THE STEPS TO QUALITY GROWTH:
Towards a new business model for house-building

A report for
Cambridgeshire Horizons

Dr Nicholas Falk
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Preface

As this paper is published, in the Summer of 2010, we are in the midst of a rapidly changing political and financial situation. A new coalition government is in place, the wider economy is reeling from the biggest crisis since the late 1920s, and it is likely that unemployment will rise as a result of public spending cuts. Yet some of the old truths persist. The UK in general, and the south and east of England in particular, has a huge shortfall in housing supply, and a particularly acute need for many more affordable homes. Supply of new homes has lagged demand for many decades, and attempts to increase the rate of house building have had limited impact.

As a result, house prices remain way out of reach for a large proportion of the population, and in places like Cambridgeshire, and most markedly in the Cambridge area, the position is wholly unsustainable. The average price of an average house in Cambridge is nearly nine times the average income. Over 10,000 households are on the waiting lists for affordable housing in Cambridge and South Cambridgeshire, and across Cambridgeshire this number has been rising year on year, now standing at close to 18,000. For employers, the lack of availability of affordable homes (and indeed homes in general) is preventing them from attracting the people they need, which in turn constrains economic growth and reduces overall prosperity.

Something has to change. A new model is needed. Local government, central government, the development sector, financiers and landowners are all going to have to operate in more collaborative ways, with a fairer means of sharing risk and reward, if we are to make any real inroads into the housing supply problem.

Nicholas Falk's paper sets out some thought-provoking ideas about those necessary changes - *The Steps to Quality Growth*. Drawing on his own wide experience, and from the work URBED has done with Cambridgeshire Horizons and our partners over recent years, he argues persuasively for the UK to move closer to the European model of development.

The work we have done in Cambridgeshire, with the adoption of the Quality Charter for Growth as the touchstone for what we want to achieve with our communities, draws heavily on learning from exemplary new communities in places like Freiburg in Germany, Amersfoort in the Netherlands and Hammarby Sjöstad in Sweden. They show it is possible to combine the Quality Charter principles - the four Cs of community, climate, character and connectivity - to produce something that people are proud to call home.

But closer analysis shows that their achievements stem from a different funding model, with local government having more control over development land uplift value, and/or the revenues created by growth, which therefore allow aspirations for high quality places to be delivered. These aspects of the European model are almost impossible to replicate in the UK's current model of large scale house building.

It is in the arguments for greater local authority control over land and revenue streams where Nicholas' paper seems to me to be of most value. It is of course critical, as the paper acknowledges, to have the right spatial strategy in place - in fact this is a prerequisite. But, even in somewhere like Cambridgeshire, where the local authorities came together to embrace growth and agree a compelling vision in the 2003 Structure Plan, it has proved difficult to deliver given the lack of local control over investment and development land.

The "Cambridgeshire Model" for delivering growth has a number of appealing facets. First and foremost, our local authorities have grasped the nettle by shaping growth, rather than rejecting it, and have developed a sound, and shared, spatial strategy. This has then been backed by strong, evidence-based policy positions on key areas such as the level of affordable housing provision and environmental standards for new developments.

Aligned to this is the innovative approach to the provision of affordable homes through the Cambridge Challenge, which used a competitive process to establish the best value proposition from the Housing Association sector. As major sites come forward, it is possible to engage at an early stage with the provider of the affordable housing to overcome financial or design barriers.

Horizons, as the Local Delivery Vehicle created by the local authorities, has coordinated the growth programme and Housing Growth Funds, and developed supporting material such as the Quality Charter, the Integrated Development Programme, and the Strategic Housing Market Assessment. It has also piloted the innovative use of funds to deliver key infrastructure and overcome the cash flow barriers created by the economic downturn. Yet, even with these elements in place, and with a strong collaborative ethos, it has proved difficult, in the absence of control over the revenue streams created by development, and with limited influence over development land, to move the agenda on at the pace desired by local partners.

So, where Nicholas argues for genuine *financial* devolution to enable local authorities to take on the place-shaping role that only they can really play, I think he hits the nail on the head. If we could achieve this, local government and its partners could really drive the delivery of high quality new communities, rather than being hamstrung by almost all the revenues derived from new growth being held centrally. If local areas had control over such revenue streams, it would unlock a host of innovative financing methods like Tax Increment Financing, which Horizons has been promoting for years.

The devolutionary stance of the new government may mean that such ideas can finally be implemented, and so help to achieve the high quality, sustainable new communities that we so desperately need now, and for future generations.

Alex Plant
Chief Executive, Cambridgeshire Horizons
May 2010

THE STEPS TO QUALITY GROWTH: towards a new business model for house-building

'We have involved ourselves in a colossal muddle, having blundered in the control of a delicate machine, the workings of which we do not understand.' John Maynard Keynes

This paper has been commissioned by Cambridgeshire Horizons, the local delivery company for sustainable growth, to provide fresh thinking on 'encouraging smarter growth through innovative forms of finance' for major housing development sites. It aims to fill out the sections under Collaboration and Cash Flow that are referred to briefly in the Cambridgeshire Quality Charter for Growth.[1] It draws on a wide ranging review of research, including lessons from European experience in developing exemplary new neighbourhoods, and the options open to the UK in meeting future energy needs, as well as pioneering work in Cambridgeshire, such as loans to bring forward infrastructure. The issues were first explored in work comparing the UK experience of developing new communities with European good practice as part of the process of drawing up the Quality Charter. Subsequent study tours and discussions with leading figures such as Wulf Daseking in Freiburg have provided real insights into alternative economic models.[2] Peter Studdert's essay for CABE *Building New Communities through local partnerships* shows how the lessons have been absorbed, and will hopefully be applied in major schemes like the new town of Northstowe.
The full findings are summarised in a lengthy report *Financing Smarter Growth,* which includes appendices on meeting future energy needs and financial options, and is available to anyone who requests it. The paper has benefited from discussions with a range of British experts, as well as an invitation to present the lessons from Europe to a high level meeting at the Homes and Communities Agency (HCA).[3] It also has been revised in the light of the cutbacks expected from the new government.

