HOUSING COMMUNITIES AND LOCAL GOVERNMENT SELECT COMMITTEE

WRITTEN EVIDENCE: DELIVERING 1.5M NEW HOMES, LAND VALUE CAPTURE

Response from: BusinessLDN, One Oliver's Yard, 55-71 City Road, London EC1Y 1HQ

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INTRODUCTION

BusinessLDN is a business membership organisation with the mission to make London the best city in the world in which to do business, working with and for the whole UK. We convene and mobilise business leaders to tackle the key challenges facing our capital.

We welcome the opportunity to provide written evidence to the House of Commons Housing Communities and Local Government select committee inquiry on land value capture.

The majority of this submission is focussed on the recommendations from our recent research report with WSP 'Generating Land Value to Grow London[1]'. The report proposes a new land value generation model[2] which will better capture value from residential development and deploy it to accelerate the delivery of new infrastructure, by evolving the current Tax Increment Finance (TIF) model[3].

Q1 - How effective and efficient are current mechanisms of land value capture in England?

Land value capture has an important role to play in helping to fund the infrastructure that London and the rest of the UK needs to continue to grow. There is scope to broaden the range of land value capture tools currently available to local authorities across the UK by enabling them to better capture value from residential development and deploying it to accelerate the delivery of new transport infrastructure.

In 2017, Transport for London published a report with KPMG and Savills which showed that the current mechanisms available to capture value uplift, principally taxes on land and property, are relatively poor value capture instruments because they are not very responsive to increases in land and property values.[4] The net result of this is that the public sector currently captures only a small fraction of the overall land value uplift from new infrastructure projects.

In London, there are examples of where land value capture approaches have successfully been applied to generate funding for new infrastructure and have unlocked development as a result. The construction of the Northern Line Extension (NLE) to Battersea, completed in 2021 was funded, in part, by the creation of a Tax Increment Finance (TIF) model developed by the

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[1] BusinessLDN: generating land value to grow London (2025) https://www.businessldn.co.uk/news-publications/news/innovative-funding-model-could-unlock-ps45bn-for-new-transport-projects
[2] For the purposes of this submission we refer to 'land value capture' as opposed to the term 'land value generation' which we used in our recent report 'generating land value to grow London' (2025)
[3] Ibid.
[4] TfL and GLA, supported by KPMG and Savills, Land Value Capture (2017) https://www.london.gov.uk/sites/default/files/land_value_capture_ report_transport_for_london.pdf

Government, the Greater London Authority (GLA) and the relevant London boroughs as a bespoke approach to that individual scheme.

TIF is a value capture tool that uses taxes on future gains in real estate values to pay for new infrastructure improvements. TIF's allow for projects to be financed upfront by borrowing, with repayments coming from the hypothecation (or ringfencing) of future tax receipts for a fixed period, typically from the development that the new infrastructure enables.

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.[5] The TIF is one part of a broader funding package, including developer contributions through Section 106 agreements and the Community Infrastructure Levy.[6] 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 TIF model applied to the NLE helped to unlock new, additional development through this investment in transport infrastructure. The development at Vauxhall Nine Elms Battersea Opportunity Area[7] would not have taken place to the same scale or density in the absence of this infrastructure.

This model could be a credible option to help bridge the funding shortfall for key infrastructure projects which could unlock significant new development if it could be applied more broadly across London and repurposed for residential development.

Q2 - What alternative methods of land value capture might be most suitable for England?

As outlined earlier, our recent report with WSP 'generating land value to grow London' set out proposals for how a new land value generation approach could deliver significant benefits for London and the UK. The approach focuses on generating value from residential development and deploying it to accelerate the delivery of new infrastructure to unlock housing development through a new 'residential TIF' (resi-TIF). The resi-TIF would add to how the current TIF structure captures value – retaining the increase in business rates on commercial property – by retaining some of the property taxes generated by new homes that have been unlocked by new infrastructure.

We believe a new three-part approach to the use of Tax-Increment Financing should be introduced:

Part one: 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 infrastructure to be kept locally in London. To

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[5] House of Commons Library, enterprise zones (2024) https://commonslibrary.parliament.uk/research-briefings/sn05942/

[6] Transport for London, Northern Line Extension, factsheet: https://content. tfl.gov.uk/nl-factsheet-i-web.pdf

[7] Opportunity Areas (OAs) are identified in the [Mayor's London Plan] as key locations with potential for new homes, jobs and infrastructure of all types. Many are linked to existing or potential public transport improvements and typically have capacity for at least 2,500 new homes or 5,000 new jobs, or a combination of the two.

complement and maximise this funding, 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 as designated by the Government.

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 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.

Part two: 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 (and potentially in other parts of the UK) 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.

Part three: 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.

Q2b: How could the benefits of alternative mechanisms of land value capture be realised across England, including regions with lower average land values?

The resi-TIF 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.

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. This investment could be channelled to areas with generally lower land values than London.

Q3: What are the economic and practical opportunities and challenges of pursuing land value capture policies in England?

To illustrate the practical opportunities of pursuing land value capture policies in England, we modelled the resi-TIF funding approach against three key transport schemes in London.

