



Finance and Investment Workstream

National Infrastructure Commission

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Metro — Dynamics



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1 Executive summary

The Corridor

The Cambridge-Milton Keynes-Oxford Corridor has some of the fastest growing cities in the UK, with highly productive and innovative firms driving local economic success. World class universities contribute to this innovation, making the area's specialisms important not only nationally, but globally.

However, associated with its growth, the area also has considerable infrastructure and housing problems. House prices are double the national average in Cambridge and Oxford, whilst both cities suffer from congestion associated with their rapid growth. The other main city in the Corridor, Milton Keynes, is also experiencing very high levels of growth, and the pressures on local infrastructure that accompany it. Increased investment in infrastructure could allow the Corridor to accelerate growth, such as by unlocking large housing sites, and provide improved local connectivity.

Project brief

This report assesses current public funding trends and the potential to attract additional investment into the Cambridge-Milton Keynes-Oxford Corridor and lays out some of the building blocks for a strategic investment and delivery plan for the Corridor. The scope of our work has been to:

- Consider the current and future infrastructure requirements of the Corridor in each of three scenarios: Baseline Growth, Incremental Growth and Transformative Growth;
- Consider the extent to which existing local value capture mechanisms could be used to help fund the required infrastructure investment;
- Evaluate other possible funding options, excluding direct central government grants and project funding, in the context of the three scenarios;
- Understand the current impediments to development and investment across the Corridor, and to consider how those impediments might be addressed; and,
- Consider the required changes to governance and the planning framework needed to deliver the required level of growth underpinning the scenarios.

Current and future infrastructure requirements

Central to assessing funding and finance options is assessing the potential cost of the infrastructure that needs to be funded. To this end, Metro Dynamics has worked with Savills, Arup, and Cambridge Econometrics to develop three growth scenarios for the Corridor, their associated infrastructure requirements and estimated costs. These scenarios are: (1) Baseline Growth, in which the population grows at the ONS's projections; (2) Incremental Growth, in which housing and transport infrastructure

relieves several key employment growth constraints; and (3) Transformative Growth, in which the Corridor is taking an economically efficient allocation of national housing need; double that of the baseline scenario. Within the scenarios, we have accounted for high rates of anticipated housing demand; scenarios 1, 2 and 3 anticipate the housing construction rate being 15,000, 20,000 and 30,000 homes a year respectively.

Indicative estimates of the range of infrastructure investment needed to deliver each of the scenarios have been developed, which represent a floor level of required investment. Section 4 provides further information on the scale of infrastructure required, and our methodology for estimating its cost. These figures demonstrate that even the delivery of the baseline scenario requires a significant level of sustained investment up to 2050. Whilst there is significant financing available from within existing plans over this period, current approaches to both governance and benefits capture mean that it is unlikely to be used as effectively as possible. There can be no avoiding the fact that significant additional investment is needed, whether sourced from central government or through changes in local fiscal arrangements.

Our estimated figures are as follows:

Scenario 1 (Baseline)	£15bn
Scenario 2 (Incremental Growth)	£21bn
Scenario 3 (Transformative Growth)	£28bn

There are a number of transport projects which could be partially funded by the farebox, and components of some projects will be of interest to commercial infrastructure funders. This could include future approaches to commuter transport, such as more automated approaches to last mile travelling, car sharing and pooling, as well as more traditional investments in rolling stock, which will continue to be relevant. However, by far the largest element of new infrastructure costs will have to be borne by the public purse. We have used the scenarios and future financial modelling to examine what innovative approaches could be taken to meeting this requirement.

Land Value Capture

Perhaps the biggest driver of infrastructure demand is the high anticipated level of housing need in the Corridor to 2050. This is already a pressing issue across much of the Corridor. In order for the levels of house building outlined in the scenarios to become reality, infrastructure will be required to unlock new sites. This will largely involve road building and improvements and public transport improvement to ease existing and future congestion of local infrastructure brought about by population growth. Historically, the private sector has not invested much in this kind of infrastructure because it does not generate an easily capture user charge or other way of capturing value. Moreover, local and central Government have struggled to find politically acceptable ways of capturing value. The high demand for housing, coupled with increasing land values in the Corridor, provide a new opportunity to think differently about ways of capturing value created by planning permissions and infrastructure investment (planning gain). Meanwhile, as noted above, changing methods of road and transport use may offer new ways of thinking about ticketing and user charges.

In addition, recent changes in policy on Council Tax and Business Rates also provide new ways of councils using the relationship between local authority income and economic growth. A forward-looking approach to infrastructure financing should involve local and central Government being prepared to act creatively on all three of these issues to effectively use the financial benefits of growth and new ways of raising revenue to pay for the infrastructure which has unlocked it. This is likely to involve using local authority finance to contribute to local infrastructure costs, with income from growth repaying financing costs.

Financing sources

Local authorities have a number of options available to secure the upfront funding needed for infrastructure that will unlock housing and economic growth and generate financial returns. The most obvious option is the Public Works Loan Board (PWLB), and to a lesser extent, local authority bonds. Although councils cannot over-borrow and must keep within the provisions of The Chartered Institute of Public Finance and Accountancy's Prudential Code. With interest rates at an all-time low, these options provide an opportunity to lock-in long term funding at an all-in cost of finance of around 200-250 basis points.

There is also an opportunity to secure investment from the local authority pension funds which operate across the Corridor, although this may change if they are reclassified as retail investors and precluded from investing in certain asset classes, such as infrastructure. Another option is to enable long-term investment through Evergreen Investment Funds, in which local authorities pool their resources in a revolving fund to optimise the use of their capital. Both funding sources are likely to be looking for long-term, low risk, index-linked investments, and are therefore potential funding sources for user-charge infrastructure. Such infrastructure represents only a small portion of the requirements of the Corridor, although future policy and changing ticketing approaches could change this over the course of the period of the study.

Funding sources

Betterment

In order to justify council borrowing to fund infrastructure, infrastructure needs to generate income to fund repayments. However, most infrastructure assets of the type being considered in the three Corridor scenarios do not currently generate an easily-captured user charge, and thus the cost has to be paid back from funds generated through council revenue streams.

This report looks at a range of potential funding avenues and models their returns. The councils concerned have three main sources of betterment revenue linked to growth: council tax, New Homes Bonus and business rates. Our modelling indicates the following:

Business rate retention changes: under current employment space projections, councils across the Corridor will generate a total minimum of an additional £8.8m a year from 2020. We have made a number of assumptions about the final form of the changes, and the consequent effects on councils' income of the governments' proposed business rates retention changes.

Council tax and New Homes Bonus: across the Corridor these will bring in an additional £154m per annum under Scenario 1, £206m under Scenario 2 and £293m per annum under Scenario 3¹.

The above mechanisms are not ring-fenced for infrastructure, and contribute to general expenditure. These funds are more likely to be used to plug gaps in local budgets already under pressure, such as by the future cost of adult social care. Furthermore, councils hosting the new homes of the future will not necessarily be the major beneficiaries of business rates; for this reason, councils may want to consider exploring business rate sharing mechanisms. However, these are not ideal sources of income, as large proportions are used to fund existing public services and are likely to be unavailable to invest in infrastructure.

Alongside existing forms of revenue, we have also looked at the potential viability of Tax Increment Financing (TIF), and a Business Rate Supplement (BRS).

Business Rate Supplements: our modelling suggests that a 2% BRS across the Corridor could raise £53.3m a year providing a potential £1bn fund if capitalised over 25 years. This source is currently contingent on areas adopting Mayors, and therefore will only be available to Cambridgeshire and Peterborough.

TIF zones: The most effective funding mechanisms are those where income is guaranteed to be generated for infrastructure. This report examines the viability of TIF zones as a funding mechanism (Section 5), which offers a regeneration opportunity for town centres, providing approval from the government is gained.

Planning Gain

Currently the most commonly used measures to capture value from planning gain are Section 106 (“S106”) and the Community Infrastructure Levy (“CIL”). These mechanisms tax developers, thereby financing supporting infrastructure for major sites. However, CIL and s106 receipts are relatively low, and whilst supporting site-specific infrastructure, are insufficient to fund wider area infrastructure. These are currently the most common forms of raising revenue from planning gain.

Other potential options include a Mayoral CIL (or a regional CIL in the context of the Corridor) that would enable local authorities benefitting from big ticket regional infrastructure to pool resources from developments to fund it. This could raise substantial amounts of money across the Corridor, but would require a change in legislation. The potential of introducing Tariff and Prospectus in the Corridor has also been reviewed, although its utility is limited to certain types of areas.

Publicly-owned land and buildings will also continue to provide a source of funding and land for development. Councils and other public sector bodies should be proactively seeking to release land and property for re-development where appropriate, building on the existent schemes in some areas of the Corridor by which the private and public sector collaborate in development. Land and other property assets released by this

¹This report was written prior to the government’s announcement of the changes to the New Homes Bonus in December 2016. The proposed changes are likely to reduce the monies available to local authorities from the New Homes Bonus.

transformative process should be promptly put to the market, and could be used to fund infrastructure to drive growth.

Impediments to current and future growth

Whilst a key component of unlocking growth in the Corridor is delivering transport infrastructure, discussions with over 35 housing stakeholders in the Corridor flagged that there are other impediments that need to be addressed to capitalise on its delivery. These are explored in more detail in Section 7.

Whilst not flagged as a major issue by either developers or local authorities in our research, there are significant areas of Green Belt close to Oxford and Cambridge. There are opportunities to increase density and use brownfield or existing sites differently. But, there is also a relationship between the protection of Green Belt land and the costs of the infrastructure required to develop these other sites.

Key infrastructure-related issues included ‘last mile’ connectivity into urban centres and the inadequate levels of utilities provision to key employment and housing sites. Last mile connectivity was raised by representatives from the public and private sectors who emphasised the need for greater levels of transport infrastructure linking housing and employment sites. It was not only last mile connectivity that was problematic. Public and private stakeholders interviewed highlighted the need for greater cooperation amongst central government departments and agencies responsible for transport was hindering the bringing forward of sites for development. A single ‘front door’ was identified as being one way of overcoming this barrier.

Another infrastructure related issue raised was problems with utilities. This was not only about the inadequate provision to key sites but the compounding of the problem by a lack of long-term strategic planning between local authorities, developers and utilities providers, and poor service levels from the utilities companies once developers were on site. Inadequate levels of utilities provision to unlock employment sites was an issue raised by developers and housebuilders across the Corridor, particularly in the high-growth areas of Oxford and Cambridge.

Aside from infrastructure, the most important impediment to investment raised with us by stakeholders was the lack of joined-up spatial planning. It is clear that in order to deliver the step-change in development outlined in Scenarios 2 and 3, there is a need for more joined-up planning across functional economic areas. Enabling this, as well as improving public/private sector collaboration, will require a change in governance. This could be achieved either through merging existing local councils, or putting in place combined authorities that can operate across the wider area with a clear mandate; although we are not suggesting large scale governance at Corridor-level, the evidence is that the existing local government geography is simply too complicated to deliver what is required. As more joined-up models of governance emerge in parts of the Corridor, authorities might consider whether these frameworks would be enhanced by the granting of powers akin to the strategic planning powers of the Mayor of London, and whether this would help provide the degree of transformational change needed across the Corridor.

Most councils and Local Enterprise Partnerships (LEPs) are aware of this issue and are open to change, although there is less agreement on how it should happen. There are

various mechanisms which could be adopted to bring about a more strategic and joined-up approach to planning across the Corridor. These are explored in Section 8. Potential mechanisms include making better use of existing powers (including Local Development Orders and Compulsory Purchase Powers), through to evaluating some of the new planning flexibilities conferred by the Housing and Planning Act 2016.

A clear economic narrative for the Corridor and its major urban areas would be valuable in supplementing planning and spatial alignment. It will be for the next stage of this work to debate the correct balance between the two, although it is clear from recent experience elsewhere that to be acceptable and effective locally, governance structures need to reflect local identity and economic reality. Whatever new governance structures emerge, they must be underpinned by the appropriate building blocks required to deliver growth at scale and pace. Stakeholders emphasised that these should increase appropriate spatial planning frameworks underpinned by a co-ordinated infrastructure and funding strategy.

Conclusions

- The Corridor requires a significant level of increased investment to 2050 in order to unlock the economic and housing growth outlined in the scenarios. The cost for the Baseline Growth scenario is £15bn total investment, rising to £28bn for the Transformative Growth scenario. Whilst local authorities can contribute to such investment through financing and funding mechanisms, including bonds, borrowing and land value capture, clearly it will fall to central government to be the main source of funding to meet infrastructure needs. However, there is the potential for local authorities to maximise their contribution to the cost of infrastructure by fully exploring a mix of funding and financing mechanisms.
- Upcoming changes to local authority funding through limited fiscal devolution, such as business rate retention, will raise additional resources alongside the existing mechanisms of CIL and s106 (both currently under review). Areas with mayoral systems, such as Cambridgeshire and Peterborough, have been granted increased fiscal devolution. This includes Mayoral CIL and Business Rate Supplements, which have the potential to bring in further resources. There is a case for greater local fiscal flexibility in the Corridor, given the significant increase in overall land value expected over the period of the study. This is likely to require new governance models to ensure that political accountability keeps pace with any new fiscal responsibilities. Both new approaches to Governance and the financing and funding approaches that they might support should be fully debated and explored in the next stage of this work.
- Although they must operate within Prudential Code borrowing limits, local authorities have access to various financing sources. Some of these tools, including PWLB borrowing and the issuing of bonds (the latter is not yet much used in the UK due to issues around flexibility and the general minimum size) could provide good opportunities to fund some infrastructure given low interest rates. Albeit, within the context of the increasing demands and financial constraints.
- Our research suggests that the private sector is unlikely to be willing to fund the early infrastructure needed to bring forward sites for development. But the private sector is more likely to fund components of infrastructure where investment generates user charges. Over the course of the period of the study, we may see significant changes in

approaches to transport use, including the use of autonomous vehicles, car sharing and pooling and policy in relation to air quality in urban areas, for example. All such changes provide an opportunity to look differently at ticketing, user charging and ring fenced revenue. Central and local government should ensure that it fully explores changes that can be used to provide the infrastructure to support changing user requirements and increased population.

- Funding and financing are not the only barriers to growth in the Corridor. Radical and long term thinking would be helped by a much stronger process of local government and public/private cooperation, both within local authority areas and across the Corridor itself. Greater spatial and economic planning and coordination will be central to unlocking the growth potential of the area and was a big concern of both local government and business people we spoke to in our research. New forms of Governance should not be pursued for their own sake, but may well be needed to drive the necessary collaboration and strategic investment planning.
- Central government and government agencies also have a role to play in enabling growth through effective coordination mechanisms and ensuring the engagement of local public and private stakeholders. This is not a new conclusion, but for an area like this, with such significant growth potential, where there is no one large urban area and political leadership, it might be necessary and beneficial to identify a small number of priorities and a mechanism for coordinating the work of different departments and agencies with local government and major private sector suppliers. This could, for example, be focussed on utilities, commuter transport and new technology solutions.

2 Introduction

Scope of work

This report is intended to provide the building blocks for a strategic investment plan for the Cambridge, Milton Keynes and Oxford (CaMKOx) Corridor. It analyses current public funding trends and assesses how such funding might be deployed to fund the required levels of infrastructure across the Corridor. We have undertaken the following scope of work:

- Considered the current and future infrastructure requirements of the Corridor in each of three scenarios: Baseline, Incremental Growth and Transformative Growth. This has involved an extensive analysis of the local authorities' Infrastructure Delivery Plans (IDPs) and a review of the National Infrastructure Pipeline. We have incorporated Arup's assessment of the future level of transport infrastructure investment into our estimates and derived an indicative level of required local investment in infrastructure to support the forecast level of new homes for each scenario;
- Considered the current and future impediments to development and investment across the Corridor, and made recommendations as to how those impediments might be addressed. This work is based on a series of interviews with more than 35 stakeholders and a series of non-specific and non-attributable conversations held with developers and investors during September, October and November 2016 (listed in Appendix 2);
- Reviewed public funding options, including a detailed assessment of the potential for using the business rate, in the funding of the future infrastructure needs of the Corridor; and,
- Considered the required changes to governance and the planning framework needed to deliver the levels of growth underpinning the three scenarios.

The Consortium

Metro Dynamics, Arup and Savills (the Consortium) have been retained by the National Infrastructure Commission (NIC) to assess current public funding trends and the potential to attract additional public and private investment into the Corridor. This work is being undertaken in the context of the Chancellor's instruction to the NIC in March 2016 to:

“Make recommendations to maximise the potential of the Cambridge-Milton Keynes-Oxford Corridor as a single, knowledge intensive cluster that competes on the global stage, while protecting the area's high quality environment and securing the homes and job the area needs. The [NIC] will look at the priority infrastructure improvements needed and assess the economic case for which investments would generate the most growth.”

The Consortium is also producing two additional reports. The first report covers the Corridor's property markets, and the second considers transport infrastructure across the Corridor.

Cambridge Econometrics and SQW have provided advice on economic matters as part of a separate commission.

The Consortium, Cambridge Econometrics and SQW have undertaken their work concurrently, sharing data, establishing Baseline, Incremental and Transformative Growth scenarios, co-ordinating case studies and working on other cross-cutting matters.

The Study Area

The Study Area is an area of land to the north-west of London bounded by the cities of Oxford to the west and Cambridge to the east. It includes the major towns of Milton Keynes, Northampton, Bedford, Stevenage and Luton. Swindon, to the south-west of the Corridor, is also under consideration, although only to the extent that it can contribute to the objectives of the area under detailed study.

These centres are supported by a number of smaller towns spread across the seven local authority areas of Cambridgeshire, Central Bedfordshire, Hertfordshire, Buckinghamshire, Oxfordshire, Northamptonshire (and Swindon).

