan for the purpose of any determination to be made under the planning Acts the determination must be made in accordance with the plan unless material considerations indicate otherwise.”⁸³ Planning permission is thus related to ‘the local plan’. In effect, the

land market is governed by command economics and ideas that have been long since abandoned elsewhere.

Plans tend to be both out of date and very comprehensive; indeed, the reason they are usually out of date is that changing all encompassing plans takes a very long time indeed. However, the plan-led system does not stop (at present) just because plans are out of date. Local authorities ‘save’ policies or components of out of date plans, rolling them over while they compile new ones. Barnet for example has 183 such ‘saved’ policies,⁸⁴ ranging from minicab offices, controls on lorries, special needs housing, housing density, road hierarchies, shop fronts, designing in art, synthetic sports pitches and dozens more. The current planning system has become incredibly complex and controlling.

“Plans tend to be both out of date and very comprehensive indeed, the reason they are usually out of date is that changing all encompassing plans takes a very long time indeed”

Local planning in action

In the ‘plan-led system’, with all planning decisions related to the plan, the plan must try to set out how all planning decisions might be decided. Local plans are therefore long and complex documents. For example, the Liverpool Unitary Development Plan (UDP) runs to 290 pages with dozens more in additional planning documents, notes and guidance.⁸⁵ The basic Leeds Unitary Development Plan has a staggering 457 pages, not including appendices and further supplementary guidance.⁸⁶ The 2011 London Plan is 319 pages long,⁸⁷ on top of each borough’s own set of planning documents, usually several hundred pages more (e.g. Islington’s ‘core strategy’ plan is 172 pages, with further supplementary guidance).⁸⁸

UDPs are being replaced with Local Development Frameworks (LDFs), as required by the 2004 Planning Act. But after seven years many local authorities do not have replacement LDFs, such are plans’ complexity. Plans and planning guidance are often filled with mind boggling minutiae. Liverpool’s plan is typical. To take one tiny area, car parks and cycling standards – the following paragraph from Supplementary Planning Guidance Note 8 “Car and Cycle Parking Standards”, which itself is merely supplementary to supplementary Policies T12 (Car Parking Provision in New Developments and Policy T6 (Cycling)), is typical:⁸⁹

⁸³ 2004 *Planning and Compulsory Purchase Act*, HMSO, 2004,

⁸⁴ Barnets’ list of saved policies from their unitary development plan is available at <http://www.barnet.gov.uk/direction-from-secretary-of-state-udp.pdf>

⁸⁵ *The City of Liverpool Unitary Development Plan*, Liverpool City Council, 2002. This comes with additional guidance notes on a range of subjects from sheltered housing to shop fronts.

⁸⁶ *Leeds Unitary Development Plan, Review 2006, Volume 1, Written Statement*, Leeds Council, July 2006

⁸⁷ *The London Plan; Spatial development strategy for Greater London*, Mayor of London’s Office, 2011

⁸⁸ *Islington’s Core Strategy*, Islington Council, February 2011

⁸⁹ *Liverpool Unitary Development Plan; Supplementary Planning Guidance Note 8, Cars and Cycle Parking Standards*, Liverpool City Council, 1996

“Car parks which are characterised by wide expanses of tarmac should be avoided. They should be broken up by landscaping features. Therefore, any measures aimed at improving the appearance of tarmac car parks through, for example, differing surface textures and colours, will be encouraged. The additional use of other materials such as cobbles, concrete block paving and setts will assist in providing more varied and attractive surfaces. Where the cost of using such materials is prohibitively high, they can be used to form surface drainage channels or to define individual parking bays.”

This legally binding guidance is ridiculously specific and yet also unclear. For example, what does “differing surface textures and colours” mean in reality? After setting out minimum standards on building (e.g. for commercial premises there must be “1 (cycle) stand per 500 m² for staff and visitors” or “1 stand per unit” if residential flats) it states that:

“The cycle stands should be provided in the style of the “Sheffield” rack which provides for two cycles and enables the whole cycle to be immobilised as both frame and two wheels can be locked to them. Alternatives will be considered but must offer at least the equivalent capacity, robustness and degree of protection for users.”⁹⁰

Such micromanagement fills local plans and explains why the National Audit Office found the average length of time for successful planning applications for major housing decisions from pre-application discussions to construction beginning was 98 weeks.⁹¹

Local Development Frameworks, where complete, are as bad as the UDPs they replace. London’s new plan, for instance, covers everything from permitted numbers of car spaces in different types of development to the levels of employment growth in different sectors and different boroughs, to the importance of reducing air conditioning and building 40,000 new hotel bedrooms by 2031.⁹² Liverpool’s Supplementary Planning Document; New Housing Development, part of the new LDF and a single piece of supplementary planning on housing is 22 pages long.⁹³ Among the things it dictates are:

- where residential development should go;
- how fast residential development should proceed;
- what residential density should be built;
- requires that development should be to a quality standard of design and historic context (judged not by nearby residents/purchasers, but the planners);
- that mixed use developments are preferred;
- that any development needs to be “sustainable development”.

This just shows how local plans entirely control the development industry. And local authority planners do not just control new development but existing buildings as well. For instance, planners control the use of existing buildings under a legal instrument called the Use Classes Order. So a building can only be used for specific purposes, e.g. retail or office use.

Supporters of this system argue that all this planning ensures development is allowed only if it is the right amount of the right type of development in the right areas. But the problem is that what this means is determined by a local authority. And they aren’t very good at this.

90 Liverpool Unitary Development Plan; Supplementary Planning Guidance Note 8, Cars and Cycle Parking Standards, op cit

91 Planning for Homes: Speeding up planning applications for major housing developments in England, National Audit Office, 2008

92 The London Plan; Spatial development strategy for Greater London, op cit

93 Liverpool Local Development Framework; New Housing Development, Liverpool City Council, 2005

Part B: Planning cannot incorporate price and rations land using household projections

The local authority-led planning system cannot take account of the price mechanism. Instead, it attempts to ration land according to what local planners think is needed. Its failure is manifested by a huge variation in prices of land earmarked for different purposes (e.g. agriculture, office, residential). Oxfordshire is a key example. The table below shows how a single hectare of land varies in price simply due to the planning designation of that land.⁹⁴ A gap from £20,000 to £4 million is simply absurd.

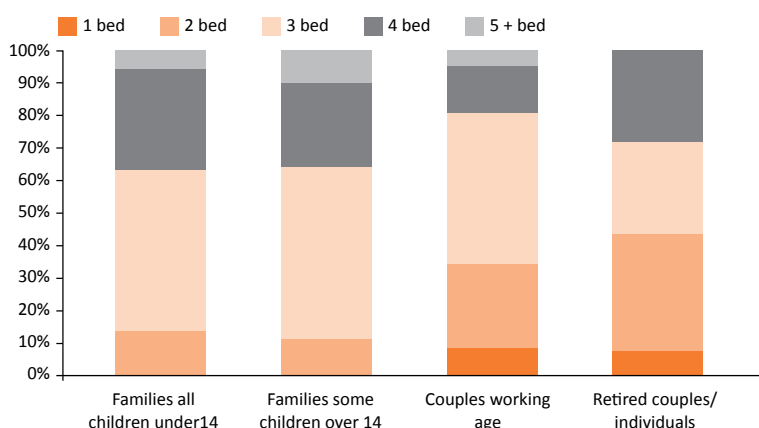
A hectare of land in Oxfordshire/Oxford with different planning permissions

Agriculture	Industrial	Residential
<£20,000	£1 million	£4 million

Local authorities ration residential land based on ‘housing need’, assessed by a household projection model that estimates how many new households and of what size, will be created in the local authority. So for example, the Leeds plan predicts an annual need for 3,100 new homes in 2013/4, rising to 5,650 homes in 2025/6.⁹⁵ It also predicts the need for different size properties (e.g. flats and houses, one, two and three bedroom size properties) over the plan period based on projected household growth.⁹⁶

‘Household projections’ ignore prices, leading to bizarre decisions. For example, the 2011 London plan that argues around 34,000 homes a year are needed over 2011–2021, as “with population set to increase by 1.3 million in the 25 years to 2031, and average household size declining from 2.34 persons/household to 2.19, the number of households in London could rise by 0.9 million. This approximates to 34,000 additional households a year.”⁹⁷ Thus housing need in London, according to planners, relates only to new household formation, despite the fact that prices are so high the average family home, a detached property, is now £600,000,⁹⁸ indicating a huge unmet demand for housing.

Size of home among different groups



⁹⁴ Property Market Report 2011, op cit

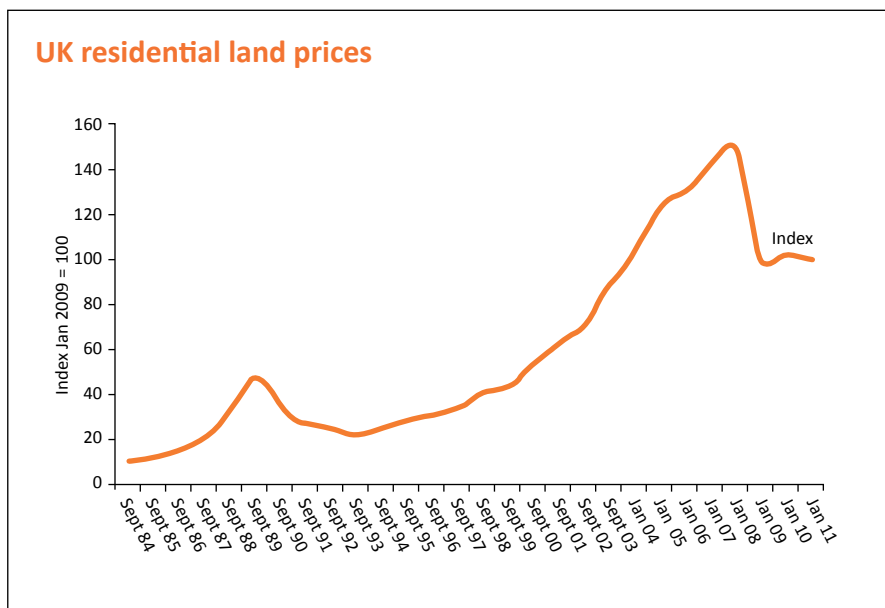
⁹⁵ Leeds Local Development Framework; Core Strategy; preferred approach, op cit

⁹⁶ The Yorkshire and Humber Plan, Regional Spatial Strategy to 2026, Government Office for Yorkshire and Humber, 2006

⁹⁷ The London Plan; Spatial development strategy for Greater London, op cit

⁹⁸ Table 511 Housing market: simple average house prices, DCLG, available at their website

This is why, as we see later, construction in the UK does not relate to prices. ‘Housing need’ has very limited connection to house or land prices or what is actually needed. Housing ‘needs’ completely fail to cope with rising demand for space among existing households (e.g. the fact 47% of owner occupiers have 2+ spare bedrooms), meaning tens of millions of spare bedrooms.⁹⁹ Older people don’t downsize as much as they used to, as the graph shows,¹⁰⁰ with older, non-family households having around 55% to 65% living in houses with 3+ bedrooms. In addition, local authorities often underplay internal migration in booming areas as they are unwilling to increase construction. Prices themselves alter household formation, as higher prices push people into overcrowded accommodation or into living at home as prices rise faster. This means new household formation declines, but due to a housing shortage – not a surplus.



Failing to allocate enough land for housing created an explosion in the cost of land with residential planning permission in recent years, displayed on the graph above.¹⁰¹ As mortgage lending rose and house and land prices rose, more land should have been released, minimising the housing bubble, as noted by Krugman and Glaeser. Instead, land prices rose but no additional land was released for development, creating a speculative housing and land bubble and leading to wider problems.

Residential land prices are still very high. The 2010 January Valuation Office report showed a hectare of land in Manchester for suburban development cost an average of £1.35 million. In Liverpool a hectare of land for suburban development cost £1.5 million. Similarly, in Newcastle, a hectare of land for suburban development cost £1.35 million. In Birmingham it is 1.2 million.¹⁰² With 25–30 homes per hectare land alone costs £40,000–£50,000 per home (and as discussed later there are also burdens created by Government on top of this). By contrast, in the North West, government data shows that in Cheshire, ‘unequipped farmland’ (e.g. farmland without any buildings on it), cost an average of £11,000 per hectare for mixed use farming. In Shropshire a similar hectare costs £15,000.¹⁰³ The gap is phenomenal.

99 English Housing Survey 2008–9, DCLG, 2010

100 Occupier Demand Survey; Research Summer 2007, Savills Research, 2007

101 Property Market Report 2011, Valuation Office Agency, 2011

102 Property Market Report 2011, op cit

103 Property Market Report 2011, op cit

Land prices in northern cities and a surrounding agricultural area¹⁰⁴

Hectare with residential planning permission	Hectare with permission for agricultural use	Difference (percentage rise moving from one to other)
Manchester; £1.35 million	Cheshire £0.011 million	£1.339 million (12,172%)
Liverpool; £1.5 million	Lancashire £0.016 million	£1.484 million (9,275%)
Newcastle; £1.28 million	Northumberland £0.01 million	£1.272 million (12,720%)

The rising cost of commercial space in our cities has been ignored

While commercial land is not as expensive as residential land, this does not make it cheap. As set out in Section 1 it is internationally uncompetitive. As discussed later, this is because planners rather than businesses assess business needs, and they underestimate how much new development is needed. The error is less because ‘new jobs’ tend to be less unpopular than ‘new homes’.

But household projection failure masks deeper problems

This model’s failures have long been apparent. But it is used as it reduces development, which is unpopular – as shown by the fact over 200,000 planned homes were scrapped once Regional Spatial Strategies were abandoned.¹⁰⁵ It is this unpopularity we must reduce.

Part C: Planners interfere where no market failure exists (especially on brownfield)

The first reason cities in particular are harmed by planning is by our excessive restrictions on brownfield development. Brownfield changes should be less controversial and controlled than greenfield, but in our system this is not the case. This is because the planning system doesn’t exist to mitigate specific impacts (say, to correct market failure or provide infrastructure). It instead we assume that all decisions should be ruled by an all encompassing plan that constraints individual freedom. This means the system interferes where no good reason exists other than changes are not part of an overall vision.

For example, the Use Classes system means building cannot change purposes even if there is both no demand for its existing purpose (e.g. because it is unsuitable for its current role), nor any objection from local residents. Clearly, there is a case for a Use Classes system. We don’t want a house to suddenly become a night club or bar. But the principle should be that Use Classes should exist for a limited number of specific cases not as standard. Planners are too slow in allowing change, simply creating dereliction or inefficient use of brownfield land.

Another case is the 1995 Town and Country Planning (General Permitted Development) Order that lists where planning permission is not required. This is very restrictive. A council can refuse an extension to a property that exceeds 10% of the cubic space of a terraced house, or a loft extension where part of it juts forward, or an office building that slightly grew in height, even if no one who is bordering the property or affected by the change complains.¹⁰⁶

¹⁰⁴ Property Market Report 2011, op cit

¹⁰⁵ Abolition of Regional Spatial Strategies; A Planning Vacuum, Second Report of Session 2010–11, House of Commons, Communities and Local Government Committee, February 2011

¹⁰⁶ Schedule 2 of the updated 1995 Town and Country Planning (General Permitted Development) Order

Local plans are not the only problem. Excessive planning bureaucracy on brownfield takes many forms. The Planning (Listed Buildings and Conservation Areas) Act 1990 makes planning permission required for almost any change, either internal or external, for listed buildings. There is clearly a legitimate case for preserving a sufficient stock of historic buildings. Yet just 6% of our listed buildings are in the top two categories (Grade I or Grade II*), with 94% being in Grade II.¹⁰⁷ Almost any pre-20th century building is listed as Grade II if this is requested. Together this means planning permission is needed for any alteration to most pre-20th century buildings (e.g. changing internal walls, putting in air conditioning and so on). Listing should be about preserving key buildings, not the internal dimensions or poor heating conditions of almost any building built over a century ago.

“Not only does planning create extra costs, it often fails to achieve its own goals”

Not only does planning create extra costs, it often fails to achieve its own goals. For instance rules around listed buildings can make them uneconomical to maintain (one Liverpool plan noted that 12% of listed buildings in the city were in ‘severe disrepair’).¹⁰⁸

Anti-growth organisations often argue they want brownfield development, yet support a system that loads many additional bureaucratic costs to it. We should be stripping such brownfield bureaucracy away.

Part D: Much planning aims to stop (popular) suburbs

Planners dislike suburbs

On top of brownfield bureaucracy, urban planners oppose the most popular development; suburban housing. Take the government-commissioned Rogers Report, from 1999, “Towards an Urban Renaissance”.¹⁰⁹ This reinforced a shift already occurring within the planning system, which saw the main goal for planners become the prevention of ‘suburban sprawl’. Planning documents before and since have largely followed Rogers’ ‘anti-suburban’ prescription:

- Minimise car use.
- Build high density living with minimal private green space.
- Build flats rather than individual homes.

This was more vigorously enforced in rural areas than urban ones. Limited rural public transport access meant anti-car attitudes could only go so far. Because rural areas consist almost exclusively of houses not flats, it was more difficult to increase the proportion of flats in rural developments (though it was tried). There was also the belief that if no suburban homes were built then people would be forced to move into inner city areas. The Liverpool plan notes that “Strategic guidance for Merseyside emphasises the importance of the UDP in providing the framework for economic regeneration and the renewal of the urban core of Merseyside”.¹¹⁰ The fact people could just move to rural areas was ignored.

The share of flats in the housing mix soared across the UK, particularly in urban areas. By 2005/6, around 47% of all new homes were one or two bed flats, up from 18% in 2000/1.¹¹¹ In and around cities it was even higher. For instance in

107 Guidance notes for: Application for Listed Building Consent for Alterations, Extension or Demolition of a Listed Building, Planning Portal – Application Type Guidance V3.2

108 The City of Liverpool Unitary Development Plan, Liverpool City Council, 2002

109 Towards an Urban Renaissance; Final Report of the Urban Task Force, Department for Environment, Transport and the Regions, 1999

110 The City of Liverpool Unitary Development Plan, op cit

111 Recent developments in the UK Housing Market, ONS, August 2009

Leeds by 2005/6 just 23% of new homes were three or four bed houses, with 62% being one or two bed flats.¹¹²

This trend toward smaller homes is a long-term one, with the proportion of new homes that were bungalows falling from 25% to just over 10% between 1969–1985 as the proportion of flats and maisonettes trebled.¹¹³ Yet in recent years this rising trend towards higher density accelerated, rising from 25 homes a hectare in 2001¹¹⁴ to 44 homes per hectare by 2008,¹¹⁵ as we built more flats, crammed houses closer together and shrunk gardens. In London and the South East councils were told central government might intervene to halt developments with densities of less than 30 dwellings a hectare.¹¹⁶

Reduced car provision was a key part of local plans. Greater Manchester's Local Transport Plan is a prime example. The plan's ten aims have just two involving cars (one being to reduce car use in the city centre).¹¹⁷ The plan ignores that the number of journeys made on Greater Manchester's bus network, which made up the majority of public transport use fell from around 350 million journeys in 1985 to 200 million journeys in 2006.¹¹⁸

Planners have unrealistically tried to 'build out' car ownership. Between 2000 and 2006 government Planning Policy Guidance 3 stated that developments with more than 1.5 car spaces per household (on average) should not be allowed. Even when this was toned down in Principal Planning Statement 3 in 2006, so developers should "not provide more parking than is likely to be necessary" many councils still created or left in place plans that required developers to reduce the number of car spaces per household.

Of course planning didn't achieve a reduction in car ownership or journeys. The past two decades have seen the number of households with a car rise from 65% to 75% and the number with two or more rise from 18% to 32%.¹¹⁹ In 2007, 78% of our journey miles were travelled by car (as a driver or passenger).¹²⁰ This has remained roughly stable, though the price of unleaded petrol rose 83% from 53p a litre in 1995 to 97p by 2007,¹²¹ (while CPI inflation rose by just 38%).¹²²

The main 'achievements' of this target were to increasing flight away from cities, and to increase antagonism to new development. Finally, it meant uglier urban areas as people just purchased the existing housing stock and converted gardens into parking bays; one survey found 17% of households have now concreted over their garden to make way for cars.¹²³

But people like suburban city living and prefer this nearby (with car provision) People like suburban city living and suburban development. With planners building anti-suburban cities but people free to move and oppose new development, the natural result is an anti-development attitude in the UK and movement away from many of our urban areas.

City living has advantages, as shown by the high prices that people pay to live in cities under certain circumstances. The average detached house in London costs £601,011, compared with the UK average of £341,821.¹²⁴ People reduce their spending on other goods and services just to live in London. Most cities have areas full of people who could afford to live anywhere. These tend to be affluent suburbs like Clifton in Bristol, or the southern suburbs of Manchester like Cheadle, Wilmslow and Altrincham. Suburbs are themselves desirable places for people to live.

