

## Build up to level up: the fiscal impact of street votes

Briefing Paper, October 2021

### Executive Summary

This paper analyses the potential growth and fiscal impact of enacting the policy of 'street votes' or 'street plans', as developed through a wide range of policy papers and academic work including by Policy Exchange, Create Streets, and the Building Better Building Beautiful Commission. The three key effects considered are:

1. The direct fiscal impact the policy could have under various scenarios, on local and central government through Stamp Duty Land Tax, Council Tax, and Infrastructure Levy;
2. Estimates of the growth impact, and how this will be distributed; and
3. The potential indirect fiscal impact, via growth.

We have built a model of the country using real data on home size, prices per square metre, and standard economic modelling assumptions to work out a conservative estimate of the economic and fiscal impacts listed above. As with other estimates of the potential impact of the fiscal benefits of allowing densification, we believe this would release huge sums of money. We have run four scenarios, reflecting more and less conservative assumptions.

Our findings are:

- *Implementing 'street plans' could potentially raise £9.2bn annually for central government* by the end of this Parliament, and £51.9bn after fifteen years for a 'Levelling Up Fund' to target infrastructure projects across the UK, based on take up rates assumed in Strong Suburbs. If this sum was realised, it would be enough to:
  - double the Towns Fund,
  - double the Potholes Action Fund,
  - fund every project in the Campaign for Better Transport's Campaign to Expand the Rail Network,
  - fund the items on the Northern Research Group's ten point plan to level up the North, and the policy recommendations of Create Streets' own No Place Left Behind Commission, as well as
  - give out tens of billions of pounds allocated per head of population to the Combined Authority regional mayors to fund any shovel-ready intracity transport project of their choosing with a positive business case ratio (BCR) - a so-called 'single transport pot' for each mayor.
  - Alternatively, by the end of the Parliament the policy would fund a 2p cut in the basic rate of tax; and by the end of the fifteen year phase in a 10p cut.

- **Base case estimate of 130,000 extra homes.** If the Government implemented the 'street plans' policy, we estimate approximately 130,000 extra homes would be built each year for fifteen years. This would mean an extra £35bn of spending in the construction industry every year.
- **Increased tax take for both central and local government.** Breaking down the extra tax revenues above, the direct fiscal impact could be £2.9bn extra to HM Treasury through SDLT every year, and £8.5bn to local authorities every year through infrastructure levy. This would also lead to additional council tax revenues, rising to £2.3bn extra per year after fifteen years.
- **Adding nearly half a percentage point of GDP growth.** Using estimates based on past housing booms, and on the soundest economic analysis, a housing boom of around this size could add 0.4 percentage points to GDP growth every year for this period. This would raise the revenues above without the need to increase tax rates.
- **A further indirect fiscal gain through increased growth.** We thus estimate that revenues from other taxes—the indirect impact—would be large. Income tax, VAT, corporation tax, National Insurance, and other levies would increase due to higher growth. Using standard elasticities we find that in year one taxes would be £4bn higher through this channel. Within three year, taxes could be £20.2bn higher.

Breakdowns of the varying revenues, both direct and indirect, are given for the four scenarios in the table below. Details of the assumptions driving the scenarios is given below. For the purposes of this model, all scenarios assume immediate implementation, with the effects coming in after one year (i.e. in 2023), and estimate tax at the end of parliament (EoP) in 2024 and within 15 years (15Y).

<i>Increased tax revenues</i>	<i>Scenario 1: Base case</i>	<i>2: Conservative</i>	<i>3: Pessimistic</i>	<i>4: Stretch</i>
Stamp Duty Land Tax	<i>At the end of this parliament: £2.9bn After 15 years of the policy: £2.9bn</i>	<i>EoP: £2.1bn 15y: £2.1bn</i>	<i>EoP: £1.6bn 15y: £1.6bn</i>	<i>EoP: £4.6bn 15y: £4.6bn</i>
Infrastructure Levy	<i>EoP: £8.5bn 15y: £8.5bn</i>	<i>EoP: £6.6bn 15y: £6.6bn</i>	<i>EoP: £5.1bn 15y: £5.1bn</i>	<i>EoP: £18.7bn 15y: £18.7bn</i>
Extra indirect revenues from growth	<i>EoP: £6.3bn 15y: £49.1bn</i>	<i>EoP: £3.8bn 15y: £29.1bn</i>	<i>EoP: £2.5bn 15y: £18.8bn</i>	<i>EoP: £15.3bn 15y: £122.0bn</i>
Council tax	<i>EoP: £0.3bn 15y: £2.3bn</i>	<i>EoP: £0.23bn 15y: £1.6bn</i>	<i>EoP: £0.2bn 15y: £1.2bn</i>	<i>EoP: £0.4bn 15y: £3.3bn</i>
Total to HM Treasury	<i>EoP: £9.2bn 15y: £51.9bn</i>	<i>EoP: £6.0bn 15y: £31.3bn</i>	<i>EoP: £4.1bn 15y: £20.4bn</i>	<i>EoP: £19.9bn 15y: £126.6bn</i>