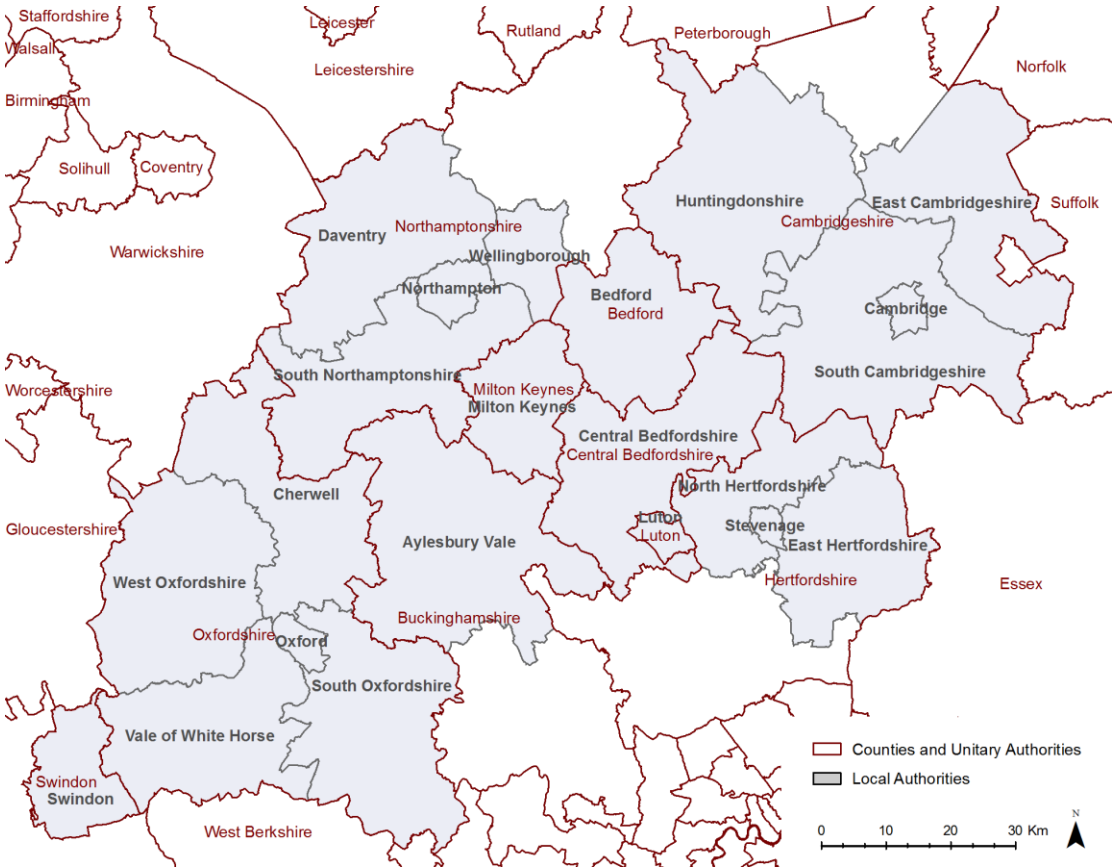
The Study Area includes 17 district, borough and city councils, 5 unitary authorities, 5 county councils and 7 Local Enterprise Partnerships (LEPs). These are listed in Table 1 below and mapped in Figure 1. Figure 2 shows the relationship between the local authorities and the LEPs. Five LEPs (Buckinghamshire Thames Valley LEP, Greater Cambridge and Greater Peterborough LEP, Hertfordshire LEP, Northamptonshire LEP and Swindon and Wiltshire LEP) have areas which extend beyond the Study Area, demonstrating that the Corridor has an element of "fuzzy" boundaries where economic flows cross administrative boundaries. Where appropriate, financial and economic information pertaining to these LEPs has been attributed to the Corridor Study Area based on population.

Table 1. Councils and LEPs in the Study Area

District/borough councils	Borough councils (unitary)	County councils	LEPs
Aylesbury Vale District Council	Bedford Borough Council	Buckinghamshire County Council	Buckinghamshire Thames Valley LEP
Cambridge City Council	Central Bedfordshire Borough Council	Cambridgeshire County Council	Greater Cambridge and Greater Peterborough LEP
Cherwell District Council	Luton Borough Council	Hertfordshire County Council	Hertfordshire LEP
Daventry District Council	Milton Keynes Council	Northamptonshire County Council	Northamptonshire LEP
East Cambridgeshire District Council	Swindon Borough Council	Oxfordshire County Council	Oxfordshire LEP
East Hertfordshire District Council			South East Midlands LEP
Huntingdonshire District Council			Swindon and Wiltshire LEP
North Hertfordshire District Council			
Northampton Borough Council			
Oxford City Council			
South Cambridgeshire District Council			
South Northamptonshire District Council			
South Oxfordshire District Council			
Stevenage Borough Council			
Vale of White Horse District Council			
Wellingborough (Borough Council of)			
West Oxfordshire District Council			

Note: The Northamptonshire Enterprise Partnership and South East Midlands Local Enterprise Partnership have announced their merger, and will have transitioned to a single integrated LEP by the end of March 2017

Figure 1. Local authority districts in the Corridor

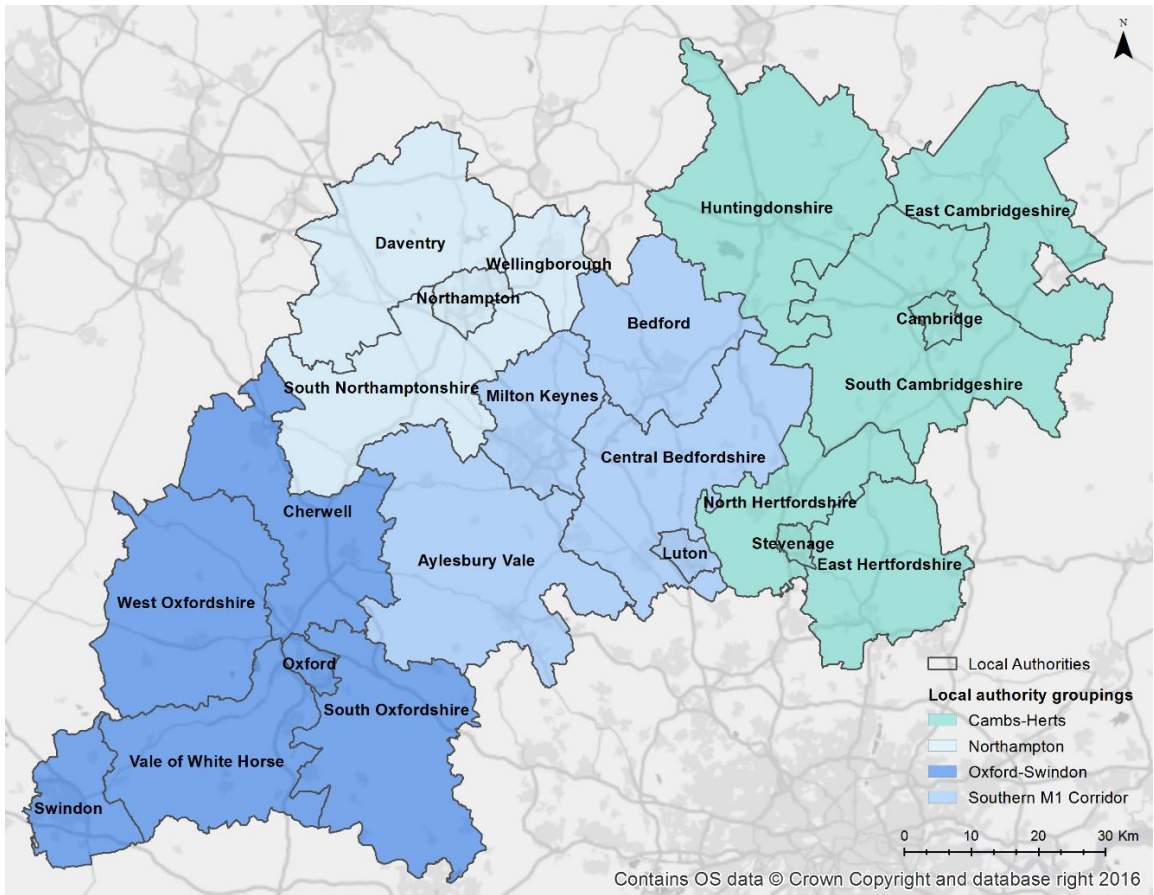


Note: Unitary local authorities and counties are identified in red (both names and boundaries). Only those local authorities within the Corridor are marked, with some local authorities within Northamptonshire located outside of the Corridor.

Figure 2. Local Enterprise Partnerships in Corridor



Figure 3. Savills' economic clusters



In line with the analysis by Savills, we have adopted the four clusters of local authorities across the Corridor (Figure 3). These clusters are rooted in an economic analysis of the Corridor and group areas with similar sectors. The Corridor is “book-ended” by two clusters that share a specialisation in high-tech manufacturing, knowledge services and scientific research and development, the Cambridgeshire-Hertfordshire and Oxford-Swindon clusters. In the middle of the Corridor are two further clusters which share strengths in knowledge-intensive business services: the Milton Keynes, Bedfordshire and Buckinghamshire cluster and the Northampton cluster. Both clusters also have strengths in high-tech manufacturing, but the Northampton cluster also accesses the West Midlands high-tech manufacturing cluster. Identifying these clusters is useful not only for considering their economic strengths, but also when examining the spatial dimensions of potential new governance relationships in order to create significant, indeed potentially transformational, change through infrastructure investment in the Corridor.

What is clear from this analysis is that there are a number of different organisations and markets functioning across the Corridor, few of which have coterminous boundaries, and rarely are administrative boundaries aligned with market boundaries. Labour, goods and capital flows don’t respect boundaries. In considering whether to adopt some of the recommendations, funding solutions, and other delivery mechanisms outlined in this report, appropriate “wider-than local” and sub-regional governance models are likely to be needed. This is explored further in Section 8 of this report.

3 Scenarios

Introduction

This section summarises the three scenarios that have been jointly developed by the Consortium, and Cambridge Economics and SQW, to inform our analysis of the Study Area. Further details of the assumptions underpinning these scenarios are given in the Consortium’s two accompanying reports (Property and Transport) and in the Cambridge Econometrics and SQW report (Economics).

Baseline – Scenario 1

This scenario is effectively a “business as usual” scenario, where the population is assumed to grow at the ONS’s central principal projections, and housing and development continue at their recent rate.

Economic

Population is assumed to grow by an additional 1m people to 4.3m people living in the Study Area by 2050.

Employment is assumed to grow by around 335,000, giving a total number of 2.17m jobs across the Corridor by 2050.

Housing

Housing delivery continues at some 15,000 additional homes per annum, although there is some risk that delivery could be lower should housing market conditions deteriorate as the economic impact of the EU Referendum become clearer.

Transport

There is a continued focus on smaller, targeted schemes that offer relief of pinch points and junction improvements. Committed schemes (that are funded) are included. Incremental projects are complemented by substantial interventions that form parts of more significant (major) projects in the other scenarios. Some projects occur later in the timescale to 2050 when compared to the other scenarios.

Incremental Growth – Scenario 2

This scenario assumes that the Corridor receives enough housing and transport infrastructure to relieve or reduce several of the key employment growth constraints, but not enough to represent a major change in either labour productivity or the economic geography of the Corridor. The most significant infrastructure constraints are currently in the Greater Cambridgeshire-Hertfordshire and Greater Oxford-Swindon area, and these are the most likely to be affected by this scenario.

Economic

The population is assumed to grow by an additional 1.18m people, to give a total population of 4.52m by 2050.

Employment will grow by around 720,000 new jobs, giving a total number of 2.55m jobs by 2050.

Housing

Housing delivery increases to meet the housing need identified by the Strategic Housing Market Assessments (SHMA) across the Corridor, capturing the emerging plans that are responding to higher SHMA numbers, notably the Oxfordshire authorities. This equates to housing delivery of some 20,000 additional homes per annum.

Transport

This case is targeted at addressing traffic congestion more aggressively than in the baseline case and securing new journey opportunities, economic growth, housing delivery at higher rates than assumed in the baseline. Transport investment is targeted at connecting people with employment opportunities in the three main labour market areas of Milton Keynes/Northampton/Bedford/Wellingborough, Cambridge and Oxford. These are the areas that Cambridge Econometrics consider are likely to grow most substantially to 2050. Transport investment is aimed at reinforcing the connectivity between locations that already enjoy a degree of economic interaction. Substantial investment in strategic projects also takes place.

Transformative Growth – Scenario 3

This scenario assumes a radical level of transport infrastructure investment, significant growth in the population with a concomitant increase in the number of new jobs created, and a level of housing and development activity which is likely to require a more joined-up governance structure, a high degree of pro-active planning, and significantly higher levels of investment than are currently the case, to deliver.

Economic

Population is assumed to grow by an additional 1.55m people to 4.89m people living in the Study Area by 2050.

Employment is assumed to grow by around 1.1m new jobs, giving a total number of 2.94m jobs across the Corridor by 2050.

Housing

Housing delivery increases to a level at which the Corridor is taking an economically efficient allocation of national housing need of at least 300,000 additional homes per annum, plus a share of the housing need that cannot be met by London and other parts of the south east of England. This equates to some 30,000 additional homes per annum, of which 7,000 new homes will accommodate London overspill. This is a high level of development that would need a substantial realignment of governance, planning and investment to deliver.

Transport

The speed of delivery of incremental projects is increased. Major schemes are implemented in full. In some cases, additional projects are included compared to the baseline and incremental scenarios. This is reflective of the need to support comparatively high levels of housing (at new locations) and connecting them to employment. Links to London are also targeted (above and beyond the committed schemes), in recognition of the accommodation of a portion of London's housing needs, and the consequent requirement to make provision for radial commuting. Investment helps to underpin high-tech manufacturing and knowledge intensive business services.

4 Projected infrastructure funding requirements

Introduction

Section 4 reviews the available information on the projected infrastructure funding requirements of the Corridor.

There is no single source from which all infrastructure spending in the UK can be drawn. Therefore, to obtain projected infrastructure investment estimates, we have reviewed the following documents:

- Major Corridor infrastructure projects listed in the National Infrastructure Pipeline (NI Pipeline);
- Major Corridor infrastructure projects listed in the National Construction Pipeline;
- Infrastructure projects listed in the Infrastructure Delivery Plans prepared in conjunction with the Local Plan process; and,
- Arup's assessment of projected transport infrastructure spending for each scenario.

To estimate the cost of the local infrastructure required to support the new homes figures for Scenarios 2 and 3 (which would not be covered by a review of the sources listed above), we have derived an estimated level of infrastructure spend per new dwelling. This has been achieved by relating the level of infrastructure investment outlined in the IDPs to the proposed number of new homes listed in the Local Plans. The figures cover investment in hospitals, access roads, schools, social and community space, green infrastructure, and a limited figure for utilities. It should be noted that Local Plans vary in quality, so not all spending in an area may have been identified. Using the figures we have, an estimated average per dwelling figure has been identified and then multiplied by the number of new homes to be built, to give the total local infrastructure figure to support the total estimate of new homes. All costs are given in current prices. Crucially, our final figures exclude utilities investment. This caveat is important given that Section 7 demonstrates that a lack of co-ordinated investment in utilities infrastructure can be a major inhibitor to growth in the Corridor.

Our summary of infrastructure requirements and subsequent funding and financing options does not consider the impact of transformative technology on infrastructure demands. Future technologies are discussed in Arup's report (Appendices G1 and G2), with autonomous vehicles being discussed in Appendix G2. These technologies, including the use of autonomous vehicles, car sharing and pooling, may offer new ways of thinking about funding, given their potential for ticketing and user charges. Whilst not current policy, given the long term nature of the study period, changes in public attitudes to charging and the technical ways in which ticketing and fare systems operate are likely to bring about new opportunities for using the farebox both for direct investment and securing private investment leverage over that period.

Summary

Table 2 summarises the projected level of infrastructure expenditure derived from each of the sources listed above. These figures are likely to be significant underestimates of the level of infrastructure required, and rely on a number of judgements and extrapolations which, although reasonable, may not be appropriate in the light of future policy and decision making. All figures ignore inflation, and are stated in 2016 prices.

Table 2. Cumulative projected infrastructure spend for each Scenario using known IDP and NI Pipeline spending

	Scenario 1 Baseline £bn	Scenario 2 Incremental £bn	Scenario 3 Transformational £bn
Baseline level of infrastructure from IDPs²	12.2	12.2	12.2
Current NI Pipeline projects not included in Arup estimate for transport infrastructure³	1.8	1.8	1.8
Average local infrastructure for additional dwellings⁴:			
[S2: 5,000 x £19.5k x 34]	N/A	3.3	9.9
[S3: 15,000x £19.5k x 34]			
Arup estimated spend on 'other' transport infrastructure	1.4	3.4	3.7
Total estimated infrastructure spend for each scenario	15.4	20.7	27.6

Note: The proposed Oxford to Cambridge Expressway has been included by Arup in the incremental scenario for inter-urban alignment, at £1bn for the Northern Alignment. East West Rail is included in the NI Pipeline, but has no costs attached to it.

Table 2 only includes infrastructure spend which is projected in the NI Pipeline, IDPs or in Arup's estimate of future transport costs. We have also estimated an average local infrastructure spend per dwelling, using Local Plans and IDPs, as outlined in Table 7. Where a project is included in the IDPs and NI Pipeline, we have removed the figures from the NI Pipeline to prevent double counting.

Arup's report distinguished between "National Schemes" and "Other Schemes". For the purposes of consistency, we have only included the projects they have categorised as "Other Schemes" in their spending figures we have used, in order to prevent the inclusion of national infrastructure which will not be funded by the Corridor, such as HS2 and Crossrail. However, although we have excluded these schemes from Arup's figures, some will be included in our total figure because they are in some councils' IDPs. We have included these, in order to maintain consistency with each council's IDP, and also because an inclusion in an IDP indicates the direct relevance of the project to a council area. This

² See Table 6.

³ See Table 6.

⁴ For the logic of methodology, see Table 7 and its attached commentary.

means that some ‘national’ infrastructure, such as East-West rail will be picked up, but only the spending in that council area. Where a project is included in an IDP or the NI Pipeline and included by Arup, we have removed the figure from Arup’s total to avoid double counting. £1.48bn has been removed from Arup’s total because it is included in the IDPs, whilst £0.29bn has also been removed because it is included in the NI Pipeline and not in the IDPs. Where possible overlap has existed (even though wording can vary) we have removed the projects from Arup’s figures, to eliminate the possibility of double counting.