112 Adapted from (figures may not sum due to rounding) *Leeds City Council Non-statutory interim Policy Guidance on Housing Mix*, Leeds City Council, 2008

113 *No room, no room*, IEA, Alan Evans, 1988

114 *The Town and Country Residential Planning (Residential Density)* (London, South East England, South West England, East of England and Northamptonshire) *Direction 2005*; ODPM Circular 01/2005, Office for the Deputy Prime Minister, 2005

115 *Land Use Change Statistics (England) provisional estimates 2008*, DCLG, 2009

116 *The Town and Country residential Planning Direction 2005*; ODPM Circular 01/2005, *ibid*

117 *Second Greater Manchester Local Transport Plan*, Greater Manchester Passenger Transport Authority, 2006

118 *Department for Transport Statistics Bulletin 2005*, Department for Transport (DfT), 2005

119 *Chapter 12 Transport*, Social Trends 40; 2010 Edition, 2010

120 *National Travel Survey; Table NTS0305, distance travelled by mode*, DfT, available at their website

121 *UKPIA (UK Petroleum Industry Association) Fuel Prices Historic Data*, available at their website

122 *Bank of England Inflation Calculator*, available at their website

123 *UK passion for cars triggers huge increase in 'concrete gardens'*, 2006, YouGov research available at http://www.directline.com/about_us/news_100206.htm

124 *Table 511 Housing market: simple average house prices, by dwelling type and region, United Kingdom, from 1986*, DCLG, available at their website

Polling demonstrates that the city suburbs are the most popular location for people to live in. The stalwart of the urban renaissance, the city centre, comes last, as the table below shows, with twelve times as many people preferring the suburb to the centre.

Location preferences¹²⁵	
Location type	% Saying this was one of their preferences
Suburb of city	60%
Rural/semi rural/village	45%
Town outskirts	35%
Town centre	9%
City centre	5%

The popularity of the suburbs is unsurprising since when asked what made an area pleasant to live in, 60% of people said it being a 'quiet area' was 'important' and 25% said it was 'most important' (both times topping the poll).¹²⁶ People want to be close to other people, shops, restaurants and other amenities, but with privacy and greenery.

The Department for Local Communities and Local Government conducted a study into who was most satisfied with their local area as a place to live. Four of the top six slots went to London Boroughs (the City of London, Richmond upon Thames, the City of Westminster, and the Royal Borough of Kensington and Chelsea).¹²⁷ Excluding the City of London, with an abnormally small population, the happiest residents were those of Richmond upon Thames. Eight of the top twenty slots were urban, suburban, or commuter belt areas like Solihull, Wokingham and Poole. Twelve were urban or suburban and only eight were rural or quasi-rural (e.g. Devon, Suffolk, Shropshire).¹²⁸ So we can and already do desirable suburban living.

Factors cited as causing migration from Leeds city centre			
	Very important	Quite important	Not important
Inadequate living space	51	38	11
Lack of green spaces	43	40	17
Expense of property	45	36	19
Prefer a house	55	25	21
Having children	55	20	26
Lack of convenience shops	27	38	35
Getting married	34	26	40
Too expensive to park	31	26	43
Crime/fear of crime	13	36	52
Inadequate culture/leisure facilities	12	32	56

¹²⁵ *Occupier Demand Survey; Research Summer 2007*, op cit

¹²⁶ *Bungalows Are 'People's Choice' In England*, IPSOS MORI, Commissioned for Architecture and the Built Environment, 2002

¹²⁷ *Place Survey 2008*, DCLG, 2009

¹²⁸ *Place Survey 2008*, DCLG, 2009

The popularity of the suburb is unsurprising. The history of cities is that of people constantly balancing social interaction and proximity to urban life with greenery and privacy (the Ed Glaeser work, *Triumph of the City*, expertly describes this relentless process in New York over six pages).¹²⁹ The car based suburb is the natural extension of the railway based suburb, which is the extension of the horse and carriage based suburb.

The table alongside sets out research in Leeds that tried to find out why people moved out of Leeds city centre.¹³⁰ Social reasons like crime and leisure were very low, despite what many sociologists try to argue. The main factors were a preference for a house not flat, having children, and inadequate living space; all cited by more than 50% as very important. If you add the scores of very and quite important together, the most important factors were inadequate living space and lack of green spaces. When these people leave the city centre, if they cannot find these features in the suburbs, they will migrate entirely away from city areas into rural ones.

People like suburbs and, crucially, they like suburban homes. They do not want to be ‘urban’.

What type of home do people want to live in?¹³¹

Type of home	Percentage saying favourite type of home
Bungalow	30%
Village house	29%
Victorian terrace	16%
Modern semi	14%
Modern loft apartment	2%
Council housing (tower block)	<1%

As the table alongside shows, the more popular homes are those with gardens and privacy. Those with neither, either loft apartments or tower blocks, are not particularly popular. Suburban living is in part likely to be popular because suburban homes are popular.

Crucially, allowing suburban homes that people prefer is often not an optional extra but essential if new homes are to be allowed in an area – and in urban areas, car spaces are as well. This author has discussed with various councillors how lack of parking is the number one problem for developments in London, because people feel they will ‘lose’ the space in front of their house as new residents don’t have enough car spaces and will use existing ones.

Research for the Joseph Rowntree Foundation found that just 21% of people were happy to accept flats in their area. By contrast, 55% of people said they would be happy to accept detached and semi-detached housing in their area.¹³² It also found that 69% of people said that they thought quality of housing was more important than quantity, versus 9% who disagreed, showing an increase in quantity can increase housing quality as well. 82% of people said that the appearance of an area was very or fairly important to them when they bought their home.¹³³

¹²⁹ *The Triumph of the City*, Ed Glaeser, 2011

¹³⁰ *Densities and Consumer Choice*, A Evans & R Unsworth DCLG, 2008

¹³¹ *Bungalows Are ‘People’s Choice’ In England*, op cit

¹³² *Housing Futures; informed public opinion*, Joseph Rowntree Foundation, 2004

¹³³ *Architectural Superstars Leave English Cold*, op cit

Cars, congestion, carbon dioxide and suburban living

The counter argument is that suburbs increase congestion or CO² and so can't be allowed.

On congestion, this is simply false. Spreading people and jobs out across a wider area reduces congestion. In the American suburbs, congestion is low. In the Woodlands, a large master-planned suburb typical of middle class developments in Houston, Texas, the typical commute is 28 minutes.¹³⁴ Low densities mean people are moving around on a greater surface area of roads, and some people go to jobs that are suburban, not centrally located.

In the US, where cities have continued to grow and change (unlike ours) 89% of metropolitan areas have at least 90% of their commutes by car.¹³⁵

Yet the average commute by car took just 24 minutes, while the average public transport commute took 48 minutes.¹³⁶ Low density car use does not cause congestion, modern cities accommodate it by changing shape. Los Angeles, often cited as a typical suburban sprawl is not particularly low

“In the US, where cities have continued to grow and change (unlike ours) 89% of metropolitan areas have at least 90% of their commutes by car”

density. It is 33% more dense than the New York urban area, as New York is surrounded by low density suburbs in New Jersey and Connecticut. LA has only 53 miles of freeway per million people, against the US average of 110.¹³⁷ Because most people use cars the best way to cope is to allow city expansion, not cram people in at ever higher densities.

On CO² there are issues around pollution and regulation and movement toward electric vehicles are legitimate policy goals. But pretending the car is not the primary mode of transport for the UK and world does nothing to accelerate the necessary change in this area. Even if in the next 30 years we cut UK car use by a third (a truly colossal feat given even oil prices rising steeply has not cut car use) this would have little effect globally or even nationally – the solution to car based emissions is technology not the planning system.

How suburbs drive city growth in the USA

The USA is one place where cities are growing. The tables below show the fastest growing metropolitan areas among the top 50 metropolitan areas in the US. They are all suburban. In fact Riverside-San Bernardino-Ontario is actually a quasi-suburb of Los Angeles now counted as its own city, a commuter suburb that has become a metropolitan area in itself. Las Vegas, Austin, Houston, Atlanta, Dallas, all invoked as nightmarish result of a system where suburbs dominate, are actually the cities that people in America flock to – because they are desirable and because their suburban nature makes green space available privately and publicly within the city, at the expense of moving the city boundary outwards.

134 Ed Glaeser, *The Triumph of the City*, 2011

135 *The Best Laid Plans*, Randal O'Toole, 2007

136 Ed Glaeser, *The Triumph of the City*, 2011

137 *The Best Laid Plans*, Randal O'Toole, 2007

Top 5 Metropolitan growth areas in the USA in absolute terms¹³⁸

Metropolitan Area	Absolute Population Growth 2000-2009	% Growth 2000-2009
Dallas-Fort Worth-Arlington	1,286,078	24.92
Atlanta-Sandy Springs-Marietta	1,227,192	28.89
Houston-Sugar Land-Baytown	1,152,072	24.43
Phoenix-Mesa-Scottsdale	1,112,206	34.2
Riverside-San Bernardino-Ontario	888,296	27.29

Top 5 metropolitan growth areas in the USA in percentage terms¹³⁹

Metropolitan Area	% Growth 2000-2009	Absolute Population Growth 2000-2009
Provo-Orem, UT	47.45	178,773
Raleigh-Cary, NC	41.24	328,717
Greeley, CO	40.86	73,902
Las Vegas-Paradise, NV	38.31	527,096
Austin-Round Rock, TX	36.43	455,329

Not only are people flocking to suburbia, they are there are happy with their choice. A survey by Pew Demographics on how people felt living in different areas showed that suburbs gave people the highest levels of satisfaction with their community.¹⁴⁰ People in the suburbs were much happier than people in cities, small towns, or rural areas. This happiness/suburban correlation holds accounting for factors like income, education, race etc. Of two otherwise identical sets of people, those in a suburb would be significantly happier.

Satisfaction with Community¹⁴¹

	High	Medium	Low	Net (High –Low)
Suburb	42	33	25	+17
City	34	36	30	+4
Rural	29	35	36	-7
Small Town	25	38	37	-12

138 Table 21 The 50 Largest Metropolitan Statistical Areas in 2009 – components of population change: 2000 to 2009, US Census Bureau, available at their website

139 Table 21 The 50 Largest Metropolitan Statistical Areas in 2009 – components of population change: 2000 to 2009, ibid

140 Satisfied Suburbs, Dissatisfied Small Town, Pew Social Trends Staff, Pew Research Center, 2009

141 Satisfied Suburbs, Dissatisfied Small Town, Pew Social Trends Staff, ibid

The message is clear: living in a suburb contributes to people's happiness. This effect is large. People in the suburbs are around 70% more likely to say they have 'high' satisfaction. Further, looking where people are happiest it is in the growing suburbs in the South and West – hardly indicating that growth needs to bring with it misery and unhappiness.

Satisfaction with community by type of place and region

	East	Midwest	South	West
City	22	28	43	38
Suburb	33	40	46	48
Small Town	25	18	26	30
Rural	27	23	34	30

American suburbs are not down to more land but planning policy

Some argue the UK cannot have suburbs as we do not have enough land. But while America has more land than England, only around 10% of England is build upon. We have more than enough land for everyone in England to have a decent living space.¹⁴²

The big issue is planning, as illustrated by looking at different states with similar economic performances but different planning laws (e.g. Texas and Oregon). Texas's population density is higher than the US average, and almost two and a half times as densely populated as Oregon (per kilometre Texas has 96.3 people, the US has 87.4, Oregon has 39.9).¹⁴³

Despite this, Oregon has much more expensive housing than Texas. The median single family house price in the USA in early 2011 stood at \$158,000.¹⁴⁴ But in Texas, cities like Dallas (\$143,000), Houston (\$148,000), and San Antonio (\$148,000) were all cheaper than the median, while in Oregon the main city of Portland stood much higher at \$213,000. Thus, Oregon has roughly 40% as many people per square mile as Texas, yet Oregon's main city Portland is around 45% more expensive than most Texan cities.

Oregon's planning system is closer to the UK's: restrictive, pro-density and anti-suburban.¹⁴⁵ By contrast, Texas has a much more relaxed approach and largely welcomes suburban living, though the anti-suburban movement is beginning to mobilise. Thus it is not surprising that Portland in Oregon is much more expensive than cities in Texas.

Of course we don't want to just 'import' US suburbs. The UK's suburbs are very different from American ones. We are unlikely to ever have as much space as the vast US homes. We prefer English cottages and Victorian villas to sunbelt living. But we could all have a decent sized home with a garden, privacy, and car space. A row of thatched cottages or Victorian villas would not be allowed in most councils because they are 'urban sprawl' when these are exactly the homes people want and would prefer to built near to them. And it is in and around our cities, where these are most wanted and needed, that local plans are particularly tight and particularly anti-suburban – a disaster for both our society and economy.

Part D: We ignore development externalities around quality and public services

New development has a major impact on existing residents and quality is key

We must go further than remove pointless burdens and anti-suburban plans. Our planning system must better handle 'externalities' to drive up design quality for new housing.

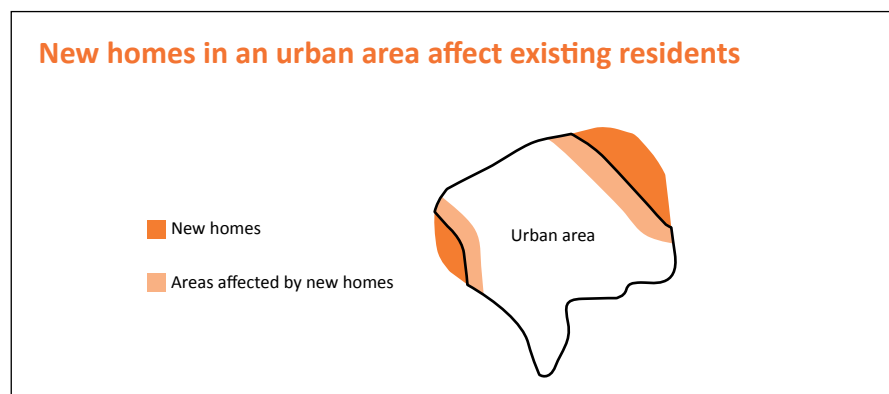
¹⁴² *Land Use Statistics, Generalised Land Use Database 2005*, ibid

¹⁴³ *Resident population density by state*, US Census 2010 data, available at their website

¹⁴⁴ This and all other figures in this paragraph are median sales values for homes from the USA's *National Association of Realtor's* which issues data similar to our Halifax and Nationwide indexes

¹⁴⁵ See Randal O'Toole's *The Best Laid Plans* and Ed Glaeser's *The Triumph of the City*

An externality is where private decisions impose a cost on others. For example, if I live next to open space and housing is developed on this land, this affects me twice over. I no longer live near open space and now live near new homes. A new development thus imposes a clear ‘externality’ onto me. It can be positive or negative depending on what is built there.



The value of a property is directly related to the area adjacent to it (location, location, location). A large new development has a major effect on nearby properties, but little impact beyond this. On the adjacent diagram the black areas represent new homes, and grey areas represent those affected by new development. The effects of development are generally very localised, as research shows. A Dutch study found that a view of open space, *ceteris paribus*, increased house prices by between 4 and 8%, with local open space within 25 metres pushing up house prices in the areas studied, but with little effect past 50 metres.¹⁴⁶

Similarly, a literature review for the Commission for Architecture and the Built Environment¹⁴⁷ found that greenery and green spaces increased house prices in a limited area:

- A 1980s Massachusetts study found a house within 20 feet of a park was worth \$3,000 more than a house 2,000 feet away;
- Houses in Seattle bordering the Burke-Gilman trail, a park based on a former rail line, were 6% more expensive than similar houses not on the trail; and
- A 1973 report found the addition of trees to an urban landscape increased prices 7%

The study went on to examine various ‘case studies’ of parks and urban greenery, noting that “in most of the cases studied, properties that directly overlook a park cluster at around 5% to 7% above an identical property in the same market area”.¹⁴⁸ Separately, the Greater London Authority attempted to measure via a method called ‘hedonic pricing’ how house prices changed due to being near urban greenery. They found that a 1% increase in the proportion of a ward covered in green space increased house prices by between 0.3 and 0.5%.¹⁴⁹

This is not just about green space – it is just that it is easier to measure the effect of green space. Research by Savills shows how people’s number one priority is ‘neighbourhood’ when looking for a home, ahead of issues such as schools, amenities, size of property and so on.¹⁵⁰ Savills find localised issues like street

¹⁴⁶ *Valuation of Open Space, Hedonic house price analyses in the Dutch Randstad region*, J Dekkers & E Koomen, 2008

¹⁴⁷ *Does Money Grow on Trees?*, Commission for Architecture and the Built Environment, 2005

¹⁴⁸ *Does Money Grow on Trees?*, ibid

¹⁴⁹ *Valuing Greenness; green spaces, house prices, and Londoners priorities*, Greater London Authority, 2003

¹⁵⁰ *Occupier Demand Survey; Research Summer 2007*, op cit

connectivity are important with properties linked to nearby streets usually worth more than those that are self contained and difficult to get to.¹⁵¹

In 2003 a survey by HomeTrack found that a single derelict house pulled down the value of a neighbouring property by 20%. A view of water increased values by up to 25%. A view of pylons cut property values by 9%.¹⁵²

New development has a major effect. Its externalities can be positive or negative. People like homes not flats, privacy, gardens, and space, and want to keep ‘their’ car space. The quality of homes built is crucial in terms of sustaining, increasing, or reducing existing resident’s house price and quality of life. Recall over eight in ten people say that an area’s look is very or fairly important to them and their quality of life. The case of Canary Wharf is enlightening: originally relatively cheap land, it now contains amongst the most expensive real estate in the UK. Similarly, the development of Poundbury pushed up the price of properties close to the development faster than the wider area, because the desirability of Poundbury had a ‘halo’ effect.¹⁵³ This effect can be large, DCLG guidance on regeneration points out that “land release may have a regenerative effect and hence increasing the supply of land could lead to house prices rising more quickly.”¹⁵⁴

The problem is that developers, planners, and local people’s incentives are currently misaligned. Developers can maximise profits by putting housing in attractive, expensive areas, knowing it is easier to sell such properties. They don’t pay for the cost they impose. This is particularly the case in terms of greenfield sites, where nearby green and open space is lost in order for new homes to be built. Local people have little incentive to support all but the very best new developments. And planners have no real incentives at all except to create complicated plans to justify their purpose. NIMBYism is so strong because people feel they have ‘bought’ into an area and will oppose it changing as they fear a cost being imposed on them unfairly. Externalities explain why NIMBYism is perfectly rational.

Our planning system fails to deal with this key issue of quality

Costs and benefits are meant to be taken account of in the single local plan. But costs and benefits from externalities fall to individuals, not the local authority as a whole. It is a colossal failure to think these costs and benefits are ‘socialised’.

In addition, externalities are influenced by developments’ aesthetics and ‘feel’. Planning fails on externalities because it is very much focused on the ‘dry’ aspect of planning (e.g. density, numbers). Central planning as usual downplays the intangible – with negative results.

Finally, local authorities tend to obsess about issues that are either the opposite or irrelevant to local people. They focus on car spaces, flats and density, when people want attractive housing with gardens and green space and public services safeguarded.

Our current system is not very good at managing even basic externalities, as various economists have argued (e.g. Paul Cheshire). The table below from his work shows how the value of green space is estimated from £54,000 per hectare for urban core public space to just £103 for intensive agricultural use (e.g. large, monotonous oil seed rape/wheat fields).¹⁵⁵

151 *Spotlight on Development Layout*, Savills Research, 2010

152 *The Blight Guide on Where Not to Live*, The Times, June 10th 2003

153 *Planning for Housing: Market Signals – Summary of Research*, DCLG, 2007

154 *Planning for Housing Affordability*, Council for the Protection of Rural England, 2007

155 *The introduction of price signals into land use planning decision-making: a proposal* P Cheshire and S Sheppard LSE, 2003

Assessment value for a hectare of land with different uses in different locations

Land type	Estimate of external benefits (e.g. recreation, landscape, ecology) in terms of £ per ha per year, 2001
Urban Core Public space	54,000
Urban Fringe (Greenbelt)	889
Urban Fringe (forested)	2,700
Rural forested land (amenity)	6,626
Agricultural land (extensive)	3,150
Agricultural land (intensive)	103
Natural & semi-natural land (wetlands)	6,616

Yet despite the fact that urban green space is very highly valued, we have been destroying urban green land outside of our major parks at a very rapid rate. Between 1992 and 2005 we lost almost half of our playing fields and in London we lost the equivalent of 22 Hyde Parks worth of front gardens.¹⁵⁶ Current planning policy means the green belt being sacrosanct to protect our ‘valuable green space’, yet satellite data shows that the built up area of London in the 90s grew at 1.5% a year as we destroyed the urban green spaces we treasure the most.¹⁵⁷

Further, the anti-suburban nature of much planning means that the biodiversity of our cities, particularly our suburban gardens, is ignored. The Policy Exchange report, *Unaffordable Housing: Fables and Myths*, sets out some facts on this:¹⁵⁸

- A Royal Horticultural Society commissioned study noted “Gardens are brilliant for wildlife...we would simply say gardens re England’s most important nature reserve”;
- A study found low-density suburbs had ten times more species than agricultural areas.
- Another study found a typical European city houses 18,000 different species;

But none of this is accounted for in our planning system. Instead, gardens and parks which are ‘urban’ are bad, and agricultural land which is ‘rural’ is good. The current planning system destroys the most valuable urban green space while protecting much less valuable land at the urban fringe, meaning a lower quality of life for most people.

Large developments (and single ownership) effectively internalises externalities

The Docklands and most other regeneration attempts try to change an entire area and drive up overall land values. In the Far East single large developers are often given huge swathes of land in a single parcel. These and our most attractive historic areas have a single thing in common. They are created by a single individual, company, aristocratic family, or consortium which owns all of the land. This is why such developments are attractive and well-planned.

