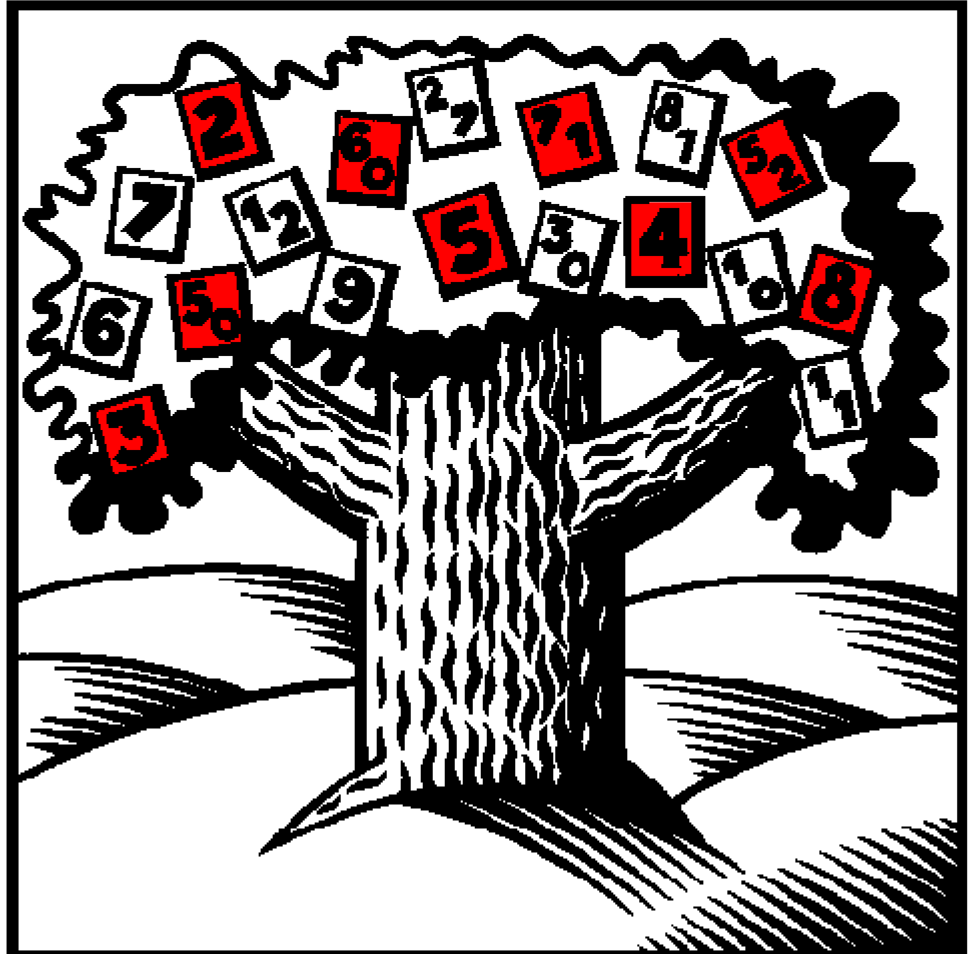
FUNDING SUSTAINABLE COMMUNITIES
Smart Growth and Intelligent Local Finance

Nicholas Falk



Supported by

TCPA TOWN AND COUNTRY PLANNING ASSOCIATION
HOMES AND COMMUNITIES FOR A SUSTAINABLE FUTURE

TCPA Tomorrow Series, Paper 13

FUNDING SUSTAINABLE COMMUNITIES:
Smart Growth and Intelligent Local Finance

Dr Nicholas Falk

Town and Country Planning Association
17 Carlton House Terrace
London SW1Y 5AS

Telephone: 020-7930 8903
Facsimile: 020-7930 3280
Website: www.tcpa.org.uk

Copyright © 2004 TCPA
Cover illustration: Clifford Harper

ISBN: 0 902797 30 1

Acknowledgements
The TCPA would like to thank the Joseph Rowntree Foundation and the Building and Social Housing Foundation for their sponsorship of this Tomorrow Series Paper

Printed by RAP Spiderweb Ltd, Clock Street, Hollinwood, Oldham OL9 7LY
Printed on oxygen-bleached paper from sustainably managed forests

FUNDING SUSTAINABLE COMMUNITIES
Smart Growth and Intelligent Local Finance

Nicholas Falk

The TCPA has produced the Tomorrow Series in order to generate innovative thought. Views expressed in this report, however, are those of the author and not necessarily those of the Town and Country Planning Association.

SUMMARY

Filling the huge funding gaps in upgrading our infrastructure and improving the public realm in our towns and cities will require innovative approaches to public finance. A number of options are under review.

Drawing on experience in Europe and the USA, Nicholas Falk makes the case for radical reform, and puts forward a number of practical solutions, including measures that could be implemented readily using existing powers, as well as a variant on Land Value Taxation.

This new paper in the TCPA's Tomorrow Series follows up the *Barker Review of Housing Supply* in arguing the case for a more intelligent system of local finance that reinforces rather than displaces private investment, that makes the most of existing infrastructure, and can support growth in areas where demand is strongest, thus responding to market signals. Intelligent taxation should not just be about raising public finance efficiently, but should also be about minimising waste, contributing to social justice, and producing a more sustainable environment.

The paper shows how sustainable development, or 'Smart Growth', needs to be secured through action aimed at upgrading the public realm, encouraging business growth, and building sustainable communities. It argues for tapping land values in financing infrastructure investment through modest measures, such as taxing parking spaces in out of town shopping and business centres. It also considers the potential for introducing charges on development, and on unused land with development potential in designated Growth Areas that local authorities can use to increase the capacity of local services. He proposes using Regional Development Agencies to suggest areas where incentives should be provided, thus providing them with a useful means of mobilising private investment.

The author believes that creating sustainable communities depends on securing more joined up investment at local level. He argues that the Business or Non Domestic Rate system should be reformed as the most cost-effective means of redressing the imbalance between central and local government. He suggests splitting it into two parts: a Commercial Property Tax which goes to central government; and a local element. He calls for allowing local authorities to keep the first part, and to vary the rate within limits while removing rates on small firms in Enterprise Areas where significant vacant space exists. He argues that this will not only liberate local authorities, who currently get 75% of their funding from central government, but also encourage a shift in investment towards existing urban areas, in ways that will help overcome current spatial inequalities, which are among the worst in Europe.

In summary, in suggesting how a 'step change' might be secured, the author suggests using the challenge of radically increasing the construction of new houses, and hence consumer choice, to introduce intelligent local funding mechanisms in locations that have the necessary capacity.

THE CASE FOR RADICAL REFORM

Over time, the Government will aim to reform the tax system to increase incentives to reduce environmental damage...and shift the burden of tax from 'goods' to 'bads'; encourage innovation in meeting higher environmental standards; and deliver a more dynamic economy and a cleaner environment, to the benefit of everyone'. Gordon Brown[1]

Economic growth must be bottom-up, building on the indigenous strengths of individual cities and localities' ODPM[2]

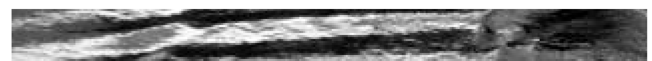
This paper is aimed at making faster progress towards the government's goals of sustainable communities and urban renaissance. It deals with the complex subject of local taxation and financing, which is back on the government agenda with consultation papers on *Local Authority Business Growth Incentives* and the *Balance of Funding* between central and local government, and work on alternative funding mechanisms, such as 'Value Capture' from development projects.

Two main proposals are currently being considered by an inquiry led by Sir Michael Lyons, local income taxes and reform of the Business Rate. There has also a resurgence of interest in Land Value Taxation (LVT).

