Chapter 6

Investing in the green recovery

Dr Nicholas Falk, Founder Director of URBED (Urban & Economic Development)

Investing in the green recovery

The 2009 Budget heralded the prospects for city regions and for introducing "innovative financing mechanisms to support locally driven investment in growth and regeneration". This paper summarises arguments for enabling county councils and unitary authorities to raise finance to achieve new (and "greener") housing and local economic development in the right places through infrastructure bonds and "quality deals". It builds on my pamphlet *Funding Sustainable Communities*, which reviews the options,[1] and on recent research projects into US and European experience with infrastructure funding and regeneration.[2]

It also makes use of on-going work for Cambridgeshire Horizons to develop and test out innovative approaches to implementing the Quality Charter for Growth. In particular, a case study and leadership masterclass on the Vathorst Development Company provides an excellent model for how to finance smarter growth – meaning development that is matched to transport infrastructure – and work towards the idea of "green recovery" that came out of the G20 summit in London.[3]

Why joined-up investment is crucial

With very limited resources available for investment, it is more vital than ever to use them wisely. The evidence set out in Richard Wilkinson's new book *The Spirit Level* shows clear correlations between inequality and various indices of social malaise or well-being, such as healthier and happier children.[4] The UK is clearly lagging behind the social democratic countries of Northern Europe, such as the Netherlands, when it comes to social equality and environmental sustainability, as well as economic performance. The contrasts are visible in the way that older industrial areas, such as in South Rotterdam, have been regenerated around new metro stations, tram lines and educational facilities, or new urban extensions in Amersfoort near Utrecht have been built around balanced communities at some three times the rate of British equivalents.

Therefore we need to ask why, given massive neighbourhood renewal programmes, the establishment of regional development agencies, and a new planning system, the UK is not very adept at linking development and infrastructure? Why do people in so many poorer areas feel excluded from the benefits of the growth that has taken place over the

1 Falk, N (ed) *Funding Sustainable Communities: Smart Growth & Intelligent Local Finance* (Town & Country Planning Association, 2004)
2 Cadell, C, Falk, N and King, F *Regeneration in European Cities: Making Connections* (Joseph Rowntree Foundation, 2008)
3 For the charter and supporting documents, see: www.urbed.co.uk or www.cambridgeshirehorizons.co.uk/qualitycharter; PRP Architects, URBED and Design for Homes *Beyond Ecotowns: Applying the Lessons from Europe* (2008) and its appendix on the Vathorst Development Company (www.urbed.co.uk)
4 Wilkinson, R and Pickett, K *The Spirit Level* (Allen Lane, 2009)

past decade? Indeed, we could ask why the precedents set in places such as Letchworth and the garden city movement, or places such as Metroland and some of the "new towns", have not been followed up?

Since the rise of the Victorian industrial cities, Britain has sought to run everything from London. Since the time of the Thatcher government, the autonomy of local authorities has been savagely cut back. Instead, the City of London and the property market have been relied on to allocate resources and reward effort. Yet centralisation no longer works in a world where technological change and global competition makes quick local responses vital, as the rapid growth of Chinese cities illustrates.[5] Nor should a market that swings so erratically be allowed to shape people's life chances. In a recession-rekindling local initiative, pride of place is going to be vital. It is also essential to make the most of any clusters of economic advantage, such as in the Cambridge subregion.

The failure to upgrade our infrastructure can also be blamed on what energy expert Professor David MacKay calls the "Punch and Judy" show of government. There is a misguided faith in markets to provide the infrastructure on which both economic growth and our future quality of life depend.[6] The Anglo-Saxon model of decision making, which the American political scientist Charles Lindblom called "muddling through", contrasts with the more methodical and consensual approach of the Dutch or the Scandinavians. "Stop Go" does not create a good climate for long-term investment in power stations or secondary schools, for example, or measures to tackle congestion, whatever government is in power.