National Infrastructure Pipeline

The NI Pipeline is a forward-looking assessment of planned investment in the UK’s economic infrastructure across both the public and private sectors. It contains a national list of over 600 projects and programmes with a combined value of £425bn, excluding social infrastructure. The pipeline is neither a statement of need, nor a commitment to undertake any of the projects shown, however it does provide an overview of planned public and private infrastructure investment, and thus represents a good starting point for this study.

We have assumed that the projects we have identified are all fully funded. This is because the majority have already started, whilst flood spending is funded in the FCER capital investment programme and Highways have nominal funding.

Table 3 shows all major infrastructure projects in the Corridor listed in the National Infrastructure Pipeline, analysed by category and location. Where the dates of provision and funding data are given, these have also been included. A number of items listed in the Pipeline are estimated on a regional or cross-cutting theme basis, and it has not been possible to allocate these projects with any degree of certainty to the Corridor. For this reason, we have had to exclude them from our analysis. The projects listed below total approximately £3.7bn, which is equivalent to less than 1% of the total value of the NI Pipeline. This is therefore likely to be a significant underestimate of the proportion of the Pipeline which is attributable to the Corridor.

Table 3. Corridor projects listed in the NI Pipeline

Sector	Project/ Programme Name	Location	Funding source	Start of works	Date in service	Total capex cost £m
Flood	Oxford - Western conveyance	Oxford	Public/ private	2018/19	2020/21	216.4
Science and research	Diamond Phase III	South Oxfordshire	Public/ private	2012	2018	111.2
Science and research	SABRE	South Oxfordshire	Public/ private	2015	2020-22	60.0
Science and research	Transport Systems Catapult	Milton Keynes	Public	2013	2017/18	5.5

Sector	Project/ Programme Name	Location	Funding source	Start of works	Date in service	Total capex cost £m
Science and research	Satellite Applications Catapult	South Oxfordshire	Public	2012	2017	6.6
Science and research	ELIXIR	South Cambs.	Public	2012	2019	75.0
Transport	Luton Airport	Luton	Private	2015	2022	114.8
Transport	A10 / M11 Growth Corridor HCC transport package East-West connectivity M11/A10 Growth Area	East of England	Public/ private	2015	2019	113.7
Transport	Cambridge North new station	Cambridge	Public	2013	2017	50.0 ⁵
Transport	Ely North Junction Capacity Improvement	East Cambs.	Public	TBC	TBC	TBC
Transport	Ely to Soham Doubling	East Cambs.	Public	TBC	TBC	39.5 ⁶
Transport	Kings Lynn – Cambridge 8-car	Cambridge- shire	Public	2016	TBC	Unavailable
Transport	MML programme – capacity (Bedford to Kettering)	Bedford- Kettering	Public	2016	2019	c. 500.0 ⁷
Transport	Oxford Corridor Capacity Improvements	South Oxfordshire	Public	2015	TBC	Unavailable
Transport	Stevenage Turnback	Stevenage	Public	TBC	TBC	No longer proceeding?
Transport	A14 Cambridge to Huntingdon	East of England	Public	2016/17	2020/21	1,379.0
Transport	A428 Black Cat to Caxton Gibbet	South Cambs.	Public	2019/20	TBC	241.7
Transport	M4 J3 - J12 Smart Motorway	South East	Public	2016/17	2021/22	657.4

⁵ National Infrastructure Commission - A Plan for Unlocking Growth, Housing, and Jobs in Cambridge-Milton Keynes-Oxford Corridor: Long List of Options v1 28 Sept 2016.

⁶ Network Rail Felixstowe to Nuneaton Phase 1 14/05/2012.

⁷ emcouncils.gov.uk/write/Case-for-Upgrading-Electrifying-Midland-Main-Lines251111.

Sector	Project/ Programme Name	Location	Funding source	Start of works	Date in service	Total capex cost £m
Transport	East West Rail	England	Public	2014	TBC	Unavailable
Waste	Milton Keynes Waste Management Project	South East	Public	2014	2016/17	129.0 ⁸
Energy	Common Barn Wind Farm	St Neots	Private	2018/19	2018/19	9.1
TOTAL						3,708.9

Source: National Infrastructure and National Construction Pipelines⁹

A number of the projects referred to above are also included in the Arup estimates of transport spend referred to in their report, and are not included in IDPs. The value of these projects equates to £0.3bn.

Infrastructure Delivery Plans (IDPs)

Local authorities are expected to prepare IDPs in support of their Local Plans. The IDP should identify the infrastructure needed to support future growth across the local authority area.

The importance of robust infrastructure planning is emphasised in the National Planning Policy Framework (NPPF), which states that:

Local planning authorities should work with other authorities and providers to:

- Assess the quality and capacity of infrastructure for transport, water, wastewater and its treatment, energy, telecommunications, utilities, waste, health, social care, education, flood risk and coastal change management, and its ability to meet forecast demands; and,
- Take account of the need for strategic infrastructure, including nationally significant infrastructure within their area.

The NPPF stipulates that planned infrastructure should be delivered in a timely fashion and local authorities should work with neighbouring authorities and transport providers to develop strategies for the provision of viable infrastructure necessary to support sustainable development.

The Government's Planning Practice Guidance states that as part of the Local Plan process, local authorities should identify what infrastructure is required, and how it can be funded and brought on stream at the appropriate time, whilst ensuring that the requirements of the plan as a whole will not prejudice the viability of development.

⁸ Milton Keynes Infrastructure Delivery Plan

⁹ <https://www.gov.uk/government/publications/national-infrastructure-pipeline-2016> (accessed 20 October 2016)

An IDP is an important document for a number of reasons:

- It identifies the cost of infrastructure needed, the availability of existing funds, and the extent of any funding gap that should be met by new sources of revenue including CIL and retained business rates;
- It provides landowners and developers with greater certainty about the way in which infrastructure for key sites will be delivered;
- It enables contractors and other providers to build the capacity to help deliver these plans;
- It provides local communities with reassurance that new development will not have an unplanned impact on services and facilities; and,
- It helps to demonstrate the deliverability of development proposals.

We have been able to source IDPs or equivalent data from all the councils within the Corridor apart from Oxford City Council and East Hertfordshire District Council. Bedford Borough Council does not have an IDP, so we have based our figures on its CIL infrastructure project spending plan, which is likely to be an under-estimate of its infrastructure requirements.

To give an indication of the extent of infrastructure investment needed to underpin the Local Plans, we have summarised and reviewed the infrastructure requirements as shown in the IDPs. This can only provide a very high level approximation as there is a significant variation in the quality and amount of information provided. Furthermore, the IDPs cover different time periods, ending in 2026, 2029 or 2031. Many of the local authorities in the Study Area with shorter plan periods are in the process of compiling and consulting on new IDPs which will cover the period up to 2031.

Table 4 summarises the cost of the total infrastructure requirements identified in the relevant IDP for each local authority area, together with the funded and unfunded elements.

The combined infrastructure spend extracted from our analysis of the IDPs indicates a total projected infrastructure spend of £12bn, of which £4.3bn is funded and £4bn is unfunded, and a further £3.6bn is “unspecified”. For the reasons explained above, this is likely to be an understatement as it excludes the planned infrastructure requirements of the three councils that lack IDPs (East Hertfordshire District Council, Bedford Borough Council and Oxford City Council) as none have an IDP or equivalent in place. However, for the purposes of this exercise we have included Bedford Borough Council’s CIL infrastructure project plan spending.

We also anticipate that some double counting may take place for certain infrastructure projects. This is because some transport projects which cover multiple local authorities are included in multiple authorities’ IDPs. Where double counting is obvious, we have removed it, but in some cases, it is unclear whether local authorities are referring to the cost of the entire project or the section in their area. In these cases, we have included the project for both local authorities.

The single largest project referred to in the IDPs is the East-West rail link. Provision has been made in the IDPs of Central Bedfordshire, Aylesbury Vale, Luton, Cherwell, for investment in the link totalling some £1.8bn.

Table 4. Cost of infrastructure extracted from IDPs per local authority

Local authority	Total cost £m	Funded £m	Unfunded £m	Unspecified £m
Aylesbury Vale District Council¹⁰	491.0			491.0
Bedford Borough Council (based on CIL rather than IDP)¹¹	144.0		57.1	87.0
Cambridge City Council¹²	1,378.2	82.5	1,295.7	
Central Bedfordshire Borough Council¹³	1,559.4	1,417.0	142.4	
Cherwell District Council¹⁴	560.0			560.0
Daventry District Council¹⁵	65.0			65.0
East Cambridgeshire District Council¹⁶	376.6	14.5	242.6	119.5
East Hertfordshire District Council¹⁷	N/A			
Huntingdonshire District Council (based on infrastructure business plan)¹⁸	1851.6	29.0	1630.0	192.6
Luton Borough Council¹⁹	1,027.5	412.0	32.0	583.5
Milton Keynes Council²⁰	965.4	607.6		357.8

¹⁰ Vale of Aylesbury Local Development Scheme (December 2014).

¹¹ Bedford Infrastructure Project Plan: Evidence Base for a Community Infrastructure Levy (December 2012).

¹² Cambridge City Council and South Cambridgeshire District Council: Infrastructure Delivery Study (August 2012).

¹³ Central Bedfordshire Infrastructure Delivery Plan (July 2015).

¹⁴ Cherwell District Council Infrastructure Delivery Plan Update (December 2015).

¹⁵ Daventry District Council Investment Plan (May 2013).

¹⁶ East Cambridgeshire Infrastructure Investment Plan version 2 (September 2013).

¹⁷ No IDP currently available.

¹⁸ Huntingdonshire Infrastructure Business Plan 2013-14.

¹⁹ Luton Infrastructure Delivery Plan 2015-2031 (October 2015).

²⁰ Milton Keynes Local Investment Plan (March 2015).

Local authority	Total cost £m	Funded £m	Unfunded £m	Unspecified £m
Northampton Borough Council ²¹	543.8	106.7		437.1
North Hertfordshire District Council ²²	284.3			284.3
Oxford City Council ²³	N/A			
South Cambridgeshire District Council ²⁴	636.1	542.8	93.3	
South Northamptonshire District Council ²⁵	85.7			85.7
South Oxfordshire District Council ²⁶	300.3	79.2	176.1	45.0
Stevenage Borough Council ²⁷	292.0	183.0	109.0	
Swindon Borough Council ²⁸	864.2	783.0	68.2	13.0
Vale of White Horse District Council ²⁹	338.8	14.0		324.8
Wellingborough (Borough Council of) ³⁰	118.0	45.2	72.8	
West Oxfordshire District Council ³¹	158.4	33.3	125.1	
TOTAL	12,040.4	4,349.8	4,044.3	3,646.3

Sources: see footnotes

We have further analysed IDP expenditure by infrastructure category in Table 5. Some 70% of the proposed investment is in transport schemes, with the next largest category being education (10%). This information is shown for each council in Appendix 3.

²¹ West Northamptonshire Joint Planning Unit Infrastructure Delivery Plan (February 2011).

²² North Hertfordshire Infrastructure Delivery Plan (to support Local Plan).

²³ No IDP currently available.

²⁴ Cambridge City Council and South Cambridgeshire District Council: Infrastructure Delivery Study (August 2012).

²⁵ West Northamptonshire Joint Planning Unit Infrastructure Delivery Plan (February 2011).

²⁶ South Oxfordshire Infrastructure Delivery Plan (February 2015).

²⁷ Stevenage Local Development Scheme (September 2012); Stevenage Infrastructure Delivery Plan 2013.

²⁸ Swindon Borough Infrastructure Delivery Plan (2013).

²⁹ Vale of White Horse Infrastructure Delivery Plan (October 2014).

³⁰ North Northamptonshire Infrastructure Delivery Plan (January 2015).

³¹ West Oxford District Council Infrastructure Delivery Plan 2014.

The consistency with which different local authorities include housing (including affordable housing) in their IDPs is very varied. We know, for example, that a number of councils who spend a significant amount of money on housing do not include this spend in their IDPs. Because of this, we have removed housing spending from total spending from all IDP tables below, to maintain consistency.

Table 5. IDP Infrastructure requirements by category

Category of infrastructure	Total cost £m	Funding secured £m	Unfunded £m	Unspecified £m
Education	1,367.2	350.8	445.7	570.7
Transport	8,602.5	2,897.0	3,271.5	2,434.0
Social and community	583.9	202.9	184.3	196.7
Utilities	417.7	161.7	6.3	249.7
Health	237.9	44.7	33.4	159.8
Green infrastructure	180.1	36.8	101.1	42.2
General	630.5	95.0	2.0	533.5
TOTAL	12,019.9	3788.9	4044.3	4186.7

Sources: As for Table 4. (Cost of housing removed from totals.)

Estimate of total infrastructure requirements across the corridor

We have summarised the total value of projects listed in the National Infrastructure Pipeline and the IDPs in Table 4, and adjusted the total to remove the double counting of projects between the two sources. This gives a total projected infrastructure requirement of £13.9bn.

This figure is likely to be a significant underestimate, and should be considered as representing a “floor”, for the following reasons:

- We have been unable to obtain IDPs from Oxford City Council and East Hertfordshire District Council;
- We are only able to use a CIL delivery plan for Bedford Borough Council;
- A number of Local Plans are in the process of being updated. The IDPs are therefore being reviewed as a result and are likely to change as a result;
- The NI Pipeline is compiled on a regional basis, and projects which relate to the Corridor area are not readily identifiable;

- The NI Pipeline includes a number of “programmes” with no geographic breakdown, and therefore we have had to exclude these from our analysis;
- The NI Pipeline is due to be reviewed and updated next year and therefore the information does not represent the latest position;
- Some projects listed in the Pipeline have no costs identified; and,
- Some local authorities include the projected cost of housing provision, whilst others exclude it, or use alternative house funding models. We have been unable to source reliable estimates of housing investment for those authorities which have excluded it.

Table 6. Infrastructure requirements across the Corridor extracted from IDPs and National Infrastructure Pipeline

	Total cost £m	Funded £m	Unfunded £m
Total infrastructure from NI Pipeline	3,710	3,710 ³²	
Total infrastructure from IDPs	12,020	3,789	4,044
Double counting between NI Pipeline and IDPs	-1,865	N/A	N/A
TOTAL	13,865	7,499	4,044

Appendix 4 sets out details of the projects deducted to avoid double-counting between the IDPs and the NI Pipeline.

Estimate of average cost of infrastructure per new dwelling

In order to estimate the levels of infrastructure investment needed to support Scenarios 2 and 3 with their significantly higher level of housing delivery, we have sought to estimate an average cost of infrastructure per new dwelling based on the project infrastructure requirements extracted from the IDPs and projected new homes numbers extracted from the Local Plans.

Table 7 below shows the relevant figures. Where the infrastructure costs have been distorted by particularly significant one-off infrastructure projects (either identified in the IDP or Arup report as such), which are not matched with a significant uplift in the number of new dwellings, we have adjusted for those figures and restated the average infrastructure investment required per new dwelling.

³² The National Infrastructure Pipeline describes that its contents “provides a strategic and more credible overview of the level of public and private infrastructure investment planned over the rest of this decade and beyond”. We have included all projects that are fully costed and have full budgets and details attached to them- these we have classified as funded to reflect that under current government spending plans, they are likely to proceed.

Table 7. Total IDP infrastructure costs relative to number of new dwellings in Local Plans

Local authority	Total infrastructure cost (adjusted) £m	Period	Average annual infrastructure cost £m	Total new dwellings	Period	Average number of new dwellings per year	Average infrastructure cost per house £
Cambridge City Council	182.7 ³³	2011-2026	12.8	14,000 ³⁴	2011-2031	700	18,285
Cherwell District Council	140.0 ³⁵	2014-2031	8.8	21,734 ³⁶	2014-2031	1,358	6,443
Daventry District Council	35.0 ³⁷	2013-2018	7.0	6,742 ³⁸	2013-2029	421	16,627
East Cambridgeshire District Council	302.1 ³⁹	2013-2026	23.2	11,500 ⁴⁰	2011-2031	575	40,408

³³ Cambridge City Council and South Cambridgeshire District Council Infrastructure Delivery Plan 2012. Adjusted to remove cost of projects which also appear on Arup infrastructure list: (A14 improvements; Cycle and Riverside transport; and improvements to Hills Road and related streets).

³⁴ East of England Plan and Cambridge City Annual Reports (Current Draft Local Plan with Inspector). Adjusted to remove cost of projects which also appear on Arup infrastructure list: (A45 Corridor).

³⁵ Cherwell District Council IDP Update 2015. Adjusted to remove cost of projects which also appear on Arup infrastructure list: (East-West Rail Link; Electrification of Rail Lines).

³⁶ Cherwell Local Plan 2015.

³⁷ Daventry District Council Investment Plan (May 2013). Adjusted to remove cost of projects which also appear on Arup infrastructure list: (A45 Corridor).

³⁸ West Northamptonshire Joint Core Strategy.

³⁹ East Cambridgeshire Infrastructure Investment Plan v2 (September 2013). Adjusted to remove cost of projects which also appear on Arup infrastructure list: (Capacity Improvements to A10; Improvements to A142; New Science Park Rail Station).

⁴⁰ East Cambridgeshire Local Plan (2015).

Local authority	Total infrastructure cost (adjusted) £m	Period	Average annual infrastructure cost £m	Total new dwellings	Period	Average number of new dwellings per year	Average infrastructure cost per house £
Milton Keynes Council	446.6 ⁴¹	2011-2026	29.8	27,534 ⁴²	2013-2029	1,721	17,300
Northampton Borough Council	239.1 ⁴³	2012-2026	17.1	19,000 ⁴⁴	2011-2031	950	17,977
South Cambridgeshire District Council	85.0	2011-2026	5.7	5,788 ⁴⁵	2012-2029	362	15,773
South Northamptonshire Council	277.3 ⁴⁶	2015-2026	25.2	22,964 ⁴⁷	2006-2026	1,148	21,959
South Oxfordshire District Council	249.6 ⁴⁸	2013-2022	27.7	21,700 ⁴⁹	2011-2031	1,085	25,560

⁴¹ West Northamptonshire Joint Planning Unit Infrastructure Delivery Plan (2011). Adjusted to remove cost of projects which also appear on Arup infrastructure list: (Castle Station Area Improvements; M1 Access Management Strategy; New Bus Station Interchange; North West bypass; Weedon Road Bus Priority).