This paper focuses on the issue of how to pay for a better environment. It also highlights the roles regional government and local democracy can play in achieving government priorities for both housing development and business growth. It considers some of the existing freedoms, as well as possible options for raising local finance, ranging from charging for services to Tax Increment Financing (TIF) and changes to property rates, and puts forward some practical proposals for tapping land values, based on experience in other countries. The paper draws on a wealth of previous research into local taxation and discussions with leading experts, such as Tony Travers and Howard Glennester at the London School of Economics, and it is greatly influenced by brief case studies of successful foreign models, from Denmark, France, Germany, the Republic of Ireland and the United States of America, as well as many helpful comments from colleagues and friends.

The origins of this paper lie in an invitation from Jon Rouse, Chief Executive of CABE (the Commission for Architecture and the Built Environment) to put together some ideas on ways of raising local finance, and I am very grateful to him for his helpful comments on structuring the report. A number of CABE reports have stressed the value of the public realm to the nation, and CABE's former Chairman, Sir Stuart Lipton,

The Oracle in Reading



has called for '*a nation that exhibits its riches in a shared environment that wears its pride on its sleeve*'[3]. However, remedying decades of neglect takes more resources than local authorities currently have available. Other priorities, such as education and social services, tend to win out. It is not enough simply to suggest how to make places look better without generating the necessary resources to fund the improvements: including upgrading the public realm, encouraging business growth, building sustainable communities, and financing infrastructure. These issues are discussed in the following sections.[4]

Urban and regional renaissance

With the growth of the 'knowledge economy' and global competition, achieving the Treasury's objectives of raising productivity and reducing inequalities depend increasingly on improving the state of our towns and cities to match standards found in most Continental towns. Well documented examples in places as different as Manchester and Reading show that an urban renaissance is feasible, and that cities, like companies, can be turned around. You no longer have to go as far as Barcelona or Baltimore to be inspired by what is possible. URBED has produced a range of case studies that demonstrate the fundamental role that local authorities play in the process (see for example *The 24 Towns and Cities Initiative*[5] and *Changing Places*).

Urban renaissance is essentially about changing attitudes to living in cities. The process of urban renaissance depends, among other things, on recreating a pride of place, providing integrated public transport, promoting thriving centres, and developing at a higher density around transport nodes. It therefore amounts to what urbanists in the USA are calling Smart Growth, a term coined by the Congress for New Urbanism (CNU)[6] , which has been taken up by the Federal Government. It is similar to the European Union's idea of the Compact City. Smart Growth is a process that requires local leadership and collaboration between agencies over many years, and I have used it to refer to strategies that try to put sustainable development principles into action[7]. Good examples of this are the sub regional planning frameworks for New Jersey and San Francisco, both of which have won CNU awards.

Sub regional planning is still in its infancy in the UK. Achieving an urban renaissance in ten or twenty metropolitan and historic cities is one thing, but spreading the benefits to England's suburbs and peripheral industrial towns is much more difficult. Most developers simply do not believe the rewards compensate for the costs, risks, and the time it takes, even where property values are high enough to justify the effort. Councillors in the South East do not think the gain from new housing compensates for the pain, and doubt whether transport systems can cope[8]. The idea of public private partnerships has been widely talked about, but collaboration is still relatively undeveloped in the UK compared with say France or the USA, due to disagreements over who should pay for what. Work is starting on developing sub regional strategies but without the tools necessary to ensure implementation.

The government recognises that one of the biggest challenges facing Britain is to narrow regional inequalities, and has tried to achieve redistribution from the centre over many years, without much success. Research at the Centre for Analysing Social Exclusion at the London School of Economics has shown that spatial inequalities within English regions are far greater than on the Continent, where benefit levels (and taxes) are generally higher and income levels more equal[9]. Polarised cities

and regions are a waste of national resources, and are as important as the North South divide in creating a sense of inequity or social exclusion. Reducing spatial inequalities within the conurbations is therefore a major challenge for public finance. For example how can success in Manchester's city centre be spread out to East Manchester, Oldham and Rochdale? How can the gaps be narrowed between the post-industrial 'East End' and the leafier suburbs of Stockport and Cheshire, where a terraced house may cost ten times as much, and. Similarly in London, the regeneration of Docklands is well underway, but how can all the wasted space in the much larger Thames Gateway area be brought back into productive use?

Local authorities now get 75% of their funding from central government, since the Conservatives nationalised the Business Rate, and the yield is dropping as the rate is pegged below the rate of inflation. Without other sources of funding, increases in Council Tax, are born disproportionately by the poorest, and those who have benefited least from house price inflation, due to the way the tax bands are set and the gearing effect.

Opportunities for reform

A window of opportunity has opened up in England to rethink the basis of local government finance and introduce a more intelligent local tax system, thanks to the reviews mentioned earlier. The reviews must deal simultaneously with unrest over unsustainable Council Tax rises, anomalies in the impact of the Business Rate (under which small business pay proportionately much more than large companies), and concerns over local democracy and accountability. Assessed against the European Charter of Local Self Government the current system is not '*sufficiently diversified and buoyant*'; for example businesses think that because the rates are collected by local authorities, they are free to use them as they want[12]. The Government has recognised that: '*at local level there is currently a mismatch between the costs of economic development and the benefits that accrue from it*.'[13]

At the same time as the Government is reviewing the workings of the Business Rate, with a revaluation planned for 2005, it is grappling with the *Balance of Funding* between national and local government, and is committed to 'earned autonomy'. Countering the 'urban exodus' requires local authorities to do more than deliver services efficiently. As Dan Corry and Gerry Stoker succinctly put in a pamphlet for the New Local Government Network: 'T*he centre's dilemma is that it has the capacity to focus attention on a few critical things that people care about but it can never cover the full range of things that people feel are important or in need of improvement*'.[14]

A succession of inquiries, including the Urban Task Force's report *Towards an Urban Renaissance*, have concluded that local government in England needs to play a proactive rather than negative role. The Egan Review concluded that: *'Regional bodies must be key bodies in the delivery process but only local authorities have the right blend of local knowledge, presence and accountability to make this work.'*[15]

However, without local authorities being able to raise the resources to improve and maintain the environment, many of the national initiatives could fail, and we will end up with dispirited and ineffectual bureaucracies. Furthermore, the centralisation of decisions that are better taken at local level, following the EU principles of subsidiarity, actually leads to worse, not better decisions, as government departments often operate in 'silos', with no practical method for ensuring synergy, given political realities.

Ed Balls, who has played a key role in the Treasury's new thinking, has identified the central problem: ...'*Excessive centralisation saps morale, at local level. It destroys innovation and experimentation. It fails to allow different policy areas that must in fact be interconnected to be joined up*'. He calls for: '*discretion for public service managers with the maximum devolution of power to encourage flexibility and creativity and to meet consumer demands*'.

What most people cannot understand is that even where a local authority is credited with having the vision to turn its centre around, as in Birmingham for example, almost all the extra income flows away. Estimates for the £270 million Brindley Place scheme set out in a British Property Federation paper suggest that the scheme generated income tax of £13million pa and Business Rates of £4.7 million, but a Council Tax of only £212,000. Improvements to the public realm have therefore tended to depend on successful bids to Lottery funds or the European Union, rather than forming part of an overall Area Investment Framework in which part of the surplus generated by successful businesses can be ploughed back in improving the environment in which they operate.

Tinkering about with the formula for redistributing the Non Domestic Rate will not be enough to provide local authorities with the means and incentive to improve the local environment, and thus mobilise private investment on a much larger scale. Additional sources of local funding are also urgently needed. The *Balance of Funding* review acknowledges that while Britain may have the most sophisticated system for evening out inequalities, it is also by far the most centralised of systems, (which is why government rightly gets blamed when 'grand projects' fail.) The Local Government Information Unit's evidence referred to earlier also pointed out that: '*Ringfencing and passporting combined with complex and fragmented funding streams for area based initiatives with various regeneration aims, undermine local strategic decision making.*'

Closing the funding gaps

The problem of reforming local government finance has been aggravated by the collapse of public investment in Britain over the last few decades. Public investment fell from 10% of public expenditure in the 1960s to just 3% in the 1990s. Under the previous government, Britain had the third lowest level of investment in infrastructure among OECD countries. The country has also suffered from the lowest rate of house building since the 1920s, coupled with too much money chasing too few houses, resulting in higher house price inflation than any comparable country.