The British system fails because decisions on most investment are taken in central silos, so that the synergy from linking development and investment can never be secured. Centralisation favours "grand projects", such as aircraft carriers and Millennium Domes. It discourages local responsibility and tackling more immediate issues, such as the state of the pavements or the local bus station. The collapse of the Soviet Union provides a warning spectre of the dangers of overcentralisation. Such a system can neither join up investment, nor overcome local resistance to building new homes. It cannot persuade people 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, such as York or Cambridge. In short, it is no longer fit for purpose.

5 See, for example: Morley, I *Tristam Hunt, Building Jerusalem: The Rise & Fall of the Victorian City* (2008), which makes a similar argument; or the work on clusters that Professor Michael Porter has promoted (and that Gordon Brown was impressed with)
6 MacKay, D *Sustainable Energy – Without the Hot Air* (UIT Cambridge, 2009)

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 inquiry by Sir Michael Lyons, which was supposed to have delivered solutions to local government 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. The government believed it was better to keep taxes down, bring the receipts to the centre, and let the brightest men (and women) in the Treasury decide how they should be allocated.

Why changes are needed now

The current development system for housing and regeneration was failing even before the credit crunch eroded confidence in the banking system. For years, British house-building rates have lagged far behind their Continental counterparts. The quality of recent housing has been criticised as mean, with too many small flats and too few family homes.[7] The lead the UK had in building "garden cities" and the new towns was lost. Some see the volume house-building system as broken, perhaps beyond repair.[8]

However, the real challenge is not just refloating the housing market, crucial as that is, but joining up development with investment in infrastructure.[9] Infrastructure actually costs more than housing to construct. Developer contributions pay for less than a quarter of related costs, even when a "roof tax" or community infrastructure levy is in place. Section 106 agreements are cumbersome, time consuming and often ineffectual. Public investment, already low by European standards, is forecast to fall to half its current level.

The market system, which is fine for distributing goods and services with a short life, fails in four main ways when it comes to 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. Success stories, such as the Cambridge phenomenon, operate on a much smaller scale than their competitors because housing is so expensive.

7 See, for example, the housing audits produced by the Commission for Architecture & the Built Environment.
8 A review of some of the failings is set out in *Town & Country Planning*'s special edition of April 2009 along with examples of how some local authorities are taking the initiative to build better housing.
9 See: URBED's report *Beyond Ecotowns: The Economics Issues*, produced as an appendix to *Beyond Ecotowns* (2008) (www.urbed.co.uk)

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 of engaging the wider population in a common cause, thus upgrading skills and aspirations, and narrowing disparities.

3. With private control over most of the investment decisions (despite a complex regulatory system), savings from better management are outweighed by higher funding costs, as shareholders, investors and an army of consultants all need to be paid.

4. There is consequently a major deficit to be funded in order to secure major long-term projects, such as railway improvements or power stations, which will benefit all, let alone address the more fundamental problems of climate change.

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, and cut the depletion of natural resources. The slack in the building industry can also be used as a counter-cyclical measure, thus reducing unemployment and spending on social security payments. Politicians say they would like to see Britain taking a lead in reducing carbon emissions and generating "green jobs", but progress has been pitifully slow.

The new town of Northstowe in Cambridge has been 15 years in the planning; most of the land is owned by the public sector, but there is still no agreement on when work will start. Efforts to reduce carbon emissions through new developments (such as the ill-fated eco-towns) would do better if they were located where adequate transport and utility capacity exists or is planned. Green recovery could be used to bring different communities together and achieve innovation (as the idea of "transition towns" is already doing in places like Stroud). Clearly, a return to urban riots would invalidate many of the benefits that might come from well-planned urban regeneration. So too would the rise of extremist political parties.