⁴² West Northamptonshire Joint Core Strategy.

⁴³ Cambridge City Council & South Cambridgeshire District Council: Infrastructure Delivery Plan (2012). Adjusted to remove cost of projects which also appear on Arup infrastructure list: (Segregated Busway; Dual Carriageway to A14; Madingley Road Bus Priority; Milton Road Bus Priority; Newmarket Road Bus Priority).

⁴⁴ City Annual Monitoring Reports (Current Draft Local Plan with Inspector).

⁴⁵ West Northamptonshire Joint Core Strategy.

⁴⁶ South Oxfordshire Infrastructure Delivery Plan (2015). Adjusted to remove cost of projects which also appear on Arup infrastructure list: (Didcot Station Car Park Expansion).

⁴⁷ South Oxfordshire Core Strategy (2012).

⁴⁸ Stevenage Infrastructure Delivery Plan. Adjusted to remove cost of projects which also appear on Arup infrastructure list: (A602 Corridor Requirements; Bus Routes between Urban Centres).

⁴⁹ Stevenage Strategic Housing Market Assessment (2015).

Local authority	Total infrastructure cost (adjusted) £m	Period	Average annual infrastructure cost £m	Total new dwellings	Period	Average number of new dwellings per year	Average infrastructure cost per house £
Stevenage Borough Council	304 ⁵⁰	2015-2026	27.6	25,000 ⁵¹	2016-2026	1,250	22,109
Swindon Borough Council	141.9 ⁵²	2011-2029	7.9	10,500 ⁵³	2011-2031	525	15,016
West Oxfordshire District Council	182.7 ⁵⁴	2011-2026	12.8	14,000 ⁵⁵	2011-2031	700	18,285
Total/Average			192.8	201,852		10,865	19,768

⁵⁰ Swindon Infrastructure Delivery Plan (2015). Adjusted to remove £560 m cost of affordable housing units.

⁵¹ Swindon Local Plan (2015).

⁵² West Oxford District Council Infrastructure Delivery Plan (2015). Adjusted to remove cost of projects which also appear on Arup infrastructure list: (A40 Bus Lane).

⁵³ West Oxfordshire Local Plan 2011-2031.

⁵⁴ Cambridge City Council and South Cambridge District Council Infrastructure Delivery Plan 2012. Adjusted to remove cost of projects which also appear on Arup infrastructure list: (A14 improvements; Cycle and Riverside transport; and improvements to Hills Road and related streets).

⁵⁵ East of England Plan and Cambridge City Annual Reports (Current Draft Local Plan with Inspector). Adjusted to remove cost of projects which also appear on Arup infrastructure list: (A45 Corridor).

The average local infrastructure cost from this table is approximately £19,768 per new dwelling. If we exclude outliers from the average costs (the highest and the lowest figures), this would give an average of £18.9k per new dwelling. For the purposes of estimating the future infrastructure costs required to support further new homes, we have therefore assumed a figure of £19.5k.

5 Land value uplift capture mechanisms

Introduction

This section considers the extent to which mechanisms are available, could be modified, or new mechanisms introduced, to capture the benefit of land value uplift.

For the purposes of this report, we have looked at the two principal sources of land value uplift as separate phenomena, potentially requiring different capture mechanisms:

- Planning gain – the increase in the value of land generated by the grant of planning permission; and,
- Betterment – the increase in the value of land (often a windfall gain) generated by investment in infrastructure.

Summary

Table 8 summarises the principle land value capture mechanisms. The extent to which value can be captured through these mechanisms is determined by the viability of the underlying project and the value created by the investment. The first four mechanisms (s106 agreements, CIL, Mayoral CIL, Tariff and Prospectus) principally address the capture of planning gain, whereas the last three (Business Rates, Business Rates Supplement, and TIF) more appropriately capture betterment.

Sums raised under s106 agreements and CIL are applied directly towards investment in infrastructure. However, it should be noted that S106 is site-specific funding and that together S106 and CIL are unlikely to raise enough revenue to fund significant infrastructure investment. The other mechanisms described below are more likely to be used to capture an annual revenue stream to repay upfront borrowings over a period of time. By way of a simple example, a £1m annual income stream (ignoring inflation), would support around £18m of capital borrowings at an assumed coupon of 2.5% over 25 years and assuming annual amortisation of the principal.

Table 8. Summary of land value capture mechanisms

Land value capture mechanism	Advantages	Disadvantages	Commentary
S106 agreements	<p>Flexibility.</p> <p>Acknowledges individual site viability.</p> <p>Procedure in place and well understood.</p>	<p>Opacity.</p> <p>Time to negotiate.</p> <p>Unrealistic levels may be set which render sites unviable, and used to deter development.</p> <p>Limitations on pooling are preventing its use as a contribution to broader community infrastructure.</p>	<p>Extensively used to capture planning gain. The pooling constraints will have encouraged some local authorities to move towards CIL, leaving s106 to fund affordable housing and site impact mitigation.</p> <p>May have a more significant role to play following CIL Review.</p>
Community Infrastructure Levy	<p>Flat rate, so easily understood, transparent.</p> <p>Widespread consultation before charging schedule introduced, giving stakeholders opportunity to influence level.</p> <p>No negotiation required.</p>	<p>Lacks flexibility, doesn't allow for individual site viability.</p> <p>Only 9 LPAs have a charging schedule in place.</p> <p>Concerns about whether CIL is raising sufficient funds to make a realistic contribution to infrastructure investment.</p> <p>Lack of connection between developers paying CIL and seeing proceeds being invested.</p>	<p>Awaiting outcome of CIL Review so difficult to assess future application across the Corridor.</p>

Land value capture mechanism	Advantages	Disadvantages	Commentary
Mayoral CIL	<p>Clear linkage between MCIL and infrastructure provision.</p> <p>Easy to collect.</p>	<p>Only to support major infrastructure investment.</p> <p>Introduction would be limited to those areas where there is a Mayoral Combined Authority, which may not overlap with area which benefits from infrastructure requirements.</p> <p>Difficulty in determining the boundaries of the area benefitting from investment therefore the charging area.</p> <p>Requires a forward funder.</p>	<p>A suitable governance framework would need to be developed for a variant of MCIL (a Regional CIL?) to be used in areas where there is no mayor.</p>
Tariff & Prospectus	<p>Well accepted by developers.</p> <p>Clarity over future infrastructure funding.</p>	<p>Little flexibility to amend.</p> <p>Requires a forward funder prepared to sit behind the Tariff.</p>	<p>Suitable for large, well-defined areas of land, with robust masterplan, and involving few landowners.</p> <p>Milton Keynes have indicated they would consider the application of a T&P for a future urban extension.</p>
Tax Increment Finance	<p>TIF is the name given to the mechanism used to capture the increased taxes created by the infrastructure investment.</p> <p>It effectively enables local authorities to borrow against projected future tax revenues arising from investment.</p> <p>Widely used in the US.</p>	<p>The difficulty in determining whether the tax flows are truly incremental or merely displaced from one area to another.</p> <p>The difficulty in predicting whether the likely level of tax flows could mean insufficient funds are raised to repay the investment.</p> <p>Requires a forward funder.</p>	<p>Within the constraints of the current system of local government finance, business rates are the principal tax-based mechanism by which local authorities are able to capture betterment.</p>

Land value capture mechanism	Advantages	Disadvantages	Commentary
<p>Business rate localisation</p>	<p>Many local authorities have argued for greater fiscal devolution – the retention of a greater share of the business rate has been a cornerstone of that argument.</p> <p>Greater retention should provide a significantly stronger incentive to local authorities to support growth, together with the funds to finance that growth.</p>	<p>Business rate income is frequently used to fund council services, as opposed to funding infrastructure.</p> <p>There is a great deal of uncertainty about the shape of the future business rates proposals, and this is likely to continue until the Government produces its response to the recent consultation.</p> <p>A number of the financially stronger authorities are concerned that their retained share will still not be sufficient to give them the financial scope to invest for greater growth.</p> <p>A number of the financially weaker authorities are concerned about their future financial position, particularly when the business rate retention proposals are seen alongside cuts in public sector spending, and the abolition of the RSG.</p>	<p>Until there is greater certainty about the future shape of the business rate reforms, it is difficult to make predictions about the extent to which business rates can be used to invest in local growth. Even then, it is unlikely that business rate income would be used by councils to fund infrastructure.</p>

Land value capture mechanism	Advantages	Disadvantages	Commentary
Business rate supplement	<p>Could be readily implemented under current legislation within the context of a mayoral combined authority and with the approval of the business members of the LEP, or outside of a mayoral authority with a ballot where the percentage of the project to be financed by the BRS exceeds 30%.</p> <p>Can be used alongside other sources of public funding.</p>	Limited to 2p in the £.	Our modelling suggests a business rate supplement could provide a useful source of annual income which could be used to repay the borrowings associated with infrastructure investment. This source of income may well be greater than retained business rates from growth in some parts of the Corridor.

Planning gain

Planning gain refers to the increase in value that accrues to the landowner on the grant of planning permission.

Table 9 shows DCLG’s estimates of residential land values for each of the major urban local authorities across the Study Area. These are calculated on a residual land value basis (i.e. they take the value of the proposed development, and deduct development costs, to leave a “residual” for the site value), and so they are not market valuations. However, they give an indication of the extent to which the grant of planning permission adds to the value of land, when compared with DCLG’s estimate of the average value of agricultural land to a commercial agricultural user of £21,000 per hectare⁵⁶.

Table 9. Post permission residential land value estimates per hectare

Local authority	Land value £m
Bedford Borough Council	2.1
Cambridge City Council	5.7
Luton Borough Council	1.6
Milton Keynes Council	2.7

Local authority	Land value £m
Northampton Borough Council	1.6
Oxford City Council	4.3
Swindon Borough Council	1.9

Source:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/407155/February_2015_Land_value_publication_FINAL.pdf (accessed 2 November 2016).

Various attempts have been made since the passing of the Town and Country Planning Act 1947 to capture a proportion of this uplift in value. The current mechanisms are s106 Agreements (Planning Obligation Agreements) and the Community Infrastructure Levy and are both currently under review.

Planning obligation agreements

Planning obligations refers to the legal agreements made under s106 of the Town and Country Planning Act 1990, between councils and landowners. They are linked to the grant of a planning permission and relate to the land which is to be developed rather than the applicant. The agreement is recorded as a land charge, and the obligations are assumed by future owners of the land.

They are used for three purposes:

- To prescribe the nature of development (for example, requiring a given proportion of the development to be affordable housing);
- To compensate for loss or damage created by a development (for example, through the loss of green space); and,
- To mitigate the impact of a site’s development (for example, to meet the cost of additional public service provision required from the development).

The s106 agreement has been an effective means of capturing value created from the grant of planning permission, and in particular, for the delivery of new affordable housing. One of the major strengths of these agreements is that they allow local authorities to adopt a site-by-site approach to the negotiation of the developer’s contribution to infrastructure, recognising that some sites are more viable than others, and that these can withstand a higher level of contribution than other sites.

However, importantly, it is not a reliable revenue stream for more than local infrastructure investment. Monies generated must be spent on infrastructure for the local site, and therefore do nothing to alleviate the pressure put on existing regional infrastructure by an increase in the number of residents from new developments. Meanwhile, since April 2014 local authorities have been unable to pool S106 agreements from five or more developments, further constraining their capacity to fund infrastructure. The negotiation process can also

be lengthy and opaque, whilst the amount of money raised is relatively insignificant compared to wider infrastructure requirements.

Community Infrastructure Levy (CIL)

CIL is a planning charge, introduced by the 2008 Planning Act, as a tool for local authorities to help finance infrastructure to support development in their area. The CIL eventually came into force on 6 April 2010, through the Community Infrastructure Levy Regulations 2010. The CIL is paid by the developer as a levy on most new developments which create net additional floor space of 100 sqm or more, or on new dwellings. The levy is determined locally and is set out in a charging schedule, which is adopted after a detailed assessment of the viability of local development.

The process for introducing the CIL is complex, and involves the following steps:

- The gathering of the evidence base to support the proposed levy rates;
- The preparation of a preliminary draft charging schedule;
- Consultation on the preliminary draft charging schedule;
- The publication of a draft charging schedule once consultations have been received;
- Further representations are sought on the published draft;
- An independent examination of the charging schedule in public;
- Publication of the examiner's recommendations;
- The charging authority considers the examiners recommendations; and,
- The approval and introduction of the charging schedule by the charging authority.

The proceeds from CIL can be used to fund a wide range of infrastructure, including transport, flood defences, schools, hospitals, parks and green spaces, cultural and sports facilities, district heating systems etc. The Charging Authority prepares a Regulation 123 list, and lists the infrastructure projects or types of infrastructure that it intends to finance in whole or in part by CIL. This flexibility effectively allows local authorities to choose whatever infrastructure they need to deliver their Local Plans. This contrasts with s106 agreements, where the proceeds are used to finance items agreed within the s106 Agreement.

Where CIL has been introduced, it has not replaced s106 agreements, but it has tightened up the circumstances in which s106 are applied. Broadly, where CIL is in place, s106 payments should only relate to the provision of affordable homes and addressing site mitigation required by a new development. The CIL should address the broader infrastructure requirements of a development. There should be no circumstances where a developer is paying CIL and s106 in relation to the same infrastructure. However, it is important to note that CIL lacks individual site flexibility, as compared to s106 Agreements, that would enable local authorities to incentivise the development of specific sites. Because of this some local authorities have chosen not to introduce CIL.

Table 10 shows the progress in introducing CIL both across the Corridor and, by way of comparison, nationally. Appendix 5 gives overview details of the nine CIL Charging Schedules in force across the Corridor.

Table 10. Progress in introducing CIL nationally and at Corridor level

	Nationally – Number and %	Corridor – Number and %	Corridor authorities
DONE	129 (37)	9 (41)	Bedford Borough Council Daventry District Council East Cambridgeshire District Council Huntingdonshire District Council Northampton City Council Oxford City Council South Northamptonshire District Council South Oxfordshire District Council Swindon Borough Council
IN PROCESS			
<ul style="list-style-type: none"> Submitted for examination/examination completed 	33 (9)	6 (27)	Aylesbury Vale District Council Cambridge City Council Cherwell District Council South Cambridgeshire District Council Vale of White Horse District Council West Oxfordshire District Council
<ul style="list-style-type: none"> Draft consultation 	21 (6)	2 (9)	Central Bedfordshire Borough Council Wellingborough (District Council of)
<ul style="list-style-type: none"> Preliminary draft consultation 	35 (10)		
ENGAGED			
<ul style="list-style-type: none"> Preparing evidence/Charging Schedule 	40 (11)	1 (5)	Stevenage Borough Council
<ul style="list-style-type: none"> Committed but not started 	37 (11)		

	Nationally – Number and %	Corridor – Number and %	Corridor authorities
NOT ENGAGED			
• Not yet committed	29 (8)	1 (5)	East Hertfordshire District Council
• Not pursuing	28 (8)	3 (14)	Luton Borough Council Milton Keynes Council North Hertfordshire District Council
TOTAL	352 (100)	22 (100)	

Source: Local authority websites and Savills data (22nd October 2016).

A proportion of the CIL (15%, but capped at £100 per dwelling) is shared with neighbourhoods where development will take place. Where there is a neighbourhood plan, which has been agreed in a local referendum, the neighbourhood receives 25% of the CIL (uncapped) raised from development happening in their area. This money is generally passed to the Parish, Town or Community Council. Where there is no such council in place, the charging authority will retain the CIL but consult with affected communities and agree how best to fund the neighbourhood CIL element. As a result of these arrangements, the neighbourhood element of the CIL is earmarked for local spending priorities. There is greater flexibility on how the neighbourhood element of the CIL can be spent. As an example, it can be used to fund affordable housing where it would support the development of the area, where the charging authority’s retained portion of the CIL cannot be used for affordable housing.

Developers’ concerns about the operation of the CIL nationally have been well-aired, and culminated in the establishment of the CIL Review Panel at the end of November 2015 to:

- Consider the extent to which CIL provides an effective mechanism for funding infrastructure;
- Recommend changes to improve the operation of CIL to support the Government’s wider housing and growth objectives; and,
- Consider the relationship between CIL and s106.

The Review’s Chairman is on record as saying that CIL “[has not provided] a huge amount of funding for infrastructure” and has failed to provide a “faster, simpler, more transparent system” than s106⁵⁷. The outcome of the review is expected in late 2016.

We raised the CIL with developers as part of our consultation exercise. Their over-riding issue was how CIL was being spent locally. They cited a lack of visibility as to how and when the levy was being spent, the dilution of contributions to the neighbourhood level, and the

⁵⁷ <http://www.planningresource.co.uk/article/1392290/cil-review-chair-levy-failed-meet-policy-objectives> (accessed 30 October).

lack of any relationship between their site contributions and the infrastructure the contributions were being used to provide.

In the absence of a government announcement on the future of CIL following the CIL Review, it is difficult to assess how CIL might be used to best effect across the Corridor. It is clear however that mechanisms which capture the value created by the grant of planning permission, such as CIL (whether it is retained in whole or in part) and s106, should feature heavily in the future funding of the Corridor's infrastructure requirements. However, the amounts these agreements currently raise, and the need for this money to be spent on site-specific infrastructure, limits their ability to fund significant infrastructure projects.

Mayoral CIL (MCIL)

This refers to a supplementary CIL levied by a Mayor, in addition to the CIL levied by the charging authority, to fund investment in infrastructure. There is only one MCIL in place at present, and that is the Mayor of London's CIL to part-fund Crossrail. It is detailed in the case study below.