Despite substantial increases in public expenditure under the Labour Government, the resources committed so far are not enough to turn the tide on their own. Public investment as a proportion of GDP fell from around 1.5% of GDP in the mid 1990s to less than 1%, leaving an estimated shortfall of £65 billion by 2002, according to a paper by Dr Rana Roy for the Railway Forum, or £38 billion by the end of the Government's first decade[10]. An obvious response is that the private sector will close the gap. Yet private investors will not commit the necessary resources until they see evidence that an area is 'going up' and that future demand will be strong.

The gap has not been filled by the private sector. Financial institutions for many years avoided investing in property other than in prime locations, and put the funds instead into the Stock Market, driving up prices in the process. They left

property investment to property companies who borrowed money cheaply from banks to buy out the investments that institutions were selling. The deregulation of private investment, and an increasingly global economy have sapped the strength and resilience of traditional industrial areas, while encouraging over-heating in the South East. So long as it is easy and safe to lend money to traders and house buyers, who would bother with the complexities of actually building more houses on brownfield sites!

In addition, the Private Finance Initiative (PFI) may be funding new hospitals and schools, but they come at a high cost, and have not yet rekindled public confidence. The public are more concerned by the poor state of their environment than any other local issues, but are likely to be apathetic and cynical unless they can see visible signs of change. The quality of the local environment is a major reason for people wanting to join the 'urban exodus', and most people want to see cleaner safer streets as a priority[11]. Yet most local authorities are cutting their expenditure on the public realm due to other priorities.

The *Barker Review of Housing Supply* highlights both the collapse of public house building and the lack of institutional investment in private rental housing as major reasons for why Britain faces a housing crisis[16]. Barker argues that low rates of house building are holding back the economy as well as bearing heavily on those who are worst housed, such as the young. She believes the key goal should be more responsive housing supply, and suggests the need for a Planning Gain Supplement, and the use of Real Estate Investment Trusts (or Private Investment Funds). Barker proposes an incentive for local authorities in being able to retain the proceeds from extra council taxes for three years, rather than having them result in a lower Rate Support Grant allocation. Her report confirms the need for a more intelligent system of local finance that reinforces rather than displaces private investment, that makes the most of existing infrastructure, and can support growth in areas where demand is strongest, thus responding to market signals. She recognises the case for VAT on new housing, and some form of Land Value Taxation without coming up with specific proposals.

The Local Government Association goes further, saying '*a more flexible, localised approach to financing local government is a prerequisite for garnering the support of local communities, and demonstrating the benefits of new development.*'[17]

It refers to the wide range of instruments used in other countries, including Tax Increment Financing and Land Value Taxation, as well as proposals for modifying British systems, such as the localisation of Capital Gains Tax, Joint Ventures, and a Strategic Infrastructure Tariff, with their pros and cons. However making progress, in what is a highly political and dangerous arena, where many previous attempts have failed disastrously (such as Development Land Tax), needs to start by drawing some lessons from cities and countries that have managed to join up infrastructure investment and new development.

Lessons from abroad

The countries that have most successfully reduced social differences and boosted their wealth creation over the last

Box 1: Land Value Taxation in Denmark

In Denmark Land Value Taxation has been working successfully for about 80 years, and is currently set at 2% of land values. Owners pay an annual one percent tax on the market value of their houses. Danish statistics suggest that land rent ranged from around 5-10% of GDP from 1965 to 1995. The Danish system has been used to fund new infrastructure like the Copenhagen tram system. Such a system is considerably fairer than the British banding system, where a house worth £150,000 may pay only twice what a house or flat worth £25,000 would pay, and where the 'urban exodus' is reinforced by lower Council Tax charges in the leafier suburbs and rural areas. Furthermore, there is no concession for house owners in parts of inner Manchester where house values have plummeted in some areas as a result of local market collapse.

Copenhagen

50 years are also the least centralised. Scandinavian local authorities raise some 60% of their expenditure locally. Similarly the countries that have most improved the livability of their cities after wartime destruction, such as France or Germany, also have strongly independent local authorities, and regional governments with their own funding sources. The examples show (Boxes 1, 2 and 3) that investing in urban renaissance makes economic as well as environmental sense as it reduces the costs of urban sprawl, and maximises the benefits from sharing high quality urban infrastructure and services.

The Core Cities Working Group report by a team led by Professor Michael Parkinson is one of the most exhaustive attempts to uncover why British cities have lagged so far behind their European rivals. The report puts the cause as over-centralisation, and states, based on comparisons of economic performance: '*Decentralisation in France has invigorated provincial cities during the past 20 years. The most successful cities in Europe*

Box 2: Infrastructure Bonds in Turin

Northern Italy has been doing much better economically than even the South East of England. Turin, the Italian equivalent of Birmingham, is using infrastructure bonds and Regional Investment Funds to rebuild its transport system, and to assemble old industrial land for redevelopment. Turin is one of Italy's most compact cities, and a place in which all classes are proud to live. The mayor is using investment in good architecture, transport links and public spaces to diversify the city's economic base.

have been Germany, which is the most decentralised country in Europe. The renaissance of Barcelona in part stems from the move towards regionalisation and the lessening of the grip of the capital city Madrid.'[18]

Professor Parkinson points out that though their relative success can be attributed to geography and history, their success is also due to the investment that has taken place in local infrastructure. High density housing around restored city centres, and greater personal mobility as a result of high quality integrated transit systems, with much better provision for cyclists and pedestrians, creates the condition for Smart Growth. In turn old cities like Montpellier, Turin and Freiburg, have been become economic dynamos for their regions.

Box 3: Sustainable Development in Freiburg

Paradoxically the British set up the post war German system of government, which specifically sought to restrict the power of the Federal Government. Local authorities have been able to share in the success of local businesses through a tax on company profits, as well as property taxes. Freiburg in Southern Germany, which is possibly the most advanced city in applying sustainable development principles, has used land deals and housing co-ops to create the most sustainable of new housing developments. It also uses cycling and integrated public transport creating a virtuous circle in which the more livable the city becomes, the more successful it is economically.

Urban Task Force proposals

The Urban Task Force, under Lord Richard Rogers, gave considerable attention to how an urban renaissance could be resourced[19]. The Task Force concluded that without fiscal incentives and changes in local taxation, planning would fail to reverse the 'urban exodus' and bring brownfield land back into productive use. It recognised that the public funds available for regeneration were not enough without also providing much stronger incentives for private investment. It was impressed by the impact that tax incentives were having in the USA and the Republic of Ireland. A review by KPMG of fiscal incentives sought to secure the support of not only financial institutions, but also small landlords and occupiers. The report argued for providing capital allowances for land reclamation and reuse of empty buildings, as opposed to grants. This, along with removal of Stamp Duty in priority area, is being implemented in the Chancellor's proposals for designating Enterprise Areas in some 2000 poorer parts of our towns and cities.

The biggest failure was in proposals for harmonising VAT on new housing and refurbishment, which have been repeatedly turned down. The latest campaign led by Building Design quotes the founder of Urban Splash saying: '*If it (cutting VAT) reduces tax on the improvement of housing in the area, it stands a chance of increasing revenues from the rising incomes of the people whose lives are improved by living in a better environment*'.

