

# **A TRANSPORT PLANNERS GUIDE TO CAPTURING LAND VALUE UPLIFT**

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## **1. INTRODUCTION**

Within the transport community there is currently a large debate over the issue of 'land value capture' (LVC). This is particularly timely for the UK given the shortfalls in transport finance which is set against a growing economy, increasing housing demand and an increasingly mobile society. It is recognised that to address the needs of the Sustainable Communities Plan, the inadequacy of public transport nationwide and even the potential of the London Olympics in 2012, some changes will need to be made to funding in the short to medium term. The purpose of this paper is to inform transport professionals of the general arguments surrounding LVC and to illustrate with examples from the UK and worldwide the steps that have been taken and could be taken to overcome the financial barriers that are preventing a high quality, sustainable transport network in the UK being developed.

There are different techniques for capturing land value gain and these range from receiving voluntary contributions from businesses to taxing landowners. This paper does not promote a particular technique instead its purpose is to provide an overview of LVC and a balanced argument on whether LVC can raise transport funding. The following section therefore provides a background to the current problem and section 3 presents the published arguments for and against LVC. The final sections provide evidence of LVC techniques that have occurred in the UK and abroad both now and in the past and points ahead to how such a system could become an integral part of the UK transport scene.

## **2. THE PROBLEM WE'RE FACING NOW**

In the last decade, the government's Transport and Urban White Papers and the Ten Year Plan have shown the changes in national policy thinking towards transport and regeneration. The Sustainable Communities Plan in 2003 further illustrated government's thinking. At the local level, the Local Transport Plans have shown the vision and planning skills that exists amongst transport professionals. However, the ability to implement these visions and plans is thwarted by our ability to obtain funding to build sustainable schemes on the scale which national policy demands.

In the London Plan, £20bn of regionally and nationally important projects are listed including two new river crossings, new tram lines and extensions, new orbital rail links and extensions to the Docklands Light Railways and East London Line. The cornerstone to London's development plans is Crossrail, a project to establish a new tunnel rail link through central London, which by itself may cost £10bn [Walder, 2003]. London alone is facing a population increase of 700,000 and an increase in jobs of 630,000 by 2015 with a transport system already stretched to capacity. Although maybe not as stark, other areas in the UK are facing similar growth trends whilst, on the flip side some areas are in decline. As transport professionals what can we do about these two very different conundrums?

Forgetting for a moment the need for new services; the existing rail, bus and road systems require more funding to sustain them. In London, the government contributes £1bn per year to the London Underground. If a lesser amount is allocated in a given year then the shortfall is made up through fares, taxes and/or reductions in service. For British roads, it will take until 2010 and a 25% increase in investment to bring primary routes to a state of good repair [Walder, 2003].

### **2.1 The Current System**

Predominantly, transport projects are funded by the state. Sources of public funding for transport include non-domestic rate, council tax, rate support tax and other specific grants (e.g. Transport Supplementary Grant, TSG). Council tax in particular is a significant source of revenue for local authorities - contributing 22% of revenue income in 1998/1999 (DfT, 2003). However, due to their political source, these funding levels are never assured beyond the short term. This uncertainty leads to disjointed programmes, increased costs and delays at critical times. Even with a larger capital pot to implement schemes an underlying revenue stream to support the infrastructure is still required [Walder, 2003].

In addition to public funding, there are also some opportunities to access private funding. Section 106 is “a binding agreement between a council and a developer associated with a grant of planning permission and regarding matters linked to the proposed development”. The principle being that the developer should contribute to the local area e.g. through a junction improvement [Planning Portal, 2004]. Further information is given about S106 in Section 3.1.1. Also, since the 1980s there has been growth in private funding and public-private partnerships. Sources of private funding are mainly in the form of Public Private Partnerships (PPP), Private Finance Initiative (PFI) and Design Build Finance and Operate (DBFO). Private finance is used due to the concern over the efficiency of the public sector and the management of large scale projects and the availability of capital with private financing that can advance projects (DfT, 2003).

Table 1 summarises the issues relating to the current financial system as identified by local authorities.