Models make the following central assumptions about take up and impact:

- *In scenario 1*, around 3.6% of the 15.5m households who could take up the policy are assumed to do so over the first fifteen years: those who stand to make £900 or more per square metre profit, after all costs and taxes are discounted. This amounts to a £200,000 floor for the average floorspace gains possible, of around 200sqm.
- *In scenario 2*, we raise this threshold to £1800/sqm, which means only 2.2% of those who could use the policy do.
- *In scenario 3*, we assume that streets can only come to agreement when they all stand to make £2700/sqm or more, which reduces the share taking up the policy to 1.4%.
- *Scenario 4* has the same assumptions as scenario 1, except we use a more realistic figure for building costs: £1350/sqm.

A range of other issues, for example supply of labour and materials, are not considered. It is possible that these would delay the practical roll out and benign fiscal impact of this policy. However, this should be a factor of timing and ramp up rather than final overall impact.

### Detailed fiscal and growth impacts

This section sets out the three impact areas in more detail.

#### *The reform*

Street votes, or street plans, would give individual streets of post-1918 buildings the power to propose to permit additional development on their street, within strict limits (see [Strong Suburbs](#)). These were recommended by Sir Roger Scruton's Building Better, Building Beautiful Commission's *Living With Beauty*. They have been developed by John Myers in an Adam Smith Institute paper *YIMBY*, and further developed in *Create Streets' From NIMBY to YIMBY*. They have since been recommended in papers released by the Social Market Foundation, the Centre for Cities, the Royal Town Planning Institute, the Taxpayers Alliance and the Institute of Economic Affairs, as well in *The Economist*. They have been widely endorsed by MPs, architects, community groups, urbanists, and planners.<sup>1</sup> Our modelling is based on the detail suggested in the report *Strong Suburbs* from Policy Exchange, which could be enabled by John Penrose's MP's Planning (Street Plans) Bill.<sup>2</sup>

If such a proposal is voted through with a qualified majority by residents of the street on the electoral register, all owners are given permanent planning permission to build up to the new permitted limits. Streets may permit themselves much more development than under existing permitted development. Sometimes this will mean extensions, in line with those possible under permitted development, but with street-based control on design and form. At other times it will mean complete rebuilding at higher densities, moving from (for example) a 1930s semi-detached house to a Georgian or Victorian-style three- or four-storey terrace.

Homeowners could potentially add thousands of square feet on their plot, even keeping within our strict rules that enforce light planes, cap storeys at local limits and more to protect neighbours.

<sup>1</sup> A full range of endorsements is available at <https://yimbyalliance.org/streetplans/>

<sup>2</sup> <https://publications.parliament.uk/pa/bills/cbill/58-02/0161/210161.pdf>

## 1. Direct fiscal impact

The potential direct fiscal impact of implementing street votes arises because a large number of new homes could be built under the scheme.

In many areas, prices of homes per square metre are a very large multiple of the cost of building more floorspace. Taking the conservative assumptions (see modelling assumptions below) there are around 500,000 plots in England where the profits would likely be large enough for the residents to want to vote a street plan through. Across these plots, around 1.7bn sqft of additional floor space could be added - equivalent to around 1.8m homes at the average size (around 900sqft). In our most pessimistic scenario, where homeowners require enormous uplift before they are willing to support street plans, 0.7bn sqft of additional floor space are estimated to be worth adding—or around 734,000 homes of the average size.

