

huge temptation for less well-paid council planners to give in to the superior team of experts at the developer's disposal.

CLAs could empower localism. Councils could use the profits from CLAs as they wish, for example to reduce local taxes. Tim Leunig's paper waxes lyrical about "converting NIMBYs into IMBYs". The increased revenue from CLAs would give councils the means to seriously address the perceived deficiencies in infrastructure to support new housing: "turning NIMBYs into IMBYs" in Leunig's phrase. Leunig thinks many could reduce council tax as well as fund infrastructure from CLA 'windfall'.

CLAs are entirely compatible with Land Value Taxation (LVT), and arguably have a different moral justification. LVT can be thought of as a "service charge": the community confers value to land by providing a system of property rights and a rule of law to those who pay it. CLAs aim to recover as much as possible of the windfall planning gain. Both aim to recover community created land value; both attack different facets of this problem.

However, such a novel policy idea needs well designed trials. The Coalition Tories were deeply divided over Land Auctions: George Osborne supported them but Local Government Minister Eric Pickles thought them a form of communism!

This year's policy working group on Planning & Housing asks us to consider giving CLAs a role in the planning process.

Liberal Democrat

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and Economic Reform

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**COMMUNITY
LAND
AUCTIONS**



Development of rural land is driven by a very simple business proposition. If a land owner can get planning permission to turn farmland into residential land, in South East England its value shoots up a hundredfold. The technical term for this dramatic price increase is "value uplift".

This "windfall" (unearned) profit can, according to economist Dr Tim Leunig, best be captured by applying auction theory to the housing land market. In the UK, development value has been nationalised since Labour's 1947 Town & Country Planning Act. However there hasn't yet been an effective way of securing that value for public benefit.

The only known use of land auctions is in Hong Kong, where all land is owned by the Government, which holds periodic auctions of land when it needs to expand settled areas. This is a very different situation to that in England or most other countries where land is privately owned.

Leunig's idea was attractive to many policy makers in all parties at the time of the Coalition, which carried out a series of pilots in 2011-13. It was in a Lib Dem policy paper shortly after Leunig wrote his paper in 2007 but was rejected initially by Conference. ALTER has supported it, since it complements Land Value Taxation (LVT), which is an annual tax. Michael Gove accepted an invitation to speak at an ALTER fringe on the subject in 2007 but pulled out when he was moved from Local Government to Education.

At the end of 2021, with Gove in charge of housing and planning, a new look at the Community Land Auction (CLA) is being taken by Government. So how could it work?

As today, the local planning authority (LPA) determines how many new homes are needed and sets certain spatial and qualitative criteria in its Local Development Plan (LDP). But instead of putting all the cards in the hands of suppliers of housing land in a "Call for Sites" with no price attached, the LPA becomes the monopoly buyer of housing land, in effect giving itself outline planning permission to build taking into account CLA proceeds. It then sells those sites on to developers, so the bulk of development value stays with the elected public body that framed the LDP.

In the CLA's first stage, the LPA announces widely that it is inviting landowners to name a price for land they wish to sell. Land is eligible for consideration if it does not already have planning permission for residential development. The landowners submit their offers as sealed bids, and the offer is irrevocable but time limited (say for 18 months). There is no compulsion on a landowner to submit an offer, and individual owners can name any price they like. There is no compulsion on the council to accept any particular offer.

The second stage of the CLA takes place when the sealed bids are opened. The council assesses the rival bids according to the

LDP criteria, e.g. impact and sustainability, but also it takes into account the price. This will, in theory, be probably about four times agricultural value. In accepting offers of land, the council effectively grants itself outline planning consent on the selected sites, according to the usual rules.

The "auction" takes place in the third and final stage. The council auctions each "right to buy" option to the highest bidding builder, along with planning permission which may be subject to conditions set by the council (e.g. social housing numbers). Since the land now has residential planning permission, the council will be able to sell it at a much higher price than it paid. This "value uplift" accrues to the council, not the owners.

Critics of CLAs say that landowners, deprived of the windfall profits available under the existing system, will refuse to sell. This seems unlikely. The property speculator who holds out for today's hundredfold profit would be taking a double risk. First, that other landowners willing to sell their land at near agricultural rates could undercut them while still making a decent profit. Second, that once the requirement for new housing is fulfilled, they would have lost a revenue opportunity for a decade or more.

Objections have been made that a conflict of interest will arise. This happens already, since councils are often also landowners. For larger developments there are safeguards which include recourse to independent inspectors. This situation is less the case than the existing moral hazard that councillors and their officers are exposed to today, where private landowners have huge incentives to distort and corrupt the process by which planning permission is granted, especially on greenfield sites.

The potential profit margin available to landowners of larger greenfield sites allows them to finance the employment of the best planning consultants. Councils and local SME builders can seldom afford professionals in the same league. There is also a