BUSINESS LDN

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January 2025

GENERATING LAND VALUE TO GROW LONDON

A new residential funding approach

Executive summary

To deliver the Government's highly ambitious growth mission and housing target, a change in mindset is needed. Fresh thinking is required on how to invest in and unlock new infrastructure and development, particularly new homes, and for local areas to be empowered to use innovative funding models to invest in priority projects.

This report proposes one way of doing this to help kickstart the debate. Our proposal is for a new land value generation approach which will better capture value from residential development and deploy it to accelerate the delivery of new transport infrastructure, by evolving the current Tax Increment Finance (TIF) model.

TIF is a value capture tool that uses taxes on future gains in real estate values to pay for new infrastructure improvements[1]. TIFs allow for infrastructure projects to be financed upfront by borrowing with repayments coming from the hypothecation of future tax receipts for a fixed period within a defined area or 'Enterprise Zone'.

Our proposal would add to how the current TIF structure captures value, through retaining the increase in business rates on commercial property, by capturing revenue from residential property taxes generated by new homes that have been unlocked by new transport infrastructure. We refer to this as the '**residential tax increment finance**' (resi-TIF) model.

The central premise of the resi-TIF approach is that the model delivers additionality, unlocking new development over and above that which would otherwise take place without the new supporting transport infrastructure.

To demonstrate the additionality that the resi-TIF approach can deliver, it has been modelled at a high-level against three proposed London transport projects:

1. The Docklands Light Railway extension to Beckton Riverside and Thamesmead;
2. The Bakerloo Line extension to Lewisham via New Cross Gate; and
3. The West London Orbital extension to the London Overground from Hounslow towards Hendon and West Hampstead.

Together, these projects are estimated to support the delivery of over 100,000 new homes, unlock thousands of square metres of commercial space and over 10,000 new jobs, directly contributing to the Government's agenda to grow the economy and deliver 1.5m new homes by the end of the Parliament. However, these benefits cannot be achieved without the new infrastructure. This is the case for two of the three case studies in this report including a Grampian condition prohibiting the development of 10,500 homes until the Bakerloo Line Extension is built and the Newham Local Plan 2024 which states that development at Beckton Riverside is contingent on the delivery of a new DLR station as part of the proposed DLR extension project there[2].

The case studies in this report highlight a potential £4.5bn pot of funding that a 'resi-TIF' model could seek to tap into to help part fund these three transport projects. This funding approach would be additional to current sources of revenue and would not detract from existing taxes. Regardless of what funding streams are used to help pay for these transport projects, they are likely to require a conscious trade off in terms of where investment is allocated. For example, if a developer makes a large financial contribution to new transport infrastructure this may impact the investment that is available to deliver affordable housing.

The model has the potential to be applied to other parts of the country, particularly to cities, but is particularly well suited to London due to generally higher land values in the capital. In any case, the deployment of a resi-TIF model in London would benefit the rest of the country by reducing the call on the public purse for transport projects in the capital, therefore freeing up that public investment to be deployed elsewhere across the country.

To unlock the benefits that a resi-TIF can deliver:

1. The Government should grant the powers to the Mayor to implement a resi-TIF approach to finance new transport infrastructure;
2. The Mayor should also be granted powers to extend the use of the existing business rates based TIF ('commercial' TIF) and to designate new growth zones[3] where infrastructure investment will unlock commercial development; and
3. The Mayor should be granted the ability to combine the resi-TIF with the existing commercial TIF approach and to decide which approach to apply, in a 'combined TIF'.

These ideas are designed to be a starting point for further discussion, alongside other options and funding models on the table. The intent is to open up a debate on the types of innovative models that will be necessary to achieve the Government's twin ambitions around housing and growth.

This paper has been produced by BusinessLDN in association with WSP, Transport for London (TfL) and with support from London Councils. Our work has been informed by a steering group, but this paper does not necessarily reflect the views of the individuals or their organisations.

SECTION ONE

The situation in London

How investment in London boosts UK-wide growth

London is more productive than any other English city or region and this productivity, despite slowing since the financial crisis of 2007-08, has helped to improve living standards within the capital and across the UK[4]. As a region, London is the biggest net tax contributor to the rest of the country, its net fiscal surplus, the difference between taxation raised and public expenditure made in the city, was £37.9bn in the financial year ending 2022.

Investment in London is therefore key to boosting national productivity and economic growth, and to delivering on the Government's five missions. One of the main ways to boost growth in the capital is to continue to enhance its transport network which, amongst other benefits, can boost productivity, labour mobility and support national supply chains. Transport for London (TfL)'s investment in the UK supply chain in 2022/23 alone was worth £5.9bn in Gross Value Added to the UK economy, supporting over 100,000 jobs across the country[5].

The National Infrastructure Commission states that 'London's transport system must be maintained at its world class level, given the important role London plays both regionally and nationally'[6]. The network connects people to new job opportunities, retail, educational institutions and health services and helps to reduce inequality through improved connectivity and mobility[7].

A safe and reliable public transport network in London is also fundamental to supporting the delivery of new homes[8] and jobs. Investment in transport unlocks land for new development and allows buildings to be constructed at higher densities, which will help address the chronic housing shortage in London[9] and create new commercial space to provide higher-quality places to work, increasing productivity and boosting growth. Later in Section 3, three new transport projects are highlighted as case studies which, if built, would directly contribute to unlocking new development that cannot take place in the absence of the new infrastructure.