Using local estimates of floorspace value, we can model the uplift to homeowners, the cost of on construction, and the flows to local councils and the Treasury. When new homes are built using street plans, the value uplift to the homeowner is, we assume, covered by a development levy at eighteen per cent, which like other development levies goes to the local authority. We assume that these homes are sold, which generates SDLT for the Exchequer. There is also council tax, though this starts at a low level relative to the other levies. These are all calculated with realistic models of the schedules of tax rates at current and projected prices.

## 2. Growth impact

Building more homes in areas that need them will lead to increased economic growth. Many places with good job opportunities have fewer homes than the number of jobs potentially available. People are not able to live near to the best job opportunities, and are forced either to undertake extremely long commutes or to take less good opportunities that do not let them realise their potential. Relieving this shortage allows more people to take the best possible job, relieving labour oversupply and unemployment in some areas, and relieving shortages of employees in other areas, allowing high productivity firms to grow and create more prosperity nationally. The economic gains generated by siting more firms and workers near one another are called 'agglomeration effects'.

Economists have built models with real-world data to estimate the size of this effect in various countries today. One estimate for the USA suggests that income *per capita* would rise some 25% in the USA if their housing shortages were virtually eliminated.<sup>3</sup> Estimated measures of the UK housing shortage suggest that our shortage is of a similar magnitude, and our GDP gains could be similar.<sup>4</sup> Street plans will not solve this problem completely: we judge that they could relieve only around a quarter of the country's housing shortage.<sup>5</sup>

There is another means of assessing the economic impact of allowing more homes: looking at past historical examples. In the 1930s, Britain built at an extremely fast rate to accommodate huge demand

---

<sup>3</sup> <https://www.nber.org/papers/w26591>

<sup>4</sup> [https://www.mercatus.org/system/files/myers\\_-\\_mercatus\\_research\\_-\\_fixing\\_urban\\_planning\\_with\\_ostrom\\_-\\_v1.pdf](https://www.mercatus.org/system/files/myers_-_mercatus_research_-_fixing_urban_planning_with_ostrom_-_v1.pdf)

<sup>5</sup> There is a third way to validate this estimate. The official average house price in London is about £500k (ONS House Price Index), and the cost of building a house is about £230k (£2700/sqm by the average size, 85sqm). Adding 1% more homes to the UK housing stock of 24.4m will reduce prices 1.8%. Prices would need to fall 54% for homes to become no longer worth building. This implies the housing stock would need to grow by 30%. This would be 7.32m homes, which would correspond to the roughly 25% productivity gains possible through solving the housing shortage. 1.8m is approximately a quarter of 7.32m, suggesting a quarter of the 25% gains, or roughly 6% are possible with street votes.

for housing around the fastest growing places. The UK almost completely avoided the Great Depression after 1931, unlike France, Germany, and the USA. The judgement of Britain's most senior economic historians, including Professor Nick Crafts, is that that was due to our profound housebuilding boom—producing homes for working and middle class families which are still cherished today.<sup>6</sup>

Professor Crafts concludes that around a third of GDP growth during this period was driven by housebuilding, with roughly 750,000 homes built above 1920s trends in the boom years of 1932-1938. During this time, housebuilding rose from around 200,000 per year to around 325,000 a year (which was much higher than at present as a percentage of existing stock), and GDP growth ran at around 4%, with total growth of 24% of the period.<sup>7</sup> This 750,000 addition represented adding roughly an extra 10% to Britain's stock in 1932.<sup>8</sup> If a 10% addition to the stock above standard levels can drive 8% growth, our roughly 7.5% net addition to the stock might add 6% to GDP, or around 0.4 percentage points per year.<sup>9</sup> Of course, economic distortions from housing shortages are far larger now than they were in 1932, so the beneficial effect might be larger. We also scale this effect down and up with our varying scenarios.

### 3. Indirect fiscal impact

The indirect fiscal impact comes from the increase to GDP shown in the previous section. Typically, studies find a GDP elasticity of tax revenues, or 'tax buoyancy' of quite close to one. That means that for every 1% GDP increases, taxes increase about 1% too. This makes intuitive sense, since it simply implies that taxes, which currently take about two fifths of each pound of output produced, take two fifths of extra output, if it is produced.