After a short introduction on why new business models are needed to overcome the weaknesses in the 'trader developer' model, the paper sets out four essential steps that local authorities could take to achieve their housing plans along with four or five basic ingredients. The steps are 1) focus growth in the right places; 2) invest in sustainable infrastructure; 3) build balanced communities; and 4) manage the public realm well. It then makes some recommendations for how Government in general (and the HCA in particular) could improve the unwieldy development process, in particular through repairing the current 'missing link' around infrastructure funding.

[1] Cambridgeshire Quality Charter for Growth, www.cambridgeshirehorizons.co.uk/qualitycharter

[2] See Beyond Eco-towns: the Economic Issues, URBED with PRP and Design for Homes, 2008

[3] I would particularly like to thank Alex Plant and his colleagues at Cambridgeshire Horizons for all their support, and also Trevor Beattie and Jon Neale at the HCA, Paul Hackett at the Smith Institute, and Barry Munday and Stephen Hill at the Housing Forum for their ideas, and latterly to Chris Balch, former managing director of DTZ for some final comments.

The need for a new model

As private developers and public authorities grapple with the long-term effects of the 'credit crunch', collapse in mortgage lending, and the ensuing public sector funding squeeze, a simple route map is needed to achieve the twin goals of restarting house building and meeting higher environmental and quality standards. Ever since the momentous Barker Review probed into why we built so few homes, organisations as diverse as the Commission for Architecture and the Built Environment and the British Property Forum have called for a different approach from the 'trader developer' model that has characterised house building in the UK in recent years.[4] The same theme was taken up by the Callcutt Review, so even seasoned housebuilders can see the limitations in the British approach.[5]

In essence over the last forty years or so, the UK has relied on private developers and house builders identifying suitable sites for development, agreeing to acquire them, and then putting in planning applications which then raise the land values enough to borrow for the next stage of development. Where schemes proceed, landowners get windfall profits, professionals earn large sums from schemes that may never be built out, and local authorities struggle with negotiating improvements, including contributions towards social facilities and infrastructure. When houses or sites are sold, the developer moves on to the next site. The process is both expensive and protracted even in sites that are relatively accessible (and for example the railway lands in Kings Cross have been awaiting development for forty years, while even Greenwich Peninsula, which is publicly owned, has been developed at a fifth of the rate of an equivalent site in Stockholm.)[6]

These examples contrast with urban extensions where the basic steps for sustainable or smarter growth have been adhered to as can be seen in planned communities that have stood the test of time. These include New Earswick in York and Bourneville in Birmingham, Letchworth Garden City in Hertfordshire, Hampstead Garden Suburb near Golders Green on the Edgware line, much of Metroland in North West London[7], parts of the post-war new towns such as Milton Keynes, and a few recent urban extensions such as South Woodham Ferrers in Essex and Caterham Barracks in Surrey.[8] All of these have involved measures to take a longer-term viewpoint, and to overcome the conflicts between the community and the developer.

Inspiration can also be drawn from highly praised urban extensions to medium sized Continental towns and cities, such as Amersfoort in the Netherlands, and Freiburg in Southern Germany. Faster levels of housing growth have been matched by high levels of up-front investment in sustainable infrastructure and created places of lasting quality, despite the relatively rapid

4 Who should build our houses? Six experts challenge the status quo, CABE, 2010

5 Callcutt Review of Housebuilding Delivery, 2007

6 Plan or Deliver, in Report of the Housing Forum Working Groups Turning the Corner, April 2010

7 London's Metroland, Alan Jackson

8 Case studies are provided in Sustainable Urban Neighbourhood: Building the 21st Century Home, David Rudlin and Nicholas Falk, Architectural Press, 2009

speed of construction. New neighbourhoods we have examined, such as Vathorst in Amersfoort, NL, Rieselfeld in Freiburg in Southern Germany or Hammarby Sjöstad in Stockholm, have succeeded in offering a much wider choice of homes, in locations that are easily reached without a car, and along with effective measures to climate proof them in terms of dealing with energy, waste and water.[9]

Importantly the successful models make the financial numbers add up without over-reliance on government subsidies. Instead of long-drawn out disputes between developers and local authorities, there has been greater collaboration between a range of stakeholders or investors. The underlying financial model works by minimising risks and maximising values over time as well as space. Time is the critical fourth dimension for sustainable development; as growing a new community takes several decades, and to achieve this, investors may need to wait for a long time before they can take a return from their initial investment. The success stories share the costs and benefits of growth between the household and the wider community, typically by building on relatively cheap land, piggybacking on existing or recently developed infrastructure, and using part of the increase in land values to endow community assets. Their basic approach echoes some of the historic UK success stories such as Letchworth Garden City, and provides a practical alternative to the failed 'trader developer' model.

