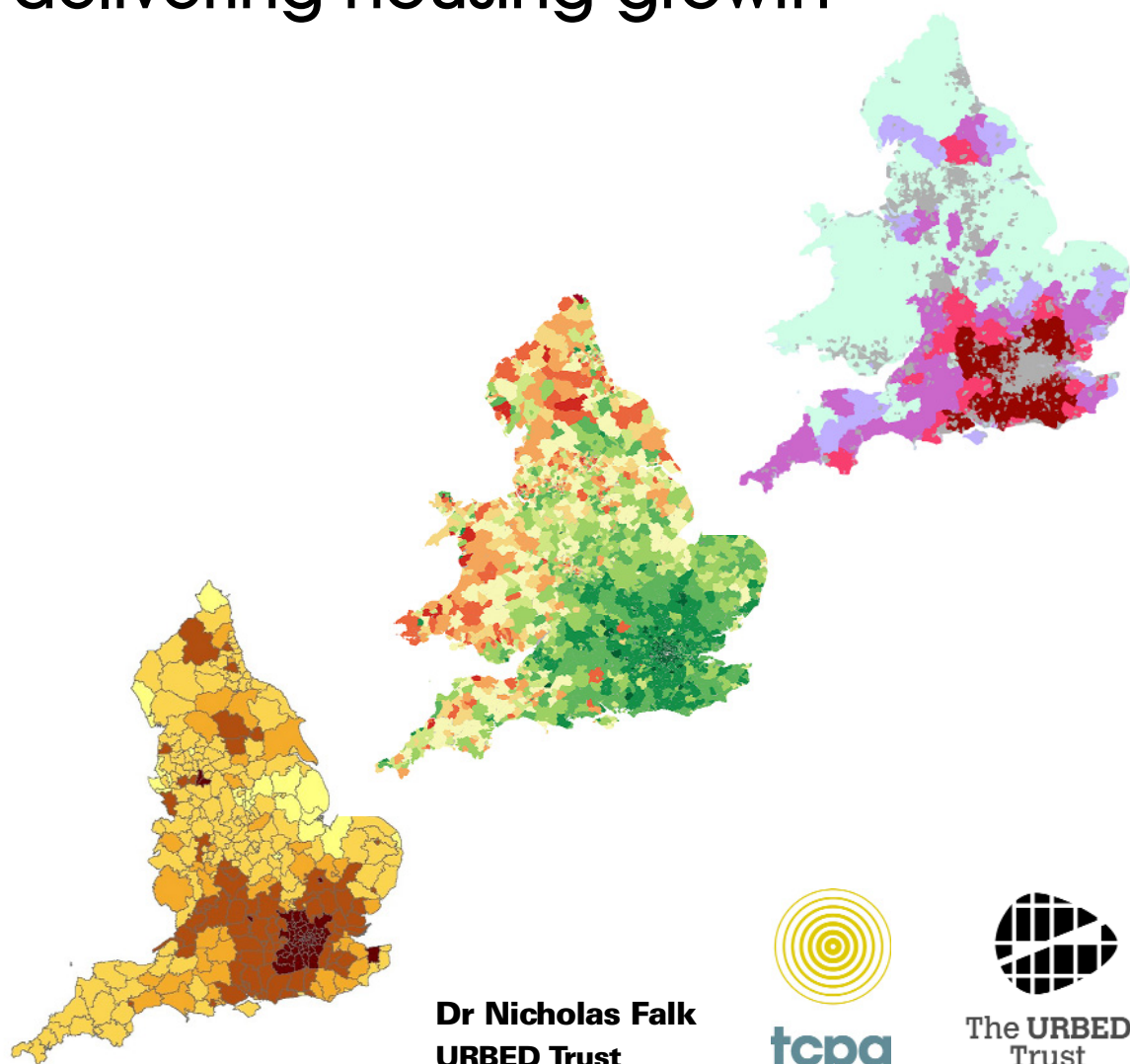


**Town & Country Planning  
Tomorrow Series Paper 20**

# **sharing the uplift in land values**

**a fairer system for funding and  
delivering housing growth**



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## Executive summary

This Town & Country Planning Tomorrow Series Paper considers how we can use land reform to achieve a fairer society while also promoting local economic growth and a better environment. The first version of this paper was produced as a blog for the Royal Society of Arts' Inclusive Growth Commission on disparities in delivering services.<sup>a</sup> A second version, incorporating a range of possible solutions, was produced as a think-piece for the UK2070 Commission working under Lord Bob Kerslake, which is concerned with narrowing regional differences.<sup>b</sup> Parts of the argument have also appeared in an article in *The Political Quarterly* and in illustrated reports for Shelter and the Labour Party on increasing the delivery of homes that are widely affordable.<sup>c</sup>

This Tomorrow Series Paper goes further by considering the wider issues of land value taxation and the funding of the local infrastructure needed to double the rate of housebuilding. Specifically, it shows how previous proposals could be implemented.

Reform of our taxation system is increasingly seen as fundamental to improving planning. The Raynsford Review of Planning in England, carried out for the TCPA, concluded that:

*'the Treasury must partially redistribute capital gains tax and stamp duty to invest in the nation's deprived areas – with councils given powers to compulsorily purchase land at a price which allows communities to benefit from the uplift of values created by development.'*<sup>d</sup>

The UK faces a huge bill if it is to upgrade its worn-out infrastructure to cope with the demands on it – amounting to some £500 billion (and a billion is a thousand million!). There is growing agreement that building the housing we need, and creating a more sustainable (and fairer) society, depends on greatly increasing investment in local infrastructure, especially transport and affordable housing. But no-one can agree on how this should be paid for, or how regional disparities are to be addressed. As over Brexit, the UK seems stuck. So could land value capture offer a way out?

### Changing direction

The first Section of this Tomorrow Series Paper deals with why towns and cities need to change direction by mobilising under-used land and making buildings (and people) better connected. Examples such as King's Cross in London or the London Docklands show how a transformation can be secured over time, as does earlier experience with the post-war New Towns or other post-war reconstruction.

The TCPA has a long record of promoting Ebenezer Howard's idea of using the 'unearned increment' of land value uplift to build Garden Cities, in an alternative

approach to taxation or land nationalisation. The Raynsford Review of Planning recommended that councils should be more proactive. And the Planning (Affordable Housing and Land Compensation) Bill put forward by Helen Hayes MP calls for a legal duty to 'capture betterment where it arises'. Yet despite the many reports produced by parliamentary committees and think-tanks of all political colours, land assembly continues to be a political hot potato, unlike in most other European countries, where spatial planning and urbanism are more proactive – as in France, Germany and the Netherlands, for example. A wider and more compelling set of arguments are needed that can gain all-party support – for example rebuilding our 'real' economy while safeguarding our legacy of natural capital.

Many British towns and cities need to change direction if they are to become more inclusive. At the same time, we need to deal with challenges such as climate change by growing well connected, medium-sized towns and cities in more sustainable and fairer ways. The actions required include giving streets back to people, creating better access to green and blue areas, and above all making good housing more affordable – all in what some call a 'Green New Deal'.

Achieving sustainable urban regeneration depends on unlocking hidden or forgotten assets, such as waterfronts, historic buildings or town centres, in order to narrow spatial inequalities and generate financial capital. Place-making needs to be more inclusive, and this will require a massive increase and shift in investment. The case for land reform starts with raising additional finance to help fund local infrastructure, the subject of the second Section of this Tomorrow Series Paper.

### Achieving inclusive growth

Section 2 deals with the relationship between land values and housing affordability and hence inclusive growth, and explains why supply fails to respond to demand. If we are to raise the funds needed to upgrade our infrastructure, the risks and costs of development need to be reduced. Imaginative packaging of funds from different sources needs to be replicated much more widely. Joining up development with infrastructure investment will produce places that not only look better but are also fairer and have less impact on natural resources and the environment because development is concentrated where the infrastructure can cope. In this way development should encounter less opposition, and charges on landowners may even win popular support.

It has been argued that too much of our national transport budget is devoted to grand projects such as HS2, without the local infrastructure to support them, and that these projects largely benefit London. By instead focusing capital spending on making



**A plan to extend Oxford as Uxcesster Garden City won the 2014 Wolfson Economics Prize**

urban conurbations or metropolitan areas work better, much greater benefits could be secured for less cost. Such a programme of works could also be used to create better jobs both in building and running local transport. Information technology could be used to differentiate between land and buildings, and to identify areas that have untapped development potential. The results would be more intelligent or smarter than leaving cities to sprawl. Public support could be secured by concentrating changes in taxation on the areas affected by strategic projects.

### **Funding local infrastructure**

Section 3 considers how local infrastructure – the key to providing new housing – can be funded. It reaffirms the value of charging ground rents to cover the cost of utilities, and also of changing the way that domestic buildings are taxed. Previous reviews such as those carried out by Uthwatt (in 1942) and Mirrlees (in 2011), as well as more recent reports such as the IPPR's *A Wealth of Difference* (2018), have called for reforms to recover more from wealthier property-owners.

By linking the raising of finance to projects that win local support, as US cities notably do by issuing

bonds, private investment can be increased in new projects that boost wealth generally (and possibly public resistance to them can be reduced), without losing the importance of public finance in maintaining basic standards.

Changes to property taxation are required to raise more funds from areas where land values are highest (basically the Greater South East), thus enabling national funds to be used to rebalance the economy and invest in areas where the social and environmental benefits will be greatest.

### **Planning for smarter urbanisation**

Section 4 considers how to develop strategic spatial plans in ways that use scarce resources better while building the housing we need. Deciding between competing projects requires new forms of multi-criteria analysis that would benefit from changes in the way that property taxes are set and collected.

The benefits of building more housing, or a better planning system, cannot be achieved without tackling the land issue and the related issue of joining up development and infrastructure. Changes to the planning system need to deal differently with



areas according to levels of demand, and hence development economics would guide investment to where it will create the greatest value. The beauty of such an approach is that most of the country would be unaffected, while areas that need to change would be properly resourced.

Different approaches should therefore be introduced in 'growth areas' with high land values, where the economy is strongest, and in 'regeneration areas', where land values are relatively low and development costs can exceed sales value. But in both situations there is an overwhelming case for securing more benefits, such as affordable housing, in areas that will benefit from improved infrastructure. While the subject is complex and controversial, it is fundamental to achieving the national transformation that all political parties say they want – and to helping to restore local democracy in the process.

## Implementing a step-change

Section 5 summarises 11 proposals for changing the way that development is planned and funded, put forward with the general aim of investing in projects that will be self-funding over the longer period while producing short-term social and environmental benefits that would command local support.

The proposals are grouped in terms of the reforms to spatial planning, public finance and local government organisation needed to produce the step-change that the UK requires:

### ● **Spatial planning for better returns:**

■ **Proposal 1: Spatial growth plans** should distinguish between areas in terms of their economic potential and hence land values in order to promote self-funding development in **growth areas** where it will add most value, without penalising areas where **regeneration** is needed or that should be left untouched.

■ **Proposal 2: A better model for land assembly** should tap 'marriage value' from putting adjoining land together and avoid 'free riders' (who hold land back until values have risen), thus opening up sites to a much wider range of developers and occupiers. Development frameworks should be used to help control land values in areas where uncertainties are high.

### ● **Public finance for infrastructure:**

■ **Proposal 3: A development land charge**, implemented as a levy on the sales value of new housing in growth areas, could replace the Community Infrastructure Levy and possibly other forms of property taxation to provide a straightforward means of funding local infrastructure.

■ **Proposal 4: Land value rating** should be used in growth areas to redistribute wealth and narrow spatial differences, alongside bringing values up to date through rates reassessment. Funds need to be raised from all property-owners that

benefit, not just from developers, while encouraging small businesses or housing development to make use of empty space, such as in town centres.

■ **Proposal 5: Property tax reform** needs a Royal Commission to recommend the best ways of rationalising the various sources of funding such as council tax, inheritance tax, stamp duty, and the Community Infrastructure Levy in order to provide local authorities with better and fairer source of funding.

■ **Proposal 6: Growth bonds** can be used raise private and institutional finance for the infrastructure needed for strategic new housing in areas with relatively high property values.

■ **Proposal 7: Community or co-operative investment banks** should be set up at a regional level to make it more attractive for people to act collectively in tackling common problems such as affordability and climate change, while reducing the need for business-owners to borrow against the value of their homes.

■ **Proposal 8: A Municipal Investment Corporation** should be set up to work in areas where there is support for boosting local authority capacity in devising and evaluating good projects, and also to package finance from all sources to help raise investment levels to European levels.<sup>9</sup>

### ● **Local government organisation to rebuild capacity:**

■ **Proposal 9: Development Corporations** would achieve smarter urbanisation and rapid growth by joining up land and infrastructure where major public investment is required.

■ **Proposal 10: Community land or development trusts** could regulate occupation and create fairer societies with a broader range of tenures.

■ **Proposal 11: Local infrastructure finance trusts** should be used to offer a means of pooling contributions from private investors and government.

## Notes

- Inclusive Growth: Putting Principles into Practice.* Inclusive Growth Commission. RSA (Royal Society for the Encouragement of Arts, Manufactures and Commerce), Mar. 2017. [www.thersa.org/discover/publications-and-articles/reports/inclusive-growth-putting-principles-into-practice](http://www.thersa.org/discover/publications-and-articles/reports/inclusive-growth-putting-principles-into-practice)
- See the UK2070 Commission website, at [www.uk2070.org.uk](http://www.uk2070.org.uk)
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# 1

## Changing direction

*'Things fall apart; the centre cannot hold,  
Mere anarchy is loosed upon the world,'*  
WB Yeats, in *The Second Coming*

Britain is at a turning point, where none of the concerns that are tearing our communities apart can be met without fundamental changes in the way we plan, fund and organise urban growth. This requires the country to harness escalating land values – a tool that has been neglected for too long.<sup>1</sup> 'Generation Rent' is finding a voice, with likely political impact, while the effects of climate change call for a longer-term and wider perspective. Young people feel alienated by the seeming impossibility of acquiring a home of their own, and call for radical changes now that will help to protect life on our planet. Elderly people are worried by the escalating costs of care and by an uncertain future. Planning is not delivering what it promises; we need more inclusive growth, not growth at any cost. We also need to find a new way of paying for what we all value, and what might be called the 'common wealth'.

The scale of the housing task is huge; the report of Shelter's Commission on the Future of Social Housing<sup>2</sup> called for 100,000 social housing units to be built each year, a third of the government's overall target, and many times the current level of supply. URBED's case studies for the Commission<sup>3</sup> discovered that the countries we admire for their quality of life do not rely as much as the UK does on private ownership or the private sector to solve their housing or transport problems. The most pertinent examples are in Denmark and the Netherlands, where housing is more affordable and there is no stigma associated with living in social housing.

Many of the most successful European cities use state investment banks to fund local infrastructure, rather than relying on either private developers or government grants. They also tax land differently. There is also recent experience of introducing land

value tax in Canberra, the capital of Australia. And split-rate property taxation has helped to promote the regeneration of the old steel city of Pittsburgh in the USA (see Box 1). Indeed, the USA has largely relied on government to provide the foundations for economic growth, according to a new book by Ian Wray.<sup>4</sup> So we should not assume that the free market is the only way to produce successful places.

### Social justice and inclusive growth

A key justification for planning – and indeed for government – is to create a fairer society in which the public interest outweighs private profit. Experts on the subject, such as Tony Crook and Christine Whitehead,<sup>5</sup> agree that when it comes to land:

*'Land values increase for three reasons: (i) increased prosperity, (ii) new infrastructure impacting on e.g. improved accessibility and (iii) planning consents permitting new physical development and/or change of use. Development value is the difference between the value of land in a new use and its existing use value. Taxation of land value should be designed to promote economic efficiency (e.g. by addressing externalities), improve equity and be consistent with taxation principles.'*

However as their review article stresses, rather like over Brexit there are strongly held and divergent views over what is both fair and effective. Much of the discontent associated with political eruptions like Brexit or protests over major road schemes are due to a sense of injustice – that some are getting more than their 'fair share', expressed not just in terms of class but also in where and how people live. The influential moral philosopher Michael Sandler asserts that 'Democracy does not require perfect equality, but it does require that citizens share a common life.'<sup>6</sup> In his seminal work on social justice, the American philosopher John Rawls argued that a good society requires more than just rules to protect basic liberties.<sup>7</sup> The rules also need to operate to the greater benefit of the least-advantaged members of society. Fairness and

#### Box 1

#### Pittsburgh's recovery – the benefits of land value capture

In the US state of Pennsylvania a split-rate property tax (in which tax on buildings is divided from a tax or charge on land) running from 1913 to 2001 featured a land tax set at nearly six times the tax on improvements and so encouraged inner-city construction. Even after the system was abandoned, the Pittsburgh Improvement District still applies land value taxation as a surcharge on property taxes. The results are a thriving downtown area, with old buildings adapted to new uses – for example, a redundant railway station was turned into a 'festival market place'. Community land trusts also work well – for example, Pittsburgh History & Landmarks Foundation takes over properties from Pittsburgh City Council that have not been paying taxes. The driving force has been a succession of entrepreneurial mayors (working with the universities and voluntary organisations), who have transformed Pittsburgh from a polluted industrial city into one of the most liveable and innovative American cities.

justice are often seen as pillars of what we all prize about our way of life.

Since around 1980 British society has become wedded to what is referred to as the 'free market', and property rights have been described as inalienable. Yet property values are largely created by public investment in infrastructure such as transport or by the protection created by planning controls such as the Green Belts round our cities. Economists have tended to favour competition and an open society because, on balance, it was seen as distributing resources and benefits where they are most needed. Yet once the distribution of power gets too far out of balance, and monopolistic rent-seeking behaviour dominates, the market can no longer be relied on, and government is justified in intervening to correct 'market failure'.

The enlargement of the European Union, and its associated laws, may have kept the peace between nations but has not worked to the benefit of the least advantaged – those who own little or no property, as Paul Collier, former leading World Bank and now Oxford University economist, observes in his recent powerful critique *The Future of Capitalism*.<sup>8</sup> He makes the case for taxing land value uplift as a means of resolving fundamental rifts in our society: *'Social democracy worked from 1945 until the 1970s because it lived off a huge, invisible and unquantifiable asset that had been accumulated during the Second World War: a shared identity forged through a supreme and successful national effort... Starting around 1980, this situation was disrupted by two coincident but distinct processes: an explosion in knowledge, and globalization.'*

He goes on to argue for changes in the way that land is valued as an effective route to a fairer society: *'Landowners are usually able to capture a substantial part of the uplift in value that should accrue to the agency. This is rectifiable, but the drafting of legislation should take care to pre-empt the corrosive effect of barristers and the limited abilities of judges to appreciate, or even care about, the public interest.'*

John Rawls went further and asked his readers to draw up rules for an imaginary society where you could not be sure of your own starting point – and hence would be likely to favour the most disadvantaged. As an example, most would agree that all should have some form of shelter as of right, and incentives to act responsibly in renting out space. But the present system of tenure does not seem fair when some benefit from rising house prices while others suffer due to their lack of an inheritance or low incomes. What we call 'equity' refers both to what is fair and to a share in ownership. But much of what we value comes from a common heritage, such as waterways, green

spaces and historic buildings, which are passed on from generation to generation. This suggests that a socially just, advanced society would be one with a higher level of common ownership rather than private housing, in which neighbourhoods and natural beauty would count for as much as private property.

City-ranking surveys by bodies such as Monocle or the Economist Intelligence Unit confirm that the cities and societies that are rated the best in which to live, such as Vienna or Zürich, have high levels of common ownership or 'common wealth', funded through higher taxes. They are fairer places in all senses. Higher levels of connectivity, through, for example better local transit systems or safer cycling, can compensate for not owning your own home. Extensive greening can provide some of the benefits of living in the country. Such places may also be associated with higher levels of productivity and public health, lower stress levels, and lower pollution. In recent years, visits to European cities that might have served as models for the English Eco-towns discovered that, despite national differences, all had local authorities that play a much more proactive role than those in the UK, and that take the risks of climate change seriously.<sup>9</sup>

Over the last few decades the weaknesses of the current system of property ownership in the UK have become overwhelming as inequalities have worsened. The escalation in property values has benefited the old and established at the expense of the young and future generations. Other problems can be seen in our failure to maintain the physical environment – for example when streets are not repaired or transport systems break down. There is also a waste of scarce natural resources, measured by the extinction of species or rising levels of water and air pollution. So not surprisingly, with economic growth lagging behind expectations and inequalities widening, the case for radical change has become much stronger. The problem is where best to intervene and how.