¹⁵⁶ *Better Homes, Greener Cities*, Policy Exchange, 2005

¹⁵⁷ *Better Homes, Greener Cities*, ibid

¹⁵⁸ *Unaffordable Housing: Fables and Myths*, Policy Exchange, 2007

The Dukes of Grosvenor did not create Mayfair and Belgravia as an act of patrician charity. These areas, like Sloane, Pimlico and Bloomsbury were blocks of attractive streets created for single aristocratic families such as the Earl of Cadogan, the Portland family, and others. Even where single ownership was absent, most of our most attractive areas (e.g. much of Bath, Edinburgh) were built where each development would have a master plan that attempted to account for externalities. People invested in the schemes because the master plan assured them that the surrounding development would be of sufficient quality.¹⁵⁹

Such large development internalises externalities effectively. Every street or part of the development affects the value of the nearby buildings. Each improvement pushes up the overall value of the development. All of this is the exact opposite of UK house builders, who tend to specialise in small schemes that use existing amenities and create little value.

The impact on public services on existing residents is analogous to an externality

New residents often require an additional burst of local authority capital spending on areas like schools or roads. While school funding streams and other local authority spending largely tracks population, this often follows a time lag, and also does not account for any initial capital spending, e.g. school buildings, upgrading roads, that new residents require. The only way that this was (in some cases) dealt with by Section 106 payments, and as discussed below, these often failed to deal with this issue. This is best thought of as the only real local authority level externality – as it hits public services.

Part E: Council level incentives don't work

Section 106 was a large and ineffective tool

Council level incentives don't work. The only incentive or compensation until recently were 'Section 106 agreements' as this was the part of the 1990 legislation they were set up under. These allowed councils to place burdens on developers. The spending from Section 106 was not used in a systematic way to reassure local residents that the externalities created by new residents were being handled, but were spent on council determined priorities.

These burdens were estimated as being worth roughly equivalent to £5 billion a year at the height of the property boom, with 54% of this funding new social housing (extra residents are not seen as a benefit!)¹⁶⁰ The remaining 46% was split with travel and transport, education, land contributions and community and leisure and other all taking up between 4% and 18%.

£5 billion gained from Section 106 in 2007 split across the 167,000 properties¹⁶¹ built that year is almost £30,000 per home. In fact, because not all developments had a Section 106 agreement, it would have been much more than this per home. Even if we assume this has fallen very substantially since the credit crunch it is likely that between £1–2 billion a year is still being delivered by Section 106 agreements.

Section 106 has failed – even though the sums involved are quite large – because the benefits accrue to councils, not local people. This means it fails to dissipate local hostility. Secondly, councils need very large incentives to change

¹⁵⁹ The works of Hermione Hobhouse (e.g. *Thomas Cubbitt, master builder*, 1971) are a good introduction to some of the themes in this area.

¹⁶⁰ *The Incidence, Value and Delivery of Planning Obligations in England in 2007–08*, DCLG, 2008

¹⁶¹ *Table 209 House building: permanent dwellings completed*, DCLG, available at their website

their behaviour significantly – because the payment in kind received was worth very little when spread out across large budgets. Thus the system under the last Government had incentives for development, albeit in a very opaque way. The incentives were large, but targeted at councils, and they failed.

Part F: Guidance can't create good design and high land prices squeeze out quality development

As usual, planning reform is creating calls for more of a 'focus' on design. This ignores the fact that central and local plans are already full of guidance and rules on design quality. National policy guidance under 2005's Planning Policy Statement 1 contains 28 references to design and statements like "planning authorities should plan positively for the achievement of high quality and inclusive design for all development".¹⁶² Its predecessor, Planning Policy Guidance 1 contained 62 references to design and statements like "applicants for planning permission should be able to demonstrate how they have taken account of the need for good design".¹⁶³ Local plans usually contain reams on good design. This all fails.

But somehow the belief remains that through guidance or other rules we can impose good design (e.g. the CPRE's recent press release on this).¹⁶⁴ But the biggest barrier to good design is our planning system. It focuses on

trivial issues and drives up land prices, squeezing out good design. Architects in particular lose out in the current system.

As discussed, UK land usually costs over £1 million per hectare. Land makes up some £40–50,000 per home and much more in the South and London.

The high value of land created by our planning system makes the additional cost of construction (e.g. design, quality materials), harder to justify, as buyers can find this difficult to afford. It also means that the incentives to build attractive homes are weak because the sale value of ugly homes is closer to that of attractive homes. Much of a home's value is just land with planning permission.

Because land values are very high and make up a large proportion of the value of a home, and have done for a very long time, this has a negative impact on the quality development. Between 1992 and 2002, as demand grew but no new land was released, land prices rose and the share of a property's value rose from 15% to 35%, before going even higher from 2002–2007.¹⁶⁵ This 1992 figure was a low compared with a few years before, when land prices reached 40% in the South East.¹⁶⁶ There is a long-term upward trend since 1947 in land values due to restrictive planning, so in the next bubble land will be a higher share of value.

So indirectly, higher land values raise opposition to development, as new development is more likely to be unattractive, and so more likely to be opposed. This means less land is released, raising prices in a vicious circle. The table below shows how between 1992 and 2002 the increase in the value of houses was almost entirely due to land prices rising 420%, with other factors (construction materials, labour, profits, quality), increasing just 40%.¹⁶⁷

“Because land values are very high and make up a large proportion of the value of a home, and have done for a very long time, this has a negative impact on the quality development”

¹⁶² *Planning Policy Statement 1*, ODPM, 2005

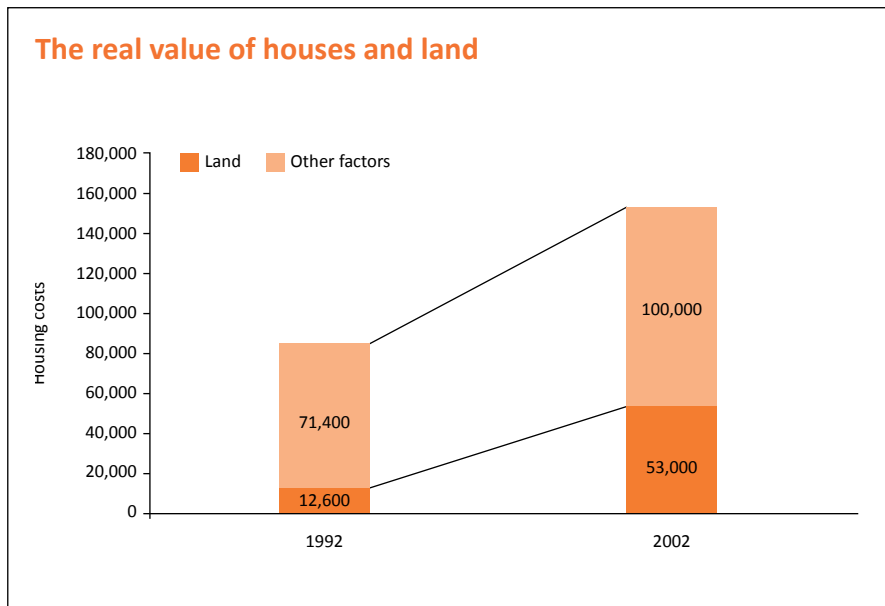
¹⁶³ *Planning Policy Guidance 1*, DETR, 1997

¹⁶⁴ *CPRE issues quality challenge to builders*, CPRE, 2011

¹⁶⁵ *UK Residential Research Bulletin*, Savills Research, 2003

¹⁶⁶ *NIMBYism, the disease and the cure*, op cit

¹⁶⁷ *Nationwide real house prices*, available at their website



Space too suffers. The Royal Institute of British Architects noted the UK has particularly small ‘shoe box’ homes compared with other countries. The average existing UK home was 85m², whereas the average new home is 75m² and new homes in the UK are the smallest in Western Europe.¹⁶⁸ But this is only to be expected given that land is so expensive. The report pointed out that in the Netherlands and Denmark, two countries with a high population density, see new homes that are 53% and 80% bigger than the UK. It’s not space but policy.

The development industry argues land is less of a problem than indirect taxation; to obtain planning permission, they must fund new social or affordable housing. As we saw, on top of this are Section 106 Agreements, which cost some £5 billion in 2007/8. This is to some extent fair. The key point is Section 106 and high land values makes it more difficult to provide quality housing local people will accept. Figures from within the development industry show around a third of the cost of market home is actually construction.¹⁶⁹

Part G: Green belts are not that ‘green’ and cripple our cities

Many people and commentators confuse the ‘green belt’ and ‘greenfield’. ‘Greenfield’ simply means land that has not previously been built on. The ‘green belt’ is a ring of ‘greenfield’ around our cities. It was first proposed in the 1930’s “to provide a reserve supply of public open spaces and of recreational areas and to establish a green belt or girdle of open space” around London.¹⁷⁰ Local authorities would purchase land or covenants, to develop a green belt over time, designed to ensure sufficient green space remained around London.¹⁷¹ The 1947 Town and Country Planning Act allowed local authorities to designate land as green belt in plans without compensation. The 1955 Circular 42/55 encouraged local authorities across the UK to create green belts around most cities, which could be done at no cost.¹⁷²

Thus green belts have undergone a major shift. Initially designed to preserve at least some green spaces around London, then one of the world’s largest cities, and related to the quality of the space protected as councils had to purchase land, green belts have grown to cover 12% of England, covering most land around major urban areas from Birmingham to London to Liverpool,¹⁷³ and surrounding

¹⁶⁸ *The Case for Space*, RIBA, 2011

¹⁶⁹ See *Community Land Auctions: Moving towards implementation*, CentreForum, forthcoming 2011. This site is a greenfield site on the edge of an existing town. Land preparation costs push this to 45%, based on a rather high assessment of these costs

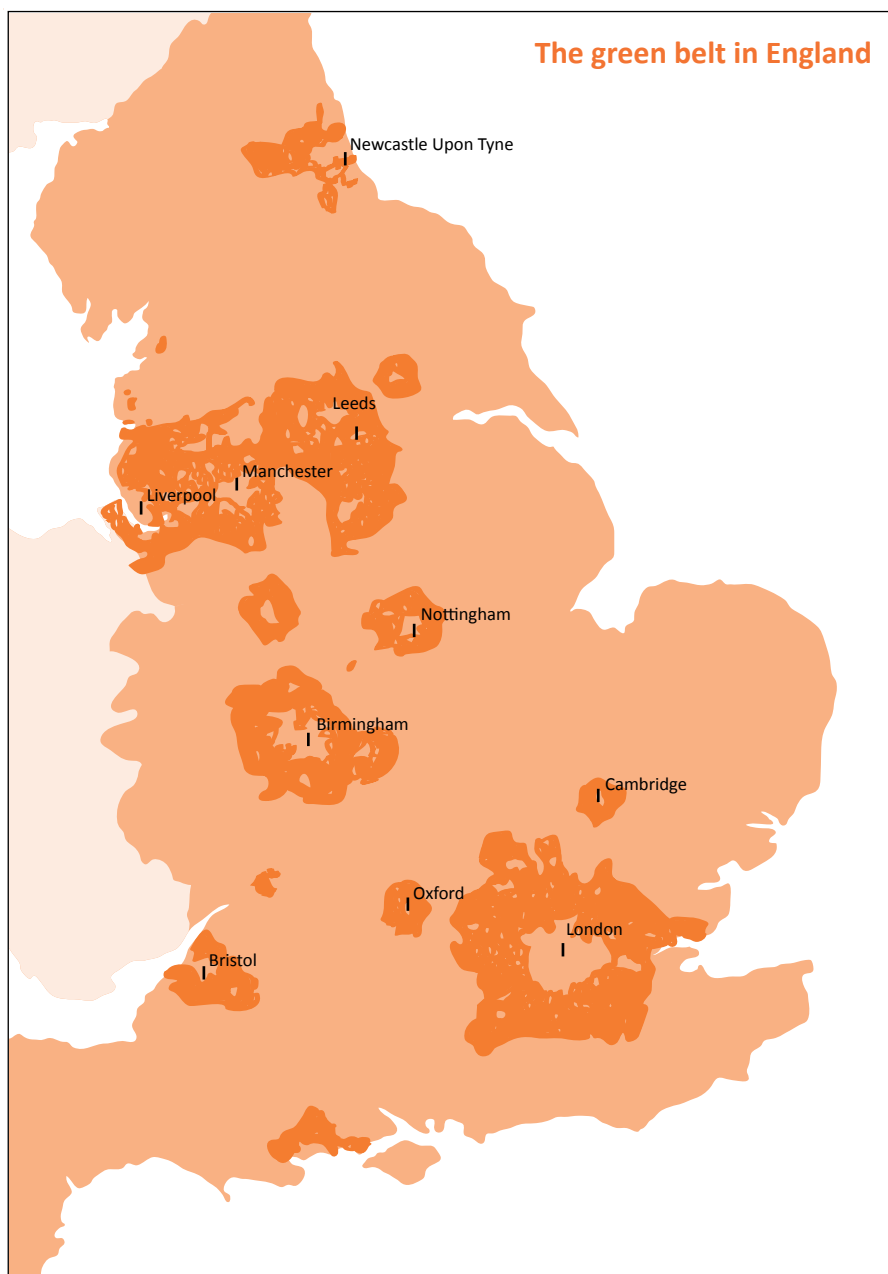
¹⁷⁰ *Planning Policy Guidance 2; Green belt*, DCLG, 1995 (as amended 2001)

¹⁷¹ *The Green Belt (London and Home Counties) Act 1938*, HMSO, 1938

¹⁷² *Planning Policy Guidance 2; Green belt*, *ibid*

¹⁷³ *Planning Policy Guidance 2; Green belt*, *ibid*, map from DEFRA MAGIC database

smaller cities like York, Oxford and Cambridge, as the map alongside shows, and can be created ‘for free’. In the last few decades green belts grew substantially in the 1979–1997 period. Though the figures are not directly comparable, the green belt was 721,500 hectares in 1979 but 1,649,640 hectares by 1997, almost doubling in size. Under the 1997–2010 government it remained stable, with the size estimated at 1,639,000 hectares in 2010 (and the small fall in the green belt was when part of it moved to the New Forest Park).¹⁷⁴



The 1979–1997 green belt growth was in the North and Midlands, not the South.¹⁷⁵ The green belt’s rise in these areas coincided with the first attempt to push development from the centre under Thatcher’s Government, as explored later, indicating that councils designate land as green belt to prevent development when under pressure to permit building.

¹⁷⁴ *Green Belts*, House of Commons Standard Note SN/SC/934, 2011

¹⁷⁵ Written Answers, *Hansard*, HC Deb, 14 July 1988 volume 137 cc293-5W

¹⁷⁶ *Planning Policy Guidance 2: Green belt*, DCLG, 1995 (as amended 2001)

Green belts assume development is always a negative

The green belt simply stops development, and assumes development is always the worst option. This is neatly summarised by the current guidance on green belts that notes;

“There are five purposes of including land in Green Belts:

- to check the unrestricted sprawl of large built-up areas;
- to prevent neighbouring towns from merging into one another;
- to assist in safeguarding the countryside from encroachment;
- to preserve the setting and special character of historic towns; and
- to assist in urban regeneration, by encouraging the recycling of derelict and other urban land.

...although Green Belts often contain areas of attractive landscape, the quality of the landscape is not relevant to the inclusion of land within a green belt or to its continued protection.¹⁷⁶

(this author’s emphasis)

The green belt is now all the land around cities, regardless of quality. This is quite different from the original idea of the green belt of adequate and quality green space around our cities.

Green belt land is usually not particularly attractive or ‘natural’

As the table below from the Council for Protection of Rural England shows, the biggest use of green belt land is arable and horticulture use, intensive arable farming complete with heavy use of pesticides and fertiliser. The second biggest use of green belt land is ‘improved’ grassland, meaning intensively farmed pastoral farming, as shown by reduced biodiversity and sensitive plant species. Only by the third and fourth use are we finding natural and semi-natural usage of the green belt. The two intensive farming uses of land take up nearly 60% of the green belt, compared with just 17% for all woodland, 17% for semi-natural grass (less intensive farming) and 3% for mountain, heath and bog.

Land use in the green belt ¹⁷⁷	
	%
Arable and Horticulture (intensive farming)	35
Improved Grassland (intensive farming)	23
Woodland	17
Semi-natural Grass	14
Built Up Areas and Gardens	7
Mountain, Heath, Bog	3

So most of the green belt is built on or intensively farmed. Its only quality is negative – that it stops development. It is often barred to the public. This is not what most people think of when they hear the term ‘green belt’, as the table alongside shows.¹⁷⁸ Around half of people associate the words ‘green belt’ with

¹⁷⁷ *Green belts; a greener future*, CPRE, 2010

¹⁷⁸ *Green belts; a greener future*, CPRE, 2010

woodland, open spaces, nature reserves, country parks. Only 34% associate it with farming, despite the fact this is what 60% of the green belt consists of. The original idea of the green belt – attractive and special spaces – remains in the public mind, though this is no longer the case.

What do people associate with the term ‘green belt?’

	%
Woodland	54
Open Spaces	52
Nature Reserves	48
Country Parks	48
Farming	34

Despite thinking the green belt is more attractive and full of desirable spaces than it is in reality, more agree than disagree with the statement “while most of the countryside around England’s towns and cities should be protected, some could be used for new housing and other development”. The CPRE found that just 30% disagree with that statement. If people had a better grasp of what the ‘green belt’ really was, then this figure might be even higher.¹⁷⁹

Green belt land can be built on at present though this is difficult

All green belt land can be undesignated. Further, the green belt doesn’t distinguish between woodland or a giant field of oil seed rape or a scrubby patch of land by the M25. The boundaries of the green belt are not fixed completely and if councils want to change it, then they can apply to the Secretary of State if they think that changing the extent of the green belt is necessary in order to fit with the wider needs of their local plan.¹⁸⁰

“Had our green belt policy existed in the past, London would be a tiny speck, without Hampstead, Fulham, Clapham, and so much more”

Development is allowed under ‘very special circumstances’.¹⁸¹ The green belt can be overruled if a planning application fits with many other aspects of a local plan. The Warren Wood case in Bedfordshire, where CentreParcs

wanted to build a leisure village, and the Secretary of State allowed it go forward due to the multiple economic and environmental benefits of the proposal, is such a case. Green belt is not a ‘restrictive covenant’ (e.g. a legal bar to construction) but a temporary policy designation, though a politically powerful one.

Green belts damage our quality of life, economy, and push development to rural areas

Had our green belt policy existed in the past, London would be a tiny speck, without Hampstead, Fulham, Clapham, and so much more. Thriving communities and open, beautiful green spaces would not exist and we would be crammed into a tiny grey dot. Had the cities of the North not been able to develop in the 19th Century, we would not have been able to have an industrial revolution and break

¹⁷⁹ *Green belts: a greener future*, CPRE, 2010

¹⁸⁰ *Planning Policy Guidance 2; Green belt*, DCLG, 1995 (as amended 2001)

¹⁸¹ *Planning Policy Guidance 2; Green belt*, *ibid*

free from the crippling poverty of the time. Cities must be able to change in order for growth to occur.

The green belt policy locks up all the land around our cities, even though a majority of it is intensive agricultural land, refusing to allow attractive development and refusing to allow our cities and our economy to grow and expand. It pushes development to greenfield sites just outside the green belt, into even more rural areas and causing even more controversy.

How Green is not building on the Green Belt?

The green belt title is misleading because it implies a level of untouched countryside when in fact the overwhelming majority of the green belt is actually built on or intensive farming.

If you want to build a warehouse near the M25 rather than in woodland in the countryside just outside it, you are building on green belt.

If you are building a science park in Cambridge and turning a giant field of oil seed rape into a rolling landscape of woods, open space, buildings and water, you are building on green belt.

If you are taking giant fields near Birmingham that have been intensively grazed to the point where they are a vast stretch of mud and turn them into a development of traditional homes with a giant park or wildlife reserve attached, you are building on the green belt.

The idea behind the green belt is not a bad one; high quality natural spaces near our cities. But the green belt policy is failing to do this – whilst crushing our cities.

Part H: We don't allow new urban areas to be built

In recent years we have ignored the possibility of large scale and attractive new urban areas. The post war new settlements in the UK, the 'New Towns', were a mixed success, but no new urban areas have been built since the 1970s, increasing pressure elsewhere. The post war New Towns were imposed onto selected areas, based on a 'government knows best' approach after the Abercrombie report argued 500,000 people should be moved to a ring of towns around London.¹⁸² The 1945 New Towns Committee Report stated New Towns would:

- Be 20km from nearby cities, or 40 km from London.
- Target a population of 20,000 to 60,000 inhabitants.
- Be built on 'greenfield' sites.
- Be built around standard criteria, based on family homes at low densities.¹⁸³

The New Towns programme came in three waves, one in the 1945–50 period, another in the early 1960s, and another set in the late 1960s.¹⁸⁴ 22 New Towns were designated and by the early 2000s, around 2 million people lived in New Towns in around 500,000 new homes.¹⁸⁵

The New Towns were a mixed success. A House of Commons report noted problems due to:

- The 'innovative' urban designs of the time. These have not been a lasting success (e.g. unattractive modernist shopping centres can't accommodate nightlife).