The funding challenge for London's infrastructure

The Government currently faces a significant challenge to fund the infrastructure the country needs alongside other spending priorities. Significant funding gaps exist between what is required and what is available for key infrastructure sectors, with a need for private sector investment to more than double by 2040[10].

While TfL has received significant investment from Government, particularly during the pandemic, and most recently at the October 2024 budget, this is set against a broader background of constrained investment over the long-term and an historic over-reliance on customer fares to fund its revenue, particularly in comparison with other global cities[11].

The National Infrastructure Commission has also highlighted an estimated funding gap of £20bn for TfL renewal investment in rolling stock and signalling infrastructure, and network enhancements, such as the Bakerloo Line Extension[12].

These funding constraints have occurred at the same time as productivity in the city has sharply declined. Despite higher overall output driven by a growing population, productivity per worker in London decreased from a rate of 3.1% per annum between 1998 and 2007 to just 0.2 percent in the period since the global financial crisis of 2008. Slowing productivity levels cost the UK economy over £50bn in 2019 alone[13]. Increasing investment in transport is one tool of which could help to boost productivity.

Lessons on land value from London's major projects

One way to help fund new transport infrastructure is to leverage the value that the infrastructure generates to surrounding land and assets, which, in turn, can be used to fund the upfront costs of investment. A KPMG and Savills report for TfL illustrated the 'transport premium' associated with the delivery of three London transport projects: the Jubilee Line extension, Docklands Light Railway (DLR) extension and North London Line projects[14]. Each of these projects produced land value uplifts after controlling for background house price inflation.

In the case of the Jubilee Line extension, the uplift was significant, generating a 30% transport premium for property within the zone of influence of Jubilee Line stations upon completion of the project in 19991. Separate research by CBRE found that property price growth for homes close to stations on the Elizabeth Line grew by 6% more than those in neighbouring boroughs, even before the line was fully operational in 2023[15].

In January 2025, TfL published research showing the benefits of the Elizabeth Line in terms of new jobs and growth in the numbers of houses delivered close to stations. Among stations on the Elizabeth Line, Abbey Wood has seen some of the biggest growth, with a 6% increase in delivery of new homes and 11% increase in access to employment for residents. There has also been a 150% increase in sales of offices in Paddington since the line opened, demonstrating a clear growth in demand for commercial space from businesses seeking to move into the area[16]. It should also be noted that passenger usage on the Elizabeth Line has been far higher than was originally projected[17], showing the potential for new transport projects to be well used and to generate higher fare revenue than forecasted. Over £600m has been raised for the Elizabeth Line from developer contributions and the Mayoral Community Infrastructure Levy[18].

A model that could make a difference for London: Tax Increment Financing (TIF)

To continue to grow, and to boost productivity, London needs to be able to take its own transport investment decisions – often anticipating future growth in demand – but is largely prevented from doing so under the existing system where project funding is determined on a case-by-case basis through negotiations with Government, a process which consumes valuable time and resources. This is largely a function of the UK's highly centralised governance, with nearly all financial decisions resting in the hands of the national Government. This has resulted in a disconnect between funding allocations and the actual needs of the city when it comes to infrastructure and investment.

In recent years, where major investment in London's transport network has been secured, this has been the result of protracted, complex and bespoke deals such as Crossrail (Elizabeth Line) and the application of a Tax Increment Financing (TIF) model to the Northern Line Extension at Battersea.

If the Government is to deliver on its growth agenda, a new approach is required to help fund transport projects to unlock new development. While this approach will inevitably require negotiation between the Mayor, boroughs and Government, that should be done upfront, allowing London to then apply the funding model of its own accord to meet the capital's priorities. One option that should be explored is to seek to capture some of the value generated to residential property and land by the provision of new transport infrastructure.

Looking at what has worked before in London, the construction of the Northern Line Extension to Battersea was funded, in part, by the creation of a TIF model developed by the Government, the Greater London Authority (GLA) and the relevant London boroughs as a bespoke approach to that individual scheme. This model could be a credible option to help bridge the funding shortfall for current key transport projects if it could be repurposed for residential development. There is also an opportunity to adopt use of the TIF approach more broadly in London and other UK cities to increase investment in transport and other infrastructure and to support the Government's growth agenda. No new powers or legislation are required to implement more TIF schemes, all that is needed is an agreement with the Government on the approach. This is explored in further detail in section two.

TAX INCREMENT FINANCING

The Northern Line Extension (NLE) to Battersea

TIF is a value capture tool that uses taxes on future gains in real estate values to pay for new infrastructure improvements[19]. TIFs allow for projects to be financed upfront by borrowing, with repayments coming from the hypothecation of future tax receipts for a fixed period, typically from the development that the new infrastructure enables[20 21]. This takes place within a defined zone. In the UK these have been termed 'enterprise zones', geographically defined areas in which commercial and industrial businesses can receive incentives to set up or expand[22].

The TIF approach is commonly used by States in the US to promote housing, redevelopment and economic growth. The devolved federal system of government in America, with local areas in control of taxation, provides greater incentives to invest in local projects. Greater fiscal devolution in London and other UK cities could provide similar incentives to local authorities to invest through TIFs and allow the approach to be adopted more broadly.

A version of the TIF model has been successfully used to help fund the Northern Line Extension (NLE) to Battersea, completed in 2021. In the Chancellor's 2012 Autumn Statement, the Government confirmed that up to £1bn of borrowing from the Public Works Loan Board would be available to the GLA to finance the construction of the NLE.