[9] Beyond Eco-towns, PRP URBED and Design for Homes, 2008, and the appendix on the Economic Issues, by Nicholas Falk

Quality growth is about far more than good design. As Peter Studdert argues in his CABE essay *'Local authorities need to be able to take a leading role, not only in identifying strategic sites through their core strategies, but also in acquiring or negotiating an equity stake in the development itself'*. The four basic steps in developing 'sustainable urban neighbourhoods' or 'quality growth' therefore start with identifying suitable sites for growth and end with long-term place management or stewardship. The four steps attempt to address the barriers that hold back creating better new communities in the UK, and, it is argued, should form the basis for future sustainability appraisals and partnership agreements.[10]

The action points under each step indicate where the process needs to be modified to make sustainable growth easier and faster. Importantly, the steps go beyond the often superficial factors that are used to judge design quality to the foundations of what creates places with lasting value. Well-functioning communities with high levels of social capital, would warrant higher levels of public funding to create them as they will reduce the payments the State will have to make in terms of benefit payments, health and social care costs, and crime and anti-social behaviour remedies.[11] The four steps are, in short:

[10] Recommendations for planning are set out in the forthcoming Housing Forum report Plan and Deliver, 2010, and in previous reports dealing with Co-investment and the supply of land.
[11] While hard to prove a range of work on what leads to better neighbourhoods comes to similar concludes that higher levels of equality and capacity to control your life influence both wellbeing and social malaise, see for example The Hidden Wealth of Nations, David Halpern Polity Press 2010, or Neighbourliness + Empowerment = Wellbeing, Mandeep Nothi et al, Young Foundation, 2010

1. Focus growth in the right places;
2. Invest in sustainable infrastructure;
3. Build balanced communities; and
4. Manage the public realm well.

1. Focus growth in the right places

Considerable resources are wasted in the UK working up schemes for sites that are basically unviable. This is because, with notable exceptions (such as Cambridgeshire which has developed a sound spatial strategy[12]) local authorities generally react to private proposals rather than provide leadership. Developers (and their consultants) understandably seek to maximise the value to be made by securing a profitable change of use on undeveloped land. But no one really benefits from endless arguments except perhaps lawyers! With competition for investment funds being even tougher, and with less money to pay for working up schemes, it is vital to focus the limited available investment on the places with the best opportunities for sustainable growth, rather than pursuing fantasies and allowing another market free-for-all. The successes referred to earlier combined infrastructure and development from the start in ways that avoided the cost of land being a burden. There are four basic ingredients to a sustainable land use policy:

a. **Adequate infrastructure** Development follows infrastructure. However, because infrastructure is so expensive and 'lumpy', it is important to make the most of what already exists.[13] This includes transport and utilities, as well as secondary schools. Infrastructure is increasingly complex, with the need to invest in modernising and extending energy, waste and water as well as transport systems. Yet raising the funds for major additions is proving harder, and the costs of building new infrastructure can no longer be met from Section 106 contributions or the proposed Community Infrastructure Levy. This provides a strong case for urban extensions near railways and roads on the edge of urban conurbations, to piggy back on what already exists, and to support local improvements where the system is already overloaded (as in Ely, for example). Conversely, it argues against large free-standing new settlements of the type proposed in the early eco-towns programmes, unless there is good underused infrastructure in the vicinity.

b. **Proximity to good jobs and services** House prices ultimately reflect what first time buyers can afford, as well as what existing occupiers are willing to accept (though in the short term they are affected by the lending policies of mortgage providers). The values achievable in new developments are related to the level of incomes less the costs of getting to work, but tend to be discounted by the reluctance of mortgage providers to lend more than 75% of the value of a new

[12] Cambridgeshire and Peterborough Structure Plan, 2003 now enshrined in the East of England Plan (RSS)

[13] Calculations from both Milton Keynes and Cambridgeshire show that the cost of investment in infrastructure is much higher than the cost of building the homes, of which the greatest proportion is in roads and education (see Funding Smarter Growth)

home compared or to first time buyers. In Growth Areas like Cambridgeshire, where prices are as much as nine times salaries, most of the potential market can no longer get on the home ownership ladder through buying any of the existing stock, and so new homes may provide the only route. The barrier can only be broken through expanding the Intermediate Market, for example by making a greater proportion of new housing available to rent at first, and by building in locations close to where employment is expanding so transport costs and times are minimised. There is also a critical need for an appropriate level of social housing as part of the mix. All of this calls for a policy which places development along existing transport corridors, and particularly in places where a wide choice of jobs can be reached within half an hour, preferably by public transport (which is achieved in Continental cities from Amsterdam to Zurich where average commuting times are 30 minutes.)[14]

c. **Realistically priced land** The high quality new developments mentioned above either obtained agricultural land that owners wanted to sell (for example, because of agricultural recessions), or used the threat of Compulsory Purchase to avoid being held to ransom. In this way, land price was kept below 25-30 % of the completed sales value, thus enabling greater upfront investment and making homes more affordable. The compensation rules for the post-war New Towns that enabled land to be acquired at existing use value, were later changed to pay landowners market value, giving rise to many of today's development problems. As the value of development land is ultimately determined by infrastructure (which is itself largely the result of public investment), and by what the land use planning system is prepared to allow, it is only fair that landowners should be compensated out of the surplus arising after all the relevant costs have been met, including those needed to compensate objectors for any losses.

d. **Responsiveness to customer demand** The best housing tends to be in locations where people naturally want to live because of access to the countryside as well as peace of mind and good schools. Early investment in greening can boost demand and is relatively cheap: in Milton Keynes the adage was 'start with a park'. It is no coincidence that many people in the UK say they prefer to live in villages and end up in suburbs characterised by tree lined streets, hedges and front gardens. Views of water and trees add almost a fifth to house prices. Higher rates of growth can be achieved by building what customers want, including those who rarely think of moving to a new house, such as 'empty nesters' or who may prefer to stay in town if they could buy a large enough apartment.[15] In the

[14] Urban Reports, ed Nicola Schulller at al, gta verlag, Zurich, 2009

[15] The report of the HAPPI (Housing our Aging Population) panel for the Homes and Communities Agency (2009) shows how new forms of housing close to facilities could attract older people out of their under-occupied homes, thus releasing space for growing families. The

Netherlands, and under the VINEX Ten Year Housing Plan, new housing is used to rebalance communities, and to concentrate housing in areas that have the infrastructure to support growth[16]. Current Housing Options Assessments in the UK only partly succeed in identifying what is really needed, and produce crude and often unpopular targets.

