

Financing Transport Infrastructure through Land Values: Making it Happen

6th July 2004, CBI Conference Centre, London

Jay Walder said that TfL has managed to do much without a change in the “fundamentally flawed” finance system. Prudential borrowing, which is planned to provide TfL with £400m for 2004/05, allows on-balance sheet transactions and spreads costs over the project life. However, there is no new revenue or funding and borrowing makes a larger proportion of the TfL budget less flexible over the longer term. Plans tend to be chopped and changed every year and there is a need for a longer-term view. Transport infrastructure generates wide benefits, some of which are capitalised in land values. We need to target land value capture. Crossrail is uniformly viewed as critical; the Lord Mayor has called for a supplement on the business rate to pay for it. Local financial responsibility is critical. Jay summed up by saying that new financing tools are essential, matched with more local control of funding.

Christopher Huhne MEP explained that the way we fund infrastructure (such as transport) leads to an underinvestment. Much of Hong Kong’s success is due to its system to land tenure. In the s106 system gains are dispersed too widely. You need a system that takes into account the gains of being near a station (for instance). You should only tax the rental value of the land; you can’t confiscate large parcels of land. Periodic re-valuations are important. Gradualism is essential because you don’t want massive selling of land. Site value rating captures a large part of socially generated land value increases. It will also lead to a carry cost of holding land, thus increasing the price of holding land, encouraging land onto the market and increasing supply. Therefore, site value rating will take the heat out of the boom in property prices.

Richard Walker, Transport Planning Society, pointed out that as we get richer, we travel more. The time travelling is the same but we travel further. The New Economic Geography concludes that lower travel costs weakens the regions in favour of the centre. The new generation of spatial plans and, hopefully, integrated regional transport strategies will have to incorporate the increased rate of house building. There is a cost premium for designing in sustainability. There will be a large funding gap for RSS shopping lists. A change of use causes huge ‘development gain’ on greenfield land. S106 should only be used for direct mitigation and affordable housing, with other mechanisms found for transport and other things. Kate Barker’s Planning Gain Supplement could raise billions, depending on the rate at which it is set. Richard said that we should look beyond newly developed sites; accessibility is a significant proportion of site value.

Fred Harrison, Land Research Trust, argued that the present structure of taxes undermines positive enterprise. An OECD Report has calculated that optimal taxation would cause a net gain of 39 billion Euros per annum in the UK. Taxes on land are economically neutral and would neutralize the property cycle. The Australian example shows that you would have to take a significant proportion as a site value charge.

Liz Peace explained that the British Property Federation represents mainly those with an interest in commercial property. They recognise the importance of infrastructure. They are a number of novel approaches but they lack clarity. The economics of development are complex. You need to take account of local fluctuations in demand. The industry does contribute in a major way through the s106 system. The optimum point of value capture is when a return is being made which will sometimes be many years after the start of the project. Taxing transactions is not good. The BIDS legislation is a waste. Valuation is an art, not a science, and requires a comprehensive, approved local plan. A major change needs all party support. We need to beware of unintended consequences.

Dave Wetzel explained the theory of economic rent, which is accepted by Adam Smith, David Ricardo, Karl Marx and William Vickrey. This means that LVT (a) is a fair way of financing public services, (b) encourages new capital investment, (c) promotes the use of empty sites, (d) cannot be avoided, (e) provides automatic compensation, (f) facilitates lower interest rates and (g) will dampen the property cycle. Dave does not favour TIFs because they are based on rateable value and there are boundary issues. He is against a tax on development, such as Barker's supplementary planning levy.

Paul Spencer, Jones Lang LaSalle, explained that poles of accessibility can be poles of value. However accessibility is not enough on its own, you have to have the right premises in the right places. There are the following problems in quantifying the effect of the Jubilee Line Extension on land values: (a) judging and applying value, (b) defining area, (c) estimating the stock, (d) determining the time period and (e) separating the impact of the Jubilee Line. Uplift was calculated at £800m in Southwark and £2billion at Canary Wharf.

Andrew Gould, Jones Lang LaSalle, explained that London Regional Metro is a private financing solution to an east-west rail link across London (no Government money). Visit www.londonregionalmetro.com for more details. It is a blended infrastructure and transport project. There are property-infrastructure and regeneration partnerships.

Joshua Vincent, Centre for the Study of Economics, explained how shifts from taxes on capital and labour to taxes on the value of land are working in small company towns in Pennsylvania, such as Harrisburg and Allentown. A price is being put on each parcel of land. Pittsburgh suffered from a botched valuation, which it is vital to avoid. Philadelphia is losing people and much of this is due to an over-taxation of 'economic goods', such as employment. There is much land vacancy and much of this is caused by land speculation. Land values in Philadelphia are high in the core, near transport. Poor neighbourhoods benefit from Land Value Taxation.

Bill Tyson, Transport Management Group (GMPTE), explained that the PTEs/ PTAs need to provide a more attractive alternative to the private car. The PTAs have no direct funding source. The PTAs may not be fully compensated by the Districts and the Districts not fully compensated from central Government. The process is not very transparent. Funding is fragmented and time-consuming. The planning process puts the PTEs in a weak bargaining position. Property contributions were received for Phase 2 of Metrolink because (a) property owners knew that it wouldn't have

been built otherwise, (b) tenants were having difficulty attracting labour and (c) Metrolink increases accessibility. More radical options are needed so that those who benefit directly and indirectly pay. An ongoing source of funding needs to be secured.

David Mills explained that LVT is a location duty. It can be adapted to any tier of Government. The charge should be based on land in its optimum use, which includes what plans permit. Agricultural land and buildings and unused land have been de-rated and should pay LVT. David recommended that LVT is introduced centrally because land values are not generated locally.

Darren Johnson explained that the Green Party has a long-standing commitment to LVT. The debates on (a) scraping Council Tax and (b) paying for transport infrastructure, such as Crossrail, provide opportunities to put forward LVT. Getting big businesses onside will help to persuade the Conservatives and mainstream Labour. Darren suggested that local authorities should be offered a list of options to replace Council Tax (which would include LVT). Congestion charging shows that new taxes can be accepted. Darren thought there was no need for more roads, toll or otherwise.

Tom Brake, Liberal Democrats, said that there is not a consensus on how to fund transport schemes such as Crossrail. If the Treasury won't pay then what about private funding? But the details can provide a problem, such as the BNRR. Cross-party consensus is usually found in select committees, which might provide a way forward. It would help if interest groups and politicians come out publicly in favour. Tom commended the Jubilee Debt Campaign as an effective campaign. Crossrail would provide a good pilot. Tom didn't want to see new roads, such as the toll road between Birmingham and Manchester, at the present time.

John Redwood, Conservatives, welcomed Alistair Darling's statement calling for more roads as well as rail. There is now cross-party support on the need for investment. He is a sceptical on LVT by caution and referred to the experience of the Poll Tax and Council Tax. What matters is the incidence; it is easy to run campaigns against new taxes. You should concentrate on the losers. John recommended that all residential property should be exempt. LVT is not needed to finance a toll motorway from Birmingham to Manchester. He didn't think that Labour or the Conservatives would put a publicly funded pilot of LVT in their manifestos.

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