SMARTER URBANISATION AND INCLUSIVE GROWTH:

Sharing the uplift in land values from planned development

CONTENTS

Executive Summary

There is widespread agreement that building the housing we need, and creating a more sustainable (and just) society depends on greatly increasing the investment in infrastructure, especially transport. Excessive land values seem to offer a solution, if only they could be tapped. Yet land, and the way it is valued and assembled, continues to be an intractable problem in the UK, unlike most other European countries.

A review of examples show there are a range of models, notably from Denmark. The most pertinent examples are recent experience of introducing Land Value Tax in Canberra (the capital of Australia), using split level rating to regenerate the central areas of Pittsburgh, in Pennsylvania, USA, and developing a new town along a transit corridor in Copenhagen, which has funded their first Metro.

Research has shown that it is fairly straight forward to improve the way property (buildings and land) is taxed. This could be part of a wider programme for making local authorities less dependent on central government, and shifting tax from transactions and on to wealth. Hence the RSA's Inclusive Growth Commission would have a powerful tool for redressing some of the inequalities which make Britain stand out from most of the rest of Europe.

The paper argues that more is needed than changes in the way that land is valued for compulsory purchase purposes, as local authorities no longer have much capacity to lead major development or tackle spatial inequalities. There are both technical and political obstacles that need to be overcome first, using demonstration projects to test out:

1. Spatial growth plans (to allocate development to rebalance cities)
2. Community development corporations (to secure smarter urbanisation and rapid growth)
3. Garden town foundations (to look after the public realm and sustain balanced communities through Community Land Trust powers)
4. Local Infrastructure Funding Trusts (to pool contributions from wealthier property owners)
5. Land Value Rating (to redistribute wealth through annual ground rents)

6. Municipal Investment Corporation (to raise bonds for good housing and local growth projects)

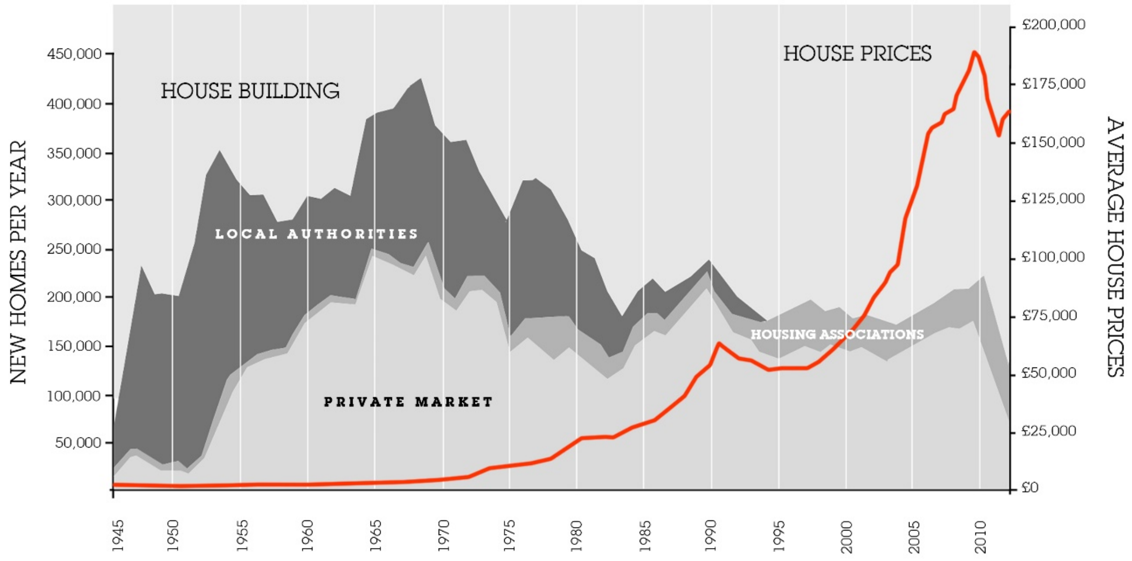
SMARTER URBANISATION AND INCLUSIVE GROWTH

Creating a more inclusive society, as the RSA and JRF are calling for, depends above all on reducing housing inequalities and related disparities in inherited wealth.[1] This requires tackling the complex and controversial issues over how land is valued and taxed in the UK, which has proved a political minefield in the past. This paper first outlines the issues, and the second section reviews lessons from cities in Europe and elsewhere that offer practical models. It goes on to suggest a very British solution, which the RSA Inclusive Growth Commission could most usefully advocate. The paper has grown from a blog into a pamphlet, but the basic recommendations form just three pages at the end. Given the will, real change could be achieved if only to restore confidence and appease anxieties in the likely event of a major economic downturn and social unrest.

1. WHY LAND IS SUCH A PROBLEM IN THE UK

Land values have escalated far beyond house prices in much of Britain to the point where unaffordability threatens future economic growth, environmental wellbeing and social stability, as the chart on the next page clearly shows.[2] At the same time most local authorities have lost their capacity to respond to gaping disparities, or even fix pot holes as a result of successive cuts.

[1] How do cities lead an inclusive growth agenda? JRF, January 2017
[2] Danny Dorling, All that is Solid: How the great housing disaster defines our times, and what we can do about it, Penguin 2016



Yet a growing number of economists and housing experts recognise that simple changes to the way land is valued and land value uplift captured (or shared) hold the key to building more and better homes, and narrowing disparities in wealth. This would provide a platform people of all political persuasions could support. Inequalities have become grotesque, and 'inclusive growth' is gaining converts. Research into different approaches to land supply or taxation generally conclude in favour of shifting more taxation onto property (which is relatively easy to collect), and reducing the burden on income or transactions (which interferes with markets).[3] Indeed experts from all sides, including some in the Treasury, support the idea of capturing the uplift in land values from development, and using it to fund infrastructure.[4] For example Dieter Helm and colleagues at the Policy Exchange set out the arguments back in 2009.[5] Thomas Aubrey from the Centre for Progressive Capitalism, suggests that simple changes in the 1961 Land Compensation Act, plus some modifications to Business Rates and Council Tax could *'free up to £172 billion over the next 20 years for increased capital expenditure on infrastructure'*

Such changes will undoubtedly incur opposition from those who do well under the present taxation system, but critics can sometimes be side-stepped, as the Brexit debate has shown.

[3] Sarah Monk et al, International Review of Land Supply and Planning Systems, JRF March 2013
[4] Thomas Aubrey, Bridging the Infrastructure Gap, Centre for Progressive Capitalism, June 2016
[5] Dieter Helm et al, Delivering a 21st century infrastructure for Britain, Policy Exchange 2009

David Rudlin and Nicholas Falk won the 2014 Wolfson Economics Prize because they showed how to build new garden cities that we visionary viable and popular by changing the way we allocate investment funds as the case study of Oxford illustrates. Subsequent work has shown that it is possible to build a consensus, given the necessary leadership.

www.oxfordshirefutures.com

Uxcester Garden City: Growing (and uniting) historic cities

Oxford is an increasingly divided city, with some of the least affordable housing in the country, unacceptable spatial inequalities between the East and West sides, and severe congestion, which is creating health problems. Oxford cannot build the houses that are needed without making both land and long-term finance for infrastructure available. URBED showed how to double Oxford over 15 years, through a series of sustainable urban extensions within 10km of the centre to provide homes for 50,000 people. These would reduce congestion and make life better for those on low incomes. The new housing would use land that lies outside the flood plains and Areas of Natural Beauty, but that can be connected to jobs by good public transport and cycling. It would take some 5-10% of the Oxford Green Belt, but would improve bio-diversity and provide country parks to reduce flooding, and also safeguard treasured villages from unwanted development.

The agricultural land that is currently worth £20-25,000 an acre would be bought for ten times that amount (say £200,000 a hectare), to incentivise the landowners (largely colleges), whereas land with residential development permission in Kidlington is valued at £2.44m/ha. Only half the land would be developed but the uplift in land values (which Howard called 'the unearned increment' would be sufficient to fund 20% social housing at a suburban density of 30/ha, plus a tram line to the city centre. There would be plenty of room for self/small builders. The development would be viable without public subsidy. But it depends on collaboration between a tightly bounded city and the more rural districts that surround it, which have traditionally been in conflict.