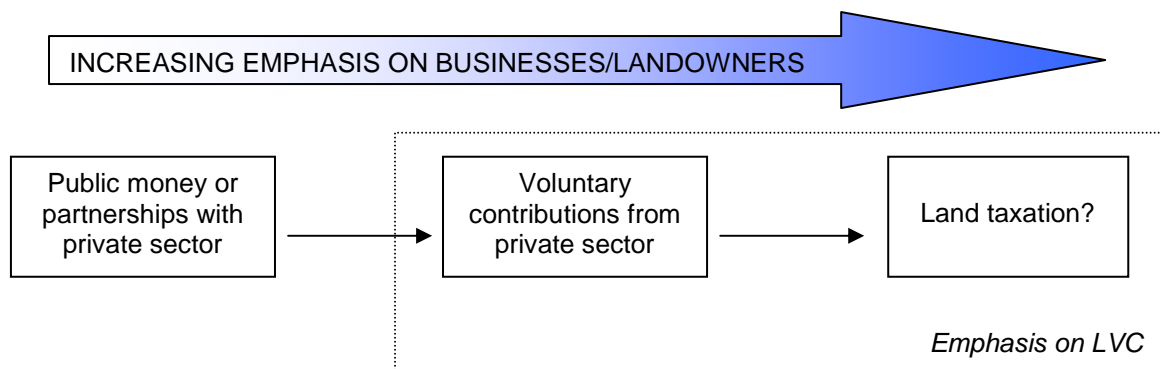
**Table 1: Summary table of problems (Sources: CfIT (2002), DfT (2003))**

<b>Issues and Challenges</b>	<b>Extent of problem</b>	<b>Description</b>
Rapid increase in capital funding		Insufficient capacity within local authorities to respond has led to difficulties in implementing LTPs in early years.
Under-spend	37% of local authorities spending <90% of capital. More serious in Metropolitan and London Boroughs	This is related to the need to increase the capacity of local authorities to deliver projects and schemes to match the available capital. It is largely a transition issue and is likely to diminish as working practices adapt.
Lack of total resources	76% of local authorities consider that LTPs receive insufficient funding	This is primarily a problem with revenue rather than capital expenditure (see below)
Lack of capital	20% of local authorities are dissatisfied with the level of capital funding	
Lack of revenue	75% of local authorities are dissatisfied with the level of revenue funding	Increases in revenue have not matched capital increases
Diversion of funds away from transport	62% of local authorities have diverted transport funds to other policy areas. This was higher for unitary and metropolitan authorities	Revenue funds that are not ring-fenced are vulnerable to pressures from other policy areas including education and social services. Capital funding faces similar pressure under the Single Capital Pot system.
Weak integration of medium sized schemes		Schemes costing below £5m are not eligible for additional support, yet can represent a very significant amount of funding for smaller authorities.
Annualisation: loss of 2-year Supplementary Credit Agreements	92% of local authorities feel annualisation encourages short term thinking	The concern about the annualisation of funding relates to an inability for long term planning of transport.
Challenge Fund bidding process		The bidding process for Challenge Fund payments is resource intensive and should be streamlined to integrate it with the existing bid framework of Local Transport Plans and Annual Progress Reports.

## 2.2 A New Way of Financing

One particular area that is currently being researched is raising revenues against property value increases. In 2002, it was reported that land and property within the direct impact zone of Crossrail was worth £107bn and could substantially increase as a result of the project. The existing property tax system is ill-equipped to pass an equitable share of these gains in value. Under current law, increases in the nationwide value of commercial property are untaxed. Securing even a small share of the increase in property values could help pay for much of the transportation infrastructure [Walder, 2003].

Land value can be captured in a number of ways. The main way is from contributions from landowners or businesses. There are many advocates of LVC. Contributions can range from voluntary contributions and through to land taxation enforced by national government. Figure 1 shows the direction in which UK interest is moving.



**Figure 1: Moving towards a new financing system for transport?**

This paper therefore focuses on LVC in its various forms.

### **3. WHAT IS LAND VALUE CAPTURE?**

The rationale behind capturing land values to fund transport is that, when land values increase due to improvements to nearby transport infrastructure these gains can be captured from local landowners or businesses and fed back into transport through LVC techniques. The OECD report (2000) defined value capture as “a mechanism by which the agency responsible for the development of urban transport infrastructure transfers part of the financial benefit gained by land developers to the community at large” [Tsukada and Kurnami, 1994]. However, there is a range of land value capture techniques. This section will investigate this diversity in more detail.