Green recovery depends, above all, on joining up investment. The welcome news in the recent Budget[10] that accelerated development zones and some form of tax increment financing are to be given serious consideration is a step towards real devolution of powers. The Homes & Communities Agency has launched its "Single Conversation", which could lead on to "co-investment" and "quality deals". Sustainable development does not

10 See: para 4.49

have to cost the earth, and local government could be revitalised by playing a more proactive role in place shaping.[11]

Funds raised for investment represent confidence in the longer term. Such measures, properly explained, would enjoy widespread support. The young want to save the planet; while the old would like to see their savings invested in measures that produce a stable and inflation-proof return. By raising funds locally, and investing them in longer-term measures, the rate of saving (and investment) could be increased to match the levels of our European rivals. This could be done without actually having to raise taxes, as long as the power to raise local taxes is there as a backstop. It would also safeguard pension and insurance funds. In turn, instead of most of the spending apparently going to administrators and regulators, or expensive professionals (as with the Private Finance Initiative) it would pay for locally visible building works.

Green recovery could be used to upgrade business parks, build urban extensions, modernise transport interchanges, or to save energy through combined heat and power systems, the increased use of renewables and much better levels of insulation. The recession could also be the time for greening our existing town and city centres, making them more sustainable by bringing redundant sites into good use. It could also be the opportunity to rebuild bridges with Europe, and tap funding from the European Investment Bank.

How we can learn from Northern Europe

Recent developments in Northern Europe (basically the Scandinavian countries, the Netherlands and much of Germany) provide inspiration for how to achieve a better quality of life and well-being. As study tours have found, they build more and better family homes and neighbourhoods without the side-effects of excessive house price inflation or spatial polarisation.[12]

The reasons are set out in a recent research study for the Joseph Rowntree Foundation, which compared 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, with their English equivalents.[13] The key differences are local stakeholders working together in partnership over many years through a process that is much less adversarial and wasteful, and which incentivises local authorities to secure sustainable economic growth. There is also much more continuity in terms of key

11 For an analysis of the land issue, see: Housing Forum *Land for Homes* (2009), published in March 2009 as part of the forum's annual conference
12 See, for example: Hall, P and Falk, N "Why Not Here" in *Town & Country Planning*, January 2009
13 Cadell, Falk and King, op cit

people sticking with the job for several decades.

The same is true of building new housing, particularly in the Netherlands but also in Sweden and Germany. The Dutch increased their housing stock by 7.6% between 1996 and 2006 through the VINEX housing programme. While the institutional arrangements differ, local authorities tend to take the lead. Faster building (and occupation rates) produces a better return on investment, and allows lower profit margins, as most of the risks have been removed. Co-investment (where different agencies combine their funds behind an integrated plan) avoids having to rely on private developers. A larger number of builders competing to sell or rent houses at any one time produces better results and makes housing more affordable. The public gets real value for money, not just endless inquiries and rounds of consultation.

The infrastructure that made this possible has been funded in a number of ways, but basically city regions are expected to be self-supporting over the longer term. Thus, Lille financed its £700 million metro and tram upgrades in part through agreeing a supplement on the payroll tax within the conurbation, which is made up of over 80 *communes*. In Gothenburg, as in Rotterdam, the regeneration of the former industrial shipyards was financed through the municipality acquiring and masterplanning the land, and then using sales to developers and occupiers to recover the initial investment. The most transferable examples of all are to be found in the Netherlands, as the example of the growth of Amersfoort illustrates.

Vathorst Development Company

A good example of how a public-private partnership can work was provided in a leadership masterclass given in Cambridge by the former chair and current joint chief executive of the Vathorst Development Company (OBV) in Amersfoort, the Netherlands. OBV is a 50:50 joint venture between the local authority and a consortium of private landowners and developers.

The company's budget for the development of 11,000 homes, a shopping centre and a business park amounts to €772 million, of which half goes into infrastructure and the public realm. This was funded through several short- and long-term loans to the local authority from the Dutch Municipal Bank totalling €250 million, repayable over 15 years at an interest rate of 5%. (Euros are currently almost equivalent to pounds though a year ago they were worth 30% less.)

