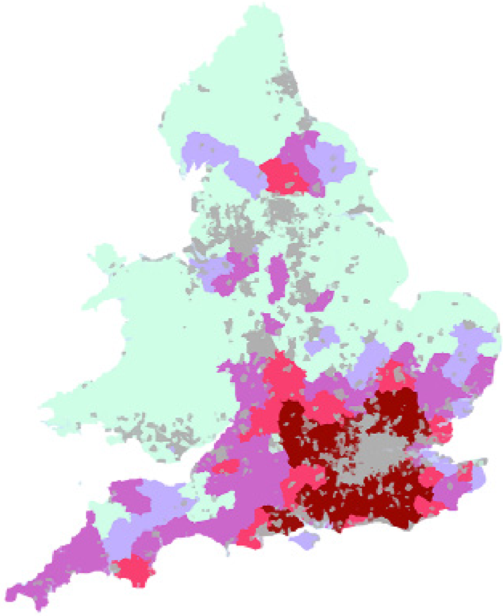
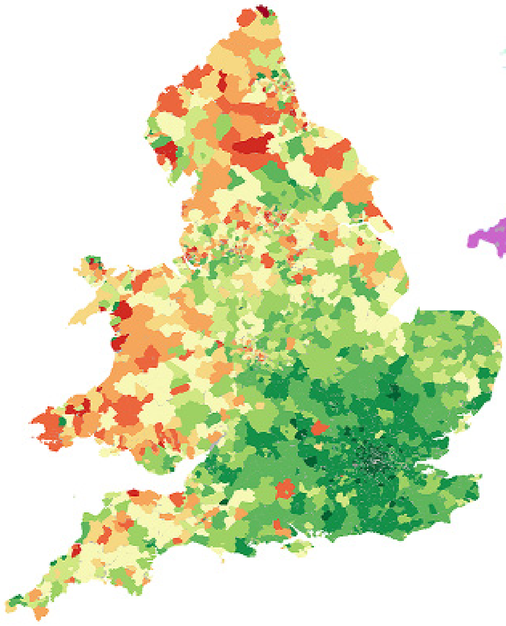
Town & Country Planning
Tomorrow Series Paper 20

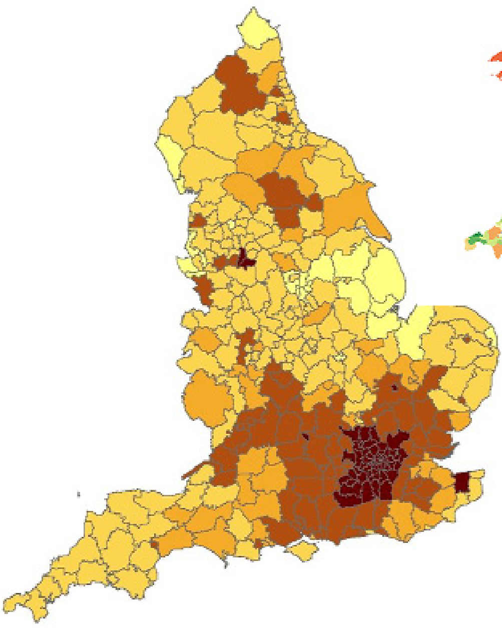
sharing the uplift in land values

a fairer system for funding and delivering housing growth

Executive summary







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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.[a] 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.[b] 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.[c]

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.*'[d]

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 Uxcester 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.[e]
- ***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

a *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

b See the UK2070 Commission website, at www.uk2070.org.uk

c Available at from the URBED Trust website, at www.urbedtrust.co.uk

d 'Raynsford Review of Planning final report published'. Press Release. TCPA, Nov. 2018. www.tcpa.org.uk/news/press-release-raynsford-review-of-planning-to-be-launched-on-20-november-2018

e N Falk: *Funding Housing and Local Growth: How a British Investment Bank Can Help*. Smith Institute, May 2014. www.smith-institute.org.uk/book/funding-housing-and-local-growth-how-a-british-investment-bank-can-help-2/

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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