So, in summary, what are the main arguments as they relate to the RSA's concerns for Inclusive Growth, and its initial scepticism about measures to deal with property and physical infrastructure?[6]

a. **Escalating disparities demand radical change:**
   i. House price inflation in the UK has been excessive for decades

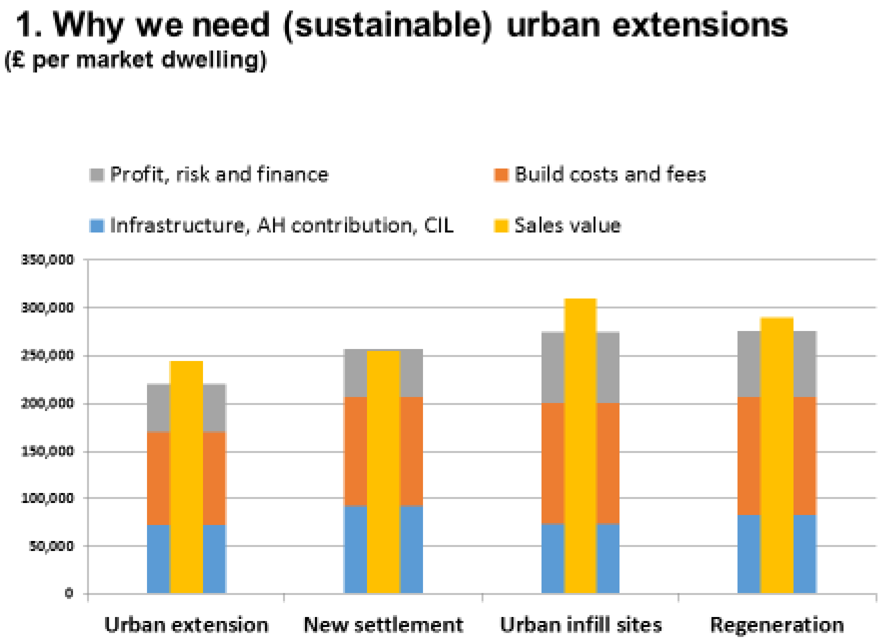
[6] Inclusive Growth Commission, Emerging Findings, RSA 2016

ii. Land values have ratcheted up, and a new model for housing is needed[7]
iii. Brexit means 'taking back control' and also making change visibly happen
iv. The alternative is likely to be self-destruction through riots and social conflict.

b. **The social and economic costs of 'no change' are unacceptable**
   i. Loss of hope/alienation among the young
   ii. Lack of safety net for the old other than housing
   iii. Market failure leads to unsatisfied markets eg empty nesters, upwardly mobile migrants
   iv. The Squeezed Middle and Just About Managing classes now have a voice
   v. Excessive commuting is a drag on dynamic businesses as well as a drain on poorer people and on everyone's health
   vi. Property cycles damage confidence at a time of world economic stagnation.

c. **Limits to government finance will focus attention back to land**
   i. Falling tax revenues
   ii. Unavoidable rises in expenditure e.g. pensions, social security
   iii. Inescapable pressures for better infrastructure e.g. energy blackouts, traffic jams and crowded trains, water rate rises
   iv. But deep resistance to higher 'conventional' taxation
   v. Most of the excessive cost of housing is made up of land and profits[8]

[7] David Rudlin and Nicholas Falk, Sustainable Urban Neighbourhood: building the 21st century home, Routledge 2009
[8] Chart from Pete Redman, TradeRisks, and published in Funding Large Scale New Settlements, Town and Country Planning April 2014



d. **Spatial differences throughout the UK require a range of solutions**
   i. London and the Rest of the South East face high land values
   ii. North South divides fuel dissension
   iii. City centres are enjoying a renaissance
   iv. Peripheral towns are feeling left behind
   v. But even opportunities can be found even in the weakest cities

e. **The current private housing sector does not satisfy demand**
   i. Land hoarding, funding and management capacity stops a doubling of housing output or meeting housing needs, especially in London [9]
   ii. Profiteering and 'rent seeking' (oligopolistic) behaviour) wastes resources
   iii. Barriers to entry constrain innovation eg Modern Methods of Construction
   iv. Inflated costs for land, infrastructure and planning deter institutional investment from filling the gaps.

[9] Duncan Bowie, Radical Solutions to the Housing Crisis, Policy Press 2017

f. Sustainable urban extensions offer most promise

i. Expand where most people most want to live and work
ii. Benefit from infrastructure legacies and resistance to sprawl
iii. Rebalance divided towns and cities
iv. Secure economies of scale/agglomeration
v. Reduce environmental impacts

g. Political obstacles to inclusive growth call for five radical steps

i. Bypass vested interests in land hoarding and speculation
ii. Change procurement practices e.g. affordable housing
iii. Tackle disparities in land values and wealth distribution e.g. old vs young
iv. Go to scale (agglomeration economies)
v. And fund needed services without penalising those who are poorest.

2. WHERE BRITISH CITIES CAN BEST LEARN FROM

A range of reports and books offer proven models from other European cities, and some of the best innovations have been in Commonwealth countries, such as Canberra in Australia[10]. Hong Kong is a remarkable example of how British planners and engineers can build first-class infrastructure through capturing land values where densities are highest, as a World Bank study explains.[11] Much can also be learned from case studies of urban transformation in Continental Europe.[12] The outline below summarises some important messages:

a. Copenhagen, Denmark used land value capture to fund their Metro[13]

i. Introduced in 1916, house owners pay two per cent of the value of their homes, and land rent ranged from 5-10% of GDP in the latter half of the 20th century
ii. Green Fingers not green belt focus development around transit corridors

[10] Dr Cameron Murray, The First Interval, https://www.prosper.org.au/2016/09/12/the-first-interval-evaluating-acts-land-value-tax-transition-full-report/
[11] H Suzuki et al, Financing Transit-Oriented Development with Land Values, World Bank Group 2015
[12] Sir Peter Hall with Nicholas Falk, Good Cities Better Lives: how Europe discovered the lost art of urbanism, Routledge 2014
[13] TEN Group report

iii. Land value uplift at Orestad new town funded building Metro line
iv. Sites with planning permission pay property taxes (even though LVT has been reduced in significance)
v. Voted best city to live in and visit in Europe (and copied by Estonia)

b. The Dutch keep housing affordable through planned urban extensions

i. VINEX plan for 100 new sustainable urban extensions increased housing stock by 8% e.g. Amersfoort
ii. Municipality set up Vathorst Development Company to pool land and install infrastructure
iii. Low cost long-term loans from municipal investment bank (BNG) incentivise collaboration
iv. 30% of homes transferred to local authority, of which a third sold to occupiers on low incomes with a profit sharing agreement
v. Local authorities have traditionally taken the lead in making plots available for housing.

c. Municipal leadership in Vienna has avoided house price inflation[14]

i. One of the most attractive cities has kept housing costs down
ii. Half of all housing is rented
iii. Municipality brings land forward in line with demand
iv. Low housing costs enable high quality of life
v. High quality public transport keeps car use down

d. Building groups in Freiburg pioneered low-carbon life styles[15]

i. Renting predominates and municipalities are responsible for the provision of infrastructure, with developers paying up to 90% of the costs[16]

[14]
[15] Good Cities Better Lives
[16] Monk et al

ii. The City of Freiburg acquired land on city edge for planned developments in ‘City of short distances’
iii. Land prices are ‘frozen’ in areas planned for development to avoid speculation
iv. Serviced sites are sold to ‘baugruppen’ which speeds occupation and cuts costs
v. Developers are chosen for quality not price

e. **Fast growing French cities use Transit-Oriented Development e.g. Montpellier[17]**
    i. Strategic planning is promoted by growth oriented Mayors
    ii. Land is assembled through ZACs (Zone d’Amenagement Concerte)
    iii. Funding for infrastructure helped by state investment bank (Caisse des Depots
    iv. A tax on the payroll of employers of over ten (Versement Transport) helps fund the extensive tram system.

f. **Hong Kong funded their praised Metro through land value capture[18]**
    i. MTR railway forms ‘backbone’ for urban and regional development
    ii. Visionary planning with leasehold properties with rent of 3% of rateable value
    iii. Higher Floor Area Ratios (FARs) around key stations
    iv. Auctioning of sites for Rail Plus Property development
    v. MTR Corporation remains asset manager

g. **Pittsburgh’s recovery is partly due to how land is taxed [19]**
    i. Split-Rate Property Tax 1913-2000 with land tax nearly six times tax on improvements encourages construction

[17] Good Cities Better Lives
[18] H Suzuki et al, Financing Transit-Oriented Development with Land Values, World Bank Group 2015
[19] Wikipedia Land Value Taxation in Pennsylvania

ii. Pittsburgh Improvement District still applies land value taxation as a surcharge on property taxes
iii. The results are a thriving downtown area, with old buildings turned to new uses e.g. station
iv. Community Land Trusts work e.g. Pittsburgh Heritage and Landmarks Foundation takes over properties from the City Council that were not paying taxes