¹⁸² *The New Towns; their problems and future*, House of Commons Transport Local Government and the Regions Select Committee, The Stationery Office, 2002

¹⁸³ *New Towns To Growth Areas*, IPPR, 2005

¹⁸⁴ *New Towns to Growth Areas*, IPPR, 2005

¹⁸⁵ *The New Towns; their problems and future*, ibid

- Poor housing quality. The report noted that “much of the housing was put up quickly using ‘innovative’ designs which have not stood the test of time”¹⁸⁶

The History of the New Towns

The New Towns were created through the 1946 New Towns Act which allowed the Secretary of State to simply create Development Corporations that compulsory purchased land to create New Towns as they saw fit. Land was bought at existing use value (largely agricultural land), and then passed to the hands of the New Town Development Corporation. The New Towns were exempted from rules changing in the 1961 Planning Compensation Act which stated if local authorities purchased land and then changed its designation within five years the original owner would receive the uplift, so New Towns continued gaining land at cheap rates.

The New Towns include Basildon, Hatfield, Corby, Milton Keynes, Northampton and Peterborough, and were either new towns or massively expanded existing settlements.¹⁸⁷ New Towns were originally ‘self-contained and balanced communities for working and living’,¹⁸⁸ but the more successful ones tended to be linked to wider regional economies.

The report also noted that economically, the New Towns could be divided into three sets.

- The London satellites in the South East (e.g. Milton Keynes). These had broadly achieved economic success, although with pockets of deprivation.
- Those with good transport links but were far from London (e.g. Telford, Warrington). These were economically self-sustaining, though not major economic centres.
- Those which had failed to achieve their full potential and had seen high levels of deprivation (e.g. Corby and Runcorn).

Transport and links to nearby urban areas were critical. This links us back to the key issue of agglomeration and urban connectivity. The most successful ones are linked to the economic powerhouse of London. The least successful New Towns were based on manufacturing (e.g. Corby and Runcorn), and were not linked to successful areas or have good transport links.

The New Towns have a mixed record. Their top-down nature created difficulties. The location of some, based on the idea of distinct and separate economies, was problematic. The ‘innovations’ of government planners at the time are now barriers to success. But they did provide largely decent housing for 2 million people, and most have successful economies.

Failure since 1979; private sector New Towns and the ‘Growth Areas’

The election of the free market 1979 Government ended the idea of centrally planned New Towns. But a nine-strong set of developers, Consortium Developers Limited, came forward with the aim of creating four new, private, county towns of at least 5,000 dwellings.¹⁸⁹

¹⁸⁶ *The New Towns; their problems and future*, ibid

¹⁸⁷ *The New Towns; their problems and future*, ibid

¹⁸⁸ *The Reith Committee, New Towns Committee: Interim Report, Second Interim Report and Final Report*, HMSO, 1946

¹⁸⁹ This section is from *Urban Geography, A Global Perspective*, M Pacione, 2009

They aimed to work within the existing planning system, unlike the New Towns. Set up in 1983, it took seven years for the Secretary of State to finally rule against them, the decision kicked all the way up the planning system to the Secretary of State, and one Secretary of State Nicholas Ridley indicating he supported at least one new town, but subsequently replaced by Chris Patten, who ruled against all four. Medium sized developments became smaller and smaller (e.g. Hampton, near Peterborough, planned as 5,200 new homes,¹⁹⁰ yet by 2004 just 1,430 had been completed, less than a quarter of that originally planned.)¹⁹¹

By the 2000s, exasperated with the lack of large scale private development, the Labour Government attempted to impose new urban areas by creating four new 'Growth Areas'. These were the Thames Gateway, Milton Keynes/South Midlands, Ashford, and the London-Stansted-Cambridge corridor. The aim was to build an extra 200,000 new homes by 2016.¹⁹²

In response to the 2003 Plan, the Conservatives ran a strong campaign to portray Labour as a threat to the rural South East, using the concept of Growth Areas encroaching on green belt. The Conservative 2005 Manifesto argued that "A Conservative Government will call a halt to Labour's plans to concrete over our greenfields. We will promote development on brownfield sites and establish more Green Belts with tighter development rules."¹⁹³

Some argued that the swing in the 2005 election 'Growth Areas' against Labour was higher in these areas than other parts of the country.¹⁹⁴ But Labour continued to pour political capital into creating Regional Spatial Strategies that would impose homes in the Growth Areas.

The Advantages of New Towns and Cities

Despite being ignored in Britain at present, there are three major advantages of new towns and cities.

1. Political. By focusing a large amount of development in particular areas, this reduces the pressure elsewhere. Building one town of 200,000 people may be more politically acceptable than building ten large suburbs of 20,000 people each, because fewer people are affected.
2. Design. For the reasons set out earlier, then externalities are effectively captured by new towns and cities. This effect should increase the quality of what is built. In New Towns this was masked by a tendency in much of the 20th century to allow badly designed government experiments. But in privately created developments in other countries in recent years then designs have tended to be high quality because this is the best way to maximise profits.
3. Immediacy. New towns or cities would be created outside of the existing planning system. As explored later, the major house builders rely on a broken model of development and are not building. But new towns or cities would exist outside the current planning system, allowing immediate construction of new homes, infrastructure and employment space.

¹⁹⁰ *Urban Geography, A Global Perspective*, ibid

¹⁹¹ *Structure Plan Dwelling Requirement (Hampton), Peterborough Local Plan*, Peterborough council, 2005

¹⁹² *Sustainable Communities: Building for the Future*, ODP, 2003

¹⁹³ *It's Time for Action; Conservative 2005 General Election Manifesto*, the Conservative Party, 2005

¹⁹⁴ *Let's play...Nimby!*, Property Week, 2005

But intense political opposition to Regional Spatial Strategies meant that the Growth Area strategy was a failure. A long consultation process heavily delayed the publication of the necessary South East Regional Spatial Strategy. This was published in May 2009, six years after the initial idea of Growth Areas was first established.¹⁹⁵ Following the 2010 General Election result, Eric Pickles abolished Regional Spatial Strategies, and the Growth Area strategy collapsed. Ashford typifies the failure of the Growth Areas. Since 2001, just 5,000 new homes have been built and after 2010 it heavily reduced housing numbers and aims to build even this reduced amount of new homes by 2031, not 2016.¹⁹⁶

Part I: Planners assess business needs rather than business directing growth

Cities are also crippled by a failure to provide what business needs. As was set out in Section 1, we have very high commercial costs across the UK, particularly in the Northern cities where we need strong private sector growth. This reduces their growth and international attractiveness, by not allowing necessary change and sufficient development.

Local plans set out how local land will be used for commercial purposes, just as they set out how local land will be used for residential purposes. Indeed they have been required to do so under Principal Planning Guidance (PPG) notes 4 (*Planning for Sustainable Economic Growth*) and 12 (*Local Development Frameworks*).

For example, PPG 4 notes that plans should “assess, in broad terms, the overall need for land or floorspace for economic development including main town centre uses over the plan period. Evidence on the overall need for main town centre uses should focus on comparison retail, leisure and office development for five-year periods.” The plan must ensure it “sets out a clear economic vision and strategy for their area which positively and proactively encourages sustainable economic growth identifying priority areas ...supports existing business sectors, taking account of whether they are expanding or contracting and, where possible, identifies and plans for new or emerging sectors likely to locate in their area, such as those producing low carbon goods or services... positively plans for the location, promotion and expansion of clusters.”¹⁹⁷

The document continues in much the same vein, setting out a myriad of goals and controls.

Such local planning leaves local economies to unhelpful and unrealistic interference. Of the 56 cities in England, 26 say they have green industries worth supporting or developing, 33 say the same for advanced manufacturing, and 39 say the same for the creative sector.¹⁹⁸ But we should want all businesses in the UK to grow, even if just food processing or logistics, call centres or beauty parlours. By focusing attention and directing land to certain sectors rather than others, we may end up neglecting opportunities for productivity gains elsewhere. We have met more than one business leader who expressed frustration when planners told him investment was not welcome as it is ‘not in the plan’ or ‘in the right type of sector’.

Land markets in the UK are reminiscent of a centrally planned economy. The Yorkshire and Humberside plan for example sets out how many jobs will be created in different areas between 2006 and 2026 in different areas. So we already know that in 2018 that light industry in Barnsley will create 500 jobs, while retail

¹⁹⁵ *Regional Spatial Strategy for the South East of England*, Government Office for the South East, May 2009

¹⁹⁶ *Abolition of Regional Spatial Strategies; A Planning Vacuum*, Second Report of Session 2010–11, op cit

¹⁹⁷ *Planning Policy Statement 4; Planning for Sustainable Growth*, DCLG, 2009

¹⁹⁸ *Firm Intentions*, Centre for Cities, 2010

and leisure will create 250. In Sheffield light industry will create 250 jobs while retail and leisure will create 680.¹⁹⁹ These are the forecasts that then dictate land use in particular areas over the next few decades. This is an absurd way for an 21st century economy to operate.

The Government's recent commitment to Enterprise Zones is very much a 'second best' option when compared with wholesale liberalisation in this area. This is even more so given that job creation in these areas was costly in the 1980s Enterprise Zones (e.g. the cost per job created was evaluated at £17,500 in 1995 prices,²⁰⁰ very much higher than the cost of jobs under the New Deal for Young People, which cost £3,500 in 2010 prices.)²⁰¹

Ministers laud the industries of the future, but the green belt prevents almost any new major development. Presumably while the industries of the future are important, even more important is protecting vast tracts of intensive farmland around our cities. Of course, by trying to force some industries that require a particular space or need specific facilities into existing urban areas, we are likely to be simply driving them out of the UK altogether.

This system is also poor at using prices not just in general but in the specific. A proposed development could be a critical part of a business expansion plan or something that business is ambivalent about, but it is difficult for plans to take this into account. Moreover, local authorities support commercial development that create jobs in their area, but are less keen on developments that bring little local employment and value but are necessary for the wider economy (e.g. logistic hubs or other land-hungry but employment-limited development.)

Part J: House builders' model is dysfunctional, broken and relies on ever growing credit

One reason planning has hidden its failures is that it has created a dysfunctional development sector which feeds off and relies on the failures of planning. Many developers use a model reliant on ever increasing credit, where developers:

- a. borrow a lot of money
- b. use this and their skills at navigating local authority planning to build up land banks
- c. steadily release this land, building housing with limited 'value-added'
- d. sell these homes against a backdrop of rising prices and move on

This is a deeply flawed model. The basic model of house building is that:

The cost of a home = the cost of land + construction + indirect taxes

If land prices drop, this should not matter to a house builder. After all, the 'value added' for a house builder should come from the cost of construction. Land owners might lose out but construction should not be affected. This is particularly true as in the UK – as discussed earlier, the price of land in most areas stands at over £1.2 million, or over £40,000 per home (assuming 30 homes per hectare). It is much more in places. Land prices falling should not affect builders. The only time that house builders should really get into trouble is if the cost of a home is more than the cost of construction, a situation we are a very long way from.

199 *The Yorkshire and Humber Plan, Regional Spatial Strategy to 2026*, op cit

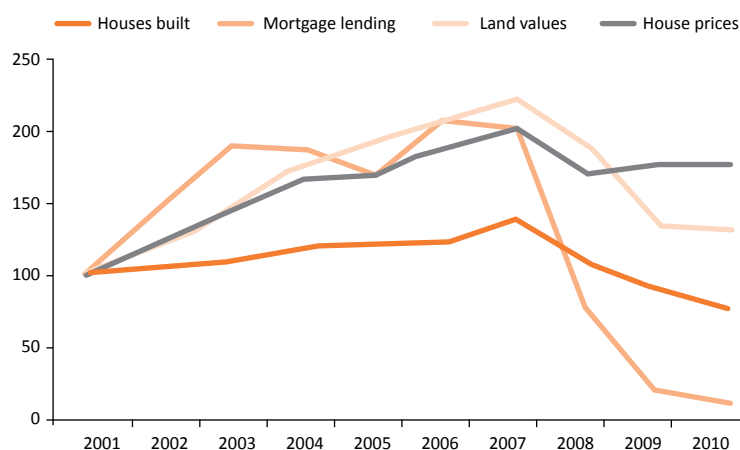
200 *Final Evaluation of Enterprise Zones*, PA Cambridge Economic Consultants, 1995, HMSO

201 *Youth Unemployment and the Future Jobs Fund*, Report of the House of Commons Work and Pensions Committee, 2010

Instead, falling house and land prices cripple our developers. The problem is twofold. Firstly, between purchasing the land and selling it the value of the land has fallen, which is a large share of the final cost. In addition, they often borrow to buy land, making it even more difficult as they have to pay interest while holding a falling asset. Secondly, developers cannot cope with falling land prices because they have large land banks. If land prices fall they have to retrench and cut costs, and cannot build, because they hold a huge depreciating asset.

This model is why developers argue that they need more credit to build more. This is nonsensical. In the 2000s credit spiralled. Between 2000 and 2007 mortgage lending doubled, but with supply constrained this merely inflated land prices and house prices. As noted earlier, since the share of small 1–2 bed flats rose from 18% to 47% from 2000–1 to 2005–6 among new homes. Accounting for this, the graph below shows that the increase in new housing space was perhaps 10% or so despite a doubling of house prices, land prices, and mortgage lending.²⁰² (It is harder to get the data for these variables for this before 2001 but they would tell the same story from around the mid-90s). Rising credit is necessary to keep developers going, but it does not allow them to build more in our restrictive planning system. Almost all of it just pumps up land and house prices.

Housing construction, mortgage lending, land values and house prices between 2001 and 2010



202 Sources; Nationwide house prices, available at their website, *Monthly changes of total sterling net secured lending to individuals and housing associations (in sterling millions) seasonally adjusted*, Bank of England, available at their website, *Property Market Reports*, The National Archives, available at their website, Table 244; *Permanent dwellings completed, by tenure, UK, historical calendar year*, DCLG, available at their website

203 Table 502 Housing market: house prices from 1930, annual house price inflation, United Kingdom, from 1970, DCLG, available at their website

204 Table 244; *Permanent dwellings completed, by tenure, UK, historical calendar year*, ibid

Once credit stops house building fell. Developers, holding land that was falling in price, had to retrench. They could not build more because, as by the time they sold the properties land and house prices could fall yet further. Thus by 2010, despite house prices tripling between 1995 and 2010, from £66,786 to £208,757,²⁰³ and the cost of building a home well below the sale price, development in 2010 reached an all time low of just 102,730 homes constructed – the lowest since modern records began.²⁰⁴

In our current system, housing construction barely rises when credit is flowing, because what can be built relies on land rationing from local authorities via the planning system. But when credit falls housing construction shrinks, as developers cannot operate with falling land prices.

As the OFT found in 2008, within the planning system, house builders are not anti-competitive.²⁰⁵ But the very planning system itself is anti-competitive. The complex planning process creates a barrier to entry. The planning system also creates land banking, for example. House builders' land bank in part because of the uncertainty in the planning system. This is why they have land for 300,000 homes but won't build.²⁰⁶ Self-build, a higher proportion in other countries than England, has been driven to the margins.²⁰⁷ A lot of developer 'skills' are speculation about when and where councils will earmark land for development next, sometimes using intermediary companies that specialise in this very subject.

Developers land bank to ensure a stream of future work is ready, particularly as planning is so complex it takes months or years to navigate the system. In addition, house builders try to buy land as and when new land is earmarked by councils. Even if they cannot build immediately, if they can purchase land their competitors cannot, and this land can be built on at a later date. Profit becomes as much about land speculation as development.

In addition to lower land prices being necessary to increase development quality, if Government wants the house price and rent price stability over the medium-term, as it has committed to, it needs land prices to fall. Given developing country growth rates, raw construction costs will rise, as will construction industry wages. Stable house prices thus need land prices to fall – but this is not something that developers' existing model can cope with.

In the 2000s developers made high profits with low risk. The top five largest house builders by turnover had a housing operating profit margin in 2007 of 17% of turnover, and the top 25 built 65% of all private homes in the UK.²⁰⁸ The supermarkets, operating in a competitive market, have a 5% margin.²⁰⁹

Developers were indirectly bailed out in the crisis. Unsurprisingly, they have thus learned little. By 2009 around 25% of the UK mortgage market, around £300 billion, was supported by government via the Special Liquidity Scheme and Credit Guarantee Scheme.²¹⁰ This was alongside the wider benefits to house prices through quantitative easing and nationalisation of failing banks. None of top ten developers in 2007 fell with the crash.

To try to drive up land prices in the face of a stagnant mortgage market the major house builders are calling for greater use of 'affordable housing', 'shared-equity', or 'community land trust' schemes. These try to prop up prices by persuading people housing is inherently expensive and they should only be able to purchase a 'share' of a property, splitting off land from the cost of construction. This props up land and new house prices even as the mortgage market shrinks. Developers also want credit to be channelled to them.

The current development model is bust. The only way that it could work is by trying to reflate a bubble that should never have been allowed to get out of hand. Government needs instead to fix planning and create a functioning development

“In addition to lower land prices being necessary to increase development quality, if Government wants the house price and rent price stability over the medium term, as it has committed to, it needs land prices to fall”

205 *Homebuilding in the UK*, OFT, 2008

206 *The 300,000 homes already in the bank*, The Daily Telegraph, 15th September, quoted around 300,000. The size of developers' land banks is easily confirmed by going through recent major house builders' statements.

207 Most other developed countries stand at around 50%, well ahead of our rate of 10–15%, according to the report from the Government-Industry Self-Build Working Group

208 *Britain's Biggest Housebuilders*, House Builders Federation, 2007

209 *Supermarket Profitability Investigation*, John Thanassoulis, University of Oxford, 2009

210 *CML research paper: the outlook for mortgage funding markets in the UK 2010–2015*, CML, 2010

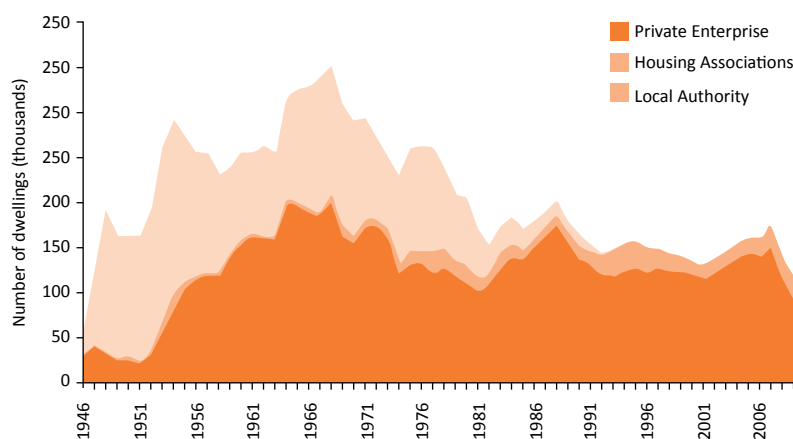
model. Developers will argue that this is a distraction from getting ‘construction moving’ – when it is the only way to succeed.

Part K: We ignore the political dimension of planning

Housing in the UK is politics as much as economics. Fortunately just 20–32% want house prices to rise in polls, roughly equal to the proportion wanting them to fall, while stable prices are most popular among voters.²¹¹ Further, while polling that asks voters what they think is the most important issue facing the country often does not put housing as an option or sees it rank low, a recent YouGov poll asked voters what was the most important issue facing them and their family. This included affordable housing and found housing tied with immigration, ranked above education and crime, and beat the environment and transport combined.²¹²

The problem is crystallising this support. The local plan led system once worked, if not in terms of quantity, in terms of quality. This is because from the 1950s to the 1970s the peculiar interaction of housing and politics drove UK construction (even if it was often low quality). In 1953 only around 32% of households were home-owners.²¹³ High house prices and rents were seen as a negative, and falling prices as a positive, increasing the pressures to build or allow new properties, particularly low rent council properties and properties for first time buyers. Fewer voters had a direct financial interest in opposing unattractive homes being built near them, as they had not invested in their property directly. Councils of all stripes also supported council housing because it expanded their bureaucracy.

Housing construction in the UK 1946–2009



211 See polling from 3 separate years; *Fall in House Prices 'welcomed'* from BBC news website May 2008, poll by ICM for BBC Two's Propertywatch programme May 2009, YouGov poll for NHF in September 2010

212 YouGov/Unison Survey Result, 2011, see (<http://today.yougov.co.uk/sites/today.yougov.co.uk/files/yg-archives-unison-affordablehousing-300611.pdf>)

213 Table 801 Household characteristics, tenure trend from 1918, DCLG, available at their website

214 *Housing and Planning Statistics*, DCLG, 2010

215 A D H Crook, *"Privatisation of housing and the impact of the Conservative Government's initiatives on low-cost home-ownership and private renting between 1979 and 1984 in England and Wales:1: The privatisation policies"*, Environment and Planning A, vol 18, pp639–659, 1986

As the graph above shows, social housing used to make up a large proportion of new housing.²¹⁴ Before the 55% real term reduction in housing spending between 1979/80 and 1983/4,²¹⁵ over 100,000 social homes a year were built. The drive for this was political. Council plans set out to build more homes, including council ones, in the 1950s and 1960s because most voters supported it. In addition, council housing was more popular before the 1977 Housing Act as it went to ‘local workers’ not welfare recipients. Conservatives building social

housing also built private homes so they were not ‘built out of’ areas, as low income workers tended to vote Labour. As social housing construction fell steeply post-1979 the Government hoped that private sector house building would step in to fill the void left by the reduction in social housing. But our local authority planning system and politics stopped this.

For the decline of social housing and the political triumph of the NIMBY element in the Conservative party took place at the same time. NIMBYs are the result of rising home-ownership. Home-owners want to block what is often mediocre quality development in their area, while they don’t want lower house prices or rents (though they do want stability). Local planning became more and more a tool to prevent development.