The contribution from the TIF model applied to the NLE is being made by capturing incremental business rates revenue generated and retained within the enterprise zone around the station site. The TIF is one part of a broader funding package, including developer contributions through the Section 106 agreements and the Community Infrastructure Levy regimes[23]. Other forms of tax retention have been applied to other TIF models elsewhere, but to date, the version of the TIF based on business rate retention is the only one that has been applied in the UK.

The NLE TIF approach was made possible in part by the large volume of commercial development realised at the site. And the overall funding package from the NLE was the result of a conscious trade off made by all parties to the agreement, which meant developer contributions to help fund the NLE were prioritised over that which could have gone to funding a higher level of affordable housing .

The TIF model applied to the NLE helped to unlock new, additional development through this investment in transport infrastructure. The development would not have taken place to the same scale or density in the absence of this infrastructure. The next section considers how a new value generation mechanism focused on residential property taxes, could be introduced to complement other mechanisms.

SECTION TWO

Going beyond the existing toolkit: new project funding solutions

A range of local and national taxes, levies and funding mechanisms currently exist for new transport infrastructure but there are gaps in their coverage, challenges in their implementation and competing demands on the funds raised.

Figure one: new development levies paid by developer or landowner

FUNDING MECHANISM	DESCRIPTION
Community infrastructure levy	A charge which can be levied by local authorities on development in their area. Funds raised are invested in local infrastructure schemes including transport, flood defences, schools, hospitals, and other social infrastructure. In London the levy is set and collected by boroughs on behalf of the Mayor and rates are subject to annual indexation. The local authority can also change the rate via consultation with residents. Some types of development, like self-build, home extensions or development for charitable institutions are exempt from the levy.
Mayoral community infrastructure levy	The MCIL was introduced in 2012 to help finance the Elizabeth Line (Crossrail). It applies to most new developments in London granted planning permission on or after 1 April 2012, and is calculated based on net additional floorspace, with exemptions for educational and medical floorspace. There are also relief exemptions for affordable housing, self-build housing and developments by charitable organisations. The MCIL is set by the Mayor and local planning authorities collect the MCIL on the Mayor's behalf.
Section 106 agreements	Planning obligations paid by property owners, which make a development proposal acceptable in planning terms by mitigating the site-specific impacts of new developments. The level of contribution is negotiated between local planning authorities and the property owner and can be used to fund new infrastructure to upgrade existing infrastructure, and for new affordable housing.

Figure two: taxes paid by businesses and residents, some of which have been harnessed to help fund transport projects to date

FUNDING MECHANISM	DESCRIPTION
Business rates	A tax set by central Government, on occupation of non-domestic property made as a contribution towards local authority services. Historically, local authorities have typically retained half of the income from business rates, with the other half paid by local authorities to central Government, which uses the income to fund grants back to local authorities. The Northern Line Extension to Battersea is being paid for partly by capturing incremental business rates revenue generated and retained within the enterprise zone around the station site.
Business rates supplement	A special contribution from larger business and non-domestic properties towards funding the Elizabeth Line (Crossrail). Set and levied in London by the GLA. It applies to properties with a rateable value above £70,000.
Council Tax	Locally set and retained tax to fund council services, based on property valuations from 1991. Council tax revenue can be used to fund public transport and highway services in local areas.
Stamp Duty Land Tax	A tax payable by the purchaser on land transactions in England and Northern Ireland, set and retained by central Government. The amount payable is calculated based on the price the purchaser pays for property or land.

Each of these existing funding mechanisms face constraints which impact the ability to apply them to funding of new infrastructure in London. Sources in figure one are paid for by developers and there is a complicated balance to be struck in terms of commercial viability for development as the case of the NLE to Battersea demonstrated.

While business rates have been used to fund a part of the contribution to the costs of the NLE to Battersea and the business rates supplement has been used to fund part of the costs of the Elizabeth Line, less attention has been paid to how residential property taxes like council tax and stamp duty land tax could be used to help fund new transport infrastructure and unlock more development.

A new approach is therefore required. To help guide the development of this approach, we believe the following criteria should be used.

A new approach should:

- Be additional to existing sources of funding;
- Contribute part of the funding for a project rather than the total amount;
- Not stall development by impacting viability;
- Provide an ongoing stable revenue stream which can be borrowed against;
- Be implemented in the short- to medium-term; and
- Be able to be applied across the UK on a case-by-case project basis.

Taking these criteria into consideration, **a new, three-part approach to the use of Tax Increment Financing should be introduced**. The high-level details of this approach are set out below along with analysis of the challenges. More detailed modelling of these approaches will be required, though some initial thinking is set out in section three. Furthermore, while these approaches could potentially also be applied to other cities across the UK on a case-by-case basis, they have been designed in the context of the transport and development needs of London.

1 The Mayor should be given the powers to introduce a 'resi-TIF'

The resi-TIF would allow a proportion of Stamp Duty Land Tax (SDLT) generated by new development resulting from the provision of new transport infrastructure to be kept locally in London. To complement and maximise this funding approach, a percentage of additional council tax receipts could also be included, or a small, temporary transport precept could be placed on new council tax receipts in the TIF area. This would be based on a 25-year borrowing period to reflect the current duration of enterprise zones (what we have termed from here as 'growth zones') as designated by the Government.

