Growth cities:
local investment for national prosperity

Regional Cities East

urbed

Regional Cities East is an alliance of six towns and cities: Colchester, Ipswich, Luton, Norwich, Peterborough and Southend-on-Sea. These historic and vibrant urban centres are amongst the United Kingdom's most productive areas. It is our task to maximise their collective commercial, social and cultural potential to help drive sustainable growth. Together we are demonstrating that small and medium sized cities can make a significant contribution to the national economy and UK plc. www.rce.org.uk

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Cover Picture: Development in Vathorst, the Netherlands

Executive summary

This paper has been commissioned by Regional Cities East to address the issues of rebalancing our economy and restructuring our urban conurbations at a time of financial cutbacks and the scrapping of the old regional planning machinery. It focuses on the opportunities for 'quality growth' in medium sized towns and smaller cities around London and in the East and South East of England, though similar growth areas can be found around the 'core cities' such as Leeds and Bristol, where there is also pressure to build new homes.

The paper draws on ongoing work by Professor Sir Peter Hall and Dr Nicholas Falk into why 'great places' in Europe have been doing much better than their British equivalents, as well as previous URBED research, including work for Cambridgeshire Horizons.[1] It makes use of a host of detailed studies prepared for the East of England Development Agency (EEDA) and what is now the Department of Communities and Local Government, as well as proposals from cross sectoral working groups such as the Housing Forum.[2] It is in four sections:

1. Why quality growth matters
2. What can we learn from European success stories?
3. Where could the funding for quality growth come from?
4. Who should do what to secure quality growth?

The first section argues that the future 'wealth of nations' lies in the attractions of 'growth cities' as places for 'knowledge workers' to live, along with a culture or mindset that supports enterprise in all its forms (see Appendix A). Hence smaller cities with populations of between 50,000 and 200,000 with good transport links are best placed to grow.

As the real economy has eroded, common wealth and heritage matter even more. Wealth creation and innovation are closely linked and connectivity helps explain differences in wealth creation as it draws clusters of creative people together. The East of England starts with some excellent strengths in terms of climate and proximity to the coast, as well as a host of smaller towns and cities. But many of the medium sized towns in the arcs around London are over-shadowed by the dominance of the City of London, and are not doing as well as they could. Others suffer from being relatively cut off from each other.

The major imbalance has been in the supply of new housing. Comparisons at the national, regional and city level (see Appendix B) highlight some weaknesses of the cities as working places and diversified economies, in their workforce and skills, private sector jobs, integrated transport and connected places, but above all as living places and sustainable neighbourhoods. Low rates of house building hold back the very places that are best positioned to lead Britain's future economic growth, and compete internationally. This calls for major investment in infrastructure to overcome the barriers to sustainable development.

1 See for example Steps to Quality Growth, www.cambridgeshirehorizons.co.uk

2 See Plan and Deliver: a response to the Localism agenda, Housing Forum, 2010

Section 2 uses comparisons with smaller cities in Europe that have been leading regional development, such as Amersfoort in the Netherlands, Copenhagen in Denmark and its sister city of Malmo in Sweden, Freiburg in the South West of Germany, and Montpellier in France, all of which have grown without sacrificing quality. Case studies bring out major differences in the way development is planned, orchestrated and financed, which produces visible differences in the quality of life or wellbeing. The leading models share high levels of investment in sustainable infrastructure put together at the local rather than the national levels. Local authorities have put in land as equity, and then raised long term loans for sustainable urban extensions without being blocked by the UK Treasury's constraint of the Public Sector Borrowing Requirement.

The third section draws out lessons for harnessing the power of financial institutions, encouraging civic leadership, achieving quality growth, and fixing the infrastructure deficit. This leads on to seven proposals aimed at:

- Encouraging municipal leadership at both the sub-regional and neighbourhood levels through strategic growth plans and concordats and public private partnerships
- Providing new sources of finance through municipal banks and infrastructure bonds and local charges and property taxes
- Supporting learning from best practice including skills academies and local development agencies that bring the essential skills together.

While this may seem a formidable set of changes, in fact implementation could be relatively straightforward:

1. The Localism Bill places a duty to collaborate on local authorities, which the new Local Enterprise Partnerships should help to orchestrate provided they have the right powers, for example over public investment. A good place to start is for local authorities to agree the best locations for urban expansion, making full use of the work that has been done to date on Local Development Framework Core Strategies and Issues and Options rather than starting all over again.

2. Joint ventures between the public and private sectors in growth areas should be able to raise long-term finance to pay for infrastructure. This would bring the UK in line with the practice in Europe and North America of repaying the loans out of the uplift in land values after development has taken place. This requires the Treasury to support the government's stated intentions of devolving power, and improving the way public goods are procured, by learning from European success stories.

3. Infrastructure bonds should be used to tap funds from pension funds that are currently under-invested in property and enable joint ventures to offer serviced sites with planning permission to the market. This would help overcome the weaknesses of the volume house builders' business model during a downturn. The promised 'green investment bank' should be developed out of a bank the country already owns, with the scope to raise funds from investors, thus opening up new sources of private finance. This would be a practical response to the Local Growth White Paper.

4. The government is committed to enabling local authorities to access new sources of finance, including a review of the Business Rate, and has already opened up the promise of local communities sharing in the incremental taxes generated from growth. Changes in the Business Rating system are not only crucial to rebuilding a sense of community, but should also be used to encourage quality growth, for example energy saving measures.

5. Instead of national targets, much more use needs to be made of local agreements. However it is not the individual home but the neighbourhood which should be the focus of efforts. Communities should take over not just the responsibilities but the assets needed to fund local services in new communities, as hinted at but not specified in the Localism Bill.

6. 'Looking and learning' together is invaluable when people are trying to do something new and different. Public funding should support networks that share knowledge among the sectors that need to collaborate, and hence reduce the risks. It would be easier for the ideas behind localism to take root if they were based on places that had transformed themselves, and not just on somewhat academic theories.

7. Where major growth is planned but resources are limited, local authorities need to establish development agencies, a little like the old Development Corporations, sharing specialist staff. Public land should be pooled and used as equity, as this is the largest and easiest element in the growth equation to change. The surplus value created from development can be invested into community facilities. There will be economies from groups of authorities collaborating, as with finance and human resources.

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‘It is not the strongest of the species that survive, nor the most intelligent, but the ones most responsive to change’
-Charles Darwin

‘Cities have the capacity of flourishing because, and only when, they are created by everybody’
-Jane Jacobs

‘But it should be obvious that mere abstinence is not enough by itself to build cities or drain fens.’
-John Maynard Keynes

This paper has been produced for Regional Cities East, and other medium sized towns that face growth pressures, as a follow-up to earlier papers on *Bigger Thinking for Smaller Cities.* It draws together lessons from research Dr Nicholas Falk and Professor Sir Peter Hall have been doing into strategies for quality growth, a review of the economic literature into comparative performance, and four case studies of exemplary neighbourhoods in smaller European cities that have linked growth to local investment in infrastructure.[3] While the paper has primarily considered smaller cities in the East of England (towns of some 20/50-200,000 population whose centres serve the wider area) it applies equally to similar places in the rest of the South East (such as the South East Diamonds) as well as many other parts of England where house prices are high in relation to incomes, where there are businesses with the potential to grow, and where there are good transport links.

The paper considers in turn:

1. Why quality growth matters
2. What can we learn from European success stories?
3. How can we apply the lessons?
4. Who needs to do what?

The case studies demonstrate the importance of local leadership in overcoming conflicts, and in ensuring that the private sector invests where development is wanted.

Appendix A *What drives successful places?* shows why common wealth and heritage matter, how wealth and innovation are linked, how connectivity impacts on wealth creation, and why low housing output is constraining sustainable growth.

Appendix B *How well are smaller cities doing?* reviews research on their performance in terms of employment, skills, private sector jobs, transport and housing.

3 Full reports on the cities can be found on URBED’s web site, www.urbed.co.uk

1. Why quality growth matters

There are compelling arguments for unlocking the barriers to the growth of smaller towns and cities both as part of the moves towards localism and as a means of rebalancing the British economy. A chart in a recent report on the future of the UK economy from the McKinsey Global Institute shows how in Britain the most successful towns failed to expand faster than the rest, unlike their European counterparts, where housing has kept pace with employment growth.[4]

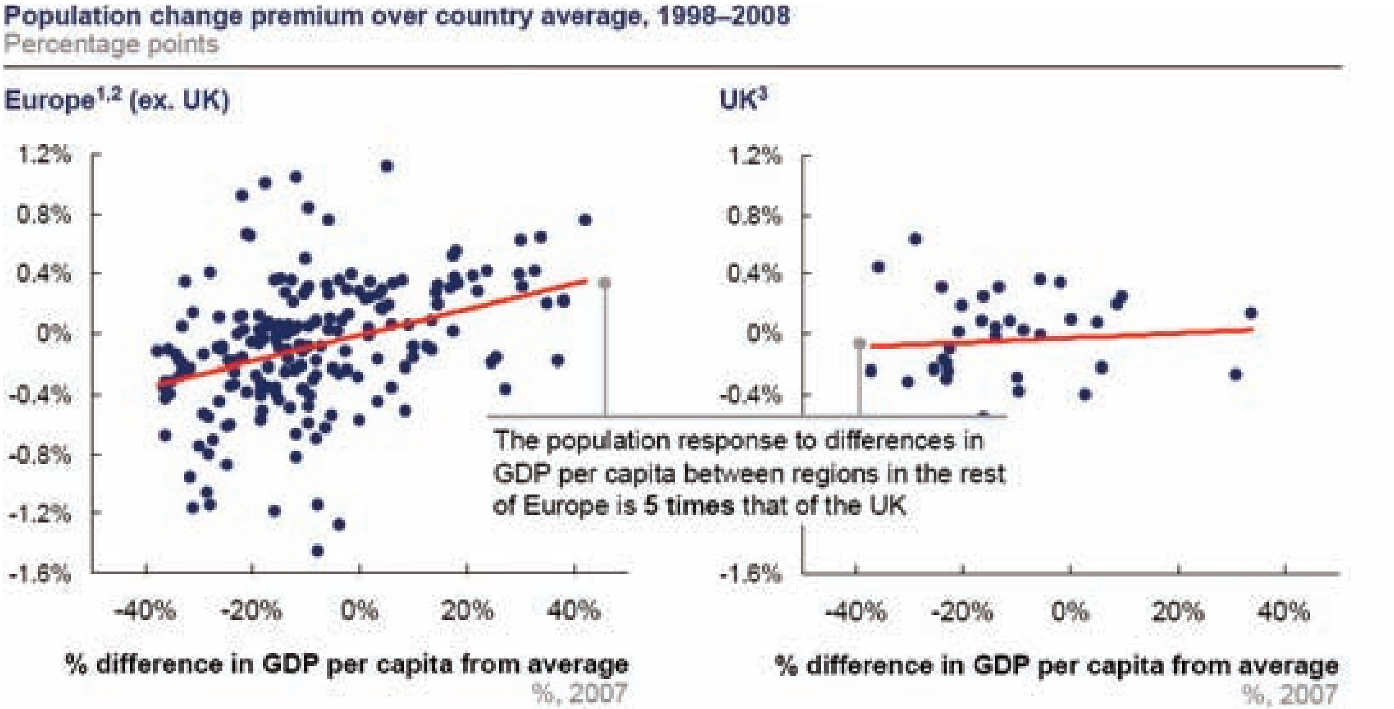

Exhibit 1 - Successful cities lag behind in the UK - source McKinsey From Austerity to Prosperity

The report points out that around 50% of GDP growth over the past decade has been concentrated in Greater London and its neighbouring regions. Yet rates of house building have remained relatively low, contributing to the highest rates of house price inflation in Europe. As there is widespread opposition to urban sprawl and poor quality design, there is a general consensus on the need for quality growth (where development matches infrastructure), but little or no agreement on how to secure it, outside a few places such as Cambridgeshire where the local authorities have signed up to working together.[5]

4 From Austerity to Prosperity: Seven priorities for the long term, McKinsey Global Institute, November 2010

5 Long Term Delivery Plan, Cambridgeshire Horizons, 2008

Barriers to growth

The Centre for Cities, in an analysis of where jobs are being created by the private sector, draws attention to the resources wasted in trying to grow places where demand is intrinsically weak, and the importance of supporting areas with growth potential. This study, which highlights cities such as Cambridge, Reading and York, points out that '*disparities in small and medium sized cities tend to be less unequal than larger cities'*, and .... *'devolving more responsibilities and funding to cities and city regions will be critical to help cities deal with their particular challenges'.*[6] Sadly, given the weak state of both the housing market and the British economy, no practical measures have yet been proposed for building local capacity, other than the New Homes Bonus. Local Enterprise Partnerships are being proposed without any source of funding or powers to enable them to fill the gaps.

Governments have started to recognise the weakness of relying on the market alone to produce the housing we so badly need. The last page of the government's Local Growth White Paper highlighted the '*lack of house building-enabling infrastructure. It is no accident that investment in housing output in the UK is among the lowest in developed world'.*[7] Development cannot be left to the market, as the quality and supply of new housing affects so many objectives. Thus a new OECD study concludes that reforms to the way housing markets are managed will spill over to the rest of the economy, while poorly managed markets triggered the current crisis.[8]

The move away from regions towards a more local level and the abolition of Regional Spatial Strategies will make it even more important for communities to collaborate on development frameworks that can secure the benefits from coordinated or smarter growth. In particular, as this paper argues, with a radical restructuring of government underway, there is an urgent need to join up investment in infrastructure with economic and housing development if we are to match our international competitors and revive our flagging economy.

Regional strengths

The East of England, like much of the rest of the South East and also the South West, is largely made up of smaller towns and cities. Despite the region's coastal charms and dry climate, and the proximity of its main towns to London, it is surprisingly little known and visited. Yet Norwich and Ipswich were both top cities and ports up to the 18th century. In the 19th century cities with access to coal and iron and on the western side of the country grew large through trade with the Empire. Respectable Victorians shunned the squalor of the Georgian city, and moved to new suburbs.[9] Cities outside London were no longer smart places to live.

The East of England largely missed out on development in the 19th century, despite having a third of England's market towns from an earlier period when wool was king. Without sources of power, and with rich large farms, it was largely unscarred by the industrial revolution, and the related expansion of the British Empire. However

6 Chris Webber et al, Grand Designs? A new approach to the built environment in England's cities, Centre for Cities December 2010

7 Local Growth: realising every place's potential, HM Government, October 2010

8 Housing and the Economy: policies for renovation, OECD January 2011

9 Mark Girouard, Town and Country, Yale UP, 1992

in the 21st century, with a very different system of communications, the East (and South East) of England are now well located to grow again. The urban areas are largely flat, in some of the sunniest parts of the country, and close to mainland Europe. With pressures on natural as well as financial resources, there is likely to be a shift away from relying on big cities as the 'engines of growth' and a new interest in the potential and performance of smaller cities. Medium sized towns could be the seedbeds of smarter growth as they are often the kinds of places that attract talented people and have a culture that favours enterprise and innovation. (See Appendix A).

A study on a framework for urban collaboration identified 24 towns and cities with significant growth potential in the East of England that account for 46% of the region's potential. The report concluded that *'more should be done to encourage agglomeration economies across a polycentric settlement structure'*, and highlighted the need for civic leaderships. Norwich and Ipswich, along with Hastings, were the principal exceptions to the general rule that the best performing cities were in London and the South East, having levels of deprivation that were comparable with Northern cities, and the same applies to parts of Colchester, Luton and Peterborough.[10]

10 Framework for Urban Collaboration in the East of England, report for EERA, EEDA and GoEast, SQW, May 2007

Housing imbalances

So why, with high incomes, some of the highest housing values in Europe and a strong planning system, has housing growth lagged behind in the growth areas and urban polarisation increased since the 1960s? Up until the last World War, the UK managed to link housing growth with economic development, and most people travelled short distances to work.[11] The British suburban compromise was designed to overcome the dirt and stress of living in towns. Interwar housing accounted for one third of the total stock by the start of the Second World War. The rapid construction of cheap semi-detached houses in the 1930s encouraged a drift from the Victorian inner cities to new semi-detached suburbs, such as Barnet or Becontree near Dagenham, which were built up on low value farmland along the new arterial roads or around stations on extensions to the suburban railways.

As cities sprawled out, interwar growth provided a large market for new products such as motor cars and Hoovers, and for new light engineering companies based around London such as Marconi. It also led on to post-war attempts to build mass housing on a very different model, that of the high rise housing estate surrounded by green open space where people's class could be told by the kind of housing they lived in. By the 1970s many of the prefabricated tower blocks had lost their appeal.[12] In the words of Lynsey Hanley, they were seen as *'filing cabinets for the poor'*.[13]

11 Alan Jackson, Semi-detached London, Suburban transport, life and development 1900-1939, Allen Lane, 1973

12 David Rudlin and Nicholas Falk, Sustainable Urban Neighbourhood: building the 21st century home, Architectural Press, 2009

13 Lynsey Hanley, Estates: an intimate history, Granta Books 2007

Interwar expansion, which was largely unplanned, created the strong opposition to urban sprawl that led to Green Belts around Britain's major cities. The Town and Country Planning Act of 1947 preserved many country towns from industrial development and the expected 'hordes' of new residents. Instead a limited number of towns were selected for expansion and overspill, like Ashford, Basingstoke, and Ipswich. These areas, along with a ring of New Towns around London such as Crawley and Harlow, soon gained an image of being 'working towns' or 'pram towns'. Some have suffered ever since from not offering a wide enough choice of housing and shops, and have struggled to raise aspirations and levels of attainment.

