JOINING-UP INVESTMENT AND GREEN RECOVERY

This short paper summarises arguments for using public private partnerships to secure a better quality of local infrastructure, and to enable County Councils and Unitary Authorities to raise finance to achieve new (and 'greener') housing and local economic development in the right places. It builds on my pamphlet on *Funding Sustainable Communities*, which reviews the range of option, and the section on Financing Infrastructure, which should be seen as part of my evidence, (pages 19-23)) provide practical examples [1] My paper also draws on evidence from recent research projects into US and European experience with infrastructure funding and regeneration[2]. It makes use of ongoing work for Cambridgeshire Horizons to develop and test out innovative approaches to finance to implement the Quality Charter for Growth. [3]

Why joined up investment is crucial

Despite the government's aims of reducing regional disparities and achieving a fairer society, progress overall has been disappointing, despite iconic projects in a number of city centres, such as Birmingham. The evidence set out in Richard Wilkinson's new book *The Spirit Level* shows clear correlations between inequality and various indices of social malaise and wellbeing, such as healthier and happier children.[4] The overall conclusion is that we are lagging far behind the social democratic countries of Northern Europe, such as the Netherlands when it comes to social equality, environmental sustainability, and economic performance.

We therefore need to ask why, given the government's declared aims of tackling inequality, massive neighbourhood renewal programmes, and the establishment of regional development agencies, so little progress seems to have been achieved in linking development and infrastructure. Indeed we could also ask why the promising start made in places like Letchworth and the Garden City movement, or places like Metroland and some of the New Towns, has not been sustained.

While some of the blame can be levelled at the disappointing performance of British industry, or naive optimism that the service or 'weightless economy' could compensate, a

[1] *Funding Sustainable Communities: Smart growth and intelligent local finance*, TCPA 2004
[2] *Regeneration in European Cities: making connections*, Joseph Rowntree Foundation, 2008
Beyond Ecotowns, PRP URBED and Design for Homes, 2008

[3] For the charter and supporting documents, see www.urbed.co.uk or www.cambridgeshirehorizons.co.uk/qualitycharter
[4] Richard Wilkinson and Kate Pickett, *The Spirit Level*, Allen Lane 2009

more fundamental reason must be the over-centralisation of decision-making in both the public and private sectors. Since the resurgence of the Victorian industrial cities, Britain has increasingly sought to run everything from London. Centralisation is not match for a world where technological change and global competition makes quick local responses ever more vital to exploit clusters of economic advantage.[5] Powers have been progressively removed from local government, turning it into an agent of central government, and reducing crucial links with local democracy. The failure to upgrade our infrastructure can also be blamed on what Professor David MacKay calls a 'Punch and Judy' show with a misguided faith in markets to provide the infrastructure on which both economic growth and our quality of life depend.[6]

The issue is not just about trust in government, but about the wider question of how resources are raised and spent on public infrastructure, both physical and social. The UK has one of the most centralised taxation systems in the world (even though the absolute levels are not particularly high). The enquiry by Sir Michael Lyons, which was supposed to have come up with solutions to local finance, produced little of lasting impact other than the controversial power to levy a 2p rate. Against all the arguments for devolution, the conventional wisdom prevailed that it was better to keep taxes down, to bring the receipts to the centre, and let the brightest men (and women) in the Treasury decide how they should be allocated. Politicians can then take credit for any achievements, rather like a feudal monarch.

Such a system cannot ever succeed in joining up investment, and thus overcoming the reasons why so many resist building new homes near them. It cannot produce the quality of life that people seek, or that would persuade them to leave their cars behind or cut their energy consumption. It cannot raise productivity or skills levels, or make the most of areas that have a comparative economic advantage internationally. This is because decisions on most investment are taken in central silos, so that the synergy from linking development and investment cannot be secured. It is also because centralisation favours 'grand projects' such as wars, and discourages local responsibility and tackling more immediate issues, such as the state of the pavements or bus station. The extreme model of the collapse of the Soviet Union should provide a warning spectre of the dangers of over-centralisation.