3. HOW BRITAIN COULD FUND INCLUSIVE GROWTH

The urgency of finding solutions to Britain's economic role in a world after Brexit combined with the pressures on our ageing and inadequate infrastructure make a radical review of our property taxation system inevitable. This has long been suggested by Think Tanks such as The Policy Exchange and management consultants such as McKinsey and Company.[20] It may now appeal to politicians from all parties. For with a need estimated at some £500 billion even to maintain our energy and transport systems, user charges have to be increased, as happens every year with rail fares. These hit the poorest hardest unless taxes are raised or services cut back. With large deficits, falling Treasury receipts and rising demands for public spending, something has to give. A clear distinction has to be drawn between financing investment (which pays off over the long-term) and meeting contemporary needs, such as paying for social services, (which depend on demographic trends). Fiscal innovation is badly needed.

a. Learning from London's expansion

Who should benefit from the uplift in land values that results from the prospect of planning permission (possibly 400% in the case of some land around Oxford). What should developers pay for the improvements in accessibility from public investment, such as the extension of the Jubilee Line into London Docklands? Fred Harrison, an eloquent advocate for Land Value Taxation, points out the land value uplift, what Ebenezer Howard called '*the unearned*

[20] Dieter Helm et al, Delivering a 21st Century Infrastructure for Britain, Policy Exchange, 2009
McKinsey Global Institute, Bridging Global Infrastructure Gaps, June 2016

increment' could have funded the extension if it had been properly tapped, (some four times the cost) instead of going as 'windfall' presents to fortunate land owners and speculators. [21] He argues that our system of expecting house prices to drift ever upwards is not only economically disastrous, but also grossly unfair - '*The State sponsored device for making the rich richer (and the poor poorer) means that for most of their lives, rich fold enjoy public services without paying for them.'*[22]

This was not always so. In the UK in the period between the two World Wars, a period not only of suburban expansion but also mass electrification, we built more homes than ever before, as the house production charts vividly show. The best known example is Metroland in North West London, but a similar process helped much of the rest of Britain to build its way out of a recession in the 1930s.[23] Home ownership rose from 10% of the housing stock in 1914 to 38% in 1938. At the same time '*construction costs fell dramatically. A three-bedroom semi-detached house costs £800 to build in 1920 but less than £300 in the 1930's.'*[24] Building Societies thrived, and their assets grew ten-fold, as plots of land were opened up for small builders off the new arterial roads or railway lines in London, such as along the Great West Road, where modern factories like Hoover provided local jobs within cycling distance. As an example you could buy a new semi in West London for as little as £400 in 1935, which was the same as the cost of a Riley open-top tourer. But then Riley were only building 3,000 cars a year, and only the privileged could afford one. It was only after the Second World War that motor manufacturers in the UK discovered the secrets of mass production, and house builders lost the secret of building affordable homes.

The story of the Western expansion of London in the 1930s, or developments in Docklands in the 1980s, bring out the crucial importance of mobilising land. Land has to be assembled, serviced (and in the case of some former industrial land, decontaminated) before it can be developed. Unless there is clear, long-term leadership, sites remain stagnant, as the holding

[21] Fred Harrison and Mason Gaffney, Beyond Brexit: the Blueprint, Land Research Trust, 2016

[23] Alan Jackson, Semi-Detached London: Suburban development, life and transport 1900-39, Wild Swan Publications 1991
[24] David Reynolds, The Long Shadow: the Great War and the twentieth century, Simon and Schuster, 2013

costs are low while, as in a gold mine, the values seem are expected to rise for ever. A series of case studies for The Housing Forum brought out the simple ABC of housing development – Ambition, Brokerage, plus Continuity. [25] But is the supply of land that is the crucial factor in places with healthy local economies, that is where residual land values are positive. So long as the developer can ride out recurrent property collapses (every decade or so), the long-term investor cannot lose. So the basic challenges (like all taxation) is to devise a way of bringing appropriate land into play without arousing so much opposition as to make it politically impossible (as the French Finance Minister Colbert said about 'plucking a goose'!) This should be on terms which make long-term investment in related infrastructure viable, and which help to improve social balance and environmental sustainability.

The vital key to developing London Docklands was taking over the land from its previous owners (the Port of London Authority and the British Gas Corporation). The institutional mechanism, which may be coming back into favour, was a variant of the New Town Development Corporation, as this has land acquisition powers. It also is trusted by government to get things done. John Walker, of Garden City Developments, who formerly worked for Milton Keynes Development Corporation, suggests that local authorities can employ voluntary agreements to set up joint ventures, arguing that

The discussions with landowners need to reach firm and binding conclusions before preferred development sites are made known through the Local Plan process, at which time the incentive for them to offer terms reduces substantially'. [26]

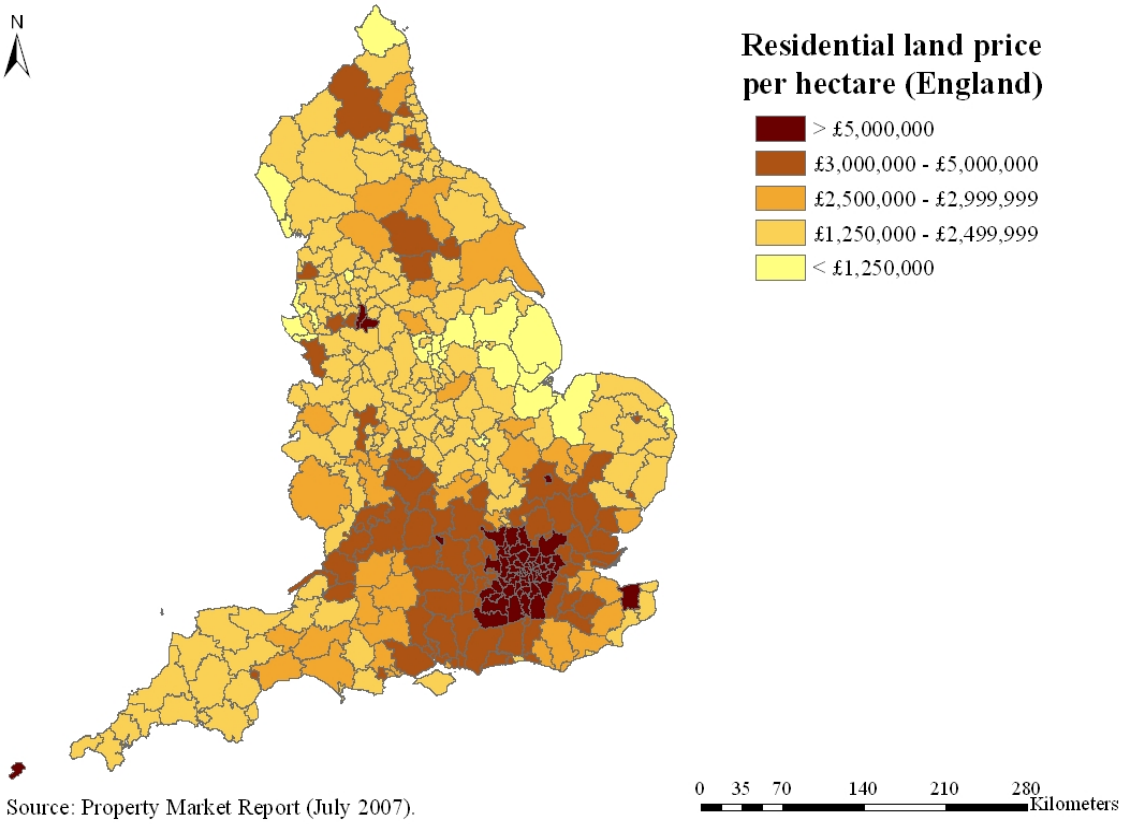
Unfortunately most local authorities find it hard to reach agreement internally, let alone with their neighbours or major landowners. With increased uncertainties resulting from Brexit, something more radical will be needed to meet our national objectives over the next few decades - but something that is as pragmatic and British as the semi-detached house or the payment of ground rents.