Simply increasing taxation to fund better social services or to equalise incomes will inevitably be resisted in a divided and complex society such as today's Britain. But if a charge were to be made on capital, much more support could be secured, especially if the proceeds were used to redress generational imbalances, provide better lives for our children and their descendants, and avoid foreseeable calamities.

## The case for radical change

This Tomorrow Series Paper argues for a few targeted changes to the way that the private property market works in order to create a fairer system that would win all-party support. Housing should be a far easier challenge to tackle than re-making our economy. After all, 'real estate' is tangible, unlike income from

## Box 2

### House price inflation and widening inequalities

Although most people's incomes in the UK have stayed relatively constant since 1975, the share of the income going to the top 1% more than doubled to 14%. In October 2017 the Office for National Statistics released information that separated the value of land from the buildings that stand on it, indicating that since 1995 land as a proportion of property value rose from a half to two-thirds, and that land has risen from one third of the UK's national net worth to over half, much of which is in the form of housing.<sup>a</sup> In other words, house price inflation has particularly benefited those who own the most land.

a M Smith: 'Crisis? What crisis?'. *RIBA Journal*, 2081, Mar.

other sources. The well publicised failings of the private rental market and the shortfalls in securing new social housing could justify taking over the land needed to build more housing of all tenures, as occurred in British cities that had been heavily bombed during the Second World War. While it is hard to know what future employment or even methods of transport will be like, we can forecast future housing requirements with much more confidence and take the necessary action to overcome constraints. Approaches include adopting the European practice of making it easier to rent a good home, and to build up equity, through co-operative as well as socially owned housing.

Yet development takes time, and depends on making the most of hidden wealth and neglected opportunities, as well as well targeted public investment. So government needs to use national imperatives to double housing output, modernise our energy and transport systems and reconcile old and young in ways that tackle the root causes of inequality and distress. We need to learn and apply lessons from European cities and regions that have transformed their position over the last half century – a period in which British industrial cities have generally lost ground.<sup>10</sup>

Successive reports have shown how a broken British system of spatial planning and development fails to get housing built where it is most needed, yet we still put strategic projects through the same mill. At the same time, our financial system has boosted the values of existing property in favour of the established and wealthy (see Box 2).<sup>11</sup> As the Chinese philosopher Lao Tse memorably said some 2,500 years ago in a book called the *Tao Te Ching*, 'if you do not change direction you may end up where you are heading'. He went on to say that 'a journey of a thousand miles begins with a single step'.

There is no way that most of those without inherited wealth can any longer save enough for the deposit needed to get on the housing ladder, and many justifiably feel exploited and excluded. A recent comprehensive review of the economics of land argues<sup>12</sup> that 'Property in land is thus both 'freedom' and 'theft'', and that successive British governments

have failed to appreciate its peculiarities. Inequalities are worse in the UK than in any country other than the USA. Even a Conservative-leaning journal like the *Economist* has argued that the 'time may be right for land-value taxes'.<sup>13</sup> A recent Labour Party Green Paper has proposed setting up an English Sovereign Land Trust to 'enable more proactive buying of land at a price closer to existing use value', with possible changes to the rules for compensation.<sup>14</sup> And a thoughtful report edited by *Guardian* columnist George Monbiot<sup>15</sup> has put forward a comprehensive set of proposals for 'changing the way our fundamental asset is used owned and governed'.

Economists such as Paul Cheshire have demonstrated the close relationship between the quality of life in a city and economic success, and the value of what is called 'agglomeration'.<sup>16</sup> Now that human or social capital has largely replaced traditional machines, industrial cities have tended to decline, while property values have grown in metropolitan cities and country towns. Increasing the rate of investment to match continental levels has to be paid for, and concerns about 'viability' have tended to dominate local planning decisions. Yet the development of the real economy, as opposed to the paper one, is inextricably related to the health of our towns and cities and the availability of good housing and local transport. Targeted investment should pay off – although regrettably we seem to have lost the skill to locate housing where it will do the least harm to the environment.

Although there will be always be resistance to change, the tide is turning as the arguments mount up. Bodies as diverse as the National Infrastructure Commission and the House of Commons Housing, Communities and Local Government Committee, through its *Land Value Capture* report,<sup>17</sup> as well as numerous think-tanks, are calling for radical changes in how the benefits from development and growth are shared. As the Housing, Communities and Local Government Committee concludes:

*'Extra funding for new local infrastructure and affordable housing could be raised by wide-ranging reforms to how the increase in value of land resulting from public policy decisions is captured.'*<sup>18</sup>

The impetus for change can also come from comparisons with other places that seem to have done better. When URBED compared three continental post-industrial towns – Gothenburg, Lille, and Rotterdam – with their English counterparts, local authority representatives were astonished by how continental cities were not expecting the private sector to sort out their problems or deliver public services but took control of their destinies.<sup>19</sup> But a transformation to such a state cannot be achieved without fixing our broken local government financial systems and rediscovering strategic spatial planning and what creates a fairer society. It is significant that the Scottish Land Commission has been set up specifically to advise the Scottish Government on tackling inequities, and it seems that more account is being taken of European good practice than is the case in England.<sup>20</sup>

The built environment is also important because it is where most of our savings are accumulated, whether as individuals or through institutions such as pension funds and insurance companies. Land values underlie the loans made for future investment projects, and hence productivity and economic growth. So even in an age dominated by the connections of information technology, access to property remains critical to the quality of most people's lives. While Karl Marx focused on the injustices of a class system based on the ownership of the means of the production, in the 21st century, as Thomas Piketty clearly showed in his influential book on 'capital',<sup>21</sup> injustice is bound up with the ownership of property, especially housing.

Simply increasing taxation to fund better social services or to equalise incomes will inevitably face some resistance, but if the underpinning justification for action were to redress generational imbalances, to provide better lives for our children and their descendants, and to avoid foreseeable calamities, much more support could be secured. So in rethinking changes in the ownership and distribution of housing, especially in planning for new settlements, we need also to consider the impact on employment and productivity, on transport and accessibility, and on health and wellbeing.

## The art and science of urbanism

The process of urban development is far from scientific, as it involves balancing a multiplicity of objectives and taking risks – which is why urbanism is best called an art, and is very different from conventional planning. There is no simple way of creating a fairer society, because the UK is so divided spatially, as well as in many other ways. London and the rich South East match the best in Europe, while our provincial cities generally trail behind. Indeed, the Centre for Cities compares the poor performance of the UK's former industrial cities with that of the accession countries in Eastern Europe.<sup>22</sup> While those

in London pay the highest prices to live as near to the centre as they can, for generations many of those in the rest of the country have moved to country towns, villages and the suburbs for a better life. The result is a very unbalanced society – one of the most unequal in the OECD.

Although there are impressive examples of places in the UK that have turned around (King's Cross and the area around Stratford in London, or Central Manchester, or the southern fringe of Cambridge, for example), they require huge and sustained levels of public investment, and so seem exceptional and unaffordable in general. Yet successful transformation follows a pattern – one which is replicable, even though every place may look different.<sup>23</sup> In Sir Peter Hall's final book, *Good Cities, Better Lives*, he and I showed how British towns and cities could catch up with their continental counterparts by applying the 'art of urbanism'.<sup>24</sup> The success stories grew incrementally and developed in steps – in a process more like a game of dominoes than a jigsaw puzzle. For growth rarely follows masterplans, but is much more organic.<sup>25</sup> It responds to technological innovations, such as the electric suburban railway and tram, that support or generate local economic development. Development takes place in *surges*, and the changing patterns can often only be discerned and evaluated long after the event.<sup>26</sup>

So it is vital to make the right strategic choices when it comes to investment in both new infrastructure and major housing schemes. Towns and cities need to catch the tides when they flow, not fight against them. The Housing White Paper and subsequent revisions to the National Policy Planning Framework (NPPF) suggests that a change of direction would be welcome;<sup>27</sup> and the Labour Party's Housing Green Paper offers many proposals aimed at increasing access to affordable housing.<sup>28</sup> But there is still an unresolved ideological debate over whether we need more planning or less, and how far the market can be relied on to meet social needs.

The solution lies in *better planning*. 'Smart' cities – where people with choice most want to live or work, ranging from Cambridge to Freiburg and Singapore – are the product of neither government intervention nor a free market. Rather, they benefit from good strategic planning, as comparative studies by international bodies such as the EU and the OECD have clearly shown, assisted by land assembly and a responsive development market.<sup>29</sup> The process is quite easy to understand. Case studies of exemplary housing schemes drawn up for the Housing Forum<sup>30</sup> were readily structured around a simple 'ABC', of *ambition* or vision, *brokerage* or deal-making, and above all *continuity* (i.e. persevering for several decades or more). The main key is local control. *Smarter urbanisation* requires planning that is proactive, not reactive; driven by posterity not austerity; and backed up by





**Freiburg built the exemplary Rieselfeld and Vauban developments on new tram lines to the centre**

good governance – leadership that persuades rather than compels. Investors, whether private or public, want certainty over infrastructure before they make major commitments and deals have to be struck. Planned new settlements built on Garden City principles would relieve the pressures as the New Towns and Comprehensive Development Areas did after the Second World War, and would also allow local councils to build housing that is ‘future-proofed’.

The Housing Forum case studies also showed that the other key to successful transformation is enough control over strategic land to harness the uplift in land values. This is a principle originally set out by Ebenezer Howard and used in Letchworth Garden City and then applied on a much larger scale in the post-war New Towns. The results of loosening controls by mischance have been house price inflation among the highest in Europe, as well as some of the greatest inequalities. This is in marked contrast to the situation in cities like Vienna or Rotterdam, where local government has retained much greater freedom and power, and owns a significant proportion of the land available for development.

### Why better spatial planning is needed

Planning in the UK has become confused with regulation, and the link with vision has been lost. We have preferred to argue every case ‘on its merits’ rather than clearly indicate where growth is or is not welcome. The goal should not be an ‘end state plan’ but rather, as Bruce Katz and others at the Brookings Institute incisively recommend, a framework for

‘unlocking the public wealth of cities’.<sup>31</sup> Thoughtful people on all political sides have called for radical change. Will Hutton, author of *The State We’re In* and an *Observer* columnist, together with Lord Adonis, who most recently was Chair of the National Infrastructure Commission, have come up with a powerful and concise book aimed at ‘saving Britain’ from the perils of Brexit. In one key paragraph near the start they argue:

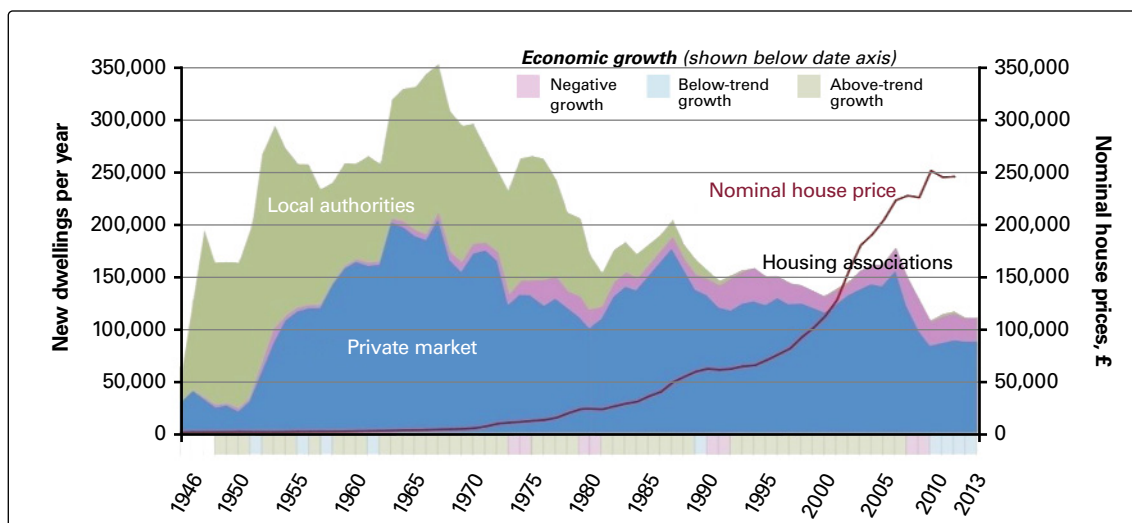
*‘To blame housing shortages and soaring house prices on immigrants is to miss the mark. Britain’s housing crisis is again a crisis of our own making, an interaction of the way we restrictively plan, under-tax, under-build and oversupply housing finance.’<sup>32</sup>*

Equally, on the centre-right of the Conservative Party, a think-tank called Onward has published a radical set of proposals for increasing housing supply by returning power to local authorities. The author, Neil O’Brien MP, calls first for action to:

*‘Give councils new Compulsory Purchase Order (CPO) powers and borrowing capacity so they can buy land and put more development into planned new villages, towns and cities. Require councils to plan infrastructure on the basis of cumulative impacts, not just individual applications.’<sup>33</sup>*

At the start of the Industrial Revolution Adam Smith wrote:

*‘Human society, when we contemplate it in a certain abstract and philosophical light, appears*



**Fig. 1 Housebuilding levels have remained flat since local authorities stopped building; prices have escalated**  
Source: Shelter and the University of Sheffield

*like ... an immense machine, whose regular and harmonious movements produce a thousand agreeable effects.'*<sup>34</sup>

While people live and die, their towns and cities, along with their possessions, remain as their legacy. So as well as the satisfaction that comes from what people personally own, there are also pleasures from what we have in common, whether it be fine streets and cultural facilities, or social services we can rely on, or great transport systems, as well as the countryside and all that forms our 'natural capital'. These make up what might be called our 'common wealth'. The purpose of strategic planning should be to ensure that this precious capital is maintained and augmented over time.

## Conclusion

Many UK towns and cities need to change direction if they are to become more inclusive. At the same time we need to deal with challenges such as climate change by growing well connected medium-sized towns and cities in more sustainable and fairer ways. This includes giving streets back to people, creating better access to green and blue areas, and above all making good housing more affordable – what some call a 'Green New Deal'.

Achieving urban regeneration in sustainable ways depends on unlocking hidden or forgotten assets, such as waterfronts, historic buildings or town centres, in order to narrow spatial inequalities and generate financial capital. Place-making needs to be more inclusive, which will require a massive increase and shift in investment.

The case for land reform starts with raising additional finance to help fund local infrastructure, which is the subject of the next Section.

## 2 Achieving inclusive growth

While much could be achieved through better management of our housing stock, new housing is also required to allow for demographic and other changes, such as an ageing population, often living alone.

The eruption in house prices has had little effect on housing supply numbers, as the chart in Fig. 1 clearly shows. Instead, land values have escalated far beyond house prices in much of the UK, to the point where unaffordability threatens future economic growth, environmental wellbeing and social stability.<sup>35</sup>

The unresponsiveness of the market is linked to an over-reliance on a relatively small number of private housebuilders to build the homes we need, as Sir Oliver Letwin's Independent Review of Build Out confirmed.<sup>36</sup> It concluded that there is a good case for sharing the uplift in land values that results from public policy, especially in areas where values are highest.

For almost half a century we have been building too little and letting house prices and rentals run away. Much of the escalation of land values is due to a kind of ratchet that encourages speculation. With little or no holding cost, but much publicised gains, landowners are advised to hang on to land. Yet simple changes to the way that land is valued and land value uplift is captured (or shared) could hold the key to narrowing disparities in wealth. They could provide a platform that people of all political persuasions could support because, in the face of inequalities that have become grotesque, a reformed system would be fairer for all.

Rethinking land values

A perceptive pamphlet from Civitas called *The Land Question*<sup>37</sup> makes the case for reforming the land compensation rules to make it much easier for public bodies to acquire land at close to its existing-use value. Land matters because the price of a house only partly reflects the cost of construction. While the costs of construction are quite similar across the country (allowing for variations in size and quality), it is the price of land that explains the main differences between costs in different areas. Land values help to keep house prices excessively high, as there is a ‘ratchet’ when it comes to expectations. Economists such as Ricardo used to consider land as a separate factor of production, and were very critical of ‘rent-seeking behaviour’ and barriers to entry that favoured oligopolies.

The LSE economist Professor Paul Cheshire has argued in a series of blogs that planning (and Green Belts) have been used to defend privilege and hence reinforce house price inflation. Up until recently, when attitudes to urban living changed, those who could do so often went to live beyond the Green Belt and used their cars to get to work, thus adding to congestion on the roads.<sup>38</sup> There are huge variations in land values between different parts of the country, as maps of property values clearly show (see Figs 2 and 3), with the highest

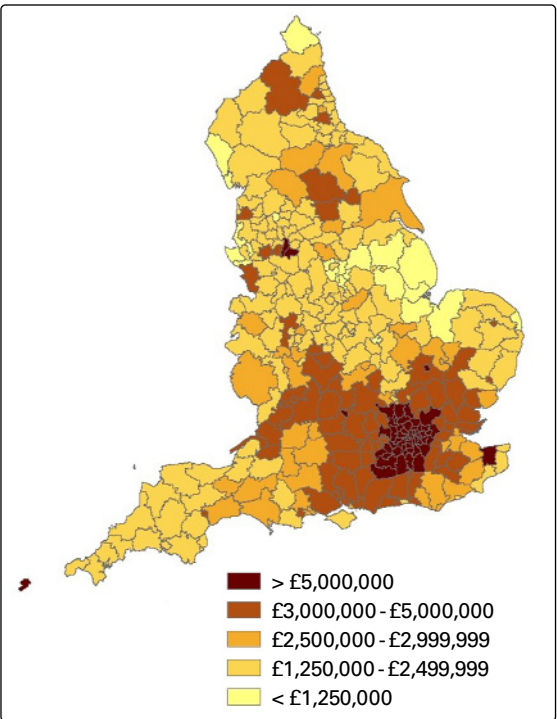


Fig. 2 Residential land price per hectare in England  
Map from Paul Cheshire, using 2007 data

