Grand designs? [1]

Written by **Whig** [2] | Thursday 27 September 2012

The Government's recent announcements [3] on changes to planning are to be welcomed, but they represent a very half-hearted attempt to reduce the disincentives to construction (it's a shame that they also came with dollops of more spending as well). Contra the Local Government Association's propaganda [4], it is quiteclear [5] that it is the planning system which is the principal contributor to Britain's dire shortage of housing. As I recently pointed out [6], it is this shortage which explains the lack of affordability of housing - both for purchase and rentals, not to mention the vast economic distortions which this constrained supply creates. These initiatives - where they are not entirely misdirected - are tiny compared to the scale of the problems.

But what government giveth, government also taketh away. This take away is in the form of the Communities Infrastructure Levy, which was introduced in 2010 (stemming from the Labour Government's 2008 Planning Act) and is gradually being implemented. The CIL permits local councils to levy an infrastructure charge on developers in order to fund the demand for new infrastructure created by their development. Unfortunately, CIL does not replace the pre-existing Section 106 Agreements under the Town and Country Planning Act (1990) - often used to subsidise 'affordable housing' - but instead is supplementary. The Section 106 Agreements were rather arbitrary whereas the CIL will at least have the benefit of transparency as it is simply levied on a pre-determined rate per m2.

According to the Department of Communities and Local Government's information [7]: 'Under the system of planning obligations only 6 per cent of all planning permissions brought any contribution to the cost of supporting infrastructure, when even small developments can create a need for new services. The levy creates a fairer system, with all but the smallest building projects making a contribution towards additional infrastructure that is needed as a result of their development.' Immediately we should observe an issue; if the CIL intends to increase the amount of contributions derived from developers then this can only represent a further disincentive to developers to build housing. Whilst there is great stress laid upon the need for Councils to balance the CIL - the rate of which is determined by the individual Councils themselves - with the economic viability of development, this effectively means that Councils can determine how much profit any developer can make. The CIL is expected to derive an extra £1billion p.a. by 2016 for spending on infrastructure - which must represent an additional tax of £1billion on development. This hardly seems likely to encourage something that is in short supply and seems to run contrary to the Government's own stated policy aims.

There are also some rather more unforeseen and pernicious effects of the CIL, as recently reported in the Sunday Times [Homes section 2/9/2012]. Firstly, certain councils appear to be using the CIL and Section 106 to raise revenues in the face of tightening from central government and the decline of the volume of housebuilding, especially as the rates are discretionary. However, like most regulation and taxation the CIL

will hit the small man the hardest - in this case, self-builders. As the CIL is levied on any building over 100m2 it may render many self-builds financially unviable according to the postcode lottery of charges. In the worst instance Wandsworth has set rates at over £500/m2 - given that the average self-build is 200m2 the additional costs are hugely disproportionate to the infrastructure demands of any one household. Again, encouraging self-build was encouraged by the Government, particularly by out-going Housing Minister Grant Shapps. Whilst self-builds account for less than 10% of UK house build, disincentivising them is hardly going to help our dire housing situation.

Of course, there is much more that could be said here regarding the distortionary impacts of government control of infrastructure and planning on the housing market and the resultant difficulties the UK experiences in providing sufficient supply of housing. In this limited space it is sufficient to say that this is an ill-conceived policy that should have been scrapped by the incoming Coalition Government. Instead, it is being turned into a means of making up the shortfalls in council funding at the expense of further residential construction. What we have here is a classic but all-too-typical case of Governments advocating and attempting to stimulate via spending a desired behaviour in one area whilst at the same time Government is disincentivising the very same behaviour by another method. Additional infrastructure construction - if it must come from Government - should instead come from existing budgets by eliminating the vast amount of wasteful spending that local Government currently engages in.

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