[25] Barry Munday and Nicholas Falk, The ABC of housing development and local infrastructure, The Housing Forum
[26] John Walker, Land Value Capture in Large Scale Developments, Future of Cities Though Piece, 2016

b. Tapping Land Value Uplift

The price of a house only partly reflects the cost of building it, and infrastructure can cost as much as construction. New homes account for less than 2% of the housing stock each year, and in the UK (outside those who rent privately), most households move very infrequently. While the cost of construction are quite similar across the country (allowing for variations in size and quality), it is the price of the land that explains the main differences between different areas. Economists such as Ricardo used to consider land as a separate factor of production, and were very critical of 'rent seeking behaviour', and barriers to entry that favoured oligopolies. LSE Economist Paul Cheshire has valiantly shown in a series of blogs, that we have used planning (and specifically Green Belts) to defend privilege and reinforce house price inflation; up till recently, when attitudes to urban living changed, those who could went to live beyond the green belt, and used their cars to get to work, thus adding to congestion on the roads.[27] There are huge variations between different parts of the country, and within city regions as maps of property values clearly show. The highest values lie around London, but in Cambridgeshire vary from £5.7 million an acre in Cambridge City, which is just 45 minutes from London Kings Cross to £1.0 million in East Cambridgeshire and £370,000 in Fenland, almost the lowest in the country, where Wisbech is cut off by its lack of rail and road connections.[28]

[27] See for example Paul Cheshire, Turning Housing into Gold, blogs.lse.ac.uk
[28] Land Value Estimates for Policy Appraisal, DCLG, February 2015



Land is very different from other factors of production, because, as Mark Twain famously said, 'they are not making it any more', It is the **location** in relation to jobs or wealth creation that explains the main disparities. Martin Adams puts it well in a comprehensive review of the subject, when he says:

Due to its inherently limited supply for each location, land obtains its value from the natural, social and cultural wealth that exists in its surrounding environment'. [29]

But, as the property value suggests, land prices are also affected by access to good jobs, which is why values are highest around London. Surveyors like to point out that land values are essentially a 'residual', that it the difference between what a house costs to build, and what it will sell for. But they also repeat the mantra, that '*there are only three things that matter in property: location, location and location.'* It is the location that accounts for much of the value, and that value is largely created by collective efforts, most importantly the infrastructure of transport, utilities, education and health facilities that make living possible and pleasant. Planning then distributes some of this surplus to those fortunate enough to own the land (or

[29] Martin Adams, Land : a new paradigm for a shrinking world,

options) already. Pete Redman showed in his calculation for the winning submission for the 2014 Wolfson Economics Prize that the uplift in land values by building on green fields on the edge of a thriving city such as Oxford was enough to fund improve infrastructure for all, including a new tram line.[30] The main local concerns of flooding and congestion could be addressed by building enough housing in the right places.

This analysis helped URBED to win the Wolfson Prize as it showed that the only viable way of funding the kinds of housing we need on the scale that is required is to extend the places where people most want to live and work through 'sustainable urban extensions'.[31] Unfortunately as the locations on the edge are often in marginal constituencies as well as being in tight Green Belts the Housing Minister at the time lacked the courage to face up to the realities of the situation. This may have changed, with the 2017 White Paper on housing, and the new stress on building to scale.

c. Funding inclusive growth

One way of filling the gaps in securing inclusive growth lies in Land Value Capture, or sharing, as the UN now prefers to call it.[32] Both the OECD and World Bank recognise the priority for investing in infrastructure to lift the world economy out of recession, and house building offers a ready way of creating jobs in the 'real economy', and rebalancing communities.[33] The British Treasury has long flirted with the idea of sharing in the uplift from property development, for example through the Homes and Communities Agency making loans rather than grants to house builders. Other governments, such as the USA, tax property owners rather than occupiers, because it is seen as fairer and less of a barrier to growth. The World Bank has gone further in showing how to use land values to finance new transit systems. Their book of international case studies brings out the merits of participating in land ownership rather simply tapping the uplift in land values through Tax Increment

[30] David Rudlin and Nicholas Falk, Uxcester Garden City , www.urbed.coop
[31] Nicholas Falk, Funding Large Scale New Settlements, Town and Country Planning, April 2014
[32] Private discussion with UN economist
[33] Josef Konvitz, Cities in Crisis

Financing.[34] Interestingly the development of the railway lands at Kings Cross forms one case study, as the British government has retained an interest through its subsidiary company London and Continental Railways.

As Britain seems set on turning it back on Europe, what should Britain do next? How can we avoid our predilection for delaying action through Commissions of Inquiry, 'cutting red tape lengthwise', and ending up having to pay more, as costs escalate? Successive 'blunders', such as the Private Finance Initiative or London Transport modernisation, have destroyed public faith in governments[35] Botched attempts at land value capture, such as Development Land Tax, have deterred modern politicians from even considering the subject.[36] Reference to Henry George is like a red flag to a bull. Local authorities have been reined in, and left without the means to underpin substantial loans, even if they were trusted to promote major development projects. Senior development planners have been pensioned off. Despite the occasional speech to the contrary, national governments, aided by the all-powerful Treasury, have centralised power to an unusual extent, making it almost impossible for local authorities to respond to demographic and economic change.

As the recent European *State of the Cities* 2016 report highlights, apart from London, (which competes as a World City) the major British cities do worse than those in Eastern Europe.[37] Peculiarly they have lower GVAs per head than the surrounding Counties. We also live in the most centralised system of government (what the former American head of Transport for London called 'North Korea with elections'! Once in power politicians are reluctant to devolve financial powers on the grounds of exercising financial 'prudence' or parliamentary democracy, despite the many arguments for change that have been put forward, by experts such as Tony Travers.[38] Indeed a TCPA pamphlet, with extensive proposals for a more 'intelligent' local finance system that taxed 'bads' rather than 'goods', fell on deaf ears.[39] The

[34] H Suzuki et al, Financing Transit-Oriented Development with Land Values, World Bank Group 2015
[35] Ivor Crewe and Anthony King, The Blunders of our Governments
[36] Private discussion with Sir Michael Lyons
[37] State of the European Cities 2016, EU
[38] Tony Travers, Raising the Capital, report of the London Finance Commission, 2013
[39] Nicholas Falk, Funding Sustainable Communities: Smart Growth and Intelligent Local Finance, TCPA 2004

English sometimes seem to be blind to public finance, preferring to argue for ever rather than to change the way we make strategic investment decisions.

Yet the arguments for Inclusive Growth could be a 'game changer', especially if the UK starts to think about rebalancing tax away from expenditure (which is regressive) and on to wealth instead. In our concern to tackle poverty, and growing inequalities in income, we can easily miss the roots of the problem, which lie in unequal access to wealth. The French economist Thomas Piketty achieved international acclaim for showing how disparities were widening thanks to the compounding effects of accumulated wealth.[40] Except in the short periods after major wars, the current capitalist economic system reinforces inequalities, as risk-averse finance shelters behind property. Some 70% of private wealth is in the form of housing, and rising house prices and a lack of controls have attracted investment in new housing from around the world, largely focussed on central London.

Inquiry after inquiry reports that unless you inherit property you have less and less chance of getting on the housing ladder.[41] The latest, the Redfern Review, concluded that ' *Our focus is on improving the position of first-time buyers and those who remain in rented accommodation, rather than driving a maximum, short-term home ownership rate'*. Experts agree that h*owever* much we may build, and there is widespread agreement that we need to double housing output, it will not bring prices down to the level where they are affordable again. A few garden villages or support for first-time buyers makes little difference. So to tackle social exclusion we need a different line of attack, for example cutting the cost of living by ensuring those on lower incomes can live closer to their work, building homes that are cheap to heat, and that are better suited to changing needs, or that help to create more balanced communities. With more funds raised from land owners, the proceeds from VAT, which are used to fund for European Union, could be restructured, for example dropping VAT on property refurbishment or on small traders in failing town centres.

[40] Thomas Piketty, Capital in the 21st Century, Harvard, 2014

[41] See for example The Redfern Review into the decline of home ownership, www.redfernreview.org

d. Achieving Smarter Urbanisation

If devolution to local government is to be effective (as it has proved to be in France, for example), then we need to go for 'smarter urbanisation', not growth at any cost. If British cities are to match their competitors in a global economy we have to link planning at a strategic level, (that is for Travel To Work or Functional Urban Areas), with the capacity to raise funding for local infrastructure investment. This will help support what could be a 'fourth industrial revolution' (going beyond steam, electricity and IT) that will make the most of growing urban populations that are currently being excluded from the formal economy, and where 'people power' is opening up new markets. The benefits from 'Smarter Urbanisation' will be a fairer and healthier society, as case studies as different as Montpellier in South Eastern France or Leipzig in Eastern Germany illustrate[42]. Travel time to work could be cut, especially from areas such as Bradford that are cut off from jobs in neighbouring cities. With the adoption of Combined Authorities and Elected Mayors, the pre-conditions should be in place in England and Wales for a revival of strategic spatial planning (as was formerly the case with Structure Plans).