#### **3.1 LAND VALUE CAPTURE THROUGH VOLUNTARY CONTRIBUTION**

In the UK the most immediate solutions will be through Section 106 agreements, Transport Development Areas and Business Improvement Districts. These mechanisms are already supported by national government policy and structures are in place for their provision. They are however subject to the co-operation and ‘goodwill’ of many businesses and landowners.

##### **3.1.1 Section 106 Agreements**

Section 106 (S106) allows local authorities to capture some of the benefits developers receive from developing land through contributions to local schemes e.g. transport infrastructure improvements. However, this system is largely seen as inefficient and unsatisfactory by both local planning authorities and developers for the following reasons;

- Only land coming up for development contributes and as the surrounding sites are already developed they do not contribute to the new infrastructure which gives them added value.
- There are also sites which are not developed and for which the owner has no immediate plans - however, these sites will also increase in value and make no S106 contribution towards the cost of the scheme from which they benefit.
- The threat of S106 may deter development proceeding.
- The amount collected by S106 is very dependent upon the skills of the negotiators on the two sides (the planning authority versus the developer) and therefore not all landowners are treated equally.

However, despite its disadvantages S106 does provide the local planning authority with some means of capturing the benefits from land development and to offset these benefits with improvements which are not paid for from the public purse.

##### **3.1.2 Transport Development Areas**

An enhancement of S106 is the move towards Transport Development Areas (TDAs). The TDA model is now recognised in the national planning policy framework and is cited in local authority development plans. The concept is based around well-designed, high density, mixed use developments with good public transport access. The approach is promoted as sustainable and equitable with the potential to encourage regeneration. Successful implementation requires; funding, establishment of overall partnership, land assembly, specific defined delivery mechanism and monitoring and review.

Sustainability objectives are achieved by locating major trip generating land uses close to quality public transport services. Some of the property value gained from new infrastructure can be captured to augment funds available for sustainable transport solutions and public transport operators increase revenue through increased patronage. Co-operation is required for a successful TDA as objectives are achieved by; direct capital funding of specified facilities, recurrent funding of service provision, provision in kind (developer provides facilities), increased public transport patronage or any combination of the above.

The theory of TDAs is well reported within the RICS website and many local authorities including Berkshire, Leicestershire and Bedfordshire have adopted the concept in their Structure Plans. It will be in the long term that the benefits of the TDA approach will be seen.

### 3.1.3 Business Improvement Districts

Business Improvement Districts (BIDs) were developed by the Government in the 2001 Urban White Paper. They are intended to promote partnership between local authorities and business to stimulate urban and community regeneration through improvements to the local area. This will be in addition to services already provided by the Local Authority [Walder, 2003].

BIDs are established by putting a proposal to the local authority and are therefore *business-driven*. Each BID needs to outline; objectives, projects to achieve objectives, dates/time-scale, key performance indicators, expected outcomes. Projects need to address a specific local concern and deliver measurable benefits (i.e. via increased patronage, higher land value/status of location, lower costs through reduced crime, etc.) They normally address; environment, security, facilities for visitors and shoppers or transport and accessibility. BID proposals can be any size (although often target a particular street/area) and operate over any (initially defined) period.

The BID approach allows all paying businesses to vote on proposals. All proposals need to be agreed by a majority of business ratepayers in the BID before they can be implemented. This gives businesses a more proactive role in shaping the local environment, but local authorities have power to veto proposals where they conflict with other formally adopted plans/strategies. Sufficient support is however needed from the business community for financing and implementation to succeed.

Businesses benefit from potentially increasing turnover, property values and rent for landlords – in theory benefits will outweigh the additional business rate levy. Property owners are often keen to participate as the BID may enhance the value of their property. The amount of levy paid is determined by the BID and the levy may vary for different groups or ratepayers, i.e. based on sector, ability to pay, ratepayers rateable value. Some may be made exempt, i.e. schools/hospitals/voluntary organisations, etc.

#### **Business Improvement Districts in the UK**

Walsall has achieved success through the formation of a BID. Since it came into operation, the Premier Business Park, once a victim of severe urban decline, has seen 9 new companies and 4,000 new employees move to the site after £7.37m of investment. The BID is comprised of a group of businesses on the estate, which was set up to encourage the growth of the area. The companies involved established a management company which improved street lighting, cleaned the estate, provide pedestrian and parking facilities, and improved the overall efficiency of their business activities.