2. Invest in sustainable infrastructure

There are plenty of good sites where nothing is being built, despite planning consents being in place, or having the basic infrastructure such as roads in place. Often this is due to the difficulties of persuading a range of private interests to work together in what is a very uncertain market, and when there are other apparently less risky outlets for investment. An example is Greenwich Peninsula, where the Millennium Village is still not complete, and other housing development has been stalled, despite public investment of over £200 million in decontamination and many millions more in opening up a station on the new Jubilee Underground Line. The solution lies in de-risking the upfront investment, as for example Letchworth did a century ago when it raised funds from an insurance company in return for the right to insure the completed properties, by linking development and infrastructure provision together.

New housing should not be seen simply as another demand on overloaded infrastructure, but as a means of meeting society's longer term needs. Thus the UK needs not only to cut carbon emissions to meet international agreements, but also to generate new sources of energy, including renewables. New housing schemes require much less energy to heat them, and should also be in the forefront of taking action to cut energy, waste and water use, for example through the use of Combined Heat and Power, but this of course means engaging with utilities. What Cambridge physics professor David MacKay calls 'getting to yes' means creating the conditions for productive dialogues and going to scale. He argues *if everyone does a little, we'll achieve only a little,* [17] and calls instead for facing up the huge gaps to be filled in supply, which no one form of energy can hope to provide.

Public finance will be insufficient on its own to fill the gaps. Institutional investors need to be encouraged to take a longer term interest in the future of housing, both to ensure climate change risks are minimised and to safeguard their investments. They should have an interest in investing pension funds wisely, and not repeating the sub-prime debacle. It is noticeable how many households in the UK have invested in renting out housing because of the low returns offered by pension funds, and so there is a market to be tapped. Some energy and utility companies are beginning to appreciate the commercial

report of the Commission on Cooperative and Mutual Housing suggests there is a great untapped market for housing provided by cooperatives, with examples such as in Redditch, and also for tenures like Co-housing, which are common in Scandinavia, with examples such as Springhill in Stroud.

[16] The Dutch approach is explained in a forthcoming chapter on European masterplanning in a book edited by Stephen Tiesdell on Urban Design in the Real Estate Process

[17] Sustainable Energy,- Not a Load of Hot Air, David Mackay, Cambridge 2009

opportunities of buying long term market share in terms of serving new communities, and the linked potential for local generation to meet renewable commitments, but this will only be viable where the densities are high enough, and there is an ongoing market for the heat from Combined Heat and Power plants, for example in town centres. The process needs to start, as in Amersfoort or Freiburg, by local authorities or a public/private joint venture company, leading an efficient and economic procurement process that maximises long-term value, not short-term gains as the investment in a local energy distribution system is only likely to pay off over several decades. There are five main action points:

a. **Incentives to plan smarter growth** With so many more regulatory requirements, including the challenge of reaching Zero Carbon homes, developers are increasingly reluctant to build on any scale, or even to fund the costs of working up major planning applications for strategic sites (which can easily cost £2 million). The solution, which worked well in the New Towns, is to fund the masterplan from the public purse. This could be through a joint venture with landowners, as in the case of the Vathorst Development Company in the Netherlands. By working collaboratively, rather than adversarially, costs can be effectively focussed and contained, so that less is spent on plans that come to nothing, or have to be redone every few years. It is unlikely that most district councils will have sufficient incentive from retaining Council Tax proceeds, given their limited capacity, and something more is needed, than Control Shift,[18] which HCA should be well placed to orchestrate.

b. **Land as equity** It is also vital to cut the cost of serviced land (which in both the Netherlands and Germany seems to be around 25% of the completed sales value). Currently most land around our towns and cities has been identified as potential housing sites, which is why it is often left to go to waste, and owners have quire unrealistic expectations. Private owners should not be able to stand in the way, once alternative locations for growth have been properly evaluated (which was a major problem in the Eco-towns saga), and so it may be necessary to use CPOs to assemble the entire site. One alternative to compulsory purchase lies in Voluntary Partnership Agreements - that is a "quality" land enhancement deal in which landowners get an appropriate share of the value created from development, commensurate to their level of investment and risk, provided they are willing to stay in for the longer-term and not sell out speculatively. Pooling land is essential, and here Cambridgeshire could be leading the way through an initiative to pool existing public sector land and buildings in a structure against which funds can be raised at relatively low costs. This arose out of work on Total Place. Another solution is for the public sector (Local Authorities and/or the Homes and Communities Agency) to acquire strategic land at its existing

[18] Control Shift Returning Power to Local Communities, Conservative Party, February 2009

use value before infrastructure is committed, and then retail serviced lots in stages to service the loan, using the improved value of the land as security. The rapid development of Metroland in the first part of the 20th century is a good example of linking the interests of the transport provider and the land developer. Today's equivalent could be the energy and utility companies as land developers or partners in a joint venture.

c. **Revolving funds** Utilities are unlikely to invest until there is assured demand and this is an area where bodies like Cambridgeshire Horizons have been able to use a "revolving fund" approach to move projects on. However capacity is limited. Horizons and others have argued for using Tax Increment Finance instruments or similar and servicing loans for infrastructure out of the increments in business rates that result from the infrastructure, as well as from user charges. The Treasury has made some encouraging remarks, but seems reluctant to relax its controls, expecting too much certainty. One relevant precedent is the East Kent Spatial Development Company which has been set up by SEEDA, and which raised £11 million, largely from Europe, to invest in energy supply for a business park, which will be repaid under a contract with EDF Energy as development proceeds. A similar arrangement is being used for an advanced energy network in Thames Gateway using money from JESSICA matched by the London Development Agency.