Case study: Crossrail - MCIL

- Introduced by the Mayor of London in 2012 to help finance Crossrail.
- The MCIL is expected to raise up to £300m by 31 March 2019. TfL has underwritten the payment of this money to Crossrail (and a further £300m of s106 contributions), so any shortfall or delay will affect TfL's balance sheet.
- It is applied in addition to the London Boroughs' own CIL.
- The Mayor is the charging authority and the boroughs are the collecting authorities.
- MCIL is set at three levels to reflect the fact that some Boroughs will benefit more than others from CIL. Zone 1 is £50 per sqm, Zone 2 is £35 per sqm and Zone 3 is £20 per sqm.
- Unlike CIL, there is no discretionary relief, although health and educational developments do not pay the MCIL.
- In setting the MCIL, the intention was to ensure other Boroughs' CILs were not adversely affected and their ability to fund their own infrastructure requirements were not adversely affected.
- The amount collected is inevitably dependent upon the strength of the development pipeline, the national (and to an extent the global) economy, the state of local property markets and the planning framework.
- The MCIL is reviewed every two years. The most recent review was in November 2014. By then, £86m had been raised in MCIL and a further £40m in Crossrail s106 had been received (21% of the combined target). More than 2,000 developments had been subject to the MCIL. The review concluded that the combined revenues from MCIL and s106 may hit £600m in March 2019, assuming a stable property market. The review concluded that there was no requirement to change the rates.

Whilst it is unlikely to be appropriate to introduce a MCIL in the absence of Mayors across the Corridor's major urban centres, it might be possible to consider the introduction of a Regional CIL (RCIL) to fund all, or more likely, part of individual strategic infrastructure projects across the Corridor. In order to introduce a RCIL, the following factors would require consideration:

- The legal basis for the imposition of the RCIL and the form of an appropriate governance structure to its implementation;
- The extent of the geographical area considered to benefit from the investment, and therefore to be subject to the RCIL;
- Whether the development markets are sufficiently strong to tolerate the imposition of a further charge on developers' profits. Particular attention would need to be paid to the impact of the RCIL on affordable housing, as many developments rely on a cross-

subsidy from the value generated by chargeable floorspace within that development to meet the s106 affordable housing element;

- The level at which the RCIL should be set so as not to affect the districts' ability to raise further CIL to fund their own additional infrastructure requirements;
- A full evidence, consultation, publication and examination exercise;
- A body to underwrite the collection of the RCIL in the event of a delay or shortfall in the funds raised; and,
- A periodic review. In the event that changes to the RCIL (including rates) are required during the period, whether those changes would need to go through the full evidence, consultation and examination period.

The amount which could be collected under a RCIL would be dependent upon the economic impact of the proposed infrastructure investment, the extent of the area impacted by the investment, and the viability of development within that area.

Tariff and Prospectus

A Tariff and Prospectus (T&P) approach is most suitable for a concentrated development of a large number of new homes and/or employment space, perhaps in the context of a large Urban Extension, where significant amounts of infrastructure are needed. The most well-known application of a T&P scheme is the Milton Keynes Tariff which is described in the case study below.

A Tariff and Prospectus approach involves the following:

- An assessment of the strategic infrastructure needs of such a development;
- A strategic infrastructure plan;
- A realistic assessment of the ability of the development to contribute to the necessary infrastructure;
- The setting of a Tariff to capture the required contribution from developers;
- An infrastructure funding plan to identify other funding sources to cover any shortfall in infrastructure funding;
- A development framework agreement tying the developer into the funding obligations, development standards, design codes etc. (largely replacing the individual negotiation of s106 agreements);
- A forward funding arrangement to cash flow the development of the required infrastructure ahead of the receipt of the tariff; and,
- A pooling arrangement to ensure that tariff contributions are appropriately pooled to deliver the required infrastructure.

There are a number of benefits associated with the T&P approach:

- Certainty of funding and delivery of strategic infrastructure. The delivery vehicle is legally bound to undertake the provision of specified infrastructure work within the agreed timetable. This gives developers assurance that the infrastructure on which their sites rely will be provided.
- Time-consuming and expensive s106 negotiations are no longer required. These provisions are embodied in a standard Framework Agreement largely offered on a “take-it-or-leave-it” basis. This is particularly relevant for affordable housing provision, where the ability of the development to support affordable housing will have been extensively tested as part of the pre-prospectus work.
- Certainty of development costs. As the developer contributions are so clearly set-out in the Prospectus and Framework Agreement, developers have a greater level of certainty about their costs. This is not the case with s106 agreements, where individual site contributions are negotiated on a case-by-case basis albeit often using published local guidelines.
- Better business planning for public sector partners. The Prospectus clearly sets out how Tariff contributions will be matched by other public funding streams to deliver the infrastructure.
- As the strategic and local infrastructure across the wider area are clearly identified in the prospectus, developers and the delivery vehicle have more scope to negotiate “tariff-in-kind” arrangements.

Some of the downsides of this approach are:

- It is only suitable where there is some form of Local Delivery Vehicle empowered by the Government, councils and executive agencies to take the necessary decisions to deliver the T&P scheme.
- The circumstances where a T&P approach will work are likely to be limited to large, well defined areas of land, with few landowners. This might include urban extensions or the development of Garden Cities.
- There is a considerable degree of preparatory work required ahead of the publication of the Prospectus.
- Once the T&P is in place, there is little flexibility to amend either the level of the Tariff or the level and pace of infrastructure delivery without a significant renegotiation with stakeholders.
- A forward-funding mechanism is required to enable the up-front delivery of some of the required infrastructure.

There is interest from the Milton Keynes Council in the re-introduction of a Tariff to help fund the further development of the city.

Case study – the Milton Keynes Tariff

- The Milton Keynes Partnership (MKP) was set-up in June 2004 as the Local Delivery Vehicle charged with delivering growth in the Milton Keynes area up to 2016.
- The scale of the growth envisaged at Milton Keynes required a major investment in local and strategic infrastructure.
- The Milton Keynes Tariff was established in 2005 to capture a portion of the uplift in land value derived from the granted of planning permission.
- The chargeable area was principally limited to the East and West Expansion Area, which was expected to accommodate some 15,000 new homes.
- An overarching Framework Agreement was signed in March 2007, which set out the obligations on landowners and developers. This considerably reduced the need for time-consuming negotiations with developers. The Framework Agreement dealt with the obligations on MKC in respect of the provision of the infrastructure, the expenditure of contributions, the timely approval of reserved matters and the maintenance of reserve sites.
- A Growth Prospectus was published identifying the essential infrastructure and community facilities required to support sustainable growth up to 2016.
- The Growth Prospectus was underpinned by a series of Delivery Plans.
- English Partnerships forward-funded the cost of some of the required infrastructure ahead of the Tariff being received.
- The Tariff was collected as a fixed payment made under the terms of the s106 Agreement as a condition of outline planning consent.
- Contributions were index linked, but initially set at £18,500 per dwelling and £260k per hectare of employment space.
- Tariff payments were back end loaded with the final 75% payable upon sale or occupation of a phase of the development. There was an option to deliver some of the Tariff in-kind.
- The Tariff was intended to raise over £300m up to 2016. It was estimated that over £1.67bn would need to be spent to support the growth of Milton Keynes during that period. Thus, additional sources of public sector funding were needed, including from local councils, the Highways Agency, health bodies, and central government.
- As a consequence of the 2015 CIL Regulations, no new applications to enter into agreements under the Tariff arrangements can be accepted. All new applications from developers are having to be dealt with under the s106 provisions.

Betterment arising from infrastructure investment

Betterment refers to the increase in the value of land that has occurred because of investment in infrastructure. In many instances the owners of the land benefiting from the betterment have not contributed to the cost of the infrastructure and in this case, landowners have benefited from a windfall gain. There has been increasing interest in recent years both in the UK and internationally on how a proportion of the betterment can be captured to help finance the cost of the infrastructure.

Local authorities have potentially two options for them in capturing betterment. The first is council tax and the second is business rates. For the reasons set out further in the next section, we do not consider that the council tax as it currently works can capture any significant degree of betterment. Business rates could potentially provide a more effective mechanism. This section therefore considers how the uplift in land value arising from betterment can be captured and applied to finance the infrastructure investment.

Tax Increment Financing (TIF)

TIF refers to the means by which anticipated future increases in tax revenue arising from an investment, are captured and used to finance the infrastructure investment which is expected to generate the revenues. TIF is widely used in the United States, where it has generated a fair degree of controversy.

The principles behind TIF are summarised below:

- A sum is borrowed to fund an identified infrastructure investment;
- The infrastructure is constructed;
- There is an increase in economic activity and growth brought about by the investment.
- Incremental tax revenues are a consequence of the growth;
- A mechanism is put in place to capture a proportion of some or those incremental tax revenues; and,
- The captured incremental tax revenues are applied to repay the initial borrowings.

There are a number of reasons why TIF has generated so much controversy in the United States. The two most important are:

- The extent to which the increased economic activity can be considered to be truly incremental rather than just displaced from one area to another. Neighbouring areas to TIF schemes fear that the economic activity used to create the tax flows is not truly additional, and is effectively displaced from their areas into the TIF area; and,
- The risk that the projected share of tax revenues has been over-estimated and the TIF scheme does not create sufficient revenues to repay the initial investment. In these cases, there have been instances of local authorities having to significantly extend the period of the TIF and/or raid other budgets, including most notably education budgets, to repay the initial capital and accrued interest.

There has been considerable interest over the course of the last decade as to how TIF might work in the UK, using business rates as the repayment mechanism. Until the Coalition Government, the Treasury had generally been opposed to such schemes, for three reasons: the displacement issue; a residual concern about not being seen to hypothecate business rates (which although collected nationally, were remitted to central government for redistribution) to individual projects; and a concern that these schemes would add to public sector debt.

In October 2010, the Deputy Prime Minister announced that legislation would be introduced to enable a limited number of TIF schemes to proceed. The Local Government Finance Act 2012 effectively established the mechanism for TIF to be introduced in the UK. The Act allowed for two types of TIF schemes to be introduced:

- By introducing the 50% business rate growth retention proposals, local authorities were effectively enabled to retain an element of their business rate income arising from local economic growth which could be offset against future borrowings, albeit within the Prudential Borrowing framework; and,
- By introducing Enterprise Zones, local authorities were able to capture 100% of the business rate growth in these areas.

A significant number of local authorities have benefited from the TIF element of the Enterprise Zone provisions, and many have argued in favour of the creation of new zones, or the extension of the current 25-year limit for the retention of business rates, to enable them to invest in further infrastructure. This mechanism is being used to help finance London's Northern Line Extension, the details of which are set out in the case study below.

In our view this kind of TIF approach potentially offers scope for further use in the corridor area, but would need to be used for a very specific infrastructure improvement that has a clear link to net additional growth with associated employment land development. Under current legislation any such scheme will need central Government agreement.

Case study – Northern Line extension

- The Northern Line extension from Kennington to Nine Elms and Battersea represents London’s first major tube extension since the Jubilee Line was extended to Canary Wharf in 1999. The extension is necessary to enable the development of the Vauxhall Nine Elms Battersea Opportunity Area (OA), which is located on the south bank of the Thames. The listed Battersea Power Station, which has been the subject of many failed development attempts, sits at the heart of the 200ha OA.
- It has been estimated that the development of the OA will support the provision of more than 24,000 new jobs and 18,000 new homes. Of these, it has been estimated that more than 14,000 of the new jobs and 5,600 of the homes (predominantly on the Battersea Power Station site) would not be delivered without the transport capacity provided by the Northern Line Extension.
- The primary aim of the Northern Line extension is to encourage economic growth in London and the wider UK economy. This contrasts with many other transport infrastructure projects whose aims are more often related to addressing capacity on the existing network.
- The Northern Line Extension is the key enabler for transforming the OA, as the two new Underground stations at Battersea and Nine Elms transforms the area’s accessibility by public transport.
- The total cost of the Northern Line Extension is projected to be just under £1 billion, and it will be delivered at no net cost to the public sector. The cost of the scheme will be covered by a loan from the Public Works Loan Board which will be repaid through captured land value. There are two mechanisms in place for capturing that land value:
 - S106 and CIL contributions from the developer (approximately 25%); and,
 - Incremental business rates from across the OA, captured through the creation of an Enterprise Zone (approximately 75%).
- The government has accepted that the incremental business rates created by the new scheme will be truly additional and will not be displaced from other locations, because of the number of jobs whose creation depends on the Northern Line Extension being built.

Business rate localisation

Business rates are levied on most non-domestic properties. They are based on a property’s rateable value, which for the current financial year is assessed as being its open market rental value on 1 April 2008, as estimated by the Valuation Office Agency (VOA). A national “multiplier” is set annually by the Government, and applied to the rateable value. The multiplier for the current financial year is 49.7p. There are various reliefs including reliefs for rural properties, small businesses, and charitable and non-profit making organisations,

some of which are nationally-determined, and others which are at the discretionary of the “billing authority”.

Until 2013/4, local government collected the business rate and remitted it to the Treasury. The Treasury pooled business rate income then redistributed it back to local authorities, through the formula grant process. Critics of the system claimed that the collection and redistribution mechanism effectively removed the incentive for local authorities to invest in local growth.

In April 2013, the system was changed. The business rate was divided into two equal shares: a “local share” and a “central share”. The central share would continue to be remitted to central government, which would redistribute the business rates revenue back to local authorities, principally by way of the revenue support grant. The local share would be retained by local government, but would be partly redistributed between local authorities through a system of tariffs and top-ups. High yielding authorities would pay a tariff, and low yielding authorities would receive a top-up. Those authorities which paid a tariff were also liable to pay a levy of up to half of their growth in revenues, which would be used to fund a series of safety net payments to protect those councils whose annual business rates income falls by more than 7.5% below a baseline level.

The rationale behind these changes was to incentivise councils to more actively promote investment in local development and growth, by allowing them to retain a proportion of the financial return from that growth.

The two case studies below demonstrate the extent to which local authorities are able to retain business rates under the current system. Although the current scheme is often referred to as a “50% retention scheme”, in practice, many authorities retain far less than 50% of the business rates collected as these case studies demonstrate.

The first case study is of a unitary council, Milton Keynes, the second is of West Oxfordshire District Council, a district council which pays a proportion of its business rates income to Oxford County Council. Both authorities are tariff authorities.

Case study – Milton Keynes Council 2016/17 (a unitary council)

Milton Keynes Council has estimated that its business rate income for 2016/17 will be £158.5m. Of this, Milton Keynes Council expects to retain £48.3m, with the balance being redistributed as follows:

	£m
Total Business Rate Baseline	158.5
50% Central share paid to Government	-79.3
1% share paid to Buckinghamshire and Milton Keynes Fire Authority	-1.6
Tariff paid to Central Government	-28.4
Levy paid to Central Government	-3.2
Section 31 grant receivable	2.0
Forecast retained Business Rates	48.3

Case study - West Oxfordshire District Council 2015/16 (a two-tier council)⁵⁸

Business rate income in West Oxfordshire for 2015/16 was £33.25m, whilst the district council retained only £4.1m, equivalent to just 12.4% of the business rates collected locally.

	£m
Total Business Rate Baseline	33.3
50% Central share paid to Government	-16.6
10% share to County Council	-3.3
Tariff paid to Central Government	-10.3
Renewable energy business rate exemption (2014/15 and 2015/16)	0.3
Section 31 grant receivable	0.9
Levy paid to Central Government	-0.5
Contribution from Business rates pool	0.5
Total Retained Business Rates	4.1

⁵⁸ <https://www.westoxon.gov.uk/media/1489924/Statement-Accounts-2015-16-FINAL-WODC.pdf>

A key part of the current business rates system is the Settlement Funding Assessment (SFA) which is issued annually by DCLG. It details the projected total council income from the local share of business rates and the Revenue Support Grant (RSG) each year. The RSG is determined on a needs basis. Councils with a low needs base and high business rates (such as West Oxfordshire in the case study above) pay a high tariff (and a levy) and receive a relatively low RSG, compared to a council such as Luton, which receives a high level of RSG due to its high needs base.

Table 11 sets out the SFAs for each local authority within the Corridor, and demonstrates the vastly differing revenues, which reflect local needs and the size of the business base, across the individual local authorities.

Local authorities across the Study Area collected approximately £1.28bn of business rates in 2014/15. They paid away £138m by way of tariff (the Corridor is effectively a “net tariff” area on a consolidated basis). They received over £720m in RSG, to give a total SFA of just under £1.3bn, which was marginally ahead of the total business rates collected.

Table 11. Settlement Funding Assessment for each local authority in the Study Area 2014/15

Local authority	Gross non-domestic rate income collected £m ⁵⁹	Percentage retained by council %	(Tariff) or Top-up amount £m ⁶⁰	Post-tariff/levy retained business rate £m ⁶¹	Revenue Support Grant £m ⁶²	2014/15 outturn SFA £m ⁶³
Aylesbury Vale District Council	49.1	40	-15.7	3.7	4.0	7.5
Bedford Borough Council	61.3	49	-2.1	27.9	36.2	64.8
Buckinghamshire County Council		10 reallocated from districts	24.7	40.3	52.7	92.3
Cambridge City Council	91.0	40	-32.9	3.3	4.3	8.1
Cambridgeshire County Council		10 reallocated from districts	25.3	59.5	72.0	130.2

⁵⁹https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/481220/NNDR3_2014-15_drop_down.xlsx

⁶⁰https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/277419/Key_Information_Table_for_LAs_-_FINAL.xls

⁶¹ Local authorities' statements of accounts 2014/15

⁶²https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/277419/Key_Information_Table_for_LAs_-_FINAL.xls

⁶³https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/277419/Key_Information_Table_for_LAs_-_FINAL.xls

Local authority	Gross non-domestic rate income collected £m ⁵⁹	Percentage retained by council %	(Tariff) or Top-up amount £m ⁶⁰	Post-tariff/levy retained business rate £m ⁶¹	Revenue Support Grant £m ⁶²	2014/15 outturn SFA £m ⁶³
Central Bedfordshire Council	76.6	49	-9.2	30.4	36.9	65.5
Cherwell District Council	66.2	40	-23.3	3.5	3.6	7.3
Daventry District Council	35.5	40	-12.5	2.3	2.1	4.0
East Cambridgeshire District Council	18.2	40	-4.7	2.7	2.5	4.7
East Hertfordshire District Council	38.6	40	-15.5	2.4	2.8	5.2
Hertfordshire County Council		10 reallocated from districts	62.5	107.3	144.6	255.1
Huntingdonshire District Council	52.5	40	-18.5	3.1	4.6	8.6
Luton Borough Council	58.8	49	10.6	39.7	52.1	95.5
Milton Keynes Council	143.5	49	-27.2	36.4	49.9	91.3
North Hertfordshire District Council	36.4	40	-12.5	4.0	2.7	5.2
Northampton Borough Council	96.0	40	-32.1	6.7	7.0	13.0
Northamptonshire County Council		10 reallocated from districts	56.4	82.6	103.6	185.6
Oxford City Council	73.6	40	-27.0	5.0	6.3	11.9
Oxfordshire County Council		10 reallocated from districts	36.4	65.0	80.6	144.7
South Cambridgeshire District Council	67.3	40	-23.6	3.1	2.7	5.0

Local authority	Gross non-domestic rate income collected £m ⁵⁹	Percentage retained by council %	(Tariff) or Top-up amount £m ⁶⁰	Post-tariff/levy retained business rate £m ⁶¹	Revenue Support Grant £m ⁶²	2014/15 outturn SFA £m ⁶³
South Northamptonshire Council	18.0	40	-6.2	1.8	2.0	3.6
South Oxfordshire District Council	41.0	40	-14.6	2.4	2.7	5.0
Stevenage Borough Council	44.5	40	-15.9	1.9	2.6	4.9
Swindon Borough Council	103.1	49	-21.6	28.8	36.1	64.9
Vale of White Horse District Council	53.2	40	-20.5	2.1	2.4	4.5
Wellingborough (Borough Council of)	27.4	40	-8.5	2.3	2.4	4.6
West Oxfordshire District Council	31.7	40	-10.1	2.6	2.2	4.1
TOTAL	1,283.5 (excluding counties)		-138.3	570.9	721.7	1,297.1

Business rate reform – 100% retention

In October 2015, the Chancellor announced that the business rate system would be changed and local government will retain 100% of the business rate. In the first year, the amount received by each local authority will be determined by its “need” for funding. This will essentially equalise the SFA and business rates baseline for each council. Thereafter, each local authority will be able to keep every extra pound of business rates that it collects above this level. The levy on disproportionate growth, which operates for tariff authorities under the terms of the 50% retention scheme, may be removed. The government estimates that the new system will effectively transfer control of £12.5bn of funding from central to local government in 2019/20, the first year in which the system will be introduced⁶⁴. The multiplier will continue to be nationally determined, but crucially, under the new system local authorities will be able to reduce the multiplier if they so choose.