Tax revenues were £795bn in 2020-2021. Our projected growth figures imply taxes that are 0.4% higher in year one, and then after fifteen years of contributions from relieving the housing shortage, some 6% higher in year fifteen. This is an addition of over £3bn in the first year and almost £52bn in the final year. These are large sums of money: £52bn would be around a third of the entire NHS budget.

### How to spend it: Supercharging Levelling Up

In practice, HM Treasury and the Government will decide how to use the proceeds of Street Votes. The purpose of this section is to give a sense of how much might be possible, all at the same time.

- **Paying down debt.** One option might be to pay down the national debt—over fifteen years it would amount to roughly a fifth of the entire current national debt.<sup>10</sup>
- **Cutting taxes.** Another option might be to cut taxes: after fifteen years street votes would raise enough to cut the basic rate of tax by around 10p<sup>11</sup>, or almost enough to abolish corporation tax entirely.

---

<sup>6</sup> <https://voxeu.org/article/escaping-liquidity-traps-lessons-uk-s-1930s-escape>

<sup>7</sup> Crafts, N., & Fearon, P. (2010). 'Lessons from the 1930s great depression', *Oxford Review of Economic Policy*, 26(3), 285-317.

<sup>8</sup> [https://books.google.es/books?id=8MocBQAAQBAJ&pg=PA122&redir\\_esc=y#v=snippet&q=1911%20stock&f=false](https://books.google.es/books?id=8MocBQAAQBAJ&pg=PA122&redir_esc=y#v=snippet&q=1911%20stock&f=false)

<sup>9</sup> <https://www.gov.uk/government/collections/dwelling-stock-including-vacants>

<sup>10</sup>

<https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicspending/bulletins/ukgovernmentdebtanddeficitforeurostatmaast/march2021>

<sup>11</sup> [https://drive.google.com/file/d/1\\_KWXBTF541ecjsoFiltLWUcPSIuhONQ/view](https://drive.google.com/file/d/1_KWXBTF541ecjsoFiltLWUcPSIuhONQ/view)

- *Increasing the NHS budget.* Alternatively, the Government could use the money to boost NHS budgets. By the end of this parliament the annual revenue gain would amount to almost 10% of the current NHS budget— and fund more doctors and managers.
- *Supporting defence, teachers or the police.* Finally, the increased tax take could boost teacher, soldier, or police officer pay or increase spending on defence or police equipment. By the end of this parliament the total revenues from street votes would be larger than the entire Home Office budget.

This section investigates what might be possible if the money were retained for urban policy, primarily focused on Levelling Up. This could include doubling the Towns Fund and the Potholes Action Fund and doubling the Green Homes Grant to fund insulation around the country.

The Create Streets Foundation's *No Place Left Behind Commission* recently released its final report in September 2021. This contained a range of important priorities, which are a starting point for how to think about Levelling Up from- the urban policy perspective.

In addition to funding the priorities in No Place Left Behind, revenues would be sufficient to fund every project in the Campaign for Better Transport's Campaign to Expand the Rail Network, including reopening the passenger elements of the Camp Hill line between Birmingham New Street and Hazlewell, via Moseley, reopening the Leeds-Northallerton railway; and opening a rail link from Newcastle to Ashington and Blyth.

On top of that these rail projects, increased revenues could fund a pot ringfenced to set off the shovel-ready infrastructural investment projects for which city-region mayors have built business cases. This could help end the massive transport investment bias built into the current infrastructure funding regime. This would also mean, importantly, giving local areas control over their own projects, and not having a Westminster mandarin second guessing every project proposed around the country.

Increased revenues would permit the Government to fund many of the items on the Northern Research Group's ten point plan to level up the North, and the policy recommendations of the aforementioned No Place Left Behind Commission. Not all of these are costed, but the sums involved are unlikely to be larger than, for example, the rail projects mentioned above.

Overall, this paper's purpose is not to map out exactly how the Government should go about the Levelling Up strategy, or how to spend a new source of funds. But it gives an indication of the potential that could be unlocked with a new stream of money that doesn't require raising taxes on existing activity, borrowing, or cutting other spending. Such a stream, especially of this size, could be used for a significant range of valuable projects investing in people or infrastructure.