Rising demand for housing, with the highest house prices in Europe, led to calls for an 'urban renaissance' from the Urban Task Force led by Lord Richard Rogers, which was asked to look at housing in isolation from economic development.[14] Developers were then given targets to build at high densities on brownfield sites, and ended up building flats, not family homes, largely on former industrial sites in the major cities. These were not unexpectedly taken up by 'build to let' investors, rather than the families and empty nesters that were needed to rebalance our older areas.[15] The Barker Reviews commissioned by Gordon Brown put the blame on planning not housing finance, as she was asked to focus on supply. The reviews came up with what eventually became the Community Infrastructure Levy.[16] However the volume house-builders' business model depends on first-time buyers, such as young families who are unlikely to buy new homes until housing becomes affordable again, while other markets such as 'empty nesters' require a different product. With the 'credit crunch' mortgages became harder to obtain. The housing market ground to a virtual halt in 2008/9, with the lowest rate of output since 1924. Entreaties to institutional investors to fill the gap have not yet born fruit, and the OECD has pointed out that chronic under supply in part stems from the UK having high levels of owner occupation and social housing, but very little in between.

14 Towards an Urban Renaissance, report of the Urban Task Force, Spon, 1999

16 Barker Review of Housing Supply, 2004

The big issue that planning has ducked is that instead of towns and cities growing organically, with a balanced population in terms of age and income, those with the most money in the UK live outside the towns where they work.

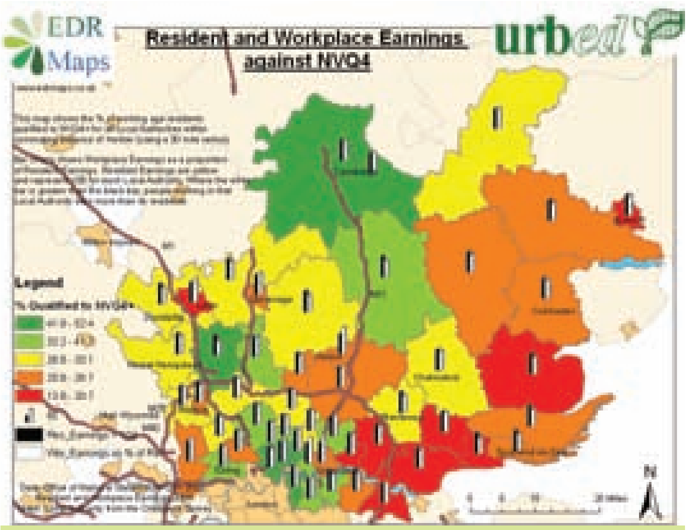

Exhibit 2 - Skills levels vary widely, but those with most move away from where they work - source URBED and EDR

Workers spend several hours a day commuting, largely by car over congested roads, and therefore have less time to spend at home than their colleagues living in continental cities. Yet residents in rural areas are the first to oppose new housing being built in case it affects the value of their property. In contrast, a European study reports that the average time getting to work for those working in Amsterdam, Copenhagen, Dublin and Zurich is around half an hour.[17] The new and expanded towns that should have continued to grow, such as Harlow and Luton (with notable exceptions such as Milton Keynes) not only have ended up with high levels of jobs being taken by people commuting in from outside, but are suffering from problems such as failing shopping centres and increasing unemployment. Their problems will be aggravated by cutbacks in public expenditure that hit the poorest hardest, even where a turnaround has started, such as in Southend.

17 Ed Nicola Schuller, Urban Reports, gta Verlag, Zurich 2009

The problems are particularly noticeable when comparisons are made with the regional cities like Montpellier and Copenhagen, or university towns like Freiburg that have won awards as 'great cities' for the quality of their city centres and urban extensions (see case studies in next section).[18] A report from SURF (the Centre for Urban and Regional Futures) on city regions shows that the economies and populations of the main French provincial cities have been growing faster than Paris for some years (in marked contrast to the UK). Most of these cities are now linked by the high speed TGV network.[19] Greater investment in public transport and a quality public realm have again made these city centres the place to be. In turn, those in the best jobs, as well as the young, have chosen to live within the towns and cities where they make their money. The result is a better quality of life and a more sustainable economy.

Growth cities

The failure to grow our smaller cities in a planned way could be at the root not only of the shortage and high price of housing in the UK, but also the failure of our economy to match European levels. Population growth is a commonly used performance indicator. The East of England has had the highest demographic growth of any UK region outside London. However, members of Regional Cities East generally grew at half the rate of the region as a whole, with exceptions such as Colchester, which has expanded on the edges.

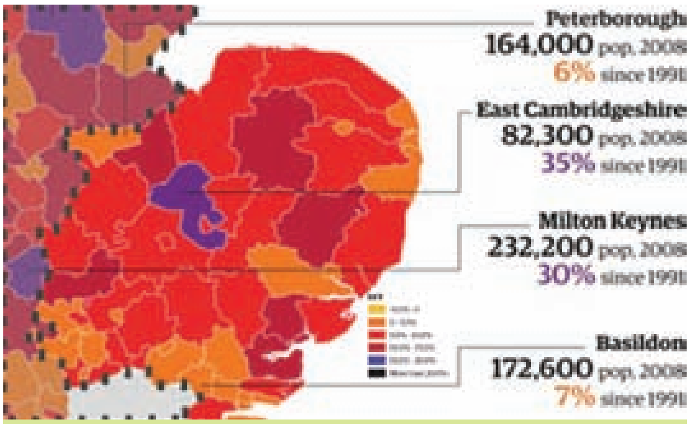

Exhibit 3 - Regional cities are not generally growing as fast as the East of England - Milton Keynes is the fastest growing New Town by far - source *The Guardian*

Local Authority	Pop. 2008	Change since 1991
Cambridge	122,800	15%
Chelmsford	167,100	9%
Colchester	181,000	24%
Ipswich	122,300	3%
Luton	191,800	10%
Norwich	135,800	9%
Peterborough	164,000	6%
Southend	164,300	2%
East of England	**5,728,700**	**12%**
England	**51,446,200**	**7%**

Nor did the former New Towns match the regional average for population growth, with the exception of Milton Keynes, which comes within the South East. Milton Keynes is the exception that proves the rule, as it has benefited hugely from the public sector owning most of the development land and from investment in extensive road and public space systems, while developments in other parts of Buckinghamshire have been curtailed.

18 Academy of Urbanism - Awards Space Place Life, 2010 www.academyofurbanism.org.uk

19 Simon Marvin, A Framework for City Regions, CLG, 2006

Even the former new town of Peterborough, where large numbers of new homes have been built, has largely failed to attract the better-off to live in new developments rather than in the villages on the outskirts, which is where the greatest growth has occurred. Thus the State of the Cities Report showed that while the population of small cities in the South East grew by 0.3% a year it was at half the level of small towns and rural areas, and below the regional average.[20] As an example Rutland has one of the highest incomes per head in the UK, of which little is spent in Peterborough where much of it is earned. So instead of places with balanced populations, we have an increasingly spatially polarised society, which reinforces inter-generational inequalities despite all the policies to the contrary, and creates centres that are dead 'out of hours'. In the UK outside London the wealthiest and often most talented people generally live outside the towns and cities where they earn their livings.

The contrast can be seen vividly in comparisons of Colchester with Pavia in Northern Italy, both Roman garrison towns. Whereas in Colchester less than 3% live in the historic centre, the figure for Pavia is 26%, and in Pavia this includes many more families and younger people.[21] This reflects in part the much larger historic areas in Continental towns and cities, as Italian cities grew steadily in the centuries before the industrial revolution. But it is also due to attitudes. The middle classes like to live in the centres of Continental towns, and to support their stylish shops and bars. They also provide their cities with local leadership, as with the Mayors in every one of the 33,000 French communes. As Mark Girouard writes, in his epilogue to The English Town, *'A town without a prosperous middle class is a town in trouble, and so is a town in which the middle class think that the country is better'*[22] While it may be true that from the Norman Conquest onwards those with most power have preferred to live in the country, tastes could be changing with a new university educated generation. Rural life is increasingly unviable for most people, both young and old.

Small country towns generally offer the most attractive environment for both living and working. Smaller cities are also important to the growth of the 'real economy', that is in providing jobs outside the public sector producing goods and services that can be exported to other places. They are where entrepreneurs like to live, and land on the edge, including old airfields, has frequently been developed into industrial estates and business parks. The neighbourhoods around smaller cities are also where some of the greatest concentrations of graduates can be found.[23] However, as we show in Appendix B, the smaller cities in the East of England fall far behind their European equivalents in what they offer and in how well they are performing in both economic and environmental terms. In turn the limits on their growth are likely to be holding the national economy back, as knowledge based companies such as Glaxo Smith Kline expand instead in more supportive places such as Spain or Singapore.

Marc Weiss, in a study of metropolitan economies, usefully summarises the main point: *'In today's global economy, where quality of life is the key to attracting and retaining skilled workers, and skilled workers are the basic building blocks of economic prosperity and competitiveness, improving the environment and addressing social equity are no longer luxuries to be traded off against economic growth. Indeed they are now absolute prerequisites for achieving and sustaining growth of jobs and incomes, trade and technology.'*[24]

20 State of the Cities Report, Michael Parkinson et al, for ODPM, March 2006

21 Alan Stones and Nicholas Falk, Urban Renaissance: a tale of two cities, Urban Design Quarterly, April 2000

22 Mark Girouard, The English Town,Yale University Press, 1995

23 Local Knowledge - www.localfutures.com

24 Marc Weiss in Global Urban Development Vol 1, No. 1 May 2005

Sources of future growth

As the economy slows down, and development plans are hit by both the financial crisis and the government cutbacks, attention is starting to shift to how to encourage new sources of employment. Latterly interest has been expressed in the 'green economy' and even the 'grey economy', and the potential for developing jobs where Britain's inherent creativity offers some comparative advantage, for example in pharmaceuticals and social enterprises. Particular concern has been expressed over the weak state of manufacturing in the UK, the loss of companies that are world or brand leaders, and the fragmentation of the supply chain. While large cities are often said to be 'engines of growth', or the 'motors of national advance', as the State of the Cities Report put it, the greatest concentrations of highly qualified employees in fact live in arcs around major cities such as London, centred on medium sized towns such as Reading or Oxford to the West of London or Cambridge and East Hertfordshire to the North, or places such as York and Chester in the North. The future of these arcs is therefore critical to both attracting inward investment and encouraging indigenous growth, that is, the expansion of existing firms and the birth and survival of new ones.

A report from the TCPA and LGA *Connecting Local Economies* makes it clear that, *'..the basic fault-line of the English economy is neither simply between North and South nor between East and West. Rather, it is between the real powerhouses of the economy, namely London, and is surrounding arc (from Bournemouth-Poole, through Swindon-Oxford, Milton Keynes-Northampton-Kettering, and Cambridge-Peterborough to Colchester-Essex) and the rest of the country.'* [25]

These arcs not only cross a number of regional and railway company boundaries but in fact take in seven or more Local Enterprise Partnerships. It looks as if each will be an uneasy alliance of counties and districts with conflicting interests (their only shared experience being their location on the edge of London, which may end up with a single LEP as well as a single-minded Mayor). It is going to be hard to reach agreement on strategic priorities, particularly when each local authority could also find itself having to respond to demands for neighbourhood plans, and appeals against closures of existing services, without the experienced staff or budget to plan properly. Dynamic leadership is therefore going to be essential, and securing quality growth could be the unifying factor.

As a nation, the UK seems better in recent years at opposing development schemes than supporting growth or building new infrastructure. The story of the well-organised opposition to wind turbines in Bedfordshire shown in the film *Age of Stupid* illustrates how difficult it is for the 'green economy' to take root in English soil. It therefore seems vital to support growth in areas with substantial clusters of private businesses engaged in the real economy, particularly where those are involved in exports or import substitution, however articulate the opposition from local residents.

25 Connecting Local Economies – the transport implications, TCPA February 2010

An article on the new economy in the Guardian (October 1st 2009) reported that *'Cambridge researchers fear a struggle for survival as private sector cash dries up'.* Technology or knowledge based sectors are fiercely competitive and fast moving, which means that those clusters need every encouragement. Yet whereas in China green investment forms 34% of the economic recovery stimulus package and in Germany it is 19%, in the UK as little as 7% was proposed BEFORE the cuts.[26] With some £500 billion of investment required simply to maintain our transport and energy systems over the next 20 years, of which energy will take £120-170 billion, or say £8 billion a year, a fundamental shift is needed in the way we fund and allocate investment if the UK is to survive as a leading economy, let alone adjust to climate change.[27]

At present, manufacturing accounts for half of UK exports with the main earners being medicine, petrol, cars, and other fuels, followed by engines/motors and aerospace, as Appendix A brings out. Our manufacturing output is now below France and Italy and less than half that of Germany, where house prices have stayed stable for years. Furthermore our exports are largely to the slowest growing economies, such as in the Euro zone, and we sell relatively little to the fastest growing economies such as China, India and Brazil. So though it is easy to point to possible new sources of employment such as local renewables or electric cars, more than luck will be required if the products are to be successfully launched and exploited on any scale, let alone exported to pay for growing imports of energy and food, as a depressing report from CRESC points out. It turns out that the East of England produces as much manufacturing GVA as Scotland, the West or East Midlands, and its share of national output has been growing. But the UK no longer has many leading companies, and key industries such as motors are part of Britain's trade deficit.[28] Building new homes in cities with growth potential is therefore crucial to enabling the UK to enter growing markets; most of the investment would be spent in the UK while the housing supply chain would share the benefits throughout the country and employ those who would otherwise be out of work.

Regional Cities East's *Bigger Thinking* showed that while impressive changes were underway in cities as diverse as Luton and Norwich, there were difficulties in funding the infrastructure needed to support sustainable growth and maintain quality standards. This impacts on economic performance. It is reasonable to assume that the East of England could have done even better if some of the constraints on growth cities had been removed, such as low skill levels and the quality of connections with other cities. Thus the dualling of the A11 to Norwich has finally been agreed after 40 years of dithering, while the upgrading of the crucial A14 port link remains up in the air. With some huge variations, for example the GVA per capita of Cambridge is twice that of Luton or Southend, if smaller cities generally had done as well as the best then the impact on national prosperity would be significant.

The parts of the UK that operate in a global economy need to match international standards. Nowhere is this more important than in the smaller cities that characterise the East of England and that contain businesses that compete internationally, such as in Cambridge and Luton. Such cities contain most of the ingredients for achieving sustainable growth, and benefit from proximity to airports and fast trains to London. Despite doing quite well by British standards, and having leading universities, cities in the East of England generally lag behind the leaders

26 Guardian report on the Green Economy, February 24th 2009

27 From Austerity to Prosperity, McKinsey Global Institute, November 2010

28 Julie Froud et al, Rebalancing the Economy (or buyer's remorse), CRESC January 2011

in terms of both economic performance and housing output. There is a huge infrastructure deficit to be made up, which will require innovative forms of finance now that government spending is being cutback and private confidence is so low.

The 'core' cities and larger industrial towns, which have attracted the most commercial and public investment in recent years, tend to be where public administration and legal and accounting services are concentrated. Vital though they are, they are not necessarily going to lead the resurgence of the real (or wealth creating) economy. The health of their centres is vital to regional pride and social cohesion, but so too are the smaller cities around them, which have failed to share in the benefits of growth or attract property investment (which tends to go to London and the main provincial cities).[29] The coordinated growth of smaller cities (and the towns around the core cities) would reduce the UK's over-dependence on financial and business services and unsustainable patterns of long distance commuting. It would also enable more sustainable forms of development to be built and would suit families far better than building blocks of flats on former industrial land.

We therefore would do well to learn from European city regions that have achieved both a shift in behaviour and quality growth, and are therefore better placed to surf the tides of climate and social change and tap the growth potential of the 'new economy'. In particular we should draw lessons from places where there are polycentric conurbations with high numbers of people living close together in comparative harmony, and with children who generally do better than ours.

29 Spreading the Benefits of Town and City Centre Renewal, URBED for the LGA and SIGOMA, 2005

Conclusions

Quality growth, that is development that matches infrastructure, not development at any price, is essential to achieving a range of public objectives and avoiding slipping further into the trough of a recession. Smaller cities and medium sized towns are often best placed to attract and absorb new investment and tap into the new economy. Five dimensions of smarter or quality growth (see Appendix A) could provide the framework for enabling smaller cities to realise their growth potential:[30]

- **Integrated transport** with well-connected centres, where it is easy to get to work and to shops and services without depending on a car (measured for example by time spent commuting or the frequency of train services)
- **Diversified economies** with a supportive working culture where new enterprises can start up and grow easily, and where existing firms want to stay and grow (measured for example by employment growth, as well as productivity)
- **Sustainable neighbourhoods** where houses are affordable because enough new homes are being built or older homes adapted (measured not just by house prices or running costs in relation to average earnings but also by the social balance of new neighbourhoods, and how well people get along)
- **Thriving town centres** that feel alive by day and night, and where there is sufficient investment in the buildings, and in the water, energy, waste and transport systems to match changing demands and minimise waste.
- **Enduring heritage** (both physical and natural), where there are flows of visitors to enjoy historic buildings and places, living waterfronts and gracious parks that support a greater choice of hotels and restaurants.