The key Task Force proposal of exempting small businesses from the Business Rate in regeneration areas seem to have been forgotten. Furthermore what are probably the most important measures of all, to allow local authorities to vary

business rates by 5%, and to retain the increased rate income from areas that have undergone regeneration, have been dropped in favour of the rather more complex proposals for providing growth incentives linked to relative performance. Nor has anything been done to overcome the anomaly whereby those in the lowest value houses pay proportionately much more in Council Tax than those in higher value property. There is consequently no real incentive yet for people to take the risk of moving or investing in run-down urban areas.

The Urban Task Force also sought to encourage financial institutions to invest in rented property through new kinds of organisation. Regional Investment Companies were proposed to back up the Regional Development Agencies (RDAs): an idea that the government may partly be encouraging through support for Real Estate Investment Corporations. Use was also to be made of the PFI for area regeneration. Neither of these have really taken off yet, though English Partnerships has been actively promoting the idea of joint ventures with financial institutions, and is very supportive of the idea of using tax incentives. Some of the RDAs are supporting masterplans and development frameworks, and land acquisition. There are a host of ambitious schemes, from Housing Market Renewal Areas and Core City Prospectuses to City Growth Strategies. However, the funds available for implementation are insufficient to create the change of climate needed to produce an urban renaissance.

Intelligent taxes

So with very limited public funds, demands for higher standards of quality, and a property industry that wants to play safe, the starting point must be making much better use of existing resources. Smart Growth requires a more intelligent taxation system that not only funds public priorities, but also influences people to behave less wastefully in their collective long-term interest. Of course any new taxes also need to satisfy the Treasury's concerns of: avoiding unintended consequences; being

Freiburg, Germany

cheap to collect and hard to evade; and being politically acceptable, while bringing real benefits.

A central argument of this paper is that people can be persuaded to pay charges where the proceeds are hypothecated to pay for something they collectively value. In most British cities parking charges are accepted (albeit reluctantly) where the alternative would be chaos, and Controlled Parking Zones are now regarded as good practice. Congestion Charging in London is another example: cutting car use whilst raising funds for improving public transport. Similarly Transport 2000 has suggested that Road User Charges would become popular if they were used to replace Council Tax.

A more intelligent tax system would bring many benefits, as it would:

- encourage investment in a better collective quality of life, not just more private consumption;
- support quality house building, and residential property renovation, not house price inflation;
- create a 'civil society' not just a collection of customers;
- build environmental capital, and promote personal well-being rather than personal income;
- link charges to benefits, rather than taxes that go into one central pot;
- respond to local needs and opportunities, not just national standards; and
- Encouraging building re-use, rather than neglect.

Applying these arguments, which are in line with government objectives, the radical changes that are needed to secure an urban renaissance could release the very energy and resources needed to pay for it, rather than being at the expense of other priorities.

The rest of the paper deals in turn with upgrading the public realm, encouraging business growth, building sustainable communities, tapping land values, financing infrastructure investment, and managing a step change.

Summary of the Principles of intelligent taxation

1. Minimising waste (or boosting productivity), for example by discouraging vacant property, and supporting development of the 'real economy', rather than financial speculation

2 Contributing to social justice (or tackling social exclusion), by reviving local democracy, and, for example, making it more profitable to rent space to small businesses and households on low incomes

3. Producing a more sustainable environment (or minimising the consumption of non renewable resources), by ensuring that new development is more sustainable than what it replaces, and encouraging stewardship and penalising neglect

UPGRADING THE PUBLIC REALM

Improving the public realm is a huge task, ranging from parks promenades to ordinary streets and squares, and the places where people wait for public transport. Improving the public realm is important for attracting trade and raising property values, and hence indirectly creating the conditions for higher productivity and better urban quality. An intelligent local tax system would penalise those who leave properties empty for years or drain towns of vitality. It would also support investment that upgrades public spaces or reinforces centres that are accessible to everyone.

Business Improvement Districts (BIDS) are the only current proposal for giving a degree of local discretion over the level of the Business Rate payable within a specified area. They enable local authorities to collect a supplementary levy, provided the majority of businesses are in favour. Getting business to help fund the management and maintenance of larger town and city centres enables local authorities to redirect their time and resources towards other priorities, so BIDs are certainly an important step forward. They are important for engaging the private sector in sharing responsibilities for managing town centres. They could also be used to upgrade run-down industrial estates. A number of pilot projects are underway, but there are some barriers that need to be addressed.

The present BID proposals are unlikely to solve the problem of funding improvements to the public realm except in cases where there is a well-established partnership and a real common interest. This is because businesses believe they are already paying enough rates to local authorities, and do not generally realise they are passed on to central government.

The government has taken the concept of BIDs from the USA, where they have been very successful, but in very different circumstances where it is the owners, rather than the occupiers, that are levied, and where there is a tradition of businesses collaborating with each other.

The current BID proposals have drawn strong criticisms that businesses are being asked for more, whereas the owners, who are the real long-term beneficiary of any improvement to an area, do not have to pay anything either through the Business Rate or through a special levy. Furthermore, whereas Town Centre Management generally needs sustainable funding, BIDS are likely to benefit the strongest town centres most, as the high start-up costs and need to get majority support in a ballot will limit the take-up in smaller centres.

Despite their potential value to the larger centres, BIDS do not address the real crisis, which is the collapse of many smaller centres and secondary areas within larger centres. The problem stems from the growth of out of town centres and superstores that offer free parking and longer opening hours. In many towns smaller businesses are no longer profitable, and so cannot afford to pay more. Charity shops often disguise the real levels of vacancy, and growing parts of our towns are no longer viable. At the same time the most profitable retailers who have the largest car parks pay relatively low Business Rates as a proportion of the profits they are making, often on the back of public investment in new highways.

Possible solutions

It is important that BIDs are able to show early success, and that government at both national and local levels is seen to be listening to businesses. However they are not the only solution. A number of proposals have been put forward in the past for improving the way our town centres are resourced[20]. Incentives could be targeted, for example at the Treasury's Enterprise Areas (the 2,000 areas that have suffered most from economic decline), or at places with particular heritage value, such as seasides, or that are at risk of losing their viability and vitality, by:

- Setting up BID companies or partnerships, but making sure that property owners are represented on the boards. The prospect of additional public investment in the public realm (for example from the RDA) could be used as an incentive for owners to club together in funding ongoing maintenance, and to invest in their properties.

- Enabling part of the levy to be passed on to landlords, possibly linked to reform of the Empty Business Rate provision. This could be a first step towards a taxation system based on land values.

- Adjusting the formula used for calculating government support to reflect the amount of public space to be maintained, for example in terms of pedestrianised areas, parks, and listed public buildings.

- Tapping extra sources of revenue, such as putting up advertising hoardings round prominent derelict sites.

- Supporting community enterprises in looking after public facilities, such as parks and playgrounds, and creating endowments in the form of rent generating properties for bodies that maintain public spaces, as the examples of Milton Keynes Central Park or Coin Street Community Builders illustrate.

- Extending the role of Town or Parish Councils, where they exist, in maintaining public space through more wardens and maintenance staff. This could be funded through a premium on the Council Tax, which could be justified readily.

Proposals for upgrading the public realm Oldham

ENCOURAGING BUSINESS GROWTH

Urban renaissance also involves improving the look of work places. Research by CABE has shown the value of good design in raising office rents[21]. However, despite some exciting business parks and new office buildings, many people continue to work in run-down looking areas. The poor state of local centres and industrial areas, with empty and derelict properties, is a frequent complaint of people living in disadvantaged areas, and is also a factor in why young people can turn to vandalism, or turn their backs on working in small firms.

Wealth creation depends on stimulating business growth and innovation. Providing space for small firms to start and grow is one key element of this. The Chancellor wants to focus on areas of 'untapped potential' and to put business in the frontline of making enterprise open to all. Models from the USA are being applied in the form of City Growth Strategies, aimed at making the most of an area's competitive advantage, which should include the existing stock of premises. Enterprise Areas are intended to provide incentives for private investment in areas that have suffered from economic decline. However, the risks involved in setting up small businesses mean that these initiatives alone will not be enough.