The principles behind the resi-TIF would be the same as that applied to the NLE TIF model. The resi-TIF would ringfence some future residential tax revenue (SDLT, council tax or a transport precept), and use this to pay back the upfront costs of the transport infrastructure. The model would only be applied to additional taxes generated as a result of development which are directly attributable to the new transport infrastructure. In other words, there must be an interrelationship between providing the transport infrastructure and constructing the new development – in the case of a resi-TIF, the new homes could only be built if the transport infrastructure is built.

2 The Mayor should be given the power to undertake more 'commercial TIFs' – those that are based on business rate retention, to unlock commercial development and regenerate areas.

The NLE TIF has proved the concept of the business rates TIF model and could be replicated in other areas of London where similar circumstances apply. The creation of the TIF and growth zone allowing for the retention of additional business rates to part fund new transport infrastructure could generate additional investment which would not occur in the absence of the creation of the zone, stimulating development, jobs and economic growth.

3 The Mayor should be given the power to create a 'combined TIF' which encompasses the existing 'commercial TIF' and the new 'resi-TIF'

Where delivering new transport infrastructure will enable both residential and commercial development, the existing TIF approach, based on business rates retention, could be joined by the resi-TIF funding streams to create a new 'combined TIF'. Using the combined approach would maximise the revenue potential of projects depending on the mixed-use development opportunity of the scheme and could help to unlock particularly challenging sites. SDLT paid by businesses on commercial property purchases could also be added to the combined TIF to further increase overall funding from the approach.

Challenges to be worked through

While the resi and combined TIFs could provide innovative ways to part fund the UK's infrastructure needs, building on the NLE TIF, there are several challenges to overcome for the model to have broader applicability and become a deliverable proposition:

1 The risks associated with future development need to be managed

Clearly, part of bringing forward new transport projects is to understand and mitigate, as far as possible, the various risks involved in project delivery. With any model based on ringfencing the proceeds from future development growth, there is a risk that development does not materialise to the same scale or quality as is envisaged at the outset of project planning. However, where investment in new transport projects has taken place in London recently, this has boosted property values, supporting wider development, as outlined in section one. A new land value generation approach would make a contribution to part of the funding for key transport schemes, other sources of funding would also share risk as part of the overall package agreed.

There are also risks related to the wider macroeconomic environment, which could impact the property market, and therefore the extent to which new development is realised through the model.

2 The model needs to demonstrate genuine additionality

The central premise of the resi-TIF approach is that the model will unlock new development, over and above that which would otherwise take place without the new supporting transport infrastructure. It makes new development possible, rather than simply re-directing existing Exchequer revenues.

There are planning policies currently in place in London (and other parts of the UK) which limit the amount of new development that can be built relative to the level of transport infrastructure that is in the area. As will be explored in more detail within section three, in boroughs where the proposed Bakerloo Line Extension would be built, there is what is known as a 'Grampian Condition'[24] preventing 10,500 homes being constructed until the extension is in place. At Beckton Riverside, the Newham Local Plan is clear that development at Beckton Riverside is contingent on the delivery of a new DLR station as part of the proposed DLR extension project. Respective Opportunity Area Planning Frameworks for Thamesmead and Abbey Wood and Royal Docks and Beckton Riverside are also clear that better transport connections from an extension of the DLR, are needed to deliver new homes and development there[25 26 27].

New development and improved transport connectivity will have a positive economic impact, stimulating growth whilst also widening the tax base and generating additional tax revenue through growth in stamp duty receipts for the Exchequer, more than paying back the original investment. The benefits of growth in London will be spread across the UK, boosting regional supply chains and further increasing the tax surplus generated from within the capital to support public spending outside of the city. By unlocking development through better local connectivity, the approach would also generate new, additional private sector investment into London.

3 There must be certainty over how the powers will work in practise

The Mayor currently lacks the powers to implement the TIF model to fund new infrastructure investment. There are two potential options to consider here:

- The Mayor and TfL (depending who the project sponsor is) could agree a financial envelope with the Government to borrow an agreed amount of money on the basis that this would be used solely for the purpose of implementing TIF models for new transport projects in London. This would enable the Mayor to implement the TIF model with autonomy and use it to deliver new transport projects, but with conditions attached to keep upfront borrowing within agreed limits.

- Alternatively, the negotiation could be based on project viability, whereby the Mayor proposes a set number of priority schemes with an agreed level of borrowing against each of them. Borrowing would fund the upfront costs of implementing a TIF approach for the projects (as was the case for the NLE) and grant a degree of autonomy to the Mayor to deliver these priority schemes through the TIF model.

We have deliberately not prescribed the level of contribution from SDLT, council tax or a transport precept that could be made through the model, other than that such a contribution would be sourced from new development only and is only making a contribution to the funding of the new infrastructure rather than funding the entire cost of the scheme. Ultimately, the level of funding would be determined by local politicians regarding council tax and between the Mayor/TfL and HM Treasury on SDLT after detailed modelling has been undertaken. The model also relies on a degree of coordination across boroughs and with the GLA/TfL to develop projects to a sufficient level of maturity and scale to be able to release new investment.

The resi-TIF model would be one option of many, and would, in all likelihood, form one part of a wider funding package with contributions made from a mix of funding sources outlined in figure one above, depending on the economics of each individual scheme. This was the case with the Elizabeth Line with its funding flowing from national Government via grant funding, TfL fare revenue, and the private sector via the business rate supplement and developer contributions. The resi-TIF is not the only approach that could be applied, a range of other funding models exist for new infrastructure and should be considered alongside the resi-TIF proposal.