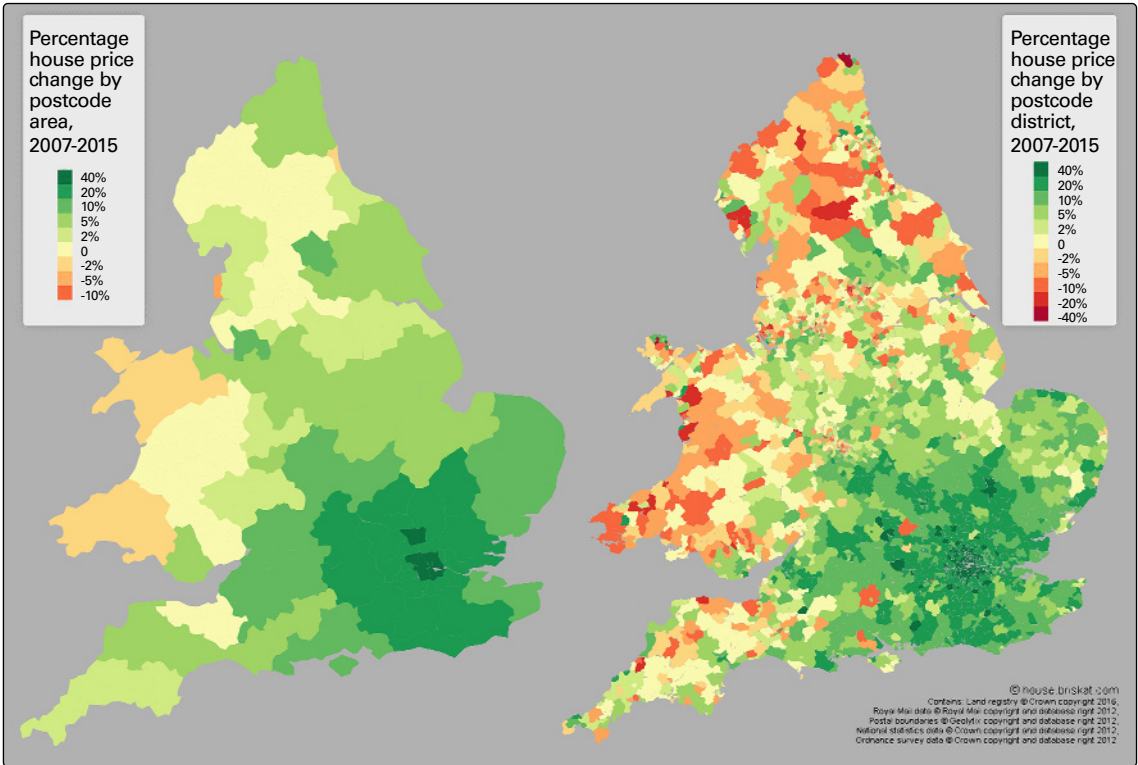
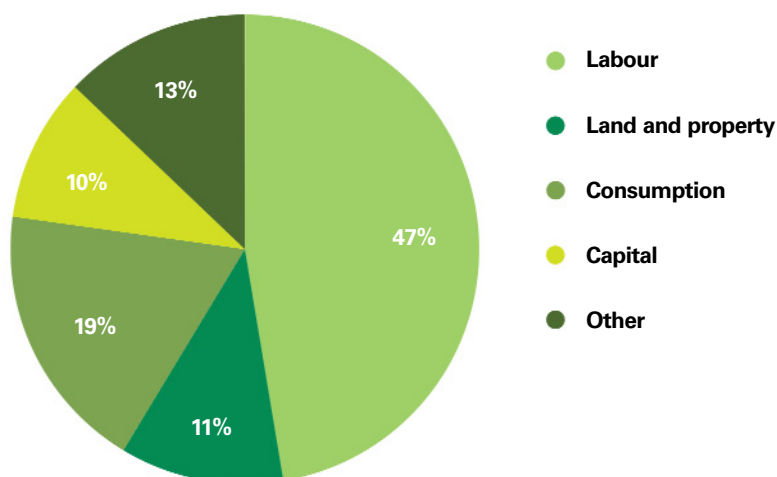


Fig. 3 House price change in England, 2007-2015 – opportunities for land value capture are mainly near London  
Source: © house.briskat.com, using Land Registry, Ordnance Survey and Royal Mail data, with information generated by <https://a.plumplot.co.uk>





**Fig. 4 Composition of total British tax revenue, 2103/14**

Source: *Mapping Britain's Public Finances: Where Is Tax Raised, and Where Is it Spent?* Centre for Cities, 2015

values in areas that are in range of jobs in London and the South East. In 2017 in Cambridgeshire they varied from £5.96 million per hectare in the city of Cambridge (which is just 45 minutes by rail from London King's Cross) to £2.13 million per hectare in East Cambridgeshire and only £485,000 per hectare in Fenland (almost the lowest land value in the country), where the principal town of Wisbech is cut off by its lack of rail and road connections.<sup>39</sup>

Significantly, over the last decade house prices have risen most in the very areas where land values were already highest. These are the areas that offer the best opportunities for land value capture. Land is very different from other factors of production, because, as Mark Twain famously pointed out, 'they are not making it any more' (except in the Netherlands, where land for new housing has been reclaimed in the Polders!). It is the *location* in relation to jobs or wealth creation, not planning, that explains the main disparities. As Martin Adams puts it well in a comprehensive review of the subject:<sup>40</sup>

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

But, as the property value maps suggest, land prices are also affected by access to good jobs, which is why values are highest around London and the South East and a few other metropolitan cities. Surveyors like to point out that land values are essentially a 'residual', i.e. the difference between what a house costs to build and what it will sell for. But they also love to repeat the mantra that 'there are only three things that matter in property: *location, location and location*'. It is the location that

accounts for much of the value, and that value is largely created by collective efforts (or the common wealth). Most importantly, it is derived from the infrastructure of transport, utilities, education and health facilities that make living possible and pleasant. Planning then distributes most of this surplus to those fortunate enough to own the land (or have options on it) already.

Writers as diverse as Henry George, Ebenezer Howard and Winston Churchill have expressed shock over how those who happen to inherit land seem to get most of the uplift from land values, without having to exert themselves or take risks. Fred Harrison, an eloquent advocate for land value taxation, points out that land value uplift could have funded the Jubilee Underground line extension to London Docklands if it had been properly tapped (worth some four times the cost) instead of going as 'windfall' presents to fortunate landowners and speculators.<sup>41</sup> Harrison argues that our system of expecting house prices to drift ever upwards is not only economically disastrous, but also grossly unfair: *'The State sponsored device for making the rich richer (and the poor poorer) means that for most of their lives, rich folk enjoy public services without paying for them.'*

A powerful report for the Labour Party, edited by *Guardian* columnist George Monbiot,<sup>42</sup> has brought together a series of proposals for tackling different aspects of the problem, some of which were proposed in an earlier version of this paper written for the UK2070 Commission. The report's key message is that land has become far too important as an element of the UK's net worth – 51% compared with 26% in Germany. The value of land increased



### Box 3

#### Uxcester Garden City – a prize-winning model

Using an imaginary city called Uxcester, in the winning entry to the Wolfson Economics Prize 2014, David Rudlin and Nicholas Falk showed how to double Oxford's population over 30 years.<sup>43</sup> The city has some of the least-affordable housing in the country, unacceptable spatial inequalities, and severe congestion. The competition entry proposed a series of sustainable urban extensions within 10 kilometres of the centre to provide homes for 50,000 people. These would reduce congestion and make life better for those on low incomes. The new housing would use land that lies outside the flood plains and areas of natural beauty, but that can be connected to jobs by good public transport and cycling. It would take some 5%-10% of the Oxford Green Belt (which could be extended elsewhere) but would improve biodiversity and provide country parks to reduce flooding, and also safeguard treasured villages from unwanted development.

Agricultural land that is currently worth £10,000-£25,000 a hectare would be bought for ten times that amount (at, say, £200,000 a hectare), to incentivise the landowners (largely colleges). By comparison, land with residential development permission in nearby Kidlington is valued at £2.44 million per hectare. Only half the land would be developed, but the uplift in land values would be sufficient to fund 20% social housing at a suburban density of 30 dwellings per hectare, plus a tram line to the city centre. There would be plenty of room for self- and small builders. In this location a high-quality development would be viable without public subsidy.

a D Rudlin and N Falk: *Uxcester Garden City*. Second Stage Submission for the 2014 Wolfson Economics Prize. URBED, 2014. [http://urbed.coop/sites/default/files/20140815%20URBED%20Wolfson%20Stage%202\\_low%20res3.pdf](http://urbed.coop/sites/default/files/20140815%20URBED%20Wolfson%20Stage%202_low%20res3.pdf)

from £1 trillion in 1995 to £5 trillion today, despite a relatively low level of investment in infrastructure compared with other European countries. Land is therefore fundamental to any attempt to create a fairer society, and values need to be brought down without triggering a national economic collapse.

Despite the importance of land to the economy, property taxes account for a surprisingly low proportion of government revenue – 11% of the total, according to a study carried out by the Centre for Cities.<sup>43</sup> Hence there is more potential to make the tax system both fairer and more productive through changing property taxation than through taxes on labour (basically income tax) or on consumption (basically VAT).

#### The Garden City model

Changes to land valuation will undoubtedly incur opposition from those who do well under the present taxation system. However, research undertaken for the 2014 Wolfson Economics Prize found that Garden Cities have more appeal than new towns or housing estates. URBED's winning entry<sup>44</sup> showed how to build new Garden Cities that were 'visionary, viable and popular'. Under the terms of the competition, they had to be privately funded without grant and large enough to cater for changing requirements as people get older.

The URBED entry used the example of an imaginary city called Uxcester (see Box 3), illustrated with plans of how Oxford could double its population without sprawling into the countryside. This won local support from Oxford Civic Society as it would help to reduce carbon dioxide emissions and

improve the quality of life for existing residents by reducing the need to drive to work.

The most viable way of funding the kinds of housing that we need on the scale that is required is to extend the places where people most want to live and work through 'sustainable urban extensions'.<sup>45</sup> Unfortunately, locations on the edge of towns and cities are often in marginal constituencies, bordered by tight Green Belts, requiring political courage to take action. This situation may have been helped to a degree by the 2017 Housing White Paper,<sup>46</sup> which suggests some experimentation on brownfield sites, such as airfields, if there is no other source of land for housing.

Despite the requirement for brownfield registers, local authorities generally fail to identify the best land for development, which is land that is poorly under-utilised but accessible without having to depend on a private car. Instead, most schemes are put forward by developers on sites that are isolated from railway stations and totally car dependent, as highlighted by the 2018 *Transport for New Homes* report.<sup>47</sup>

Housing expert Pete Redman showed in his calculations for URBED's 2014 Wolfson Economics Prize entry that the uplift in land values resulting from building on green fields on the edge of a thriving city such as Oxford was enough to fund better infrastructure for all, including a new tram line.<sup>48</sup> There, the main local concerns of flooding and congestion could be addressed by building enough housing in the right places, and tapping into what Ebenezer Howard memorably named the 'unearned increment' of land values.

The UK cannot build the houses it needs without making available both land and long-term finance for infrastructure. If we are to avoid relying on national taxation, we need to pay less for the land. We also have to concentrate development where it can make full use of existing or planned infrastructure, rather than adding to congestion. Uxcester offers a replicable model.

## Learning from the past

The development of housing and infrastructure used to be joined up. In the period between the two World Wars, a time of not only suburban expansion but also mass electrification, the UK built more homes than at any other period. The best known example is Metroland in North West London, where the promoters of the Metropolitan Railway extension from Baker Street out to Uxbridge and Amersham bought land on which to build houses. A similar process, but with greater environmental costs as a result of exploiting the semi-detached house with a garage, helped much of Britain to build its way out of recession in the 1930s. Thus home-ownership rose from 10% of the housing stock in 1914 to 38% in 1938. At the same time 'construction costs fell dramatically. A three-bedroom semi-detached house cost £800 to build in 1920 but less than £300 in the 1930s.'<sup>49</sup>

During the inter-war period, building societies thrived, and their assets grew ten-fold. Plots of land were opened up for small builders off the new arterial roads or railway lines in London, as along the Great West Road, for example, where modern factories provided local jobs within cycling distance. A new semi in West London cost as little as £400 in 1935, which was the same as the cost of a Riley open-top tourer – but then Riley was building only 3,000 cars a year, and only the privileged could afford one.

It was only after the Second World War that motor manufacturers in the UK discovered the secrets of mass production, and housebuilders lost the secret of building affordable homes, as they made most money from land acquisition rather than construction.

Another lesson is offered by how government helped to reshape East London in the 1980s. The vital key to developing or unlocking London Docklands was the taking over of the land from its previous owners, the Port of London Authority and the British Gas Corporation. Neither would have ever invested in the Docklands Light Railway, which was crucial to opening the area up for development, nor would they have had the vision to see the potential for an extension of the City at Canary Wharf (an unexpected result of designating the area as an Enterprise Zone). The institutional innovation, which may be coming back into favour, was the Development Corporation, which has land acquisition powers and

is also generally trusted by government to get things done.

The stories of the western expansion of London in the 1930s, post-war Comprehensive Development Areas and developments in Docklands in the 1980s bring out the crucial importance of mobilising land. Land has to be assembled and serviced (and, in the case of some former industrial land, decontaminated) before it can be developed. Unless there is clear, long-term leadership, sites remain stagnant, as the holding costs are low while, as in a gold mine, the values are expected to rise for ever. As long as the developer can ride out recurrent property collapses (the cycle is every decade or so), the long-term investor cannot lose.

A series of eight case studies of major housing schemes for the Housing Forum's Building Homes for the Future programme<sup>50</sup> established that land supply is critical for housing developers:

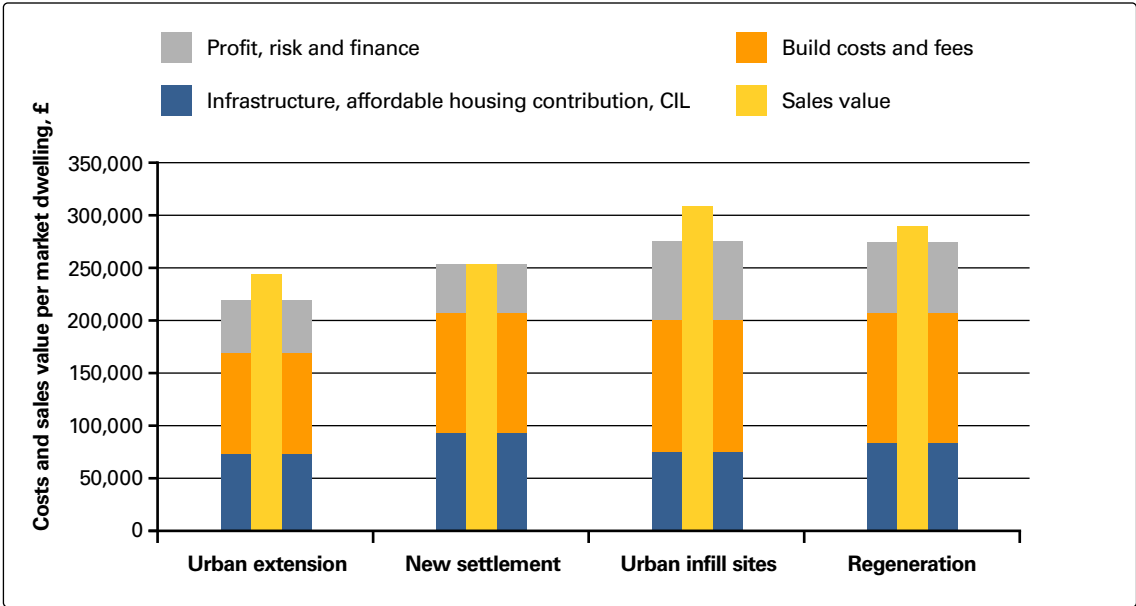
*'The biggest challenge of all is to address the issue of land supply and its cost. At present we rely on ever increasing land prices to fund infrastructure and affordable housing. There are other options which the report highlights including the German policy for mobilising unused land and the capacity to freeze the prices in specified development zones.'*

As capital resources are limited, the basic challenge for development finance is to devise a fairer way of enabling cities to thrive without arousing so much opposition as to make it politically impossible. Funding needs to be on terms which make long-term investment in related infrastructure viable, and which help to improve social balance and environmental sustainability. Finance also has to meet concerns of accountability and the avoidance of corruption. And, with regular elections, government wants to keep the 'burden of taxation' as low as possible.

Some kind of development agency is needed because most local authorities find it hard to reach agreement internally, let alone with their neighbours or major landowners, or to provide the certainty that private investors look for. Continuity is also essential to avoid schemes stalling due to political swings or property cycles.

With increased uncertainties resulting from Brexit, something more radical will be needed to meet our national objectives over the next few decades – but something that is as pragmatic and British as the semi-detached house or the payment of ground rents. This could be the Development Corporation, a mechanism long promoted by the TCPA.

URBED's research into land assembly for the Greater London Authority<sup>51</sup> discovered that many of the practices we admire in continental cities are ones that we used to apply in the UK before local government was shrunk and funding centralised. We need to rediscover them if we are ever to



**Fig. 5 Research has suggested that individual land value is positive for urban extensions and infill sites, which should not require government subsidy**

Source: Pete Redman, Housing Futures Ltd

secure inclusive growth. To win enough support, the changes we make need not only to offer a means of funding the local infrastructure needed for new housing or to tackle congestion, but also to narrow inequalities.<sup>52</sup> By referring to ‘sharing’ rather than ‘capturing’ the uplift in land values, some of the opposition could be defused.

### Conclusion

If we are to rebalance the UK and create a fairer and more sustainable society, we have to get control of land values again. The country’s ambition for home-ownership, including investing in the buy-to-let market, has partly been caused by a lack of other safe and inflation-proofed investment options. Land values have become grossly unequal and are losing their role as an incentive for development. Banks and building societies have become remote from the areas they once served, and have funded an enormous bubble. We need to learn from the experience of the New Town Development Corporations, as the TCPA has long argued.

We need to stop cities from sprawling and the amount of time spent in commuting needs to be cut. A resurgence of localism aimed at building up the ‘common wealth’ – for example through local councils setting up development companies – should also provide better outlets for saving and enable people to live well when they retire. But this requires changes in the way that we plan and fund local infrastructure, such as for transport and education, which forms the subject of the next Section.

## 3 Funding local infrastructure

This Section addresses the problem of how to fund the local infrastructure needed to build new homes at scale, such as new roads or schools. It focuses on what Jonathan Manns, in an article on large-scale development,<sup>53</sup> defines as ‘strategic housing’, i.e. housing on a scale that requires new infrastructure.

Studies in both Cambridgeshire and Milton Keynes revealed that the expected ‘tariff’ or Community Infrastructure Levy (CIL) would only bring in a fifth of the cost,<sup>54</sup> a figure confirmed in a review for the government by Liz Peace, formerly Director of the British Property Federation.<sup>55</sup> Less than half of local authorities make use of that power. The chart in Fig. 5 suggests that funding a new settlement is unlikely to be viable without government subsidy – which is why it is important to make the most of existing infrastructure.

### The cost of capital

Development is only viable when the returns in terms of sales value cover the costs and risks. The build costs form only a small part of the equation. Resourcing the growth of our towns and cities therefore depends on finding better ways of paying for land assembly and local infrastructure such as transport and schools, which is the key to tackling spatial inequalities. Currently projects that go ahead depend either on being simple enough to attract private funding or on being high profile enough to

## Box 4

### Transit-oriented development in fast-growing French cities



A tram in the centre of Montpellier

Montpellier, an old university town, is one of the fastest-growing cities in France. Strategic planning has been promoted by growth-oriented mayors, who have convinced surrounding areas to support them. Land is assembled through ZACs (*Zones d'aménagement concerté*), where local authorities have the power to acquire land and fund infrastructure. The state investment bank (*Caisse des Dépôts*) supports investment in social housing. A tax on the payroll of employers of over ten people (*versement transport*) helps to fund the extensive tram system, which covers its running costs from the fare box. Public transport forms the spine of new developments, including some of France's leading business parks or 'technopoles', enabling the historic centre of Montpellier to be largely car free.

Other good examples of this approach include the redevelopment of land over the railways that run into Gare d'Austerlitz in Paris, or development around the new orbital rail line at ZAC Claude Bernard in a regeneration area in St Denis, Paris. Subsidiary companies owned by the local authority or some other form of partnership provide the necessary expertise and continuity over many years.

win government support. As local authorities in the UK lack the powers to levy taxes, it is hard to take the wider public benefits into account, and good projects often lose out. So, for example, HS2 or the Cambridge to Oxford rail line get government support while 'HS3'/Northern Powerhouse Rail' to connect up Northern towns and cities has been left behind.

The urgency of finding solutions to the UK's economic role in a world after Brexit, combined with the pressures on our ageing and inadequate infrastructure, make a radical review of our property

taxation system inevitable, if only to provide a better way of filling the funding gaps. This has long been suggested by think-tanks such as the Policy Exchange and management consultants such as McKinsey & Company.<sup>56</sup> It could also appeal to politicians from all parties if plans for new infrastructure were put forward to revive the economy and tackle spatial inequalities. This might form part of the 'Green New Deal' recommended by Ian Wray in his powerful set of case studies on how the US government has been behind many of the country's greatest achievements, from dams,



**Table 1**  
**Local variation in the potential for sharing land value uplift**

	Stoke-on-Trent	Peterborough	Reading	Sutton
Average open market value, £	160,000	230,000	300,000	410,000
Density, dwellings per hectare	30	40	60	120
Affordable housing, %	10	20	25	30
<b>Market sales value, per hectare</b>	<b>4,200,000</b>	<b>7,300,000</b>	<b>13,400,000</b>	<b>34,500,000</b>
<i>Less:</i>				
<i>Land acquisition and preparation, £ per hectare</i>	<i>500,000</i>	<i>700,000</i>	<i>1,700,000</i>	<i>4,200,000</i>
<i>All-in development cost, £ per hectare</i>	<i>3,700,000</i>	<i>5,700,000</i>	<i>10,000,000</i>	<i>25,400,000</i>
<b>Balance for uplift sharing, £ per hectare</b>	<b>–</b>	<b>900,000</b>	<b>1,700,000</b>	<b>4,900,000</b>

railways and interstate roads to building up the IT industry.<sup>57</sup>

With a funding gap even on maintaining our energy and transport systems estimated by the Policy Exchange at some £500 billion,<sup>58</sup> user charges end up being increased, as happens every year with rail fares. These hit the poorest hardest. With large deficits, stagnant Treasury receipts and rising demands for public spending, something has to give. Higher taxation on personal incomes can readily be avoided by clever accountants, while taxes on businesses will arouse concerns over employment. Hence the obvious way to fund capital investment is from a charge on the land or property values which will benefit most from infrastructure investment.