30 Nicholas Falk and Sir Peter Hall in a forthcoming book on learning from Europe's great places use case studies of the most successful places and sub-regions in Europe to substantiate these principles.

2. Learning from Europe

City regions or agglomerations evolve over time, rather like the species that Darwin famously observed. In the case of smaller cities it takes half centuries rather than millennia to produce a comparative advantage, which is still far longer than the perspective of most politicians.[31] Though factors such as talent and enterprise may be changed fairly readily, for example by opening a business centre, it takes a lot more time and money to overcome infrastructure constraints. In the case of smaller cities, the key to success is being 'smarter' so that public investment and leadership are seen to pay off, as the turnarounds of both Reading and Brighton illustrate. One of the hardest things to change is the prevailing attitudes or 'culture' that 'the wealth of cities' does not matter compared with individual consumption and short-term needs. This is where useful inspiration should be taken from Continental cities in finding solutions that do not depend on national government taking the lead.

This section therefore reviews reasons for learning from Europe before setting out the need for a new model that avoids dependency on the types of financial system that has got the USA and the UK into such a mess. It then summarises case studies from smaller cities in four different countries that are generally considered to be exemplary to establish what they have in common, and how to finance sustainable growth.

Why look to Europe?

Comparative studies of urban policy have highlighted the contrast between the Anglo-American liberal model and the Northern European social-democratic or social market model.[32] The differences apply not just to the relationship between central and local government, but also to the relationship between government, and the private and voluntary sectors in working together.[33] A number of international studies have concluded that the British over-centralised model is no longer 'fit for purpose.'[34] Success is not just about appointing elected mayors or raising funds locally (though both can help). Even quite centralised public finance systems can be made to work, as in the Netherlands, where central and local government work together. There are also a number of US mayors whose cities are effectively bankrupt.

The underlying factors boil down to a greater concern for the public realm and common wealth, combined with the means of investing in projects that benefit the wider community[35], and a system of governance that achieves continuity, rather than starting and stopping or changing direction all the time. One of the key messages of the The State of the Cities Report was that *'We need to learn from successful cities abroad.... The evidence suggests that where cities are given more freedom and resources they have responded by being more proactive, entrepreneurial and successful. Decentralisation in France has reinvigorated provincial cities during the past 20 years....'*[36]

31 These were case studies in Partners in Urban Renaissance, URBED for ODPM, 2000

32 Ed Nicola Schuller, Urban Reports, gta Verlag, 2009 ed. Anne Power, Phoenix Cities, Policy Press, 2010

33 Christopher Cadell, Nicholas Falk and Francesca King, Regneration in European Cities: making connections, JRF 2008

34 Anne Power et al

35 Colin Couch et al Urban Regeneraion in Europe, Blackwell, 2003
Richard Rogers and Anne Power, Cities for a Small Country, Faber and Faber 1998

36 State of the Cities Report (p12 Volume 1) March 2006 for ODPM

Places with apparently similar levels of wealth, expressed as GVA per capita or economic activity levels, such as Freiburg and Cambridge, offer quite different qualities of life because of the way public investment has been used more effectively to catalyse privately funded development. Thus it is much more common for local authorities to take the lead in supplying sites for housing expansion, and organising the necessary infrastructure, rather than trying to tie developers down to producing quality through development control.

The contrasts in quality of life can be seen in levels of congestion and air pollution, or the amount of land given over to green space as opposed to roads, as well as in the proportion of trips undertaken without a car. They also appear in studies of children's happiness, which put the UK in the bottom league and in tangible signs such as children playing in the streets or walking unaccompanied to school.[37] Studies of urban extensions that apply sustainable development principles show how new urban neighbourhoods can be built to much higher standards of quality, with a more balanced population, without requiring public subsidy.[38] They also use much less energy as a result of greater investment in infrastructure such as Combined Heat and Power or solar panels. Hence the homes are cheaper to run and more sustainable.

British cities have been held back in creating quality places to live and work by using ideas, technologies and management systems that are out of date and wasteful, as well as by top down control. As well as a legacy of a worn-out Victorian infrastructure to contend with, which escaped the destruction that many Dutch and German cities went through; they often suffer from narrow mindsets that, for example, tolerate direction from above and are suspicious of local community based initiatives. They lack the long-term leadership that comes from public authorities owning development land, and using it to secure higher standards. Hence they are unlikely to stand up to the economic storms stemming from the collapse of the Anglo-American systems for funding property, and the possibility of a prolonged recession.

Britain is not alone in facing pressures for radical change. Indeed in 1997 a European report argued *'The vital question to be answered is 'Why are people no longer happy to live all their lives in the city?'* [39] But whereas the prevailing European model has been the Compact City, spatial planning and civic leadership the British model has tended to be one of urban sprawl and suburbanisation, based on leaving the crucial decisions to the market, and on relying on central government to resolve conflicts. Localism aimed at cutting red tape and putting local people in control could lead to a change of attitudes to living in cities but only if the funding systems are changed. To understand how a different system might work, let us consider lessons from four different cities that have successfully transformed their positions through innovative local approaches to funding infrastructure – Montpellier in Southern France, Amersfoort in the Dutch Randstadt, Copenhagen in Denmark and its Swedish neighbor Malmo, and Freiburg in the South East of Germany. The last three have been written up in substantial reports of study tours, which include references and so will not be repeated here.[40]

37 An overview of child well-being in rich countries, UNICEF 2007

38 Beyond Ecotowns, PRP URBED and Design for Homes, 2008

39 Towards an Urban Agenda, European Commission, 1997

40 See, for example, Learning from Freiburg, and Learning from Copenhagen and Malmo, www.urbed.co.uk

Vauban Solar Panels

Montpellier: reconciling old and new

The ancient city of Montpellier, capital of the Languedoc in South West France, is one of the most dynamic European cities and has benefited greatly from the devolution of power from Paris to provincial cities. The city's renaissance started when the South of France grew as a tourist destination and students were attracted by the fine climate. A farsighted Mayor, George Flèche, who came from Toulouse, saw the potential for developing Montpellier as the centre for research and technology, particularly in the biosciences.

The heart of Montpellier is the Old Town, which comprises ten of the city centre's fifteen quarters. The old town has been completely pedestrianised thanks to underground parking for 14,000 cars in the surrounding area, often under public spaces or new buildings. Montpellier has been growing by 1.5% a year, rising from 25th to 8th in the French league of cities. Most of the new housing has been built in the suburbs, which have been tied together through an advanced tram system. The city is now the fastest growing in France, and grew by 9% in the 1990s. The population with the surrounding suburbs has risen to almost 290,000, from 90,000 in the 1960s.

The new tram that opened in 2000 became the spine of a greatly expanded city. Carrying 72,000 passengers a day, the tramway not only helps make the city more sustainable, but its imaginative decor and design symbolises the new city. It was the first in the South of France and cost 350 million Euros, of which the District raised 75% of the cost. Finance came in part from a charge on employers' payrolls (versement de transporte).

Development has also been funded by acquiring land opened up by the new tramway. The Municipality started by acquiring redundant land owned by the military on the edge of the old town. This was developed in phases to a master plan by Ricardo Bofill. The Municipality went on to acquire run-down former vineyards, which have since been developed for business parks and new housing on the edge of the city. The Mayor's vision includes extending Montpellier back down to the sea again. One element is a new settlement of Port Marianne, which like many of the new developments forms a node on the tram system.

Tram in Montpellier

Some fourteen-business parks specialise in different fields such as medicine, agronomy, and information technology, and 40,000 jobs were created between 1995 and 2002. A 'technopole', modelled on Stanford Science Park, took off in 1987 with an innovation centre Cap Alpha, where over 300 businesses have been set up. A research centre on Mediterranean food employs 4,000 and the pharmacy centre another 2,500. A later development was Corum, a conference centre that includes a 2000 seat auditorium, which has been highly successful, despite sceptical comments at the time.

Municipalities in France are able to borrow from the French national infrastructure bank, the Caisse de Depots, without loans apparently counting against national government debt. Set up in the 19th century, the bank takes deposits from private individuals, and was originally used to fund the rebuilding of Paris. It now supports economic development all over the country, and is being used to help fund the French version of ecotowns.

Copenhagen metro orestad

Bo01 in Malmo - aerial shot

Copenhagen: funding a metro from land value uplift

Copenhagen and Malmo are linked together in the Oresund Region, and connected by one of the longest road and rail bridges in the world. Denmark and Sweden are widely thought to offer the highest quality of life, and their cities score highly in international surveys. They have also built some of the most influential housing schemes, such as Bo01 in Malmo. Copenhagen has been voted one of the best cities in the world to work in, and is setting out to be the most sustainable, while Malmo has promoted itself through its ecotowns. As an example Denmark now has 29 waste to energy plants serving 98 municipalities in a country of 5.5 million, and 10 more are planned. It also has led the world in the exploitation of wind power, and many of the renewable power plants are owned by cooperatives.

Copenhagen has led the world not just in excluding cars (Strøget, the main shopping street, is a mile long), but also in extending cycle use. 37% of trips to work now involve a bike, and suburban trains are designed to carry bikes, while offices provide shower and changing facilities. Only Cambridge comes in the same class, and there are major opportunities elsewhere in the flat lands of the East of England to apply the Danish model. Space has been progressively taken away from the car and given over to cycling or walking, and street cafes have flourished as a result (some 5,000 in Copenhagen). Main roads are progressively being turned into quality streets, cutting car use, congestion, and pollution. Parking under buildings keeps cars in their place.

The building of the Copenhagen Metro was undertaken through a joint company set up between the government and the City of Copenhagen, with the government owning 55%. The company took over land alongside the city and developed the new town of Orestad. Finance was raised through 40 year bonds repaid by selling off land for development. The next lines are being funded through similar developments in Nordhaven, a former dock area. Another innovation is that Copenhagen practices Land Value Taxation, which provides an incentive to bring vacant land into use which has been zoned for housing, rather than letting it go to waste. Copenhagen is not only growing fast as a place to live, but also accounts for the majority of new jobs created in Denmark.

Housing in Malmo

In the most ambitious scheme of all, the Danes and the Swedes have built the 11 mile long Øresund Bridge between the two countries, integrated buses and railways, and created extensive systems of bikeways that are safe and efficient. The old ship building town of Malmö has attracted a multiplicity of private developers to build what the city wants in the old dock area, of which the most notable scheme is called Bo01. Waste is reused, reduced or recycled, and used to support district heating systems, though bio-digestion, or to power Malmö's buses with Ethanol. While Malmo lost population after the shipyards closed, its population is now over 290,000 and growing fast.

Scandinavian countries have opened up markets to competition without letting private developers or the banks get the upper hand. Municipal banks, such as Kommuninvest in Sweden, enable local authorities to borrow for capital projects through the issue of bonds at rates that make major infrastructure projects viable. The Swedish financial mechanism is a local income tax, in which local authorities receive the first 28 pence in the pound going to government. The wealthier people end up paying for the most expensive items of public expenditure. Local authorities are also responsible for unemployment benefits, which gives them a strong incentive to look after their local economies.

Amersfoort, NL: building urban extensions through joint ventures

Amersfoort, with a population of 140,000, is one of the fastest growing cities in the Netherlands, and lies within the area known as the Randstad on an important railway junction. Just like the East of England, the Randstad is flat and low lying, and in size is larger than Greater London. The Randstad, which translates as 'rim city', is a polycentric ring of 15 towns and cities around a 'Green Heart'. Dutch cities such as Rotterdam and Amsterdam pioneered the idea of contracts between the government and the cities, the Spatial Development Perspective and Compact Cities (which is the basis of European policy). There has been a substantial devolution of powers and responsibilities to local authorities over the last four decades. Regional planning has been used to link transport investment and development, with cities working together for the common good over many decades.

Possibly because much of the land itself was created from the sea, the Dutch have a long tradition of municipal enterprise and leadership – the so-called 'Polder mentality'. Some 80% of building land has been supplied by the municipalities who had acquired and serviced it. In recent years, the Dutch have focussed on building new family homes in the suburbs through VINEX - the fourth Dutch Ten Year Housing Programme (1996-2005). House price inflation in the Netherlands has been restrained by continually building new homes, and the housing stock has been increased by almost 8% in ten years through the VINEX plan, which produced some 90 sustainable urban extensions - 23 in the Randstad alone. Over half the 455,000 new homes have been built in new suburbs on the edge of existing towns and cities.

As in the English Communities Plan, VINEX sought to create places that were relatively compact (over 30 dwellings/ha), well-connected by public transport to jobs and services, and with at least 30% of the housing being affordable. The difference, of course, is that the plans have been achieved. Housing associations account for half the new housing built recently.[41] Instead of relying on developers putting forward bids, as with the English Ecotowns programme, local authorities were invited to submit bids for inclusion in the VINEX programme. Government then helped with seed capital towards decontaminating land and providing access, but the schemes had to be commercially viable.[42] URBED calculations suggest that government subsidy in total was only in the region of 6% of the cost.

The sustainable urban extension of Vathorst in Amersfoort, near Utrecht, provides a particularly good example of how the Dutch process works. Development has been largely driven by local authorities. The key has been setting up a joint venture company between the local authority and the main landowners and developers in a site designated for development as a new community. The company is chaired by a well-respected Alderman, and its chief executive was appointed from the private sector. Land was then pooled, and the company borrowed 750 million Euros from the Dutch municipal bank (Bank Nederlandse Gemeenten) at low rates of interest. (6% repayable over 15 years). Serviced plots were then sold off to a multiplicity of builders and housing associations, providing a much greater choice at any one time. Clear briefs emphasised quality, and the price was determined by the density of development, not by competitive bidding, being typically around 25% of the expected value of the completed homes.

41 See Urban Regeneration in Europe: the place of social housing, ed Darinke Sczicke, CECODHAS

42 See articles in a special edition of Built Environment. Towards Sustainable Suburbs, Volume 32 No.3

Freiburg: developing an exemplary sustainable city

There are many good examples of sustainable urban extensions in Germany, but the best known are Rieselfeld and Vauban in Freiburg, a historic city of some 200,000 inhabitants in the South East of Germany near Basel. By providing quality public transport from the start, and making it more expensive and difficult to park a private car, Freiburg has succeeded in shifting people from their car to public transport and cycling. Indeed for Germany as a whole, while car ownership levels are higher than in the UK, car usage is less, and people seem to take pleasure in well-run public systems that support communal life.

As with the other cities, the key to success has again been the acquisition of land on the edge of the city by the municipality, and the sale of plots within a master plan that requires much higher standards, for example with regard to saving energy. As a result Freiburg is promoted as Europe's Solar City, with half the PV panels in Europe and no less than 1500 people in the city working in the sector, many at the Solar Research Institute. However, it is Combined Heat and Power that provides the bulk of the energy, and hence the majority of the carbon emission savings.

What has happened in Freiburg owes much to the leadership of both the City's Director of Development Wulf Daseking and the city's Mayor, working together over several decades. Though the general pattern is one of municipal leadership, as in Kronsberg in Hannover, there are also examples of public-private partnership, such as the new settlement of Kirchsteigfeld in the suburbs of Potsdam to the East of Berlin. What they have in common is the greater availability of local finance, which in turn enables a much wider range of builders and tenures, and the provision of infrastructure in advance of development taking place. The Freiburg Charter has been drawn up to provide some lessons for British towns, and a key principle is keeping distances short by developing along transport routes.

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Conclusions

As well as taking groups from the East of England and elsewhere to visit many leading examples of new housing in Europe, URBED has worked with other professionals to draw out the lessons as to how they have been able to build sustainable urban extensions to higher standards and often at lower costs.[43] All the housing success stories have benefited from the greater availability of local finance, including control over the revenues resulting from development. This has enabled the provision of serviced sites with planning briefs, and the involvement of a much wider range of builders and tenures.[44] Low cost loans for infrastructure have helped to develop new industries, such as the Danish lead in wind turbines, the Swedish lead in prefabricated houses, the German lead in solar panels, and so on. Competitions are used to appoint developers on the basis of quality rather than price. Cooperative housing is much more commonplace, in which groups of people commission their own homes. This again helps speed up the process of building a new community, and takes away many of the risks. Co-ops in Freiburg have cut the costs by around 20%.[45]

Land represents a much lower proportion of development cost than in the UK, where speculation and competition between a limited number of volume house builders pushes up the price and encourages hoarding, and where the supply is restricted in part because power resides with the land owner rather than the local authority. Though planning often takes the blame, in fact it is often the lack of forward planning that leads to higher building and housing costs in the UK. The price of land in our case studies is determined as a proportion of the expected sales value at around 25-30%, and seems to apply in a number of North European countries (compared with 40-60% in the UK). Hence the profits are made from efficient construction and property management, not through speculation on land values, as too often in the UK. Builders focus on what they do best, that is meeting customer requirements efficiently, and local authorities on achieving the wider goals of community development, and not on trying to control all the details.

43 Beyond Ecotowns, URBED PRP and Design for Homes, 2008

44 Nicholas Falk, Beyond Ecotowns: the economic issues, www.urbed.co.uk

45 Learning from Freiburg, report for Cambridgeshire Horizons and Cambridge University, 2008

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3. Applying the lessons

This section looks at what needs to change in terms of the financial system and local authorities, to get our economy and urban areas back into balance and apply best practice in funding infrastructure.[46] Clearly while the UK is part of Europe, and shares a common culture, the institutions and ways of working are very different. This paper proposes harnessing the power of financial institutions to support quality growth, developing civic leadership in growth areas, and introducing a more strategic form of planning as crucial steps towards creating the kinds of places many visitors to Continental cities would like to emulate.