4 There must not be further strain placed on Council Tax

Local authorities across the UK are facing significant pressures on their budgets. London boroughs estimate that there is around a £500m funding shortfall for 2025-26, exacerbated by growing pressures from a rising population, increasing costs of debt, and the impact of employer National Insurance increases on supply chains[28]. The resi-TIF model proposes capturing only a proportion of the additional future council tax on new development resulting from transport infrastructure investment and does not propose reallocating any existing borough income.

The exact level of council tax contribution that could be sought, and therefore the overall potential funding generated, is not prescribed here, as this is ultimately a decision that will need to be taken based on detailed modelling.

As set our earlier, another funding option to consider could be the inclusion of a small, temporary transport precept on top of council tax applied to the additional homes unlocked by new transport infrastructure. While unrelated to transport investment, some additional levies on residential property do already exist as outlined in the box below. Again, detailed modelling would need to be undertaken to understand the potential affordability impact on residents and property values, as well as a clear process put in place for how any form of consultation on the precept would take place, if it is thought one is needed.

Existing council tax levies in London[29]

Lee Valley Regional Park is a 26 mile long, 10,000-acre park, running from the London Olympic Park northwards out beyond the M25. It is partly funded by a levy on council tax in London, Essex and Hertfordshire which equates to 90p per person per year[30]. The amount raised by way of levy on Hertfordshire County Council, Essex County Council, the London Councils and the Unitary Authority of Thurrock for 2024/25 totals £10,966,100[31].

Wimbledon Common is a site of special scientific interest, covering 1,140 acres amidst the urban surroundings of Wimbledon, Putney and Kingston-upon-Thames. Residents close to Wimbledon and Putney Commons, pay an additional levy on their council tax to fund the management of the common. It is collected by the three boroughs of Wandsworth, Merton and Kingston[32].

5 Stamp Duty Land Tax revenues must not be diverted

The resi-TIF model is not proposing re-allocation of existing revenue away from the Treasury. Rather, the approach proposes capturing new additional stamp duty created by new development resulting from new transport infrastructure. This source of revenue would not be generated in the absence of the new infrastructure.

Buyers and sellers of property within the TIF zone would not be impacted by the resi-TIF approach as there would be no effect on the amount of SDLT paid in any transaction. This would be paid anyway. The only change that occurs would be behind the scenes, between the Government and the GLA about where the SDLT revenue is allocated.

6 Build-to-Rent and affordable housing must continue to be promoted

For homes that are rented, be they a type of affordable housing or in the private rented sector, including Build to Rent, there is a different set of rules with regard to the applicability of SDLT compared to for-sale housing. This would have to be factored into any TIF model.

The level of affordable housing as part of a development will not just be important in terms of understanding the amount of SDLT forgone in the TIF model but will also have a wider relevance to the viability of the development. A careful balance will need to be struck between the clear need in London to provide more affordable homes, the cost of doing so to the overall viability of development, and other costs which a developer may need to fund including, for example, any additional payment being made through a S.106 agreement to help fund the proposed new transport infrastructure.

SECTION THREE

Applying a new land value generation approach to three key projects

To demonstrate how the resi-TIF model delivers additionality and could work in practise, it has been modelled against three key transport projects in London:

1. The Docklands Light Railway (DLR) extension to Beckton Riverside and Thamesmead;
2. The Bakerloo Line extension (BLE) to Lewisham via New Cross Gate;
3. The West London Orbital (WLO) extension to the London Overground from Hounslow towards Hendon and West Hampstead.

These three projects are TfL's priority schemes, as outlined in its 2024 business plan[33], because of their potential to unlock significant development, particularly housing, and due to their ability to help meet the policies and objectives of the London Plan, the Mayor's spatial strategy for the capital.

The high-level analysis below, with modelling produced by TfL, highlights a potential £4.5bn pot of funding from taxes that a 'resi-TIF' model could seek to tap into to help fund these three transport projects. Some of this funding could form part of a wider funding package for the schemes. If these transport projects can be delivered, they would unlock tens of thousands of new homes and thousands of metres squared of commercial space that would transform local areas and drive growth in the capital.

The potential funding pot for each of the schemes below has been calculated by estimating the average value of a house unlocked by the proposed transport infrastructure and establishing the corresponding council tax or SDLT charge on the total number of homes unlocked.

The figures presented are at the top end of a range to demonstrate the notional scale of opportunity through the approach rather than a bankable contribution. We are not suggesting it would be appropriate to capture all the tax in the model nor assumed what proportion of this revenue ought to be directed to the schemes. It is important to remember that a resi-TIF would only ever make a contribution towards the cost of transport infrastructure and would not be used to fund the total cost.

Furthermore, the council tax element of the model is a particularly difficult tax to extricate given its role in helping to fund local services and the significant financial pressure that local authorities are currently under. This would be the case regardless of whether new council tax revenue is additional or not. New council tax receipts generated from new development that is unlocked by transport investment, would still be required to fund services for new residents. The contribution made via council tax would be at the discretion of London boroughs and would need to take in to account wider council budget constraints. As outlined in the previous section, the actual level of funding generated from a resi or combined TIF would be the result of detailed modelling and a negotiation between the Government, the Mayor and relevant boroughs taking into account all sources of funding as well as several other factors outlined below.

We have also not modelled the additional funding that could be generated by placing a transport precept on council tax on new homes, or from business rates via the combined TIF model where there is a mixed-use development opportunity. If either business rates and/or a transport precept on council tax were added to the mix, this would increase the overall pot, potentially further bridging the funding gap for these priority schemes.