A vital distinction needs to be drawn between financing investment in infrastructure (which may last for centuries and pays off over the long term) and funding current needs, such as paying for personal social services, where the benefits are more transitory but also more politically pressing. Business accounting distinguishes between capital and revenue, and the Treasury needs to do the same, i.e. reassess the way we pay and account for capital of all kinds (economic, social and environmental or natural capital) in order to get better overall results. The political case is that once a higher proportion of the cost of infrastructure could be raised from the areas with highest property values, then funds would be released for projects elsewhere with lower financial returns but greater benefits. Visitors to European cities marvel at how well car-free city centres function by being connected by light rail to new suburbs and jobs on the edge. That is because they join up development with transport at a sub-regional level, and have local sources of taxation.

In much of the UK house prices cannot cover more than the costs of construction, let alone produce a surplus that could be used to fund social housing or new infrastructure. Using figures produced by Peter Redman at Housing Futures Ltd, Table 1 shows the contrast between, at one end of the scale, a regeneration area which has suffered from industrial

decline, such as Stoke-on-Trent, and, at the other, growth areas with access to a range of well-paying jobs, such as Sutton in London. This local variation affects the viability of funding affordable housing through private sales. Hence, while some uplift may well need to be invested in the locality, if only to secure political support, another mechanism will be needed to overcome regional disparities.

**Restoring local autonomy**

The centralisation of finance in the UK has come in for a lot of criticism, as it reduces the capacity of local authorities to steer their economies as continental cities do. It also offends the very basis of local democracy. Council tax, the term used for domestic rates, is the main tax on domestic property in the UK. Rates functioned quite well until around 1970, but later were used to restrict local autonomy, and most recently to implement ‘austerity’. They became a political football, rather than a means of sharing responsibility for maintaining environmental standards and improving society. This would have been quite impossible in most of the rest of Europe, where the principle of ‘subsidiarity’ prevails, and central government has to respect local authorities.

In his book on Victorian cities,<sup>59</sup> the former Labour MP Tristan Hunt brings out the importance of the great Victorian council leaders such as Joseph Chamberlain in Birmingham. He quotes the Fabian Sidney Webb, who talked of ‘municipal patriotism’ and the ‘free cities’ of Italy as an inspiration for London. In his epilogue Tristan Hunt bemoans the ‘strangulation of local government’. Local government expenditure rose from 32% of total government expenditure in 1870 to 51% by 1905, but then fell to 28% in 1979 and 24% in 1998. By 2001, after the setting of business rates had been centralised in the early 1980s by Mrs Thatcher’s government, only a quarter of local expenditure was raised from local taxation, and the UK became – and remains – one of the most centralised states in the world.

In a subsequent article for the *Observer* in 2016 Hunt drew inspiration from the USA, arguing that

cities have the means to 'make Britain great again'.<sup>60</sup> He pointed out that the 388 metropolitan areas in the USA generate 91% of GDP, and that many, such as Chicago or Portland, Oregon, are in forefront of efforts to improve the infrastructure through 'transit-based regeneration schemes' that tackle social exclusion and poverty. These are typically funded through bond issues that have to be approved at election times, which provide investors with an inflation-proof asset for a defined period of years, underwritten through local development plans.<sup>61</sup> Even 'free market' USA allows much more local autonomy than we do in the UK.

Rates are sometimes seen as a modern imposition but they date back to well before Elizabethan times, being the means whereby property-owners funded collective improvements, for example to highways or dock wharves. They have also become a means of equalising expenditure between regions, so that the highest rates, for example from the London Boroughs of Camden and Westminster, could be shared around. In its excellent studies of what leads to success,<sup>62</sup> the OECD drew a clear correlation between effective governance and the means to raise investment finance. Unfortunately, despite attempts to provide rewards to councils that enable the development of new homes, council tax acts as a disincentive to build homes as the proceeds are too low to cover the costs, and have been capped by central government. Some progress has been made in restoring business rates to deserving local authorities, but the system is still patronising and unfair.

Many think-tanks, from the Policy Exchange to the IPPR, have argued that the continuing poor performance of the UK economy and its excessive disparities are related to the centralised nature of national government and possibly our financial institutions. Certainly official figures show how far we lag behind the rest of Europe.<sup>63</sup> Centralisation makes government less responsive to local needs and unable to join up different forms of investment – public and private. In the UK as a whole we pay less in tax, invest less, and get worse value from public investment. We also have some of the lowest rates of investment in infrastructure among the OECD group of countries, and pay more for energy and public transport. The current rating bands for housing are notoriously unfair, as those in large homes in the richest boroughs can pay less than the poorest residents elsewhere, and have little incentive to keep their homes occupied.

### **Charging property-owners**

Although the subjects of local government finance and project appraisal fail to get addressed in political manifestos, they hold the key to changing direction on many more fronts than just housing and creating a fairer society. But with so many entrenched

interests and an overcrowded national agenda, it will be hard to get the time to even think about the issues, let alone try out solutions.

Any change to the way that public services are paid for inevitably promotes dissent. Furthermore, the British system is so complex and there are so many aspects to reform that most politicians keep well away from the topic, as in the wake of the Lyons reviews of local government finance and then housing for the last Labour government. But a head of steam is building up as the different objectives of creating more effective local economies, tackling inter-generational inequalities, building more and better housing and tackling the infrastructure deficit combine.

We can also now build on a wealth of expert studies into different aspects of reform, as well as interest within leading professional bodies. These generally conclude in favour of shifting more taxation onto property (which is relatively easy to collect), and reducing the burden on income or transactions (which interferes with markets).<sup>64</sup> Economists favour taxing 'bads, not goods' so that scarce resources are used less wastefully. However, it can be argued that the UK is already the most highly taxed country in terms of property tax (according to OECD figures), largely due to stamp duty and inheritance tax, and previous attempts to reform the system have failed dismally, while planning obligations and other measures raised £6 billion in 2016/17.<sup>65</sup> So are there any better alternatives?

Most reviews have run into problems by trying to deal with the country as a whole, rather than with the parts likely to undergo most change, and have hence failed to gain traction. They have also failed to link raising money to how it is spent, or what is called 'hypothecation'. A brief review of the main options put forward elsewhere is set out below.

### ***Uthwatt Committee Report***

The Report of the Expert Committee on Compensation and Betterment, chaired by Mr Justice Uthwatt, was published in 1942 to help the UK prepare for rebuilding at the end of the Second World War. Land assembly was identified as a major obstacle, with conflicts over compensation needing to be resolved. The Committee was concerned by the problem of 'floating land values', which produced unfair results in terms of who received the 'betterment' from development. The solution suggested was for local authorities to have increased powers of compulsory purchase, within a planning system that specified what land could be used for, and with a fixed proportion of the increased value (75%) going to the state. Charges on 'betterment' were traced back as far as 1427, so there was nothing new in the concept of recovering some of the value created through planning or improved infrastructure.

While some of Uthwatt's proposals were implemented by the post-war Labour government, they were reversed by the subsequent Conservative government. Paradoxically, the report's greatest impact was on Germany, which adopted the proposals and has continued to operate within a system where local authorities take the lead.<sup>66</sup> Richard Harwood QC points out that the Labour Party did not oppose the reversal of the 'betterment' provision, and it seems as if the country at some point lost the desire to create a fairer society that was so strong after both World Wars, relying instead on the flawed idea of 'trickle down'.

### **Mirrlees Review Final Report**

The expert and comprehensive review of forms of taxation led by Sir James Mirrlees for the Institute of Fiscal Studies paid special attention to the challenges of improving the way that all forms of property are taxed. With regard to both housing and business premises its more than 500-page final report<sup>67</sup> concluded succinctly that:

- *There is a strong case for introducing a land value tax. In the foreseeable future, this is likely to mean focusing on finding ways to replace the economically damaging business rates system with a land value tax.*
- *Council tax should be reformed to relate it more closely to actual property values – levied as a proportion of up-to-date values with no cap and no discount for unoccupied or single-occupancy properties. We have called this a housing services tax to reflect its underlying economic rationale as a tax on housing consumption to substitute for VAT.*
- *Taxation of rented housing should be reformed by offering landlords an allowance against the normal return to their investment (and by aligning capital gains tax rates with income tax rates ...). In principle, it would also make sense to move towards a rate-of-return allowance basis for the taxation of owner-occupied housing, but this may prove extremely difficult in practice.*
- *Finally, stamp duty land tax should be abolished and the revenue replaced by part of the housing services tax (for domestic property) and land value tax (for business property).'*

### **Resolution Foundation report on property taxation reform**

The current priority of increasing housebuilding rates has led to fresh interest in reforming council tax. The report of a review of options for property tax reform conducted for the Intergenerational Commission, set up by the Resolution Foundation, provides a useful analysis of the impact of different options.<sup>68</sup> Although it offers only a brief review of international experience, it is clear from the report

that the UK is quite exceptional in the way that taxes on housing are raised, with its many adverse consequences. However, innovation is possible as the report's summary of the recent experience of the Republic of Ireland illustrates. The report provides useful charts on current high levels of inequality, exacerbated by an antiquated system of property taxation which charges the poor relatively more than the rich.

### **Rethinking the land market – across the political spectrum**

Tom Aubrey, who formerly worked in the City, has focused efforts in the *Reforming the Land Market* report<sup>69</sup> for the Centre for Progressive Policy on changing the land compensation principles to disallow the 'hope value' from a change in planning permission. He shows how much better countries with fairer systems have done: for example, the Netherlands has built almost twice as many new homes over a 40-year period, and the Germans and the Danes over 20% more per capita, and their homes have been much larger as well. If compensation principles in the UK were to return to the pre-1961 position, land value capture in the core cities such as Leeds and Birmingham could be on a similar scale to that in the Cambridge-Milton Keynes-Oxford Arc. The benefits of such change would thus apply more widely than simply in the South East. Aubrey has suggested in an earlier report<sup>70</sup> that simple changes in the 1961 Land Compensation Act, plus some modifications to business rates and council tax, could 'free up £172 billion over the next 20 years for increased capital expenditure on infrastructure'.

Dieter Helm and the Policy Exchange have argued along similar lines, as has *The Economist*.<sup>71</sup> The New Economics Foundation has proposed setting up an 'English Land Commission to identify policies needed for a more equitable distribution of land, and land values, and a fairer land system'.<sup>72</sup>

A report for the Labour Party edited by *Guardian* writer George Monbiot under the title *Land for the Many*<sup>73</sup> puts land at the centre of many of the UK's greatest challenges. It proposes changes to make information more transparent, stabilise land prices, encourage a shift in lending away from real estate, and introduce progressive property taxes, along with changes to the planning system that would give local authorities much more power to lead development. Many of the report's proposals are taken up in Section 5 of this report.

### **Overcoming vested interests**

But taxing development is only part of the answer. It is not enough to reduce the price paid for land, as most of the value is held by existing home-owners, who benefit most when infrastructure is improved. The simplest and fairest way to raise more funds

## Box 5

### Creative initiatives

Nottingham City Council has used a 'Workplace Parking Levy' to secure contributions from major employers towards building the city's extensive tram system, which of course also helps to reduce the number of people driving into the city centre.

The Greater London Authority used a supplement on the business rate to raise a third of the capital costs for Crossrail, with another third coming from central government, and the final third expected to come from the fare box (although central government is having to cover cost overruns).

The Cambridgeshire and Peterborough Combined Authority is hoping to tap the potential of acquiring land around new stations on what it calls the Cambridgeshire Autonomous Metro, and has devised an ambitious spatial plan.

from a charge on housing is to distinguish between the land and the building on it, as has been the practice in Denmark and some parts of the USA, such as Pittsburgh. This approach is also very much in line with *traditional* British practice. For many centuries, since the Norman conquest of 1066, we in the UK have largely accepted a system whereby a distinction is drawn between the freeholder and the leaseholder – the history is set out elsewhere.<sup>74</sup> Today's Landlord and Tenant Act is intended to help resolve disputes and provide the many small housebuilders with sufficient motive to build a house and look after it or rent it out to tenants, while the landowner has an interest in planning the estate so that it holds its long-term value when the property reverts at the end of the lease.

The landlord and tenant system largely underpinned the building of Victorian London, including places we value as exemplary, such as Hampstead Garden Suburb.<sup>75</sup> Landlords laid out the estate, including provision for public facilities such as churches and squares, and collected an annual ground rent from those who occupied the properties that were built. In the 'Great Estates' in Central London landlords have taken a continuing interest in how the properties are let and managed, exemplified by the actions of the Grosvenor Estate in improving the public realm in Mayfair and Belgravia, or the Howard de Walden Estate ensuring a good mix of shops in Marylebone High Street.<sup>76</sup> Something similar was practised in some of the post-war New Towns, with, for example, the Milton Keynes Parks Trust taking over small shops when the Development Corporation was wound up by the government, and applying their rents to looking after the town's extensive open spaces.

In the rest of the UK privatisation of services once run by city authorities, such as energy and transport, and the sell-off of publicly owned land have made it economically impossible to maintain services without large subsidies from the national taxpayer. If we are to match continental cities in reducing carbon dioxide emissions, promoting health and wellbeing, and narrowing spatial disparities, creative initiatives by some enterprising

local authorities need to be replicated much more widely (see Box 5).

The common UK situation of 'pauper' councils stands in marked contrast to that in major continental cities (see Box 6, for example), where powerful local authorities own much more land and still run the main utilities and transport operators, usually through subsidiary companies. For example, Scandinavian cities acquire land on the edge of settlements so that they can control development when the time comes, and can provide sites for self-builders. Their centres generally enjoy a much higher quality of public realm and much higher densities, and people from all social classes have been happy to live in apartments rented from professional landlords.<sup>77</sup> Similarly, the East German city of Leipzig was able to recover from the loss of 90% of its manufacturing jobs after German reunification through ownership of most of the farming land around the city. This helped it to build the new road round the city to attract BMW's new manufacturing plant and research centre, secured in competition with other countries. Former lignite mines were transformed into a lake district.

### Who should pay more?

A higher rate of investment has to be paid for, and many forms of capital do not produce a direct return to the investor, so the scope for conflict is immense. Furthermore, as Thomas Piketty has showed,<sup>78</sup> capital disparities cannot be redressed through earnings from income alone. Since 1870 capital values have increased by 6% a year while incomes have risen only at 3% a year on average, so that wealth accumulation now depends much more on inheritance than on personal effort. Furthermore, having centralised finance, nationalised the business rate and eliminated regional development agencies, the UK largely lacks the organisational mechanisms for changing direction.

German success can be attributed to better local co-ordination or planning. The outstanding performance of German engineering companies, for example, has been greatly helped by the combination of KfW (the national investment bank for reconstruction)



## Box 6

### Land value capture in Copenhagen



**In building Ørestad, a high-density satellite new town at the edge of Copenhagen, a system of land value capture was used to fund Copenhagen's first metro line**

In a system introduced as far back as 1916, house-owners in Copenhagen pay 2% of the value of their homes to the government. Land rent collected in this way ranged from 5% to 10% of GDP in the latter half of the 20th century. 'Green Fingers' of land rather than Green Belts focus development around transit corridors. In the latest corridor to be developed, land value uplift in the new city area of Ørestad funded the building of the city's first metro line. The land had been previously owned by the military, and so reclamation costs were high. Publicly owned land has been transferred to a development agency. Sites with planning permission also pay property taxes (even though land value tax has been reduced in significance), which encourages development of under-used land.<sup>a</sup> Copenhagen had suffered from large-scale industrial decline but has recently been voted the best city to live in and visit in Europe<sup>b</sup> (and its property tax system has been copied by others such as Estonia).

a *Learning from Copenhagen and Malmö*. TEN Group Report. URBED, Sept. 2010.

<http://urbed.coop/sites/default/files/Learning%20from%20Copenhagen%20and%20Malmo.pdf>

b C Adams: 'Copenhagen ranked most liveable city for Europeans'. *The Independent*, 13 Feb. 2019.

[www.independent.co.uk/travel/news-and-advice/copenhagen-denmark-liveable-cities-europeans-eca-international-a8777806.html](http://www.independent.co.uk/travel/news-and-advice/copenhagen-denmark-liveable-cities-europeans-eca-international-a8777806.html)

and the local *Sparkassen* or savings banks, which are better able to evaluate investment projects than commercial banks.<sup>79</sup> This in turn leads to greater growth and hence tax proceeds, especially when combined with the work of agencies for transferring inventions from the university sector into products or services that can be commercialised,

as the Fraunhofer Institutes do. Case studies of cities as different as Leipzig and Freiburg vividly highlight the German 'secret'.<sup>80</sup> As Bruce Katz has persuasively argued using examples such as Pittsburgh and Copenhagen,<sup>81</sup> successful cities make the most of their under-used assets. This requires all the stakeholders – local authorities,

businesses and universities – to work in common purpose.

The UK has largely relied on private assessments of viability, which favour short-term returns. Although the system set out in the NPPF in England has been improved by recent changes (in para. 57) stipulating that land values should not drive viability but reflect planning conditions, the process still largely responds to private initiatives. Furthermore, when public funds are invested to build local infrastructure, the UK uses a flawed system of ranking projects in terms of the ratio of their benefits to costs brought back to some present value (known as WebTAG by the Department for Transport). This largely values cutting journey times, and tends to favour roads over rail projects that would reduce environmental impacts.

Studies of major transport projects such as Omega 3<sup>82</sup> have recommended instead that we should design and assess strategic development projects in terms of multiple criteria, such as making it easier for people on lower incomes to access jobs, or reducing the risk of flooding. This ‘science’ of spatial planning would enable hard-pressed planning inspectors, confused politicians and over-stretched community groups to have a much better-informed debate on the future shape of our towns and cities.

Once it is recognised that vested interests and bureaucratic inertia are important obstacles to creating cities that work for all, politicians should collectively summon up the courage to overcome them. The overwhelming objectives or criteria can succinctly be summed up in the ‘three Es’ of equity, environment and efficiency, i.e. the social, environmental and economic impacts of development.

While every geographical area is different in policy terms, whatever the situation the creation of a more inclusive or fairer society depends above all on reducing housing inequalities, as this is the main form of wealth. Home-ownership has become unattainable for the majority of the young in all parts of the country.<sup>83</sup> The National Infrastructure Commission, which is part of the Treasury, recommends in its extensive first national assessment that ‘Cities benefiting from major projects should make commitments on housing delivery and provide at least 25 per cent of funding.’<sup>84</sup> Sadly it is far from clear how this is to be done without introducing new local sources of taxation.