### **The model**

These conclusions derive from a financial-economic model, which I have built based upon the stated assumptions in the Policy Exchange paper, *Strong Suburbs*. This model works as set out below.

Put simply, the model works out how many homes *could* use street votes or street plans, which turns out to be around 15.5m— these are those homes which are not flats or maisonettes, and which were built after 1918. between them they could create over 43m net homes on their plots through going to Victorian or Georgian densities. However, many of these streets will not want to use the powers, or find it difficult to come to agreement.

Our model judges that in roughly 0.5m cases, or 3.2%, they will use the powers over the first fifteen years of the policy, in the central case ('scenario 1'). In our second and third scenarios, roughly 2.2% and 1.4% of properties that could use the powers do use them in the first fifteen years. These are not a random sample of the properties with the ability to use the powers, but are those where the financial and economic benefits of development are sufficiently large. For example, in scenario 3 the average property using the powers generates uplift of over £1m, since we judge that streets will only find it worthwhile to come to agreement when the gains are very large indeed.

The model begins by bringing together two datasets of housing age and housing type. Age is in bucketed eras, which we further bucket into pre-1918, interwar, and postwar. Type is broken down into typical building types, such as detached, semi-detached, flat, maisonette, bungalow, and so on. All of the data is at the Middle Super Output Area (MSOA) level, which is the second-lowest ONS administrative geography, above Lower Super Output Area (LSOA). MSOAs each contain around 7,000 people, and there are roughly 7,000 MSOAs covering England and Wales.

The data is not available by both type and age at the same time, so we estimate type-age data in a simplified way: by assuming a completely equal distribution. For example, if an area is 50% bungalows and 50% semi-detached houses, and 50% pre-1918 and 50% postwar, we assume that it is 25% pre-1918 bungalows, 25% postwar bungalows, 25% pre-1918 semis, and 25% postwar semis. This assumption is, undoubtedly, false for individual MSOAs, but since these are relatively small units, it will not lead to large error for any individual MSOA.

Social housing data is not tracked by as fine a grain as MSOA. However, MSOAs combine together to form local authority (LA) areas, and data is available for social housing (percentages and amounts) by local authority. Therefore, we assume that every MSOA that is a part of a local authority has the percentage social housing rate of the LA they belong to. We work this fraction out in order to exclude social housing from our analysis. Street votes/plans will in fact be available for social tenants to use, as a means of bringing estate regeneration more under their control. Housing associations and councils may also create new social homes under the street votes framework, with the consent of affected streets, or through other means. However, we think this is best analysed separately, and so it does not factor into our numbers for new homes or added floorspace. This is one of our many conservative assumptions, which we believe biases our numbers down.

To work out how much space could actually be added through street plans, we have built a random sample of 100 actual homes in England and Wales. We used the doogal.co.uk random postcode generator to generate random postcodes, and associated addresses. We then located the house, applied our rules to the property and assumed they built up to the maximum we allow. This means considering light planes, maximum storeys, and lightwells and so on. Of course, this also means ruling out any heritage buildings to which our rules would not apply. For each of these houses, we therefore came out with a 'before' and 'after' usable floorspace in square metres and square feet. Our estimates of how much space could be added were very similar to those obtained in the examples in *Supurbia* by HTA Design.

Another conservative assumption in our model is that there will be no street votes in flatted developments. This is highly unlikely to be true. Specific rules in the *Strong Suburbs* paper set out how this might proceed. Many flats are, after all, in low rise postwar buildings. However, the potential of street votes is so substantial that taking this number down to zero does not compromise it.

This sample, combined with our MSOA-level estimates of building age and type, give us an overall maximum 'envelope' that street votes could enable under current densities and under our rules and restrictions. However, not every project in the country would be viable. In many places in the UK, people on an average income can afford to save for a deposit and buy an average home. In other places, houses cost many multiples of an average income and average earners are stuck in rented accommodation for many years. In the latter places, house prices are typically much higher per square metre or square foot than build costs would be to create new properties. In the former, prices are close to or below build costs.

Clearly, street votes will only enable development, in practice, either where it is profitable, or where it is enabled by local government, regional government, or perhaps central government grants enabled to improve, densify, and beautify areas. (See the *No Place Left Behind Commission* for more details.) Therefore we also get data for house prices at the MSOA level, and estimate prices per square metre at the MSOA level, by assuming, as before, that MSOAs in an LA all have the same average floorspace.