d. **Infrastructure bonds/other debt instruments** While the introduction of the Feed-in Tariff should help the development of local renewables, much more private investment is called for to reduce the UK's dependence on imported energy, and to make innovation work on a larger scale. As physical infrastructure can cost as much as building a house, it is essential to commission new utilities as efficiently as possible. This means achieving economies of scale and sharing costs through upgrading existing utilities to the levels of performance required, for example, from whole district or settlement Combined Heat and Power systems. This is difficult in the UK, as utilities are now so fragmented (as the energy regulator Ofgem has started to point out). However, the growing interest in Multi-Service Companies (MUSCOs), offering utilities, telecoms and place management services should provide better opportunities for attracting and integrating investors who have a long term interest in places. They may be prepared to invest in the upfront costs to secure long term revenue streams from user charges, and selling added value services, such as repairs, maintenance and insurance. But they will want long-term contracts to secure higher rates of return, and will also need to raise funds as cheaply as possible. Public private partnerships could raise bonds to fund the infrastructure at lower costs, or take advantage of the lower cost debt available through prudential borrowing from the Public Works Loan Board. They can also enter into contracts to supply heat. After 20 or so years the bond has to be repaid, with a bonus reflecting the success of the investment, which could be through increased land values following the provision of improved infrastructure. Infrastructure bonds could be linked to tax increment finance schemes as mentioned above. However, any agreements need to avoid contravening the Treasury's restrictions on borrowing, and there is an absolute cap on such an approach given that nearly all public sector debt is counted against the total level of net public sector debt, which the Treasury will be focussed on reducing over the coming years.

e. **Social capital** Successful communities are ones where there is plenty of social interaction – from performing in choirs to bumping into friends out shopping. The earlier social facilities such as schools and shops are provided, the more attractive the new settlement will be, and the fewer the problems with depression and mental ill-health. However, the fastest growing areas have to spend in advance of receiving a return from Council Tax, and adjustments to the Rate Support Grant formula. Here, the answer lies in developing the new PPS12 Infrastructure Delivery Plans around the concepts of 'Co-investment' and also 'co-production.' The Total Place pilots should help, and a number of places in the East of England have already developed Integrated Development Programmes. Coordinated infrastructure plans. These should be used to negotiate longer term grants and loans at a regional or sub-regional level, and could form part of Multi Area Agreements where there are several levels of local authority and developments cross boundaries. Thus a new community could provide space for a major health or educational facility or Council offices (as in Cambourne) that would serve a much wider area, and therefore be funded accordingly. Instead of trying to shoehorn major facilities into existing urban areas, it may be better to use them to seed new communities, as was done in Rieselfeld in Freiburg, where the new secondary school provides the heart of a new community, whilst the old school was redeveloped for housing. Private funds could then be raised against the prospects of redeveloping the existing site, or through some form of Local Asset Backed Vehicle for Investment

3. Build balanced communities

While there has been considerable pressure from government to build balanced and mixed communities, we are still a long way from creating the balanced communities that characterise the best places to live.[19] A study for Cambridgeshire Horizons as part of their Quality of Life research, and based on a number of case studies, emphasised the importance of flexible settlements that will allow for individual, families and communities to mature, grow and change.[20] One of the biggest indictments

[19] A summary of the considerable research on Mixed Communities is available from the Joseph Rowntree Foundation, and was used in drawing up a good practice guide for English Partnerships and the Housing Corporation. See www.urbed.co.uk

[20] Balanced and Mixed Communities, Katherine Dunmore for Cambridgeshire Horizons, 2007

of new housing in Britain is that only about one in six potential house buyers say they want to live in one (quite unlike new cars, for example). Experts are coming to realise that the supply of family housing is blocked by 'empty nesters' continuing to stay in hard to maintain houses and gardens for lack of anything better to move to.[21] Housing growth has not only been slowed down by the oligopolistic control over land supply exercised by volume house-builders, but variety has also suffered where builders prefer to build standard products which they think will sell easily, and which are easier to cost. This is understandable, as house builders in the UK are limited by how they are viewed by the stock market, making them more concerned with raising the value of their stock of land through planning than in building efficiently or responding to diverse demands and needs.

The collapse of the traditional model requires a more resilient and diverse market of providers, including smaller firms and self-commissioners, as well as new forms of housing finance that have hardly taken off as yet. While this will not directly cut the cost of construction, it will widen consumer choice, and encourage greater competition, allowing niche markets to be tapped, and profit margins to be reduced. It will also add value through innovation and quality, better aftercare, and increased rates of production, thus producing a faster rate of payback on loans used to fund land assembly and sustainable infrastructure.