Harnessing the power of financial institutions

In 1997, when Labour took over government, the UK manufacturing sector accounted for 21% of lending from financial institutions and property accounted for 16%. By the first quarter of 2010 only 8.5% was to manufacturing and 43.4% to property.[47] Most of that property investment was concentrated in a surprisingly small area, as developers sought to build ever larger office blocks in the City and Canary Wharf. London over ten years attracted the same amount of new offices as New York did over a twenty five year period. At the same time, the number of large manufacturers shrank and two thirds are now foreign owned, partly as a result of corporate finance going into mergers and acquisitions. Informed commentators such as Will Hutton have argued that the high bonuses paid to bankers as well as shareholders' dividends in part come from asset stripping, and the depletion of our common wealth. Banks originally grew out of local endeavours, often promoted by Quaker families such as the Gurneys and Barclays Banks, which were founded in Norwich. But over the centuries, England's increasingly centralised private and public financial systems have sapped the resilience of our towns and their capacity to control their own destinies.[48]

It is now clear after the collapse of the banks that the illusion of British economic success over the last couple of decades came from living on credit or 'beyond our means' as well as from misjudged bank investments. Keynes has been proved right again about the failings of bankers, who, it seems, never learn from past mistakes. Unlike European countries that invested heavily in their infrastructure, and where there is much more of a Protestant work ethic, so that, for example, credit cards are used much less, British people generally went for consumption, preferring to import goods made elsewhere and to borrow against the value of their homes. The UK has therefore been hurt much worse than other European countries apart from the PIGS (Portugal, Ireland, Greece and Spain.) As industrial power switched from the West to the East the UK consumed its wealth, rather than adding to it by

46 The conclusions on finance benefitted from a study tour and workshop with Chris Brown of Igloo at their mixed use development of Bermondsey Square, and with staff at Coin Street Community Builders, as well as earlier work for Cambridgeshire Horizons and the Housing Forum. The conclusions for local authority leadership and management are drawn from a series of masterclasses that were run in Cambridge in 2010.

47 Ian Jack, Guardian November 22nd 2010,

48 Will Hutton, The State We Are In: Why Britain is in Crisis and How to Overcome It, Vintage, 1996

investing in infrastructure or new housing, as for example France, the Netherlands and Germany have done. Many of the UK's most productive businesses were broken up, while businesses gave away their traditional markets, such as the former Commonwealth trading block, in part thanks to an over-valued pound, which for example led multi-national businesses like Ford Motor Company to give up manufacturing commercial vehicles and small cars in the UK.

Accessibility to finance is not just about venture capital, where the UK used to do well at funding the expansion stage once firms have got going. Nor is it about domestic credit, where the UK exceeded all the comparator countries due to a continual expansion of consumer credit over the decade. Finance that should have gone into productive investment instead enabled British companies to be taken over and asset-stripped. It has also funded the equivalent of marble palaces for professional firms and government to occupy, largely in the centre of London. At the same time, outside London and the largest city centres, finance for development is hard to come by. Pension funds have avoided property investment while banks took their place, and speculators bid up the price of land (and property) creating a bubble of prosperity. House building has been treated as a Cinderella by the Stock Exchange, and both infrastructure and housing for rent, which require a long-term perspective, have suffered from the short-termism of both the government and the City.

Though the East of England has done relatively well as a region, it has suffered from being in the shadow of London. This dependency relationship has distorted house values and income expectations, and resulted in weaker companies and cities, through delays in building significant urban extensions and related new infrastructure, which would enable companies to attract the staff they need. Expected to give away equity, smaller firms have not been so keen to innovate and grow as their international competitors. Hence they are not making full use of the reservoirs of talent coming out of universities such as Cambridge. When they do grow, and are taken over by larger firms (often American), a number have been closed down to minimise competition.

The more localised nature of the financial system in Europe is one reason why European cities have benefited from much greater investment in business as opposed to property development. The huge rates of returns sought by the great national bank conglomerates could never be achieved through ordinary businesses. Even when they survive, subsidiaries of multi-national companies have lost their independence and civic involvement, and no longer create the kind of enterprise culture found in Emiglia Romagna or Baden Würtemberg. The manufacturing businesses that are left, such as Vauxhall in Luton, or even Toyota in Derby, are no longer in the same league as Mercedes in Stuttgart or BMW in Munich or DAF in Eindhoven. The culture of most large English cities no longer favours engineering, so where it can be found, in smaller cities, it needs to be prized and celebrated - for example by building strong links with local colleges and encouraging networking.

If the UK restructured its investment banking system, as many are proposing, there should be great opportunities to revive local traditions, and tap into local capital. Thus pension funds have investments worth more than the GDP but only 7% is in property. In contrast most of the UK's personal wealth is tied up in housing, of which two thirds is owned by the over 55s, many of whom are 'empty nesters'. Equally worrying, as David Willetts points out, UK personal savings rates have been negative since 2005, and before then in 1990 were a fraction of the levels in France and Germany (3.9% of household income compared with 9.4% and 12.9% respectively.)[49] By mobilising capital tied up in under-occupied homes, and providing the seed capital needed to get innovative projects going, for example to support 'cohousing groups'

49 The Pinch, David Willetts, Atlantic Books, 2010

or district heating schemes, developments that are blocked could be restarted and new sources of private finance tapped. Those living on fixed incomes could also feel more comfortable about their old age. Similarly, through the public sector putting the land it owns as equity, and deferring returns, local authorities could secure better value from some of the land they own (which in Cambridgeshire is worth more than £1 billion). But this requires leadership at a local as well as a national level, as well as some devolution of control over public finance and public land to local authorities.

Exercising creative leadership

All four European case studies show that it is civic leadership, not national government or the private and voluntary sectors, that has been the driving force behind sustainable (or quality) growth. City authorities have created places where entrepreneurs (both private and social) feel at home and want to grow, as smaller cities like Montpellier and Freiburg exemplify. By avoiding a culture of dependency (often associated with the dominance of once large employers like steel works or coal mines) and creating a more open and diverse society, creative businesses start and thrive. Such places appeal to what Richard Florida calls 'the creative class', and significantly no less than one in six jobs in Colchester are said to be in this sector, while Harlow is the main office for Pearson's huge educational publishing arm.[50]

In the past it was the Agnellis in Turin, the Cadburys in Birmingham or the Mellons in Pittsburgh that sponsored a legacy of cultural landmarks. Today their influence has waned. Instead cultural or creative quarters have grown up where small enterprises have filled the vacuum left by larger organisations moving out. Local authorities have sometimes helped by turning large buildings into business incubators, or upgrading the public realm, or by making civic buildings available to community groups[51] Robert Putnam first discovered 'social capital' in explaining why towns such as Bologna in Northern Italy were so successful[52]. But he could have equally found it in the 'work ethic' in Flemish or Scandinavian cities such as Lille in North East France and Gothenburg in Sweden, where businesses, universities and local authority leaders work together for the common good, as LEPs are supposed to. Such an ethos may also apply to smaller English cities where there has been a tradition of making things, not just money, and where there are still independent companies, and a growing number of social enterprises.

Comparative studies, such as of textile and clothing companies, have suggested there seems to be more pride in modern engineering and good design than in money making. Companies are run by engineers not accountants, and are often family owned.[53] Marketing campaigns are used in France to support new infrastructure and express the benefits, such as the significant contribution to jobs of nuclear power, and affordable, if not cheap, energy. Promotion has gone beyond advertising and PR to include tours of nuclear plants taken up by six million people. In other words the French do not just rely on Government announcing a policy, and making a deal with a major company. Local taxes are used to secure contributions from employers, such as the Charge de Versement. Generous compensation is used to overcome local opposition from property owners.

50 Richard Florida, The Rise of the Creative Class, Basic, 2002

51 Pillars of the Community The Transfer of Local Authority Heritage Assets, English Heritage, 2011

52 Robert Putnam, Bowling Alone: The Collapse and Revival of American Community, Simon & Schuster, 2001

53 Nicholas Owen, A comparative study of the British and Italian textile and clothing industries, DTI, 2003

In the UK business has by and large been left to itself, firms complain about the lack of skilled staff and the poor quality of infrastructure - particularly delays in getting to work - but generally play little role in how the place is run. There have been some steps towards engaging businesses in Business Improvement Districts, influenced by American experience, but such approaches do not always work so well in the medium sized towns and there are relatively few BIDS in the East of England. With a new stress on localism coupled with declining local authority resources, employers and property owners may be forced to collaborate if only to avoid their assets losing value.

The Home Counties, with their high house prices and highly skilled residents, should therefore lead the way in promoting sustainable development and in property owners collaborating with each other to fund better infrastructure. It is only through investment that they can maintain and make the most of the superior quality of life their towns still offer, and in so doing appeal to both new and existing residents. The leadership masterclasses URBED ran in Cambridge in 2010 on sustainable urban extensions in Amersfoort, Freiburg and Newhall Harlow, brought out three common lessons – which form an ABC of leadership:

- Successful cities start with the **ambition** to create quality places. They do not put up with the second best. Nor do they simply react to unwanted developers' schemes. Their ambition is founded on a realistic assessment of what is possible, often refined through visits to comparable places. The process is led by local authorities, not just driven by government targets but can be encouraged by seeing what others have achieved.
- The local authorities act as **brokers** and pursue a **balance** of objectives and schemes. Hence they secure benefits for their existing communities, not just those wealthy enough to afford a new home or office. Planning for infrastructure and development go hand in hand, and new developments can encourage people generally to change their attitudes and behaviour, for example by using their cars less. But this depends on local authorities being able to raise funds locally, and benefit from local economic growth, so that a quality public realm is put in place before development starts. Acting as a broker also requires a good understanding of the different objectives and ways of working of each sector.
- Finally successful places practise **continuity**. Many of the same team of officers and councillors are involved over several decades, and are not subject to the Punch and Judy show of politics. Case studies show regeneration takes a generation, and cannot therefore be secured through a succession of consultants however talented, or through continual reorganisation.[54] Place-shaping skills can be acquired, but it needs time to put them into practice. It helps if there is a culture of working in partnership, rather than the adversarial system that has grown up in the UK. There also need to be mechanisms for maintaining development momentum that can outlive changes in political control.

Achieving quality growth

The lessons from Europe suggest that the UK needs to change the way it procures development. Implementing the 'Big Society' depends crucially on devolving real power to localities, rather than just relying on volunteers to run services. Climbing out of the recession depends on local authorities playing a more proactive role, particularly in the agglomerations around London and the smaller cities around the Core Cities such as Leeds and Bristol, so that businesses that compete internationally are not held back. Much of the East and South East lie in what used to be called the Home Counties, where many of the residents earn their living in London. Current trends, which include rapidly rising rail fares and energy costs, as well as traffic congestion, could

54 Towns and Cities Partners in Urban Renaissance Initiative, ODPM, 2001

'nudge' people towards a more sustainable way of life; for example, by encouraging higher levels of 'containment' with more people working closer to home. Similarly local authorities could induce people to leave their car behind through 'smart' parking policies that charge the full economic costs of providing parking spaces (as in Freiburg, for example) and reinvest the proceeds in quality transport corridors.[55]

The ingredients needed for smarter or quality growth have been spelt out in other papers, for example *The Steps to Quality Growth* produced for Cambridgeshire Horizons and so will not be repeated here. There are four simple messages for government:

1. reform targets
2. incentivise collaboration
3. encourage institutional investment
4. enable local authorities to invest in (or pump prime) sustainable development.

Each one of these involves a host of changes, which will inevitably be opposed, given the British habit of saying 'no', but a start is already underway. Local Economic Partnerships could play a key coordinating role provided they have access to some finance. They need to be part of a more contractual system between central and local government as in the Netherlands (rather than the current lottery which deters collaboration and wastes scarce resources). It would be tragic if we not only threw the baby out with the bathwater, but also allowed the 'civic bath' to rust away through disuse.

Fixing the infrastructure deficit

The most powerful objections to building more housing in the South East and around some of our other conurbations are that the supporting infrastructure is over-stretched, and that we cannot afford to fix it. An over-complex planning system did little to overcome doubts. Instead of building planned urban extensions, we ended up 'grabbing gardens' and spoiling many traditional suburbs. Yet it is possible to join up development and infrastructure investment, as on the Continent, provided that the benefits do not leak away in inflated land values but go instead into building better neighbourhoods.

The UK now faces a much greater series of challenges than when Labour took office over thirteen years ago. It has not only to pay off existing loans, but also to become less dependent on imports, while at the same time rebuilding its productive capacity and infrastructure. Our limited successes in exporting medicine, petrol and other fuels, and cars (which account for the bulk of our exports) could easily be eroded (as Pfizer's withdrawal from Sandwich illustrates) and we are not operating in the fastest growing markets. Offgen have estimated that rebuilding our power supplies could add 25-60% to energy bills. A similar dilemma applies to transport, where fares are rising rapidly without any real guarantee that services will improve. Hence it is vital to find local solutions where possible, and to join up development and infrastructure so nothing is wasted.

Despite endless enquiries and reports and perpetual reorganisation the UK has lagged behind other major industrial nations in a number of respects, particularly as far as quality of life or well-being is concerned, much of which is bound up with the lack of investment in infrastructure. This paper has argued that as the UK has neither the new homes nor dynamic businesses needed to pay its way, investment in infrastructure has to be used not just to cut carbon emissions, but to achieve wider economic and social aims. In focusing primarily on our old industrial cities, and their old inner areas, we have neglected securing quality growth in smaller cities within easy range of them, unlike the

55 Richard Tihaler and Carl Sunstan, Nudge, Yale University Press, 2008

Netherlands. In relying on financial and business services and individual enterprise for private sector jobs, we have missed out on developing the real economy and co-production, as in Scandinavia for example, where homes are largely built under cover in factories, not on muddy sites. In getting local authorities to bid against each other rather than collaborate, we have missed the benefits that come from developing sustainable conurbations, as in Germany. In trying to run everything from the centre, we have failed to grow our smaller cities.

The report from the McKinsey Global Institute calls for a spatial shift of control, not just tokenism.[56] *'Ensuring broad based growth also means taking steps to grow the cities that were responsible for 78% of UK's economic growth over the past decade and in doing so ensure much greater city-wide coordination and financial responsibility.'* McKinsey's chart shows that the regional differences in the UK are twice those of Sweden, and are only exceeded in Europe by Ireland. So for all the efforts to reduce regional disparities, we failed to crack the problem of using development to overcome historic imbalances and secure smarter growth. Planning has been seen more as an exercise in analysing and mapping statistics than making strategic choices in a coordinated way. This needs to change.

One of the seven priorities in the McKinsey report is to *'unlock infrastructure investment'* which businesses say holds back the UK more than even skills. There is a huge infrastructure gap to be filled, and it is this investment, rather than consumption, that should be driving the resurgence of the British economy. If transport and energy between them require some £500 billion of investment over the next twenty years just to meet expected demand and replace obsolete equipment, this is surely a huge market to go for. In Cambridgeshire alone, the costs of upgrading infrastructure exceed the costs of building the new housing that is needed.[57] Given the inter-relationship between infrastructure and development, including upgrading our housing stock, the only feasible route out of the current impasse is joining up spending on infrastructure and development at the local or sub-regional level. This needs to be done in ways that support business growth and create jobs, and reduce carbon emissions or energy consumption.

The infrastructure deficit in part is due to the inefficient way development has been procured. Government spending is amongst the most centralised in the OECD countries, and studies of individual sectors, such as the railways, have shown we get low value from what is spent. Thus railways cost 15% more to build in the UK according to the McNulty review of value for money. We waste funds on endless studies on trams, whereas every provincial city in France seems to have one, providing the basis for an industry that can then compete in world markets! Assessments of the Private Finance Initiative, and comparisons of the cost of building public transport systems, have found high 'transaction costs' which invalidate any potential savings from reduced maintenance costs. There has been a widespread failure to link transport investment and development so, for example, even when £120 million was spent on the Cambridge Guided Busway, the new town of Northstowe, which it serves, remains a paper plan.[58] In short we have lost the skill to do 'quality deals' in which the public sector says to the private sector 'we will do this and this, if you will do that'.

56 McKinsey Global Institute, From Austerity to Prosperity: Seven priorities for the long term, November 2011

57 Long Term Delivery Plan, Cambridgeshire Horizons, 2008

58 Michael Taplin on Light Railway Systems, referred to in a report for the House of Commons Library summarising different studies, April 2010

Conclusion

Cities that want to grow and prosper should look towards European cities for inspiration, particularly to those cities that have not only done well economically, but also managed to build sustainable urban neighbourhoods. The Continental business model for building new housing offers an alternative to the British system for funding property development, which is blamed for much of the mess that the UK is currently in.

Case studies of places as diverse as Montpellier in France, Copenhagen in Denmark, Amersfoort in the Netherlands and Freiburg demonstrate that these cities are not unique, and have some surprising similarities. They show how to benefit from the uplift in land values through extending places where people want to live and work, using high quality rapid transit systems, and clear but flexible masterplans and development frameworks. These in turn depend on local leadership to overcome conflicts, speed up well-considered development, and ensure that the private sector builds to the quality standards needed to create a balanced community.