The consequences are likely to include:

- Low rates of real economic growth (reflecting relatively low rates of investment as well as low productivity)

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[5] See for example, *Tristam Hunt, Building Jerusalem: The Rise and Fall of the Victorian City*, by Ian Morley, 2008, who makes a similar argument, or the work on clusters that Professor Michael Porter has promoted (and that Gordon Brown was impressed with)

[6] David MacKay, *Sustainable Energy – without the hot air*, UIT Cambridge 2009

- An inferior quality of life for most of the people (reflected in various comparative studies of happiness and well-being, such as that the UK's children are amongst the unhappiest in the OECD countries)
- An increasingly ugly and neglected public realm, outside the main city centres (reflected in falling levels of walking and cycling, and urban design studies by CABE and others)
- Over-loaded and outdated infrastructure systems for transport, energy, waste and water (reflected both in Council hostility to development, and studies of the obstacles to development, for example in the East of England)
- A loss of confidence in our ability to manage urban change and bring about real improvements (reflected in low turnouts in local elections, and high participation in groups opposed to development)
- An understandable resistance to building new communities,(reflected in the strongly held view that infrastructure, both social and physical, should be provided at the start and not at the end of a long-drawn out period of construction. [7])

How the current system fails

The current development system for housing and regeneration was failing even before the Credit Crunch eroded confidence in the banking system. For years, for example, our house-building rates have lagged far behind their Continental counterparts. The quality of recent housing is rightly criticised as mean, with an over-building of small flats and too few family homes.[8] The lead that the UK once had in building 'Garden Cities' or the New Towns, or in developing sub-regional plans, has been lost. The city building efforts of the Victorians are now seen as distant history, not as relevant models for today. The volume house building system is seen as broken, perhaps beyond repair.[9] However the real challenge is not just refloating the housing market, crucial as that is, but getting housing development truly connected with investment in infrastructure (which is actually much more expensive).[10]

The market system, which is fine for distributing goods and services with a short life, fails in four main ways when it comes to building infrastructure:

1. It does not provide anything like the level of investment needed for economic growth in the areas of the country best placed to grow. As a result it is much harder to secure the benefits from 'clusters' of economic activity, so that even success stories, like the Cambridge Phenomenon, operate on a much smaller scale than their competitors

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[7] See for example conclusions from a tour made by Councillors to Eco town equivalents in Europe, and a summary article by Professor Sir Peter Hall and Dr Nicholas Falk, *Why not here*, Town and Country Planning, January 2009
[8] See for example the Housing Audits produced by CABE
[9] A review of some of the failings is set out in Town and Country Planning's special edition of April 2009 along with examples of how some local authorities are taking the initiative to build better housing.
[10] See URBED's report on Beyond Ecotowns; The Economics Issues, produced as an appendix

2. As a result of low growth in the real economy (and simply creating lots of low paid jobs for workers in shops or call centres does not produce sustainable growth), it is harder to achieve the social goals in terms of engaging the wider population in a sense of common cause, and thus upgrading skills and aspirations.
3. With private control over most of the investment decisions (despite a complex regulatory system), economies from better management are more than outweighed by higher funding costs, as shareholders, investors and an army of consultants all need to be paid off.
4. There is consequently a major deficit to be funded in order to secure major projects, such as new railway lines or power stations, or to upgrade failing systems, and an unresolved issue over how it should all be financed, which government have been reluctant to address.

What is needed for Green Recovery

The idea of Green Recovery promoted at the G20 Summit in London is to use the slack created by a downturn to invest in measures that will make the planet as a whole more sustainable. The slack in the building industry should be used as a counter-cyclical measure (rather than all the spending going into social security payments). Efforts to reduce carbon emissions should also embrace measures to reduce the causes of conflicts, which often arise over competition over sources of water, or about different ethnic groups competing for the same jobs or resources. Clearly a return to urban riots would invalidate many of the benefits that might otherwise come from well-planned urban regeneration. So would the rise of extremist political parties.