Nearly seven in ten own their own home.²¹⁶ The average home in the UK is worth more than £200,000. It is the biggest investment that most people make, even if it is illiquid. Eight in ten people feel that the built environment has a strong effect on their quality of life and they bought their home because they liked the area. For most, a home in a nice area is something they struggled for. To denigrate this is dangerous. To reduce NIMBYism, development must improve. There will always be a very small minority who object to any change, but we must detach most people from this hard-core group. More development needs better development.

The politics of planning must mediate better development not simply try to force it through. Reform must recognise the situation that we are currently in and work with that, not against it.

216 Table 801 Household characteristics, tenure trend from 1918, DCLG, available at their website

3

Proposed Planning Reforms Must Go Further

Part A: Why we need a more radical break with the old, failed system

Planning reform is, with welfare reform and education reform, critical to this country's future. In opposition David Cameron said that our planning system was BANANAs, it "encourages people to believe we should Build Absolutely Nothing Anywhere Near Anyone".²¹⁷ In the third Prime Ministerial debate David Cameron said "we've got to build more houses. I think there's no doubt in my mind that we've got to change the planning system right now", and Nick Clegg said housing affordability was "one of the things that, along with immigration, I probably hear about more than anything else as I travel around the country."²¹⁸

“Government has currently passed certain key reforms that are necessary but insufficient for planning reform to succeed and for the renewal of our cities”

The Government's commitment to reform is clear. But to build enough homes and better quality homes the reasons that have put us in the current situation must be tackled. Reform must take on the heart of the problem – local

authority planning based on a 1940s vision of command economics – and the many failures it creates. Local authority planning for six decades has both tried to do too much and fails to do what it needs to do, mediating the effects of market failure and externalities. It is this that must be rolled back.

Government has currently passed certain key reforms that are necessary but insufficient for planning reform to succeed and for the renewal of our cities. But much more needs to be done. Some of the key difficulties with current reforms are outlined below.

- Despite the “presumption in favour of sustainable development”, restrictive and prescriptive local plans actually remain the cornerstone of the system.
- Local plans continue to ration land too tightly due to flawed household projections.
- Local plans and the planning inspectorate's goals are likely to lead to conflict.
- Compensation for new development is incorrectly aligned.
- Local Authority planners won't focus on what people want and the anti-suburban policy will continue.
- Quality is not assured as local resident's input will be weak, high land values will squeeze out quality, and a belief guidance can 'set quality' remains.
- One-size fits all 'green belts' are unchanged, stifling our cities.

²¹⁷ *Helping First Time Buyers*, speech by the Rt Hon David Cameron, 2006

²¹⁸ *3rd Prime Ministerial Debate*, BBC Transcript, 2010

- Business development is left in the hands of local planners
- There is not enough understanding of how and why development is broken
- No new urban areas are proposed.

Part B: Despite the “Presumption in favour of sustainable development”, restrictive and prescriptive local plans actually remain the cornerstone of the system

A draft National Planning Policy Framework (NPPF) condensing and setting out all national planning guidance,²¹⁹ was published in July. This contained a Presumption in favour of sustainable development (the Presumption), that caused huge controversy.

However, all the presumption really does is encourage local councils to accelerate production of a local plan. The Presumption is clearly trumped by the local plan (local development framework or LDF) once complete. The Presumption merely states councils should “prepare Local Plans on the basis that objectively assessed development needs should be met, and with sufficient flexibility to respond to rapid shifts in demand or other economic changes; approve development proposals that accord with statutory plans without delay; and grant permission where the plan is absent, silent, indeterminate or where relevant policies are out of date.”

The NPPF clearly sets out that local plans, key since the 1947 Act, are still supreme;

“Each local planning authority should produce a Local Plan for its area...Local Plans should set out the opportunities for development and clear guidance on what will or will not be permitted and where...”

Local Plans should:

- plan positively for the development and infrastructure required in the area to meet the objectives, principles and policies of this Framework
- indicate broad locations for strategic development on a key diagram and land-use designations on a proposals map
- allocate sites to promote development and flexible use of land, providing detail on form, scale, access and quantum of development where appropriate”

In other words, the reforms state councils should come up with a plan, don’t delay too much, and don’t say no to things that the plan sets out. This is hardly radical stuff. Post-transition, as long as plans fit with the NPPF this means that they will have to be granted.

The onus of the planning system should not be “everything is forbidden unless it is permitted” but “everything is permitted unless forbidden”. This is not what the current Presumption does. Yet the “Presumption” has become the central focus of opposition to reform, creating heat despite the fact anti-development campaigners fears about it are misplaced. It has no real meaning in a system that will still be plan-led.

It is also unclear why the Government has thought it necessary to put in this version of the Presumption. There was a similar Presumption in favour of development between 1947 and 1991, as the Department is itself aware²²⁰; yet

219 Draft National Planning Policy Framework, DCLG, 2011, available at their website. All references in this chapter from the NPPF are taken from this draft document.

once initial post-war shortages were dealt with, house building was generally on a downward trend. New homes fell from 361,885 homes per year in the 1960s to 217,498 homes in the 1980s.²²¹

The main effect of the current presumption is likely to be that many local authorities will finally get around to publishing an LDF, or at least, a core strategy document on housing. Many, particularly in larger local authorities with major planning departments, could be brought forward. Planners have had seven years to work on them, and as discussed in Section 2, they are as restrictive as the local plans and unitary development plans they replace.

In terms of the micro-management local plans create, the NPPF does not require that local plans are slimmed down documents that focus on mediating where there is clear market failure and strategic issues like major road upgrades. The NPPF pushes local authorities to develop ‘strategic’ policies on issues like housing, transportation and so on (e.g. density targets in their area). Such strategic policies will mean endless red tape, micromanagement, and ignoring local people’s views on housing in favour of planners’ views.

Part C: Local authorities will continue to ration land too tightly

One of the biggest flaws is that once local plans are in place, local authorities will continue to ration land too tightly because of inaccurate household projections. Further prices cannot realistically be incorporated into local plans.

The NPPF recommends that the household projection model should continue to be used to assess how many homes should be built. While there are references to land prices as part of the ‘evidence base’ for local plans, the main section on housing argues that councils “should identify the scale and mix of housing and the range of tenures that the local population is likely to require over the plan period which: meets household and population projections, taking account of migration and demographic change.” (this author’s emphasis).

Coupled with a lack of guidance about how to interpret land prices and transform this into housing demand, councils will continue using their existing system of household projections. Taking account of migration and demographic change is not a real change – councils are supposed to do this, but it is very easy to fiddle the figures. Take the lowest estimates, assume net migration will drop, assume low internal migration in the South, assume high internal migration in the North, ignore rising trends, focus on falling trends and so on. The key issue of millions living in large half-empty homes is not covered.

The NPPF requires local plans release enough land to build ‘five years +20%’ worth of housing. Household projections are inaccurate but precise, and so allow this requirement to be satisfied. Household projections easily, if inaccurately, translate into housing numbers. More one person households mean more small flats. Given councils have found they need 200,000 less homes than suggested by the Regional Spatial Strategies, councils will use any tool that allows them to massage housing numbers down, as household projections do.²²²

Government has tried to get around the inaccuracies of household projections and force councils to be more realistic by referring to prices within the NPPF. On prices, the NPPF simply instructs councils should “take account of” prices when setting housing targets. There is no guidance that would allow this to be

²²⁰ National Planning Policy Framework Myth Buster, DCLG, 2011

²²¹ Table 244; Permanent dwellings completed, by tenure, UK, historical calendar year, ibid

²²² Abolition of Regional Spatial Strategies; A Planning Vacuum, Second Report of Session 2010–11, op cit

incorporated in any meaningful sense into local plans. This is because it would be impossible to issue such guidance in a sensible way.

Firstly, much of London would have to resemble Manhattan if local plans took account of market signals in a mechanical way. Even the outskirts of London (e.g. Croydon and Ealing) see land with residential permission valued at nearly £5 million per hectare; on 25 homes per hectare density, that is around £200,000 – just for the land.²²³

Secondly, the more desirable an area the more expensive land will be, independent of regional demand – because people like to live in desirable areas. Affluent local authorities would have to build huge numbers of homes as desirable areas have the highest land prices.

The Medway Unitary Authority will see residential land valued at perhaps half the level of a nearby desirable area such as Tunbridge Wells Borough Council. Tunbridge Wells would have very high housing targets under this system, Medway, much fewer.

The only way to avoid this would be some kind of co-ordination across local authorities. Central government would have to intervene to ensure that councils took account of prices and to co-ordinate local authority planning – which Government has pledged to avoid.

There is of course a need for more development in high demand areas but this does **not** need to be in the most affluent or desirable parts of these areas. Growth on the edge of Medway or Tunbridge Wells to some extent is substitutable, but the politics of this is very different. In addition, using local plans to impose this based on high prices is politically difficult and totally fails to address the reasons that make development so unpopular.

Part D: Local plans and the planning inspectorate are likely to lead to conflict

The planning inspectorate will be in charge of assessing levels of development. Given since regional spatial strategies were abandoned councils have pushed down housing numbers conflict between local authorities and planning inspectors is possible, with planning inspectors pushing more development than local authorities want.

In theory the government could still try to push development under the current system by getting planning inspectors to force local authorities to allow more building. But this sort of approach has failed historically as the box on the next page discusses.

Part E: Compensation for new development is incorrectly aligned

The next point of possible change is around compensation and incentives. Section 106 has existed for a long time as a substantial incentive for councils to build. As set out earlier, at its peak it totalled nearly £5 billion, around £30,000 per home. It didn't work.

Government is creating two new incentives: the New Homes Bonus (NHB) and Community Infrastructure Levy (CIL). Each is worth £1 billion. CIL is designed to displace Section 106, although this instrument will continue to exist, and some local authorities may favour it over the CIL. So the total financial incentives are unlikely to be much larger than in the 2000s.

223 Property Market Report,
Valuation Agency Office, 2011

How top-down planning failed under Thatcher and Blair

The Thatcher Government unsuccessfully operated a system in the 1980s called ‘planning by appeal’ which tried to push through development from the centre.

Two central government circulars in particular, 22/80 and 14/85, issued in 1980 and 1985, required local authorities to approve development if there were not good reasons to prevent it, backing up the Presumption in favour of development noted earlier. Local authorities, loathe to approve development, often rejected proposals anyway. In doing this, they often used local plans showing no ‘need’ for housing. On appeal, the local authorities were sometimes overruled by planning inspectors using the circulars and often using rising land prices to indicate supply was not keeping up with demand and thus plans were not adequate.

This system was painfully slow. Private housing completions totalled 162,000 homes a year in the 1980s, roughly in line with the 1950-2009 average of 159,000 a year. The reason we built more homes in the 1980s was an additional 55,000 social homes a year.²²⁴ Given the difficulty of forcing councils to release land through the courts, only large house builders could attempt this, it didn’t always succeed, and it was slow and expensive.

Planning by appeal also failed politically. Undemocratic inspectors overruling (often Conservative) councils led to a large and growing backlash and the creation of the 1990 Town and Country Planning Act, the 1991 Planning and Compensation Act, and Principal Planning Guidance 1, which scrapped the circulars in favour of the local plan.²²⁵

Yet the Labour Government failed to learn the lessons in the 2000s. It attempted again to push through unpopular development from the centre, this time by using Regional Spatial Strategies rather than planning inspectors. Again, it totally failed to build enough; as noted, despite prices roughly tripling from 1995-2007 construction adjusted for size of dwelling barely increased as prices spiralled. The system was also disastrously unpopular.

Ultimately, unless we can develop a less adversarial system we will not build enough.

Local authority incentives that work abroad will not work here

Local authorities in England are much larger than the EU average. The French communes number over 36,000.²²⁶ The German municipalities, the lowest level in the German planning system that built more homes (as discussed in previous Policy Exchange work such as *Bigger, Better, Faster, More*,) number around 13,300.²²⁷ The main planning authorities in England number just 326 (district councils such as boroughs or unitary authorities, though there are other important bodies included such as in London, the Mayoralty).

Current reforms that copy success elsewhere don’t take account of the fact that we have much larger planning authorities than in other countries. Thus the German planning authorities outnumber the UK’s by a factor of forty, and France’s planning authorities by a factor of over one hundred. Similar figures exist across Europe. Large local authorities means tax incentives are weaker as they are spread across more taxpayers, and quality is more difficult to control for (in small planning authorities then almost everyone is affected by new development, which is not the case in larger local authorities). We can’t copy incentives tailored for a different local authority system than the one we have.

²²⁴ Table 241 House building: permanent dwellings completed, by tenure, DCLG, available at their website

²²⁵ The 1980s system is explored in *Planning Planning*, CPS, 1988 and *NIMBYISM; the disease and the cure*, CPS, 1990, and *No Room! No Room!* IEA, 1988, as well as various other books and reports on UK planning

²²⁶ Wilson, D. and Game, C. (2002) *Local Government in the United Kingdom* 3rd edition, Basingstoke, Palgrave

²²⁷ *United Cities and Local Government Country Profile, Germany*, UCLG, available at their website (the UCLG is the UN body for local government)

In addition, as other countries have had better planning systems in place for longer the structure of the construction sector is much more healthy than our system (e.g. most other countries see high rates of self-build, land is less expensive, etc). Reform cannot ignore this, or the fact that many problems we have are embedded within our system.

It is little consolation to those most directly affected by development next to them if the local authority has a little more money to spread across the whole local authority, which is likely to number tens, if not hundreds of thousands of households. Compensation for new homes must be more tightly focused if it is to be effective.

The New Homes Bonus

The Government is introducing the New Homes Bonus (NHB). This is a payment to local authorities for each new home they build and much hope has been pinned on it in terms of incentivising councils to build more homes. The New Homes Bonus is a good idea. As discussed, new residents bring new capital expenditure requirements. The NHB is designed to cope with criticisms that an area ‘can’t cope’ with an influx of new residents by earmarking funds to accompany new residents. This is a positive move.

But the NHB can’t do this and be a general incentive. The Government’s £1 billion NHB pot,²²⁸ split over (for example), 200,000 homes a year would give a total of £5,000 per home. While this might sound like a great deal, split over a local authority with 100,000 households, it totals just 5p a household. 1,000 new homes would total £50 per household. The £5,000 per home would only really cover any necessary new capital expenditure, not incentivise homes.

The Community Infrastructure Levy is too small not focused enough on those most affected by development

CIL was to be scrapped by the new Government, but instead Greg Clark announced it would be reformed so that “neighbourhoods will now get a direct cut of the cash paid by developers to councils – to spend how they wish to benefit the community”.²²⁹ Creating a mechanism so those closest to development benefit from development is necessary for planning reform to succeed. But the CIL:

- Will be relatively small.
- Is being earmarked for infrastructure, rather than say, payments to households.
- Will be split between local people and local authorities.
- Will be optional, with councils choosing whether to focus on S106 or CIL.

The DCLG has used the overall figure of £1 billion as an estimate for the size of CIL.²³⁰ If we assume 200,000 homes a year this would mean £5,000 per home, split between local authorities and local people. And it seems that only certain projects will be able to go ahead using CIL funds. CIL is not about compensating local people but about new infrastructure.

Not only is CIL too small and restrictive, CIL may not be used in most cases as it is optional. Cash-strapped local authorities may well prefer to keep using Section 106 because they have total control and don’t have to split it with local residents and it is the mechanism that they are used to. Section 106 is a negative as it both

²²⁸ *New Homes Bonus Impact Assessment*, DCLG, 2011

²²⁹ *Communities to share in the advantages of development*, DCLG, 2010,

²³⁰ *Community Infrastructure Levy; an overview*, DCLG, 2011

encourages local authorities to approve development even if local people are opposed, and reduces the CIL available.

The externalities of development are very tightly drawn. In *Making Housing Affordable* Policy Exchange argued that only those very close to new homes should receive compensation. Spreading it more thinly means that the compensation is not focused on those who really are affected by new homes, and is too small to make a difference.

Retained Business Rates

The Coalition is also going to ensure that some future growth in business rates will be localised.²³¹ This will take effect from 2013/4 onward. Unless we completely ignore the distributive effects of business rates then greater localisation will not be possible than this – meaning that this is best viewed as a compliment to the New Homes Bonus. It removes a reason not to have business development, but will not be a huge reason to encourage it.

While it can be argued that the 1988 centralisation of business rates was a mistake, no one could argue that prior to 1988 our cities were flourishing due to a more localised system.

Part F: Local Authority planners won't focus on what people want and the anti-suburban policy will continue.

The Coalition has scrapped various national anti-suburban targets, such as removing the requirement that 60% of development must take place on brownfield sites, removing national targets on density, removing requirements on car provision in new development. These were all used by planners as excuses to prevent the developments that people want. Abolishing them is an important step in the right direction.

However, removing national targets is only part of the story. Local authority planning documents show these issues are all replicated at a local level; greater densification, reduced car provision, mixed development and anti-suburban spatial controls. Scrapping national targets is essential but it is only a first step. We don't want to see mistaken policies rolled back at the national level only to see them reimposed by local authority bureaucrats.

As noted, the NPPF pushes local authorities towards developing 'strategic' policies on issues like housing, transportation and so on. These policies will again be used to block suburban development by many local authorities.

Further, because councils have to earmark land for housing then this will also mean that density is to a large extent 'pre-set'. If a local plan sets out that they need 3,000 homes, if you allocate 60 hectares this means density of 50 homes per hectare. Local plans will continue to 'de facto' set out density for neighbourhood plans, as altering this would involve rewriting the local authorities wider local plan and land allocation.

Part G: Quality is not assured as local resident's input will be weak, high land values will squeeze out quality, and a belief guidance can 'set quality' remains.

Neighbourhood plans are very weak

The Government is hoping that neighbourhood plans will help drive up quality of new homes. If this works, even if new homes are forced into areas then this could significantly reduce hostility to new homes. Under neighbourhood plans a small

²³¹ <http://www.communities.gov.uk/documents/localgovernment/pdf/1947200.pdf>

group can come together to draw up a plan that if supported by a referendum must be taken into account by local planners. We support a referendum to determine local planning decisions (as recommended in Policy Exchange's *Making Housing Affordable*) and the principle behind neighbourhood plans.

The question must be if local people will be able to affect development enough to be satisfied with what emerges. Unfortunately, the neighbourhood plans proposed are weak:

- Neighbourhood planning is optional and will have to emerge from a minimum of 21 people who live, electorally represent or work in an area
- Local councils have the power to select the most representative 'community-group' if more than one applies.
- If you don't like your neighbourhood plan and vote against it, control defaults back to the local authority.
- Neighbourhood plans must conform with 'strategic elements' of the local plan. This will restrict the changes that can be made (e.g. possibly density etc).²³²

Once an area has housing allocated to it by the local authority, it cannot reject this housing. The lack of a veto on development creates a weak bargaining position. If a neighbourhood plan is poor, voting against it just gives control back to the local authority.

It is unsurprising given all this that neighbourhood planning is almost exclusively councillor led, almost a better consultation process rather than a real change. This is likely, in some areas, to have a marginal to moderate effect in raising quality. But this will only be a small effect, and only in a small number of cases.

High land values will squeeze out quality

It is particularly important to remember that these reforms are being introduced at a time of high land prices and with indirect taxes on land. If land has been bought at £2 million pounds a hectare, then making housing less cramped or more attractive is simply not possible. Neighbourhood plans pushing for quality will make developers argue that changes are 'unaffordable' and reject attempts to improve the look or feel of development.

RIBA's criticism that new homes were too small were attacked by the major developers on just these grounds – that the 'shoebox' homes RIBA criticised were all that is affordable for buyers. This is of course true given current land prices.

High density housing is the least preferred housing for most people, and badly designed high density housing is perhaps the worst type, so it is worrying that neighbourhood plans will be unable to push down density and find it difficult to require attractive materials or design.

A false belief that guidance 'can set' quality for new development remains

Everyone agrees that quality is important. This is highlighted in the draft NPPF document. But it is to be tackled through national guidance reasserting the importance of design and again requiring local plans to take design quality into account.

This hasn't worked for years, so it is unclear why it will work now. As elsewhere there is an a historical approach which ignores past failure. Guidance cannot ensure design quality.

232 *Localism Bill*, as amended
by Committee by the 22.07.11,
House of Commons, 2010

Part H: One-size fits all ‘green belts’ are unchanged, stifling our cities.

Despite confused claims from campaigners about “building over the green belt”, green belt policy remains untouched by the reforms as proposed. Yet if there is one place that we would really benefit from more development, it is in the 12% of land that constitutes the green belt. Cities are where most people want to live and need to grow to compete with Asia, this land is largely intensive farming, and building here is less controversial than more rural development.

In any case, ‘greenfield’ development will be still allowed under the reforms. So development will continue, as at present, to be diverted to more rural areas, at the expense of building city suburbs. That is not to say that allowing no ‘greenfield’ and no ‘green belt’ development is attractive, indeed, this would simply make matters even worse.

But the NPPF’s restates that the main purpose of the green belt is through the five negative principles of preventing development on – not improving the quality of – the green spaces around our cities. No notion of how the green belt might be improved is forthcoming. This is a major missed opportunity that will hold back our economy, miss a chance to improve quality of life, and simply force development into more rural areas.