Progress depends on the following elements:

a. **Serviced plots** It is much easier (and cheaper) to obtain plots on the edge of Continental cities (which helps explain why there is a much larger industry in building prefabricated homes). Breaking up large sites into serviced parcels of one to two hectares, with basic infrastructure, including measures to deal with climate change reduces the builder's tasks and risks, and enables self-builders and cooperative groups to get a start. Sites need to be developed progressively starting at the edge, with interim landscaping and other facilities so that the first occupants do not have to camp in a building site for too long. Having public transport, footpaths and cycle ways in place early on will also encourage good travel habits from the outset. No one wants to live in a building site, so landscaping (or green infrastructure) should lead, not follow, development. A greater choice of housing will speed up sales as well as enabling people to move as circumstances change without leaving friends and neighbours behind.

b. **Wider choice of tenures** Research has shown that inequalities in the UK are linked to the housing and benefit systems. Thus John Hills, in a critical report, commented that 'Intergenerational mobility appears lower in societies such as ours which are more unequal - moving up the ladder is harder if its rungs are further apart, and those who start higher up the ladder will,

[21] The HAPPI report Designs for Later Life, commissioned by the Homes and Communities Agency provides good case studies on what needs to be built, and shows how far we lag behind the Continent.

unsurprisingly, fight harder to make sure their children do not slip down.'[22] The temptation to overload a new community with very high levels of social housing must be avoided, even when the market will not support new housing for sale. This increases risk and places an unreasonable burden on the very people who are least able to bear the costs of making their own community. Careful planning should attract the full range of people, and avoid overloading communities with too many children of the same age, or what Richard Webber at Experian calls 'Motorway man' (Observer February 7th). As house prices and the shortage of mortgages are keeping first-time buyers out of the market, more rental and rent-to-mortgage choices will be needed, plus models that are still relatively rare in the UK, such as cooperatives and co-housing, as well as various forms of retirement community where people are able to budget for their total living expenses. Mortgages have been harder to come by since the credit crunch, loan to value ratios have tightened and financiers prefer to invest where there are no apparent risks. By producing intelligent market assessments, it should be possible to increase demand and reduce risks, with 'future proofed' housing

c. **Niche markets** Housing estates are often criticised for looking the same, even though every house tries to look different. Instead of building the same kind of house everywhere, provision should be geared to the needs of groups who are currently ill-served, such as owner occupiers who are down-sizing, or young singles, or growing families. By catering for the demographic bulge of older people who can be attracted to downsize though deals that offers minimum maintenance and predictable running costs some of the equity tied up in housing can be recycled in allowing younger people to get on the housing ladder. Well publicised recent research by David Willetts MP suggests that those over the age of 55 own two thirds of the property in the UK; the 'baby boomers' should be releasing their hold over resources to give the young a step up the ladder.[23] He puts the figure for net housing wealth owned by the over 65s as £800 billion, though of course only part could be realised at any one time. The Panel on Ageing found out that in Holland while space standards for elderly people's housing are much greater (including plenty of space for storage) construction costs are some 70-80% of the UK level, making it much more attractive to move. As well as the equity is tied up in UK homes, with the great majority owned by 'empty nesters' who have paid off their mortgages, there is a huge potential source of energy to be tapped by encouraging people to move when they are still fit, for example through buildings 'lifetime neighbourhoods'

[22] An Anatomy of Economic Inequality in the UK, report of the National Equality Panel, January 2010

[23] The Pinch: How the Baby Boomers Stole Their Children's Future - And Why They Should Give it Back, David Willetts, February 2010

d. **Cost-effective construction** The costs of meeting higher building standards needs to be met by simplifying the building process, rather than by treating everything as a 'one-off' additional cost. There are economies of scale, and cost savings from going down the 'learning curve' as well as using Modern Methods of Construction. There are also new jobs to be created, and the SmartLIFE Sustainable Skills Centre in Cambridge has trained over 2,500 people in prefabrication and renewables. Properties can be personalised at less cost than designing unique facades by providing green space outside, and standardised elements such as balconies on apartments or maisonettes. Prefabricated elements enable buildings to go up faster, and hence respond to demand, thus avoiding capital being tied up in unsold properties. Self-commissioned and managed housing schemes, such as Springhill Cohousing in Stroud, show that people want to spend more on internal space, and better designed shared external spaces, and less on expensive fixtures and fittings, walls and fences.

e. **Imaginative promotion** In a tougher market, the benefits of living in a more sustainable way need to be imaginatively promoted, for example by selling the benefits of living in better insulated homes (which are both cheaper and greener) or 'Lifetime Neighbourhoods'. The success of places like Metroland or Milton Keynes were based on selling a lifestyle, not just houses. New sustainable urban neighbourhoods can benefit from taking an Ideal Home Exhibition approach, with high profile information centres with large models and displays of all that is on offer, as is common in the Netherlands, or the Building Exhibitions that are used in Germany and Scandinavia to attract interest in new areas. The visitor centres at developments such as Vathorst show the value of setting up a public private partnership for the whole site, rather than relying on individual builders to do all the promotion, and can also provide much better feedback on market tastes.

4. Manage the public realm well

The final barrier affecting long-term value of new communities is whether the common parts are well-designed and maintained, and whether there are the means to continue to fund them. This is particularly important when building to higher densities, where communal space can be a cause for conflict, for example over where to park or how rubbish is dealt with. New settlements suffer from the fears people have as to who their neighbours are going to be, or how much the service charge is going to cost. British people like the idea of looking out on green spaces or to countryside but do not want to take on the costs or responsibilities of management. Yet maintenance of the public realm provides valuable opportunities for new forms of work, community engagement, and the co-production of wellbeing. The success of Rieselfeld in Freiburg and other German schemes in bringing together future occupiers in the co-production of both new homes and the public realm offers a better way of overcoming many of the fears and practical problems (and one that has worked well in the past in developments by SPAN):

a. **Local leadership** Our masterclasses in Cambridge drawing on the experience of Freiburg, Amersfoort and Newhall in Harlow showed that success did not just depend on finance, but also on the ABC of leadership – ambition, brokerage and continuity. The basic foundations need to be put in place by local authorities as they are there for the long-term, even though developers may come and go. This can include setting up Parish Councils (as in Orchard Park in Cambridge) or even development trusts, (as has been considered for Northstowe New Town).[24] However there is no substitute for the different public services of education, health and leisure working together to help build and maintain social capital, which is where the active involvement of County and Unitary Councils can be key. Minimising conflict and anti-social behaviour, and building a sense of pride, will strengthen demand and sustain the value of properties, as well as cutting the costs of putting problems right. It will also enable house builders to focus on what they do best, namely building houses to meet customer requirements.