Local authorities have an important role to play in reducing business risks, and creating attractive environments. Street maintenance affects the quality of environment, and hence a firm's ability to attract staff. A 'ladder of premises' enables businesses to start small and grow in line with demand. Easy access for cars and delivery vehicles is important to both customers and suppliers, not to mention staff. Yet local authorities that have been relatively successful in both expanding their populations and creating new jobs, such as Leeds and Croydon, have actually experienced a fall in the level of funding they are receiving from government. Funding from RDAs, who have taken over the old Single Regeneration Budget, is not filling the gap. Something more is needed to create a better environment for business.

There are a number of inspiring examples of 'managed workspace' where older buildings have been turned into incubators for new enterprises, sometimes helped in the past by government grants. But in general financial institutions prefer to invest in property occupied by large organisations with good covenants. Redundant public buildings, such as old Town Halls or hospitals, are often left to rot because there is no mechanism for promoting adaptive reuse. An intelligent tax system would encourage the maintenance and reuse of property, not its abandonment

Possible solutions

The easiest way of encouraging business growth in existing urban areas is to modify the Business Rate system, as pointed out in the Institute for Fiscal Studies report *Options for Business Rate Reform*. The government's idea of letting local authorities keep the rate income from new businesses is intended to provide an incentive. However, it does not go far enough in linking local authorities with local businesses, or in promoting business growth in areas with the most under-used resources in terms of vacant land and buildings. The formulae in the Business Growth consultation paper are simply too complex to provide the necessary motivation. Also, without additional sources of funding they would tend still to favour those with innate advantages, as the greater the number of businesses, the higher the birth and survival rates.

- The simplest way of making real progress would be to let local authorities keep the first part of the Business Rate so that

they would benefit from the performance of the local economy. They could still pass on to government what might better be called the commercial property tax, with a surcharge on the districts with the largest concentrations of offices, like Westminster, to enable some pooling. If this were done at a regional level it would provide a means of relating regional funding to economic success. Variations in the level of the Business Rate could be used to help fund improvements to infrastructure. The resulting funds could be targeted where the prospects for increasing economic growth are greatest. They could also provide a means of rebuilding links between the business community and local government.

- A more radical proposal would exempt small businesses from paying rates in those Special Enterprise Areas suffering from 'market failure', for example where more than 20% of the property is vacant or occupied by Charity Shops, and where there are buildings that can feasibly be reused. 'Rate relief' or 'rate holidays' for a period of years, as was done with some success in the Enterprise Zones, may initially reduce the national tax take, but it should be more than offset by the tax income from business growth. This would be a real incentive in those areas that have potential for business growth.

- There are hundreds of smaller centres that contain underused or vacant premises above shops, which could provide space to both live and work. Once vacancy starts to spread, areas become uninviting or even no-go areas. The easiest measure is to provide incentives for refurbishing old buildings, to overcome the disincentive of VAT on refurbishment (currently only waived in the case of listed buildings). We can learn from the Irish system of Priority Areas, as in Temple Bar Dublin, where they have combined general tax incentives with the requirement to secure prior approval to works in order to avoid abuse. Incentives can be strategically targeted since Geographical Information Systems (GIS) now enable such areas to be pinpointed on maps. Designation should be undertaken as part of drawing up Regional Spatial Strategies (RSS) to avoid simply draining activity from an adjoining area, which may be equally vulnerable. The power of designating Special Enterprise Areas could be given to RDAs, if necessary by sharing out 'tax credits' in relation to potential demand as they do in the USA. These could then be used to encourage investment in 'arcs of opportunity', for example along railway lines.

- Special incentives for investment could be given to smaller centres and fringe areas that are suffering from loss of trade and investment (or market failure). By reducing costs of for businesses in designated Enterprise Areas, for example through exemptions from Business Rates as applied in the Enterprise Zones, there is some chance of bringing dead areas back to life, which would otherwise yield no taxes at all.

- Other possible measures include using the refurbishment of old buildings and area improvements as a means of training young people, and developing community enterprise. This has been successfully done by the Manor and Castle Development Trust in the Southern part of Sheffield, and by some of the Groundwork Trusts.

Re-use of Old Buildings

One of the favoured ways of improving the way places look is to build well-designed, higher density housing that helps to contain streets, and make places walkable. New housing is needed not only to cope with population growth, but also to improve the stock and respond to demographic changes.

Intelligent local taxation and Smart Growth would encourage development in areas with capacity in transport and services to absorb growth. Currently local authorities have little incentive to overcome local opposition to development because of the way the funding system works. Even in areas where the population is growing fastest, such as Milton Keynes, finance for improved schools and social services lags behind. Tapping Planning Gain through Section 106 agreements, or charging for car parking are important though inefficient freedoms, which the more creative local authorities use well. But they do not bring in enough to fund the infrastructure requirements in the Sustainable Communities Plan Growth Areas, and are out of the question in areas where demand for housing is weak, such as East Kent.

There is no simple answer to reforming municipal finance in the Growth Areas. Some experts argue for government taking over responsibilities for major services, like education, to free local authorities to concentrate on environmental issues (as seems to be the case in France). Others are advocating local income taxes, as is already possible in Scotland, or generating more income from services like waste collection. There are also moves towards reintroducing Development Corporations. But whatever the longer term changes, progress also depends on providing better fiscal incentives for the private sector, using public funds to increase the certainties, and providing a means of compensating communities for any burdens imposed by development.

The Barker Review of Housing Supply makes it clear that the government has a range of policy levers at its disposal, and that some countries use tax more actively than the UK to manage housing supply and demand. House price inflation has encouraged many younger people to rent apartments, and these account for a significant proportion of many new developments in city centres. The government is hoping to encourage financial institutions to invest in rented property by using Real Estate Investment Trusts, and this could in time become an important new source of finance for development. However, little progress will be made unless suitable sites are available and local authorities are in a position to be proactive, which means generating additional sources of revenue.

Possible solutions

The authors of New Localism suggest following up congestion charging by allowing local authorities, where appropriate, *'to bring in tourist taxes, lane rental charges on utilities that dig up our roads and taxes on take-away establishments that create litter problems'. …and 'the option of a marginal capacity to raise sales taxes or income taxes at the local or indeed regional level. Freedoms to borrow and trade should also be introduced as soon as possible for higher performers'.*[22]

These proposals sound intelligent, as they tax bads not goods, but they may fail the Treasury's tests. For example, increasing VAT levels generally, which is what a sales tax would do, would be regressive and inflationary. A local income tax would not tackle the basic problem that those with the most capacity to

pay higher income taxes live outside the areas that need to raise more local taxes. So a smarter approach would be to tap the increases in land values that result from public investment and the grant of planning permission, and there are a number of possible ways of doing this.

Though people tend to balk at any new tax, there is growing support for a tax, charge or levy on land values. But it needs to avoid the flaws of past attempts, which tried to cover far too much. Currently, major owners of brownfield sites like such as utilities and the railways have little incentive to use their land prudently, as they are on a 'central list', and do not pay the opportunity costs of leaving sites under-used. Similarly, retail parks and superstores do not pay compensation for the extra road mileage they generate, or the impact on the towns they hurt. Owners of farms on the edge of expansion areas will take much of the increased value that needs to be ploughed back into infrastructure. Progress towards a land levy might be made in stages, concentrating on growth areas around transport corridors where major public investment is already planned:

- The first priority is to secure a contribution from new development towards the cost of improving local 'social infrastructure', such as schools. A planning tariff, which the government is considering, may be more acceptable to many developers than Section 106 agreements, as it can be taken into account in agreeing the price for the land, whereas Section 106 agreements are unpredictable. However, the charge should only be payable when the development is ready for occupation, to ensure it does not deter developers bringing sites forward. Also, it is of little use if it does not relate to the value of development. Based on some case studies of the value of Section 106 agreements on major schemes in which URBED has been involved, the tariff could be set at 1-3% of the value of the development, thus giving the community a significant share in the success of the development, thereby helping to reduce opposition.