SDLT paid by businesses on commercial property purchases could also be added to the combined TIF to further increase overall funding from the approach.

Each of the scheme costs and the projected funding pot are in nominal terms with inflation factored in. We have assumed SDLT retention from one sale transaction per property unlocked. In reality, properties are likely to exchange multiple times during the 25-year growth zone period, but it is not realistic to expect to retain stamp duty from all future transactions through the model.

Finally, timing differences between when the scheme costs arise and when tax revenue is generated would increase upfront financing costs, so the amounts presented would need to be considered within that context. We have also applied the model over a 25-year period to reflect the current duration of Enterprise Zones (what we have termed 'growth zone') as designated by the Government[34]. The case studies are intended to illustrate the potential opportunity from such an approach in nominal terms, to be considered as part of a wider set of proposals for funding key infrastructure in London and across the UK.

Docklands Light Railway Extension to Thamesmead

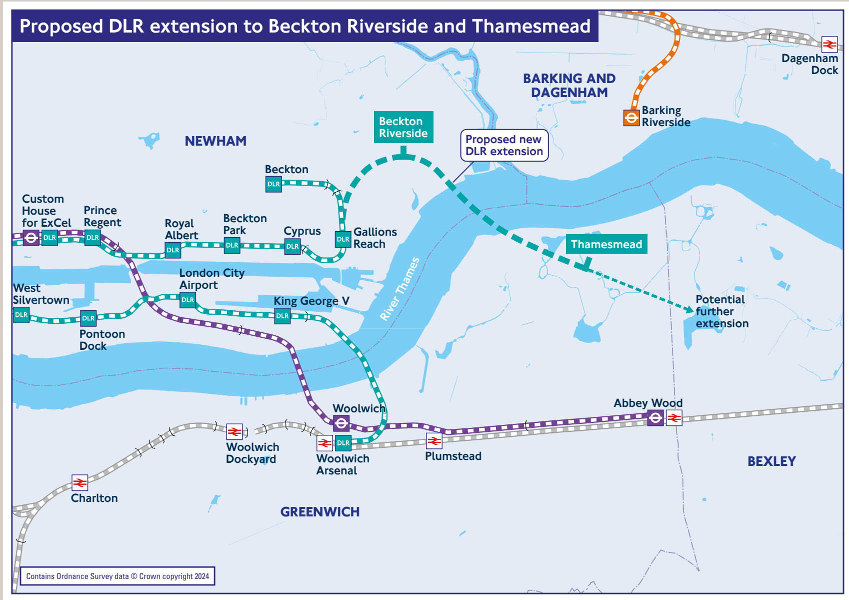

Image from TfL[35]

Description

The proposed DLR extension from Gallions Reach to Beckton Riverside and then under the River Thames to Thamesmead would unlock two significant brownfield sites in London - Thamesmead Waterfront and Beckton Riverside. The scheme includes two new DLR stations - at Beckton Riverside and at Thamesmead, and a tunnel under the Thames. The extension would take place within the London Boroughs of Newham and Royal Borough of Greenwich.

Benefits

The extension offers a prime opportunity to unlock 145 hectares of brownfield land and establish two new residential communities of 25,000 homes[36] across two boroughs with the greatest housing need. According to the London Plan, more than 50,000 households in Newham and Greenwich are on waiting lists[37].There is also the potential for 111,000m2 in additional commercial floorspace, providing up to 1,000 jobs for residents[38] and the sites are at the heart of the Thames Estuary Growth Corridor, a major area of economic priority for the Government.

The Newham local plan is clear that the scale and nature of development at Beckton Riverside is contingent on a new DLR station being built as part of the DLR extension project[39]. Respective Opportunity Area Planning Frameworks for Thamesmead and Abbey Wood and Royal Docks and Beckton Riverside are also clear that better transport connections from an extension of the DLR, are needed to deliver new homes and development there.[40 41 42]

Cost and funding from a resi-TIF approach

Of the three transport projects covered in this section, the DLR extension is the most advanced with a genuine prospect that a funding package could be finalised during this Parliament. As detailed funding discussions are already well underway, the resi-TIF modelling below should not be seen as a direct contribution to these discussions but rather a purely theoretical exercise. It is our understanding, for example, that there is little scope to include any contribution from the council tax generated by new development to help fund the extension.

The extension is estimated to cost up to £1.6bn in nominal terms. If the resi-TIF were applied to the DLR extension for 25 years, via stamp duty and council tax, this would amount to £1.5bn (£1.1bn CT gross, £0.4bn SDLT gross). This figure reflects the upper scale of this approach over the 25-year period (theoretically the funding could be ringfenced for longer) but does not reflect a recommendation about the actual amount that could theoretically be used as contribution from this model to help fund the DLR extension.

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Bakerloo Line Extension

Description

A proposed extension of the Bakerloo Line (BLE) from Elephant and Castle in Southwark to Lewisham, via Burgess Park, Old Kent Road and New Cross Gate, including the potential for a further extension beyond Lewisham to Hayes and Beckenham Junction utilising existing Network Rail tracks.

The scheme would transform access to public transport in southeast London, significantly reducing journey times and increasing sustainable travel options. Building upon the planned Bakerloo line upgrade, the scheme would maximise the use of currently under-utilised capacity on the existing line, one of the very few underground lines with any spare capacity in central London.