4. Who needs to do what?

This final section looks at what tools or mechanisms are needed to achieve a transformation that is a step change in quality growth. How can the potential of smaller cities be realised and the lessons from European good practice applied when public funding is being cut so drastically? There is, of course, no simple solution, and to be effective a number of tools have to be applied together. This section sets out seven proposals, which would help turn the aspirations in the Local Growth White Paper and the Localism Bill into reality without sacrificing people's quality of life or risking a prolonged recession. In short these are:

- Encouraging municipal leadership at both the sub-regional and neighbourhood levels through strategic growth plans, concordats with government, and public private joint ventures
- Providing new sources of finance through municipal banks and infrastructure bonds, as well as local charges and a relocalisation of the Business Rates.
- Learning from best practice including skills academies and local development agencies.

1. Strategic growth plans and concordats

Local Enterprise Partnerships need to be more than talking shops. If good people are to commit time to them, they have to be given some teeth so they can orchestrate development, and help remove blockages. The first necessity is to agree on a long-term investment programme not just with the big cities, but with all the strategic growth areas. Far from laying down a comprehensive blueprint or masterplan that relies on a single 'grand project', cities should promote 'organic growth' that is effective, equitable and efficient. They should do so within a development framework that acts like a trellis in encouraging smarter growth, based on enterprise and innovation. Working as teams, rather than depending on mercurial individuals, they should be opportunistic in supporting proposals that strengthen their economies, such as major housing schemes, but firm in opposing developments that would drain life away, such as out of town shopping centres. Sub-regional spatial plans need to provide a clear sense of direction to ensure that public investment plans are fully coordinated with private investment decisions.

URBED's research into regeneration in European cities for the Joseph Rowntree Foundation discovered that the places that look (and work) best are the ones where there is a tradition of civic leadership as well as corporate responsibility.[59] We examined Lille and Roubaix in relation to Leeds and Bradford, Gothenburg and Newcastle/Gateshead, and Rotterdam and North Southwark – all places that shared a similar history and that had experienced the decline of their main industries. A key message was the need to devolve powers and resources, as well as responsibilities, to city authorities (which could be the County Councils or the new Local Enterprise Partnerships in areas where smaller cities predominate), instead of consulting endlessly over plans that come to nothing,

European local authorities work in partnership with large and small businesses and centres of learning because they have strong economic incentives to collaborate. The proposed 'duty to collaborate' is not enough. Civic leadership does not necessarily require a directly elected Mayor, but it does require a leadership team that fosters and maintains a culture of collaboration over many years. Thus Birmingham (which Jane Jacobs praised for its resourcefulness in the 19th century) had the courage in the late 20th century to downgrade its inner ring road and promote a series of quarters connected by a high quality

59 Christopher Cadell et al, Regeneration in European Cities, JRF, 2008

public realm, using the National Exhibition Centre as equity in promoting the Convention Centre.[60] In the East of England Norwich was the first British town to pedestrianise its centre, inspired by German models and tapping into European programmes to encourage living in the centre. But these examples of quality growth are rare, possibly because the peculiar British financing system makes it so hard to create 'quality deals' in which all the stakeholders benefit (not just those putting the deal together!). Planning has become divorced from budgeting, and in trying to tie everything down, we have lost the flexibility needed for development to proceed.

Local Enterprise Partnerships can only succeed if there is an agreement between central and local government over where to concentrate limited investment funds over the years ahead. They can learn from models such as the French 'contrat de ville' or the Dutch Big Towns policy how to set up contractual relationships that provide all the stakeholders, public and private, with sufficient incentives and confidence to play their parts. Rather than trying to do everything at once, LEPs should begin with securing agreements or concordats for the places whose growth plans are furthest advanced such as those along the M11 Corridor. As the ground work has been done in preparing regional strategies and also Local and Multi Area Agreements, it should not take long to ratify a series of growth areas and corridors that contain the places (and companies) that are best placed to grow. The places that sign up to concordats should then be eligible for fiscal incentives, such as tax breaks in Enterprise Zones, or funding not just for a year ahead, but for periods of 5-10 years. One source would be to provide a slice of the Business Rate to the Local Enterprise Partnerships, who would be best placed to decide where to focus a share of the income generated by business.

The greater level of certainty from contractual agreements or concordats will be key to attracting institutional investors into the private rented housing market, which in turn is fundamental to growing successful communities and thus recovering the initial investment. It is also essential to inducing utilities to invest. The UK must use strategic planning as we did in the last World War to focus enough resources on the few fronts where we have a hope of winning, rather than spreading our limited capital and expertise too thinly to make any difference.[61] The mass of people were engaged then because of a sense of urgency and a common threat. At present there is a growing mood of despondency, but we should remember that Napoleon said *'leadership is about giving hope'*, while the American economist Galbraith suggested it was '*the willingness to confront unequivocally the major anxiety of their people in their time*.' In a downturn plans must shift from trying to regulate everything, to enabling communities to share in the fruits of investment.

2. Public private development partnerships

Investment depends on collaboration, and in the foreseeable economic climate it is the public sector that needs to provide the lead. Instead of the wasteful adversarial approach that characterises planning and development in the UK we need to encourage development partnerships between the public and private sectors, and the East of England with its high demand for new housing should be showing the way. The Growth White Paper states that *'house building investment has for decades been constrained by the lack of land supply, and the lack of house building-enabling infrastructure'* which leads to the housing output in the UK being amongst the lowest in the developed world - 3.5% of GDP compared with 5.5% in Germany and 6.25% in France, or almost twice the British level.[62]

60 See report of The Highbury Initiative, 1988, URBED and DEGW for Birmingham Council and the City Acton Team.

61 Andrew Marr, The Making of Modern Britain, 1900-1945, Macmillan, 2009.

62 Local Growth: realising every place's potential (p50), HM Government, October 2010

The White Paper looks to public private partnerships to manage development, with a particular stress on 'green, low carbon economic growth'. There is talk of local enterprise partnerships taking on a strategic planning role. But these will only work if the risks and rewards are shared equitably. Huge amounts have been invested in masterplans that will never materialise, and there are few companies around any longer with the appetite and capacity to lead major developments, or participate in fruitless bidding rounds. Banks will not invest in property again until they have digested all the bad loans. Hence the public sector has to take the lead in **de-risking** development, for example by guaranteeing the provision of physical and social infrastructure, providing serviced sites that are ready to go, and making land available on attractive terms, for example by investing it as equity.

Getting the UK in line with Continental practice above all depends on the Treasury letting go of some of the reins. At present the system for allocating grants leads to waste, for example in land that is reclaimed and then stands idle for years. The problem is not design (where the UK has some good urban designers and architects) but the procurement system. Comparisons between similar developments in Hammarby-Sjostad in Stockholm and Greenwich Peninsula in London (which was masterplanned by Ralph Erskine, an Englishman who lived and worked in Sweden) showed that the Swedes are building at some five to ten times the rate. In part this is because there is a much larger private rented market, and a larger choice of developers.[63] As a result, the higher investment in advanced infrastructure up front is amortised far faster, and the profit rates can be reduced because the risks are much less. But it is also because of our adversarial and legalistic culture, which encourages landowners to be too greedy. Much greater status and rewards are given to accountants and lawyers than to engineers or planners. There is also a culture that prefers safe investments in 'bricks and mortar' than in productive enterprises.

A different approach to procurement would lead to better quality and lower costs. Much higher levels of productivity are needed to pay good wages and reinvest in infrastructure, and there are glaring differences in the way new homes are built in the UK and on the Continent. Continental cities see their role as orchestrating growth and providing serviced sites for development, whereas the UK (and the US) relies on the private sector taking all the initiative.[64] House builders in the UK compete for sites, and have been expected to fund the considerable infrastructure through Section 106 agreements, as well as pay much higher interest costs on the funds they borrow for construction. As a result they bid up land prices, and build smaller and worse-equipped homes than on the continent, which as a consequence are not as popular as older homes.[65] House builders naturally resist adding to the building costs by making new homes carbon-free or using modular methods of construction, and point out that customers will not value the improvements or faster rates of building. As half the homes are built by just five companies, (in effect an oligopoly) it is not surprising if they play safe, and seek to profit from scarcity, or invest the minimum up front to secure an adequate return on investment.

It will be important to work up schemes that are resilient enough to withstand shocks, for example by focussing on strategic growth areas where capacity is in place or planned, not just the places where land is cheap or planning permission is already available. These will typically involve extensions to existing towns and cities, such as are proposed for Ely and

63 Nicholas Falk, Beyond Ecotowns- the economic issues, URBED 2008

64 Beyond Ecotowns, PRP, URBED and Design for Homes, 2008

65 Sustainable Urban Neighbourhood: building the 21s century home, David Rudlin and Nicholas Falk, Architectural Press, 2009

St Neots, or Harlow North, or for land at Houghton Regis near Luton off the planned A5/M1 link road. Such schemes, which would be comparable with the European case studies, may not happen for decades given the current uncertainties. The principle of 'worst first' must be dropped. Instead local authorities should work in partnership with private developers (and housing associations) to pick opportunities for investment that are capable of servicing and repaying long-term loans. By taking a long enough time span (some 20 years), projects can benefit from the uplift in land values following the upgrading of infrastructure, and improvements to the public realm. They can also outlive financial and property cycles.

By planning holistically (which means giving equal weight to economic, social and environmental considerations) projects not only change an area's image, but can also remove the barriers to sustainable growth. Almost coincidentally, 15-20 years is exactly the time horizon needed by long-term investors such as pension funds and insurance companies. Hence by 'de-risking' major developments it will become possible to release funding for schemes that embody the qualities of 'building to last'. This will require the Treasury to follows European practice of not counting locally raised loans against government debt, and distinguishing between good and bad debts in terms of the risks and rewards involved. A good place to start would be to examine how European 'municipal banks' work, and how their record of successful investment compares with out own.

3. Infrastructure bonds and municipal banks

A review of banking is underway, and proposals have been put forward for a Green Investment Bank, but so far without access to enough funds to make much of a difference. Instead of seeing the City of London as our main economic saviour, we should be looking to growth cities. Connectivity is key to quality growth in our European case studies, and there are plenty of examples in the UK where investment in better infrastructure has paid off, such as the links between Bury and Manchester. But where is the funding for enabling infrastructure to come from? European rules closely regulate how local authorities should deal with private businesses. Auctioning off sites to the private sector can conflict with securing quality. The answer lies in adopting the kind of funding and development agreements widely used in Northern Europe. By using land as equity, the public sector can share in the long-term benefits of planned growth, like the landed estates of old. This would also help those without much equity, such as first-time buyers, to make a start. The Local Economic Partnerships should be taking the lead in areas with identified growth potential, or where new infrastructure is proposed. This could include raising funds for locally driven projects that tap Combined Heat and Power (as proposed for St Neots, for example), and for some rapid transit schemes.[66]

66 Getting to Yes, report for Cambridgeshire Horizons and URBED workshops, 2010

To secure smarter growth, that is where infrastructure and development are joined together, long-term loans need to be repaid out of the land value uplift from strategic planning. The gains should not be lost through speculation. The French experience is particularly instructive, because public investment in infrastructure has integrated the high speed trains that link all the major continental cities with new trams in most of the major cities such as Montpellier, Bordeaux, Nantes and Strasbourg. Not only is expenditure on transport investment some 40% greater as a proportion of GDP but the President is also committing a billion Euros in loans to local authorities for the development of 'eco extensions'. The loans come from the Caisse de Depots, which is the bank municipalities draw on, and which attracts deposits from individual savers (like our Building Societies). The way infrastructure is planned and resourced in Europe is developed at length in a forthcoming book.[67]

The benefits of linking development and transport together were clearly seen in Montpellier, where land acquired by the municipal authority at its existing use value was then resold to help repay the costs of the new tram. Similarly the expansion of Portland in Oregon as a centre for high tech firms is based on the Metropolitan Area Express, a rapid transit system known familiarly as MAX. In this case municipal bonds were used to fund extensions thanks to Tax Increment Financing (which the Coalition Government supports) but including tax proceeds from new homes as well as business.[68] Local authorities in North America use their borrowing powers to fund projects that enjoy popular support, with the loan secured against the income from future property taxes from homes as well as businesses.

Unfortunately the level of funding that could be raised through the Community Infrastructure Levy and Business Rate Supplement will not be sufficient to fund major regeneration projects.[69] There is simply not enough land value uplift to cover the costs of reclaiming derelict land and remedying the lack of infrastructure on former industrial sites. But the situation in growth areas such as the smaller cities in the East of England should be very different, particularly if funding is used to acquire land alongside new infrastructure. Serviced sites can then be sold off after 15 or 20 years to repay the bond, and used in the interim to generate revenue to service the bond (such as from park and ride sites). Private project linked bonds are attractive to private investors because they can be inflation proofed, and yield a higher return than government debentures. By assessing both the project and the borrower, bonds achieve greater responsibility and better performance than the currently over-complicated arrangements of the Private Finance Initiative.

Public-private partnerships such as the French Societes Mixtes led by local authorities dispel the ideological opposition that plagues major projects in the UK as the risks and rewards are shared. Investment banks such as the Caisse de Depots in France or the Bank Nederlandse Gemeenten (BNG) in the Netherlands, or the European Bank for Reconstruction and Development make better decisions on projects than civil servants, as projects do not depend on bidding against narrow departmental objectives, but on a thorough economic assessment. Almost every European country except the UK has a bank specializing in funding investment projects promoted by local authorities, often taking advantage of European incentives schemes such as JESSICA, which match other public sector funds.

67 Nicholas Falk, Masterplanning and Infrastructure in New Communities in Europe in Urban Design and the Real Estate Development Process, ed. Steve Tiesdell and David Adams, Blackwell-Wiley 2011

68 Local Growth: realising every place's potential, HM Government, October 2010

69 Unlocking City Growth, report with he Core Cities Group, PWC, 2008

The Coalition Government said it was going to set up a Green Investment Bank to fund the move towards a low carbon economy, which would be capitalised with an injection of several billion pounds. While this sounds promising it is still small in relation to the £120-170 billion that the CBI reckon is needed to replace and extend our energy infrastructure.[70] The UK's Committee on Climate Change indicates that £20-30 billion needs to be invested, and we are currently less than a third of that level.[71] Indeed, Oftgen has calculated that £32 billion needs to be raised by 2020 simply to fund the 'smart grid' needed to make use of renewable energy such as offshore wind farms. Currently the average yearly household energy bill is £1200 and this could rise by 60% in 2016, which should make the return from saving energy locally very attractive so long as an agreement can be negotiated to justify the local investment.[72]

The move towards Tax Increment Financing is an important element, provided local authorities can access sufficient local sources of finance to make it work, and the incremental income is not defined too tightly. As a country we do tend to cut red tape lengthwise! Whether the finance comes from tapping into the uplift in land values, as in Copenhagen, or a share of local income tax, as in Malmo, or a charge on employers, as in France, or sharing the proceeds of the Business Rate, there has to be a means of underwriting loans if the funds are to be raised at low enough rates (say 5% rather than 7% given current rates of inflation). The government needs to free up local authorities if its proposals in the Localism Bill are to have any hope of increasing the stock of housing, and securing efficiencies from public investment. It should also be in a position to encourage some of the banks (particularly those that are in public control) to follow the Dutch, French or Swedish models. After all, investors, such as pension funds, would benefit from rental growth extending beyond the usual business cycles, and from funding infrastructure projects that the UK badly needs.

4. Local charges and taxes

The government is under considerable pressure not just to devolve responsibilities but also some powers over resources, and a further review is planned of the Business Rate. When it was 'nationalised' by a previous Conservative Government, it made the UK one of the most centralised economies in the world. Thus local government only controls 25% of public expenditure compared with 35% in Germany and 42% in the USA. As the McKinsey report comments, *'Given the urgency of supporting growth across the UK, now is the time to experiment with options'*. As well as capital funding, local authorities also need to cover the current costs of putting together schemes, as well as allow for contingencies if projects do not work out as planned. It is therefore critical to develop new sources of local finance to avoid all the failings of centralised funding. Once local authorities are able to make judgements on priorities, rather than enter an ever changing lottery, there should be savings in terms of consultancy costs on abortive projects as well as the extra value that comes from infrastructure, economic development and housing being joined up. An important element in devolving power to local communities is opening up new sources of local revenue.

70 CBI Decision time: driving the UK towards a sustainable energy future, July 2009 [http://climatechange.cbi.org.uk/uploaded/CBI_DecisionTime_WEB.pdf]

71 The Green Gold Rush, Guardian 13/10/10 [http://www.guardian.co.uk/globalcleantech100/technology-driving-economic-growth]

72 Every household faces £60 bill to rewire Britain, Guardian 5th October 2010 [http://www.guardian.co.uk/business/2010/oct/04/every-household-faces-bill-rewire-britain]

As the Coalition recognises, Britain suffers from too much centralisation, but it has not yet opened up local sources of finance to prevent even more power accumulating at the centre.[73] The easiest way of giving local authorities the incentive to care for their local economies is to enable them once again to control how the business rates they collect are spent. One way that would still allow for a degree of redistribution would be for government to take half in the form of a property tax, while the remainder goes to the County or Unitary Authority in the first place.[74] The business rate could then be varied within a preset limit to allow local authorities to raise funds for capital projects, using Tax Increment Financing to enable loans to be raised at rates that make infrastructure projects viable, and without having to prove additionality. The government's concern for Britain to be a leading 'green economy' could be achieved by enabling certain forms of expense, for example investment to save energy, to count against the rate bill (rather as charities can already secure reductions). Incidentally as the rate system predates local government, going back to the 13th century, there is a very strong case indeed for reinstating the ancient links there used to be between businesses and local authorities as in most of the rest of Europe and North America.