## Sharing land value uplift

Land values and the reduction of risk are the products of collective efforts, not individual enterprise. As they largely result from infrastructure and past public investment they should not be appropriated or ‘captured’ as if they were a personal possession. Rather, they need to be shared. What can government

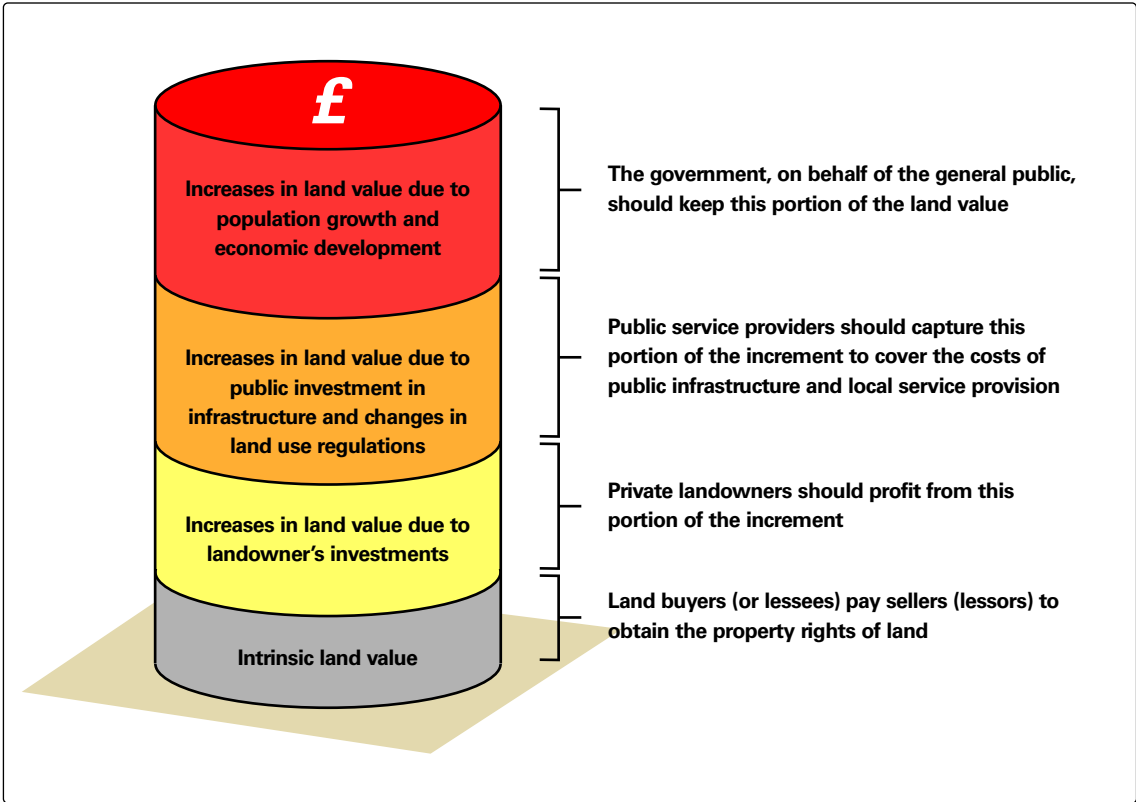
do to create new sources of capital funding without imposing excessive taxes? How can we avoid our predilection for delaying action through commissions of inquiry, ‘cutting red tape lengthwise’, and ending up having to pay more as costs escalate? The precedents are not encouraging. Successive ‘blunders’, such as the Private Finance Initiative or London Transport modernisation, may have destroyed public faith in government.<sup>85</sup> Botched attempts at land value taxation, such as development land tax, introduced by the short-lived Development Land Tax Act 1976, have deterred modern politicians from even considering the subject<sup>86</sup> (at least until very recently).

Nor has local government yet come up with convincing solutions to funding infrastructure that would free it from central control, and instead has had to rely on bidding for one government programme after another. Local authorities have been reined in, and left without the means to underpin substantial loans, even if they were trusted to promote major development projects. Despite the occasional speech to the contrary, national governments, aided by the all-powerful Treasury, have centralised power to an unusual extent, making it difficult for local authorities to respond to demographic and economic change and alter course. This is in complete contrast to the rest of Europe or even the USA.

A range of reports and books from organisations such as the Centre for Cities and from ESRC research projects have argued for devolving power, if only to tap private finance, and have drawn lessons from European cities that have been more successful. Some of the innovations in land value taxation are being applied in Commonwealth countries, such as in Canberra in Australia, where a change in the system is said to have boosted development.<sup>87</sup> Land value capture – or land value sharing, as the UN calls it to sound less aggressive – would offer part of the solution to the financing conundrum.<sup>88</sup> International organisations recognise the importance of investing in infrastructure to lift the world economy out of recession, and housebuilding offers a ready way of creating jobs in the ‘real economy’ as well as redistributing wealth.<sup>89</sup> Hence it is probably the least risky way of stimulating investment and development, as political parties vie to build the most new homes.

In the UK the Treasury has long flirted with the idea of sharing in the uplift from property development, for example through the Homes and Communities Agency making loans rather than grants to housebuilders. Homes England is now doing just this, but may have lost the capacity to consider the wider issues that affect regeneration and successful new communities now that its role has been focused on increasing housebuilding numbers.

A major obstacle is finding an equitable way of sharing the uplift in land values. Other governments,



**Fig. 6 Suggested allocation of land value uplift**

Source: H Suzuki *et al.*: *Financing Transit-Oriented Development with Land Values*. World Bank Group, Jan. 2015.

[www.worldbank.org/en/topic/urbandevelopment/publication/financing-transit-oriented-development-with-land-values](http://www.worldbank.org/en/topic/urbandevelopment/publication/financing-transit-oriented-development-with-land-values)

such as the USA's, tax property-owners rather than occupiers because it is seen as fairer and less of a barrier to growth. The World Bank's important book of international case studies<sup>90</sup> brings out the merits of participating in land-ownership around transport nodes rather than relying on taxation, as in Singapore and Hong Kong, for example. The book contains a helpful diagram that suggests how the value uplift might be shared (see Fig. 6). Significantly, the development of the railway lands at King's Cross in London forms one of the World Bank case studies, as the UK government retained an interest through its subsidiary company London & Continental Railways.

In another approach, Crossrail has been part-funded by a levy on the business rate of employers along the line, subsequently supplemented by a wider levy. In contrast, house-owners who will use the line to get to work do not have to pay anything, despite getting the benefits from higher property values.

However, the potential for land value capture depends very much on how well the local economy is doing. As the European Commission's *State of European Cities 2106* report<sup>91</sup> clearly highlights, the major or 'core' British cities do even worse than

some of those in Eastern Europe, which were under Soviet domination for so long and have relatively poor public transport systems. London, and much of the rest of the South East, operates in a world of its own, because earnings are so much higher.

Once in power, national politicians are reluctant to devolve financial powers or tackle regional disparities on the grounds of exercising financial 'prudence' or parliamentary democracy, despite the many arguments for change that have been put forward repeatedly by experts such as Tony Travers.<sup>92</sup> It seems we in the UK prefer to argue over the symptoms rather than make the fundamental changes needed to tackle the roots of the problem, which requires re-empowering local authorities and giving them new sources of capital funding.

The growing arguments for inclusive growth from bodies such as the RSA suggest a degree of national consensus. A report from the Resolution Foundation on inter-generational inequalities<sup>93</sup> could be a 'game changer'. The reform of property taxation could be widely supported once the UK starts to think about rebalancing tax away from incomes and annual expenditure (as VAT is regressive) and on to wealth instead (and hence property). In our concern to tackle poverty, and growing inequalities in income, we

have hitherto largely missed the roots of the problem, which lie in the way that wealth is distributed.

According to Piketty,<sup>94</sup> some 70% of private wealth is now in the form of housing and in the underlying land, so it seems fair to raise a charge on domestic housing to help pay for improvements to the infrastructure on which house values are based. Rising house prices and a lack of controls have attracted investment in housing from around the world, largely focused on Central London, which is seen 'as safe as houses'. While it is the high incomes of those who manage money or senior executives that get the most publicity, capital gains from owning property are much less conspicuous. So efforts to promote equality need to start with access to housing, as the rich currently get most of the benefits while the poor end up paying many of the costs.

Report after report has concluded that unless you inherit property you have less and less chance of getting on the housing ladder. The Conservative government was frank enough to call the housing market 'broken' in its 2017 Housing White Paper,<sup>95</sup> while the Redfern Review<sup>96</sup> for the Labour Party concluded that its focus 'is on improving the position of first time buyers and those who remain in rented accommodation, rather than driving a maximum, short-term home ownership rate'.

Experts agree that *however much* we may build (and there is widespread agreement that we need to double housing output) it will not bring prices down to the level where they are widely affordable again. Hence we also need a much larger affordable rented sector, and much more proactive local authorities that can take social needs into account in mobilising land for development.<sup>97</sup>

While Garden City Principles are admirable guidance for building new places, a few 'garden settlements' or support for first-time buyers will on their own make little difference. Instead, to tackle social exclusion we need a different line of attack to 'go to scale' – for example cutting the cost of living by making it easier for those on lower incomes to live closer to their work, in homes that are cheap to heat, and that are better suited to changing needs, as well as raising incomes and spending power. Changes to property taxation would have real economic benefits, too. With more funds raised from landowners, the proceeds from VAT could be restructured – for example dropping VAT on property refurbishment or on small traders in town centres.

### Fairer shares for all

The UK needs better ways of funding local infrastructure than having to rely on the 'lottery' of government grants. The economic gains from changes to property taxation could compensate the losers by unlocking the barriers to sustainable growth and 'smarter urbanisation'. As the value of the land depends on both the use permitted and

the infrastructure to support it, there are strong arguments for levying charges on the uplift in land values from housing development. The current methods of doing so, such as Section 106 payments or the Community Infrastructure Levy (CIL), do not raise enough to overcome the administrative difficulties of joining up development and transport. But of course local authorities should still use Section 106 agreements to compensate for any adverse effects, and they should set standards, including what must be provided before further housing can be built or occupied.

But CIL could readily be replaced by a simple formula that takes account of the value that development creates, and hence the uplift in land values, to create a more predictable system and one that avoids overloading overstretched infrastructure and professional capacity – such as the approach proposed by LSE Professor Paul Cheshire in a submission to the UK2070 Commission and a forthcoming report for the Centre for Cities,<sup>98</sup> which he calls a 'development land charge'. One way of doing this in high-value areas would be to take the eventual sales value (which has to be registered with the Valuation Office Agency, or the Land Registry in the case of housing) and deduct the valuation of the land in its previous use. An allowance could be made for necessary expenditure on remediation work such as decontamination. There would then be two values to be considered: the value of the property, reflecting the cost of building works, fees and necessary profits; and the value of the land, which should be the residual (i.e. what is left over), not the starting point. Such an approach has been used in Copenhagen as the basis for a property taxation system that has successfully prevented land and buildings from standing idle, and also in Pittsburgh.<sup>99</sup>

The owner deserves compensation or 'equivalence' for what is sacrificed, if only to provide an incentive to collaborate. But expectations about land values need to be deflated if housing is ever to become widely affordable again. This could be achieved through a general principle that the maximum value of a serviced housing plot on a strategic site in a growth area should be 25% of the total value (which would be in line with both Dutch and German practice). It may be reasonable, as the Letwin Independent Review of Build Out suggests, to give the owner of agricultural land some ten times the original value, but not a hundred times, which the current system allows. Clearly, the land value would be far greater in the South East than in the North owing to both high sales prices and greater densities or plot ratios. The owner could either sell for existing-use value plus a bonus, or invest that bonus in the scheme, and benefit from the resulting returns in due course.

As well as satisfying the owner, it seems only fair that the existing community where the site is





**Re-use of the Philips factory in Eindhoven**

located should also be compensated for disturbance. This could be through contributing to whatever is felt to be the local priority – in some areas it could be relieving congestion through building a bypass, or even a tram or rapid transit line in a city visited by tourists such as Oxford, while in others it might be improving community facilities or providing a wider choice of housing to create a more balanced community. Once areas have been identified for strategic development, it will be beneficial to set out development frameworks covering uses, densities, and other policies that will shape the value to be achieved.

The anomalous situation of land in the Green Belts around our cities that lies close to public transport nodes also needs to be tackled. Sometimes the best locations for development are on the edge of a city, to make the most of existing infrastructure, such as railway lines and other utilities. Any surplus might then be used as an endowment to build up 'common wealth', for example through maintaining and improving access to open space and promoting biodiversity. Instead of simply nibbling at the Green Belts around cities, some 5% could be used to fund new country parks and 'greening' measures, subject perhaps to a popular vote (and perhaps a two-thirds majority). By adopting some basic rules

of this kind in spatial plans and development frameworks, planning could start to shape land values again, instead of being driven by them (see Box 7).

## Conclusion

If we are to raise the funds needed to upgrade our infrastructure, the risks and costs of development need to be reduced. Imaginative packaging of funds from different sources needs to be replicated much more widely. Joining up development with infrastructure investment will produce places that not only look better, but are also fairer and have less impact on natural resources and the environment because development is concentrated where the infrastructure can cope. In this way, development should encounter less opposition. Funds need to be raised through a charge on the value of the land rather than just the buildings on it, as a number of previous reports have recommended; and they need to be raised after development, not before it.

Too much of our national transport budget is devoted to grand projects at the expense of projects that make life easier for pedestrians, cyclists, and public transport users. By focusing a greater proportion of capital spending on making urban conurbations or metropolitan areas work better,

## Box 7

### Modelling alternative scenarios

Instead of thinking in terms of financial streams, discounted to present values, strategic spatial plans should consider cities as stocks of economic, social and environmental or natural capital. Capital can be augmented by appropriate investment, including in new housing, transport and other infrastructure. Cities, unlike human beings or businesses, tend to endure, and so need to use more appropriate time frames.

In a world where most information is digitised and therefore can be mapped, a robust modelling approach would make full use of the huge potential to overlay or sieve different forms of analysis through GIS. This technique can take account of impacts on property values and tax yields, as well as identifying sites that have been overlooked and where land is poorly or under-used.<sup>9</sup> While it would not be right to produce a single value figure, mapping can help to show where action is needed to improve the 'balance' of the city region, and can provide evidence that politicians currently lack.

a N Falk: 'Location, location and location: funding investment in local infrastructure'. *Town & Country Planning*, 2017, Vol. 86, May, 193-201

much greater benefits could be secured for less cost. Such a programme can also be used to create better jobs both in building and running local transport. Information technology can be used to evaluate different scenarios against multiple criteria and to identify areas that have unused development potential. The results of a more scientific or evidence-based approach would be more intelligent and smarter than leaving cities to sprawl, or relying on long-drawn out public inquiries to resolve differences. Public support could be secured by concentrating changes in taxation on the areas affected by strategic projects.

## 4 Planning for smarter urbanisation

To rebuild trust in the future, local authorities need to aim for better outcomes through careful planning, not growth at any cost. In essence, 'smarter urbanisation', which is akin to the US 'smart growth' movement and transit-oriented development (TOD), requires joining up planning for transport with planning for development. Once planning at a strategic level (i.e. for travel-to-work areas or functional urban areas) is combined with the capacity to raise funding for local infrastructure investment so that cars no longer dominate movement, we could achieve a 'fourth Industrial Revolution', one that goes beyond steam, electricity and IT to make the most of neighbourhoods and communities that are currently excluded from the formal economy – a huge wasted resource.

The benefits from 'smarter urbanisation' will be a fairer and healthier society, as case studies of post-industrial cities as different as Rotterdam and

Eindhoven in the Netherlands or Leipzig in Eastern Germany illustrate.<sup>100</sup> With the adoption of combined authorities and elected mayors, and the legislation for new 'Locally Led New Town Development Corporations', the pre-conditions should be in place in England and Wales for a revival of strategic spatial planning. This could be on similar lines to the Dutch VINEX policy for housing or the French model outlined in a *Town & Country Planning* article on urban policy and new economic powerhouses in August 2015.<sup>101</sup>

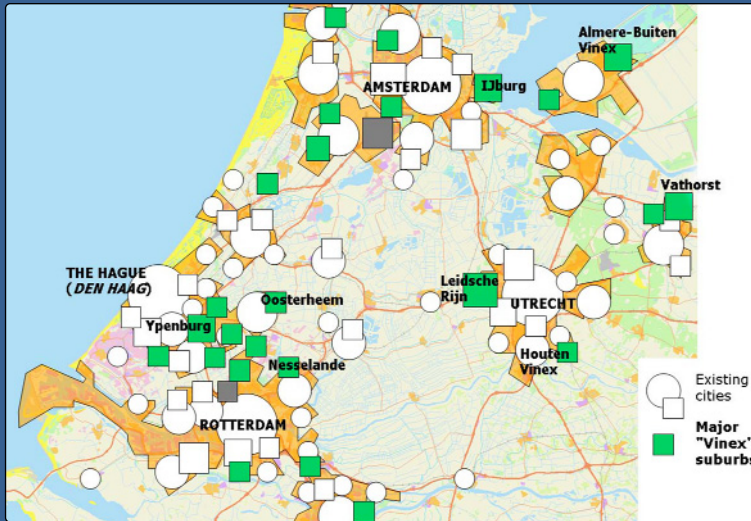
### Strategic growth areas

Put simply, where strategic or major developments depend on infrastructure investment for their value, there needs to be a spatial plan that shapes where development does and does not take place in the 'functional urban area' over an appropriate timeframe – say, 20-30 years. This should precede any 'call for sites', instead of simply reacting to proposals from private developers and landowners in one district or another. As many researchers have shown,<sup>102</sup> this is what happens in much of the rest of Europe, notably Germany, the Netherlands, and France. It is not an infringement of human rights, but rather a practical way of securing the optimal use of a scarce resource – development land – in a situation where the market no longer works, and of allocating public resources where they are most needed.<sup>103</sup>

'Smarter urbanisation' would reduce urban sprawl and pollution, cut the time it takes to get to work, and produce much more attractive-looking and affordable developments.<sup>104</sup> It is essentially about making the most of existing infrastructure to create places that are more equitable, efficient and environmentally beneficial. The case for transit-oriented development has been well set out with supporting evidence from case studies, including

## Box 8

### Proactive strategic planning for new Dutch suburbs



Han Lozing

The Netherlands developed 95 new suburbs through its VINEX plan

The Dutch VINEX housing policy produced over a hundred new urban extensions in a country a quarter of the size of the UK. The country's housing stock was increased by 7.6% in the ten years from 1996 to 2005. Local authorities were helped to come up with plans for expanding towns with over 100,000 population in locations accessible by public transport. Half the VINEX suburbs have over 1,500 units and one quarter have over 5,000 units, with some as large as 10,000 – such as IJburg, which was developed on land reclaimed from the IJmeer lake bordering Amsterdam. Land was developed around the edge of the Randstad, so what is called the 'Green Heart' that lies between the main cities could be conserved for agricultural uses.

King's Cross and Northstowe in Cambridge.<sup>105</sup> A report from the Republic of Ireland's National Economic and Social Council provides further European case studies and a mass of research findings.<sup>106</sup>

The process is not as complex or arbitrary as some would suggest, and most stakeholders would benefit from reduced uncertainty. Planning can respond to the signals given by land values or house prices, as economist Kate Barker notably proposed.<sup>107</sup> Relatively straightforward calculations of the likely uplift in land values after deducting related infrastructure costs can provide a good indication of where to build, and can be updated to reflect improvements or extensions of infrastructure over time. Of course political judgements will still be needed, but they should follow a thorough analysis of the options, using some form of multi-criteria analysis, as was undertaken, for example, in drawing up the Structure Plan for Cambridgeshire.

The essential key to stronger planning lies in local authorities focusing on co-ordinating development and infrastructure capacity, rather than spending most of their time on regulation. Strategic plans need to look 20-30 or more years ahead to take account of likely changes in transport and technology,

and to provide a degree of certainty for investors within a flexible framework for implementation. The starting point should be to map out all the known constraints and opportunities, such as infrastructure capacity and travel patterns, as well as property values. Development frameworks should then be used to help control land values in areas where uncertainties and potential values are high, making use of the power for local authorities to give 'permission in principle'.<sup>108</sup> A spatial growth plan was suggested originally in the *Oxford Futures* report published in 2014 by the Oxford Civic Society).<sup>109</sup> A recent article in a *Political Quarterly* feature on suburbs suggested that the process of planning for smarter growth might involve the following steps:<sup>110</sup>

- Start with functional urban areas or travel-to-work areas in places with high property values (and therefore demand).
- Map the main travel routes, along with the pattern of settlements or housing market areas.
- Rule out areas that are in floodplains or designated as areas of natural beauty or SSSIs.
- Indicate potential improvements to road and rail links, as suggested in URBED's proposal for an



Oxford Metro, which would include a number of new stations, such as on the freight line to Cowley.