- There are also strong arguments for levying a charge on the increase in land values in areas benefiting from major public investment. A 'betterment levy' has been part of Labour orthodoxy for a century, and the idea of LVT is currently enjoying a revival. While no one likes new taxes, especially the Treasury, it could well be sold as part of the price of building new housing in designated Growth Areas, such as damaged land in the Greenbelt or the Thames Gateway. Unlike taxes on expenditure or income it would not act as a deterrent to economic activity. It would improve the utilisation of a scarce resource. By concentrating on areas undergoing change, such a levy would avoid the defects of the ill-fated Development Land Tax. Thanks to the Planning System, it should be reasonably fair and sustainable. An annual charge on land would reduce its value slightly, and hence would make development of marginal sites more viable (land accounts for about 40% of the costs of an average house). It would encourage a renaissance around transport hubs, which in turn would raise productivity, for example by bringing land owned by utilities into better use, and enabling more people to live where they can benefit from good public transport.

The Royal Institute of Chartered Surveyors have been proposing Transport Development Areas, with higher densities around transport hubs. Other RICS backed research on alternative sources of funding investment projects in London suggests that private funds could be used to achieve many of the goals of the London Plan, if only the GLA were given the necessary freedoms.[23] There are already signs that the businesses in The City would support a levy on their rates (which unusually go to the local authority, not the

government), if the revenue was dedicated towards helping to fund Crossrail. Hence it is well worth testing out how such a land charge would work, and how the problems of valuation could be overcome without undue effort or expense.

- In the short term, a simple method of charging for under-used land and raising finance while promoting Smart Growth is to extend parking charges in urban areas where property values are high. This could be easier to implement in many places than introducing congestion charging. One of the best opportunities would be to levy charges on the deserts of car parking that surround superstores and business parks, and which give them their value, and benefit from public investment in bypasses and motorways.

  Other possibilities include office car parks in major cities, and some railway car parks. By reviewing the way rateable values are calculated it should be possible to bring in some of the benefits of Land Value Rating, and to create an important additional source of funding that could go directly back into improving public transport and making walking and cycling easier. There is much less public opposition to a charge when the revenue is used for a related benefit, and some of the benefits of a Congestion Charge could be secured without the associated costs. Giving regional agencies the responsibility for setting standards for parking provision could reduce wasteful competition between authorities in setting charges. The Dutch ABC system of classifying places by their relative accessibility provides a possible model, as it links parking provision, density levels, and hence the scale of new development to the quality of public transport.

- Another step towards taxing land values is to introduce VAT on new housing, perhaps exempting housing on brownfield sites to help 'level the playing field'. A TCPA study suggested this could yield over £900 million p.a., based on the situation in 1998. It also represents one of the best ways of producing a more productive and progressive tax system, according the Fabian Society's review of the tax system.[24] If the development used land without competing uses, and really increased the production of quality houses, it should meet the Treasury's tests.[25]

- A further complication is how to ensure existing local communities share the benefits of development. In some areas, the outlook will not be good enough to attract private developers, and community based Development Trusts have an important role to play in promoting new uses. Enabling trusts to acquire under-utilised public land at existing value would be more cost-effective than letting it go to waste. There are good examples, such as Manor and Castle in Sheffield, which have used funding from the Single Regeneration Budget. Others have made use of windfall acquisitions of property, as in Coin Street in North Southwark, and Mile End Park. The process could be made much more effective if RDAs supported trusts in taking on appropriate projects. Section 106 agreements with developers could also be used to provide communities with revenue generating assets in areas of major change, such as Kings Cross, rather than funding public services.

FINANCING INFRASTRUCTURE

URBED's research into why councils in the South East are not more supportive of higher density development found traffic to be the biggest objection[26]. Most people are sceptical of whether the public transport system in Britain will ever be good enough to compete with the private car on short journeys or the plane on longer distances, due to the damage done by misguided privatisation, and decades of neglect. Funding improved transport has become a kind of 'black hole', and yet it is the foundation of both sustainable communities and wealth creation. The essence of Smart Growth is to concentrate new development in areas that have the necessary capacity. Unfortunately, where there is most land, there is invariably a problem of access. Yet the cost of sorting out the railways is leaving little for local integrated rapid transit schemes, such as the Leeds Supertram or improving transport interchanges.

Despite some progress in using the Private Finance Initiative (PFI) to fund new public infrastructure, it has been criticised for being costly and cumbersome, and there have been some concerns about design too. There is evidence that trams are costing twice as much to build in the UK as in Europe because of the extra financing costs imposed by the PFI[27]. A recent Audit Office report also criticised over-specification, the use of routes where densities are too low to support such a high quality system, and the failure to take proper account of the regeneration impact[28]. It could be much more cost-effective to enable local authorities, that have the capacity, to enter into public private partnerships. They could then use the expected stream of taxes from development as part of a funding package, as they do in the USA and some European cities. Tax Increment Finance, as it is called, involves raising funds for investment projects on the back of the projected increase in municipal taxes as a result of new development. Prudential Borrowing provides a tentative step towards this, but it needs to be combined with the freedom to tap into the Business Rate if it is to achieve the desired effects.

Advocates of Land Value Taxation have been disregarded in the past because they offered too much, and required total change. However, US cities such as Portland (Box 4) and Philadelphia have proved the value of 'smart growth' and 'intelligent taxation' in revitalising town centres after periods of industrial decline. Their examples are beginning to influence proposals for Transport Development Areas and TIF in England. The US concept of 'packaging finance' has already been adopted, but we are still a long way from applying the same kind of creativity to public finance, as is used in the USA. Too often in Britain, investment results in endless studies without anything being built.

Box 4: Tax Increment Financing in Portland

Portland Oregon is generally credited with being the most sustainable of American cities. It managed to reduce suburban sprawl by building MAX, the Metropolitan Area Express, and ensured that shops and offices stayed in the centre. Bonds were used to part fund the tram, through Tax Increment Financing. The expected local property tax income from higher density housing development alongside the railway station is funding an extension.

Box 5: Payroll Supplement in Montpellier

The fastest growing city in France is Montpellier, where the Mayor reinvigorated an old city by first redeveloping an old barracks as a shopping centre and technopole, then building a new tram system, selling off the land alongside for business parks and new housing. What were once decayed vineyards are now a favoured location for high-tech companies. A supplement to the payroll tax on employers helped to fund the tram, which provides the backbone for the city's growth, and the Mayor had to broker an agreement with all the towns in the surrounding agglomeration.

Box 6

'A combination of tax incentives, capturing the incremental tax revenues from existing taxes (i.e. stamp duty and rates), and bonds are in my opinion the right steps. There is a large weight of capital seeking long-term stable returns, and in the current market cycle, capital is the cheapest it has been for a long time. Providing tax incentives and financing mechanisms will open the capital flowing into infrastructure and social housing and I believe would be a big driver of increasing activity…. The fact that the incentives given are reduction in taxes that would not have been realised if the projects did not go ahead seems to support the logic.'
Comment from one of the largest development companies.

The British system has become far too complex, making proper planning impossible. The resulting lottery leads to worse not better investment decisions, and the political 'grand follies' tend to win through. Local authorities are forced to rely too much on Section 106 agreements, and the resulting uncertainty can act as a deterrent and cause of delay. Planning Gain can also be seen as a bribe and ends up being used for ideas that would not have been given priority if the community affected were to choose. Meanwhile, the owners of the surrounding property pay nothing but sit back and wait for the area to improve.