Other charges that local authorities can influence, such as car parking, could be adjusted so that they favour smarter growth, for example by imposing higher rateable values (and hence charges) on out of town developments as a means of supporting investment in areas that can be economically served by public transport, walking or cycling. The RICS is looking at the way property valuations are made, and this seems a relatively simple adjustment to make. There is also a strong case for learning from countries like Sweden and France and enabling local authorities to make a charge on employers' payrolls to cover extra expenditure they benefit from. Such a charge may well require collaboration between adjoining authorities, and may require some form of check in the form of a ballot of employers, not unlike the procedure used for setting up Business Improvement Districts or perhaps funding CrossRail. Alternatively, if a new source of public taxation is needed, there is much to commend Land Value Taxation, but applied only to areas where growth is planned to avoid penalising declining areas.

5. Quality charters and lifetime neighbourhoods

The government has rightly cut a number of targets, and is trying to shift responsibility to local communities. Reducing energy consumption is critical to national prosperity, and instead of focussing on individual homes we need to be tackling areas of existing as well as new homes where major savings can be made. Cambridgeshire's *Quality Charter for Growth* is inspiring a number of imitators and offers a practical means of enabling communities to sort out not only what new communities should look like, but also how they should perform. Much of the resistance to house building in the UK has been due to a dislike to what has been built, including homes that are too cramped and that do little to create balanced neighbourhoods. At the same time far too many people are trapped in places they would not have chosen or cannot afford. Not only do we have to design to the higher standards found in Europe, but we also have to bring the costs down to a level where they are more widely affordable. The UK has a lot to learn about securing better value from investment and avoiding 'eco bling'.

73 McKinsey Global Institute, From Austerity to Prosperity, 2010

74 Nicholas Falk, Smart Growth and Intelligent Local Finance, TCPA, 2004 [http://www.urbed.com/cgi-bin/get_binary_doc_object.cgi?doc_id=224&fname=extra_pdf_1.pdf]

The notion of building to charters has a lot of appeals. Instead of relying on private developers taking all the initiative, and then ending up in expensive and time-wasting public inquiries, municipalities can set out what they expect after extensive consultations. Standards can be proposed, such as Building for Life, and development briefs drawn up for strategic sites to create places that have enduring value. In turn this will make it easier for people to move as their circumstances change, without losing all their friends and neighbours. Encouraging greater flexibility and movement in what is currently a stalled market would not only help young people get on the property ladder but would also enable older people to move into modern houses that are cheaper to run, thus making it easier to live on a fixed income. We should be aiming for Lifetime Neighbourhoods where people can move as their circumstances change without losing the friends and connections they have built up.

In the Netherlands, where the housing stock has been increased by almost 8% over the last ten years, new housing costs much less to run. All properties have to be assessed in terms of their energy consumption, and long-term contracts are entered into for renewable energy at prices that have to be 'less than else'. This should appeal to private pension funds, as by tapping into savings for retirement (including perhaps some form of equity release on private housing) we could unlock a wealth of private finance. A system for assessing neighbourhoods in terms of their expected running costs would help in getting the housing market going again, as it would identify the places where there is the greatest scope for values to rise (whereas at present some new developments are being down valued by short-sighted surveyors.) It would also highlight places where housing is expensive to run, and where occupiers should either invest or move to a more manageable home.

Another important aspect of a sustainable urban neighbourhood is being able to walk safely and pleasantly around the neighbourhood. One reason why people prefer to live in towns on the Continent is the way in which communal space is managed, and the sense of community is maintained. There is less investment in dedicated community facilities, but more reliance placed instead on schools and sports associations. Where residents have been engaged in commissioning their own homes and the communal spaces between them, there is much less anti-social behaviour, and less need for policing.

In moving towards a 'Big Society' much more use must be made of what is called 'social capital', which comes from local transactions. Small towns and villages work well where everyone knows each other, and where there are plenty of associations to meet different needs, from choirs to allotments. In growing places, instead of burdening a development with unnecessary costs, such as a community centre, it would be far better to endow foundations or trusts for activities such as arts and sports that help people develop a common identity or sense of community. Taking responsibility for communal spaces works well in Freiburg, but also in Amersfoort, where an Arts Foundation helps residents get to know each other. In turn, greater social interaction develops the skills and knowhow needed to find a role in a knowledge based economy. This would avoid the stigmatisation associated with separate blocks of social housing or the danger of successful places becoming too exclusive. Community or development trusts endowed with property assets can play major roles in both the regeneration of older communities and the creation of new ones, and were seen as an essential element in the development of 'urban villages', as promoted at one time by the Prince of Wales.[75] Ongoing work for the Joseph Rowntree Foundation, and research into managing mixed communities suggests that investment in the soft

75 Economics of Urban Villages, Urban Villages Forum 1998

side of development, for example places to meet, is as important as the bricks and mortar to creating a successful new neighbourhood.[76]

6. Skills academies

Localism and the idea of a Big Society cannot succeed without some support for changing behaviour. While a whole host of support agencies have been scrapped (including the Regional Centres of Excellence that took so long to establish) and others such as CABE are being scaled back, it is not clear how the capacity to manage quality growth is to be supported, apart from a network of community organisers and some backing for neighbourhood plans. An important ingredient for making the transformation towards smarter towns and cities are teams of people that have the necessary vision and skills to put ideas into effect. These include not only the people to design more sustainable communities but also those who can build (or upgrade) homes so they save energy. McKinsey estimates the number of 'green jobs' in the building sector as at least 100,000 nationally, and the potential will be greatest in the South East. But with higher levels of mechanisation, more skills will be required. There is no way this can be achieved through targets, manuals or awards on their own, though they have a role to play in disseminating good practice.

At the very time when ever higher standards are required in unfamiliar fields, Local Delivery Vehicles are being dissolved, and most of any savings will go in pension contributions. Staff with experience of major developments and regeneration are being made redundant, and those with jobs are often wasting their talents and training abroad. It is therefore vital that some resources are put into the 'software' of development, and what we call 'looking and learning together'.

Those involved in European towns and cities are better informed because they not only train together, but also spend more time going to visit other places, such as Copenhagen or Freiburg. Those planning new projects are not held back by the fear of being criticised for wasting public money. They are also helped by colleges that link international knowledge with local situations, or what the Academy of Urbanism calls UniverCities. Yet universities are losing funding, and it is most unlikely that businesses or charitable foundations will fill the gap. Indeed what capacity there is could easily be squandered as people attempt to create new plans in complete disregard of previous work.

Successful international companies, like Skanska, the third largest contractor in the world, have been at the forefront of building to much higher standards, for example using prefabrication to the full, because they have gone down the 'learning curve'. They have been encouraged through publicly funded measures such as Building Exhibitions and Expos, like the one at Malmo, where Bo01 provides a living model of what an 'eco town' could be like.[77] Companies are understandably reluctant to spend time and money on abortive bids, but are influenced by being able to see what works. With the abolition of the Regional Development Agencies and bodies such as Inspire East, and the promotion of Neighbourhood Plans, local authorities need to support the formation and maintenance of networks that bring people with common interests together, and that enable local authorities to set standards that are affordable and add value. This is time well spent, and needs to be publicly funded.[78]

76 See for example the experience of the Sustainable Urban Neighbourhoods Network, and Managing Mixed Communities, URBED and the University of Westminster for English Partnerships and the Housing Corporation, 2008, www.urbed.co.uk

77 Learning from Copenhagen and Malmo, URBED for the TEN Group, 2010

78 See for example the Sustainable Urban Neighbourhood Network, which the Joseph Rowntree Foundation is funding, or Capacity in Urban Renaissance in the East (CURE), which has been funded by EEDA.

7. Local development agencies

The final proposal is to learn from the UK's own experience, such as Michael Heseltine's work in setting up Urban Development Corporations and City Challenge, both of which got results by focussing enough resources on specific places. One of the main reasons why English cities with growth potential, such as in the East of England, have lagged behind their European counterparts has been the failure to get the framework for development right. Local authorities are primarily seen as deliverers of services, not as managers of development. Publicly funded projects take too long and are uncoordinated, creating endless uncertainty which frightens private investors off. Yet we have the examples of the growth led by development corporations such as in Peterborough, Milton Keynes and London Docklands to show that public leadership not only produces results, but can pay for itself over a couple of decades through the uplift in land values. Hence if localism is to work, something has to be done urgently to build the capacity to get quality growth going again in carefully targeted areas.

The answer lies in creating and sustaining teams with both the skills (design, property, legal, and finance) to use publicly owned land to full effect, and to assemble sites where land needs to be pooled because there is a multiplicity of owners. This cannot be done at a national or even a regional level, but can best be handled at the level of a 'functional urban area' perhaps through some of the Local Enterprise Partnerships. Such an agency should combine expertise held within local authorities with some of that being made redundant by the closure of Local Delivery Vehicles. It should learn from the renaissance of London's South Bank, which extends through Bankside and along to Rotherhithe, where a clear vision but a flexible development framework, along with mechanisms such as development trusts (at Coin Street), Business Improvement Districts, and Public Private Partnerships have produced a world class waterfront.

A local development agency should not be appointed by government, but could report to boards representing central and local government (as in Copenhagen, for example). Crucially, it must not be political plaything, and so needs its own source of funding. Hence capital funding should come through issuing long-term bonds, raised against land whose development it takes on, while revenue costs could be raised by selling servicers to the main stakeholders. This does not require any special powers, as local authorities retain their planning powers, and if a development corporation is required, for example to take over major land holdings, there is legislation still on the Statute Book. They could be set up in ways that avoid their expenditure counting against the Public Sector Borrowing Requirement. For example while investors in infrastructure bonds may include local authorities, borrowing against the expected growth in income from local property taxes using the principle of Tax Increment Finance, their investment could always be kept to a minority and the public private partnership raising the loan could be privately controlled, perhaps with public land invested as equity (as in Croydon for example). It may also be possible to use indemnity guarantees, as even if a project fails, if it is locally driven it is unlikely that all would be lost.

Conclusion

The McKinsey report highlights the importance of multi-national companies to Britain's future prosperity, which in turn calls for meeting international standards of excellence for how places are built and managed. The climate change agenda, along with the rising costs of natural resources, makes it crucial to find new routes to growth, rather than assuming that a return to 'business as usual' will suffice. The greater success of many towns and cities in Northern Europe in addressing issues such as social disparities and quality of life is closely linked to their ability to control their own destinies. Hence the seven proposals in this paper are aimed at not only closing the infrastructure deficit, but getting much better value from public resources through the boost they would provide to both house building and economic restructuring.

If nothing else, the idea of 'Localism' should be used to remove the fetters on towns and cities with both the potential and appetite for sustainable or quality growth raising finance for development. The long-term approach needed for 'green recovery' and a 'big society' that works could overcome many of the criticisms that have been made of the negative approach to planning. It would get away from the 'lottery' of bidding to national government, the 'silos' of departmental policies, the 'roundabout' of Ministers and Council Leaders, and the 'Punch and Judy' show of Parliament, as government energy advisor David Mackay has called it.[79] There will of course be huge opposition from those who think they may lose out in the short-term, but the costs of deferring investment will be born by generations to come.

Dr Nicholas Falk, February 2011

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79 David Mackay, Sustainable Energy: Without the Hot Air, UIT, 2008.

Appendix A
What drives success?

This appendix considers how our understanding of sustainable or quality growth and what drives it are starting to change. It deals in turn with how the real economy has eroded; how wealth depends on innovation; how connectivity shapes success; why housing output influences local wellbeing; the importance of the real economy; and of sufficient investment in infrastructure. It is based on a review of relevant research drawing heavily on work commissioned by the East of England Development Agency, and previous research by Nicholas Falk and Sir Peter Hall.

The real economy has eroded

Despite an illusion of growth over several decades, the UK has continued to lose market share internationally and has built up large debts, as well as a more serious balance of payments deficit. Governments have argued in the past that the loss of jobs in the 'real economy' did not matter because they were replaced by jobs in the service sector. Most of the new jobs created over the last decade were in retail, business services, and public administration, and were often part-time jobs that enabled women with children to return to the work place, and help shoulder growing levels of household debt.[80] It has taken a world recession, the collapse of major banks, and some political swings to reveal what should have been obvious, that we have to rebuild our economy from the bottom up, and that productive businesses are critical to national wellbeing. This means making the most of any comparative advantage, such as clusters of private sector jobs in firms that make products that can be sold abroad or substitute for imports.

The UK failed to maintain a healthy manufacturing sector, especially over the last few decades, unlike our main European competitors such as Germany, Italy or France. As an illustration of the gap to be made up, an article by Ian Jack[81] reported that manufacturing jobs in the UK fell from 4.1 to 2.6 million over the period of the Labour government, and the share of GDP fell from 18% to 13% whereas in Germany its share of GDP rose from 20% to 21%.

At the same time bank lending disproportionately backed commercial property development, rather than going into either manufacturing or infrastructure. This was associated with a shift in the distribution of wealth from the poor to the relatively rich, and from the economically active to the retired, as several recent books have pointed out.[82] It was not seen to matter so long as the workers could be redeployed, and the sites redeveloped.

While it can be argued that the UK used cheap manufactured imports from the East to enable a switch to higher valued forms of service activity, this does not explain why Germany produced twice as much as the UK in 2009, or why much maligned Italy did better, as the following figures show:

Manufacturing output 2009 ($billions)

USA	**1.717**
China	**1,608**
Japan	**827**
Germany	**581**
Italy	**381**
France	**253**
UK	**227**

Source HIS Global Consulting

Part of the reason lies in the decline of large manufacturing firms in the UK. A study by the Engineering Employers Federation (EEF) found that over the last decade the numbers of large manufacturers employing more than 500 fell by

80 Will Hutton, 1996

81 Ian Jack, 'Filling the Vacuum' Guardian July 21st 2010

82 David Willets, 2010

more than a third, and two thirds of the remainder are now foreign owned. Only 1.2% of manufacturers employ more than 250 people in the UK, compared with almost twice that level or 2.1% in Germany and 2.9% in the USA. Interestingly German firms now account for over a million jobs in the UK, and we have lost much of the capacity for indigenous growth, as we no longer specify that goes into the supply chain.

The gap between Britain and the rest of Europe is not a recent phenomenon rooted in the Big Bang of financial deregulation, but goes back several centuries to when Britain could rely on its colonies for cheap imports and secure markets for exporting products and services. After the First World War, Britain, and in particular the Northern industrial cities, lost out in world trade; countries like Germany focussed on fast growing markets such as engineering, while Britain continued to rely on the falling textiles and coal industries.[83] The reasons, then as perhaps now, were said to lie in an over-valued pound, higher labour costs due to lower levels of productivity, and the diversion of capital into speculation, culminating in the Great Crash of 1929. To these can be added an over centralisation of power in buoying up London, and neglecting smaller and more distant places.

Manufacturing today is very different from its traditional image. Quality matters, and so too do skilled staff, rather than relying on cheap labour and local raw materials. UK businesses are intertwined with foreign companies, and air transport has become vital for the smaller high value components, while the roads are clogged up with heavy goods vehicles. Significantly Britain imports 50% of the parts for machinery and vehicles whereas in Germany the proportion is 30%. Unfortunately the UK's international image is not very positive, and doubts have been expressed over whether we have anything left to sell any more.[84] Consequently those places that do still produce products or services in world demand have become all the mort important to the country's future. So too is house building. A report from CRESC in Manchester concludes that we need to: *'recognise that free trade is not so much an opportunity for the British as an inescapable problem when half our manufactured exports go to Europe. So it would be sensible to stop hoping for competitive success and develop sheltered activities in repair, maintenance and upgrading of housing and economic infrastructure as part of a green new deal'.*[85]

Common wealth and heritage matters

As countries in the Western world contend with tighter finances, making the most of what we already have will become ever more important. While economists have tended to focus on personal wealth, and the performance of businesses in creating it, our common wealth may matter more.[86] The term common wealth can cover not only to social capital and the public realm – the spaces between buildings – but also the legacy of historic buildings and landscapes that each generation passes on. Studies into behavioural economics comparing happiness in different countries have revealed the greater importance placed on factors like relationships, good health and community, and the relatively poor performance of the UK when it comes to children's happiness.[87] There are real spatial differences between different parts of a country, and people's happiness or fulfilment is greatly influenced by where they live, which is sometimes called civic pride or pride of place.

83 Charles L Mowat, Britain Between the Wars 1918-40, 1972

84 Interview with former Swedish prime minister in Ipsos MORI's report for 2010

85 Julie Froud et al, Rebalancing the Economy (or buyers's remorse), CRESC, 2011

86 Martin Large, Common Wealth: for a free, equal, mutual and sustainable society, Hawthorn Press, 2010

87 Nicola Bacon et al, The State of Happiness, The Young Foundation, 2010

Sustainable growth and wealth or wellbeing are closely related. The growing literature on wellbeing and happiness aims to correct a tendency to focus simply on economic output, and to take a more holistic approach. This is not new, and John Ruskin famously said *'there is no wealth but life'* and valued building to last rather than short-term consumption. The escalation in house prices in the South East is not just a result of high incomes generated in London, but also a reflection of the desirability of many parts of the South East as a places to live.[88] In turn rising house prices affects people's expectations of being able to get on the so-called housing ladder. House values are not just a result of the size or quality of individual houses, but of their accessibility to jobs and services and on how well connected they are. So planning and development, as well as public investment decisions therefore have a huge long term impact on how well places perform in competition with each other.