Coventry city centre has developed a prototype BID, CV One, to get the whole community to take an active role in improving their competitiveness. CV One, a voluntary membership scheme, wants to base a BID on its current retail, leisure and pubwatch membership schemes to allow all businesses to contribute. Real improvements have already been made to the area through CCTV installation, modern radio links, more staff, and a more attractive environment. Patronage has increased, crime has decreased and perception of the area by both visitors and residents has improved.

### 3.2 LAND VALUE CAPTURE THROUGH TAXATION

The softer approaches that encourage co-operation and voluntary participation are well supported by national government policy – as has been seen with BIDs and TDAs. However, the harder and more bureaucratic approach of land value taxation currently has limited political support. This section discusses the more bureaucratic issue of taxation – a solution that will require changes to our centralised funding structures in the UK before changes can

be seen. The first section discusses local taxation (at the local level this has various names – Tax Incremental Financing or TIF, Site Value Rating or SVR) and the second section discusses national taxation (known as Land Value Tax or LVT). The advantage of taxation over voluntary contributions is that receipt of the money for transport improvements is guaranteed rather than relying on the voluntary participation of the private sector.

### **3.2.1 Local Taxation**

In other countries localised taxation is not uncommon. In the US, a mechanism known as Tax Incremental Financing (TIF) has been established in some states since 1951. TIFs capture a fair share of property price increases and invest the funds in targeted economic development. Between 1998 and 2004 TIFs raised more than US\$10bn. Under TIF, the local authority designates an area as a TIF district. Within this district, tax rates do not change from the standard governmental rate but, when property prices rise the additional tax revenues repay the costs of new infrastructure development. Ratepayers do not pay if their property fails to rise in value. The government does not pay if the tax revenues of the district fall below the established baseline. And the cash reduces the pressure on annual governmental budgets [Walder, 2003].

In the UK, TIF bond structures could be overlaid on business rates through BIDs. Proposals are funded by a supplement on the rate bills of the businesses within the BID (supported by legislation within the Local Government Bill 2003) thereby ensuring income for the BID. Funding can also be attained from voluntary contributions, property owners and other organisations. Businesses then get the investments they are asking for and local government finds a new source of capital for investment [Walder, 2003].

Brisbane has a site value rating (SVR) system based on site values to raise revenues. Several revenue mechanisms were rejected. The poll tax on the grounds that a uniform per capita tax would be expensive to administer and would impose a significantly greater burden on the most lower income groups. A local income tax due to its incompatibility with the benefit principle, not all residents earn their income in the city, and not all those working in the city are residents and also, because it would tax income regardless of benefit or use of services. Consumption tax was also seen as inappropriate as it would be unrelated to the benefits and costs of services provided. Changes in local government funding would need to occur before such a system is implemented in the UK.

The OECD report overall highlights that co-operation among levels of government are important and that for local authorities to use value capture local taxation guidelines need to be in place at a national and regional level.

### **3.2.2 National Taxation – Land Value Taxation (LVT)**

The idea of a national system of LVT is that *all* landowners would be taxed on the value of the *land* they own and not property on the land. Therefore, any rises in land value (which could not be due to any effort on the landowners part – they can only increase the value of the *property* through building improvements etc) would be taxed and these tax rises would add money to the public purse to fund transport.

If LVT was introduced in the UK it could take the following form. A new body would need to be created under Her Majesty's Treasury, to incorporate the roles of the Her Majesty's Land Registry and the Valuation Office Agency. Using all available data this body could complete a land register for the whole country recording ownership of each site across the country and issue a published annual valuation record of each site. The valuation would reflect the annual rental value of each site according to its optimum permitted use. Based on this valuation, the tax levied could replace all property taxes (such as Council Tax, Commercial Rates, Stamp Duty, VAT on building repairs, capital gains and inheritance taxes on property, etc). In the first instance, LVT could be introduced at a relatively low rate (say 10%) in order to give individuals and businesses time to adapt to the new system but, advocates of LVT suggest that this initial rate should ideally be high enough to replace all existing property taxes.

## **4 THE KEY ARGUMENTS**

If LVC is so obvious, why isn't it a financial mechanism widely adopted? This section discusses the questions that are often asked of LVC. The first sections are general to voluntary and taxation techniques of LVC whereas, the final sections address specific questions about land value taxation.