- Work out the current property values in different locations (perhaps using council rateable values as well as sales values for housing and commercial property).
- Evaluate the impact of different patterns of density and growth rates in terms of both private investment and council tax revenue, as well as congestion or travel time over the next 30 years at five-yearly intervals.
- Resolve the implications of changes to policy – such as changes in Green Belt boundaries and investment in local rail – on the prospects for investment.

### Land assembly and growth bonds

Many of the risks and conflicts in development can be removed by changing the compensation rules and powers of compulsory purchase so that communities find it easier to shape the ways in which their towns and cities grow. It will be vital to avoid speculation about further changes by specifying where development should and should not be concentrated. Once suitable sites for growth (or regeneration) have been selected, the task of assembling the funding for infrastructure can properly begin (as long as prices are not ramped up). In simple situations where the infrastructure is already available, for example on publicly owned land next to a railway junction, it may be sufficient to appoint an appropriate private development consortium, or to work with a developer who owns a significant part of the overall site.

However, where strategic development areas straddle local authority and other boundaries, the complexities will deter all but the most foolhardy developer. There it makes sense to set up a public-private partnership, a delivery vehicle such as North Essex Garden Communities Ltd, or a joint venture, as in the development of Barton Park on land owned by Oxford City Council. Where major public funding is required, as in the case of the transport interchange at Old Oak Common in West London, a Development Corporation with the power to assemble land at close to existing-use value would offer the benefits of continuity and government support (although it would need access to much more finance to make a difference – the original Old Oak Common budget was £12 million, while land assembly will cost over £200 million).

Because infrastructure such as transport and schools is needed up front in new strategic development, not at the end, long-term low-cost finance is essential if housing is to be affordable and neighbourhoods attractive. Many authorities are seeking to raise finance through the Public Works Loan Board (founded as far back as 1793), which lacks the capacity to evaluate projects in terms of

the risk involved in repaying the loan or the benefits to be gained from the project. So a better solution for the 21st century would be the use of *growth bonds*, as has been common practice in American cities, and which major housing associations are using on a large scale in the UK. Cambridge University had little problem raising £350 million to build an innovative mixed-use scheme on former farmland it owns at Eddington in North West Cambridge.

The beauty of bonds is that they are assessed by the financial market not just in terms of their potential to repay the investor, but also in terms of the capacity or resilience of the borrower. There are said to be ample private funds available for the right projects – through pension funds that invest in inflation-proofed assets which can also be readily liquidated when required, for example. Project promoters need not only to be able to service and repay loans, but also to have the resources to service the loans if the cash flow from the project does not turn out as expected.

If local authorities are to raise more revenue funding locally, they need to be able to vary tax rates, but at present their sources are all too limited and rates are capped. For example, the Conservative Leader of Hampshire County Council in a letter to the *Observer* on 1 January 2017 complained that the council had its grant for 2010-17 cut by £159 million, or 74%, and council tax is highly geared, requiring very large increases to generate quite small amounts. Subsequently Northamptonshire County Council, which had sought to prune its services, effectively became bankrupt, despite having relatively wealthy residents. The government therefore needs to change the rating system by allowing local authorities discretion to vary tax rates within limits (as is starting to happen, for example, with regard to care costs and council tax). To secure a fairer distribution, the appropriate area should be the county or city region and not the district, as has been used in London towards meeting the costs of Crossrail through a surcharge on the business rate.

### Land value rating

Beyond freeing up local authorities, a much needed review is required of the levels of tax bands, not just to ensure that rates do not bear disproportionately on small town centre businesses or the relatively poor, but also to make sure that those who benefit most from development contribute their fair share. This means changing from a system in which the tax falls almost entirely on the occupier, as in the UK, to one where it is primarily the landowner's responsibility (as in the USA, for example). It also means local authorities playing a more proactive role in 'unlocking under-used assets', with the charge being collected after, not before development takes place.<sup>111</sup> A useful precedent has been the designation of Enterprise Zones to reduce the costs of development in areas with funding gaps.



With a system of land value rating in place, it is a small step to start charging property-owners who have planning permission in areas of high value for the 'opportunity cost' of holding land with permission idle. This is essentially what happens in Copenhagen, and now in Canberra, Australia.<sup>112</sup> Such a charge would have a huge impact on London, where research<sup>113</sup> suggests that only half the sites with the largest planning permissions are actually being developed. It could also benefit areas where house prices are excessive. For example, it would help to unlock development in and around cities with untapped growth potential such as Oxford.

But how is the inevitable resistance that would be provoked to be countered? The land charge (perhaps called a ground rate) would be levied on property-owners in relation to the value of their holdings, with exemptions for charities and smaller landlords. It would supplement other sources, but would, over time, reduce the demands on smaller property-occupiers, and make the whole property taxation system much fairer. It might be collected at a super-regional or national level, as in Denmark, to overcome the problem of spatial disparities and help equalise wealth. In compensation, inheritance tax could be restructured, especially if reforms took in both housing and commercial property, to make it easier to pass on small businesses when the owner dies, and to allow residents with limited incomes to defer payments until death.

To make the charges more palatable, an increased level of tax on property might enable VAT to be cut (as VAT is earmarked for funding contributions to the EU and is essentially regressive). An example would be to levy the land charge on out-of-town retailers and business parks, which currently do not pay enough business rates to reflect the value of their extensive car parks, which derive most of their value from roads provided at public expense. They would pay more, but such an increase would be seen as 'only fair' by the great majority of the population (80%, according to one assessment<sup>114</sup>), who would not have to pay more.

A popular incentive for such a change would be that rates (and rents) could then be dropped in town centres where (in a clear indication of 'market failure') there are high levels of vacancy (or charity shops). Parking charges could also be reduced to make the changes more palatable. Currently small businesses in declining town centres are expected to pay ever higher business rates (owing to the Treasury's expectation that commercial rents can only go up). At the same time, car parking charges are seen as the main source of discretionary revenue by many local authorities, acting as a further deterrent to visiting town centres. Where there is a surplus of retail space, the proceeds from the increased charge could be used to build affordable housing a short walk from the town centre, possibly using surplus car parks owned by

the local council. Another source of space would be above retail or business premises, possibly assisted by dropping VAT on refurbishment for housing.

Such schemes would not only cater for young people getting their first home, but also for older households wanting to move closer to shops and services, many of whom could then release large houses in locations further from the centre for conversion into homes for growing families. There are encouraging signs that local authorities are setting up development companies to make use of under-valued land for housing, but they will soon need the help that a reform of the rating system would provide. Changes to the planning system for areas of major change would also be required.

## Funding regeneration

So far, the focus of this Section has been on areas with positive development potential, but many of the greatest needs lie in declining urban areas and 'shrinking' cities. The current rates system was intended to help equalise the differences between rich and poor local authorities. In areas such as Stoke-on-Trent and the Potteries that have long suffered from industrial decline, not only is demand generally insufficient to attract private investment, but the costs of reclamation rule out any ability to repay loans, as land values are effectively negative for the foreseeable future, except possibly for a few infill projects.

### Box 9

#### The importance of the local environment

To support John Prescott's Urban Summit in 2002, URBED was commissioned to research ways of collaboration between the government and 22 local authorities, and the findings were published as *Towns and Cities: Partners in Urban Renaissance*.<sup>a</sup> The research, which used filmed MORI focus groups, found that 'it was the little things that mattered'.<sup>b</sup> Residents in disadvantaged areas were primarily concerned with the state of the streets. Innovative projects such as Incredible Edible Todmorden<sup>c</sup> have since vividly demonstrated that initiatives that rebuild pride of place enable communities to come together around a common cause.

a *Towns and Cities: Partners in Urban Renaissance*. Project Report. URBED, for the Office of the Deputy Prime Minister, Oct. 2002. <http://urbed.coop/projects/towns-and-cities-partners-urban-renaissance>

b A video produced for the Office of the Deputy Prime Minister in 2001 is available from Nicholas Falk, on [nicholas@urbed.com](mailto:nicholas@urbed.com)

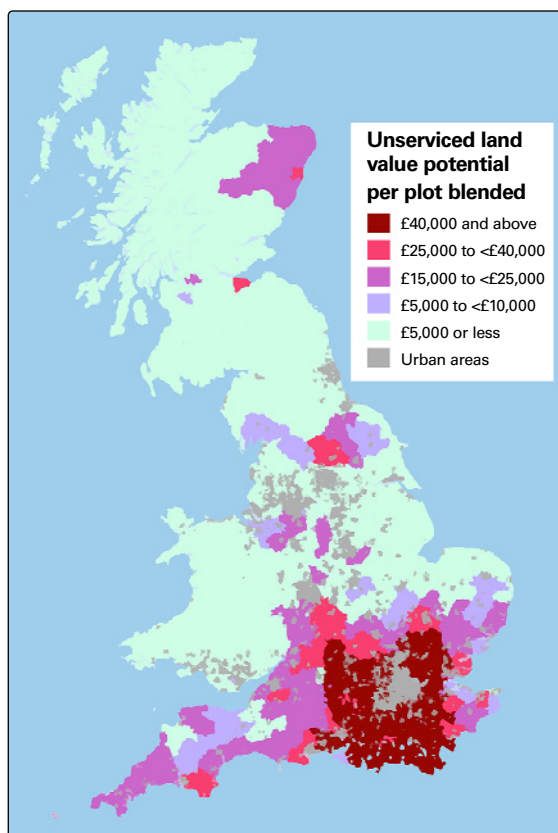
c See the Incredible Edible Network website, at <https://www.incredibleedible.org.uk>

## Box 10 Regeneration and the Northern Powerhouse



The 'Charrette for the North', held at the University of Liverpool in June 2016 and aimed at realising the vision for the Northern Powerhouse, drew together local stakeholders and experts from the Ruhr, the Île-de-France, and the New York region. The resulting report<sup>a</sup> argued that progress depends not just on a 'new story about the future of the North ... a Pennine Heart region like the Alps' but also on 'liveability, quality of place and place-making', which requires 'innovative institutional models for collaborative working'. It called for new financial mechanisms, such as turning Transport for the North into an economic development agency. The event considered a powerful spatial plan prepared by the RTPI and IPPR North, and demonstrated the possibilities for regional planning.

a *A Sustainable and Resilient Northern Powerhouse*. Civic Design, Department of Geography and Planning, University of Liverpool, Nov. 2016. <https://livrepository.liverpool.ac.uk/3004596/1/FF2%20Charrette%20for%20the%20North.pdf>



**Fig. 7 Land value capture potential is greatest around London and other big cities**

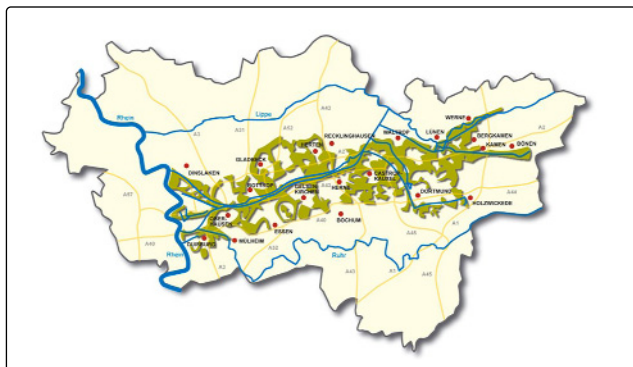
Source: Map prepared by Savills for Peter Freeman's Wolfson Economics Essay submission in 2014, based on market conditions in 2013

Fig. 7, a map produced by Savills, shows the limits of where land value could be captured. The best opportunities are on the edge of London and the South Coast, and in parts of Yorkshire. As long as the local infrastructure fund draws on the wider area, for example that covered by a county council, a degree of cross-subsidisation should be possible, and investment could be used to reduce spatial disparities. Indeed, if really wealthy areas such as London and the Greater South East were responsible for funding their own capital requirements, government finance could be redirected to the more needy areas, and those that have suffered most from industrial decline or shrinking populations, where publicly funded regeneration is essential if people are to regain hope.

To secure political support, an early use of funds raised through a charge on development values should be directed at environmental improvements aimed not just at changing the face or image of an area, but also at making the people living there feel better – for example by creating 'living streets' and securing interim uses for vacant property. This

would not simply be 'green wash'. People in post-industrial towns voted for Brexit because they feel neglected, and have to live with hollowed-out town centres as well as closed factories.

Too often, government-funded projects have expected quick economic returns from what is inevitably a long-term process, and have under-valued the impact that environmental projects can have on people's self-esteem, and indeed mental health. Projects to create large-scale country parks, such as the Lee Valley Regional Park in Essex, Hertfordshire and East London or the inspiring German Emscher Park project that transformed former steel and coal towns in the Ruhrgebiet, show what can be achieved through a powerful vision and cross-border collaboration over a period of years.<sup>115</sup> But the initiative needs to come from the bottom up, in this case from a consortium of local authorities. Indeed, one mayor's vision of a new lake on the edge of Dortmund in place of the Phoenix steelworks is credited with changing the town's fortunes, and has certainly given it a leisure quarter that was previously lacking and has attracted wealthier residents. Such a



**Map of the extent of the Emscher Park initiative in Germany (left), and (below) an outcome of one of the Emscher park projects – new housing beside a lake (Phoenix Lake) developed on the site of an old steel works in Dortmund**



model could be used to regenerate the run-down area in West London near Heathrow along the Colne River Valley and enable homes to be built closer to sources of work as proposed in *Re/Shaping London*.<sup>116</sup>

The important point is that instead of decisions on investment projects being made by ranking them nationally, using a somewhat spurious form of cost-benefit analysis, choices would be made at a more local level, where priorities between competing projects, such as rail or road, can be assessed against multiple objectives and projects can be joined up to gain the full benefit from improved infrastructure. The relevant area for raising funds should be the metropolitan or travel-to-work area, which would extend beyond the current city regions and combined authority areas.

An idea of the financial impact of such a proposal comes from the calculation made by Tony Travers and Stephen Glaister 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 borrowings of perhaps £4 billion.'*<sup>117</sup>

Such a concept, which began to be used in part-financing Crossrail, would enjoy even more support if it were linked to a long overdue review of business rates and the whole inequitable property tax system. The application of land value or split-rate property taxation might first be tested out in an area where rapid growth is expected as a result of public expenditure on major transport projects, such as around Old Oak Common and Heathrow, or the 200 acres around Oxford railway station, which are largely owned by Oxford City Council and the University of Oxford.<sup>118</sup>

This proposal is closely linked to what the Congress for New Urbanism in the USA christened 'transit-oriented development', with success stories such as Portland, Oregon. In the UK, the Royal Institution of Chartered Surveyors (RICS), as the professional body most concerned with property values, has long argued for changing the system in what it calls 'transport development areas'.<sup>119</sup> It has undertaken work on valuing infrastructure such as roads and bridges, and information on property values and ownership is fairly readily accessible

## Box 11

### Alternative models for housing development

**Vienna** has kept housing affordable through the city owning much of the land, and by using municipal developments to keep the costs of renting down. The ongoing development of the former airfield at Aspern Seestadt is exemplary, along with housing on former railway yards in the centre of the city. High-density blocks are developed for a mix of tenures, with good landscaping between them. Research into how Vienna manages social housing would be well worth undertaking.

Developments in the **Netherlands**, such as Vathorst in Amersfoort, have ensured that around a third of new housing goes to the municipality. Some two-thirds are then sold at a discount to those on low incomes, with the provision that, when they are re-sold, the local authority or housing association receives a proportion of the uplift. Local authorities play a key role in pooling land and funding infrastructure.

In **Germany** the building groups (*Baugruppen*) pioneered in Freiburg and Tübingen are being copied more widely in other cities, such as Berlin. Here, residents not only commission their housing together, but also take on responsibility for designing and managing communal areas. Such an approach is particularly beneficial when the risks are too great for conventional housing developers. Co-operatives are also used widely in Austrian cities such as Vienna, and in Swiss cities such as Zürich, where they account for 25% of housing units.

In **Denmark**, in cities such as Copenhagen and Aarhus the idea of 'co-housing' is used to allow groups of people to own their individual homes but share common facilities. The concept is particularly attractive to both older people and families with young children, and accounts for housing for over 16% of Danish households. The system of taxing land values helps to recover the costs of improving infrastructure and encourages land to be put to the best use.

In **Scotland** there is a serious attempt to apply the lessons from other countries through the Scottish Land Commission, so that land value uplift is shared in areas of major development, while Section 106 and other tariffs are used elsewhere to tax values arising from planning consent.

without the need for an army of bureaucrats. So the technology should already be in place to work up these ideas to the point where experiments with sharing the uplift in land values can be undertaken, starting with where major new settlements are proposed. There are certainly plenty of promising models to learn from (see Box 11).

## Conclusion

The benefits of building more housing, or of a better planning system, cannot be achieved without tackling the land issue and the related issue of joining up development and infrastructure. Changes to the planning system need to deal differently with areas according to the levels of demand, and hence development economics should guide investment to where it will create the greatest value. The beauty of such an approach is that most of the country will be unaffected, while areas that need to change will be properly resourced.

Different approaches should therefore be introduced in areas with high land values, where the economy is strongest, and in areas in need of regeneration. But in both there is an overwhelming case for changing the rules in areas that will benefit most from investment in infrastructure such as new transit schemes. While the subject is complex and controversial, it is fundamental to achieving the national transformation that all political parties say they want, and to restoring local democracy in the process.

## 5

### Implementing a step-change

How does government, beset by competing demands and constraints, produce a framework that enables people to regain trust in collective action to create a better future for all? How can sufficient positive energy be secured to unite a divided nation? This Tomorrow Series Paper argues that the key lies, as the founder of the TCPA, Ebenezer Howard, originally saw, in reforming the way that development for housing is financed, planned and organised. However, care must be taken to avoid falling into the traps into which previous reform attempts, such as the Community Land Act, fell.<sup>120</sup> The recommendations that follow are based on four basic principles:

- Adopt a system that is straightforward and transparent, and hence minimises the time spent in and the expense of arguments (and the failings of previous attempts at land reform).
- Focus on the relatively few areas where public investment is being made and major development is needed (and hence minimise the number of objections).
- Confine the new approach to bodies that are given a democratic mandate, such as Development Corporations set up by combined authorities, county councils or elected mayors, supported by approved spatial plans or development frameworks.



- Apply the values of social justice or equitability, along with policies that enhance natural capital and support good economic growth and the minimisation of waste so that best value is secured from development.

The recommendations have been grouped under headings of spatial planning, public finance, and local government organisation. Most can be initiated without new legislation, and simply apply best practice on a much larger scale. Others justify experimentation, along with legislation that frees up local government to play a more proactive role in development. Foreign experience can help, but does not offer a blueprint (and, indeed, other countries – the Netherlands, for example – also change their systems from time to time). It will always be hard to devise a new system that overcomes vested interests and inertia, and so a degree of cross-party support will be vital. Hence the measures proposed should be applied progressively, starting where there is a shared vision for increasing housing delivery or major commitments for public investment are being made, such as the Cambridge-Milton Keynes-Oxford Arc, or areas identified for strategic development in spatial plans that have been produced for city regions such as Greater Manchester, Sheffield, and Stoke-on-Trent.<sup>121</sup>

## Spatial planning for better returns

A top priority must be to restore faith in good governance – which means giving back to local authorities the capacity to influence and in some cases shape how their areas change and grow. They should apply the wealth of existing research into what creates good places and great streets.<sup>122</sup> To restore hope that the future can be better than the past, planning has to be reinvigorated, and tasked with building local capital – social and environmental, as well as economic.

Hence the first step in restoring confidence and building coalitions for change is to alter the way that spatial plans are devised and approved. In the UK, unlike in most other Western European countries, planning has become reactive, and as a result investment is concentrated where it maximises existing wealth. Places of often greater public value, such as high streets, historic buildings, or areas of natural beauty, have been neglected. Project plans fail to consider total returns as opposed to just housing numbers: the government focus on quantity has caused quality to suffer.