Quite simply, where strategic or major developments depend on infrastructure investment for their value, there needs to be a spatial plan that shapes where development does, and does not take place in the 'functional urban area', the Travel to Work area, rather than local authorities reacting to proposals from private developers who happen to have secured an option on some land. This is what happens in much of the rest of Europe, notably Germany, and therefore should not be treated as an infringement of private liberty, but a practical way of securing the optimal use of a scarce resource – development land. [43] In the process 'smarter urbanisation' reduces urban sprawl and pollution, cuts the time it takes to get to work, and can produce much more attractive looking developments.

The process is not as complex or arbitrary as some would suggest. Planning can respond to the signals given by land values or house prices, as Kate Barker notably proposed, using maps that reveal infrastructure capacity and travel patterns, as well as demand.[44] Indeed relatively simple

[42] Peter Hall with Nicholas Falk, Good Cities Better Lives: how Europe discovered the lost art of urbanism, Routledge 2014
[43] See for example the German Land Act quoted in the ABC of Housing and Local Investment
[44] Kate Barker, Housing: where's the plan? London Publishing Partnership, 2014

calculations of the likely uplift from land values after deducting related infrastructure costs can provide a good indication of where to build, and can be updated to reflect improvements or extensions of infrastructure over time. Of course political judgements will still be needed, but they should follow a thorough analysis of the options, using some form of Multi-Criteria Analysis, as happened, for example, in drawing up the Structure Plan for Cambridgeshire, and which led to the Oxford Futures report (which was published in 2014 by the Oxford Civic Society). A spatial growth plan might involve the following steps, and is best prepared in consultation with an informed group of stakeholders[45]:

1. Start with Functional Urban Areas or Travel To Work Areas in places with high property values (and therefore demand)
2. Map the main travel routes along with the pattern of settlements or housing market areas
3. Rule out areas that are in flood plans or designated as Areas of Natural Beauty or SSIs
4. Indicate potential improvements to road and rail links, as we have suggested in our proposal for an Oxford Metro, which would include a number of new stations, such as on the freight line to Cowley
5. Work out the current property values in different locations (perhaps using rateable values for councils as well as sales values for housing and commercial property)
6. Evaluate the impact of different patterns of density and growth rates in terms of both private investment and Council tax revenue as well as congestion or travel time over the next 30 years at five yearly intervals
7. Resolve the implications of changes to policy, for example changes in green belt boundaries and investment in local rail, on the prospects for investment.

e. Rethinking business rates

Currently local authorities are being offered the chance of recovering half the increase in business rates, while the level is still set nationally. Rates, which are a tax on property values, were devalued as a source of income in the 20th century, putting British local authorities at a disadvantage in tackling social exclusion. Tristram Hunt brings out the importance of the great Victorian Council Leaders such as Joseph Chamberlain in Birmingham. He quotes the Fabian Sidney Webb who talked of 'Municipal Patriotism' and the 'free cities' of Italy as an

[45] Achieving Smarter Growth in Central Oxfordshire, www.oxfordshirefutures.org 2014

inspiration for London. [46] In his Epilogue Hunt bemoans the ‘strangulation of local government’. Local government expenditure rose from 32% of total government expenditure in 1870 to 51% by 1905, but then fell to 28% in 1979 and 24% in 1998. By 2001 after Business Rates had been nationalised by Mrs Thatcher’s government only a quarter of local expenditure was raised from local taxation, and the UK became and remains one of the most centralised states in the world. Tristram Hunt in an article for the Observer on December 11th argues that it is the cities that are the means to ‘make Britain great again.’ He points out that the 388 Metropolitan areas in the USA generate 91% of the GDP, and many, such as Chicago (or Portland Oregon), are in forefront of efforts to improve the infrastructure through ‘transit based regeneration schemes’ that tackle social exclusion and poverty. These are typically funded through bond issues that have to be approved at election times, and that provide investors with an inflation-proof asset for a defined period of years, and that are underwritten through local development plans.[47]

Rates are sometimes seen as a modern imposition but date back to well before Elizabethan times, being the means whereby property owners funded collective improvements, for example to highways or dock wharves. The OECD in their excellent studies of what leads to success draw a clear correlation between effective governance and the means to raise investment finance.[48] There are suggestions also in the latest European Union comparisons, that the continuing poor performance of the UK economy, and its excessive disparities, could be related to the centralised nature of both national government and our financial institutions.[49] Centralisation makes them unresponsive to local needs and unable to join up different forms of investment, public and private. In the UK as a whole we pay less in tax, invest less, and get worse value from public investment.

[46] Tristram Hunt, Building Jerusalem: the rise and fall of the Victorian city, Wiedenfold and Nichoson 20014
[47] Nicholas Falk and Reg Harman, Funding Local Rail Transit through Smarter Growth, Public Money and Management, September 2016
[48] The OECD report *Governing the City* and *The Metropolitan Century* are available from OECD publishing: http://dx.doi.org/10.1787/9789264226500-en / http://dx.doi.org/10.1787/9789264228733-en
[49] EU, State of the nations, 2016

f. Charging Annual Ground Rents

A good starting point for securing inclusive growth is the peculiar nature of land ownership and tenure in Britain, or at least England and Wales (and which was repeated in parts of the British Commonwealth, such as Australia). Ever since the Norman Conquest, we have largely accepted a system, especially for commercial property and blocks of flats, where a distinction is drawn between the freeholders and the leaseholder. Called the Landlord and Tenant Act, the basic idea is that the house builder has sufficient motive to build a house and look after it or rent it out to tenants, while the landlord has an interest in planning the estate so it holds its long-term value when the property reverts at the end of the lease. It was this system that largely built Victorian London, and also those places we value as exemplary, such as Hampstead Garden Suburb.[50] Landlords laid out the estate, including provision for public facilities such as churches and squares, and collected an annual ground rent from those who occupied the properties that were built. The incentive was the reversion of the property when the leases ran out.

At its best, for example the Great Estates in central London, there has been a tradition of landlords taking a continuing interest in how the properties are let and managed, exemplified by the actions of the Grosvenor Estate in improving the public realm in Mayfair, or the Howard de Walden Estate ensuring a good mix of shops in Marylebone High Street.[51] Something similar was practiced in some of the English New Towns, with for example the Milton Keynes Parks Trust taking over all the small shops and applying their rents to looking after the extensive open spaces.

Successive British governments have sought to nationalise local sources of revenue, for example taking over utilities and transport undertakings, and making it harder for private landlords through Leasehold Reform. This is quite unlike the situation in major Continental cites, which generally enjoy a much higher quality of public realm and much higher densities, where people from all social classes have been happy to live, under professional landlords.[52] In the UK by contrast privatisation of services once run by city authorities, such as energy and

[50] Donald Olsen, The Growth of Victorian London, Penguin Books 1979
[51] Peter Murray, Great Estates: How London's landowners shape the city, New London Architecture, 2014
[52] Peter Hall with Nicholas Falk, Good Cities Better Lives: how Europe discovered the lost art of urbanism, Routledge 2014

transport, has made it economically impossible to maintain services without large subsidies from the taxpayer. This is a further reason for taking a different approach in sustainable urban extensions, especially if we want to match Continental cities in reducing carbon emissions, promoting health and wellbeing, and avoiding excessive disparities.

g.Financing local infrastructure

Once suitable sites have been selected (a process that many local authorities are used to undertaking, if only to meet government demands to show five years supply of land for housing), the task of assembling the funding for infrastructure can properly begin (so long as prices are not ramped up). In simple situations where the infrastructure is already available, for example public owned land next to railway junction, it may be sufficient to appoint an appropriate private development consortium. But often the development areas straddle local authority boundaries, where the complexities will deter all but the most foolhardy developer. There it makes sense to set up a Public Private Partnership, as for example is happening with Garden City Developments on the edges of Colchester, or a joint venture, as in the development of Barton Park on land owned by Oxford City Council Where major public funding is required, as in the case of Old Oak Common, a development corporation with the powers to assemble land existing use value will offer the benefits of continuity and government support.

Because infrastructure such as transport and schools is needed up front, not at the end, long-term low cost finance is essential if housing is to be affordable and neighbourhoods attractive. Some authorities are seeking to raise finance through the Public Works Loans Board (founded in 1793) which lacks the capacity to evaluate projects in terms of the risk involved in repaying the loan or the benefits from the project. So a better solution for the 21st century would be the use of Bonds, as has been common practice in American cities, and which major housing associations are using on a large scale in the UK. The beauty of bonds is that they are assessed not just in terms of their potential to repay the investor, but also in terms of the capacity or resilience of the borrower. There are private ample funds available for the right projects, for example through pension funds who need to invest in inflation proofed assets that can also be liquidated when required. But project promoters need not only to be able to service and repay loans, but also to have the resources to service the loans if the cash flow from the project does not turn out as expected.