### **4.1 GENERAL VOLUNTARY AND TAXATION ISSUES**

#### **4.1.1 Is There Evidence Of Land Value Gain Due To Transport?**

LVC assumes that land near to transport provision is more valuable and will generate more income. Some studies show this is often debatable. The RICS research project on Land Value and Public Transport found that there is not a definite link between transport provision and land value uplift. This link is dependant upon a number of factors relating to the actual area. Some of these factors include; proximity to transport provision, density, economic buoyancy and population growth [RICS, 2002].

#### **4.1.2 What About International Experience?**

Empirical LVC experiences have been recently reviewed by the OECD (2000). The report found that there are relatively few experiences of application of this integrated mechanism of financing urban transport infrastructure and land use developments, especially in Europe, and even fewer examples of successful experiences.

However, below is a selection of examples of LVC.

##### **Voluntary LVC in Japan**

In Japan, some private railways manage the land around the railway and produce profits. In large cities such as Tokyo, Osaka, and Fukuoka, firms such as Kintetsu operate city underground trains and long-distance buses that terminate at their shopping malls and become the main consumer hub of activity) [Smith and Gihring, 1999].

##### **Voluntary LVC in London**

The Metropolitan Railway Company built its first line in 1860 from Paddington to Farringdon. After further demand for rail links the metropolitan railway financed development by building property in the suburbs alongside rail links. The company attracted people to these properties by promoting a higher quality of life (cleaner, more space, greener land). The properties financed further development of the line. Residents bought their homes and also paid to use the transport system.

##### **Local Land Taxation in South Africa**

In addition to TIFs in the US and SVR in Brisbane (see above), SVR was introduced to South Africa in 1914 and by 1984 62 of the 112 largest cities in the Republic operated SVR. In recent years SVR has developed considerably – notably in Cape Town where some 70% of the city's revenue is collected in this way [Henry George Foundation – Does LVT Work? unpublished].

##### **National Taxation Worldwide**

In Hong Kong landowners are charged an annual rent based on the market value of the land and not the buildings on it. In Denmark the value of land and of improvements are assessed separately and an annual tax of around 1.5% is levied [Henry George Foundation – Does LVT Work? unpublished].

Many of these examples could not be immediately transferred to the UK due to the institutional barriers within our taxation system. However, they illustrate that experience of LVC is widespread internationally and that opportunities exist for the UK to learn from other countries about alternative funding sources.

## **4.2 SPECIFIC TAXATION ISSUES**

### **4.2.1 Is Land Value Taxation Fair?**

Land value taxation is based on Georgian theory. Henry George was an American living in California who was shocked at the high increase in the asking price for land after a major railway was rumoured to be under consideration in the area. He felt it wrong that it was the community investing in the local area that increased the value for this land, not the landowner who would receive an unearned windfall upon sale. He went on to propose that as it is the community who provides the added value to land, it is the community who should benefit via taxes upon this land. Georgian theory taxes all land-owners according to optimum-use-value, not just areas benefiting from transport provision but also areas which benefit from the best schools and community facilities. Land-tax is therefore seen as a moral tax.

The investment by Government into public services and the activities of the private sector therefore adds value to land but with no personal effort by landowners. The Jubilee Line Extension stations are thought to have increased land value by £13bn when the extension cost taxpayers £3.5bn. Taxing land values may therefore be the fairest and simplest way to pay for the entire cost of necessary urban development and in particular transport infrastructure. It is predominantly the location of the site rather than the structure built on the land that affects property prices. Development of adjacent sites can add further to a site's value. "If a small fraction of the increased land value [that resulted from the Jubilee Line Extension] had been captured at the outset and scrutinised, you could have built it without central government assistance" Bob Kiley, TfL's Transport Commissioner [SVR, ALTER].

In addition, LVT ensures that those who benefit from access to transport carry the cost rather than transport schemes being funded through general taxation. Whereas, currently people outside the South East pay for the running of the London Underground which they hardly ever use [Riley, 2001]. By taxing those who benefit from transport provision, LVT/SVR is more equitable than income and corporation taxes. Instead of taxing private wealth earned by labour or enterprise, it recovers public wealth expressed in land values [SVR ALTER, unpublished].

### **4.2.2 What About Political Acceptability?**

One of the key issues stopping LVT is the political acceptability of introducing a new tax when the public and private sector will see it as an increase in their expenditure. Similar concerns are held about the introduction of other road user charging. However, London's congestion charging shows that radical tax reform might not be as politically risky as previously thought [SVR ALTER article].