The 500 hectares of former agricultural land was acquired for €192 million (significantly less than in the UK). OBV then invests €384 million in infrastructure and the public realm.

The investment is repaid by realising €590 million from the sale of housing plots, and €150m for offices and amenities.

The contrast with the UK can be seen from the fact that each housing plot realises around €50,000 (or around 28% of the value of the completed house), and the land itself was acquired at €380,000 per hectare or €175,000 an acre. The deal works because land values are realistic, and the public-private partnership is able to borrow at much less cost than a private company, and takes many of the risks out of development.

Continental cities have of course benefited from access to low-cost finance for infrastructure, greater investment in public transport systems, a generally higher level of taxes and lower levels of home ownership. By concentrating on smarter growth – investment in places with access to jobs and services – cities have accelerated their rates of growth and, in cases such as Lille, Rotterdam and Gothenburg, built themselves out of decline. Significantly, since powers were devolved to French cities some four decades ago, growth rates there have exceeded those of Paris. The improvements to the quality of life in cities as diverse as Bordeaux, Lille, and Montpelier outstrip what has been achieved in Birmingham, Leeds and Manchester, impressive as they have been. There has also been sustained growth in new industrial sectors.

Conclusions

The European model enables investment in development to match infrastructure, both existing and planned, which helps create a fairer society. City councils have been motivated to work together and with other stakeholders for the long-term good of their communities, not just in response to a government policy or target, or to please ministers who come and go. They stand on their own feet, rather than behaving as beggars. A contractual system like the French *contrat de villes* helps turn visions into reality and delivers growth faster. A property valuation and public-private partnership system, such as the Dutch use, favours investment rather than speculation and hoarding, and creates more balanced and sustainable communities.

It would therefore be a tragedy if public investment were to be cut back without providing an alternative at the vital subregional level. While the core cities have been making the running in arguing for devolved powers, they are not the only "engines of growth". An equally strong case can be made for enabling smaller and historic places, such as the university towns of York or Cambridge, to grow to their full potential.[14]

14 See, for example: PricewaterhouseCoopers *Unlocking City Growth* (Core Cities Group, 2008)

Local infrastructure bonds that raise between £10 million and £50 million would enable communities at a subregional or county level to tackle common threats, invest in local priorities, and package together available grants. They could overcome local resistance to new housing by offering some incentives. Co-investment in "green recovery" needs to be matched with penalties to encourage public agencies to reach a "quality deal", rather than hoarding their land (which a tax on land values in designated growth areas could achieve).

The Conservative Party talks about devolution in its policy paper *Control Shift*, with proposals for 14 elected mayors in the larger cities, matching six years of council tax receipts on new homes, and the idea of bonds coupled with the abolition of most of the regional machinery. However, without giving local authorities more freedom in raising finance, and the incentives to collaborate with their neighbours, the forces of inertia will far outweigh those for growth. Hence, as part of the fundamental review of government that is bound to happen, it is absolutely crucial that we keep sight of the need to build sustainable urban neighbourhoods, and to encourage local authorities to enter into joint ventures on the Dutch model.[15] There also needs to be the freedom to raise capital to overcome the social and physical infrastructure constraints in growth areas, along with flexibility over local taxation to underpin loans.

The likely rewards are well worth the costs. Public money is much better spent on investment than on unemployment benefits, and on reducing risks rather than more regulation. "Co-investment" would multiply the benefits of public expenditure many times by leveraging up subsequent private investment. In a recession, this would not be inflationary, but would release productive energy that has so far gone untapped.[16] It would be a small but positive step towards "one-planet living". As one of Barack Obama's chiefs of staff, Rahm Emanuel, is quoted as saying, "Never allow a crisis to go to waste. They are opportunities to do big things."

15 The principles are set out in: Rudlin, D and Falk, N *Sustainable Urban Neighbourhoods: Building the 21st Century Home* (Architectural Press, 2009)

16 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 "place-shaping co-investment partnerships".