The government is yet to announce the responsibilities that will be devolved to local government, but have made clear that the new system will be fiscally neutral. Local authorities will therefore not gain financially from the immediate devolution of business rates. Even should local authorities receive a financial benefit from a growth in business rates, this should be understood within a context of ongoing budgetary pressures, including increasing demand for adult social care and reductions in the SFA since 2010.

A consultation exercise (now closed for submissions) is under way to help inform some of the key features of the new business rates system. It covers amongst other things:

- The scope of responsibilities to be transferred;
- The “resetting” of the system to allow a reconsideration of the “needs” of individual local authorities against business rate income;
- Whether the top-ups/tariffs system is the best means of redistributing growth between local authorities;
- Whether Mayoral Combined Authorities should have additional powers and incentives, which might include a greater role in deciding how the proceeds of economic growth are distributed across the Combined Authority area and/or a single area-wide “need” baseline which would see a single tariff/top-up arrangement across the whole Combined Authority area; and,
- Reviewing the split between districts and county councils.

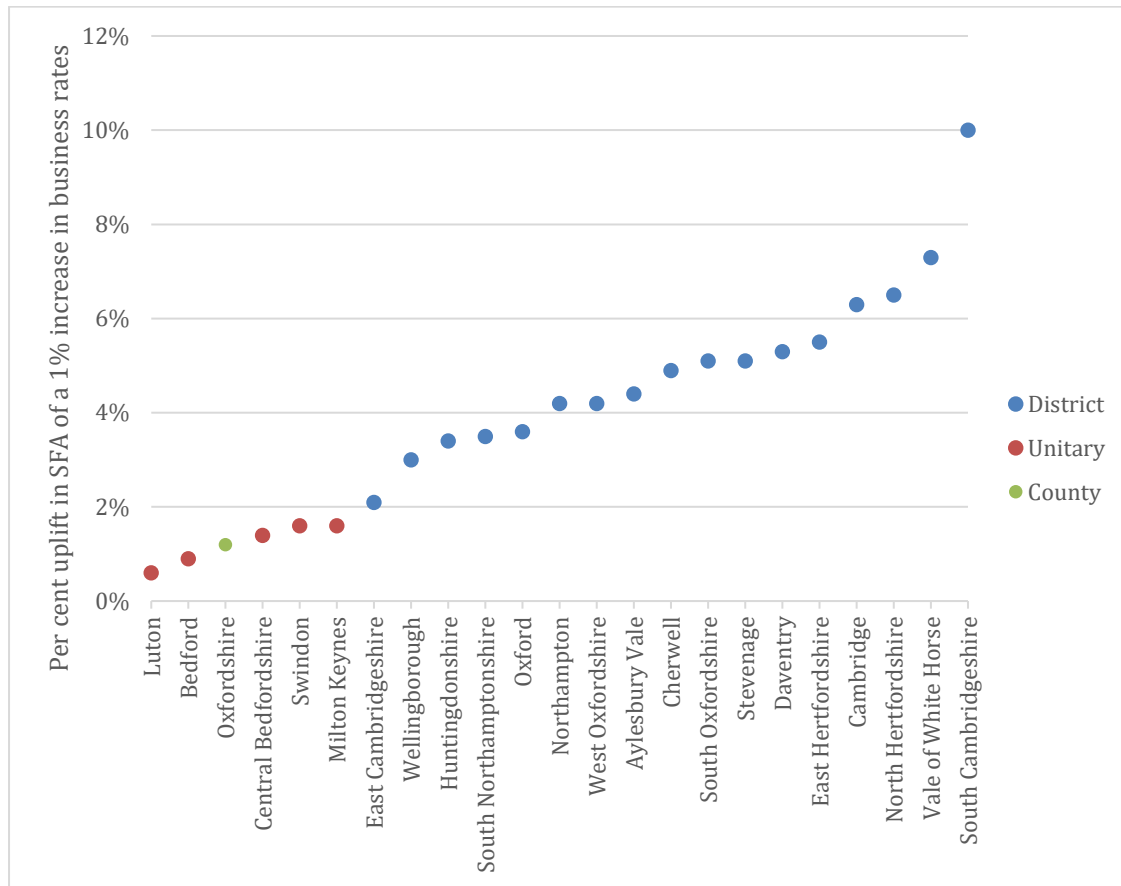
The financial impact of business rates reform

The full impact of full business rates retention is still uncertain. It is as yet unclear which responsibilities will be devolved alongside rates retention (to make up for the difference in 2019/20 SFA and projected business rates), and thus the distribution of business rates between counties and districts. There is also little clarity as to how tariffs, top-ups, levies and safety nets will operate in the new system. The current business rates system is also susceptible to business rates appeals. Whilst proposed changes to the appeals system post-retention (the Valuation Tribunal can order a change in the rateable value only where the original valuation is “outside the bounds of reasonable professional judgement”⁶⁵) should reduce council’s exposure, nevertheless business rates growth income should still not be considered as guaranteed for councils.

Although there is uncertainty, the exposure of councils to business rates changes can still be estimated, provided the assumptions on which those estimates are based are clearly stated. Using an updated 2019/20 SFA for each local authority and business rates growth projections (all details outlined in Appendix 6), Figure 4 demonstrates the impact a 1% increase in business rates would have on each local authority’s finances. Because almost all district councils are tariff authorities, and thus take more business rates than their SFA, they are clearly the councils that stand to benefit the most from increases, and conversely, are exposed to decreases.

⁶⁵ <http://www.egi.co.uk/news/new-rules-to-outlaw-business-rates-appeals/>

Figure 4. Percentage impact of 1% increase in business rates on each council's calculated 2019/20 SFA



Appendix 6 contains a breakdown of estimated business rates increases based on employment space projections in council Local Plans. Across the 15 local precept authorities with applicable Local Plans, it has been estimated that these councils and their corresponding counties will see a business rates increase of around £8.8m each year between 2020/21 and 2025/26 in 2017 values.

Although business rates retention offers an opportunity for councils to capture value from development, its applicability is limited. Firstly, the headline figures for the area are relatively modest. Secondly, and perhaps most importantly, business rates retention as an income source to fund infrastructure is limited by its uncertainty, and by its current use. There is not yet clarity on the system that will be in place from 2020, and there is a risk that the potential fluctuation in business rates over the sorts of periods needed to needed fund infrastructure will make retention unreliable as a consistent income stream to forward-fund infrastructure. Nevertheless, the varying returns for different councils (such as in Swindon, where our modelling suggests business rates could grow by up to £2m a year) indicate that on a local level, it does act as an incentive to supporting growth.

However, perhaps more importantly, even a reliable income stream for councils would be unlikely to generate a revenue stream that would be spent on infrastructure. Councils have highlighted that currently increases in business rate revenue are used to plug government cuts in their overall funding, and this is likely to continue given the anticipated cost of social care after 2020. Business rates retention therefore offers an avenue through which councils

will benefit from growth in their area, but may not constitute a significant and reliable mechanism for funding infrastructure in the long term and in all places.

The Business Rate Supplement (BRS)

The Business Rate Supplements Act 2009 makes provision for county councils, unitary councils and the Greater London Authority to levy a supplement on the business rate. Authorities are able to use the proceeds to fund additional investment aimed at promoting the economic development of their local areas.

To levy a BRS, authorities are required to produce and consult on a prospectus. The BRS is expected to amount to no more than a third of the total cost of the project to be funded. If it exceeds this limit, a ballot of those having to pay the supplement is required. There is currently an upper limit for a BRS of 2p per pound of rateable value. The Act enables the Secretary of State to prescribe a rateable value threshold for triggering liability for BRS⁶⁶.

The Act permits two or more authorities to co-operate to levy a BRS together to deliver economic development on a larger geographical scale. In this case, each levying authority will need to meet the requirements for levying the BRS (including producing a prospectus).

The guidance note, “Business Rate Supplements: Guidance for Local Authorities”⁶⁷, states that in deciding whether a project can be funded through a BRS, the levying authority must be able to demonstrate that (i) there is a clear link between the project and the economic development of the area and (ii) the supplement will be funding additional expenditure. The guidance note gives three examples of types of projects which could be funded and specifically refers to the BRS being used to facilitate the investment required to bring forward physical infrastructure projects, such as transport schemes.

We have analysed the rateable value of business premises across the Corridor using the recently published draft 2017 rateable values. Table 12 shows this analysis by local authority area. Whilst recognising it is unlikely that a BRS would ever be levied across the whole Corridor area, we estimate that were this to be the case, a maximum £53m per annum could be raised from local businesses assuming there are no exemptions and a minimum rateable value threshold of £50,000 applied. Our modelling suggests a BRS applied to Cambridge could raise almost £5m per annum, Milton Keynes £6m, and Oxford £4m per annum (all at 2017 rates). Crucially, these figures are higher than our estimates of retained business rate growth for these areas.

⁶⁶ The Business Rate Supplements (Rateable Value Condition) (England) Regulations 2009 prescribed a rateable value threshold of £50,000

⁶⁷https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/8306/business_rate_supplements_localauthority_guidance.pdf (accessed 20 October 2016)

Table 12. Draft 2017 rateable values by local authority area

Local Authority	All Business Premises		Properties with RV >£50k		Potential BRS (2% of RV >£50k) £m
	RV £m	Number of hereditaments	RV £m	Number of hereditaments	
Aylesbury Vale District Council	137.7	5,106	86.8	519	1.72
Bedford Borough Council	156.2	5,199	108.7	559	2.14
Cambridge City Council	290.2	4,039	244.0	1,067	4.82
Central Bedfordshire Council	211.6	7,031	140.1	647	2.76
Cherwell District Council	209.0	4,693	160.0	764	3.16
Daventry District Council	106.5	2,623	81.7	230	1.62
East Cambridgeshire District Council	54.1	2,297	29.6	187	0.58
East Hertfordshire District Council	118.2	4,375	68.9	425	1.36
Huntingdonshire District Council	144.9	5,068	90.5	582	1.78
Luton Borough Council	174.4	5,625	121.3	561	2.4
Milton Keynes Council	406.3	7,443	331.8	1,432	6.54
North Hertfordshire District Council	101.5	4,339	55.2	389	1.08
Northampton Borough Council	240.2	6,316	177.8	748	3.5
Oxford City Council	254.9	3,995	207.9	929	4.1
South Cambridgeshire District Council	206.5	4,889	156.0	647	3.08

Local Authority	All Business Premises		Properties with RV >£50k		Potential BRS (2% of RV >£50k) £m
	RV £m	Number of hereditaments	RV £m	Number of hereditaments	
South Northamptonshire Council	59.4	2,704	35.3	183	0.7
South Oxfordshire District Council	117.6	4,241	73.1	411	1.44
Stevenage Borough Council	109.1	2,218	87.4	376	1.72
Swindon Borough Council	254.2	5,612	200.0	890	3.94
Vale of White Horse District Council	145.0	3,867	106.8	408	2.1
Wellingborough (Borough Council of)	70.8	2,629	46.2	261	0.92
West Oxfordshire District Council	95.7	3,859	54.1	333	1.06
TOTAL	3,664	98,168	2,663	12,648	52.52

Source: Metro Dynamics data analysis of [<https://voaratinglists.blob.core.windows.net/downloads/uk-englandwales-ndr-2017-listentries-proposed-epoch-0001-baseline-csv.zip>].

To date, only the Mayor of London has taken advantage of the provision of the Business Rate Supplements Act, to partially fund Crossrail. The details of the Crossrail BRS are set out in the case study below.

One of the issues with the BRS has been the need to hold a ballot where the total project funding to be covered by the BRS is more than 30% of the project cost, which is variously estimated at between £2 to £6 per voter⁶⁸. There is also the additional risk that the ballot may not be successful. In October 2015, the Chancellor announced a package of reforms to business rates. Amongst those reforms was a proposal to allow combined authorities with Mayors to raise the business rate by up to 2p in the pound, with the consent of a majority vote of business members of the relevant LEP.

⁶⁸ <http://www.parliament.uk/documents/impact-assessments/IA11-010AE.pdf> (accessed 20 October 2016)

Case study – Crossrail BRS⁶⁹

- Introduced by the Mayor of London in April 2010;.
- The supplement is expected to apply for 24-31 years.
- Applies on all business premises with a rateable value greater than £55,000.
- Less than 1 in 5 of London’s business premises are covered by the BRS.
- The average annual turnover of a business paying the BRS is £1.1m.
- Retailers have a significantly lower average turnover than £1.1m, because of the significantly higher ratio of the rateable value of their premises to annual turnover.
- Reliefs from the BRS have been applied on the same basis as for the NNDR.
- No ballot was needed as the BRS is expected to fund less than 30% of Crossrail.

Estimated to raise £4.1bn, which will fund £3.5bn of borrowings by the GLA, a further £603m representing the projected amount by which the BRS income will exceed the interest costs on that funding. The balance will fund financing costs. It is estimated that £8.1bn will need to be collected through the Crossrail BRS over its lifetime once financing costs are included.

Within the current governance framework across the Corridor, an individual local authority, or groups of local authorities could introduce a Business Rate Supplement. The authority(ies) would need to publish a prospectus and consult widely on the BRS. If the BRS were to fund more than 30% of the project cost, it would require a ballot of those expected to pay the BRS.

Should one or more Combined Authorities with Mayors be established in the Corridor, those combined authorities could levy a BRS if they can demonstrate they have the support of more than half the business members of the LEP.

Based on the figures outlined in this report, the maximum BRS that could be levied across the Corridor is £53m per annum.

⁶⁹ <https://www.london.gov.uk/what-we-do/business-and-economy/promoting-london/paying-crossrail-business-rate-supplement>

6 Other sources of financing and funding

Introduction

This section considers a range of sources of finances and funds from the public sector, which could potentially be harnessed to help finance the future infrastructure requirements of the Corridor. In this review central government grants and direct funding of infrastructure projects have been explicitly precluded, although clearly this is an important source of potential funding.

Summary

Table 13 summarises the advantages and disadvantages of each of the various options considered, and their likely application. Within the table, we have indicated whether each source could be used as financing mechanism (i.e. invested in projects in the expectation of a financial return) or as a funding mechanism (i.e. providing financial resources not in the expectation of a return or recovery of principal).