In terms of the public, one solution is to introduce LVT as a gradual replacement tax for Council Tax in a revenue neutral way. Therefore, people are paying the same aggregate tax, but in different proportions. This gradual approach would raise less opposition from the electorate and enable beneficial changes to be seen over time. With LVT it is argued that the majority of people would pay less in tax.

However, if a land value tax will reduce the majority of UK taxpayers' tax bill it is logical to assume that some people will see an increase in their tax bill to cover this. The people that this affects will be those who own significant areas of land. 'Who Owns Britain?' [Cahill, 2002] revealed that 1% of the population owns 70% of the land - a situation not seen in any comparable nation. Significant landowners such as the Duke of Westminster, Duchy of Cornwall and the Crown Estate have a strong political influence and it would be difficult for any government to impose such a tax – even if it is fairer on the majority of the UK population.

Other institutions who will be affected by such a tax are another powerful political group – UK business. A transport survey by the British Chambers of Commerce in 2004 asked businesses about their views on land value tax. Over half of respondents (54%) were against the proposal however; one fifth (19%) were in favour. The strongest support for such a proposal was in the South East (24%) and Scotland (23%). Businesses in the East Midlands, Yorkshire & Humberside, Wales and London show the least support for Land Value Tax, 60%, 59%, 59% and 57% respectively. Although it is evident there would be some opposition, some businesses may be more supportive if they understood that declining transport systems are affecting their land values and they would benefit if they paid for a better transport system with revenue from land values [BCC, 2004].

#### **4.2.3 What About Land With A Poor Value?**

Under LVT undeveloped land would also be taxed. This would encourage the best use of scarce resources by forcing landowners to reduce costs by effectively utilising the land. This could lead to regeneration because the do nothing or speculation options would become untenable. There are studies of the effects of LVT on development in the US (where undeveloped land is sometimes taxed at a higher rate than developed land), and this shows that generally development increases substantially.

Our current rating system penalises occupiers of buildings, but the owners of empty sites pay nothing. If a landowner reopens their site then they are required to pay business rates, corporation tax, national insurance, PAYE and VAT. There is therefore little incentive to bringing an empty asset back into use. The solution is to change from assessing building value to assessing land value for its optimum permitted use. This would provide landowners with an incentive to bring buildings back into use, helping to revitalise urban areas and reduce urban sprawl as well as reduce the need for new infrastructure. With more sites on the market and the new occupants aware of their land tax responsibility, land prices would reduce, encouraging regeneration. Such a taxation policy could alter the intensity of the current 'Sustainable Communities Plan' by reducing the need to provide homes and jobs on greenfield sites in Cambridgeshire, Bedfordshire, Surrey and Kent [Wetzel, 2003a – Observer].

In addition, LVT will also benefit land of low value these areas would become tax havens and then regenerate spontaneously or, if these areas are agricultural land without a need for development then they would benefit from lower taxes [SVR, ALTER].

#### **4.2.4 Is Land Value Taxation Sustainable?**

The purpose of LVT is to increase funding for transport and therefore improve the availability of public transport. The travelling public will therefore have more sustainable transport choices. [Wetzel, 2003a)

However, there is an issue that LVT could encourage people to seek housing and businesses in lower tax areas away from transport infrastructure to ensure lower tax payments and then drive by car. As an opposite to LVT, in the US Location Efficient Mortgages (LEMs) have been introduced in four Metropolitan areas to reduce inefficient travel by locating residential areas, jobs and services close to each other and well connected to public transport. The LEM gives people the chance to own a home in 'location efficient communities' by providing financial assistance (by means of a competitive loan). The location of housing makes it possible to walk to services and a well integrated public transport system is provided for longer distance travel. Such a system is contrary to the aims of LVT where housing and businesses would be taxed at a higher rate for being near public transport.

In addition, whilst LVT will encourage landowners to bring land back into use. There is a question over the long-term sustainability of such an approach. It is possible that developers will rush into profit-making development in an effort to mitigate taxation with adverse effects on a development's sustainability.

### **4.3 SUMMARY**

There are therefore a number of doubts, assurances and unanswered questions surrounding LVC. However, regardless of these issues the UK is facing a situation where financial barriers are preventing the development of an efficient transport system. Despite the limited international experience aspects of LVC logically appear to justify further exploration and implementation. The following section discusses how funding from LVC can be practically achieved in the short to long-term in the UK.