Benefits

The BLE would support over 53,000 new homes along the route in southeast London[43]. 20,400 of these homes require the BLE in order to start construction due to existing policy constraints regarding the level of development density permitted in the absence of better transport infrastructure. 10,500 of these “dependent” homes are subject to a Grampian condition [44] which prevents their construction until the BLE is delivered.

The project also unlocks 400,000m2[45] of new commercial floorspace on the Old Kent Road and in New Cross/Lewisham/Catford Opportunity Areas resulting in around 9,700 additional local jobs. The scheme would significantly increase access between areas of deprivation and low educational attainment and key centres of skilled employment. For example, 1.2m more jobs would be accessible within 45 minutes travel time of Catford.

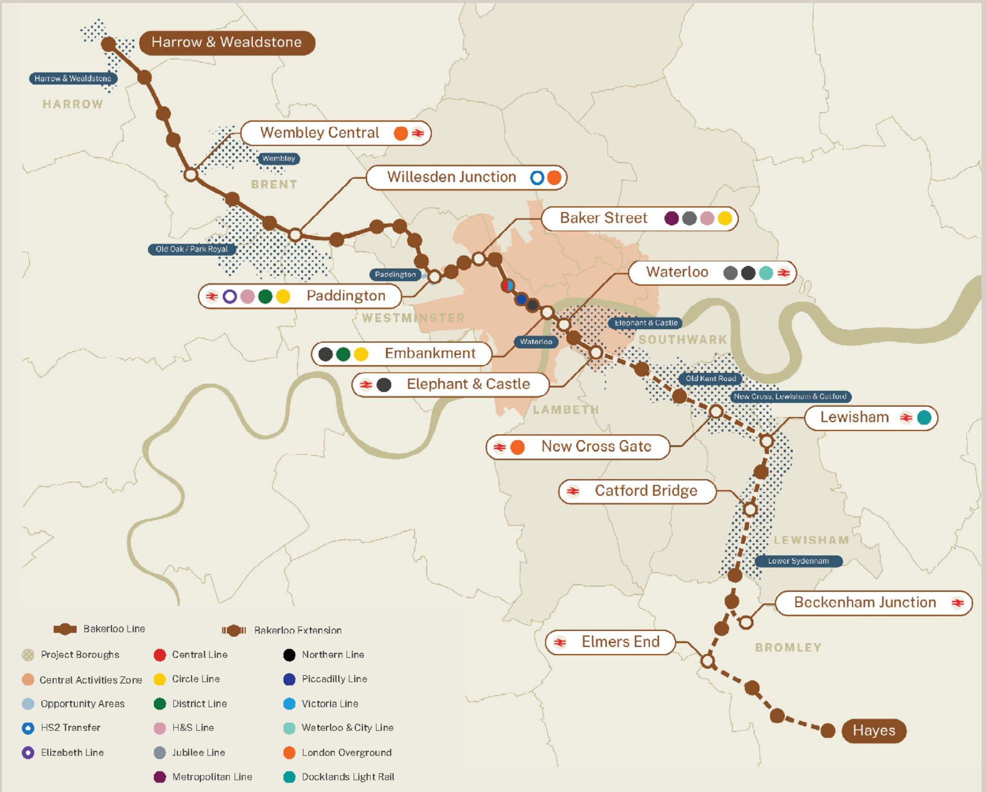

Image provided by TfL

Cost and funding from a resi-TIF approach

The BLE is estimated to cost up to £8.7bn in 2021 prices[46]. If the resi-TIF were applied to the BLE for 25 years, via stamp duty and council tax, this would amount to up to £2.2bn (£1.8bn CT gross, £0.4bn SDLT gross) in nominal terms. This figure reflects the upper scale of this approach over the 25-year period (theoretically the funding could be ringfenced for longer) but does not reflect a recommendation about the actual amount that could theoretically be used as contribution from this model to help fund the BLE.

West London Orbital

Description

The West London Orbital (WLO) is a new London Overground route that includes the upgrade of an existing under-utilised freight line (the 'Dudding Hill Line'), from Hendon in Barnet to Hounslow. The scheme aims to improve connectivity between several economic hubs, including Brent Cross Town, Old Oak Common and the Great West Corridor. The scheme would provide new stations on the Dudding Hill line, as well as additional platforms and facilities at other existing stations along the route.

Benefits

The scheme is expected to support at least 15,800 homes within the host boroughs[47]. The improved connectivity would increase access to employment and boost housing delivery, whilst driving greater public transport use along the A406 North Circular and A4 Great West Road corridors. The WLO is also expected to provide interchange with HS2, particularly while high speed services terminate at Old Oak Common.

Cost and funding from a resi-TIF approach

The WLO is estimated to cost up to £1.2bn[48] in nominal terms. If the resi-TIF approach were applied to the WLO for 25 years, via stamp duty and council tax, this would amount to up to £1bn[49], (£0.8bn CT gross, £0.2bn SDLT gross) in nominal terms. This figure reflects the upper scale of this approach over the 25-year period (theoretically the funding could be ringfenced for longer) but does not reflect a recommendation about the actual amount that could theoretically be used as contribution from this model to help fund the WLO.