Part I: Business development is left in the hands of local planners

Just as residential development will be left in the hand of local planners, so is business development. The NPPF instructs local planners to “set out a clear economic vision and strategy for their area which positively and proactively encourages sustainable economic growth... set criteria, or identify strategic sites, for local and inward investment to match the strategy and to meet anticipated requirements over the plan period...support existing business sectors, taking account of whether they are expanding or contracting and, where possible, identify and plan for new or emerging sectors likely to locate in their area...positively plan for the location, promotion and expansion of clusters or networks of knowledge driven, creative or high technology industries.” This is exactly the same as at present.

This is combined with statements in the document such as those that require local plans create “strategic policies to deliver...economic development requirements” and “indicate broad locations for strategic development on a key diagram and land-use designations on a proposals map”, leaves business development heavily controlled by local planners.²³³ The draft NPPF means a 21st economy continuing to be run along lines designed as part of a Socialist society in the mid-20th century.

The Government’s proposals on businesses being involved in neighbourhood plans suffer from all the problems of neighbourhood planning explored earlier (optional, undersupported, has to fit with strategic elements of local planning etc). They also will prioritise existing business over new entrants. In short, no real change is forthcoming, with planners continuing to control all land and buildings in an area.

Part J: There is nothing about new urban areas

The NPPF and reform continues to ignore the possibility of new urban areas. Given that over two million people live in the New Towns that were created in the thirty year period between 1945–1975 this is an odd omission from a Government keen on allowing more new homes.

²³³ Draft National Planning Policy Framework, op cit

As discussed earlier then there are specific advantages to new urban areas. They would effectively internalise the externalities of development, meaning that there would be an inbuilt incentive to build desirable areas. They would concentrate development in specific areas meaning that a major increase in development could be delivered across the country while focusing much of this in specific areas. They would also be able to be created outside of the failing model that is being used by developers. Yet there is nothing in anything that the Government has done that focuses on this as a possibility, an omission that must be reversed.

Part K: There is not enough understanding of how and why development is broken

Reform does not appear to grasp how and why development is broken. The idea of giving public land to developers under a buy-now, pay-later scheme, for example, does not mean that more homes will be built if either a) local plans reduce private planning permissions elsewhere b) developers scale back to focus on risk-free development on public land. At least one of these seems quite likely, and possibly both will occur.

Some in Government grasp that developers' model is broken, but policy needs to change accordingly. If Government wants house price stability and better quality development in the next decade or so then it needs falling land prices – meaning that a new model must emerge. Otherwise, there housing numbers won't rise until supply shortages push land and house prices upward. This could take years, and traps us into an ever worsening land and housing crisis in the long run.

Part L: We have been here before – which is why we need radical change

In the aftermath of the 80s housing bubble and crash the CPS published a paper that argued “We need a system which puts much more of the value of a development into better buildings and gives a share of the profits to local people. Only then will nimbyism fade... As matters stand, we are set for another damaging boom in house prices when interest rates eventually drop and the economy speeds up.”²³⁴ It argued the planning system needed a radical overhaul or the results would be disastrous. This prediction came to pass. The pattern is now repeating, with planning reform simply not adequate to the failures of the system.

The goal must be a simultaneous increase in the level of development and the quality of development. We must break free from the existing, failing, model. We have had sixty years of local authority planning on the basis of a central plan created by councils. It worked in the first part of this period, in a limited way, due to political pressures now utterly gone, and even then the quality of what was built was often very poor.

The last three decades have seen repeated attempts to change the poor outcomes of our planning system founder because they were based on the local authority plan led system with additional features bolted on or forced down from the top. To succeed we need a real break with the past. We need a system where planning is responsive, flexible, privately led, and about internalising externalities and limited cases where development has a direct and substantial effect on surrounding area. We need to give our cities the ability to grow and expand, and consider what a better version of New Towns and planning would look like rather than our current system that strangles cities. The rest of the report considers what this looks like.

234 Nimbyism; the disease and the cure, Centre for Policy Studies, 1990

Chapter 2

Achieving Cities for Growth

4

New Urban Areas: Private Sector Garden Cities

Part A: Creating new privately developed urban areas in England

In one poll new towns came first out of a list of options given to people about what type of development they would prefer in an area.²³⁵ There are many advantages to creating planned new developments. Ebenezer Howard created the idea of Garden Cities in the 19th century to house people in greater comfort than was currently the case, and we should return to this idea.

Housing sits at absurd prices, but the cost of construction for new homes is around 33–45% of the final sale cost.²³⁶ If we can find a way to allow new players to enter development without paying absurd prices for land we will drive housing construction forward to get some of the homes we need now while we fix the wider planning system (as if we don't we risk another bubble and crash – perhaps as soon as later this decade.)

Ernst and Young estimate that companies are sitting on UK cash reserves of around 6.6% of GDP.²³⁷ They also argued that UK companies spending this is key to moving the UK economy. What is needed are projects to come forward into which such cash can be re-invested; such as privately funded large scale urban areas – or new Garden Cities.

Private-sector 'Garden Cities' concentrate development and internalise externalities

The Government should make provision to allow the creation of new urban areas, the Garden Cities of the 21st Century. These should draw on the experience of the New Towns, but instead be created by the private sector. With temporary autonomy in a wide range of areas – most crucially planning – this would spur a massive set of construction projects across England and drive growth and tax revenues.

Under this system, a group of businesses or investors would come together as a Corporation to create a new Garden City, just as government created Corporations to run the New Towns. These Corporations could designate an area of land, and, subject to local consent (explored later), would be freed from typical planning in order to create major new urban areas.

This would concentrate development in specific areas. Even as we allow our cities to expand, there is a case for allowing some large scale development to take place in specific areas.

235 *Housing Futures; informed public opinion*, op cit

236 See *Community Land Auctions: Moving towards implementation*, op cit

237 *ITEM Club Spring 2011 forecast*, Ernst and Young, April 18th 2011

These Garden Cities will be attractive as they would ‘internalise externalities’, just as the old aristocratic large scale developments did, and just as a reformed planning system must. Each building, street and area will have an impact on the value of the surrounding properties. This mechanism encourages high quality development. Allowing Garden Cities would boost the UK’s ability to master plan desirable development by increasing the numbers with such skills and companies that focus on this.

As shown by large scale development elsewhere in the world, there is a strong advantage to creating a large and attractive master plan both in order to attract investment, final purchasers, and to maximise profits.

The phrase ‘Garden City’ is fitting because these cities would provide high quality space for their residents, and would provide people the homes that they want (e.g. generally suburban homes with gardens).

Garden Cities must be free from government control and would stimulate growth

It is crucial that politicians do not lead on Garden Cities. This would undermine their viability from the start. To take just one example, politicians like to identify ‘cool’ sectors as ‘industries of the future’. With Garden Cities, Politicians would be tempted to intervene to insist that new urban areas focus on ‘sector x’ or ‘high-tech y’, or even become ‘eco-Towns’. Instead, business should be left to decide the economic focus of the Garden Cities.

Similarly, politicians sanction plans that assume support for housing types (e.g. high density flats) which are not particularly popular and might be difficult to sell

to most people, making the project less viable. Finally, if politicians were able to impose their views onto Garden Cities then it is unlikely investors would want to get involved as it makes the project riskier.

“Ultimately those who invest in Garden Cities would maximise returns by creating the most desirable homes at the lowest possible cost”

Ultimately those who invest in Garden Cities would maximise returns by creating the most desirable homes at the lowest possible cost. They would be best placed to work out how to ensure economic viability and other key issues, because they have a vested interest in making sure that any properties that they retain for rent command high prices, as well as ensuring high prices for those properties they sell off. They are also likely to have reputational issues – if they wish to build another Garden City they will have to ensure their first one is a success.

In any case, the Garden Cities are naturally likely to invest in industries that have high and rapid growth rates– what are often termed ‘sunrise’ industries. If you are creating a large new commercial area you will naturally focus on markets that are expanding rather than contracting. New urban areas abroad like Masdar City and New Songdu City focus on areas like advanced technology and other ‘sunrise’ industries. This would stimulate UK growth.

Garden Cities must link to existing urban areas

The points that were made in Chapter 1 about the economics of urban agglomeration are critical for Garden Cities. The most successful New Towns

have been those which link into London, and benefit from linking into its wider economic structure. Abroad, new urban areas being built link to existing urban areas in order to maximise these development's benefits.

Garden Cities located far from other urban areas would both be more prone to failure and would pull workers far from other existing areas, weakening the gains from agglomeration discussed earlier. By contrast, Garden Cities connecting to existing urban areas nearby would lay the groundwork for stronger productivity in the future. Larger agglomerations increase the future productivity of the existing workforce and future workforce. Government should therefore set out one requirement for new Garden Cities – that they are inter-connected into at least one major urban area.

A Garden City of 200,000 people located by an urban area of 200,000 people boosts the productivity of both those workers in the Garden City and those in the existing city.

Garden Cities around London would play a role similar to New Songdu City in South Korea, places that were integrated into its economy but housed people outside the crowded and congested capital. In other parts of the UK new and large scale cities close to existing urban areas could create an economic base that was capable of standing alone from London, in the same way that the disparate cities of the German Ruhr region have created a single strong and effective economic base that is a counterpoint to the capital Berlin. A Garden City in Yorkshire close to York and Leeds, or in the North West near Manchester and Liverpool would not weaken but strengthen the economies of these nearby cities.

Garden Cities will gain huge revenues from eventual property sales

If these Garden Cities have density of around 25 homes per hectare, then on a single kilometre 2,500 homes can be built. If these are desirable properties that sell at £250,000 (a conservative estimate) and the cost of construction is 50% of the final selling price (again a conservative estimate), then the total sales value minus construction creates a surplus per kilometre of £312.5 million. This construction value is much higher than the existing level of around a third cited elsewhere in this paper, allowing for construction of relatively desirable properties; because the Garden City will be sold as a whole package, it will be worth spending a bit more on design than existing builders do.

Value of homes built in Garden Cities					
Size	Homes per KM	Value of Homes	Construction Costs	Total Raised	Total minus Construction Costs
1 kilometre	2,500 (25 per hectare)	£250,000	£125,000	£625 million	£312.5 million

It is this which would both provide the incentive to invest and, as we shall see, compensation for those affected by the Garden Cities.

Garden Cities allow capital spending on infrastructure at no cost to government

Not only would Garden Cities help by boosting construction and increasing housing supply, they would allow further benefits to Government, such as capital spending on infrastructure. Government should require new infrastructure within the Garden City is paid for by the Corporation. This would help reduce pressure on expenditure at a time when the Government's finances are in total disarray. House Builders Federation (HBF) figures show that in a ten hectare development that the cost of infrastructure (including utilities, sewage, and spine roads) is around £4.8 million for a greenfield site.²³⁸ A kilometre thus gives the figure of £48 million, taking the surplus per kilometre down to £264.5 million.

Other infrastructure such as schools, main roads and healthcare all need to be provided. If we assume that 2,500 homes house some 6,000 people (given that the average UK household houses around 2.32 people),²³⁹ then we can calculate some of the costs in terms of community infrastructure. The table below sets out the cost of some key infrastructure.

Cost of basic infrastructure for Garden Cities

Infrastructure	Needed per 2,500 homes ²⁴⁰	Cost per Unit (million) ²⁴¹	Cost per 2,500 homes (million)
Healthcare centre	0.6	£3	£1.8
Primary School	1.4	£2	£2.8
Secondary School	0.7	£4	£2.8

Cost of basic infrastructure for Garden Cities

This is very much a rough estimate, but the cost of these basic facilities would total roughly £7.5 million per square kilometre. If we assume that other costs (e.g. a hospital, libraries) might double this, then those developing the Garden City would have to pay a total of around £15 million for such infrastructure, taking the surplus down to £259.5 million. All of this means that Government would be receiving new infrastructure and public spending for free at a time when public finances are tight.

Garden Cities would pay for large scale infrastructure projects to drive growth

Not only would government benefit from infrastructure within the Garden Cities, government should also create a levy on the Garden Cities to provide transport links to other areas. Balfour Beatty have provided the following figures for the cost of road construction (this uses the higher figures that they have provided to be cautious and build in cost overruns).²⁴²

The cost of new roads

Road Type	Single carriageway bypass (2 lanes)	Dual carriageway bypass (4 lanes)	New motorways (6 lanes + hard shoulders)
Cost per km	£4 million	£6 million	£10 million

²³⁸ See *Community Land Auctions: Moving towards implementation*, op cit

²³⁹ *Household projections to 2031 England*, DCLG, 2009

²⁴⁰ See *Sustainable Settlements*, Barton, Davis, Guise University of West England, 1995 and *Shaping Neighbourhood*, Barton, Grant, Guise, 2003

²⁴¹ Figures from the Royal Institute of Chartered Surveyors' Building Cost Information Survey

²⁴² Email from Balfour Beatty to Policy Exchange based on general costs

A sensible figure for this levy might be £25 million per kilometre. This means a settlement of 100,000 homes over forty square kilometres provides spending worth a total of £1 billion via a levy of £25 million per kilometre; enough to pay for a 100 kilometre motorway.

However, the Corporation should control what transport infrastructure this is spent on. The spending must benefit the new Garden City not become a Government white elephant. So for example, a Garden City in the South East of England near Oxford and Cambridge might require that a motorway link to those two cities, linking in to the North/South motorways such as the M1, M40 and M11. A Garden City in the North near Leeds might pay for the road networks around the M6 and M62, and A1 (M) to be upgraded and the Leeds Bradford airport to be upgraded. Such spending would of course drive wider economic benefits. A motorway between Oxford and Cambridge would link two potential powerhouses of the UK economy. In the North new motorways would help drive successful agglomerations.

Garden Cities could help drive large scale spending on infrastructure in the medium term. Such spending has been heavily hit by attempts to cut the deficit. In the last Comprehensive Spending Review future annual transport capital spend was cut by 11% in real terms, down to £7.5 billion, while overall spending fell by 15% in real terms, from £12.8 billion to £12 billion a year,²⁴³ and spending by the Highways Agency fell by 7% in nominal terms and more in real terms (around 20% with annual inflation of 3.5%).²⁴⁴ Strong economic growth requires better transport infrastructure, and Garden Cities allow a cash-strapped Government to pay for much needed transport upgrades.

Such a levy would easily be covered by the profits from the Garden Cities. The surplus per square kilometre would fall from £259.5 million to £234.5 million.

Garden Cities must have local democratic support

Garden Cities must also have the support of local people. Those who live in the area that will become a Garden City must have their voice heard through a referendum. The population within the boundaries of the proposed Garden City would have to be balloted and a notable majority (e.g. 60%) must support it. This will be facilitated as the Garden Cities can promise substantial profit sharing from eventual sales receipts to help the vote pass.

The average population density in England is 385 people per square kilometre.²⁴⁵ If we assume that Garden Cities would come into existence in areas twice as densely populated given that they will be located near to urban areas, this would give 770 people per km². Given the average household in the UK consists of 2.32 people this gives a total of 332 households in each km² converting to a Garden City.²⁴⁶

So for each square kilometre of a Garden City around 332 households would have to receive adequate compensation to agree to become part of a Garden City. This means they would receive 75% of the value of their home. Given the average home costs, according to the DCLG, £208,000 in 2010,²⁴⁷ this would give a rough figure of £150,000. To pay each of these households £150,000 would cost the developer £49.5 million.

Those who were near a Garden City would also have to be balloted in a second referendum. Those in an (average) one square kilometre radius around

²⁴³ *Transport Spending Review*, Department for Transport 2010

²⁴⁴ *Highways Agency Business Plan 2011–12*, The Highways Agency, 2011

²⁴⁵ *Future of Business 2011*, HSBC, 2011

²⁴⁶ *Focus on people and migration; Chapter 2, Where people live*, ONS, 2005

²⁴⁷ *Household projections to 2031*, England, DCLG, 2009

the boundary of each of the Garden Cities should also have a say, with a different level of compensation available, 25% of the value of their property. If we assume that these people were offered, on average, a £50,000 compensation package, then this would cost another £33.5 million or so. Of course, as the size of the Garden City grew this might have to expand, but a mile radius seems fair enough as a rule of thumb.

Garden Cities should only be able to compulsory residential properties within tightly defined boundaries (i.e. if it is absolutely necessary), but should be able to compulsorily purchase agricultural land with no restrictions. Government should require that where future planning arrangements make provision for compulsory purchase of agricultural land it should be purchased at a minimum of three times its fair agricultural value. If we assume that the average 'fair agricultural value' is £20,000 per hectare this would cost some £60,000 per hectare, or £6 million per kilometre of land.

Where Garden Cities compulsorily purchase residential properties then they should have to pay at least 150% of the value of the property, or around £300,000 for the average home. This needs to be high to avoid this being used very often by incompetent developers, causing knock on political difficulties with both individual projects and the programme as a whole.

Taken together the cost of creating a Garden City on these figures would end up being around £90 million in order to win over existing residents. This would still end up giving a profit per square kilometre of £144.5 million. Based on a turnover of £625 million this gives a return of 23%, a handsome profit, and more than enough to persuade investors to pay for the construction of the Garden Cities. (This assumes few compulsory purchases are necessary, but even if this was used in some limited cases it would only total a few million more).

The Government may want to consider allowing using these incentives to hedge risk. The payment could take place in stages with each tranche linked to the value of the house at that time. So if house prices declined at 5% in the next three years, and three payments were made (one each year), then the amount could be 25% of the value of the home each year, dropping by 5% each year and so sharing the risk.

Those voting could also just sell up and move to a village a dozen miles away if they still wanted to live in a rural area, once they have voted yes. They could travel while development went on around them – and it should be pointed out that while the overall project would take years, the actual disruption to each resident is likely to only be a few months while building takes place in their immediate vicinity.

Desirability will also win over residents

The Garden Cities will emphasise their attractiveness to drive good publicity for the Garden Cities to encourage investment, advance purchase of properties, and to win the vote. Evidence of where the most desirable properties are in London and other cities should also help. Areas that began as villages and were swallowed up by London (e.g. Hampstead, Greenwich,) are now incredibly expensive. If you lived in a good quality property in a village about to be part of, or near, a new Garden City you are likely to benefit from urban expansion, not lose from it, on top of compensation offered.

Even those villages part of successful New Towns like Milton Keynes have tended to do well (for example, Stony Stratford, a village that is now part of Milton Keynes has higher house prices than the rest of Milton Keynes, and has retained its high street and unique feel).

Where would these Garden Cities set up?

There is an obvious need for Garden Cities to set up and relieve some of the ‘overspill’ from an increasingly crowded London. But places like Bristol and Leeds could also potentially benefit from Garden Cities in their vicinity, offering additional and attractive commercial and residential space. Deprived areas would benefit massively from allowing a Garden City in their area as it would attract affluent residents who would not normally consider living in an area, and this should have a knock-on boost to their economy.

HSBC recently argued a series of seven UK super-cities; London, Brighton, Bristol, Newcastle, Glasgow, Manchester and Leeds would lead economic growth in the near future.²⁴⁸ These cities may be where Corporations identify the greatest potential for the future. Once particular areas are identified, the exact site will depend on factors such as land values and transport, best left to private investors to determine.

Garden Cities are likely to be spread across England. But the exact location should be determined by Corporations, not be dictated government. The location of the New Towns has sometimes been problematic, and potential Garden City Corporations are more likely to identify successful sites than central government.

Garden Cities should be allowed on green belt

Because Garden Cities use a democratic mechanism and should be located near to our existing cities, they should be allowed on the green belt. Otherwise they will simply be located just outside the green belt, and will merely increase transport and travel as those in nearby urban areas will still be connected to them but just have to travel further to do so.

Garden Cities building on the green belt should be required to set aside a set proportion of land (e.g. 30%) for parks and open spaces, buying agricultural land at three times fair value and then converting it (which costs £6 million a kilometre). This would also increase the value of properties around the parks and open spaces, and with a profit of £144.5 million per kilometre of residential buildings should be relatively easy to achieve.

This requirement would also reduce wider local opposition, as while local people would lose green belt, they would gain large parks or other spaces open to the public that they could visit and enjoy, just as Garden City inhabitants could.

248 Table 502 Housing Market; house prices from 1930 (mix adjusted), DCLG, available at their website

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Planning Reform: Wider Planning Reform: Taking us Out of the 1940s and Giving Local People a Say

Part A: Real planning reform to revive our cities

Garden Cities would be a colossal positive in terms of growth and social benefits. But we also need to wider change to the planning system to reinvigorate our cities, and our economy. Our planning system is fundamentally broken. It was created as part of a drive for a Socialist utopia in the 1940s and is clearly not working. It does not deliver the attractive new homes and development that we want and need. It doesn't focus on what it should do and focuses too much on what it shouldn't be involved in.

Instead of repeating the recent cycle where the solution to too much national government regulation and control is local government regulation and control, we need a radical break from the past. We need to strip local planning down

and change the way that the planning system operates, towards private property rights and giving local people a better say to ensure quality, focusing planning on market failure and strategic infrastructure. Local authority planning

“Garden Cities would be a colossal positive in terms of growth and social benefits”

needs a complete overhaul. This will allow our city suburbs, where people want to live, to grow and expand, creating green and pleasant homes that people want to live in, and also safeguard our economy against increased competition from Asia over the next few decades.

Part B: A Presumption Against Interference, not Plan-Led Development

We saw earlier how the concept of externalities is ignored by the planning system, while the planning system intervenes in areas where no market failure exists. The planning system needs to have at its heart a Presumption Against Interference, reframing the debate so that the planning system interferes in private property only when there is a clear necessity for this.

Government should not be seen having wide ranging and all encompassing rights over private property. The 'Presumption' should mean people should have the right to use their property as they see fit, once they have taken account of the immediate impact on those around them.