Once we have an estimated price per square metre, and an estimate of the amount of square metres one could possibly add, we have most of what is necessary to work out where people will in fact build. We estimate build costs at an extremely high level, £2700/sqm (from a recent GLA report—other estimates, e.g. the Federation of Master Builders/RICS are as little as half that level). This might bias our estimates down by a factor of two or more. However, they are not the only cost involved.<sup>12</sup> In scenario 4, we use a more realistic build costs estimate of £1350/sqm to produce the estimates there.

There are also non-financial economic costs which have a financial value. For example, for a similar square footage people prefer detached homes. We assume that these costs of densification, which have to be overcome by successful street votes, are a further £100/sqm. We also assume that the cost of 18% infrastructure levy must be overcome. Stamp duty land tax and council tax are assumed to be capitalised into current prices in the market. We assume that households voting 'yes' will have to cover the cost of moving out and renting a similar house for a year, and moving back, though of course in many cases absentee landlords and others will not need to rent a new house. We further assume that there is a £900/sqm 'getting out of bed cost': streets will not develop unless they make at least £900 profit, after all other costs, for every square metre they develop. In general, homes are adding at least 200sqm net, so the de facto minimum profit per house on a street to vote 'yes' will tend to be around £150,000-200,000.

In scenario 2 we assume the 'get out of bed cost' is £1800 profit per square metre, or a de facto minimum of around £300,000-400,000. In scenario 3 we assume it is £2700 profit per square metre, which means the minimum is at least £450,000-£600,000 and the *average* property utilising the policy is expected to make around £1m. We think that where this much profit is on the table it is very likely that streets will be able to agree to develop, given the experiences with similar policies in Tel Aviv,<sup>13</sup> Seoul,<sup>14</sup> and Houston, and given how extensively existing permitted development rights to add floorspace tend to be used in high value areas today. All of these assumptions are, of course, editable, and drive a huge amount of the

---

<sup>12</sup> Discussions with HM Treasury economists suggest that they believe standard building costs are more like £1500/sqm than £2700/sqm, as well. We believe that the true answer is somewhere in between the FMB estimate and the GLA estimate, partly because the predictability of the planning requirements on street plan streets will mean that modular, prefab, and modern methods of construction (MMC) will be able to scale up to extremely high build runs, something that is impossible under today's planning system.

<sup>13</sup> <https://capx.co/how-tel-aviv-boosted-new-homes-by-half-and-what-it-tells-us-about-fixing-housing/>

<sup>14</sup> <https://capx.co/seoul-searching-does-the-korean-capital-have-the-solution-to-the-housing-crisis/>



potential variation in outcomes. In our model, the average household on a street votes street makes several hundred thousand pounds after costs and taxes, which we believe is sufficient to motivate development within fifteen years.

Our model is rational expectations compliant, i.e. it assumes that no one will build a house that, given all the houses the model predicts will be built, would be uneconomic to build. This is probably somewhat inaccurate, and development may spread in a different way, which will mean more homes and economic activity generated. We assume with Ian Mulheirn that the house price elasticity of supply is approximately 1.82.<sup>15</sup> This would mean that prices fall relatively quickly in response to new supply. This is, obviously, debatable, and if prices are very responsive, or less responsive, the results will be significantly different. For example, if prices fall less than this, more homes will be built, and more economic activity will be generated with development. If prices fall unexpectedly rapidly in response to development, then the policy will be less effective.

## **Conclusion**

After decades of urban decline, there has been an astounding urban renaissance in some British cities over the last generation. However, many cities and towns have been left behind. And we are reaching the end of what the current system can deliver without improvement.

Street votes, by aligning homeowners', residents' and developers' interests, offer the potential to unleash substantial additional economic growth, along with increased government income. These funds, which could rise to around £12bn within three years, would give HMT the ability to fund a huge range of projects aimed at 'Levelling Up' Britain and making sure prosperity is shared widely.

Surely it is worth a try? We have much to gain and, piloted, very little to lose.

## **Ben Southwood**

Head of Research, Create Streets

---

<sup>15</sup> <https://thinkhouse.org.uk/site/assets/files/1841/redfern.pdf>, page 15