We can therefore talk about the wealth of towns and cities as an important factor in shaping personal expectations and fulfilment. Wealth or property assets are not just held by individuals, companies or nations, but by towns and cities. Fine buildings and streets, or the quality of the train services are part of a heritage or legacy that is handed down from one generation to the next, and which affects the culture in which people grow up. Adam Smith, in first writing about the *Wealth of Nations*, extolled specialisation as the root of wealth creation, and thought only in national terms. He favoured limited government and said that *'economic success depends on peace, easy taxes, and a tolerable administration of justice',* a phrase that seems quite quaint in a world of much greater choice. He wrote before the majority of people came to live in towns and cities, with the UK leading the rest of Europe in the middle of the 19th century. Economic development led to the rapid growth of industrial cities, such as Birmingham and Leeds. These so-called 'core cities' eclipsed earlier great cities such as Cambridge and Norwich, which suffered from isolation, lack of power or raw materials, and the additional problems of living near flat wetlands, which at the time were unhealthy.

Creating lasting value, or sustainable growth, is not just about size, but also about quality, as the contrast between an oak and an ash brings out; the oak takes longer to grow but is far stronger. The wealth of cities does not just depend on economic factors such as *clusters of activity'* [89] that concern modern economists like Michael Porter. With an increasingly knowledge based economy, quality of life factors are equally important, such as access to the coast or the countryside, and time spent with one's children or people with similar tastes. It is these that attract talented and creative people such as engineers or architects, to live, work or invest in one place rather than another, as Richard Florida argues convincingly in The Rise of the Creative Class, which explores why previously successful industrial cities like Pittsburgh came to fall behind. While the quality of life factors may not be as obvious as the availability of jobs, they may well shape business growth in the 21st century, and they are factors that local authorities can directly influence.[90]

88 A Sense of Place: What residents think of their new homes; CABE; 2005.

89 Michael Porter, The Competitive Advantage of Nations, The Free Press, 1990.

90 Richard Florida, 2002.

Wealth and innovation are linked

The influential writer on cities Jane Jacobs said *'A country's basic wealth is its productive capacity created by the practical opportunities people have had to add new work to older work ...Cities are places where adding new work to older work proceeds vigorously'*.[91] She argued that cities were best placed to create wealth as they accommodated a diversity of producers. She also foresaw that service businesses would take over from manufacturers as the main driving force behind city growth. However, over the last half century, we have seen the relative decline of many of the industrial cities that Jacobs praised, like Birmingham and New York, and the emergence of new success stories, like Brighton or Boston that attract the kinds of people who are most valued in the new global information economy.

No country (or region) is homogenous, and it is crucial to go beyond averages to understand the capacity and potential for growth (which is where the new generation of maps is so helpful.) This is particularly important now that so much of an economy is made up of services rather than tangible products in a global economy where the true seats of power can be hard to identify. Cities that once specialised in a particular industry, like Birmingham with motor industry components, or Colchester with its army barracks, now need to be classified in terms of the roles they play on an international or regional playing field, as well as in terms of their local connection and the businesses these attract.

Ecotec, who did the original work on classifying cities for the European Union, distinguished between 'specialised poles' such as national service hubs, transformation poles that are reinventing themselves, gateways with port facilities, modern industrial centres, research centres and visitor centres.[92] At the regional level Ecotec believes cities can be classified into de-industrial cities, regional market centres, regional public service centres, and satellite towns. The important point is that it is cities, not rural areas, that shape how well a region and in turn a country performs.

As economic entities cities have to adapt to new markets or decline. There are classic examples of cities changing their position or trajectory, such as Birmingham with its Convention Centre, Brighton with its cultural industries such as the performing arts, and Reading with its 'e' economy, and growing international businesses like Oracle. The differences in their performance can be explained not just by location, (as geographers once assumed) but by the presence of different 'drivers of competitiveness' such as talent, entrepreneurship and connectivity - factors which were identified in a study by Cambridge Econometrics on *Factors of Regional Competitiveness*, and which local authorities can influence over time.[93]

Innovation, or the application of knowledge, today determines how well a place does, rather than its endowment with natural resources such as power, or capital or access to markets, as in the 19th century. This explains why places that in the 19th century were relatively poor, such as Cambridge in rural East Anglia or Palo Alto in California have been able to take off in the 20th century. They did so by making the most of their universities, and the quality of life they could offer graduates, despite relatively poor levels of infrastructure. Stanford University, which once suffered from its isolation on the West Coast, used its land holdings to develop the science parks on which graduates like Hewlett and Packard and Fairchild made their fortunes (in no small part thanks to military contracts, incidentally).

91 Jane Jacobs, The Economy of Cities, Random House, 1969

92 Ecotec, paper on regional performance FIND

93 Cambridge Econometrics, Factors of Regional Competitiveness, EEDA [http://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/3cr/competitiveness.pdf]

Knowledge or skills are of limited value unless they are properly harnessed. A NESTA (National Endowment for Science Technology and the Arts) report presents a simple model for innovation in which knowledge creation and entrepreneurship shape the selection of innovations, and in turn lead to mobilising the resources needed for their successful application.[94] By identifying and comparing the different elements within their model, NESTA found that:

While the UK performs well compared to other leading countries in entrepreneurship and competition, there is room for improvement in public research and openness. The UK appears to lag behind other leading countries in the areas of access to finance, demand for innovation and skills.

The problem is no longer one of the UK's restrictive competitive environment, but rather one of culture. The business entry rate in the UK in 2005 was higher than the US and other comparator countries, according to the World Bank's World Development Indicators.[95] The proportion of public procurement that is openly advertised in the European Journal is much higher (almost four times the German level for example). As the NESTA report perceptively says:

Business surveys indicate a perception that the UK is less open to ideas from other nations compared to its competitors……UK consumers are comparatively reluctant purchasers of innovative products, and UK businesses are slower to adopt new technologies than their foreign counterparts.

In other words, despite the opening up of markets, and the spread of multi-national companies, the appetite for innovation remains low among organisations in general. In many parts of the UK there is not much of an enterprise culture, and in the past students have preferred to study and practice accountancy rather than engineering (the reverse being true of Japan). Capital is not being accumulated fast enough, and much of what has been is destroyed when firms are taken over, and plants closed down. It may also be that British executives are spending too much time commuting and not enough building their businesses!

Connectivity shapes wealth creation

With improved communications, such as air transport or the internet, it is the wider agglomeration or sub-region rather than the core cities that is most likely to act as an engine or dynamo of growth. Most economic growth and innovation now takes place on the edge, not in the centre. Individual towns are too small to support a full range of specialists or to offer a worthwhile career ladder for the most able. Urban densities combined with transport connections shape innovation and cultural values as they affect the number and quality of connections or transactions that people have with each other at both the neighbourhood and wider level. The agglomeration that offers the best choice of jobs and places to spend money, and hence more combined spending power is most likely to appeal to private investors. It is also likely to draw or retain the most ambitious young people, provided they can find a place to live, and congestion getting to work is not unpleasant.

In short the trajectory or prospects for an agglomeration is influenced by both its location and history as well as by current investment decisions. These affect well-being (and house prices) in what economists call 'functional urban areas' or Travel To Work areas. These are not always the same as the areas being designated as Local Economic Partnerships, as for example few people commute from Kent to Essex or vice versa. Peter Hall has clearly drawn out the distinctions between the greater South East (or the Home Counties as they used to be called), and the rest of the UK.[96] Trying to run everything from the centre, using standard rules, is bound to fail, but so too is trying to plan for

94 International Insight, Ecotech and Innovation Insight; The Work Foundation and EEDA; 2009.

95 data.worldbank.org/indicator

96 Peter Hall, Magic Carpets and Seamless Webs, Built Environment, No.1

places that are too small to act as Travel to Work Areas, and where half the residents work elsewhere. The Local Economic Partnerships will only work if the authorities they comprise have real interests in common.

Useful research into agglomerations by Paul Hildreth and the Centre for Cities has brought out the variety of possible relationships between towns and cities, as well as their fundamental differences.[97] He shows how poor the links are between the major cities and the towns that surround them in the North of England. The problems are magnified around London once one gets beyond the limits of the suburban rail system as the orbital links are so poor. Any attempt to improve linkages, such as opening up a second link from Harlow to the M11, or building rail links on the West side of London, arouses the opposition of those who enjoy rural seclusion, and who can afford the cost of a season ticket to London. Yet jams on the M25 are notorious because of so many people using it to make relatively short trips.

Solutions are made more difficult by the centralisation of investment decisions, and our failure to join up transport and development in a sustainable pattern. The potential benefits of sophisticated project appraisal systems like RAMP (Risk Analysis and Management for Projects) and NATA (New Approach to Transport Appraisal) are of little real value if the results are largely based on narrow considerations like congestion and safety, and the recommendations are continually over-ridden by national politicians on changing political grounds after millions have been spent on designing schemes and developing the business case for individual projects.[98]

Instead we need to consider the future of real or functional economic areas. Rather than dividing the world into 'town and country' or artificial regions that command little loyalty, it makes more sense in a world connected by motorways, high speed trains, and the internet to think in terms of different kinds of agglomerations and growth points This is the approach taken by the European Spatial Development Perspective), with connectivity being the factor that differentiates them. For those living or working the centre of major cities, the spatial disparities between places may not seem so great. Certainly the centres of Core Cities as different as Bristol and Birmingham have effectively gone through a 'makeover', with public investment in an improved public realm encouraging private investors to upgrade their shopping facility. But in general spatial polarisation has grown, and with it the inequalities that Disraeli saw when he coined the phrase 'two nations' in 1845 in wiring Sybil. What has changed since the 19th century is the ability of some people to travel over much greater distances to get to work and other opportunities, while substantial minorities stay marooned on 'islands' of worklessness.

Images are shaped by connectivity, and investors are influenced by image, as well as by reality. So for example a location on the M4 corridor near a growth point such as Reading, or less than an hour by rail from central London, will be of much more interest to a financial institution or software company that values international links. Ancient towns such as Ipswich or Canterbury suffer from being viewed as relatively inaccessible once it takes more than an hour to reach them. Peripheral cities may also

97 Paul Hildreth, Networking the North, Centre for Cities, 2008

98 www.omegacentre.bartlett.ucl.ac.uk

suffer from weak links to other nearby employment centres, thus reducing the range of choice of jobs available to their residents. Thus American Express was nervous in locating a head office in Brighton that they would not be able to attract good staff because there were no other financial firms in the area at the time. Smaller cities can appear to be on tributaries rather than in the mainstream of economic life. They may lose their ancient identities as market towns or ports and end up as dormitories for poor people, as has happened to many coastal resorts and some of the New and Expanded Towns.

Connectivity is also influenced by urban morphology - that is the shape of places- as urban designers have come to understand. Kevin Lynch memorably said *'Moving elements in a city, and in particular the people, are as important as the stationary elements.'* [99] Factors like porosity, the holes or gaps between places, as well as the densities of development along the main transport links affect the level of movement and the economics of development as well as the quality of life for people living and working there. Differences in urban morphology can most easily be understood by looking at either the pictures of Europe by night taken from satellites, or the maps showing the distribution of urban centres along the Rhine or the area between Lille and Copenhagen. They can also be seen by comparing the modern offices around European stations with the large car parks that sprawl around English stations.

From a global perspective, the congested South East appears isolated and quite a small player in Continental terms, where the connections are now international as well as regional. In turn large suburban housing estates on the edges of towns and cities do not support the quality of public transport needed to attract people away from their cars, and readily deteriorate into areas needing regeneration where no one feels safe anymore. Streets become dead places for lack of people on them. Poor environmental capital in many British cities is aggravated by the lack of social capital, as people keep themselves to themselves.

99 Kevin Lynch, The Image of the City, MIT Press, 1960.

Appendix B
How well are smaller cities doing?

This appendix considers how well urban areas in the East of England are doing, drawing on studies of comparative performance. It deals in turn with the roles of smaller cities as working places, residential neighbourhoods, and as transport centres. It draws on previous research studies, many of them specially commissioned by the East of England Development Agency. It also benefits from consultancy work by URBED in different parts of the East of England, including working with a network of local authorities under the banner of Capacity for Urban Renaissance in the East or CURE to identify solutions to the common problems of making quality development happen.

Most of the books on cities, and indeed the comparative research studies, have tended to focus on the very largest cities, without making much recognition that they are in a league of their own. Mega cities like Mumbai and Shanghai, world cities like London and New York, and core cities like Manchester or Philadelphia have been intensively surveyed from a range of perspectives, often by academics trying to address issues of why some places do better than others.[100] Industrial cities, particularly those that have recovered from decline have also received attention, for example in *Phoenix Cities,* which compares English cities such as Sheffield with their European counterparts[101] Market towns also have their advocates; the Association of Market Towns is based in Bury St Edmunds, which is appropriate as the East of England has the largest concentration of market towns in the UK.[102] In contrast the economic potential of smaller cities (and their suburbs) has been largely ignored, other than by organisations such as Regional Cities East and SEEDA. The prevailing view has been that they are doing well enough, and can look after themselves.

Within the huge arc around London it is the smaller cities (towns and cities with populations of 50-200,000) that could hold the keys to boosting economy growth, improving environmental performance, and also securing social cohesion, and the promises of the Big Society. As experts such as Michael Breheney have shown, it has been the smallest towns and cities that have generally grown fastest in the UK.[103] A report published by the Office of the Deputy Prime Minister in 2004 classified 257 English Primary Urban Areas into different size and location categories.[104] Small cities had the highest research capacity next to London and the Core Cities, and generally performed better than the larger urban areas in terms of population and employment growth.

The impact of smaller towns and cities extends far beyond their boundaries, with wealthier and better educated people living in the villages and hamlets on their outskirts. This is in complete contrast to the usual situation in Continental Europe, where the spatial disparities are less, and where far more people of all classes live in the centres. Some towns

100 Jane Jacobs, The Economy of Cities, Vintage Books, 1970.

101 Anne Power et al, Phoenix Cities: the fall and rise of great industrial cities, The Policy Press, 2010, see also Nicola Schuller et al, Urban Reports; urban strategies and visions in mid-sized cities in a local and global context, GTA Verlag, Zurich, 2009.

102 Michael Breheney, The People: where will they live? TCPA, 1996; New Life for Smaller Towns, URBED for Action for Market Towns

103 Parkinson et al, State of English Cities, ODPM, 2009

104 Town and Cities Indicators Database, Cecilia Wong, University of Liverpool et al for the ODPM, 2004

in the arc around London, like Harlow and Luton, have the greatest capacity for sustainable growth as they are now located close to motorways, and also railway lines and airports, as well as a range of social infrastructure such as theatres and other meeting points. Experts agree on the importance of their continued growth for both meeting local needs and contributing to the wellbeing of the wider area.[105] However the development sites also adjoin the places where there is often the greatest opposition to growth, as residents in the surrounding villagers look after their own back yards, and object to anything that might damage their property values, or bring 'outsiders' in.

Working places and diversified economies

Since the General Election in 2010 the economic problems in the UK appear to be worsening, as government expenditure is cut back, and support at a regional level disappears. With the dropping of regional targets, new approaches to prioritisation are required. Insights can be gained by examining the highest and most consistently good performers, which are generally located in Denmark, Sweden, Finland, the Netherlands and the Western parts of Germany. It is Europe that now offers the greatest lessons for towns and cities in the UK, rather than the USA, which has made similar mistakes over property finance, and where inequalities for the most part are even greater, or Asia, which is totally different.[106] Northern Europe is particularly relevant because of the historic, geographic and cultural links.

105 Tomorrow's Harlow: new directions for smarter growth, report by URBED of a symposium for Harlow Renaissance, 2010

106 Anne Power et al Phoenix Cities

Competitive challenges

On the surface the East of England has done rather better than the older industrial and Core cities such as Birmingham and Leeds. EEDA's report *International Insight* shows that the East of England outperformed the OECD and European Union averages in terms of growth in GDP per capita and also in economic activity levels in the period between 1995 and 2005.[107] Based on GDP per capita it would have ranked 18th out of 39 OECD countries in 2005. A study by the Work Foundation established that the East of England outperformed the UK economy as a whole in 7 out of the last 18 years. The members of Regional Cities East exceeded the Lisbon benchmark by having 70% of their population in employment, (with the exception of Luton). Larger cities tend to have lower activity levels, and many more people working in public sector jobs, and are no longer where the most dynamic companies are likely to locate (with exceptions such as Derby).

The huge variations within a region can be appreciated by taking a cut, or transect through them. Places like Southend-on-Sea or Cambridge have strong knowledge-intensive sectors compared with places like Thurrock (which depended on traditional industries such as cement). Indeed the East of England boasts a much higher level of self-employment than the UK as a whole. However the climate for innovation suffers because the towns (and the businesses in them) are so dispersed. The former New Towns, like Peterborough, Basildon, Harlow and Stevenage, still have remnants of the major employers that moved to them in the 1960s but are no longer buoyant. Nor, despite facing common challenges, do the former New Towns have any real connections between them. Elsewhere in historic cities like Ipswich, Chelmsford and Colchester, industrial employers have closed down, often the victims of asset stripping. The once great centres

107 International Insight: how the East of England economy compares, EEDA, 2009.

of the British motor industry, such as Luton with Vauxhall or Basildon and Dagenham with Ford, are no longer market leaders, and, for example, Ford sold its commercial vehicle interests to Iveco in Italy, and its truck plant to India. Each town pursues its own priorities and makes its own bids for central government funding, rather than collaborating with others in the same sub-region or labour market area.