Table 13. Summary of options

Public funding and financing options	Advantages	Disadvantages	Application
<p>Local authorities borrowing from PWLB</p> <p>(a financing mechanism as borrowed funds have to be repaid)</p>	<p>Largely unlimited source of borrowing for local authorities, subject to Prudential Limits.</p> <p>Highly flexible and provides opportunity to lock into exceptionally low long-term borrowing rates.</p>	<p>Government can unilaterally change the basis on which PWLB lends and rates with limited notice, although in practice, it is seen as a stable, consistent source of funding.</p>	<p>Already in use and has widespread application across the Corridor.</p> <p>Most likely application is as a forward funding measure, requiring payback mechanism.</p>
<p>Local authority bonds</p> <p>(a financing mechanism as borrowed funds have to be repaid)</p>	<p>An opportunity to lock into exceptionally low long-term borrowing rates.</p> <p>Typically suited to long-term capital-intensive physical assets.</p> <p>May have a lower all-in cost of borrowing than PWLB.</p>	<p>Few precedents although UK Municipal Bonds Agency is working to develop the market.</p> <p>Less flexible than PWLB.</p> <p>Minimum issue size likely to be in excess of £100m, therefore more applicable for larger schemes.</p>	<p>Could be issued by individual local authorities or as a “club” issue by local authorities working together.</p> <p>Widespread application both across locations and asset classes.</p> <p>Essentially a forward funding measure, requiring a payback mechanism.</p>

Public funding and financing options	Advantages	Disadvantages	Application
<p>Surplus public sector land</p> <p>(funds generated from the sale of surplus public sector land could be used to fund or finance projects depending on the objectives of the relevant public sector body)</p>	<p>There is still much surplus land and unused buildings in public ownership, including local authorities.</p> <p>Wider efforts to reform and reconfigure services locally provide a good opportunity to identify further surplus assets. This should remain remain a high priority for councils and other public sector partners.</p>	<p>Surplus public sector assets are not always located in the places where people want to live and work.</p> <p>The difficulties associated with getting the public sector to address the issue of surplus land and assets.</p>	<p>There is scope for increasing accelerating the rate at which surplus public sector land assets are identified and brought forward. However, it needs to be recognised that these assets may not be sited in the optimum locations for development, and they may require very considerable infrastructure investment to bring forward.</p>
<p>Local authority pension funds</p> <p>(a financing mechanism as the LAPF will be investing in expectation of a return)</p>	<p>Local authority pension funds have built up very substantial investment assets, which could be invested closer to home, whilst producing the required yield for members.</p> <p>Pooling and the establishment of the Infrastructure Investment Platform could provide a catalyst for a significant shift in the Funds' investment strategies towards investment in UK infrastructure.</p>	<p>The duty of pension fund managers is first and foremost to its members and employers.</p> <p>Investment decisions need to reflect this duty.</p>	<p>There should be early engagement with the relevant pension funds as part of the formulation of an investment strategy for the area.</p> <p>Infrastructure investment to date has tended to be in projects where there is a clear user charge associated with the infrastructure which provides the repayment and return mechanism.</p>

Public funding and financing options	Advantages	Disadvantages	Application
<p>Evergreen Investment Funds</p> <p>(a financing mechanism as these are revolving funds and that requires investments to be recovered and reinvested)</p>	<p>These funds are becoming a more established part of the infrastructure/development landscape and there are some promising precedents.</p>	<p>The investment strategies of these funds are restricted by state aid, and therefore the range of projects in which they can invest and the form of that investment is generally limited.</p> <p>They are essentially revolving funds, and therefore only suitable for projects which are financially viable or at close to viability which require a degree of forward funding, and which might not be available from traditional commercial funding sources</p>	<p>These could be set up and used by individual local authorities or set up on a pooled basis across multiple local authorities working across functional economic areas.</p> <p>They could be capitalised either through PWLB borrowings, Local Growth Funding, or any other capital funding pot.</p>
<p>European funding sources</p> <p>(ERDF is a funding mechanism as it is generally invested by way of grant)</p>	<p>ERDF has been an important source of grant funding for many projects.</p> <p>The EIB has become a major lender to a range of UK infrastructure projects.</p>	<p>Without a significant renegotiation, Brexit is likely to end access to the ERDF and EIB funding.</p>	<p>European funding has been an important source of infrastructure funding across the Corridor and is likely to have to be replaced.</p>
<p>Council tax</p> <p>(monies raised through the council tax could either be used to finance or to fund projects depending on the council's preference)</p>	<p>A sizeable revenue stream, with the potential for local authorities to increase it by up to 4% (though 2% must be sent on social care) without a referendum.</p>	<p>Public services and council revenues are under such pressure that it seems unlikely that council tax increases could be applied to economic growth.</p>	<p>Limited application given that local authorities are unable to set the rate or determine the tax base, and that council tax is used to fund public service provision.</p>

Public funding and financing options	Advantages	Disadvantages	Application
<p>New Homes Bonus⁷⁰</p> <p>(monies raised through the NHB could either be used to finance or to fund projects depending on the council's preference)</p>	<p>An important revenue stream for many local authorities which is directly linked to the number of new homes built.</p>	<p>The NHB is top-sliced from central government grant, and many local authorities therefore use a significant element of the NHB to fund public services.</p>	<p>Because the NHB is not considered to be new money, many councils continue to use part of the NHB to balance out other cuts to the funding of public services. Whilst some element of the NHB, as it currently operates within the system of Local Government Finance, will be available to fund new infrastructure, we don't expect it to play a significant role.</p>

Local authority borrowings

Councils have very wide borrowing powers, but are subject to very strict controls, which are derived in part from the Local Government Act 2003. It is precisely this combination of powers and controls on borrowings which will potentially open up further opportunities to widen the range of borrowing instruments available to local authorities.

The Prudential Code

A council may borrow for any purpose relevant to its functions, provided that its borrowings fall within the provisions of CIPFA's Prudential Code for Capital Finance in Local Authorities (the "Prudential Code"), which was introduced through the Local Government Act 2003. The key objectives of the Prudential Code are to ensure:

- That the capital plans of local authorities are "affordable, prudent and sustainable";
- That treasury management decisions are taken in accordance with good professional practice; and,
- That local strategic planning, asset management planning and proper option appraisal are supported.

Councils are required to set a total borrowing limit in accordance with the principles of the Prudential Code (the "Prudential Limit"). There is a fair degree of flexibility about how this limit is determined, but it is generally related to the revenue streams available to the council from which it can repay the debt. This is generally a matter for the council treasurer to recommend based on their judgement and generally accepted accounting principles.

⁷⁰ This report was written prior to the government's announcement of the changes to the New Homes Bonus in December 2016. The proposed changes are likely to reduce the monies available to local authorities from the New Homes Bonus.

Public Works Loan Board (PWLB)

The PWLB is a statutory body operating with the Government’s Debt Management Office. It is responsible for lending money to local authorities and other prescribed bodies, as well as for collecting the repayments. The PWLB is the lender of first resort for local authorities: in recent years, the vast majority of local authority borrowings have come from the PWLB.

The PWLB generally lends at a margin of 1% above the Government’s cost of borrowing. However, for those local authorities which provide information on long-term borrowings and capital spending, a “certainty rate” is available, which reduces the margin to 80 base points. A 40 base points discount is available where an infrastructure project is nominated for investment by the relevant LEP - “the project rate”.

The PWLB borrowing rates as at 21st October 2016 are set out below.

Table 14. PWLB Variable borrowing rates⁷¹

	1 month %	3 months %	6 months %
Project Rate	0.87	0.91	0.96
Certainty Rate	1.07	1.11	1.16

Table 15. PWLB Fixed borrowing rates⁷²

Maturity	EIP (Equal half-yearly instalments of principal together with interest on the balance outstanding at the time) %	Annuity (Fixed half-yearly payments to include principal and interest) %	Maturity (Half-yearly payments of interest, single bullet repayment of principal at end of term) %
5 years	1.28	1.28	1.56
10 years	1.56	1.57	2.13
25 years	2.34	2.39	2.74
50 years	2.74	2.72	2.50

The fixed rates would be reduced by 20 base points to obtain the Fixed Certainty Rate, and by 40 base points to obtain the Fixed Project Rate. The borrowing cost for a local authority

⁷¹http://www.dmo.gov.uk/reportView.aspx?rptCode=D7A.4&rptName=46592133&reportpage=Past_PWLB_Higher (accessed 21 October 2016)

⁷² [http://www.dmo.gov.uk/reportView.aspx?rptCode=D7A.2&rptName=279d2cec-f536-4d7d-87f1-51b10b986686|PWLB%20\(2\)&reportpage=Current_PWLB_Fixed](http://www.dmo.gov.uk/reportView.aspx?rptCode=D7A.2&rptName=279d2cec-f536-4d7d-87f1-51b10b986686|PWLB%20(2)&reportpage=Current_PWLB_Fixed) (accessed 21 October 2016)

seeking to borrow 25-year money from the PWLB on an EIP basis to fund a project which is nominated by a LEP might therefore be below 2%.

The PWLB is likely to feature heavily in the future funding of infrastructure. Local authorities may use PWLB borrowings to forward fund infrastructure, repaying the principal and interest from business rates or other sources of income, or it might use it to on-lend to other bodies to fund the infrastructure, for example to housing associations to deliver affordable housing.

Local authority bonds

Housing associations and universities have regularly accessed capital markets by issuing bonds since the early 1990s. An example of one such bond issue in the Study Area is Cambridge University, which invested £70m in infrastructure, funded by a £350m bond issue, to facilitate the development of 3,000 new homes, 100,000 sqm of research and development facilities, a hotel and various community infrastructure assets, on agricultural land owned by the university⁷³. The upfront investment will be repaid through land value capture, as the land will increase in value from some £24k per hectare to over £2m per hectare as a result of the grant of planning permission and the infrastructure investment. 1,500 of the 3,000 new homes will be sold to repay the upfront borrowings⁷⁴.

Bond finance is most appropriate for long-duration, low risk, capital-intensive projects involving the delivery of physical assets. Historically low interest rates are providing an opportunity for many organisations to lock in to a significantly lower cost of borrowing than has previously been the case. In the United States, the municipal bond market is very well established, but in recent memory, few authorities have tapped the bond markets. Local authorities have the necessary powers to issue bonds, but the low cost of PWLB borrowing has meant that few local authorities have considered the bond markets as an alternative source of finance for capital investment.

In the last ten years, the only local authorities to have issued bonds are the GLA and Warrington Council. In 2015, the GLA issued a £200m bond to help fund the Northern Line Extension. In 2011, it issued a £600m 40-year bond to assist with the funding of Crossrail. The Warrington bond, which totalled £150m, was launched in August 2015, to help fund the redevelopment of its town centre. The Warrington bond, which is linked to CPI (with a cap and floor), had an initial coupon of 0.846%. The bond was widely reported as having enabled Warrington to borrow more cheaply than from the PWLB – the initial £50m drawdown was expected to generate a saving to the council of in the region of £12m over more traditional borrowing sources⁷⁵. Although this bond saved Warrington money as compared to borrowing from the PWLB, this is not always the case. At the same time, for some local authorities, the potential barriers to issuing bonds lies in the minimum size and lack of flexibility. Generally, bonds will need to be in excess of £100m and are specific to the reason for their issuance.

A handful of local authorities have obtained credit ratings from the Credit Rating Agencies (Fitch, Moody's and Standard & Poor's), which would enable them to borrow on the open

⁷³ <http://www.nwcambridge.co.uk> (accessed 2 November 2016)

⁷⁴ Bridging the Infrastructure Gap, The Centre for Progressive Capitalism, Thomas Aubrey, June 2016

⁷⁵ <http://www.room151.co.uk/treasury/warringtons-bond-journey/> (accessed 20 October 2016)

market. These ratings are all a variant of a AA rating. As far as we are aware, none of the local authorities in the Corridor have so far sought credit ratings.

The UK Municipal Bonds Agency Plc was set up by the Local Government Association in 2014 to “help local councils to finance their investment in projects including infrastructure and housing”⁷⁶. Shareholders in the Study Area include Cambridge City Council, South Cambridgeshire District Council, Stevenage Borough Council, Cambridge County Council, Hertfordshire County Council and Northamptonshire County Council, all of whom have indicated interest in future bond issues through the UK Municipal Bonds Agency. It argues that it can reduce the cost of borrowing to levels below the PWLB rate by offering a joint and shared guarantee amongst participants in pooled bond issues, whereby each participant in the issue is responsible for the obligations of the other participants, thereby lowering the risk of default. By pooling the borrowings of local authorities, it can also issue a larger bond, which improves the bond’s liquidity and therefore its pricing.

Local authorities across the Corridor might wish to consider individual bond issues, or to look at issuing a “club” bond, where a number of local authorities issue a bond to finance a project (or a series of projects) where the economic impact of those projects is felt across those authorities. The proceeds of a bond issue would most likely be used as forward funding measure, and would require a mechanism for repayment (as outlined in Section 5) such as business rates supplement or Mayoral CIL.

Local authority pension funds

The primary responsibilities of local government pension scheme administrators are to deliver the returns needed to meet the scheme’s liabilities to pensioners, and in so doing, to protect local taxpayers and employers from higher pension costs. However, in recent months there has been a focus on whether a greater proportion of local authority pension fund assets could be invested in UK infrastructure.⁷⁷ At the moment, approximately 1.1%, or £2.7bn, of total local government pension scheme funds are invested in infrastructure. By contrast, large international private sector pension funds have a higher level invested in infrastructure, at closer to 5%.

In October 2015, the Chancellor called for the assets of the 89 pension funds in the Local Government Pension Scheme to be merged into 6 wealth funds, or pools, each containing at least £25bn of assets. The rationale for this move was to both generate savings in the management of the funds through economies of scale (subsequent analysis has suggested savings of between £145-300m could be achievable over 10 years) and to stimulate more investment in infrastructure projects. Consultation is on-going, and the new pools are expected to be in place by April 2018.

In the 2016 Budget, the Government invited the Local Government Pension Schemes to establish a new Local Government Pension Scheme Infrastructure Investment Platform. There are already two precedents for such a move, Greater Manchester Pension Fund and

⁷⁶ <https://www.ukmba.org/about-the-agency/> (accessed 20 October 2016)

⁷⁷ The report was written prior to the FCA consultation on MiFID II which has the potential to see local authority pension funds reclassified as retail investors and therefore unable to invest in certain asset classes, such as infrastructure.

the London Pension Fund Authority Infrastructure LLP, and the Pensions Infrastructure Platform.

Case study - GMPF and LPFA Infrastructure LLP (GLIL)

- Set-up by the Greater Manchester Pension Fund (GMPF) and the London Pensions Fund Authority (LPFA).
- Established to increase GMPF and LPFA exposure to infrastructure, to deliver long-term returns that match their liabilities and “provide much needed investment in major UK infrastructure projects”.
- The partnership was established in April 2015 and seeded with £500m of commitments from the founders.
- It completed its first transaction in October 2015 with a £60m investment in the renewable energy sector.
- This was followed by a second investment in March 2016 of £150m into a UK windfarm.

Case study - Pensions Infrastructure Platform (PiP)

- Aims to invest a minimum of £2bn into UK infrastructure of which over £1bn is already committed through an indirect investment programme (including Thames Tideway).
- Focused on direct investments through its Multi-Strategy Infrastructure Fund (MSIF), and targeting a further £1bn of investment.
- MSIF founding investors include the West Midlands Pension Fund, the Strathclyde Pension Fund, RPMI Railpen, and the Pension Protection Fund.
- Its focus is long-term (typically 25 years), UK-based, low risk investments with limited exposure to GDP and demand volatility, strong correlation with inflation, long term investments with a life matching fund term of 25 years.
- MSIF has a 5-year investment period, and is targeting 15-20 infrastructure assets.
- Set-up as a sterling denominated, closed-end Scottish limited partnership, with no leverage.
- Recently had first close, and announced commitments of £125m.

There are 7 local government pension schemes which operate across the Corridor, with scheme assets totalling more than £74bn, and covering more than 515,000 members. The details of those funds are set out in Table 16.

Table 16. Local government pension schemes in the Study Area

Pension scheme	Area	Members	Active members	Scheme employers	Assets £bn
LGSS Pensions Service	Cambridgeshire	120,000		513	4.2
	Northamptonshire				
	Daventry				
Bedfordshire Pension Fund (2015)⁷⁸	Bedfordshire	62,726	20,428		1.7
Buckinghamshire Pension Scheme (2015)⁷⁹	Milton Keynes	62,803	24,961	182	2.2
	Aylesbury Vale				
Hertfordshire Pension Fund (2016)⁸⁰	Hertfordshire	95,995	35,384		14.4
Northamptonshire Pension Fund (2015)⁸¹	Northamptonshire	57,205	19,407	217	1.9
Oxfordshire Pension Fund (2015)⁸²	Oxfordshire	56,712	21,389		48.2
	Vale of White Horse				
Wiltshire Pension Fund (2015)⁸³	Swindon	59,595	21,606	157	2.0
TOTAL		515,036	143,175	1,069	74.6

Source: in footnotes.

Note: All blanks in the table are due to an absence of information on this statistic from each pension funds' website.

The local authority pension funds are going through a period of change as they respond to the challenges laid down by the previous Chancellor of the Exchequer. However, early

⁷⁸ http://www.bedspensionfund.org/fund_information/reports_and_accounts.aspx

⁷⁹ <http://www.buckscc.gov.uk/media/3467641/bcc-pf-annual-report-2014-15.pdf>

⁸⁰ <https://www.yourpension.org.uk/Hertfordshire/Fund-information/Annual-reports.aspx>

⁸¹ <http://pensions.northamptonshire.gov.uk/wp-content/uploads/2015/10/AnnualReport1415NPFFinalExclAppendices.pdf>

⁸² <https://www.oxfordshire.gov.uk/cms/sites/default/files/folders/documents/pensions/fund/PensionFundReportAccounts.pdf>

⁸³ <http://www.wiltshirepensionfund.org.uk/annual-report-2014-2015.pdf>

conversations should take place with the seven pension funds in the Study Area to determine the extent to which they might form part of a future investment strategy.

Evergreen Investment Funds

Evergreen investment funds are revolving funds which typically make loan finance available to developers, either to fund infrastructure or other development costs. They are effectively forward funding mechanisms, and they rely on the developer repaying the loans from the sale of serviced plots, sale of completed units, or alternatively from the refinancing of the project (generally on completion of the development). The loans don't displace traditional commercial funding, but are made available to developers unable to secure traditional funding for their schemes. Loans are priced on commercial terms to avoid state aid issues. The first Evergreen Investment Funds were set up using ERDF JESSICA funding. Since then, other councils have looked at capitalising Evergreen Investment Funds using their own resources or monies borrowed from the PWLB.

Case study – North West Evergreen Fund

The North West Evergreen Fund was set-up in 2012 to fund the delivery of commercial property and infrastructure projects in the north west. The partners are the 16 local authority partners in Greater Manchester, Cheshire, Cumbria and Lancashire. The fund is professionally managed and invested by CBRE. The seed capital for the fund was £60m of ERDF funding, provided through the JESSICA Programme and the HCA. Over £100m has now been invested at commercial rates in a variety of projects across the region. The fund is now in its reinvestment phase as early investments are being repaid and recycled into future investments⁸⁴.

A revolving evergreen fund could be established and used by individual local authorities or set up on a pooled basis across multiple local authorities working across functional economic areas or Combined Authority areas. This is the case in the West Midlands, which is currently working to set up a similar fund, covering the seven metropolitan authorities which comprise the West Midlands Combined Authority, and which will be seeded with £70m of capital.

A fund of this type covering an area within the Corridor could be capitalised either through PWLB borrowings, Local Growth Funding, the proceeds of asset sales, or any other capital funding source.

European funding sources

There are two principal sources of funding from the EU, which are at risk due to Brexit. These are European Structural and Investment Funds and lending from the European Investment Bank.

European Structural and Investment Funds (ESIF)

ESIF provide funds to help places grow. The overriding aim of ESIF is to reduce economic inequalities both between, and within European countries. ESIF supports investment in innovation, business, skills and employment in order to create jobs. The funding that makes

⁸⁴ For more about the NW Evergreen Fund, see <http://www.northwestevergreenfund.co.uk> (accessed 20 October 2016)

up ESIF is essentially divided into three separate funds, one of which, the European Regional Development Fund (ERDF) is used to support infrastructure investment in UK. Whilst there are exceptions, ERDF funding is generally invested in projects in the form of non-repayable grant.