b. **Active volunteering** The best communities involve a high degree of voluntary action and good neighbouring, as is brought out in work by the Young Foundation.[25] Properly planned and managed these can change behaviour, and avoid negative publicity. New housing can benefit from successful models of self-management, ranging across the tenures from traditional cooperatives, as in Homes for Change in Hulme in Manchester to the increasingly popular co-housing and Community Land Trust approaches.[26] For neighbourhoods, a new duty of stewardship needs to be fostered. In the absence of traditional institutions such as the church, mechanics' institutes or public houses, investment is required in community development, as it was in the New Towns. Imaginative approaches, such as the use of sport or the arts, can achieve far more than traditional community workers on their own, and at less cost than building purpose-built community centres. Interim uses, such as providing licences to occupy empty shops, can keep costs down in the early days of establishing a new community.

c. **Social enterprise** Much of the work involved in maintaining the public realm or cutting the consumption of natural resources needs to be run as a social enterprise, not as a profit making scheme. It may also be used in providing training, apprenticeships and work experience for people who might otherwise be unemployed. New sources of funding might be tapped for this with the aim of keeping service charges down, but

[24] See the case studies and proposals in Who Runs This Place, URBED and Marilyn Taylor for South Cambridgeshire DC and Cambridgeshire Horizons, 2006

[25] Capital Ambition, Young Foundation, 2009

[26] See for example, case study of Redditch Cooperative in Bringing Democracy Home, Commission on Cooperative and Mutual Housing, 2010

the value of the neighbourhood up. Housing associations have a key role to play, as for example the Bourneville Housing Trust is doing in Telford through an innovative services agreement. On the Continent, where, for example, in 2007 45% of the new homes for sale or rent in the Netherlands was developed by housing associations, there appears to be a greater sense of community spirit than in new settlements in the UK (which may also reflect a very different demographic profile). Further research would be of great value to understand how the Dutch housing associations have used their freedoms.[27]

d. **Foundations, trusts and community investment** In the longer run, there is a strong case for properly endowed trusts or foundations that have the community's interest as their primary goal, as in Letchworth, for example. There are also examples of trusts developing or taking over parks and open spaces, and using an income from property rents to help pay the running costs, as in the case of Shenley Park in Hertfordshire, where a new village has been developed, with a 45 acre park run by a community trust. Community trusts might be endowed with the income from parking charges and the renting from service ducts for energy, water and telecom distribution to provide an income that does not depend on directly charging householders, and that can be used to promote sustainable forms of behaviour.[28] Increasingly, communities themselves are becoming direct investors in renewable energy projects, such as the Settle Hydro and Fintry Development Trust or the wind farm on the edge of Oxford.

[27] The Place of Social Housing in Integrated Urban Policies, European Social Housing Observatory, 2009

[28] See for example the proposals and case studies in Who Runs This Place, URBED and Marilyn Taylor for South Cambridgeshire District Council and Cambridgeshire Horizons, 2006

Policy implications

The essence of the business model for quality growth being developed in Cambridgeshire is to find the investment needed to future-proof or guarantee major developments by putting together a 'cocktail' of funds that will offset the short-term risks and secure an inflation proofed longer-term return. In this way it should create a new vehicle for private investment, and will turn private savings locked up in existing housing into financing the improvement of the housing stock, while avoiding over-dependency on either government or financial institutions. It will respond to Cambridge economist John Maynard Keynes' percipient statement *'A sound banker, alas, is not one who foresees danger and avoids it, but one who, when he is ruined, is ruined in a conventional and orthodox way, so no one can blame him.'*

A new model for development funding is needed because the aftermath of the credit crunch is a very unstable situation, with major uncertainties over future government policy and where the finance for development is going to come from. Public investment has been forecast to halve from £44 to £22 billion, which will put many major transport schemes back in doubt, and make funding new schools very difficult. At the same time private investors have become more wary of property, and are concerned about whether the recession is really over, or whether Britain could have made the same mistakes as Spain and Ireland, not to mention the USA, in over-investing in property in the wrong place (although the sheer level of unmet demand suggests otherwise). The Copenhagen Conference failed to resolve who should pay for tackling climate change, and opinion polls suggest that the proportion of climate sceptics in the UK have risen to half the population. Nevertheless, the need to build more and better homes continues, as does the necessity to rethink the way we plan and finance new communities.

Most of what is required to build better and more sustainable communities does not require a fundamental change of law or policy. It does depend on understanding what spatial planning is for and then doing things very differently from the way we have operated over the last couple of decades. Given the importance of local leadership, but also the limitations on the way local authorities operate and are currently resourced, there is a strong case for devolving power and control of revenues to a more local level, and setting up local or sub-regional complimentary delivery bodies to oversee the key housing and economic growth plans for an area. These could be public sector development companies, or joint ventures that can bring together public and private interests, and provide continuity to recruit and retain the right teams of people over extended timescales. The Vathorst Development Company in Amersfoort offers an excellent model, and is described in Peter Studdert's CABE essay and in other reports.[29]

Calculations of the financial effects of making the changes suggested in this paper shows that they would enable a much better product to be delivered,

[29] Further information is set out in an article by Nicholas Falk in the Smith Institute report on Regeneration in a Downturn, 2009, and in a briefing paper for a conference held by Boris Johnson on new approaches to housing finance.

which would speed sales, with a greater proportion being owned by long-term investors. The extra cost of sustainable infrastructure and better homes would be funded through lower financing costs and faster building rates, as well as cheaper land. While there are signs that the Homes and Communities Agency may be taking up some of these ideas, the challenge is to apply that in circumstances that would do the most to boost overall economic growth, which is why Cambridgeshire is so important (along with similar high potential areas such as around York or Bristol).