Green recovery therefore will depend on a number of measures, and the welcome news in the recent Budget (para 4.49) that Accelerated Development Zones or some form of Tax Increment Financing are to be given serious consideration, provides an important opportunity for taking the crucial steps towards real devolution. Along with the launch of the Homes and Community Agency, with its 'single conversation, a relaxation of central controls could lead on the idea of 'co-investment' and what I call 'quality deals', to pick up a useful American phrase. [11]

Instead of looking at all public spending as a form of subsidy or transfer payment, we should recognise that some is crucial to long-term investment, just as the farmer saves seedcorn for planting in following years. Funds raised for investment should not therefore be seen as a sign of weakness, but an indicator of confidence in the longer-term. Such measures, properly explained, would enjoy widespread support. The young worry about the world they are going to inherit; the old would like to see their savings

[11] For an analysis of the land issue, see *Land for Homes*, published by the Housing Forum, March 2009 as part of their Annual Conference

invested in measures that produce a stable and inflation-proof return, and not frittered away in ill-thought out security projects.

By raising more funds locally, and then using them to invest in longer-term measures, the rate of saving (and investment) could be increased to match the levels of our European rivals. In turn instead of most of the spending apparently going into employing administrators and regulators, or expensive professionals (as with the Private Finance Initiative) it would be appreciated as paying for locally visible building works. This could be to open up new business parks, create planned extensions of existing towns and cities, or simply to save energy through Combined Heat and Power, an increased use of renewables and much better levels of insulation. Just as the Depression of the 1930s gave rise to one of the greatest building booms the UK has known in the South (with over 3 million largely semi-detached homes along new arterial roads or to connect up with electrified extensions to the London Underground), so the coming recession could be the time for greening our existing towns and cities and making them more sustainable. It could also be the time for making the most of under-utilised parts of our transport infrastructure.

What we can learn from North America

While the state of many of the cities in North America should act as a warning of what happens when the market gets out of control, the financing system used for local government there also offers some real inspiration. By raising the funds for major regeneration projects through bonds, municipalities have been able to combine planning powers (weaker than in the UK), with the capacity to mobilise private investment (which has been much stronger.

The process of issuing a bond, which includes an assessment of both the project and the borrower, is a real incentive to prudence, (and rather better than the somewhat underhand way in which the Treasury underwrote bonds to finance the Channel Tunnel Rail Link behind closed doors). In turn bonds are financed both by investing in revenue earning projects and by having the means to repay them at the end of 15-20 years. By borrowing against expected tax returns (known as Tax Increment Funding) American States and Municipalities have an incentive to ensure that their settlements grow in a sustainable way. Of course, there are many other weaknesses, not least in the inequalities that were tolerated for so long. But they do result in projects getting built!

At its best, as in Portland Oregon, many of the US cities have been able to pursue what the Congress for New Urbanism calls Smart Growth or Transit Oriented Development. They have built new transit systems (and not simply wasted funds on studies that have led nowhere, as with the £50 million spent on planning the Leeds Tram). But for the most part, investment and many of the most able have left the outer suburbs. The resulting sprawl, and time and energy wasted getting to work, shows where we are headed if we do not combine proactive planning at a sub-regional level with associated co-investment. The idea that most of the costs involved in upgrading our public infrastructure can be met out of charges on new development is naïve. Nor should we look to private businesses to pay the bill for upgrading services.

The great strength of the Business Improvement Districts pioneered in North America is that they tax property owners, not occupiers. Such a system provides a good case for introducing a selective tax on land values, but does not meet the needs for a better way of funding infrastructure. The brown-outs that have occurred when the electricity system has failed to cope are another warning of the danger of relying on the market to provide for the longer –term. Funding from a charge on land values (which Sir Michael Lyons recommended investigating further) could be allocated to improving the local infrastructure on which property values rely (thus overcoming most of the opposition to another tax).

Where we can learn from Northern Europe

The greater success of Northern Europe (basically the Scandinavian countries, the Netherlands and much of Germany) should provide both inspiration and possible models for how we can achieve a better quality of life and well-being. As visitors have found, they show how to build more and better family homes and neighbourhoods without all the side-effects of excessive house price inflation or polarisation. The reasons for their greater success in regeneration are spelt out in a comparative research study for the Joseph Rowntree Foundation, which looked at three recognised success stories in Lille/Roubaix in North Eastern France, Rotterdam and the Kop van Zuid area in the Dutch Randstadt, and the former shipyards of Gothenburg, Sweden's second city. The process, which was compared with equivalent places in Britain, essentially involved organisations working together in partnership over many years. The process was much less adversarial and wasteful. There was also much more continuity in terms of key people sticking with the job until it was done.