A striking example is provided by the Jubilee Line extension through to Canary Wharf and Stratford. While the contribution of £400 million or so from the developers of Canary Wharf was crucial to the scheme going ahead it was a small fraction of the total cost of £3.5 billion for the extension out to Stratford, and so should probably not have affected the decision to build it. Meanwhile the increase in the value of land nearby is put at almost four times the cost.

Montpellier

A further means of funding infrastructure is for the municipality to acquire land in advance of development, as the UK Development Corporations did, and then borrow against the expected increase in land values. Bonds can then be underwritten by the expected increase in land values once the infrastructure has been improved. Bonds are attractive to private investors as they provide an inflation proofed form of investment, with the prospect of a higher return when the bond is repaid, some twenty years later. By proceeding incrementally, focussing on the areas where Smart Growth is bring promoted, it should be possible to provide an intelligent incentive for restoring run-down areas.

While financial institutions have been reluctant to invest in property directly, they do have an appetite for long-term, inflation proofed investments, where the initial investment can be repaid with a bonus based on the success of the project. The great benefit of bonds is that they require an evaluation of both the project and the capacity of the borrower to repay the loan, thus providing real incentives for local authorities to display 'prudence'. The requirement in the USA to secure prior approval for issuing a bond in a ballot also secures greater accountability.

Changing the system to enable projects for area improvement to be put to the market would win support from many of those in the development industry, as well as from local authorities. The more radical measure of Land Value Taxation could also win support, provided it was introduced in areas that were subject to major change, (thus avoiding some of the failings of the universally applied Development Land Tax which). However, to work it has to be seen not as the answer to all of Britain's funding problems, but as a useful supplementary source of funding to local authorities. This means that it has to be argued for on economic as well as political and environmental grounds.

Possible solutions

- Local authorities could secure contributions from developers/landowners whose projects will benefit from transport improvements by negotiating higher densities or reduced social contributions, and requiring instead that developers make a contribution before their scheme goes ahead or on completion. Provided the principle was written into development briefs, and supported by Regional Spatial Strategies, there is no reason why this could not happen tomorrow, particularly where the project involves an extension or alteration to a route that is already going ahead. It might be linked to tax incentives for development in areas where demand is uncertain, to 'sugar the pill'. Section 106 Agreements can be used to secure payments once development has been completed.

- Where there is a revenue producing asset, funds can be raised from the financial market. Bonds are ideal for projects costing over £10 million that yield an annual income, and where the investment can be repaid after around 20 years. They could for example fund the extension of a rapid transit system, with the funds being used to acquire land for car parking that could later be sold off for development as the city expands. Bonds have the great appeal of being evaluated in terms of both the project and the capacity of the borrower, rather than relying on the judgement of

Box 7: Urban Priority Areas in Dublin

An inspiring example of success is the Republic of Ireland, now one of Europe's economic miracles. Urban Priority Areas like Temple Bar in Dublin have become models for good urban living as well as delightful places to visit. A former red-light district and bus depot in Temple Bar is now a lively cultural and residential quarter, which in turn has boosted earnings from tourism. The key to its success has been a Special Priority Area providing tax incentives for both investment and occupation. Again business and personal tax incentives are credited as one of the reasons why Dublin outperforms Belfast. The new tram system is opening in 2004, and an LAUS extension is being financed out to a new suburb of Dun Laoghaire through securing developer contributions from building in a corridor of one kilometre of either side through planning agreements, using a tariff, with lower charges for housing than for commercial development.

Box 8: Tax Incentives in Pittsburgh

Pittsburgh, once one of the major steel producers, is one of the best examples of using tax incentives to revitalise historic buildings. It is also one of sixteen cities in the State to adopt the Split-Rate Property Tax, in which part of the tax is levied on the land to relieve the burden on businesses and to provide an incentive for development and maintenance. The results are encouraging, with a small tax on land values of 1% being credited with producing a 16% increase in construction. The state capital of Philadelphia is also going over to Land Value Taxes to attract people back to live and work in the centre. Philadelphia is one of the most impressive examples of using a Business Improvement District or BID, which allows a privately sponsored not for profit company to levy an additional charge on property owners, to fund collective efforts to upgrade a specified area provided there is majority support from property owners. The BID was also used to underpin a bond raised to support an enhanced pedestrianisation scheme.

politicians. However, to keep financing costs down they need to be backed up by powers to raise revenues from other sources if the project fails to perform as predicted. A report from the RICS suggests that bonds could produce the bulk of the funds needed to upgrade London's transport system.

- Now that Britain has a more objective system for reviewing the performance of local authorities, as well as legislation for BIDs, local authorities that have performed well could be given discretion in setting a supplementary business rate to raise funds for approved projects, such as schemes to enhance a town centre or an industrial estate. The rate could be levied on areas that are subject to major development or infrastructure projects, thus enabling part of the costs to be recovered from the beneficiaries. The power should be subject to approval from tax payers, for example by giving authorities the power to vary the rate within plus or minus 5% provided a majority, in terms of the amount paid, do not object. Such a power could be used to back up public private partnerships, such as Town Centre Partnerships or Urban Regeneration Companies, who could use the

projected income to supplement other funding sources. Indeed, the extra income might also be used to help raise funds through bonds for assembling and upgrading land in areas covered by masterplans and Area Investment Frameworks. Tony Travers and Stephen Glaister have estimated that: '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 borrowing of perhaps £4 billion'.[29]

- Charging for transport in terms of environmental impact is attractive so long as the methods used for collection are not too cumbersome or expensive. This is one reason why parking charges are so appealing. Similarly, raising tolls on bridges or entry points into town centres is a relatively easy measure to introduce compared with Congestion Charging, and could be applied in many more towns and cities, as Durham has done. Regional spatial plans can be used, as in Holland, to encourage development alongside the locations best served by public transport, and to avoid wasteful competition between cities. Again Regional Development Agencies or Assemblies could be in the best position to introduce these charges.

SECURING A STEP CHANGE

The need to create a level playing field, the failings of the current local taxation system, and the current policy reviews make the time right for a radical rethink. Making use of current and proposed 'freedoms' will not be sufficient without new sources of local taxation. The *Balance of Funding* review raises a series of issues concerning, for example, equalisation and accountability, which can lead to irresolvable ideological conflict over who should set the priorities. However, by focusing changes on areas with the best potential for economic and population growth, any concessions from the centre should be self-financing. So in this final section, I summarise the basic principles for securing the 'step change' that the Deputy Prime Minister has called for.

As there is always great unwillingness to pay more taxes, and huge inertia, any changes will have to be carefully sold. Indeed they should be seen as levies or charges rather than taxes. By hypothecating funds raised to specific purposes, as for example Congestion Charging is doing in London, much of the opposition can be diffused. Furthermore, by raising new taxes or charges at a regional level, and using regional government to help determine areas that should receive special investment incentives, the new measures can be used to help secure 'territorial justice' and to reduce the real sense of domination by a central London based government (as is beginning to occur in Wales and Scotland).

Britain urgently needs a system that supports sustainable and better quality development along transport corridors. In particular we need to find better ways of resourcing sub-regional investment, for example in integrated transport systems that cross district boundaries, and facilities like parks and public spaces that benefit the wider community, that do not rely on a national 'lottery', or complex and protracted negotiations over Planning Gain. We also need to make the most of under-utilised resources in ways that will make communities more self-sustaining, and less dependent on benefits. Tinkering around with Value Capture and Planning Gain Supplements are not enough to break the deadlocks that afflict so many development projects.

The foreign cities that have made most progress, and which form the case studies in this report, have all found better ways of linking public investment decisions to provide new infrastructure with private decisions about funding development. They have used a combination of planning powers, fiscal incentives, and capital funds for land assembly and preparation. Such an approach has been difficult in Britain, outside areas covered by Development Corporations, and as a result, many people no longer believe in plans or planners, and are losing faith in government.