## 5 WHAT IS THE PRACTICAL SOLUTION?

This section provides practical ideas for the capture of land value gains for transport. It divides the solutions between voluntary and taxation techniques. The purpose of this chapter is to consider how to evolve towards land value taxation that will guarantee the level of transport funding required. The approach suggested is to develop from voluntary localised techniques and gain support for LVT from evidence in local schemes. LVC mechanisms need to be designed and implemented with great care, as they can be complex and add risks. Tools to make value capture work are still crude and limited, while implementation of value capture methods requires sophisticated skills in the fields of urban planning, transport planning, property market and finance alike [TRANSPLUS, 2002]. The political barrier of introducing land value tax may then be overcome and many of the questions raised in the previous section answered.

### 5.1 VOLUNTARY LVC

In terms of immediate steps within the transport profession, increased awareness and understanding of LVC amongst transport professionals is crucial. As BIDs and TDAs are supported within national policy these techniques should be actively pursued with the private sector. By generating awareness more local authorities can promote voluntary techniques within their areas and encourage innovative funding. From testing these techniques lessons can be learnt and confidence can grow, encouraging more businesses to fund infrastructure. Affluent areas where the inadequacy of transport infrastructure is a constraint may be key areas where landowners will contribute to improvements.

The OECD report (2000) noted the importance of the regional level in LVC. The 'competition issue' of LVC is no different to previous discussions amongst transport professionals on sustainable transport, road user charging and parking standards. For the benefits of LVC to be maximised regional co-ordination will be key. Regional involvement will reduce the negative impacts of competition between local authority areas but regional agencies will also maximise co-operation across local authority boundaries – where the difficult to fund major infrastructure projects are an issue.

In the short-term it has been recognised that BIDs and TDAs may be part of the answer to some of the issues raised in this paper. The effectiveness of these concepts will be maximised if many are joined together within a region to enable the development of integrated transport solutions.

#### **Regional Co-Ordination of Voluntary LVC in the UK**

London BIDs is run by Central London Partnership on behalf of the London Development Agency. It is a regional development and promotion programme focused on supporting the advancement of Business Improvement Districts around the capital and ensuring the dissemination of best practice. The Circle BID Initiative was the first of its kind in the UK and is funded through £7m from private funds and £4.6m from regeneration funds from the LDA. The Circle Partnership areas are in the Boroughs of Southwark, Lambeth, Camden and Westminster, chosen for their differing characteristics. The BID in Westminster has a Board comprising of small businesses, residents, the police, TfL and the Council, with all stakeholders being invited to put forward proposals. Being close to Heathrow the area is often the first impression visitors receive of London, so the emphasis of the project is on achieving a safe, distinctive high quality environment accessible to everyone, improving linkages with other developments, and to develop a distinct Paddington character complementary to the city of Westminster and the local environment.