A similar process can also be observed in the greater success in building new urban extensions, particularly in the Netherland but also in Sweden and Germany. While the institutional arrangements differ, in every case local authorities were both motivated and capable of playing a much more proactive role. Building (and occupation rates) of three to five times the English equivalent, secured a much better return from the initial investment. Co-investment (where different agencies combined their funds behind an integrated plan) meant the risks for private investors were much lower. A larger number of builders competing to sell or rent houses at any one time produced higher quality results at apparently lower costs. The public gets real value for money, not just seemingly endless enquiries and rounds of consultations.

While there are individual differences that explain some of the success, including access to low-cost loans for infrastructure, what stands out is that by concentrating investment in places with access to jobs and services, cities were able to accelerate their rates of growth and in some cases, like Lille and Rotterdam, build themselves out of decline. Significantly since powers were devolved to French cities some four decades ago, growth rates have outstripped Paris. The improvements in the quality of life of cities as diverse as Bordeaux, Lille, Montpelier and Nice far outstrips what has been achieved in Birmingham, Leeds and Manchester, impressive as they have been.

But just as importantly, as well as the regeneration of older industrial areas, there has been a sustained growth in new industrial sectors. A good example is Sony Ericcson, who were persuaded to stay and expand in Gothenburg as a result of the coordinated development of the former shipyards, along with the decision to locate a campus of the technical university of Chalmers in the dockyard. While the Sage music centre in Gateshead is architecturally impressive, how much better if there had also been a university extension alongside, and one that supported the growth of local firms?

The European model has been successful because it has enabled investment in development to match and be joined up with infrastructure, both existing and planned. The city councils have been motivated to work together and with other stakeholders for the good of their communities, not just in response to a government policy or target that may change at the next election, or in response to ministers who come and go with amazing frequency. They can stand on their own feet, rather than having to behave as beggars competing to prove that they are needier than the next borough.

Conclusions

This brief (and inevitably simplistic) review should reinforce the case for enabling local authorities to package together finance for infrastructure through Quality Deals. This could well be a positive outcome of the Homes and Communities Agency's Single Conversations, but crucially depends on local authorities having the freedom to borrow to ensure that the social and physical infrastructure is in line with development. Such deals should undoubtedly benefit from the efforts made at regional level to develop spatial strategies, identify growth points and corridors, and, in the case of the East of England, devise Integrated Development Strategies that respond to the pressures of growth. It would be a tragedy if the enthusiasm of the Conservative Party for stripping away layers of bureaucracy were to also throw out the good work on which so many have slaved for so long. Indeed while the Core Cities have been making much of the running, they are not the only 'engines of growth'. An equally strong case can be made for enabling smaller and historic places, like the university towns of York or Cambridge, to grow to their full potential. [12]

However progress vitally depends on Parliament standing up to the objections of all the interested parties who benefit from the current and flawed system. It means having the

[12] See for example Unlocking City Growth, PWC for the Core Cities Group 2008

courage to allow local authorities who have shown they are up to the job (for example through signing up to Multi Area Agreements or the formation of sub-regional partnerships) the freedom to use prospective tax returns to underpin the repayment of loans raised from the private market. The All Party Urban Development Group should therefore support the ideas set out in the Budget in paragraph 4.49, and ensure that the '*opportunities for innovative financing mechanism'* are in place well before the next election.

There is enough evidence around to show the potential rewards are well worth the risks, that public money is better spent on investment than on unemployment benefits, and that 'co-investment' could multiply the benefits of public expenditure many times. In a recession, this will not be inflationary, but will release productive energy that has so far gone untapped. [13]As one of Barack Obama's staff Rahm Emanual has said *'Never allow a crisis to go to waste. They are opportunities to do big things'*.

Dr Nicholas Falk

Founder director of URBED (Urban and Economic Development)
n.falk@urbed.co.uk
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[13] See for example the Housing Forum's submission to the All Party Urban Development Group for a fuller analysis of how a different approach would work, and complement the current spatial planning system through 'Placeshaping Coinvestment Partnerships'