There is therefore a need for reform of the strategic planning system that can complement the NPPF and the Raynsford Review of Planning in England, conducted for the TCPA. Inspiration can be drawn from French towns and cities such as Lille or Montpellier that have upgraded their historic centres through integrated transit systems. We can also

learn from the way that Dutch and German towns and cities have mobilised land for housing and tackled industrial decline. Changes are needed to the way that areas for growth and regeneration are identified, and then land for strategic development assembled, so that delivery can be speeded up.

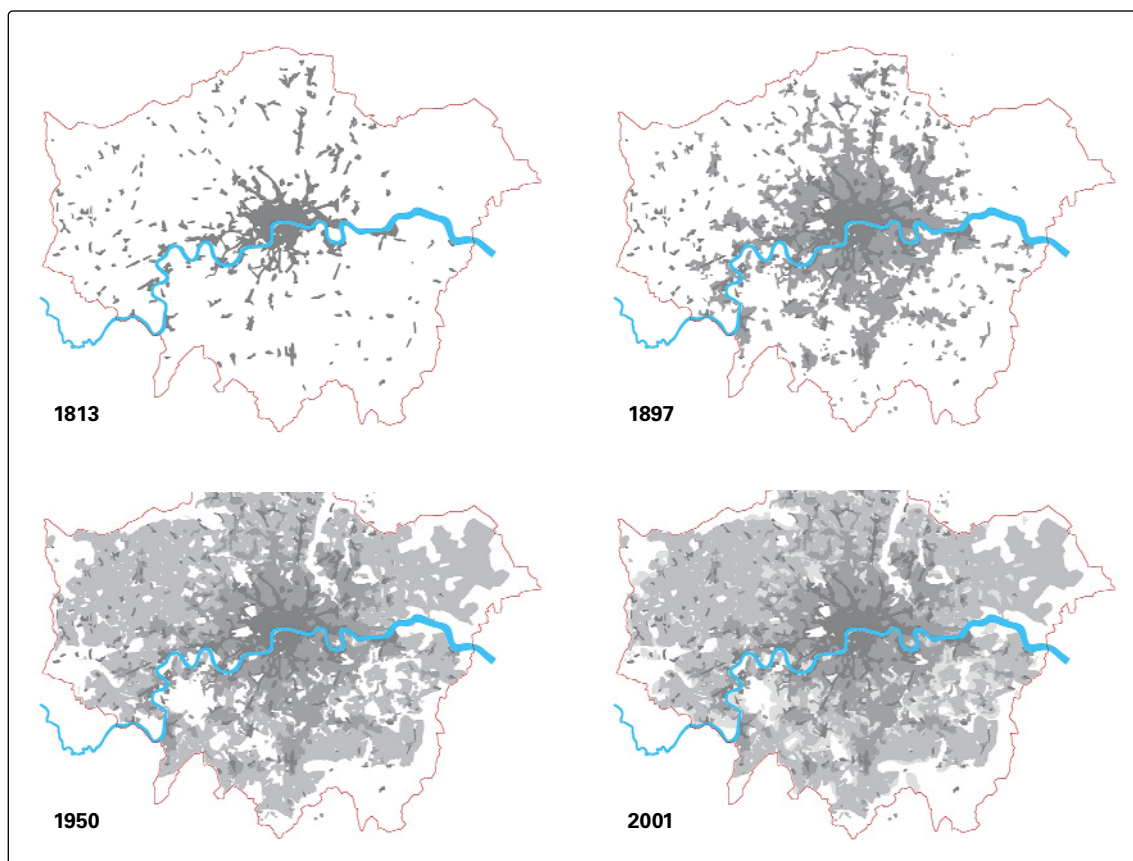
## **Proposal 1: Spatial growth plans**

Planners often complain they have lost the power to lead the process of urbanisation. Yet the tools exist – through, for example, combined authorities negotiating for increased public funds such as ‘City Deals’, and through transport authorities looking at the wider area through the lens of what kind of places we want to leave as a legacy. Both could map out social disparities and poorly performing property in areas that are accessible by public transport using property values (or rateable values) before setting out the action required to create a society that works for all in designated growth or regeneration areas. Such action could range from measures to improve local infrastructure, such as improving public transport or insulating leaky homes, to initiatives designed to raise capabilities and ambitions through education. Development frameworks rather than masterplans should then specify the amounts of development, types of land uses and acceptable densities, along with the proportions of affordable or social housing, while leaving developers (and other professionals) with more freedom to innovate on how the aims are achieved.

Housing demand and prevailing property values would affect the amount of affordable and social housing to be provided, and the support available from government. Maps of ‘under-used and poorly used land’ can highlight opportunities for development in transport corridors without adding to congestion and pollution. Adequately funded planned extensions to ‘blue and green infrastructure’ might then be traded against reductions or relocations of areas of Green Belt near to stations or stops. Resistance could be overcome by taking careful bites of Green Belt land, not nibbles. Areas of major new housing should also contribute to improving the local environment through a ‘green web’ or ‘Green New Deal’ in order to win more local support, and indeed in high-value areas projects should be sought to show how climate change could be mitigated or reversed.

## **Proposal 2: A better model for land assembly**

To rebalance our economy as well as reshape our towns and cities, investment has to be directed towards wealth creation and affordable housing, not speculation. Housing values in much of the South of England and some of our metropolitan cities are high enough to support redeveloping fringe areas that can make the most of existing infrastructure, such as under-used railway lines. By adopting the basic recommendations set out in URBED’s *Capital*



**London expanded in stages along new transit lines**

Gains research report for the Greater London Authority,<sup>123</sup> along with minor changes to the Compensation Code, enough funds can be raised to deliver the vision of doubling housing output or creating a low-energy/zero-carbon area, with a resulting valuable boost to the real economy. The French system of *Zones d'aménagement concerté* provides a good model for joining up transport and development,<sup>124</sup> and could form the basis for what could be called 'Land Assembly Zones', where the uplift in land values from development would be ploughed back into local infrastructure.

This would require minor changes to the compulsory purchase system to allow public bodies, such as Development Corporations, to acquire land before its value has been realised and there is an agreed plan. Compulsory Purchase Orders are essentially a reserve power that can be used to incentivise land assembly where ownership is fragmented. Once the power is delegated to elected mayors, the process can be accelerated and 'free riders' eliminated. Having a body dedicated to the purpose such as the Labour Party's proposed English Sovereign Land Trust would help to restore capacity and provide a much needed incentive for collaboration.

As public funds are limited, some of the resources currently committed to expensive national projects might be better reallocated to developing integrated transport systems in metropolitan conurbations that suffer from congestion and pollution. Observation of underperforming land around country towns such as Oxford or metropolitan conurbations such as Birmingham or Stoke-on-Trent suggests that total returns from such a programme would be greater and delivered faster, thus helping to build support for investment programmes.

Arguments are often made that being part of the EU makes progress difficult, and the European Human Rights Act is also raised in defence of the status quo.<sup>125</sup> Yet in both Germany and the Netherlands, where towns and cities have been extensively regenerated, local authorities are able to charge the costs of improving local infrastructure against the uplift in value, and in Germany land values are 'frozen' in such areas. Such a power enables a much fairer division of the uplift in land values over time than the current system, which is biased in favour of historic landowners. It would mean much less need for government subsidies to private builders in the South East, thus releasing funds for where the total returns will be greater.

## Public finance for infrastructure

Getting Britain moving again cannot be done without greater access to long-term finance and 'patient' capital. The investment required in building many more affordable homes or in improving local transport will play a large part in any 'Green Deal' or 'local industrial strategy', along with other measures to build a fairer UK. It should pay for itself, but over several decades, not five years. The UK would do well to apply measures that have worked very well in Germany and the Netherlands, but it would also benefit from a development land charge, which will require legislation, along with experiments in the way that property is taxed.

### **Proposal 3: Development land charge**

Instead of trying to get developers to contribute before anything has been built, as we do with CIL and Section 106 agreements, Dutch and German experience suggests that some form of charge on new housing when it is sold is a simpler means of raising finance for new housing.<sup>126</sup> German councils use powers for land-pooling and readjustment called *Umliegung*. The uplift in value is shared proportionately among the original landowners after repaying the municipality for any necessary infrastructure provision. The municipality retains land equal to the increase in value, subject to a cap of 30% on greenfield land and 10% on inner city land. Dutch councils are similarly able to transfer property rights to a public development agency, under what is known as the 'Building Rights' (or 'First Choice') model, and the original owners subsequently receive serviced land back.

In a submission to the UK2070 Commission, LSE economist Professor Paul Cheshire goes further and proposes a simplification of the whole complex British system for taxing development through a charge on development values of 20%, similar to VAT. He calculates the impact as follows:

*'MHCLG/DCLG Table 23 (formerly Table 503) shows the average price of new houses in 2014 in England was £285,000. If the government's then target for annual house building of 200,000 p.a. had been met, therefore, and a payment of 20% was levied on the final value of all new housing developments then this might be expected to raise a total of £11.4 billion a year (compared to LA budgeted expenditure for 2015/16 totalling £95.4 billion of which housing, planning and development accounted for £2.89 billion).'*

If the power to levy such a charge were restricted to growth areas, as proposed above, the funds raised could cover much of the likely infrastructure investment. This should be raised at a more local level, perhaps through counties and combined authorities, as they are responsible for infrastructure planning, with rates reflecting local circumstances.

### **Proposal 4: Land value rating**

A further funding variant that needs consideration is the tax or charge on those whose properties benefit from improved infrastructure. Tax reform always leads to organised opposition from those who expect to pay more, while those who will benefit stay silent. But most economists agree that taxes on property or real estate are a far better source than any other, especially where the proceeds are used for public investment. As an example, Oxford University economist Sir Paul Collier favours using land value taxation,<sup>127</sup> arguing that he sees 'no reason why private landowners should profit from the increase in land value brought about by economic development and the infrastructure paid for by public funds'. Many others of all political persuasions share his views.

To secure enough support for a step-change, in areas where major development is planned, and hence land values are likely to be boosted, local authorities should be granted the powers to introduce a levy or charge on ground or land values, starting with land that has been assembled for strategic developments and passed through public ownership. This would be similar to the situation in London's 'Great Estates', where properties were developed on leases from the freeholder, who received a ground rent, with results that have stood the test of time.

### **Proposal 5: Property tax reform**

There is a case for going further. It is not fair to require all the costs of providing affordable homes or upgrading local infrastructure to be funded from new developments that are often occupied by young families with many demands on their limited incomes. So changes could be made in the way that domestic rates (the council tax) are set. Of course higher bands are needed to overcome anomalies. But in undertaking a reassessment (business rates re-evaluation is due in 2021, but the idea could apply to both business rates and council tax) consideration should also be given to dividing the tax on the building from the tax or charge on the land, in what is called a 'split-rate system'.

By using the charge on land to help fund local infrastructure, the costs will bear on those who benefit most. Such a principle, which has worked well in Copenhagen in Denmark and in some American cities such as Pittsburgh, would also help to encourage more intensive use of land. For example, those living in under-occupied houses with large gardens would be encouraged to move to more manageable new housing where land is less costly, such as the edges of many town centres. The empty house might then be sub-divided, along with the garden, thus providing better homes for families with small children. Potentially controversial, this kind of change would probably require a Royal Commission to take account of all the arguments for

and against, following up the recommendations in the Mirrlees Review for the Institute of Fiscal Studies.<sup>128</sup>

Business rates are also full of anomalies, with, for example, small shops in town centres paying relatively more than large out-of-town shops that enjoy the benefit of free parking. The IPPR has proposed introducing a land value tax for businesses, and the charge should be on the property-owner, not the occupier.<sup>129</sup> At the same time, relief needs to be provided in town centres to encourage the re-use of empty or under-occupied property. Tax incentives similar to those available in Enterprise Zones could be made available for providing housing in the locations that are most accessible by public transport and on foot, such as town centres with lots of empty shops.

### **Proposal 6: Growth bonds**

As public funds will always be limited, with priority given to meeting social needs, private finance will also be critical. Financial institutions such as pension funds and insurance companies seek inflation-proofed returns on investment, so there will be an appetite for backing development projects that offer good long-term returns and are backed by property assets. As long as the cost of capital can be reduced by taking out many of the risks, then the results will be both better and more affordable, and lower profit rates will be required. North American style local authority 'growth bonds', as found in Portland, Oregon or Toronto in Canada, should be underpinned by the prospective uplift in land values arising from development over a 20-30 year period. The partnership formed by the giant insurance company Legal & General and Oxford University could provide a replicable model.

While bond finance has become much more usual in recent years, used for example by housing associations, the use of bonds to develop larger areas will only be feasible where local authorities can provide a level of security. This requires not only more discretion over capital budgets, but also the freedom to vary tax rates to ensure that they meet future obligations when raising private finance. Hence the use of growth bonds and changes to the property tax system are inter-linked. Security for investors can be achieved by enabling local authorities to assemble land without having to pay 'hope value' through greater freedom to use compulsory purchase powers in advance of property values rising as a result of public investment.

### **Proposal 7: Community or co-operative investment banks**

Businesses complain about the difficulties in raising funds for investment in the UK, which put them at a disadvantage compared with their European counterparts. Small-business owners are often required to pledge their homes to raise bank loans. Not only does that make it harder to take a

longer-term perspective or join up investment in infrastructure and development, but it has also sapped local pride and identity. The pursuit of Brexit and 'sovereignty' in a global economy is just one perverse outcome. So, too, are the low levels of co-operative enterprises to be found in both business and housing compared with many European countries.

A better model is a community or regional investment bank like the German *Sparkassen* that could support small and medium-sized enterprises and co-operative forms of organisation. Similar approaches are used in most European countries. The successful regeneration of the Basque region in Spain through the Mondragon co-operative is a classic example, as towns such as San Sebastian and Bilbao visibly demonstrate.<sup>130</sup> Another relevant model is provided by the Industrial and Commercial Finance Corporation (ICFC), which did good work after its formation in 1945 until it was privatised in 1994.<sup>131</sup> This could be owned by its main customers, so that it is not subject to political whims, and would be an important element in rebuilding local economies. Alternatively it could be promoted by reinvigorated local authorities and utilities, as argued in the proposal for a Municipal Investment Corporation below. Institutions such as the Nationwide Building Society or Legal & General, which have begun to back innovative building projects, may help to provide the necessary expertise.

### **Proposal 8: Municipal Investment Corporation**

The final finance proposal is aimed at providing an incentive for local authorities to play a more proactive role, as well as bringing about a fundamental shift of power from the centre to communities, while providing a mechanism for institutional private investors to support real change. Inspired by the experience of countries such as the Netherlands with BNG, France with Caisse des Dépôts, or Germany with both KfW and the *Sparkassen*, a new organisation, the Municipal Investment Corporation, would take over the roles of old bodies such as the Public Works Loan Board and redeploy the kind of expertise formerly found in bodies such as the Audit Commission. It would act in conjunction with a new source of public finance for land assembly, such as the proposed English Sovereign Land Trust. It could also be part of reforms aimed at setting up regional finance agencies, possibly covering areas proposed by the UK2070 Commission. It should secure endorsement from the Local Government Association, which has carried out some background research.

At present there is no agency with the necessary expertise and experience to evaluate projects that have multiple benefits and long-term impacts. The current Public Works Loan Board may provide some of the expertise needed, which could ensure that the new agency enjoys Treasury support. Initial



capital could come from pooling property assets owned by the public sector, as has been done in Hamburg and Copenhagen.<sup>132</sup> Wider skills are required than property finance: more weight needs to be given to projects that tackle social exclusion, especially in regeneration areas where land values are low. For example, instead of large subsidies going into unviable housing or employment projects, greater value could come from improving connectivity or transforming confidence in the landscape.

The Municipal Investment Corporation would also play a direct role in making better investment decisions and hence would work closely with the National Infrastructure Commission. Public investment decisions would be greatly improved through some form of multi-criteria analysis that values the impact of investments on equity and environmental indicators, and not just economic criteria. It will be vital to set up such a body so that it has cross-party support and is not dismembered following a general election – or privatised, as happened to the Industrial and Commercial Finance Corporation, or latterly the Green Bank.

A state investment bank or development agency on the lines of the KfW, the BNG or the Caisse des Dépôts would help to fill the role currently played by the European Investment Bank. It needs to be able to turn down well intentioned but misguided projects if it is to be trusted with substantial finance.<sup>133</sup> Its functions would not be imposed but it would be there to help city regions and combined authorities that want to secure inclusive growth through greater investment in local infrastructure. Significantly, during the great financial crash of 2007/08, although regional banks ran into problems in Spain and Irish developers had to be bailed out by central government, the German financial system was largely unaffected, and both BNG and KfW are regarded as very sound.

The Municipal Investment Corporation would take a longer-term perspective – for example giving more weight to investments that reduce energy consumption and hence fuel bills (and carbon dioxide emissions) than a private investor would. Specifically, its role would be to:

- De-risk complex projects – for example by lending money only where local authorities are committed to allocating appropriate sites and providing the necessary soft infrastructure, such as schools.
- Distinguish good projects from the bad ones, channelling more investment into locations where the conditions for long-term economic growth are met.
- Mobilise private sector investment by demonstrating commitment and providing guidance on where development is to take place (and on where it is not welcome).
- Cross boundaries – for example by joining up public investments in local transport with related developments.

- Encourage collaboration between adjoining local authorities and utilities by supporting sound and agreed long-term local investment plans.
- Avoid political swings, by building the capacity to think and act for the longer term.
- Ultimately raise levels of growth and wellbeing to those of comparable European cities.

## Local government organisation to rebuild capacity

The final set of proposed changes is aimed at rebuilding the capacity of communities to make planned changes happen. It means restoring the spirit that characterised the UK after the Second World War, when people took pride in New Towns and technological accomplishments and when inequalities were narrowed. This sense of 'pride of place' is still visible in many parts of Europe that have used investment in housing and local transport to upgrade their social, physical and economic capital.<sup>134</sup>

While changes have taken place in many English local councils, such as combined authorities or elected mayors, with well publicised ideas for 'localism' and Neighbourhood Plans, the transfer of power from central government towards the people has lagged behind. The Brexit vote was less about the faults of the EU than a response to alienation and the loss of community identity.<sup>135</sup> Changes are therefore needed not just to focus expertise and leadership where most needed, but also to engage local communities so that they do not feel left out or threatened by incomers, but have some control over their common futures.

## Proposal 9: Development Corporations

Where major development is forecast, measured by housebuilding or investment targets, development agencies are required that outlive property cycles and changes in political power. So mayors or combined authorities should establish agencies with updated New Town Development Corporation powers to assemble land, package long-term funding for local infrastructure, and engage with local communities, as the TCPA has long advocated.<sup>136</sup> The necessary expertise is scarce, and so needs to be used carefully to achieve infrastructure-led development in which development and transport are closely joined up. As local authorities are increasingly involved in direct delivery of housing again, there is scope for extending the roles of development companies and joint venture companies with private developers or housing associations to take on land that the council does not own, through, for example, joint ventures with transport operators or health authorities.<sup>137</sup>

In neighbourhoods that have marked social disadvantages, a prime objective is likely to be narrowing disparities through public funding allocated to skills development and capacity building. Enterprise

Zones with tax incentives such as rate-free periods can help smaller businesses to grow. Development Corporations would have boards with elected local politicians, but also others who can help provide leadership and make the most of local management expertise. Plenty of lessons can be drawn from the existing New Towns and Garden Cities.<sup>138</sup> Indeed, such a policy could win support from both the political left and the right, as a report from the Policy Exchange on *Garden Villages* suggests:

*'The proposed revision of the New Towns Act would give local authorities (not central government) the Act's powers to create a new community to meet local needs. This would enable them to capture the majority of land value uplift to put in place the necessary physical and social infrastructure, as well as ensure the homes are more affordable. By empowering local authorities to establish new communities to meet local housing need, it would allow unwelcome and inappropriate development around existing communities to be firmly ruled out by the local authority.'*<sup>139</sup>

### **Proposal 10: Community land or development trusts**

There is general agreement that local people need to be engaged early on in the development process. Much of the opposition to change is because local people feel left out of the decision-making about what kind of new homes will be built near them. Fear that new housing will be 'gentrified' or that their children will be priced out are common reactions: both are expressions of a more fundamental sense of exclusion from important decisions that affect quality of life.