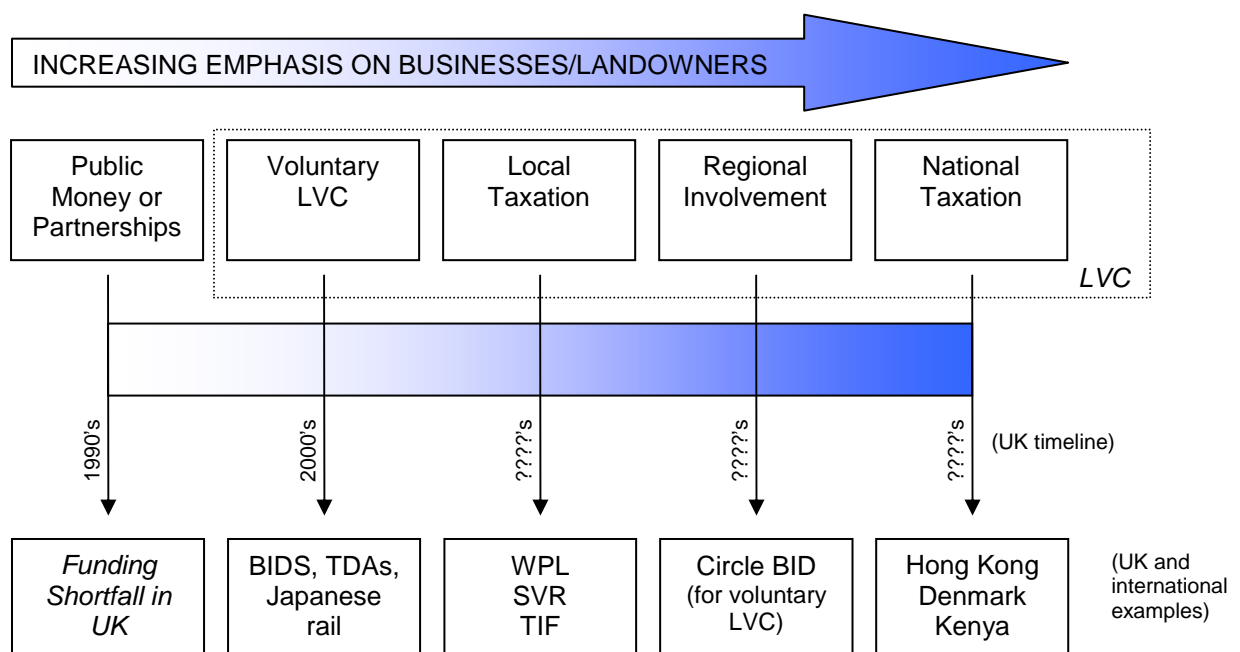
## 5.2 TAXATION

Instead of introducing national taxation immediately, the UK Government could adopt a simpler reform of local government finance first. This adjustment could be made by changing the current system based on the annual rental of non-residential buildings and the Council Tax on residential dwellings to SVR based upon the annual rental value of sites. For this to occur there needs to be a change in the philosophy of Government funding in the UK from centralised to localised funding [Walder, 2003]. This change may occur if evidence from voluntary LVC is available. However, there is some indication that national government would not be adverse to more localised control of financing. The Transport Bill (2000) allows local authorities to introduce road user charging (RUC) and workplace parking levies (WPL). Nottingham has volunteered to be one of the first authorities to introduce a WPL to fund its tram system. Local taxation will need to be supported within a consistent policy framework, where co-operation among levels of government is duly enforced. National and regional governments will therefore need to prepare policy guidelines with the aim of avoiding costly and lengthy disputes and to improve the accuracy of evaluation methods, in order to encourage local authorities to use integrated strategies of value capture. An example of this is provided by various practices in Japan [TRANSPLUS, 2002].

For national land taxation or LVT to be introduced the changes detailed in Section 3.2.2 would need to be implemented. The Government should see LBL as a replacement for existing inefficient taxes and as an alternative method for financing new infrastructure which adds to land values. In the first instance, LBL should be introduced at a relatively low rate (say 10%) in order to give individuals and businesses time to adapt to the new entrepreneurial climate. This initial rate should be high enough to replace all existing property taxes. However, in order to abate speculative behaviour in the land market, right from the beginning, the Government should indicate its intention to collect future increases of LBL in order to fund further reductions in other taxes over the period of five to twelve years.

## 5.3 SUMMARY

Figure 2 is an adaptation of figure 1. It shows our current position in financing transport and looks to how and where the UK may generate future funding. It also provides examples of UK and international experience.



**Figure 2: The possible evolution of transport funding**

## 6. CONCLUSIONS

The transport funding crisis and the LVC debate is helping to identify innovative solutions that may overcome current financial barriers to achieving a sustainable transport system. The development of more co-operative ways of working between local authorities and business is likely to become crucial to sustain business growth through the funding of transport infrastructure. In the short-term this voluntary way of working is likely to be more acceptable to the voting electorate and influential business community. However, in the long-term these experiences of voluntary LVC may encourage the adoption of more innovative taxation strategies to ensure funding for transport is available.

A 5 point approach for the UK is suggested below.

1. Techniques currently available such as BIDs and TDAs should be used and promoted within the UK by the transport industry and private sector to encourage practice of these techniques and develop expertise and experience.
2. Lessons learnt from the adoption of these techniques should be promoted nationally and internationally to encourage further use and innovation.
3. Changes should be made to taxation laws to enable local authorities to generate transport funding – similar to RUC and WPL.
4. Regional government should include advice about local taxation within their regional planning documents.
5. Experience of voluntary LVC and local taxation may encourage national government to adopt LVT at the national level.

It seems clear that innovation in terms of funding needs to come from the local level. With political barriers preventing direction on LVC from the national level it is for local authorities and businesses to take the lead and illustrate that other sources of transport funding exist.

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