To achieve this Presumption planning policy needs to be overhauled, particularly in terms of brownfield development. Take three examples:

- Change of Use needs to be reformed.
- The concept of listed buildings needs to be reformed.
- Permitted development needs to be reformed.

In all three cases, there is a clear reason for some regulation to exist. But the point is that in each case the justification is much more limited than the actual system.

In the case of Change of Use, planning permission should only be required where there would be a clear impact on the surrounding environment created by a building changing its use (e.g. a house changing into a pub or hotel). For changes that do not have a major impact on the surrounding area then planning permission should not be required (e.g. retail or office changing to residential). Thus use classes need an overhaul. In addition, the views of planners should be considered much less important than surrounding property owners. As discussed below, planning permission should be policed more by local people than councils.

Similarly, there is a clear case for listed buildings as a concept so that we preserve valuable historic buildings of note or importance. Yet just 6% of our listed buildings are in the top 2 categories (Grade I or Grade II*), with 94% being in Grade II.²⁴⁹ Almost any pre-20th century building is listed as Grade II if requested.

There is little justification with interfering with the top 2 categories of the listed system, as these tend to be buildings of particular merit. But the 94% in Grade II are in a different position. For example, there is no reason to require planning permission for internal alterations to Grade II buildings. This should be left to the owners' discretion. There is a need to re-examine rules around listed buildings to see where rules currently go too far.

Likewise, with permitted development, it is not clear why the current rules are so strict. If a homeowner wants to build an extension that is slightly more than 10% of the existing space, if they want to build a loft extension that slightly overhangs their own back garden or if a developer wants to do an office renovation that slightly raises the height of their office by adding an extra floor, this may not need council approval, and again those affected don't complain about the change (e.g. neighbours) councils should not be able to stop this.

The system has moved far away from ensuring radical changes are policed into ridiculously controlling bureaucracy. It needs a radical overhaul. We should review all of these areas and other examples, and setting out that people have the right to alter their property as they see fit except where this imposes a clear cost on neighbours or has a major social impact. This could be embodied in principle as a Presumption Against Interference.

This is much more accurate a statement of what should be at the heart of planning rather than simply requiring local authorities to plan, as the current Presumption in Favour of Sustainable Development does. It should also stop free-marketers defending a system based on command economics. The Presumption in Favour of Sustainable Development sounds threatening and almost Stalinist, when really the argument is that private property is private, including land, and thus if

249 Guidance notes for:
Application for Listed Building
Consent for Alterations, Extension
or Demolition of a Listed Building,
Planning Portal – Application Type
Guidance V3.2

the owner wants to develop they should be free to do so (once externalities are accounted for). These are the real terms of the debate.

Part C: Limiting the scope of local plans and better use of the New Homes Bonus and Retained Business Rates

In addition to giving people greater control over their own property, local plans should become short, flexible documents. Local planning, in the sense of a single overall plan that then guides all future decisions, has failed. Councils should instead respond to changes as they occur, rather than seeking to control and direct them as part of an all encompassing plan.

Given that many councils have struggled to create a local plan in seven years, they should be more realistic about their capacities. By focusing on reacting to development as it occurs local authorities should ensure that change is adequately accounted for, rather than trying to control development in their area.

Government has the power to set out what local plans can and cannot set out. It should use these to require that plans are short documents that set out how local authorities will flexibly respond to changes as and when they occur. Government should require that local authority plans should not, for example:

- Attempt to set out housing need
- Attempt to set out spatial plans
- Attempts to set out business need
- Attempt to set out densities
- Attempt to set out requirements on residential property (e.g. style, size, car spaces,)
- Attempts to set out requirements on commercial property (e.g. style, size, car spaces)

This is not an attempt at an exhaustive list but instead an attempt to set out a flavour of what local plans should be about. Instead, local authority plans should set out:

- How they will respond to new residents via the New Homes Bonus or retained business rates
- Major strategic issues such as new roads (clearly defined)
- Any particular strengths they think the council should focus on

When granting planning permission the local authority should undertake an assessment of any necessary changes that must be made to accommodate new residents. This should link to the New Homes Bonus in a clear and transparent way.

The New Homes Bonus (NHB) is designed to help accommodate new development and so should not simply go to local councils with no strings attached. Councils should have to indicate how the NHB will be used to accommodate development.²⁵⁰ This will ensure people know what plans are in place to accommodate new residents.

In addition, local authorities should do the same with new business rates, setting out how infrastructure will be funded out of this. There may be some

250 Larkin K, Wilcox Z, Gailey C, Room for Improvement, Centre for Cities, 2011,

wider funding left over after this, but the key should be demonstrating how development will be funded and coped with.

If there are any strengths that a council thinks they should focus on, they should feel free to highlight this in their local plan, and this can then form the basis of positive action (e.g. courting businesses, making overseas investors aware of possibilities and so on), not setting out to block other businesses (e.g. through withholding planning permission).

Part D: Stop trying to ration land using central planning (e.g. household projections)

As part of this, local plans must stop rationing land using central planning. The idea of councils rationing land is flawed. Since regional planning 200,000 proposed homes have been dropped. Attempts to make household projections work are like building on wet sand. Household projections give the illusion of being a useful tool yet are a major reason we build too little. They are also likely to lead to long and counterproductive struggles between the planning inspectorate and local authorities.

In addition, as discussed earlier, attempts to use prices within the local authority planning system will flounder because prices are imprecise when trying to set exact housing numbers, because prices will be too high in desirable areas so that all development will be concentrated in more affluent local authorities unless regional planning is used.

Local plans being reduced means no more large and often threatening numbers being quoted about development during a set timeframe, because household projections would be scrapped. This would in turn reduce the hostility towards new development.

In terms of commercial space, the idea that local authority should ration land based on economic guesswork about the space needed for each use class also needs to be abandoned.

Instead, greater use of the real price mechanism would exist. Brownfield land is much cheaper than residential but more expensive than agricultural land. At the height of the last economic cycle then average costs were £2.6 million per hectare for housing land, £660,000 for industrial and warehousing, and £780,000 for the general office class (B1).²⁵¹ This compared with just tens of thousands for agricultural land, as noted earlier.

Brownfield sites suitable for housing are likely to be converted to housing in many cases. But overall commercial space would increase if we allow greenfield development, and it would increase in the places and buildings business needs, not where council planners think it should go. The idea that local authorities should ration land for any purpose is straight out of the 1940s. It cannot have a place in a modern 21st century economy.

Part E: Existing residents, not officials, to act as quality control

Reform should not just be stripping down local authority plans that try to direct and control the social and economic life of an area, it should mean strengthening the role of externalities within the planning system. The best way to create

effective quality control in planning is to give more control to those affected by new homes a greater say, accounting for the externality.

Quality control on new development – giving greater powers to local people

It is often argued bureaucratic interference will ensure ‘quality’ when it is too much bureaucratic interference that has destroyed quality in our existing system. Those who really have an interest in quality are those who own the neighbouring buildings to land or buildings being changed or developed. These people who have a direct interest and it is they who should form a check on quality, not the council. Planning permission should take account of this. With local plans reduced, this should be a key factor in the decision making process.

Scrapping much of local plans would mean that requirements around density, car use, bike racks, mixed use, whether we build homes or flats – and a million and one other points that local people really don’t care about – would no longer be used to determine what was built. Instead, local people would be able to focus on the aspects of design that matter to them.

On brownfield sites with the exception of green spaces, planning permission should be automatically granted if no one in the immediate vicinity of the development objects.

On brownfield sites with the exception of green spaces, if less than half of those in the immediate area object (judged either numerically or in terms of the floor space of the properties affected), then the local authority would be required to show very exceptional reasons to block proposed changes.

Government should set out in guidance justifications that are and are not permissible; issues like car usage, density, etc would not be allowed. Very exceptional reasons might include an attempt to convert a school building to flats at a time when there was a severe shortage of school places; it really must be limited to very few cases.

Very exceptional reasons might also include certain changes where if any of those most affected object planning permission is not granted (e.g. a ground floor property changing use to a bar or fast food premises, with complaints from either the flats above or immediately next door). These would be where the cost of the change imposes a particularly heavy cost, for instance. But again, these are specific cases that should be covered clearly (e.g. in a reformed use classes system).

This would require a set period of notification during which objections could be raised. It also requires a definition around ‘immediate vicinity’, which would best be focused on two areas.

- **Immediate visual or other direct impact.** A building directly opposite you changing would have a clear impact on your own building.²⁵²
- **Proximity.** A building within fifty metres undergoing radical change is likely to have an impact on you. This could be larger for very major changes (e.g. a doubling of height), and smaller for smaller changes (e.g. minor alternations to how the front of a building looks).

If you are not affected visually or very close to a development you have no right to stop other people altering their property as they would like. The local authority would have to determine in each case when a planning permission was lodged, what the ‘immediate vicinity’ was. There should be a right to appeal to either the Lands Chamber (previously the Land Tribunal) or else the Planning Inspectorate.

252 It is important to note a whole section of law around ‘easements’, rights inherent to property exists, and that these would not be changed by any recommendations in this report. The ‘right to light’ is an example of an easement, development cannot block the light entering another person’s window without that person giving express permission.

Thus if a developer wants planning permission then all they have to do is ensure that what they build is more attractive than what was there already. If less than half of those directly impacted do not object to changes planning permission would generally be granted. If you want to tear down a building and rebuild it then it is likely that you would get approval if the building you propose is more attractive than what exists already – making this system have an inherent tendency towards quality.

The reason that urban greenery is different is that there is a very high cost to destroying urban gardens, playing fields, parks and so on. This is the greenery that most of us come into contact with in our urban lives and which is very highly valued. In the short-term, because land prices have been driven so high by our planning system, changing our planning system could lead to urban greenery being destroyed which would be difficult to restore.

So if a development replaces urban green space with a roughly equivalent amount of green space then this should be permitted to proceed; changes that preserve at least 80% would perhaps be a good rule of thumb and would proceed under typical planning procedures for brownfield discussed below. In the long-term this may not be necessary but for at least the next few decades it would be.

There is one more externality that clearly justifies additional guidance. Developments which are visible from major roads or public spaces not owned by private individuals should be treated differently. An ugly warehouse right up against the road would however be different – those who travel past it face a visual eyesore. There is a case for some different rules around this, although this should be about local authorities imposing limited design features to mitigate effects rather than blocking sites outright.

“If you are not affected visually or very close to a development you have no right to stop other people altering their property as they would like”

London and densification

This report has strongly attacked the obsession with density in our planning system. But that is not to say that low density is in all cases desirable. For low rise suburban areas in Outer London recycling low density to higher density might be both possible and popular.

Taking areas of 1930s or post-war development and recycling them into attractive townhouse style development and employment spaces would be profitable given the very high land costs in these areas, and the fact that the cost of the final homes would outweigh the cost of improvements in design and quality. New businesses would benefit from locating in these areas as workers would accept lower pay in order to reduce travel times on congested routes, and businesses could develop as they needed to in a more flexible planning system.

Kensington and Chelsea is the most densely populated borough in the UK.²⁵³ If parts of Outer London looked more like this would be an improvement. Current densification is often fiercely opposed because the current system has not worked in terms of ensuring quality. The point is that we should be focusing on desirability – and be density neutral. That should be up to home buyers and local people.

253 Population Density 2002, regional trends 38, ONS, available on their website

Part F: Quality development on greenfield sites and statutory compensation

We cannot rely on brownfield development alone

There is a myth we have enough brownfield sites to cope with future housing need. The last Government estimate found around 33,600 hectares of derelict or vacant land in England.²⁵⁴ This would mean around 1 million homes at a density of 30 homes per hectare, which is the maximum medium density that most people would accept. To put this figure into context, the total land mass of England is 132,000 square kilometres, or 13,200,000 hectares.²⁵⁵ So these sites make up less than 0.001% of England's land mass.

This land tends to be in areas that have lower housing demand. In London, the figures showed just 1,000 hectares of vacant and derelict land, enough for just

30,000 homes. The idea there are huge swathes of useful yet unused brownfield land across England is nonsense. In any case we have problems around internationally expensive commercial land. If we are serious about growth we

“If we build just 250,000 homes a year, this land would be used up within one Parliamentary term”

cannot convert all office or retail space into housing over the next few decades because we refuse to allow any greenfield development.

If we build just 250,000 homes a year, this land would be used up within one Parliamentary term. That isn't long-term reform but a sticking plaster. Arguments around brownfield development are like the obsession with the 1% of second homes and 1% of long-term vacant properties – they are fine but avoid a necessary debate by latching on to minor issues.²⁵⁶

There are points around biodiversity which we will publish on soon. But none of the current debate accepts the fact we have to build on green belt in some areas. If we don't tackle this head on, it will happen anyway in many areas, causing political headaches, making politicians look dishonest, and making local people feel cheated.

Local direct control over greenfield development to ensure quality

Under this system, on greenfield sites if less than half of those in the immediate vicinity object once statutory compensation is paid (judged either numerically or in terms of the floor space of the properties affected), then the local authority would be required to show very exceptional reasons to block proposed changes.

These very exceptional reasons again would be very narrowly defined. Again, this means we need to be clear about what the 'immediate vicinity' means, with the two key issues being proximity and visual impact, as set out in the earlier section.

As a rule of thumb, properties are more likely to be affected by the loss of green space than existing buildings changing, so perhaps a development within 100–200 metres of your property is likely to affect you if it leads to a loss of green space. A development that has a visual impact on your property, changing a view of open space, also clearly affects you.

Again, the local authority would have to determine in each case when a planning permission was lodged, what the 'immediate vicinity' was. There should

²⁵⁴ Previously-developed land that may be available for Development: England 2007, DCLG, 2008

²⁵⁵ Land Use Statistics, Generalised Land Use Database 2005, ONS, available at their website

²⁵⁶ This point was made more strongly in *Making Housing Affordable*, op cit

be a right to appeal to either the Lands Chamber (previously the Land Tribunal) or else the Planning Inspectorate.

This would reduce the need for constant top down intervention

This system would reduce the need for constant intervention. At present, current reforms are likely to require heavy intervention from planning inspectors (over whether or not a development is ‘sustainable’ development, over the adequacy of local plan housing numbers based on household projections and so on). This is likely to lead to centrally appointed officials overruling councils and local people.

People who believed that local people would be left in charge will be increasingly hostile and the government will come under pressure to reduce development via planning inspectors taking a less pro-growth position. It is worth recalling the failure of 1980s ‘planning by appeal’, and the new system will gain traction just as the 2015 election nears. This alternative system would reduce constant top down intervention while giving those most affected a say. It would also create a much simpler system, both helpful to political sustainability and growth and development.

This system would recycle land prices into better quality housing

Under existing neighbourhood plans, land is allocated, and local people then get a say in how development looks. This process cannot drive down land prices. Because developers will have purchased the land at high prices, and the density is set by local plans (as they have set aside a set amount of land for a set amount of homes), land prices will not be driven down. Quality will be unaffordable. In this proposal, developers and land owners will have to ensure quality to obtain planning permission in the first place.

Running through all this is the point that development can make an area more attractive. The Cotswold’s villages, the beautiful suburbs, the vibrant city centre are all examples of development. The problem is that development has come to mean, in almost all circumstances, mediocre development at best, and in the worst cases, rabbit hutch houses or flats with no gardens that is a visual blight for those nearby. The key to more development is ensuring better development.

Reforming compensation; Abolishing Section 106 and introducing statutory compensation not focusing on council level incentives

Without local authority planning there is no need to incentivise local authorities (not that Section 106 succeeded, despite its peak of around £30,000 per home). The New Homes Bonus and retained business rates account for the costs that councils would see arriving with new residents. Section 106 is an indirect tax on development that reduces development quality and quantity by pushing up the cost of new homes. It should go as it simply reduces the quality of new homes and thus makes it harder for residents to accept of new housing.

There are three reasons for compensation to exist in development:

1. To compensate local authorities for new residents that require additional expenditure.
2. To compensate local people near development due to new developments.
3. To encourage and incentivise local authorities to accept development.

As shown earlier, land with planning permission rises in value in most regions of the UK to between £1 and £1.5 million a hectare. This value is created by the granting of planning permission. As suburban development is around 30 homes a hectare, this means between £30,000 and £50,000 per home. In parts of the UK where the value of land with planning permission is over £2.7 million (e.g. Reading, Cambridge) this would be over £90,000.

Under the system above local authorities need no incentive to accept development. We should abolish Section 106. With more effective planning there is substantial scope for land gain created by planning permission to be partly recycled to those affected by new development. At present, aside from any deal under Section 106 much of this goes to the landowner, who could release land for a great deal less and still make a very handsome profit.

The House Builders Federation has provided figures that show that if you built on 75% of an area, then even with 40% of the land's value being taken as 'indirect taxation' to pay for 'affordable housing', infrastructure, and Section 106, you are left with around £1 million a hectare as an inducement for development.²⁵⁷

In addition, the main tool Section 106 was used for was social housing, but the Government has announced a renewed Right to Buy that will pay for at least 100,000 new social homes, on top of a planned 170,000 homes. In addition, Policy Exchange hopes to publish soon work that will show how to build tens of thousands more social homes a year under new mechanisms.

At present, Section 106 is being complimented by CIL. But CIL is not a radical change. Instead we would argue for a system of fair compensation around greenfield development.

The Government should consult on a statutory compensation scheme for those being balloted over new development. For those who are in close proximity to a development (e.g. at the end of their garden) and are significantly visually affected, they should receive 10% of the value of their property as fair compensation. Those who are being balloted but who are not visually affected or in close proximity should receive 5% of the value of their home.

Given the DCLG note the average house costs around £200,000,²⁵⁸ this would mean those who were being balloted would receive £20,000 if they were significantly visually affected and £10,000 if not. The Government may want to cap the level at a maximum (for example at £50,000), and create a minimum (e.g. £4,000) to stop extreme cases.

The aim of reform: Six clear, simple, relevant strands

- Local authority planning and planners are limited.
- A Presumption Against Interference is introduced.
- Planning permission is much more conditional on the views of those affected.
- The system is less adversarial.
- The New Homes Bonus and greater business rate retention exists so residents know that new residents or development will not overload public services or area capacity.
- A statutory compensation scheme exists for greenfield development.

²⁵⁷ See *Community Land Auctions: Moving towards implementation*, op cit

²⁵⁸ *House Price Index June 2011*, DCLG, 2011

This exists to compensate those in greenfield sites for the loss of nearby green space, which as we saw, is valued highly. It would go alongside local control to ensure quality. This statutory compensation scheme would not be able to change votes alone. The average home-owner would probably lose out financially from shoddy development – on top of quality of life implications. But the statutory compensation scheme would stop people reflexively voting ‘no’ without good reason, which given how distrusted development is, is very likely.

Part G: Turning some green belt into greenfield

The green belt is having negative effects on our economy and quality of life

Even with the other changes described above, green belts will hold back our cities, reducing their ability to both regenerate and grow. These too must be tackled. If we cannot build on green belts we simply build on other greenfield sites or destroy urban green space. There is not enough available brownfield land to avoid this. The green belt has a social and economic justification in terms of externalities and wider value. But as poll evidence shows – people are prepared to accept development on the green belt, as long as they know that some green belt space will be preserved in perpetuity. The scheme above will tackle quality of development – what is needed is reassurance on this point.

Local control over green belts and creating AONB for high quality green belt

One of the problems with greenfield development is that residents have little control over the quality of development. The proposed system for greenfield development above would create this. Those who live in the green belt would be able to control the quality of what was being proposed near to them.

Green belt should be redesignated, with the attractive parts of the 33% that is not either intensive farming or already developed becoming part of our Areas of Outstanding Natural Beauty. The problem with the green belt policy at present is that it ignores land quality, so if we are to allow some development in the green belt then we need to protect the more attractive areas that exist within it.

Allowing development on some green belt but with an improvement levy to enhance it

In the remainder of the green belt, and subject to local control and the statutory compensation scheme above, development should be allowed. However, for development on the green belt then a green belt improvement levy (e.g. £150,000 per hectare) should be created on land developed in the green belt. This money would go towards converting parts of the green belt into publicly accessible land and improving it.

How this is spent should be decided by the most local democratic body possible (preferably parish council, or councillors that represent the ward where development is being created). This would ensure that those near to the development benefitted from the change. This could involve purchasing covenants on existing land, or else buying land outright so that people knew there would remain green space in the green belt.

This levy would be very small in the context of the very high value of land, and would still leave enough for the statutory compensation scheme discussed above

and ensuring quality. But it would return to the original idea of the green belt, that we wanted attractive and desirable green space of value.

Policy should preserve the best of the green belt while allowing the attractive redevelopment of other parts. We would not lose if the more brown parts of the green belt become attractive suburbs like Fulham, Richmond, Bromley, Clifton in Bristol, places like Didsbury and Wilmslow in Manchester, or Solihull in Birmingham, bringing with them a wave of green public space and parks.

This reform would also reassure people that there will always be an attractive green belt around our cities, which as polling showed, is critical in allowing any development. Local people act as quality control and also prevent development on more attractive green belt sites, while the levy will transfer more land into public ownership, ensuring that there will always be green space in the green belt. This would enhance the green belt and open it to the public, fulfilling the potential of the green belt.

Given that only around 10% of England is developed this would allow for a major increase in development around our cities, while preserving almost all of our countryside and relieving pressure in other areas. If perhaps just over 2–3% of England's undeveloped land was built on in addition to greater brownfield redevelopment then this would both solve the housing crisis and help restore our international competitiveness.