Hence local authorities need to be able to raise more revenue funding locally, and vary tax rates, but at present their sources are all too limited. The Leader of Hampshire County Council in a letter to The Observer January 1st 2017 said they had their grant for 2010-17 cut by £159 million or 74%, and the Council Tax is highly geared, requiring very large increases to generate quite small amounts. The government therefore needs to change the rating system, not just returning half of the increased proceeds from the Business Rate, as is happening, but also to allow local authorities discretion within limits, (as is starting, for example with regard to care costs and Council Tax), and has been used in London towards the costs of Crossrail through a surcharge on the Business Rate.

f. **Implementing Land Value Rating**

A much needed review is required not just of the levels of tax bands, so that rates do not bear disproportionately on small town centre businesses or the poor, but also so that those who benefit most contribute their fair share. This means changing from a system where the tax falls almost entirely on the occupier to one where the landowner is primarily responsible (as in the USA, for example). Experiments with the application of Land Value Rating, for example in Botley in the Vale of White Horse in Oxfordshire, show that is relatively easy to distinguish between the value of the buildings, and the land on which they sit.[53] Chartered surveyors can do the job quite easily, and values can later be updated to reflect inflation. Indeed modern GIS techniques and aerial photography make this possible without even having to visit the properties, and rateable values can be reviewed annually.

With some form of Land Value Rating in place, it is a small step to start charging property owners who have planning permission in areas of high value for the opportunity cost from holding land idle. This is essentially what happens in Copenhagen, and Canberra, Australia, two of the best examples.[54] Such a tax would have a huge impact on London, where research

[53] The Oxfordshire Land Value Rating Study, Oxfordshire County Council, 2005
[54] https://www.prosper.org.au/2016/09/12/the-first-interval-evaluating-acts-land-value-tax-transition-full-report/

suggests that only half the sites with the largest planning permissions are being developed out, and other areas where house prices are excessive.[55] But how is the inevitable resistance to be countered? One answer is to make sure that such a levy is seen as a charge, not a tax, and used to fund improved infrastructure. Indeed it could be one of the tasks of the Local Enterprise Partnerships to oversee how the funds are used, motivated in part by the prospect of securing government funding to match what is raised locally. After all citizens in cities now accept paying charges for parking, or even having a permit to keep a car, and it would be a small extension of that idea to introduce the idea of an Annual Ground Rent on the value of the land they occupy.

But this will not happen unless, as with London's Congestion Charge, the proceeds are clearly earmarked, or **hypothecated t**o a purpose that wins general support and helps reduce disparities. To ensure that funds raise from property owners are put to uses that secure and enhance property values, it would be politic to establish a suitable mechanism to package public and private finance. These would be for projects that have local priority, and are not national responsibilities, such as High Speed 2 or 3, or the maintenance of national roads. Such a body might be called a **Local Infrastructure Finance Trust** (LIFT). As the process of putting viable projects together is complex and involves upfront costs, it might be overseen by the National Infrastructure Commission, which is now part of the Treasury, or better still a **Municipal Investment Corporation,** on Dutch lines (as proposed in my Smith Institute report. [56] Though there is resistance to creating institutions that are independent of government, this could be an opportunity for a group of local authorities, possibly backed by utilities, to collaborate in raising the funds needed for sustainable urban extensions, complete with modern forms of infrastructure, such as Combined Heat and Power systems, as in Scandinavian cities for example, or light rail systems, as in French and German cities. [57]

---

[55] Christine Whitehead et al Rising to the Challenge: The Housing Crisis in London, LSE 2016
[56] Funding Housing and Local Growth: how a British Investment Bank could help, The Smith Institute, 2014
[57] Nicholas Falk and Reg Harman, Funding Local Rail Transit through Smarter Growth, Public Money and Management, September 2016

The Annual Ground Rent charge would be levied on property owners in relation to the value of their holdings, with exemptions for charities and smaller landlords. It would supplement other sources, but would over time reduce the demands on most property occupiers, and make the whole property taxation system much fairer. For example Inheritance Tax might well be restructured, if the review took in both housing and commercial property, thus making it easier to pass on small businesses when the owner dies. It might also enable Value Added Tax to be reduced or changed in some areas (as VAT is earmarked for funding contributions to the European Union.) A good example would be out of town retailers and business parks, who currently do not pay business rates that reflect the value of their extensive car parks, which derive most of their value from roads provided at public expense. They would pay much more, but such an increase would be seen as ‘only fair’ by the great majority of the population (80%) who would not have to pay more. [58]

At the same time rates (and rents) could be dropped in town centres where there are high levels of vacancy (or charity shops), a clear indication of ‘market failure’. Small businesses in declining town centres are expected to pay ever higher business rates (due to the Inland Revenue’s expectation that commercial rents can only go up, while at the same time car parking charges are seen as the main source of discretionary revenue by many local authorities, acting as a further deterrent. Where there is a surplus of retail space, the proceeds from LIFT could in such cases be used to build affordable housing a short walk from the town centre, possibly using surplus car parks owned by the local council.

g. Funding sustainable regeneration

So far we have focussed on areas with positive development potential, but many of the greatest needs lie in declining urban areas with failing industries where not only is demand insufficient to attract private investment, but where the costs rule out being able to repay loans. So long as the local infrastructure fund draws on the wider area, for example that covered by a County Council, a degree of cross-subsidisation should be possible. Indeed if really wealthy areas, such as London, had more responsibility to fund their own capital requirements, government

[58] Figure from Thomas Aubray, Centre for Progressive Capitalism

finance could be redirected to the more needy areas, and those that have suffered most from industrial decline or shrinking populations, where publicly funded regeneration is essential.

An early use of such funds should be in undertaking environmental improvements aimed not just at changing the face or image of an area, but also making the people living there feel better. URBEDs research, using MORI focus groups, discovered that 'it was the little things that mattered'.[59] Residents in disadvantaged areas were primarily concerned with the state of the streets. Innovative projects such as Incredible Edibles in Todmorden have vividly demonstrated that initiatives that rebuild the Pride of Place enable communities to come together around a common cause.[60] Too often government funded projects have expected quick economic returns from what is inevitably a long-term process, and undervalued the impact environmental projects can have on people's self-esteem, and indeed mental health. Projects to create large scale country parks, such as the inspiring Emscher Park project that has transformed former steel and coal towns in the German Ruhrgerbiet, show what can be achieved, if only the initiative comes from the bottom up.[61] Indeed a new lake on the edge of Dortmund is credited with changing the town's fortunes, and has certainly given it a leisure quarter that was previously lacking. Such a model could be used to regenerate the run-down area in the West of London along the Colne River Valley North of Heathrow, as proposed in ReShaping London, and would enable homes to be built closer to sources of work.[62]

The important point is that instead of decision on investment projects being made by ranking transport projects nationally, using a somewhat spurious form of Cost Benefit Analysis, choices would be made a more local level where priorities between competing projects could be assessed, and projects joined up to gain the full benefit from improved infrastructure. An idea of the impact of such a proposal comes from the calculation by Tony Travers and Stephen Glaister that:

[59] Video produced for ODPM in 2001 and available from Nicholas Falk
[60] Www.incredibleediblenetwork.org
[61] Peter Hall with Nicholas Falk Good Cities Better Lives, Routledge 2013
[62] Jonathan Manns and Nicholas Falk, ReShaping London: Unlocking Sustainable Growth in West London and Beyond, The London Society White Paper, 2016

'A London-wide levy of, say, 5 per cent on the existing rate would produce almost £200 million per annum. This in turn would finance borrowings of perhaps £4 billion'.[63]

Such a concept, which has begun to be used in financing Crossrail, should enjoy even more support if it were linked to a long overdue review of the Business Rate system. The application of Land Value or Split Level Rating might first be tested out in an area where rapid growth is expected as a result of public expenditure on major transport projects, such as around Old Oak Common and Heathrow, or the 200 acres around Oxford Station, which is largely owned by the City Council and the University of Oxford.[64] The RICS, as the professional body most concerned with property values, has long argued for changing the system in what it calls Transport Development Areas. [65] It is now undertaking work on valuing infrastructure, such as roads and bridges, and should be ideally placed to work up such ideas to the point where experiments can be undertaken.

4. ACHIEVING REAL REFORM

The RSA and similar bodies need to advocate proposals that will make a real difference, and that will not be reversed at the next election. Progress depends on overcoming both the technical and political obstacles to tapping land value uplift, and devising a proposal that can overcome bureaucratic inertia and institutional conservatism, and win wide enough support to overcome political shifts. A transport investment may last for centuries, but a Minister is rarely around for more than a couple of years, and what one may conceive, another will have to launch and sustain. Yet the best ideas, like garden cities, can endure the ups and downs of economic cycles.