However, as Tony Travers at the London School of Economics has shown, drawing on a series of reviews of how to fund London's infrastructure: '*Virtually all these reports boil down to creative efforts to help central government find ways to get round obstacles it has put in its own way*'.[30]

As a consequence we have built a mountain of studies over the past decades, without producing much in the way of new housing or tangible improvements to the transport system. Similarly John Walker's excellent proposals for using Strategic Land Investment Contracts (SLICs) to bind together the different land owners and public agencies (a process which happens quite readily in other countries, as in the expansion of Almere New Town in Holland), requires the creation of further joint venture bodies, rather than working through the local government system[31]. For in Britain such a contract has to contend with a growing army of

partnerships and consultants, none of whom can do much on their own, with organisations whose names and staff are continually changing, and with a government who sometimes seems to cut red-tape lengthwise! Decentralising power and responsibility over financial resources must therefore, as Tony Travers recommends, be a precondition for achieving the government's stated aims of securing a step change.

This paper has therefore tried to show how to combine planning policies for Smart Growth with intelligent local financial mechanisms. The potential benefits are huge, and include raising the funds needed to help achieve an urban renaissance, restore local democracy, and also secure urban and regional development in ways that should be less wasteful and result in more prudent decisions.

In summary the argument breaks down into five points:

- Britain's early industrialisation and class structure have produced huge spatial inequalities not just between North and South, but within each region between town and country. We need a local tax system that encourages people to live in urban areas, not to escape them

- We have built up a very centralised political and financial system, which allows the pursuit of a few grand projects, but which can easily neglect the smaller things that make life worth living. We need a local tax system that encourages people to take pride in their neighbourhoods, and invest in their maintenance and improvement, rather than hoarding land or buildings in the hope that values will rise.
- The long-term decline of Britain's industrial base, following on from our loss of an Empire, has left a legacy of vast areas of derelict land and buildings, which are intrinsically expensive to redevelop, particularly if demand is weak. We need a local tax system that encourages business growth and new housing in urban areas, and makes it less expensive than on green fields.

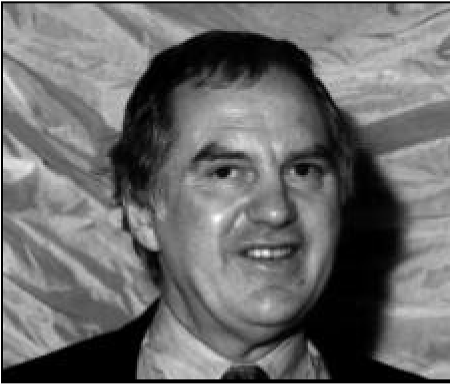
- Urban sprawl makes it harder to run a competitive public transport system that can match the standards of continental cities or to create walkable places. We need a local tax system that encourages more compact towns and cities by building more densely, and giving less space over to cars.

- Finally, and perhaps most important of all, the system in which local authorities are seen as a rather inadequate delivery agency for central government makes it harder for local government to attract good councillors with business acumen, and may explain difficulties with recruiting and holding on to capable officers. We need a local tax system that rewards vision and the implementation of successful regeneration strategies so that planning and development are seen as a positive force for change, not a burden or irrelevance.

In short, by using the challenge of radically increasing the construction of new houses, and hence consumer choice, to introduce intelligent local financing mechanisms in locations that have the necessary capacity, we can achieve the goals of the Sustainable Communities Plan or Smart Growth, and add to the nation's environmental, social and economic capital, rather than eating it up.

NOTES AND REFERENCES

1 Rt Hon Gordon Brown MP *Statement of Intent*, July 1997
2 Balance of Funding Discussion Paper 2003
3 CABE Annual Report 2003
4 See for example, CABE reports on Seaside and Better Public Libraries
5 *Partners in Urban Renaissance*, URBED for ODPM 2002, available from www.urbed.com
6 www.lnu.com
7 See for example, *Vison for York*, URBED for Joseph Rowntree Foundation, 2003 or *Oldham Beyond* for Oldham MBC and the NWRDA, 2004
8 *Councillors Attitudes to Higher Density Developments in the South East*, URBED for SEERA, 2004
9 Report from Centre for Analysing Social Exclusion, by Catherine Armstrong
10 Dr Rana Roy, *Not by Spending Alone: the case for a comprehensive tax review*, June 2004
11 *But Would You Live There?* report for the Urban Task Force by URBED with MORI
12 Response to the Balance of Funding inquiry by the Local Government Information Unit
13 Balance of Funding discussion document
14 *The New Localism: refashioning the central-local relationship*, Dan Corry and Gerry Stoker
15 *Skills for Sustainable Communities*, RIBA, 2004
16 *Barker Review of Skills*, 2004
17 *New Development and New Opportunities*, LGA, 2004
18 Michael Parkinson et al, *Urban Renaissance of Non Capital Cities*, ODPM, 2004
19 *Towards Urban Renaissance*, Spon, 1999
20 For example, *Town Centre Partnerships*, URBED, HMSO, 1997
21 *The Value of Good Design*, Matthew Carmona, CABE, 2003
22 Dan Corry and Greg Stoker, *The New Localism*, New Local Government Network, 2002
23 *Funding London's Transport Needs*, RICS, London, 2003
24 *Paying for Progress*, Fabian Society, 2002
25 Bob Evans and Richard Bates, *A Taxing Question*, TCPA, 2000
26 *Attitudes to Higher Density Housing in the South East*, URBED for SEERA, 2004
27 Prof Lewis Lesley in *Tramways and Urban Transit*, December 2003, and correspondence with Michael Taplin, Light Rail Transit Association
28 *Improving Public Transport in England Through Light Rail*, Controller and Auditor General, April 2004
29 Tony Travers and Stephen Glaister, *Funding London's Development*, for the London Development Agency, 2003
30 As 29
31 John Walker, *Priorities for Local Development Vehicles*, Town & Country Planning, March 2004



Dr Nicholas Falk BA, MBA, Hon FRIBA

Nicholas is an economist, urbanist and strategic planner with nearly thirty years' experience of urban regeneration and local economic development. Nicholas founded URBED in 1976 in Covent Garden, where the group's first projects were based. He has been responsible for a series of innovative conservation projects, including Merton Abbey Mills in Colliers Wood, and for the adaptive reuse of a number of important industrial buildings. He is the principal author of the Department of the Environment's influential reports Vital and Viable Town Centres and Town Centre Partnerships, and has written and lectured extensively on regeneration and urban design topics, both in the UK and abroad. The co-author with David Rudlin of Building the 21st Century Home (Architectural Press 1999), his recent reports include City of Villages for the Greater London Authority and Attitudes to Higher Density Housing for the South East England Regional Assembly. Nicholas is an active member of the Association of Town Centre Management, the Association of Consultant Planners, the Urban Design Group, and the Town and Country Planning Association.

TCPA

TOWN & COUNTRY PLANNING ASSOCIATION

The charitable purpose of the Town and Country Planning Association is to improve the art and science of town and country planning. It is the only independent organisation for planning and housing covering the UK and the longest established planning body in the world. Its key objectives are to:

1. Secure a decent home for everyone, in a good human-scale environment combining the best features of town and country
2. Empower people and communities to influence decisions that affect them
3. Improve the planning system in accordance with the principles of sustainable development

The TCPA occupies a unique position, overlapping with those involved in the development industry, the environmental movement and those concerned with social justice. The Association prides itself on creative thinking and developing practical environmental solutions through its extensive networks. It brings together senior politicians and policy makers and practioners from a wide range of backgrounds working within the public, private and voluntary sectors. It offers regular opportunities to exchange ideas through working groups, conferences and publications including the monthly journal, Town and Country Planning. Membership is open to all.