The most important and radical single change would be the basis for valuing land, both with and without planning permission, to incentivise sustainable development, and avoid being held to ransom. New valuation guidance and professional advice from the RICS and Valuation Office, both of whom play a key role, for how to treat both public and private land, should unlock new sources of long term funding, and re-establish investor confidence in what is currently an under-resourced system. Cambridgeshire could provide some of the first examples of how such as an approach could work in practice.

However, there is still the unanswered question of where the strategic sites for new housing are to go. Inevitably, a considerable dialogue is called for to reconcile different plans, but without the complications provided by professionals acting for different landowners. Few landowners have the capacity to take their plans forward, on their own. Even fewer professionals have the skill or the interest to put together complex land enhancement agreements with many adjoining landowners, which often requires many years' patient work. Many promote their land just because they can, and because the rewards for land speculation are often unconstrained by demanding and consistent sustainability criteria and appraisal or by any form of land value taxation (as opposed to how things work in Copenhagen, for example).

With tighter budgets, there is a strong case not just for dropping unrealistic housing targets, but going for quality growth where the returns will be greatest. The Communities Plan was right to differentiate between areas where planned growth is desirable and sustainable on economic and other grounds and those where regeneration or retrenchment is called for. But what is also required, more than ever during and after the current recession, is greater certainty that scarce public and private resources are only applied to those areas which meet the basic criteria for quality growth. The *Cambridgeshire Quality Charter for Growth* provides an excellent framework for enabling landowners and investors to work together with local authorities to realise an appropriate mix of social, economic and environmental returns in the public and private interest. It was short listed for an RTPI Award, and its framework of the four C's (community, connectivity, climate and character) is winning widespread support (and was used, for example, in analysing the European case studies in Beyond Eco-towns). The HCA can ensure that their 'Single Conversation' leads to quality deals with a focus on long-term quality rather than short-term housing numbers, but only if the kinds of steps advocated here are put into action.

How government could help

It would be fatal in a battle for numbers to lose the war, and end up building further housing estates that are destined to fail, and that create an ongoing drain on public finances. All the evidence suggests that an over-centralised approach is counter-productive; it wastes scarce expertise, arouses opposition, fails to join up different forms of investment, and in the end is no quicker. Nor does continual reorganisation offer the promised benefits. The process of community-building and place-making inherently takes time. Just like growing oaks from acorns, it does not help to keep digging them up to see how well they are growing. There are thus four simple messages from this paper:

a. **Reform targets** Instead of arguing about the allocation of housing numbers, the stress should be on building sustainable neighbourhoods, with development focussed in the areas allocated in spatial plans, where there would be a presumption for 'getting to yes'. The HCA should encourage setting viable briefs or scenarios for the development of balanced communities in Growth Areas, with balanced demographic profiles, building on all the planning work that has already been undertaken, and the good advice available from CABE. This should then enable nationally imposed targets to be dropped without having to start all over again, and will provide the foundations for realistic and flexible masterplans.

b. **Incentivise collaboration** Instead of leaving it to developers to take the initiative, public bodies should help commission the development frameworks and design guides that show what is wanted, and that take local views into account. This may require setting up the equivalent of development corporations where major sites cross boundaries, or there is no agreement between adjoining local authorities, or the capacity to handle a major urban extension. This requires action at sub-regional level, and may involve broadening the role of some of the existing delivery bodies and Special Purpose Vehicles such as Cambridgeshire Horizons so that they can lead public private partnerships that turn visions into reality.

c. **Encourage institutional investment** A major switch is needed from consumption to investment. Instead of lending primarily to those with established wealth, more of the investments by building societies and banks need to enable people to get on the housing ladder through a wider range of products. Also more private savings need to be channelled into improving our infrastructure in community led schemes, given the parlous state of public finance. Neighbourhoods that bear a quality 'charter mark' should provides reassurance that planners have thought really far ahead, and that they are therefore good places for long-term investment. As institutions tend to act as herds, a lead needs to be provided through a national (or more localised) infrastructure bank, perhaps like the

Swedish Kommuninvest, or the Dutch Bank Nederlande Gemeenlen (BNG), that can respond to funding requests, and underwrite new funding mechanisms at a County or sub-regional level . Imagine going into the Cambridge or Peterborough Building Society and being able to invest in safeguarding the County's future at the same time as setting aside funds to live on in retirement!

d. **Enable local authorities to invest in sustainable development** Finally as part of a wider policy of devolving power from Westminster, and letting go, it is crucial to encourage responsible authorities take a lead in getting sustainable development schemes off the ground. This should cover unitary authorities and Counties in areas outside cities, where investments in infrastructure may be linked to other issues such as the disposal of municipal waste, or reducing travel congestion. The power to use Tax Increment Financing, as in the USA, depends largely on being able to control the revenues that flow from local taxation, and so will probably need to be linked to a change in how the Business Rate is collected and distributed.[30] It will inevitably involve taking risks, and hence should be targeted at areas with real growth potential and proven management capacity.

The financial, political and environmental crises we face are an opportunity to reform a development machine that was not working well or fairly before the collapse of the banks. It also should provide the chance to replace the missing rungs on the housing ladder. Just as in the Great Depression, Cambridge should once again be helping to lead the way!

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[30] See Smarter Growth and Intelligent Local Finance, Nicholas Falk, TCPA, 2004