Tackling the technical issues

Given the extensive debates and research over the course of the last century, something different will be needed to make any real progress. This could be the necessity of finding an

[63] Tony Travers and Stephen Glaister, Funding London's Development, London Development Agency 2003 (and subsequently developed in work for the London Assembly and others)
[64] Oxford Central West, URBED and the Academy of Urbanism, March 2016, www.urbed.coop
[65] Funding London's Transport, RICS 2003

additional source of funding for local authorities that would reduce their dependence on central government and allow them to make prudent choices over the location of new development and related infrastructure. Land Value Taxation is perfectly feasible, as examples such as Pittsburgh illustrate, and is relatively easy to implement now that maps are digitalised, and GIS is commonplace.

The real obstacles are therefore political and here the results of the Oxfordshire Land Value Tax study are relevant[66]. Promoted by a Lib Dem Councillor on the County Councillor an experiment was undertaken in the Vale of While Horse around Botley. The findings were that LVT could be implemented fairly readily as it was quite easy for a surveyor to deduct the value of the buildings (based on expected replacement cost) from the value of the property. The results were significant, but predictable:

- If a standard rate was used, then residential properties would pay much more and commercial properties less; Non Domestic Business Rates were set at about 10% of the value of the property whereas Council Tax was only about half a percent.
- The largest increases would be on the properties with most land (often the most valuable anyway), and in the case of commercial properties those with large amounts of parking attached.
- Overall the number of ‘winners’ far outstripped the ‘losers’, and some of the losses could be compensated for by giving everyone an allowance and allowing the increases to be deferred to the point of sale when necessary.
- Many options were possible including the increase in property taxation being offset by reduction in other economic taxes, such as income tax or VAT or the abolition of high rates of Stamp Duty or Inheritance Tax.

The main benefits were seen in terms of securing the optimal use of land, and introducing a much fairer system, given the many criticisms of both Council Tax and the Business Rates. One of the researchers, Tony Vickers, was a Councillor in Newbury and went on to do his doctoral thesis on property value mapping, and there now a host of computer based

[66] The Oxfordshire Lane Value Tax Study, February 2005

modelling systems that bring together the basic information that would formerly have taken years to collate.[67]

Avoiding political obstacles

The political impetus to change the system for property taxation and infrastructure funding is likely to come from the need to 'reboot' the British economy in the wake of Brexit and the world economic slow-down. Since 2005 all parties seem to have been converted to devolution and localism, and to the need to find better ways of funding infrastructure. However the fundamental problem remains that our 'tax take' is relatively low, and sources disproportionately concentrated in London and the big cities. A good idea of where the money come from is provided in a report by the Centre of Cites on *Mapping Britain's Public Finances.*[68] This has some surprising findings. For taxes on land and property turn out to raise only about a tenth of the government's revenue (11%), with taxes on investment raising a further 10%. By contrast VAT brings in 19% of revenue while half of government's revenue comes from income tax and national insurance. Those who own most often pay least.

The greatest sources of tax are the main Metropolitan cities because they were where most people live and work. A few London Boroughs such as the City and Westminster contribute the 'lion's share'. But the highest rates of land and property tax are in the outer local authorities. The Local Economic Partnerships in Oxfordshire and Cambridge have some of the lowest government spends because they have smaller pension age populations and benefit recipients, but raise some of the highest amounts of taxes on their economies. In practice the differences between tax levels per worker are not all the significant across the country, compared with differences in public expenditure, which vary hugely, especially in terms of infrastructure. This suggests untapped potential to raise more taxes in the areas with greatest established wealth and real economic growth prospects.

[67] www.landvaluescape.org/papers/mapping

[68] Louise McGough and Paul Swinney, Mapping Britain's Public Finances: where is tax raised and where is it spent? Centre for Cities July 2015

Such a programme should appeal across political divides. Thus the Prime Minister at the time, Gordon Brown, chairing the emergency G20 meeting to tackle the 2007/8 financial crisis, called for investment in the Green Economy, which essentially means energy renewables and local transport. The Lib Dems and the Green Party have both long argued for investment to rebuild local economies, through a National Infrastructure Plan, and measures to promote environmental sustainability at local levels. At the other end of the political spectrum, the Policy Exchange in a well-researched report proposed funding the required £500 billion investment to modernise our worn-out infrastructure by moving infrastructure investment off the government's balance sheet. [69] This thorough report, which identifies and costs where investment is most needed, concludes by saying:

The economic crisis has raised the fundamental questions about the 'British economic model', based upon high consumption and high borrowing. At the macro level, it has been argued that it would be better to focus on investment rather than consumption, creating assets to set against the debt. And among investment decisions, infrastructure has considerable merits, not least because it increases productivity and competiveness, as well as social inclusion.

Dieter Helm and his co-authors favoured an Infrastructure Bank, like the German KfW, along with measures to make it easier to issue bonds to pension and life funds. The urgency of restoring confidence as the costs of Brexit become clearer will justify radical changes such as these, including, paradoxically, using approaches that more successful economies in Europe have been applying for decades. Indeed leaving the European Union may encourage cities and city regions to make the most of their assets, and to create agencies that can heal the divides

A report for The Smith Institute, based on case studies of innovative housing developments in the France, Germany and the Netherlands, proposed launching a Municipal Investment Corporation, based on the Dutch model of BNG, to assess as well as help broker funding for local infrastructure projects, such as strategic housing developments.[70] Though local

[69] Dieter Helm et al, Delivering a 21st Century Infrastructure for Britain, Policy Exchange, 2009
[70] Nicholas Falk, Funding Housing and Local Growth: how a British investment bank could help, The Smith Institute 2014

authorities can borrow cheaply with many question from the Public Works Loan Board, there would be real benefits in having a centre of expertise on development finance, and in France once the Caisse des Depots has made an investment, the private banks follow. When bonds are issued for strategic developments that are under-pinned by the uplift in property values, as the Policy Exchange and others favour, (as Cambridge University has done through its £350 million bond issue to fund a mixed use scheme on a farm it owned), much greater progress can be made on rebalancing the economy and tackling social exclusion. The relatively buoyant areas of London and the Rest of the South East could switch to funding their own infrastructure improvements out of the value released from development, or what Ebenezer Howard memorably called the 'unearned increment.'

The funds saved by cancelling or deferring projects with relatively low returns and benefits and exceptional costs, such as High Speed Rail 2 extending through to Euston, or Crossrail 2 from Wimbledon, can then be invested in regenerating the under-resourced 'third tier' towns and cities in the rest of the country that are crying out for help. This would respond to recommendations from a TCPA task force on urban policy, which recommended a 'tilt to the North'.[71] A subsequent Charrette for the North on realising the vision for the Northern Powerhouse, drew together local stakeholders and experts from the Ruhrgerbiet, Ile de France, and the New York Region. The report argued that progress depends not just on a *'new story for the future of the North…..a Pennine Heart region like the Alps'* but also on '*liveability, quality of place and place-making'*. This requires *'innovative institutional models for collaborative working'* and new financial mechanisms, such as turning Transport for the North into an economic development agency.[72]

[71] Ian Wray et al,Cities are crucial: four scenarios for urban policy, TCPA Tomorrow Series 18, 2016
[72] A Sustainable and Resilient Northern Powerhouse, University of Liverpool Civic Design Department, 2016

So how can the RSA and its Inclusive Growth Commission have most impact, and where can it add weight to changes that may already be underway? Here are six proposals that need to be tested out through feasibility studies and demonstration projects:

1. **Spatial Growth Plans**: Combined Authorities negotiating for increased public funds, for example through City Deals, should map out social disparities and under-used property assets, and set out the action required to create a society that works for all. This could include measures to improve local infrastructure, such as improving public transport and insulating leaky homes, as well as initiatives for raising capabilities as well as ambitions through technical education. Areas would be designated as Growth or Regeneration Areas depending on prevailing property values. Investment projects would then be evaluated by assessing projects through Multi-Criteria Analysis (MCA), either against policy goals or the broader concepts of economy, environment and equity (the ‘three Es’ used for the Cambridgeshire Structure Plan).
2. **Community Development Corporations** Where major development is expected, measured by house building or private investment targets, Mayors in Combined Authorities can establish agencies with New Town Development Corporation powers to assemble land, package long-term funding for local infrastructure, engage with local communities, and appoint development partners. In neighbourhoods with marked social disadvantages, a prime objective should be narrowing disparities with public funding allocated to skills development and capacity building. Rate-free Enterprise Zones should be designated to help smaller businesses and social enterprises to grow. RSA Fellows could help provide local leadership and make the most of local expertise.
3. **Garden town foundations** Where property values are high enough, half the land allocated for development can be endowed in a foundation to provide benefits for the existing as well as the new

community.[73] This will help integrate town and country, as Ebenezer Howard originally sought to do.[74] Where values are relatively low, open space and surplus public buildings can be used to rekindle 'pride of place' through their transfer to environmental trusts, such as Groundwork, that are geared to providing local employment and training, and looking after the town's 'common wealth'. [75] Importantly these should also have access to long-term sources of revenue funding, for example through establishing Town or Parish Councils that can add a supplementary levy to the Council Tax. Property assets such as homes to rent can provide a core income. In Growth Areas where land values are high, more use should be made of Community Land Trust powers. These enable trusts to hold on to freeholds, and therefore shape future letting policies and practices, including keeping rents affordable, and making 'rent to buy' possible. The RSA's Catalyst grants could be helpful in supplementing funding for the Community Housing sector to support further innovation, for example cooperative building groups.