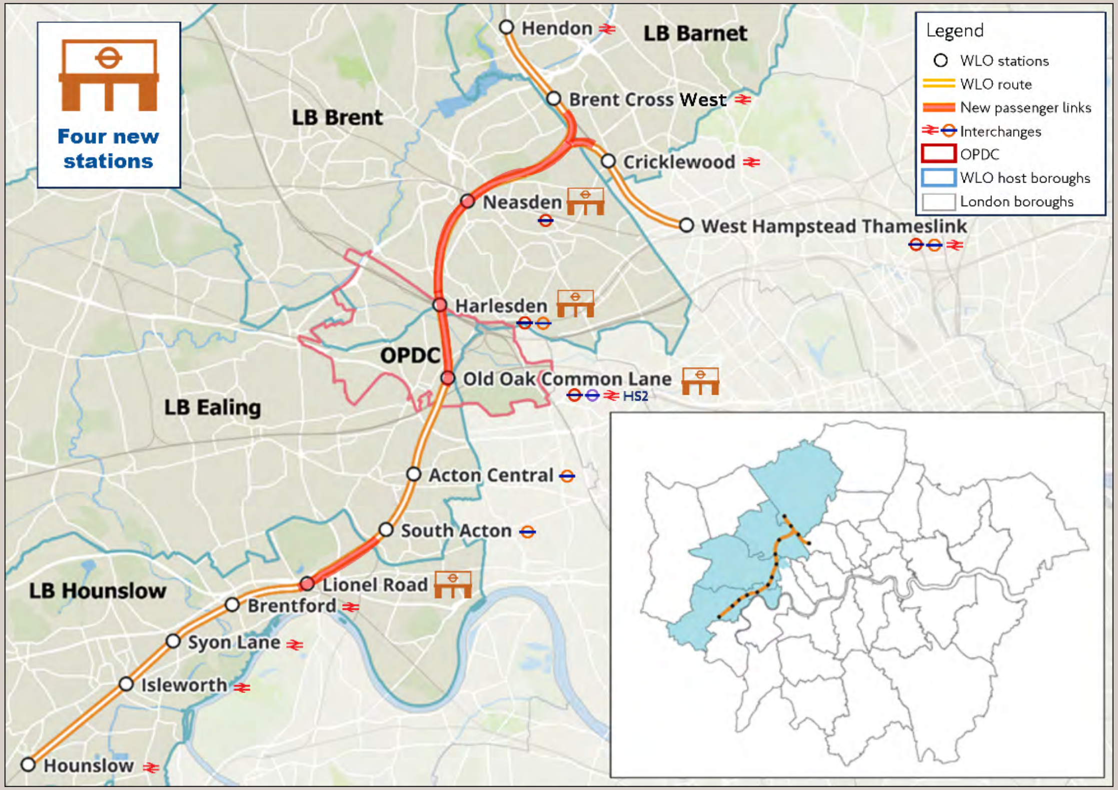

Image provided by TfL

SECTION FOUR

Recommendations

This high-level report sets out new thinking to generate additional funding for key transport projects in London by seeking to capture the increase in residential property taxes generated by the provision of the new transport infrastructure. The case studies highlight a potential £4.5bn pot of funding that a 'resi-TIF' model could tap into to help fund three major transport projects that would unlock tens of thousands of new homes and commercial space.

The resi-TIF approach is aimed at harnessing the new tax generated by residential property, whereas in the past the use of a TIF model in London focused on additional business rates generated by commercial space. The overall funding available could be boosted further with an additional contribution from business rates via the combined-TIF approach.

Such an approach could play an important role in helping to fund the infrastructure investment London needs to continue to support UK-wide economic growth. In the same way as London pioneered use of the TIF approach to the Northern Line Extension, the capital could be a trailblazer for other UK cities to follow the resi-TIF approach to fund infrastructure investment, drive housing and commercial development and boost economic growth in line with the Government's growth agenda.

This report calls for three things:

1 The Mayor should be given the powers to introduce a 'resi-TIF'.

The resi-TIF would allow a proportion of Stamp Duty Land Tax generated by new development resulting from the provision of new transport infrastructure to be kept locally in London. To complement this, a percentage of additional council tax receipts could also be included, or a small, temporary transport precept on new council tax receipts in the TIF area.

This would be based on a 25-year borrowing period to reflect the current duration of enterprise zones. The model would only be applied to additional taxes generated as a result of development which is directly attributable to the new transport infrastructure.

2 The Mayor should be given the power to undertake more 'commercial TIFs' – those that are based on business rate retention to unlock commercial development and regenerate areas.

The NLE TIF has proved the concept of the business rates TIF model and could be replicated in other areas of London. The creation of the TIF and growth zone could generate additional investment which would not occur in the absence of the creation of the zone, stimulating development, jobs and growth.

3 The Mayor should be given the power to create a 'combined TIF' which encompasses the existing 'commercial TIF' and the new 'resi-TIF'.

Where new transport infrastructure will enable both residential and commercial development, the existing TIF approach, based on business rates retention, could be joined by the resi-TIF funding streams to create a new 'combined TIF'. Using the combined approach would maximise the revenue potential of projects. SDLT paid by businesses on commercial property purchases could also be added to the combined TIF to further increase overall funding from the approach.

The ideas in this report are designed to spark a conversation about how London and the UK can fund new transport infrastructure to unlock more development and boost growth. The report has set out a high-level approach which could build on the success of a model already deployed in London, and which has the potential to be utilised further. This – together with other options – can play an important role in enabling London to deliver the economic growth that the city and the UK desperately needs.

Endnotes

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Contact us

John Kavanagh
Programme Director, Infrastructure

E john.kavanagh@businessldn.co.uk
T 020 7665 1585

One Oliver's Yard, 55-71 City Road, London EC1Y 1HQ

businessldn.co.uk