The 'community' in 'community land – or development – trusts' covers a range of spatial levels, from the whole of small villages and towns, to urban neighbourhoods in larger towns and cities, now increasingly associated with Neighbourhood Plan areas. However, community land trusts represent a valuable return of interest in co-operative principles and in the protection of land in the public interest so as to promote the social, economic and environmental wellbeing of communities. This notion of land that can only be held for the common good is embedded in the statutory definition of community land trusts set out in Section 79 of the Housing and Regeneration Act 2008.

If the UK is ever to match the levels of community-owned or co-operative or housing found in European cities such as Zürich and Vienna or in Danish towns, people should not have to waste time as pioneers but rather should be able to join organisations that are properly resourced for the long term. Hence local authority support will be vital, along with extra resources to support voluntary initiatives to bring empty land and property back into use. Local authorities need to provide suitable sites for people

to build their own homes, as they are required to do in Scandinavia, for example, working with small and medium-sized enterprises and housing associations to provide the expertise individuals often lack. The Community Housing Fund set up in 2016 is a good start, but local solutions require long-term support if they are to make a difference and overcome the sense of alienation found in many parts of the UK.

Where property values are relatively low, open space and surplus public buildings can be used to rekindle 'pride of place' through their transfer to environmental trusts, geared to providing local employment and training.<sup>140</sup> Importantly, these trusts should also have access to long-term sources of revenue funding for environmental projects, for example through establishing town or parish council supplementary levies on council tax or enabling town or parish councils to use rentals from property endowment and broaden their roles.

Projects to make the most of water and trees in German cities, such as in the Emscher Park in the Ruhr or in the former East German city of Leipzig, provide good models for what can be done through municipal enterprise in areas where demand is weak.<sup>141</sup> There are also some good English examples, such as the work of Groundwork in the North West or projects such as Coin Street Community Builders in Southwark in London; but for the most part communities have tended to organise around opposing rather than promoting projects.

Projects to rescue areas with empty homes should be expanded. A stake in the asset can ensure that local people benefit from changes of use. Good models are available from both Bilbao and Pittsburgh, where the local authority takes over properties from companies that have failed and transfers them to a local trust – the re-use of an old station by the Pittsburgh History & Landmarks Foundation being an outstanding example.

In areas where demand is high, use can be made of community land trust powers to hold on to freeholds, and therefore shape future letting policies and practices, including keeping rents and purchase prices affordable. Other sources of funds can be packaged to support further innovation, for example through co-operative building groups. The power of social media can be used to bring affinity groups together and help raise funds for their projects. One interesting proposal that deserves further consideration is to set up 'common ground trusts' to separate the ownership of a home from the land on which it stands.<sup>142</sup> This would seem akin to the practice in some co-operatives, and could provide a useful hedge against the ups and downs of the property market.

### **Proposal 11: Local infrastructure finance trusts**

Developers sometimes complain that funds handed over to local authorities under Section 106 agreements are not spent as intended, while local authorities



**Vienna is developing Aspern Seestadt on the site of the old airport**

sometimes doubt whether the contributions go to the right priorities.

One approach to raising more finance is to make sure that a levy on land values is seen as a charge, not a tax, and is used to fund improved infrastructure in the wider area on which the charge is levied, with community input into how the funds are used. It could be one of the tasks of Local Enterprise Partnerships (LEPs) to oversee how the funds are used, motivated in part by the prospect of securing government funding to match what is raised locally, but with proper community engagement. After all, in cities people now accept paying charges for parking, or even having a permit to keep a car on the street, and it could be a simple extension of that idea to reintroduce the idea of a ground rent or rate on the value of the land they occupy.

Where major investments in local infrastructure are required, including for energy, transport and social housing, funding could be pooled. But taxpayers will need to be convinced that the funds raised will be used for purposes they support.

The proceeds from an additional land charge or tax could be allocated to local infrastructure finance trusts operating on a sub-regional or county/LEP-wide basis, which would form part of the new organisational machinery. These could be set up as adjuncts to Development Corporations or by a local

authority or even a major landowner willing to take the lead. They would prepare budgets showing the costs and returns from investment in local infrastructure (i.e. not part of national systems). The charge would thus be seen not as a 'stealth tax', but as a fairer means of securing growth that strengthens the whole town or city without adding to the public sector deficit. The RSAs work on mapping heritage assets could readily be reinforced by adding information on property-ownership and values. This is a measure that requires all-party support if it is to have lasting value, and could form part of a wider review of public finance, perhaps conducted through a Commission on Property Taxation.

But higher charges on landowners will not be acceptable unless the proceeds are clearly earmarked for a purpose that wins general support and helps to secure social inclusion, as in the case of London's Congestion Charge, which funds improvements in bus services and measures to make walking and cycling safer. It would be politic to establish a suitable mechanism to package public and private finance for projects that have local priority, but are not national responsibilities, such as the maintenance of national roads.

It should be easier to overcome resistance by starting with projects that have greatest priority. Lessons can be drawn from the 'development commissions' used in North American cities such as

Portland, Oregon and Toronto in Canada, where tax increment finance has become a fine art.<sup>143</sup> It is possible that some of the LEPs, which are already trusted by government to handle finance for infrastructure, could develop this role with support from Homes England.

Overcoming objections

While there are strong arguments for providing better sources of finance for ambitious local authorities, there will be strong resistance to any real change. Progress in sharing the uplift in land values arising from development on a broad front depends on overcoming both the technical and political obstacles to land value capture, through proposals that can win enough support to overcome political objections and shifts of policy over time. Any proposal therefore has to overcome the limitations of existing sources of funding and provide a better means of devising and evaluating projects.

Technical obstacles

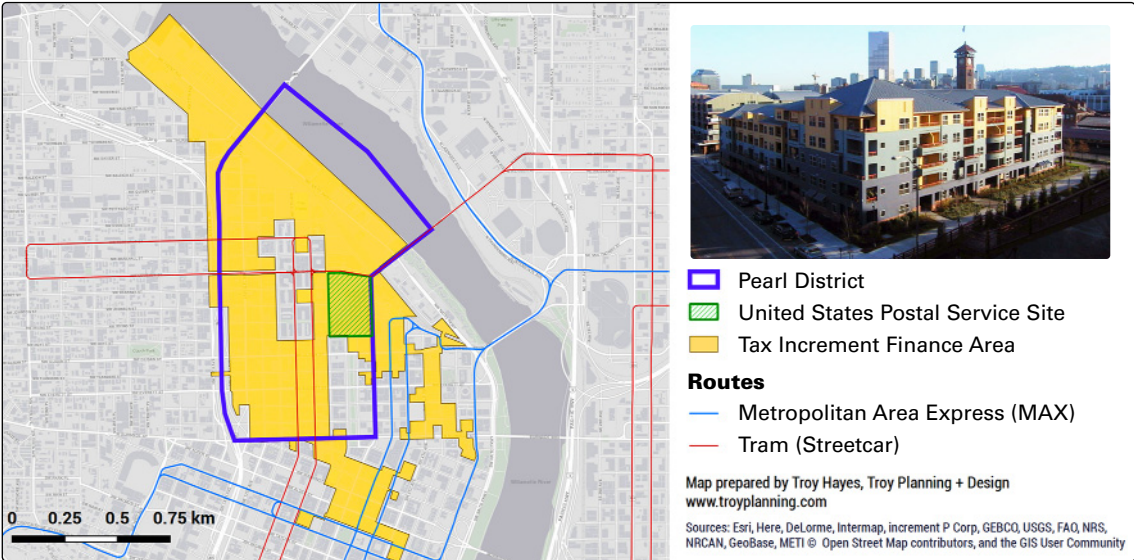
Given the high levels of debate and research on the land issue over the course of the last century, something different is needed to change the game. A huge increase in both quality and quantity is required. The trump card could be an additional source of funding for local authorities that would reduce their dependence on central government and secure better choices over the location of new development and related infrastructure. Land value taxation is perfectly feasible, as the examples of Pittsburgh and Copenhagen illustrate. Chartered surveyors can do the job quite easily, and values can later be updated to reflect inflation. Indeed, digital mapping and modern GIS techniques and aerial photography make this quite easy to do without even

having to visit the properties. Most of the information on values required is now readily available online.

Here, the results of the Oxfordshire County Council/ Vale of White Horse District Council Oxfordshire Land Value Tax study are very relevant.<sup>144</sup> An experiment undertaken within the Vale of White Horse area found that land value taxation could be implemented fairly readily as it was quite easy for a surveyor to deduct the value of the buildings (based on expected replacement cost) from the value of the property (based on sales data). The results were significant, but predictable:

- If a standard rate was used, then residential properties would overall pay much more and commercial properties less; non-domestic business rates were set at about 10% of the value of the property, whereas council tax was only about 0.5%.
- The largest increases would be on the properties with most land (often the most valuable anyway) and, in the case of commercial properties, those with large amounts of parking attached, such as out-of-town shopping centres.
- Overall, the number of ‘winners’ far outstripped the ‘losers’, and some of the losses could be compensated for by giving everyone an allowance and permitting the increases to be deferred to the point of sale (or death) when necessary.
- Many implementation options were found possible, including the increase in property taxation being offset by reductions in other taxes, such as income tax or VAT, or the abolition of high rates of stamp duty or inheritance tax.

The main benefits were seen in terms of securing the optimal use of land, and in introducing a much fairer system, given the many criticisms of both



Portland, Oregon uses tax increment finance to help fund its new transit lines



council tax and the business rates. Significantly, however, Conservative members of Oxfordshire County Council abstained or voted against the proposal for the study, which was undertaken by independent consultants and funded by a variety of sources, including the Joseph Rowntree Foundation.

### **Political obstacles**

A bigger obstacle is bureaucratic inertia and the resistance to any real change from those who currently do well from the 'property game'. However, the political impetus to reform our system could come from the need to 'reboot' the UK economy in the wake of Brexit. Since 2005 all of the political parties say they have been converted to devolution and localism, and to the need to find better ways of funding infrastructure. Talk about land value capture has rarely been more widespread on all political sides, but it remains a political football. Local leadership and a shared vision are therefore vital.

A fundamental difficulty is that the 'tax take' is relatively low in the UK and is disproportionately concentrated in London and the big cities. A good idea of where the money could come from is provided in the Centre of Cities' *Mapping Britain's Public Finances* report,<sup>145</sup> which set out some surprising findings. It found that taxes on land and property raise only about a tenth of the government's revenue (11%), with taxes on investment raising a further 10%. By contrast, VAT brings in 19% of revenue, while half of government revenue comes from income tax and national insurance. Those who own most pay least. Yet taxes on land or property can be hardest to evade.

The greatest sources of tax are the main metropolitan cities, since they are where most people live and work. A few London boroughs such as the City and Westminster contribute the 'lion's share'. But the highest rates of land and property tax are in the outer local authorities. Oxfordshire and Cambridgeshire have had some of the lowest government spends because they have smaller pension-age populations and benefit recipients, but they raise some of the highest amounts of national taxes. In practice, the differences between tax levels per worker are not all that significant across the country compared with differences in public expenditure, which vary hugely, especially in terms of infrastructure. This suggests that there is untapped potential to raise more taxes in the areas with greatest established wealth and real economic growth prospects, if only to make them less dependent on central government.

Such a programme could draw support from across political divides as a practical response to a housing and global environmental crisis. Chairing the emergency G20 meeting to tackle the 2007/08 financial crisis, the then Labour Prime Minister Gordon Brown called for investment in the green

economy – essentially energy renewables and local transport – and the approach was taken up on a large scale in countries such as Germany. The Liberal Democrats and the Green Party have both long argued for investment to rebuild local economies, through a National Infrastructure Plan and measures to promote environmental sustainability at local levels. At the other end of the political spectrum, in a well researched report the Policy Exchange, which supports the Conservative Party, proposed funding the required £500 billion investment to modernise our worn-out infrastructure by moving infrastructure investment off the government's balance sheet.<sup>146</sup> Dieter Helm and his co-authors at the Policy Exchange favoured creating an infrastructure bank, like the German KfW, along with measures to make it easier to issue bonds to pension and life funds. This thorough report concluded by saying:

*'The economic crisis has raised fundamental questions about the 'British economic model', based upon high consumption and high borrowing. We argue that it would be better to focus on investment rather than consumption, creating assets to set against the debt. And amongst investment opportunities, infrastructure has considerable merits, not least because it increases productivity and competitiveness, as well as social inclusion.'*

As resources are unevenly distributed around the country, and there has been a long record of under-investment in some areas, such as the North, it seems reasonable to allocate a proportion of the receipts from a charge on land values in the Greater South East to regional investment, or a 'Sovereign Wealth Fund', which would enable the subsidy from government that less wealthy areas have been receiving to be reduced. Areas need to be large enough to benefit from land value capture, and there will be some places where the costs of decontamination far outstrip any value that could ever be created. But according to figures produced in a report by Tom Aubrey for the Centre for Progressive Policy,<sup>147</sup> a useful contribution could be achieved in metropolitan cities such as Leeds and Manchester, provided the laws regarding compensation and compulsory purchase were changed. The report includes a very useful map of where the most potential lies.

The urgency of restoring confidence as the costs of Brexit become clearer will justify radical changes such as these, including, paradoxically, using approaches that more successful economies in Europe have been applying for decades. Indeed, leaving the EU may encourage cities and city regions to make the most of their assets, and to create agencies that can heal the divides, bridge the gaps, and replace organisations like the European Investment Bank.

The Labour Party's Housing Green Paper proposed an English Sovereign Land Trust as a mechanism for mobilising the necessary land.<sup>148</sup> Such a mechanism could grow out of an existing national agency such as Homes England or even LCR (formerly London & Continental Railways), which helped fund the high-speed rail line from London to the Channel Tunnel and is now involved in projects in Manchester and elsewhere. Proposals for how such a body would operate were published by the Smith Institute<sup>149</sup> – based on either the Dutch BNG model or the French Caisse des Dépôts. Its role would be that of an investment bank, to assess as well as help broker funding for local infrastructure projects such as strategic housing developments.<sup>150</sup> Once it is possible to secure the issue of bonds against the uplift in property values, as the Policy Exchange and others favour, and tap local property-based taxes or land charges, real progress can be made on rebalancing the economy and tackling social exclusion.

The relatively buoyant areas of London and the Greater South East could then fund more of their own infrastructure improvements out of the value released from development, which Ebenezer Howard memorably called the 'unearned increment'. The funds saved by cancelling or deferring projects with relatively low returns and benefits and exceptional costs could then be invested in regenerating the under-resourced 'third tier' towns and cities in the rest of the country.

As the process of putting viable projects together is complex and involves upfront costs, raising finance might be overseen by the National Infrastructure Commission. An even better option, if there was sufficient local authority interest, would be to set up a Municipal Investment Corporation, on Dutch lines.<sup>151</sup> Although there is resistance to creating institutions that are independent of government, this would offer an opportunity for a group of local authorities, possibly backed by some of the utilities, to collaborate in raising the funds needed for sustainable urban extensions and new settlements. Large housing schemes would be developed complete with modern forms of infrastructure, such as combined heat and power systems, as in Scandinavian cities for example, or light rail systems, as in French and German cities.<sup>152</sup>

The public asset corporation model has been used to great effect in both Copenhagen and Hamburg, and research for the RICS shows how the pooling of land assets can provide a strong base for raising the capital needed to extend and upgrade cities.<sup>153</sup> To ensure that funds are invested in appropriate infrastructure, and not used for other public purposes, they could be held by an intermediary body in each area, perhaps as a local infrastructure finance trust. Such a body could then 'package' funding from different sources so that the necessary capital funds are in place before construction starts (which

could help to avoid the common problem of costs greatly exceeding the engineers' original estimates). It would help to overcome the distrust of both developers and local authorities through the quality and reputation of its board members.

By taking a different approach in areas where a comprehensive and integrated approach is needed over several decades to avoid wasting public or natural resources, it should be possible to build up the trust and public engagement that is needed for development to be truly successful. It is vital to ensure that all concerned can see some benefits to themselves. A useful set of policies on housing delivery, based on discussions at the Highbury Group, would create a much fairer system, following changes in the way that plans are prepared at a city region level.<sup>154</sup>

## 6 Conclusion

This Tomorrow Series Paper has shown how to share the uplift in land values by mobilising private as well as public investment in tackling spatial inequalities. The huge unfilled gaps in the provision of affordable housing, or transport and energy infrastructure, along with the economic downturn that may follow Brexit, provide the rationale for long overdue reforms in the way that land is valued and taxed. A reformed approach is justified not just as a means of reducing inter-generational inequities, and giving young people more of a stake in society, but also as the most practical mechanism for boosting housing availability and restoring local democracy. There are enough reports – including the House of Commons Housing, Communities and Local Government Committee's *Land Value Capture* report – to suggest that the time is ripe for some fundamental changes that can win all-party support. So let us follow the examples of the best cities, and start building fairer places in all senses of the term.

## Appendix 1 Boosting local capacity to build affordable housing – existing avenues

Successive efforts to increase strategic development have tended to tinker with the problem, and create scope for further argument and delay. The basic problem has been the pressure placed on local authorities to generate income rather than create social or environmental value from land that they own. The modified requirement to generate 'best

value' is ambiguous, and local authorities have lost much of the capacity to plan proactively. Attempts to simplify conditions, for example with regard to viability, tend to end up cutting red tape lengthwise as dealings in land in the UK are excessively adversarial, with a bias in favour of the established landowner. Here are some existing means of action:

- **Section 106 agreements:** Local authorities can specify conditions for giving planning permission. Originally intended to ensure that no harm was done, this became the principal means of securing social housing when grants were cut back, and is often used in high-value areas to give local authorities the feeling that they have won a 'planning gain'.
- **Community Infrastructure Levy:** In a watered down version of what Kate Barker's Review of Housing Supply recommended, local authorities can ask for a contribution towards the cost of related infrastructure such as roads and schools. In practice the calculations are complex; the payment is resisted because no income has yet been generated; it represents a small proportion of the total costs; and it is only levied by a minority of local authorities. A wider concept of a strategic infrastructure tariff, perhaps levied as a roof tax, as in Milton Keynes, is also possible.
- **Housing Revenue Account:** Government measures to limit local authority freedom are starting to be relaxed so that local authorities can use the income from sales or borrow against future income from that housing they own. The removal of the cap on expenditure has led to many local authorities setting up housing companies to develop affordable housing on land that they own.
- **Public Works Loan Board:** This long-standing organisation exists to provide loans to local authorities, often at lower rates than would be charged on the private market. The key consideration should be how to repay the loan, as local authorities have very limited discretion on what taxes or charges they can impose. This has caused many to rely on parking charges, which are a deterrent to using town centre shops.
- **Locally-Led New Town Development Corporations:** One way of acquiring land at close to existing-use value is to set up a Development Corporation. But as the land for a New Town has to be allocated in the Corporation's development plan, land values would almost undoubtedly escalate. The need to test whether proposals rest on 'sound foundations' appears to have neutered the potential of this important power.
- **Community land trusts:** In order to provide a degree of permanence for social or affordable housing, a locally controlled trust can be set up that provides protections on affordability. Community land trusts have been used by communities and

local politicians working together on a substantial scale in the USA. The concept now has global traction. Their initial popularity here is suffering from local authorities now frequently wanting to use their own land to undertake housing developments of their own, even though the affordable homes produced are not protected from the Right to Buy or leasehold enfranchisement. Similarly the provision of a register of land for self-builders has not taken off as it should.

- **Enterprise Zones:** In areas with large amounts of vacant land and little obvious demand, planning restrictions may be relaxed. Development is encouraged by occupiers being relieved from paying business rates, along with other tax incentives for investment. Such a measure was key to the redevelopment of Canary Wharf in London Docklands.

This brief review of current powers suggests that local authorities need greater support if they are to play a more proactive role and package available funding in order to support private investment. Freeing up local authorities means taking away many of the restrictions. To avoid criticisms of corruption and self-serving action, a transparent and trustworthy process or organisation is needed to assess complex projects and package funding.

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## Sharing the Uplift in Land Values – a Fairer System for Funding and Delivering Housing Growth

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