4. **Local Infrastructure Finance Trusts (LIFT)** Where major investments in local infrastructure are required, including energy, transport and social housing, funding should be pooled, initially using the Community Infrastructure Levy, to plan how these can best be joined up. These could be set up as adjuncts to Development Corporations or by a local authority or even a major landowner willing to take the lead. They would prepare budgets showing the costs and returns from investment in local infrastructure (i.e. not part of national systems), and take the lead in issuing 'infrastructure growth bonds', underpinned by the prospective uplift in land values arising from development. By starting with projects that have greatest priority, it should be easier to overcome resistance.

[73] David Rudlin and Nicholas Falk, Uxcester Garden City: submission for the 2014 Wolfson Economics Prize, www.urbed.coop
[74] Ebenezer Howard, Tomorrow: a peaceful path to real reform, 1898 republished 1902 as Garden Cities of Tomorrow.
[75] www.locality.org.uk and www.communitylandtrusts.org.uk

RSA members with financial expertise could make a major contribution in their communities.

5. **Land Value Rating** In areas where major development is planned, local authorities should be granted the powers to introduce a levy or charge on land values, starting with land that has been assembled for strategic developments and passed through public ownership. The proceeds from the additional Land Charge would be allocated to Local Infrastructure Finance Trusts operating on a sub-regional or County/LEP wide basis. Hence it would not be seen as a 'stealth tax', but a fairer means of securing 'smarter urbanisation', that is growth that strengthens the whole town or city without adding to the Public Sector Deficit. The RSA's excellent work on mapping heritage assets could readily be reinforced by adding information on property values.

6. **Municipal Investment Corporation** Finally, given the new tasks, some institutional change is called for, if only to provide the management capacity that institutional investors will expect. As part of the likely restructuring of the Homes and Communities Agency, an investigation is needed into the costs and benefits from local authorities and utilities working together to make better long-term investment decisions in local infrastructure and strategic housing, as in other parts of Europe. [76] A starting point could be the review by the National Infrastructure Commission, and their call for evidence for the National Infrastructure Assessment. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/563516/NIA_call_for_evidence_October_2017.pdf) The RSA (and others) should argue for giving more weight to projects that tackle social exclusion. Public investment decisions can be greatly improved through some form of Multi-Criteria Analysis that values the impact of investments on equity

[76] Nicholas Falk, Funding Housing and Local Growth: how a British investment bank can help, The Smith Institute, June 2014

and environmental indicators, and not just economic criteria.[77] This could used by an agency on the lines of the German KfW or Dutch BNG in city regions that want to secure inclusive growth through greater investment in local infrastructure.

Conclusions

This paper has been written to show how the RSA and others could promote measures to mobilise private as well as public investment in tackling spatial inequalities, and securing inclusive growth. The huge unfilled gaps in the provision of affordable housing, or transport and energy infrastructure, along with the economic downturn that may follow Brexit, provide the rationale for long overdue reforms in the way land is valued and taxed. While there are many difficult questions to be resolved, there are enough examples in both Europe and the British Commonwealth to suggest that answers can be found, if the will is there. If every measure is taken for building more homes without tackling the issue of land, no real change will be achieved. The obstacles and risks will prove too great in the face of inertia and opposition.

Yet, as the attached diagrams from Stephen Hill show, it is possible to conceive a better way of joining up development with infrastructure in ways that would improve the lives of people in disadvantaged areas. if the British land issue can be addressed in the simple ways proposed, most other measures will prove much easier, along with measures to heal the North South divide and resurrect the idea of hope. Indeed we might even become a little more like the cities we enjoy on holidays in the rest of Europe!

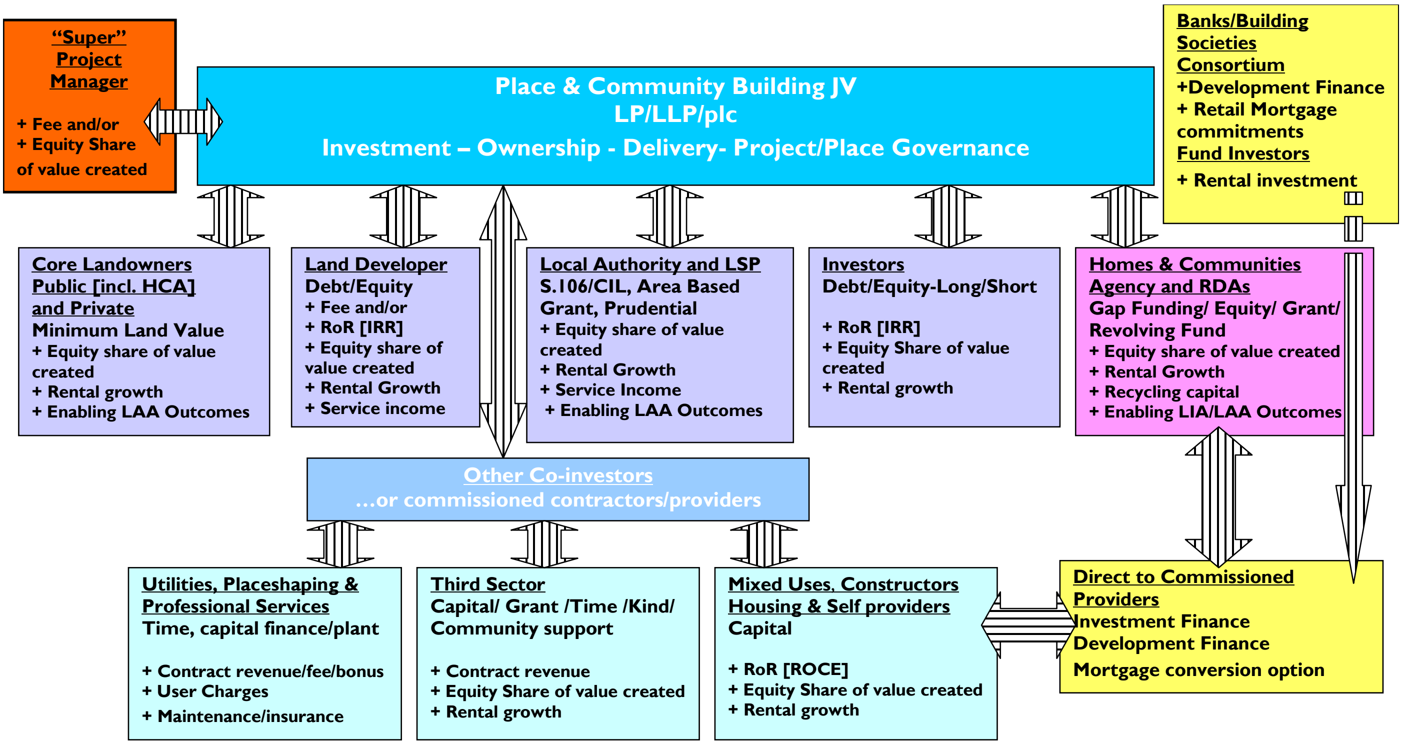
Dr Nicholas Falk, BA MBA Hon FRIBA, FRSA

The URBED Trust

Nicholas@urbed.com

January 2017

[77] Harry Demetriou et al, The Design and Delivery of Major Projects, Omega Centre UCL for ICE, 2010



This diagram does not include: Public or private strategic infrastructure investors or Community/Public Interest investor structures for long term reversionary land ownerships eg urban community land trusts

Diagram from Stephen Hill, RICS for The Housing Forum

www.buildingfutures.org

Vision for Oxford Garden City,

Diagram from Stephen Hill, RICS, prepared for The Housing Forum

URBED