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 ambition to grow the economy and target to deliver 1.5m new homes by the end of the Parliament.

These benefits cannot be achieved without new infrastructure as 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. For example, in boroughs where the proposed Bakerloo Line Extension would be built, there is a 'Grampian Condition' preventing 10,500 homes being constructed until the extension is in place. A Grampian condition prohibits development until a specified action has been taken, in this case, until new transport connectivity has been provided.

At Beckton Riverside, the Newham Local Plan is clear that development there is contingent on the delivery of a new DLR station as part of the proposed DLR extension project.[8] Respective Opportunity Area Planning Frameworks for Thamesmead and Abbey Wood[9], and Royal Docks and Beckton Riverside[10] are also clear that better transport connections from an extension of the DLR, are needed to deliver new homes and development there.

We believe there is a potential £4.5bn pot of funding that a 'resi-TIF' model could tap into to help fund these three major transport projects. This figure is 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 have we 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.

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. 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

[8] Newham Local Plan, neighbourhoods (2024) https://www.newham.gov.uk/downloads/file/7564/local-plan-2024-part-2

[9] Thamesmead and Abbey Wood OAPF: https:// www.london.gov.uk/programmes-strategies/planning/implementing-london-plan/londonsopportunity-areas/oa-locations/thamesmeadand-abbey-wood-opportunity-area#thamesmeadand-abbey-wood-oapf-33939-title

[10] Royal Docks and Beckton Riverside OAPF: https://data.london.gov.uk/dataset/royaldocks-and-beckton-riverside-oapf

developer may need to fund including, for example, any additional payment being made through a section 106 agreement to help fund the proposed new transport infrastructure

There are other challenges facing the implementation of the resi-TIF:

- Risk of development not materialising - 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.

- Demonstrating 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. As highlighted in the paragraph's above, our report with WSP presents an analysis of existing planning policies which limit the amount of new development that can be built relative to the level of transport infrastructure that is in the area.[11]

- 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 Transport for London (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.

    - 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 through the TIF model.

- There must be no further strain added to council tax – local authorities across the UK are facing significant pressures on their budgets. 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 proscribed here, as this is ultimately a decision that will need to be taken based on detailed modelling.

- SDLT revenue 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. Buyers and sellers of property within the TIF zone would not be impacted

[11] BusinessLDN: Generating land value to grow London (2025) https://www.businessldn.co.uk/news-publications/news/innovative-funding-model-could-unlock-ps45bn-for-new-transport-projects

by the resi-TIF approach as there would be no effect on the amount of SDLT paid in any transaction.

- 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.

Q5 - Should reforms to land value capture be pursued through changes to the current section 106/Community Infrastructure Levy regime, or by introducing a new mechanism?

The range of local and national taxes, levies and funding mechanisms that currently exist to capture value created by new infrastructure contain gaps in their coverage, challenges in their implementation and competing demands on the funds raised.

Development levies, including the Community Infrastructure Levy, Mayoral Community Infrastructure Levy (in London only) and section 106 agreements, are paid for by developers and, as outlined earlier, there is a complicated balance to be struck between providing wider social benefits in the development, mitigating the impacts of development as required by the planning system and ensuring a development is commercially viable.

Although taxes paid by businesses such as business rates and the business rates supplement have been used to part fund the costs of the Northern Line Extension to Battersea and the Elizabeth Line (Crossrail), 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 to help to meet the Government's target of 1.5m new homes by the end of the Parliament.

Current land value capture approaches are also heavily skewed towards developer and business contributions. Historically, there has been a limited contribution made from residential properties which have benefitted from the provision of new infrastructure; a so called 'transport premium'. The committee should therefore consider the resi-TIF approach which, as outlined earlier, seeks to capture some of the value generated *to residential* property and land by the provision of new transport infrastructure.

Q6 - how could different mechanisms of land value capture complement the Government's ongoing planning reform agenda, including delivery of New Towns and the release of 'grey belt' land for development?

As set out in a recent report that we published, London needs a new town because of its huge housing need. Locating a new town in London can support the Government's wider agenda, helping to deliver against its growth mission and housing ambitions by delivering more homes to attract and retain talent and support labour mobility to underpin economic growth in London and the UK. [12]

The statutory and regulatory powers to deliver a new town in London already exist, making it comparatively easy to get a new town going in the capital.[13] Likewise, London already has an excellent backbone of infrastructure that could be expanded or upgraded to help accommodate a new town. The resi-TIF or combined TIF model could be relevant in these circumstances as it could help, for example, to expand the transport network in London linked to a new town, providing a way of contributing funding to transport infrastructure needed to unlock new development.

Q7 – Overall, would reforming land value capture support or distract from the Government's target of delivering 1.5 million new homes by the end of this Parliament?

There is scope to broaden the range of tools available to London government and local authorities across the UK, to be more responsive to increases in property and land values, through the introduction of a new resi-TIF.

The resi-TIF 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 the 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 mission.

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[12] The Case for a New Town in London, BusinessLDN, Arup, DP9, Kanda and Volterra, December 2024
[13] Ibid – see Section 3.