Safeguards around individual houses, and hamlets in greenfield sites

This system is not designed for individual houses. The case study of Ireland, where many random homes were just dropped on the countryside shows the danger of a free for all because the externalities of shoddy development are not controlled for in such a system. There is also the problem of hamlets, or a small number of rural homes. The owners of the properties could then sell them after approving large shoddy developments nearby.

For these then safeguards must be built into the system. Individual homes should be approved by local authorities, the level of development in a set time period (e.g. five years) should be no bigger than the existing settlement development is attached to. Yet these aren't reasons to continue with the deeply flawed current system but examples and individual cases.

Talk of 'concreting over the country' is wrong; and demand for housing is finite

Opponents of development often warn against 'concreting over the country' for the sake of 'greedy developers'. Only 10% of the country is built on, and this could rise to 12% with very little difficulty or changes to people's quality of life. Demand for development is not infinite.

We currently have large pent up demand for housing. But as we build more, satisfying the present need for housing, peoples' preferences will begin to shift. If you have a 50m² house for your family, you are strongly likely to want a 100m² house. But if you have a 100m² house then you will have a weaker preference for a 150m² house. And you may not want to move from a 150m² house to a 200m² house at all given maintenance, upkeep and other costs. On top of this the labour and materials for additional housing space will cost a great deal. There is a finite demand for housing in this country not infinite demand.

Developers don't want to 'concrete over England' because they are trying to anger middle England. The reason developers want to build homes is that people want to buy them to own or rent. The notion of 'greedy developers' are simply an easy target that people use to avoid the hard truth, that our planning system is destroying family life for many, pushing up spending, and leading to poor quality development and quality of life. But is also part of the current antagonistic situation which leads to both sides demonising each other rather than compromising and coming to an agreement – the result of a deeply flawed planning system.

6

A Functioning Model of Development

Part A: Replacing the current, broken model of development

We need a new model of development to ensure economic growth

As set out in the earlier parts of this report, then the dysfunctional planning system has created a dysfunctional development industry. They have large land banks and rely on a highly leveraged model that means that developers cannot build with falling land prices, even when house prices are hugely above the cost of construction. It also cannot achieve stable prices, as this would require a gentle trend down in land values over many years. In addition, given credit is needed by business, attempts to prop up the existing model will divert scarce credit from new ideas, businesses and innovation to merely inflate land and house prices.

We need a new model, one that can build without rising credit and land prices.

Planning permission should have a short expiry date and transfer risk to land owners

The developers need to stop taking risk onto themselves. They should set land as the 'final price' once construction costs and a fixed level of profit have all been paid for, and this should only be agreed after sales have occurred. Land risk is often shared or entirely taken on at present by developers when it should

be entirely passed on to land owners, allowing construction to continue even if and when land prices fall.

Because uncertainty would be reduced by planning reform, there would no longer be such a need for developers to

land bank and seize land before their competitors get hold of it, which currently encourages additional land banking.

This would pave the way for planning permission to expire after a relatively short period of time, with strict rules about rolling over planning permission. Planning permission could exist for a year or eighteen months under this system in a way that is simply not possible under the current complex and restrictive planning system. Given the NAO found that the average time to get approval for development is two years, it is no wonder that developers build up large land banks as a hedge against future uncertainty.

“The developers need to stop taking risk onto themselves”

Some developers may go bust, and their land could be auctioned off to self-build

Developers have purchased a lot of land at inflated prices. A system which allows gentle deflation of land prices could mean that some developers would go bust. As ever, to pretend company insolvency is the worst possible outcome is simply false. It is sad for those involved, but resources will be released, the individuals concerned will find new work within the industry, and a new model of development will emerge. Developers will have to change how they operate and this will not be easy. But it is essential. The alternative to this is not more construction but less, as developers hold off increasing volumes in almost all areas; waiting for land prices to start rising again; ‘zombie developers’ that are unable to build but use their skills to capture land as it is released by councils and just sit on these assets.

One possible way to get construction going immediately is to auction off land banks where developers go bankrupt, but limit the purchasers to self-builders. This would increase construction and housing numbers immediately – because self-builders have no reason to delay and every reason to start construction. Issues around transport and utilities could be handled by councils, with resources allocated centrally to kick start this process and then a levy charged on self-builders once the construction is complete to recoup this cost.

Increased transparency within the system

Reform must also reduce the planning systems’ opacity. The NPPF was at least short, crisp and clear. This trend towards clarity and transparency is essential in order to empower local people. Planning applications should set out the:

- Indicative cost of land
- Cost of build
- Materials proposed
- Illustrations for the look of the development (both as a whole and individual homes)
- Where self-build is designated
- Green space created
- Density and housing type
- Likely sale value of housing and incentives for local people (covered later)

Developers will of course find it advantageous to create such detailed plans to prevent objections but some of this can be legislated for. Parts of this as standard for planning permission are required under the *Town and Country Planning (Development Management Procedure) (England) Order 2010* but parts need strengthening and some planning permissions do not adequately inform local people. Planners and inspectors should increase the time that they spend on enforcement, which will be possible given there will be no need to create an overarching master plan and a less complex system will be in operation.

This transparency will help create plans where the purchase of land occurs at a lower price and some of the money saved goes to the creation of green and open space, better quality materials in the build etc. These attractive features will become ‘built in’ to plans.

Providing strong central support to help improve development quality and brands

The Government's *Planning Portal* website compares relatively well with many other Government websites in that you can easily obtain the bare bones of a planning application. It should also be used to help guide developers towards projects that will win public approval and provide access to information around which developments are popular at very little cost.

DCLG should also provide templates for development, working with architects, academics and groups like the Prince's Foundation, and Savills Research. This would help smaller architects and developers to break through the system. This should not be about individual neighbourhood plans (as is currently the case) but open and publicly accessible documents that provide a 'skeleton' application and data.

For instance, to increase support for development, public open space between existing development and new development is a good idea. This would both enhance the existing area and increase the value of new housing. Government templates could provide indicative ideas about how to incorporate this. In addition, government guidance on construction costs and other elements would empower smaller developers, architects and smaller charities in coming up with interesting proposals. Case studies of brownfield development can play a similar role.

An externality led system would work best with effective brands where developers must build trust with communities. Pushing developers towards collaborating with existing brands, charities and so on will make developers more accountable as they and their partners will have a brand to protect. Brands are likely to develop over time in any case but speeding this process will increase the rate of development. DCLG should encourage forward thinking builders to partner with the Princes' Foundation, with John Lewis, with groups that have a brand to protect. They could try to see if overseas brands (e.g. Huf Haus) were prepared to sanction developments in England.

Part B: Why this system would work and safeguards

Evidence that most people are not automatically anti-development

Most people are not anti-development. Most people are ambivalent about development, and many who oppose development do so because the quality of what we build is mediocre.

Many argue that localism would be worse than the existing system. Those who supported the previous approach point triumphantly to the fact that housing permissions have fallen since Regional Spatial Strategies were abolished. This misses the point. Local authority planning will certainly fail to deliver homes. But regional planning also failed before that.

Polling shows people are not anti-development. A YouGov poll from 2004 found that 40% of those polled supported new homes in their suburb, town or village as against 29% who were opposed.²⁵⁹ This is before incentives or quality control are posited. However, it should be noted that only 11% strongly supported this as opposed to 15% who strongly opposed it. A MORI poll this year showed 50% in favour of new homes in their community and just 28%

259 YouGov/HBF Survey Results, YouGov, 2004

against.²⁶⁰ Separately in another poll, 55% of people were prepared to accept semi-detached or detached homes, and 47% were prepared to accept (quality) terraced housing.²⁶¹

The figures are even higher if voters are given development with safeguards or if they are asked about how they would like to be engaged, with YouGov finding 82% thought the support of the local community was important in the development of new homes,²⁶² and government research finding 73% of people supported new homes if they were well designed and in keeping with the local area.²⁶³ This is before we consider the effect of statutory compensation for those affected, and quality control enforced by local people.

At present the quality and anti-suburban nature of new homes (and issues like lack of parking) turns many people against development, while the council based system gives the biggest say to those who shout the loudest as set out in our previous report *Making Housing Affordable*. Councils are elected on low turnouts by older, affluent home-owners, who elect older, affluent home-owners as councillors. A recent by-election in a Home Counties marginal constituency where UKIP gained 34% of the vote based entirely on an anti-development message shows that it would be dangerous to rely on councils and the existing system to come up with large targets for development.²⁶⁴ Even if they do, they will come under pressure to later revise them down.

The reformed system gets around this. By giving local people a say to ensure quality, then central Government both relinquishes control and responsibility; as it promised.

The proposed system will drive change to increase quality

Government must realise this shift to better quality development will not occur on its own. A large scale report by Savills and the Prince's Trust, *Valuing Sustainable Urbanism*,²⁶⁵ looked at three cases and found that while higher end development was as profitable as conventional development, it was risky. In the current planning system, each case was only feasible due to particular circumstances (e.g. charitable donation of land). The report noted:

*Longer-term developments requiring detailed, even meticulous, planning and infrastructure will show a lower return on capital employed than the purchase and rapid build-out of small, 'oven ready' sites. This is not a risk-profile that many conventional equity investors (shareholders) are happy with.*²⁶⁶

Neighbourhood planning is a good idea but is not well executed. The system set out in this report takes its good points and develops them further. Without a more radical shift neighbourhood planning will just become glorified council consultations – for the reasons set out in the earlier section.

Part C: A better system for commercial development

The need to increase commercial development in line with business needs

As was set out in Chapter 1, the UK's planning system is not only saddling us with very high housing costs but failing to build an economy for the 21st century. We urgently need to build the commercial space that our economy needs in order

²⁶⁰ *Inside Housing – welfare and planning reform polling*, Ipsos-Mori, 2011

²⁶¹ *Housing Futures; Informed Public Opinion*, Joseph Rowntree Foundation, 2004

²⁶² *Public Attitudes to Housing 2010*, DCLG, 2010

²⁶³ *Public Attitudes to Housing 2010*, *ibid*

²⁶⁴ *Meopham by-election in Gravesham 13th October*, results from Gravesham council website. (The author should declare that they have family in the area and followed the campaign with interest).

²⁶⁵ *Valuing Sustainable Urbanism*, The Prince's Foundation for the Built Environment, 2007

²⁶⁶ *Valuing Sustainable Urbanism*, *ibid*

to flourish where business needs it. As set out in Chapter 1, the competitive challenge from Asia is only going to get more intense.

If an industrial estate wants to convert itself into a factory, or vice versa, or a section of farmland wants to convert into a new industrial park, this should be covered by the system outlined earlier, not have to conform to a local plan that tries to control the area's economy.

In this system, instead of local authorities dictating to business in their area, local authorities would adopt to changing preferences as business took them forward. We know that regeneration led by commercial entities can work. The Merseyside Docklands Corporation and London Docklands Development Corporation both drove massive change in brownfield sites. The regeneration of both areas compares favourably to other attempts at regeneration. The redevelopment of the Docklands in London has helped ensure that many companies were able to migrate from an over-crowded City to a brand new set of commercial developments.

Councils might have to cover additional infrastructure spending, as new business development brings new pressures, just as new residential development does. However, partial business rate localisation as discussed earlier should cover the costs of this.

The 80s saw Britain's economic performance improve alongside social dislocation largely due to high and persistent levels of unemployment. While this rise in unemployment was seen across Western countries, such social dislocation is something public policy should try to reduce. Better planning can have a huge part to play. The Preston 'Travel to Work Area', an economic area that is centred on Preston came in the top ten urban areas in terms of private sector job creation across the UK between 1998–2008 in both absolute and percentage terms (3rd in percentage terms and 9th in absolute terms).²⁶⁷

These jobs came in new developments driven by business and linked to the motorway network and out of town business parks. The table below shows how the six areas in the Preston 'Travel To Work Area' saw huge growth in office space compared with most areas. Areas outside of Preston itself like Chorley, Fylde, South Ribble and Wyre saw large rises in office space, and to a lesser extent, retail space.

Growth of floor space in the six areas that the Preston TTWA contains 1974-2008²⁶⁹

Area	Percentage Growth between 1974-2008		
	Industrial	Office	Retail
Chorley	-12	283	86
Fylde	-22	445	51
Preston	-14	162	73
Ribble Valley	7	107	43
South Ribble	23	1000	159
Wyre	72	430	47
Average growth	9	405	76
England	10	173	47

²⁶⁷ *Private Sector Cities*, Centre for Cities, 2010

²⁶⁸ *Commercial and industrial floorspace*, Lancashire County Council, 2008

²⁶⁹ *Why Preston Works*, Regeneration and Renewal, 9th August 2010

Preston benefitted from heavy car use with the M6 motorway and the M55 to Blackpool and the M65 to Burnley and Blackburn, and business made use of a network of roads and sites around the edge of the city with planning permission already granted. These were a legacy of the proposed Central Lancashire New Town, begun but then abandoned. Preston's local planning was much more liberal than in most areas.²⁶⁹ One side effect was most growth was small indigenous business expanding.²⁷⁰ A loose planning system benefits smaller businesses the most, because they can grow organically as they need, while they lack the ability to push their needs through the existing and over-complex planning system.

Most planning is based on high density, anti-car development, focused on existing urban cores and set by planners. Preston's successful pattern was the opposite and driven by business needs due to Preston's loose planning system.

When in 2004, planners, who had been weaker than in most areas, drew up a new plan for Preston, they noted what Preston had to change: "The Local Plan differs in many respects from previous local plans reflecting the fundamental changes which have taken place in legislation, Government policy and public attitudes"²⁷¹ The new plan headings are titles like 'urban concentration', 'mixed development patterns', 'restraint of the motor car', and 'safeguarding city centres'; the exact opposite of what created Preston's success.²⁷² Preston's high levels of job creation existed because business drove what was built and local plan was weak. We should emulate this success, not destroy it.

Growing our Northern Cities

Northern cities such as Leeds and Manchester have a good track record of regeneration in the city centres. But they are held back by green belts that choke off their future growth in terms of the homes and the commercial space available for them. As we saw in Chapter 1, office space is more expensive in many Northern and Midland cities than those in Southern cities. A more simple economic planning system will help drive forward growth – particularly in the regions that need it most.²⁷³ Enterprise zones make good headlines but bad policy.

Stopping a repeat of the 1980s

The hope of the 1980s was that unemployment would fall rapidly as inflation fell. This failed and unemployment remained stubbornly high, particularly in specific areas and regions.

The planning system played a key part in this. The rapid creation of the green belts in the North pushed business and residents towards the South, by artificially raising costs, which the high cost of office space in the North continues to do. By failing to allow the expansion of successful areas to allow greater movement and slowing regeneration in the North our planning system raised the human cost of turning around the economy.

As the economically deprived parts of the UK are going to be hit hardest by the inevitable reduction in public spending in the next decade, we need to examine cost-free ways that we can create jobs in these areas. Planning reform is very high up this list.

270 *Why Preston Works*, Regeneration and Renewal, 9th August 2010

271 *Preston Local Plan*, Preston City Council, 2004

272 *Preston Local Plan*, *ibid*

273 Again the Policy Exchange report *The Best Laid Plans; how planning prevents economic growth* is excellent on this topic

The tables below show the top ten urban areas for private sector job growth between 1998–2009²⁷⁴ The North is represented by various cities (e.g. Newcastle, Leeds). We must do all we can to support this growth. Creating expensive commercial space and homes in order to protect intensively farmed and degraded agricultural land does the exact opposite.

Top ten cities by job growth I and II

City	Private sector jobs growth (1998-2008) as a percentage	City	Net extra private sector jobs created (1998-2008)
Brighton	24.8%	London	321,400
Milton Keynes	23.7%	Bristol	37,200
Preston	16.2%	Manchester	33,700
Portsmouth	15.4%	Leeds	25,400
Bristol	15.4%	Newcastle	24,200
Northampton	13.8%	Milton Keynes	22,400
Bournemouth	12.7%	Portsmouth	20,900
Wakefield	12.5%	Brighton	20,100
Reading	10.3%	Preston	17,100
Newcastle	10.2%	Reading	16,900

Part D: Desirable and Competitive cities that boost our economy

Changing our planning system will improve our daily lives and ensure that we can compete against the rapidly rising cities of Asia. Many of the cities which could power growth and exports are being held back by our planning system. Around Oxford, a hectare of land for residential development is worth a staggering £4 million per hectare. Around Cambridge, a hectare of land for residential land is worth £2.9 million per hectare.²⁷⁵

Across the UK global centres that could compete internationally and ensure future economic success are being held back by our current planning system which blocks successful places growing. Such potential cannot be realised if cities which contain the future clusters of success that we would like to see expand are constrained by a green belt that refuses to allow development in to protect mediocre intensive farming.

By allowing the expansion of cities as they need to grow and allowing the creation of new Garden Cities that would be able to pay for the infrastructure that our country desperately needs, we will build a strong economic future. We will create new 'brain belt' cities of the future to get the growth we need. We risk simply talking endlessly about supporting the industries of the future while doing nothing to reduce the constraints that hold them back. Small-scale and piecemeal initiatives are not the way forward. We need a step-change.

²⁷⁴ *Private Sector Cities*, Centre for Cities, 2010

²⁷⁵ *Property Market Report 2011*, Valuation Office Agency, 2011

Cities which focus on desirability and business needs not density and central plans

We need a system that stops the obsession with density and instead focuses on desirability. Of course, this does not mean we should only allow low density. But it means that this should be decided by those affected by development.

This report should not be seen as arguing that the suburb should become the only model of development. The regeneration of inner urban areas is to be celebrated. But to repeat an earlier quote; “In most places most city centre residents are young and single, without children. A lot of them are students, some are professionals.” Just 5% of people say that they want to live in a city centre. Wider urban regeneration means suburban development. The rebirth of our cities is only possible through creating the spaces that people want to live in; suburban, green and attractive areas. The most expensive and desirable parts of the UK are suburbs like Putney, Hampstead or Highgate and Northern equivalents such as Hallam in Sheffield, with low to medium density, reliance on car use, gardens and spacious homes. By building the cities that we want to live and work in, we will enhance the quality of life of our population, rather than creating an increasingly crowded and grey day-to-day experience.

This system deals with the problems of development and supports further reform

This system supports further reform. Self-build, for instance, would be boosted by this system as people are likely to trust self-build more than large builders and a simpler system helps self-builders acquire land. In addition in this system all the problems of development discussed earlier are also dealt with:

- Land is no longer rationed by local authorities
- Planning only intervenes where market failure exists
- Planning no longer is about anti-suburban goals
- Business assess its own needs
- Incentives and compensation are better aligned
- High land prices are recycled to better homes
- Green belts become more attractive yet cities expand
- Externalities are accounted for in the system
- We would have a functioning development model
- We would no longer ignore the political realities of planning
- New urban areas can be created

Timidity in reforming the planning system will fail, as it has before. We need Cities for Growth to renew our society and our economy. We cannot seek to contain the pattern of growth in cities built for Victorian England. The internal flight away from our cities is a sign that we are failing to reinvent our urban areas and over time is likely to weaken our economy. This stagnation and failure to allow new cities is combined with a desperate shortage of homes and offices. This is crippling our society and economy.

Cities for Growth would spur an increase in construction, driving job growth and employment. In the mid 2000s the construction industry as a whole employed 1.8 million,²⁷⁶ even when being held back by planning laws. Taking the

276 Output and Employment in the Construction Industry, First Quarter 2007, Table 6, DBIS, June 2007,

straightjacket off development would spur growth at a time when we desperately need it. In the 1930s, it was a boom in construction that helped save the UK economy, with housing construction rising from less than 200,000 in the 1920s to over 350,000 by the mid 1930s.²⁷⁷ This, along with low interest rates, spurred growth and brought rising prosperity and home-ownership in the aftermath of the greatest recession in the 20th century.

We must break free from our past and ensure the huge numbers of vested interests that obscure and distort debate must not again block reforms that were needed twenty years ago. The stakes for our economy, society and cities could not be higher.

277 A Century of Change:
Trends in UK Statistics since
1900; Research Paper 99/111,
House of Commons, 1999

Our housing and urban crisis has been decades in the making. Far from an ‘urban renaissance’ our cities are locked into a long term decline. Meanwhile fewer homes, of low quality, are being built, while our economy is held back by the high price of commercial land. The roots of our problem lie in the *1947 Town and Country Planning Act* and a dysfunctional development sector it has created. It is no coincidence our most desirable areas and best housing predate the 1947 Act.

This report sets out two solutions to solve our housing crisis and boost growth. First, we need to recognise that the current local authority based planning system is broken. When the actual cost of building a house is less than half of what it sells for, output should be rising. Instead, developers won’t build as they purchased over priced land, and local authorities won’t release land to new entrants, holding down output. We need a more liberal and competitive system but, crucially, where those directly affected by development have the final say and we stop imposing costs onto local people without compensation. We need to build what the evidence shows people want – large scale attractive city suburbs, not what planners decide they should have – small boxy flats.

Second, we need new Garden Cities - large scale urban areas - where local people and business agree. These will act as beacons for development, creating huge housing and infrastructure projects, and showing the UK is serious about taking action to spur growth. They are a cost free way for the Government to see billions invested in new projects. Garden Cities near existing cities will create powerful economic centres able to withstand the challenge of the rising Asian cities.

The scale of our housing and growth difficulties seem insurmountable. But with clear analysis, and firm action, we can use Cities for Growth to spur wider social and economic renewal.

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