

planning and land value creation

The value of land depends on the use that can be made of it. The 1947 Town and Country Planning Act restricted the ability of landowners to develop land without first obtaining permission from local authorities. This has had an enormous impact on land development values.

Planning authorities designate specific pockets of land they deem suitable for development, creating an artificial shortage and thereby raising the market value of designated land. Agricultural land has a market value of £3,000-£10,000 per hectare. But if the owner has been given planning consent for new housing it acquires 'development value'. This can range from £800,000 per hectare in England's less prosperous regions to around £2 million per hectare in areas of highest demand; and much higher than that for sites in the most favoured locations. The market values of land allocated for industrial or commercial development are generally somewhat lower.

All development values accrue to the landowner. They are paid out by the developer when buying the land and recouped from the buyers of new homes, industrial or commercial properties.

The TCPA and others have long believed that a proportion of landowners' unearned increment should be returned to the community in the form of improved public services or infrastructure.

Capturing the Value, and the Politics of Planning

The effects of planning on land values were foreseen in the run-up to the 1947 Town and Country Planning Act. The Act appropriated to the State both the right to develop land and the development values conferred on it by public action.



Sir Patrick Abercrombie, best known for the post-World War II re-planning of London through the Abercrombie Plan.

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When planning consent increased the land value, the Act specified the owner would have to pay a 'Development Charge' to a new body, the Central Land Board (CLB). Contrary to the advice of the then Planning Minister, Lewis Silkin, who wanted this charge to be set at 70% of the increase in development value, leaving the landowner with a good incentive to sell, the Government fixed the charge at 100% of the increase. It decided also that public agencies buying land for their services (such as schools, hospitals and council housing) would pay only the land's 'existing use value' – which for most land was its agricultural use value.



Louise Burston

Landowners resented and resisted the changes brought about in the Act. Using the legal avenues of the courts they challenged the CLB's powers to buy land to bring it into development. In response, the Conservative Government elected in 1951 suspended the Development Charge and then, in 1954, abolished it. They did this against the wishes of their Chancellor, R.A. Butler, who thought a 60% or 70% charge would be fair, workable and of rising value to the Exchequer. By eliminating the Development Charge landowners could reap, tax free, the full increase in development value conferred by a public planning consent.

1959 Town and Country Planning Act

Public agencies, however, would continue to buy land for their many purposes at existing use value. This caused discontent among those landowners denied, as they saw it, their share of the rising development values in land. Their campaign led to the 1959 Town and Country Planning Act, which stipulated that all public agency purchases would be at full 'current market value' – that is, as boosted and inflated by the planning authorities' activities. But for uses which had no market value (roads, schools and all other public service uses) valuation contrivances have ensured that these owners, too, share

in the planning system's inflation of land values by attributing to the land the value of the 'nearest prevailing use', which is usually housing. The 1959 Act's compensation code for public acquisition continues to apply.

The Land Commission Act

With all restraints removed, land values soared. This led the Labour Government to pass its 1967 Land Commission Act. The Commission's twin tasks were to buy land in support of national, regional and local plans; and to collect a 'Betterment Levy', set initially at 40 per cent of the land's increased development value. But the Conservative Government elected in 1970 at once abandoned the Levy and then abolished the Land Commission.

The Community Land Act

With another change of government leadership Labour passed its 1974 Community Land Act. This provided for the gradual acquisition of all future development land by local planning authorities; and brought in a 'Development Land Tax', set at 80 per cent of the development value increase. The incoming 1979 Conservative Government abandoned the land acquisition provisions but kept – to general surprise and approval – the Development Land Tax, albeit at a reduced value of 60%. This, too, was abolished in 1985.



Capturing Value for Public Good Today

In the policy vacuum which followed, a few alert planning authorities saw the opportunity to secure financial contributions from developers towards the cost of specific public prospects and as a condition of the planning consent. The planning authorities reasoned that such contributions could easily be paid for by the landowner (or developer) out of the large, and largely untaxed, increase in land value conferred by the planning consent. The process came to be called 'Planning Gain'. And this has evolved into the 'Planning Obligations' system now legalised and regularised in recent Planning Acts and circulars.

This is the background to the Labour Government's 2004 proposal and subsequent extensive consultations to bring in a 'Planning Gain Supplement' (PGS). The PGS will be the fourth attempt since 1947 to impose a charge, levy or tax on the increase in the development value of land attributable to the grant of planning consent. Along with this, the Planning Obligations system is to be simplified, clarified and made complementary to the PGS. PGS itself is to be levied 'at a modest rate' and will not be in operation before 2009.

Effective alternative funding sources have yet to present themselves, but the controversial nature of taxing landowners' unearned increment means that the PGS too may not be implemented. It could equally be repealed by a future government. However, the potential for such monies to be used to support new homes with community infrastructure and facilities, and the TCPA's support for doing so, remains.



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