Even the 'Cambridge Phenomenon' of science parks pales in comparison with the 'technopoles' of comparable places such as Silicon Valley in California or Route 128 in Boston Massachusetts or the science parks around Montpelier and Nice in Southern France. The successes are in biotechnology and computing, and not so much engineering any longer.[108] Scale does matter, at least when it comes to exploiting inventions or creating whole new industries. Thus bio-tech companies that have spun out of research in Cambridge are often acquired by larger US companies only to be closed down to remove potential threats. At the same time multi-nationals like Glaxo Smith Kline are transferring research from Harlow to the Far East, where the costs of developing new drugs are much lower (and where it easier to attract skilled/experienced staff and to reach the airport). GSK, which once employed several thousands in Harlow, is now down to employing only hundreds. As pharmaceuticals is one of the main sources of UK tax revenue and exports, what happens along the M11 corridor is of more than local importance.

Though Cambridge has a world class university, its house prices are now some 8 or 9 times average earnings, way beyond what employees in its service sectors can afford. This also makes it harder for knowledge based companies on the science parks to attract talent in competition with the rest of the world not employees in service sectors however. Without substantial investment in new infrastructure, it will be impossible to provide the extra homes that have been planned, and Cambridge's lead in, for example, bio-technology could easily be eroded.[109]

Unfortunately the British financial system, though good at accumulating large amounts of capital, is not very good at support local growth. The weaknesses in the UK financial system have been known for some time, and, for example, reports from the National Endowment for Science Technology and the Arts (NESTA) used by EEDA highlighted the failings of the City of London well before the cracks started to show.[110] Figures from the World Economic Forum showed significant differences in access to loans; countries like Sweden and the Netherlands do much better, whereas the UK only does better than France and Korea. The report states:

The presence of financial services, per se, as reflected by size and depth, does not imply their accessibility by the different types of user within an economy.

Workforces and skills

In general, the best performing sub-regions in the UK in terms of GDP per capita are those with the highest skill levels, and these tend to be in the areas closest to Greater London. However the East of England still performs relatively poorly in achieving the highest skill and productivity levels compared with international comparator regions, as studies for the East of England Development Agency have revealed. Thus the GDP per capita in the East of England in 2005 was only half the level of Massachusetts (which includes knowledge intensive cities such as Boston, where Harvard University and MIT are based). It was also only half of Baden-Württemberg in Southern Germany (which is roughly similar in size to the East of England, and includes cities such as Karlsruhe, with its modern manufacturing plants and Freiburg which is the solar capital of Europe.) Economic output per worker was

108 Bill Wickstead, The Cambridge Phenomenon Revisited, Segal Quince Wickstead, 2000

109 Nicholas Falk, Steps to Quality Growth, Cambridgeshire Horizons, 2010

110 Hidden Innovation, NESTA, June 2007

almost 50% higher in South Netherlands (which includes cities such and Delft and Zoetermeer) and over 30% higher in Flanders (which includes Antwerp and Ghent).

One explanation for the higher levels of output in Continental cities is the presence of significant amounts of high-tech manufacturing industry, as well as direct connections with more densely populated and prosperous regions in the rest of Europe. Major or world-class companies are attracted by a culture or spirit that makes it easy to attract and retain highly skilled staff, and by high connectivity with other cities.

It is not that the UK lacks people with tertiary education, where the proportion is actually higher than France or Germany according to OECD figures, as is also participation in life long learning. Rather it is how people are deployed, and how innovation is put into practice on a major scale. Thus Freiburg, which is similar to Cambridge in size and history, has developed as the Solar Capital of Europe by both developing policies and then installing solar panels extensively. As well as research centres such as the Solar Institute, there is a much better system for technical education. Germany now produces 16% of its energy from renewable sources, and cities like Freiburg have led the way, supported by the Feed-in Tariff, which at long last the UK is introducing. There are some 250,000 jobs in the renewable sector in Germany and a similar number in waste related activities, as Germany has made the 'green economy' a national priority. Technical education ensures that local people benefit from the new jobs that are created and do not have the expense of having to move away to further their education.

Private sector jobs

Another explanation for why some cities are lagging behind is that the private sector has under-performed. A fascinating analysis by the Centre for Cities on *Private Sector Jobs* categorises major English towns and cities into 'buoyant, stable and struggling'.[111] Cambridge stands out as one of the buoyant cities. As far as stable cities were concerned, Ipswich, Norwich, Luton and Southend all did quite well overall on a score that took account of population change, house prices, GVA growth, benefits and average wages as well. What was really surprising however was the poor performance of certain smaller cities such as Oxford and Swindon (and indeed much of the Western half of England) on net private sector jobs created.

One explanation of Britain's weak economy could be public sector employment crowding out private sector jobs, particularly at the higher skill level, where graduates have avoided industry. But it may also be due to the loss of manufacturing leadership. The 'losers' tend to be towns associated with manufacturing; and for example, both Oxford and Swindon are in part motor towns that have become branch plants. In Chelmsford the old Marconi plant in the heart of the County Town may be redeveloped as an Asda superstore. In Ipswich what was once the site of the once world famous agricultural equipment manufacturer Ransomes has been redeveloped for housing, the result of one of Robert Maxwell's desperate attempts to raise finance. As well as the weak being picked off, what also seems to happen is that while some places scored in attracting business and financial services, it is overall a case of 'winner takes all' within a sub region; for example, Cheltenham scored over Gloucester, Reading over Swindon, and in the East of England Peterborough and Cambridge have both gone up a league.

111 Chris Webber and Paul Sweeney, Private Sector Cities: a new geography of opportunity, Centre for Cities, 2010

The story of the motor industry in the East of England, which includes Ford and Lotus as well as Vauxhall/General Motors, provides a classic example of how markets and competitive advantage have been sacrificed over recent decades. While there is not space to go into all the causes, which include an over-inflated pound, a lack of innovation, a loss of local control, and development pressures from competing uses, the real culprit is neglect. Even world-class brands like Jaguar and Landrover are now owned by Indian companies. India now trains nearly 180,000 engineers a year, or nine times the UK level, and most of the UK trained engineers do not go into industry.

The Centre of Cities extols the growth of two of the South East's so-called 'diamonds', which provide an important contrast to the declining economies of towns such as Stoke and Burnley that tend to get the most media attention.[112] Some of the fastest growing places were smaller cities, such as Reading and Brighton, which both made it into the top ten in terms of net additional jobs created and Brighton also came top in terms of percentage jobs growth between 1998 and 2008. Buoyant cities – such as Reading and Brighton – have been creating thousands of new jobs in the private sector, though not enough to compensate for the places that have been losing jobs. The stories of their renaissance, along with other cities such as Norwich, illustrate the steps that are needed to secure quality growth.[113]

Some of the most dynamic and knowledge based companies in the UK can be found outside smaller cities in rural areas. Lotus Cars operates in an old airfield outside Norwich. Often the success stories are largely unknown nationally, such as Renishaw in the valleys around Stroud (world leader in robotic sensors with some 80% of the market), or Aveva in Cambridge (the leading world IT company in marine and plant engineering). Even where significant clusters of knowledge workers exist, like the 4,.000 or so people working in IT at Adastral Park in Martlesham outside Ipswich, they do not figure on maps purporting to show the knowledge economy, and so are easily neglected. The East of England Development Agency can take credit for transforming Ipswich's old docks with the new University of Suffolk. This would never have happened through the market alone. Graduates make up a relatively low part of the population in that part of Suffolk, yet it is only an hour away from both Cambridge and London by train.[114]

Successive governments have taken smaller cities for granted and transferred tax revenue from the East of England elsewhere, resulting in relatively low levels of public investment. Public investment has focussed instead on tackling areas of deprivation, and redeveloping old industrial or 'brownfield' areas, not on securing quality growth. Similarly national Lottery Funds has tended to favour 'grand projects' over the small scale measures needed for quality growth. Most public funding being centrally controlled, housing, transport and business have been kept in separate silos. Local authorities, who for the most part neither cover functional urban areas, nor receive any financial benefits from economic growth, have not had much incentive to overturn local opposition to growth. They have left it to Ministers to decide on appeals for non-determination or refusal of controversial planning applications.

Integrated transport and connected places

The economic hubs in the East of England are generally too small and too cut off from each other to match European let alone US levels of performance by themselves. Research for EEDA shows that the East of England has the second lowest accessibility score among comparator regions,

112 Centre for Cities, Beyond the Boundaries, 2010

113 Partners in Urban Renaissance, URBED for ODPM, 2002

114 See maps produced, for example, by the Local Future Group

measured in terms of the time it takes to get to a major centre. The East of England has some of the slowest trains and poorest services, as analysis showing average commuting times brings out. The distance between towns explains why the East of England and the South East are rated among the least well-connected of regions, even though they also house many of the commuters into central London. Poor transport helps explain why resistance to new development is often so strong.

Connectivity matters because people no longer live and work in the place where they were born. Containment levels are generally below two thirds, which is at least one in three people work outside the place they live, except in university cities like Cambridge or very isolated places.[115] A revolution has taken place in communications over the last couple of decades alone. The relatively high rates of growth the UK enjoyed for a short period came through excessive consumption and borrowing rather than investment in what creates sustainable or smarter growth (as can readily be seen by comparing a trip on a French or German train or road with its British equivalent). Levels of investment in the railways and utilities have not matched their European counterparts, and our performance has further suffered from the costs of complex procurement systems.

The drawbacks of a location in much of the East of England become easier to understand as analysis shows between the areas that are within an hour's commuting time of London, (or around 40 miles) and those beyond. Both Luton and Peterborough are natural growth points. But they are effectively industrial towns, and therefore very different from the rest of the region. They have relatively greater employment in high tech manufacturing and knowledge intensive services than Norfolk or Suffolk or Lincolnshire in the sparsely populated Eastern counties which have greater attractions as places to live. The wealth creators do not live near where they work, and this poses huge problems for getting the idea of 'localism' to work. The New Homes Bonus will not necessarily resolve the problem of getting more houses built in the right places.

The South East suffers from congestion not just through lack of investment, but also because the transport links are radial, not orbital, and no longer reflect patterns of travel to work. People who once walked or cycled to a local factory, or took a bus to town, now drive to work across the spokes that branch out from city centres. As a result roads like the A14 or M25 are congested most of the time, and can come to a halt if any incident arises. Though the South East and East of England may look close to the main growth points of Europe (the so-called 'blue banana'), in reality most of it is quite isolated. What counts is connectivity in all its aspects, and reliable new forms of infrastructure, like high speed rail, can make old links obsolete. Broadband connections or access to an airport are important, but are no substitute for people meeting face to face.

Recent research by Chin-Lin Chen and Peter Hall confirms the hypothesis that speeding up rail travel boosts the performance of the cities in which the main stations are based.[116] It shows how residents within easy reach of the metropolitan economies of Leeds and Bristol as well as London benefit from access to higher paid jobs, and then spend their incomes in the surrounding suburbs. Scale and accessibility are interwoven, as faster or more frequent services enable people to live further away from their work. People like to live in or around Cambridge (or the very small City of Ely) and work in London, which is within an hour's journey, the crucial time barrier. Cambridge is consequently a very attractive place to set up home because of the choice of jobs that can be reached from the city, as well as the better quality of life that residents enjoy, due to its great choice of shops and cultural facilities.

115 Research by SQW for URBED's masterplan for the City of Ely, 2008

116 Chin-Lin Chen and Peter Hall Think Hub? Think Super Hub, Town and Country Planning, November 2010

With long and unpredictable travel to work times, the quality of life and infrastructure in the UK no longer measures up to the standards set by pace makers in Europe. The contrasts have been highlighted in study tours organised by URBED for Cambridgeshire Horizons and Harlow Renaissance and through assessments undertaken for the Academy of Urbanism' Great Towns award.[117] Thus for example Cambridge, which should be in a leading position given the number of cyclists, compares poorly with Freiburg (whose historic centre had to be totally rebuilt after Allied bombing). Freiburg has succeeded in holding down car usage thanks to its extensive and operational tram and cycle systems. With the upgraded high speed train system running through to Strasbourg and then under the Alps on to Northern Italy, it is now at the heart of growth in Western Europe, not on the periphery. While places like Norwich have sought to grow in a sustainable way, development is held back by it still taking several hours to get there from London.

Living places and sustainable neighbourhoods

Massive studies of inequality in the UK have found that a great part of the difference lies in access to housing, with housing making up a higher proportion of the UK's wealth than in other countries.[118] As most of that wealth is owned by those reaching retirement age, there are also inter-generational inequalities that favour the older and more established places.[119] The Hills Review concludes pithily that *'moving up the ladder is harder if its rungs are further apart, and those who start higher up on the ladder will, unsurprisingly, fight harder to ensure that their children do not slip down it.'* [120] The Coalition Government's Local Growth White Paper concludes on its last page *'It is no accident that investment in housing output in the UK is amongst the lowest in the developed world'*, and points to over-regulation, a volatile housing market, and the 'lack of house building-enabling infrastructure as the causes.[121]

The South East and East of England have reputations for resisting housing development, and as a consequence house building rates have lagged far behind population pressures. In the UK smaller cities generally are run by under-resourced district councils, but with county councils being responsible for roads and schools. Two tier authorities are particularly important in the Southern half of England, where there are few major cities other than London. At least four-fifths of the population in England and Wales live in what are classified as suburbs, (an estimate made for the first Urban White Paper in 1977 that has never been questioned.) Some of the fastest growing suburbs in terms of population are in smaller cities like Colchester or Milton Keynes, but in general it is the smallest towns and villages in rural areas where most house-building has taken place. This is where the national volume house builders who dominate housing in the UK have profited in the past from turning green fields into housing estates.

117 www.urbed.org.uk

118 An Anatomy of Economic Inequality in the UK, The report of the National Equality Panel, John Hills et al, January 2010

119 David Willetts, 2010.

120 Hills et al Summary page 36

121 Local Growth: realising every place's potential, HM Government, October 2010

Achieving the aspirations of the Big Society will be hard so long as places remain so polarised, and the false division between town and country is retained. Outside London there are particular disparities between the incomes of those living and working in industrial towns such as Luton and Harlow.

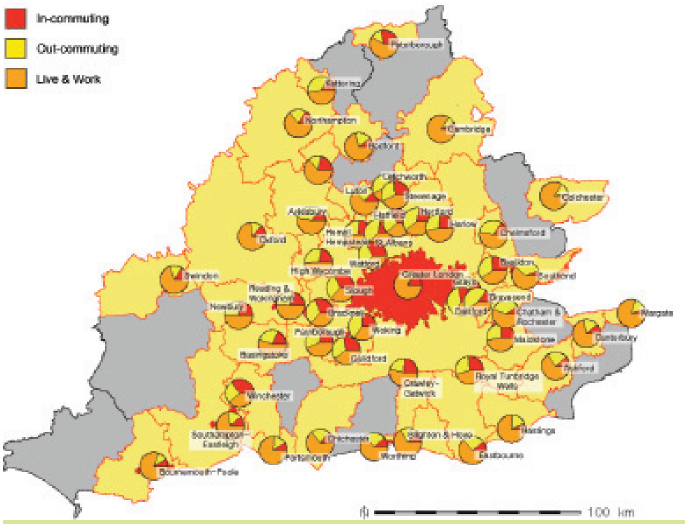

Exhibit 4 - Many people work outside the towns where they live - source Peter Hall

Those living outside with higher incomes tend to spend them elsewhere, and drive rather than use public transport (which explains why the roads around smaller cities are so congested with people taking children to school or travelling to work). There is not the same level of identification with towns and cities as in Europe. Residents naturally look to government to run services, rather than, for example, setting up sports associations, as in Germany for example.

Though there has been a rise in employment in knowledge based services in smaller cities, the benefits have not been felt, because the employees live so far away. In Luton the loss of traditional manual jobs in the motor industry has been felt particularly by residents of council estates, who can no longer see 'ladders of opportunity'. With 43% of employment in knowledge-intensive services compared with an EU average of 32.9%, the proportion overall is comparable to the level in South Sweden, which includes Malmo and Lund, and hence should be booming. But those working in the IT tend to live out of town and there is nothing like the quality of housing in Luton or in suburbs like Houghton Regis to attract middle class people to live in town. The developments that could fill the gaps are on hold, in part due to uncertainties over the provision of new infrastructure, such as the M1 A5 road link.[122]

Research in Cambridgeshire suggests it is the deficiencies in infrastructure rather than the cost of house building that holds back quality new housing being built on any scale.[123] As a generalisation, based on cost calculations for the growth of Cambridgeshire, the cost of building a new home divides three ways more or less equally between land, infrastructure, and the house itself. Because most infrastructures lies beneath the surface, it is inherently easier and less expensive to build new developments around the edges of a city than to redevelop older areas, provided they can piggy-back off existing infrastructure. Location shapes the economics of development. This should give rapidly growing cities an advantage, so long as they can acquire the land at its existing agricultural value, as New Towns such as Milton Keynes were able to do, and avoid the speculation referred to in the Local Growth White Paper.

122 URBED were appointed to develop the masterplan for expanding Houghton Regis by 5,000 homes, but this is dependant on the link between the A5 and M1 being built, which has been deferred.

123 Nicholas Falk, Steps to Quality Growth, Cambridgeshire Horizons, 2010

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