ESIF is vested through multi-year agreements, with the current round covering the period from 2014 to 2020. Under the current agreement, the UK receives £1.8bn per year, which is distributed across the country on the basis of an allocation set by the European Commission. The bulk of the funds are targeted at areas of the country with more pressing economic need than the Corridor, with Cornwall, West Wales and the Welsh Valleys receiving the highest allocation of funds per capita a reflection of this. That said, ERDF has been an important source of funding to the Corridor, with the 7 LEP areas receiving almost EUR 200m in the current 2014-20 funding round. Apportioned on the basis of population, this equates to approximately EUR 120m for the Study Area. When match funding is added, these figures rise to almost EUR 375m for the 7 LEP areas and some EUR 225m for the Corridor. Table 17 below shows the distribution of ERDF funding

Table 17. ERDF Funding 2014-20

LEP	ERDF		ERDF plus match funding	
	Total ERDF €m	Apportionment to Corridor €m	Total €m	Apportionment to Corridor €m
Buckinghamshire LEP⁸⁵	29.9	10.8	23.7	8.6
GCGP LEP⁸⁶	37.8	19.7	76.0	39.5
Hertfordshire LEP⁸⁷	26.9	8.4	69.2	21.5
Northampton LEP⁸⁸	27.4	17.8	54.8	35.5
Oxfordshire LEP⁸⁹	11.4	11.4	22.8	22.8
SEM LEP⁹⁰	44.0	44.0	84.0	84.0
Swindon and Wiltshire LEP⁹¹	21.7	6.9	43.6	13.9

⁸⁵ <http://www.buckstvllep.co.uk/download/112>

⁸⁶ http://www.gcgp.co.uk/wp-content/uploads/2016/10/GCGP_European-Structural-and-Investment-Funds-Strategy_February-2016-Update-V2-FINAL.pdf

⁸⁷ <http://mediafiles.thedms.co.uk/Publication/BH-Herts/cms/pdf/Hertfordshire%20EUSIF%20Strategy%20V5.pdf>

⁸⁸ http://www.semlep.com/modules/downloads/download.php?file_name=426

⁸⁹ <http://www.oxfordshirelep.com/content/erdf>

⁹⁰ http://www.semlep.com/modules/downloads/download.php?file_name=195

⁹¹ <http://www.swlep.co.uk/resources/document636113582842718000.pdf>

LEP	ERDF		ERDF plus match funding	
	Total ERDF €m	Apportionment to Corridor €m	Total €m	Apportionment to Corridor €m
TOTAL	199.1	119.0	374.1	225.8

Note: The apportionment is calculated based on 2015 mid-year population figures.

There has been some uncertainty about the future of the ESIF monies given the Brexit decision. The Chancellor sought to address this uncertainty in August 2016, when he gave assurances that investment and structural projects signed before the Autumn Statement will be fully funded (even when these projects continue beyond the UK’s departure from the EU). He also announced that the Treasury would also put in place arrangements for assessing whether to guarantee funding for specific structural and investment fund projects that might be signed after the Autumn Statement, but while we remain a member of the EU.

Despite these assurances, it is clear that upon leaving the EU, the UK (and by implication, the Corridor) will lose an important source of infrastructure funding, and alternative funding mechanisms will be needed to replace it.

The European Investment Bank (EIB)

The EIB, whose primary function is to lend to promote the balanced economic development of the EU, has invested heavily throughout the UK in transport, energy, and social infrastructure. It has funded major infrastructure projects like the Channel Tunnel, the Heathrow Express and the Jubilee Line extension, right through to a wealth of smaller road, rail, port, airport, energy, hospital, water and waste, and education projects. In 2015, the EIB committed almost EUR 8bn to the UK, making a total of more than EUR 40bn in the last decade. The EIB has lent to a number of infrastructure projects in the Corridor, including:

- The EUR 65m facility to Papworth Hospital in respect of its PPP, funded in 2015;
- The provision of up to half the senior debt for the Oxford Waste PPP, with a total project cost of EUR 200m, which was approved earlier this year;
- The largest ever EIB loan (at the time) of EUR 279m to Oxford University, to finance university expansion of teaching and research facilities, funded in 2015; and,
- A EUR 61m loan to THFC Greener social housing association, for a large housing scheme in Bicester⁹².

The EIB is owned by the 28 member states of the EU. Alongside Germany, France and Italy, the UK is one of the largest shareholders with a 16% stake. The relationship between the UK and the EIB will need to be resolved as part of the Brexit negotiations, but as the legislation stands, only EU member states are eligible for EIB lending. In the absence of a change in

⁹² <http://www.eib.org/projects/loan/list/?region=1&country=GB>, October 28th 2016- Source refers to all bullet pointed projects listed

legislation and/or an agreed bilateral arrangement between the EIB and the UK, it is unlikely that the UK will be able to look to the EIB for future infrastructure funding.

Council tax

Council tax is a tax on domestic property, which was introduced in 1993. Each residential property is assigned to one of eight bands (A to H) based on the property value in 1991. Each band has a fixed amount of tax payable, which is determined by the local council.

Council tax is a key revenue stream for councils. It is used to fund a range of council expenditure including emergency services (through a precept), environmental services, planning and development control, housing (in some instances), children’s services, highways, roads and transport, public health, financing charges etc. Because of its importance to a council’s income, and ongoing budgetary restraints for councils, any increases in council tax income from planned developments is likely to be spent on existing services, as opposed to infrastructure.

Moreover, it is a relatively inflexible income stream. Councils wanting to raise council tax by more than 2% have to hold a referendum. None have done so (although Bedfordshire police tried to raise the local police precept and were unsuccessful). Following last year’s Autumn Statement, councils with social care responsibility will now be able to increase council tax by a further 2% to fund this responsibility, making a total rise of 4% possible without a referendum. It is extremely unlikely this situation will change, and thus council tax is limited as a form of additional revenue to fund infrastructure.

Table 18 shows the level of council tax by local authority. Amounts shown for the district councils are shown net of the county council precept, which is show separately for each county council. In 2014/15, the total value of council tax raised across the Corridor was £2.05bn.

Table 18. Council tax by local authority⁹³

Local authority	Council tax income 2014/15 £m	Average band D council tax 2014/15 ⁹⁴ £
District and unitary authorities		
Aylesbury Vale District Council	14.1	1,136
Bedford Borough Council	71.7	1,575
Cambridge City Council	6.6	1,541

⁹³ To obtain average band D council tax for each council, we have tried to use local authority websites. In the case that council tax varies depending on parish, council tax has been averaged across parishes, not apportioned by population. Where we have been unable to find information on websites, we have called all councils in question. However, some councils have still been unable to give us this information, and, in these cases, we have left the cells blank.

Local authority	Council tax income 2014/15 £m	Average band D council tax 2014/15 ⁹⁴ £
Central Bedfordshire Borough Council	132.2	1,650
Cherwell District Council	9.7	1,527
Daventry District Council	5.8	1,371
East Cambridgeshire District Council	5.6	1,510
East Hertfordshire District Council	12.3	
Huntingdonshire District Council	12.6	1,554
Luton Borough Council	54.5	
Milton Keynes Council	102.1	1,406
North Hertfordshire District Council	10.5	1,505
Northampton Borough Council	13.8	1,485
Oxford City Council	12.1	1,646
South Cambridgeshire District Council	11.7	
South Northamptonshire District Council	5.5	
South Oxfordshire District Council	10.4	
Stevenage Borough Council	4.9	1,455
Swindon Borough Council	79.7	
Vale of White Horse District Council	8.6	1,179
Wellingborough (Borough of)	3.4	
West Oxfordshire District Council	6.4	1,522
Average/Total	594.2	1,471⁹⁵

⁹⁵ Council tax average calculated uniformly across councils, it is not apportioned by population.

Local authority	Council tax income 2014/15 £m	Average band D council tax 2014/15 ⁹⁴ £
County councils⁹⁶		
Buckinghamshire County Council	227.4	
Cambridgeshire County Council	236.2	
Hertfordshire County Council	475.7	
Northamptonshire County Council	232.7	
Oxfordshire County Council	284.8	
TOTAL	1456.8	
GRAND TOTAL	2,051.0	1,471

Source: Local authorities' 2014/15 Statement of Accounts

Each of the 3 scenarios assumes the building of significant numbers of new homes annually:

Scenario 1: 15,000 new homes

Scenario 2: 20,000 new homes

Scenario 3: 30,000 new homes

The building of these homes will generate significant increases in annual council tax across the Corridor (in 2014/15 money), in the order of £22m for Scenario 1, £29m for Scenario 2, and £44m for Scenario 3.

As more new homes are built, more people move into an area, and more council tax funded services are required. Given the types of expenditure covered by the council tax, the increasing pressure on public services, and the abolition of the RSG, we think it unlikely that the additional council tax generated by the new homes in each Scenario could be available at any significant level to fund future economic growth across the Corridor.

New Homes Bonus (NHB)⁹⁷

The NHB was introduced by the Coalition Government with the aim of encouraging local authorities to grant planning permission for the building of new homes in return for additional revenue.

⁹⁶ Because we do not have all figures for district councils, we cannot estimate accurate averages for county councils. We have therefore left these figures blank.

⁹⁷ This report was written prior to the government's announcement of the changes to the New Homes Bonus in December 2016. The proposed changes are likely to reduce the monies available to local authorities from the New Homes Bonus.

The NHB is paid for newly built homes, conversions and long-term empty homes brought back into use, net of demolitions. For each home, the Government will pay the local authority an amount equivalent to the national average for its council tax band every year, for six years. An additional payment of £350 per year is made where the new housing constitutes “affordable housing”. In two-tier authorities, the payment is split 80% to the district council and 20% to the county council.

The 2016/17 allocations for NHB across the Corridor are given in Table 19. The total allocation across the Corridor is £129.2m, of which £105m will accrue to the district councils and £24.3m will accrue to the county councils.

Table 19. 2016/17 NHB allocation by local authority

Local authority	2016/17 NHB allocation £m
District and unitary authorities	
Aylesbury Vale District Council	8.3
Bedford Borough Council	8.3
Cambridge City Council	6.3
Central Bedfordshire Council	11.7
Cherwell District Council	3.9
Daventry District Council	1.8
East Cambridgeshire District Council	2.0
East Hertfordshire District Council	3.6
Huntingdonshire District Council	5.0
Luton Borough Council	3.9
Milton Keynes Council	12.3
North Hertfordshire District Council	2.7
Northampton Borough Council	4.9
Oxford City Council	2.9
South Cambridgeshire District Council	5.3
South Northamptonshire Council	2.5
South Oxfordshire District Council	3.6
Stevenage Borough Council	1.5
Swindon Borough Council	7.0
Vale of White Horse District Council	3.9

Local authority	2016/17 NHB allocation £m
Wellingborough (Borough Council of)	1.5
West Oxfordshire District Council	2.2
TOTAL	105.0
County councils	
Buckinghamshire County Council	3.7
Cambridgeshire County Council	5.2
Hertfordshire County Council	6.6
Northamptonshire County Council	4.8
Oxfordshire County Council	4.1
TOTAL	24.3
GRAND TOTAL	129.2

Source: New Homes Bonus provisional allocations 2016/17⁹⁸

The estimated levels of NHB payable for each Scenario (in 2014/15 money) is set out below:

- Scenario 1: £132m (per annum)
- Scenario 2: £177m (per annum)
- Scenario 3: £264m (per annum)

NHB is paid each year for 6 years. It is based on the amount of extra council tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use. We have used the Savills calculations for homes delivered annually across the corridor in each scenario (15,000 in Scenario 1, 20,000 in Scenario 2, 30,000 in Scenario 3) to give an estimate of the total corridor's income from the NHB. We have therefore multiplied each scenario annual delivery by 6 times the average Band D council tax to give an average annual income. Although the NHB gives extra provision for affordable housing, as we lack a percentage figure for affordable housing in each scenario, we have excluded it from our calculations. This makes each scenario's figures for NHB income almost certainly an underestimate.

The NHB is not "new" money. Other government funding sources have been reduced to fund the payment of the NHB. Many county councils have argued about the unfairness of the system. They point out that their RSG has been top-sliced to fund the NHB, and yet they only receive 20% of the NHB, whilst retaining full responsibility for social care provision. The NHB is a non-ring fenced revenue grant, meaning it can be used (subject to consultation

⁹⁸ <https://www.gov.uk/government/publications/new-homes-bonus-provisional-allocations-2016-to-2017>.

with the communities most affected by housing growth) for a variety of different projects or accumulated for spending at a later date.

Because the NHB is not considered to be new money, many councils continue to use part of the NHB to balance out other cuts to the funding of public services. For that reason, we don't consider that the NHB, as it currently operates within the system of local government finance, as having a significant part to play in either the financing of new infrastructure or the additional delivery of new homes.

7 Impediments to development

Introduction

This section considers some of the major barriers and impediments to development across the Corridor.

The information in this section is drawn directly from a series of interviews with a wide range of stakeholders (listed in Appendix 2). Where appropriate we have quoted the source or named the particular project to which the interviewee was referring in this feedback. A number of interviewees were not prepared to “go on the record” and where this was the case, their comments have not been attributed.

The over-riding conclusion from these conversations is that there is a lack of readily developable sites capable of producing significant numbers of new homes within short timescales. The Corridor has undergone rapid growth over the last 10 years, particularly around Oxford, Milton Keynes and Cambridge, and this has seen the development of the sites best connected to existing infrastructure. In the words of one developer, “much of the low hanging fruit has already been developed out”. Where sites have been identified, there are a number of factors which are slowing down the rates at which they are brought forward through the planning process, or the rate at which new homes are built.

This is borne out by Savills’ work. Although Savills identify more than 300 potential large development sites in their report, with the capacity for almost 400,000 new homes, only 133 are near or linked to new or improved transport schemes, totalling 258,000 units. Only 43,000 of those homes are currently under construction. There are permissions for a further 20,000. Some 30,000 are currently at various stages of the planning application process. Of the remainder, 57,000 are allocated, and 108,000 are being promoted⁹⁹. This picture varies across the Corridor. The situation is particularly acute in the Oxford/Swindon area, where only 6,753 units out of a total identified capacity of 99,369 are either under construction or permissioned.

Many of the sites Savills have identified will require significant infrastructure investment and patient capital to develop. It is this lack of infrastructure which was generally identified by public and private sector stakeholders as being the greatest inhibitor to faster development, and it was in this context that funding mechanisms have been explored in Sections 5 and 6. Indeed, as detailed in Section 4, the potential cost of infrastructure to unlock housing in the Baseline Growth scenario (let alone the Incremental or Transformative Growth scenarios) is significant, and emphasises the necessity of both intelligent local funding mechanisms and central government spending.

Our interviews with stakeholders also identified a number of other impediments to development. Many of these issues stem from the relationship between the local and national public sector and the private sector, as well as between public sector partners. After

⁹⁹ Savills report to the National Infrastructure Commission: “The Property Market within the Cambridge-Milton Keynes-Oxford Study Area” November 2016

all, developers’ resources are limited, and they inevitably have to make choices about where they focus their resources. A housebuilder illustrated this point very clearly:

“If we have the resources to build 1,000 new homes a year, we want to build them where we’re going to be welcome, where the local authority will support us – the question we ask for each site is how certain are we that we will be able to turn this into a great place to live. If we’re not certain, we’ll go somewhere else”.

Developers cited a number of examples where the planning framework, the attitude of the local planning authority, and local political considerations have caused them to walk away from potentially significant development sites in the Corridor. As the Director of Development at one leading housing association, with a significant annual new homes programme, put it:

“[Local authorities] can do an amazing job turning me away”.

On the other side of the equation, councils have cited examples of developers failing to appreciate the constraints under which they have to work, the need to balance long and short term interests, and address the needs of the local community. A number have also mentioned what they perceive as the frustratingly slow rate of build of new homes on large sites, which they attributed to profit maximising strategies by the housebuilders.

Effective development requires a strong partnership between the public and private sector, underpinned by a clear understanding of each other’s objectives and constraints, bounded by a “can-do” attitude on both sides. Improving this relationship, coupled with infrastructure improvements, is going to be essential to deliver the level of transformational investment, with its step-change in delivery, implied by Scenarios 2 and 3.

Summary

The table below summarises the principal impediments to development throughout the Corridor. Some of these barriers can be addressed by local interventions, but a number are a regional manifestation of national problems, for which the solution is likely to require a national response.

Table 20. Summary of impediments to development

Barrier	Issue	Who has raised?	Potential solution
Transport infrastructure to unlock sites with a particular focus on “last mile” connectivity in urban centres.	<p>Sites need greater levels of transport infrastructure linking housing to employment sites.</p> <p>Current funding mechanisms insufficiently incentivise investment.</p>	Housebuilders, Developers, Employers, LEAs, some councils.	<p>Improved strategic infrastructure planning.</p> <p>More effective capture of land value uplift from infrastructure investment.</p> <p>Greater fiscal autonomy for councils so they retain a greater share of tax flows relating to property and economic growth.</p>

Barrier	Issue	Who has raised?	Potential solution
Inadequate utilities provision	Inadequate utilities infrastructure for major employment and housing site development.	Developers, Housebuilders, Corporates.	Strategic spatial framework to clearly identify prioritised sites, so utilities companies have greater oversight of the sites where improved utility investment is going to be required.
Poor levels of service from utilities companies	Poor service levels and lack of joined-up utilities' provision holding-up site development and incurring substantial costs to developers.	Developers.	Service level agreements between utilities providers and local authorities for strategic sites.
Under-staffed and under-skilled planning departments	<p>Many planning teams were slimmed down in the recession, and skills have not been rebuilt leading to lengthy delays in the processing of planning applications.</p> <p>A lack of strategic planning focus means that individual planners are expected to be able to deal with a large portfolio of small domestic applications alongside applications for key strategic sites.</p>	Developers.	<p>Greater use of Planning Performance Agreements.</p> <p>The development of a strategic planning function, shared by the major urban centres across the Corridor.</p>
Concerns as to whether CIL/s106 is being invested promptly and in relevant infrastructure	Little visibility and clarity on how/where CIL/s106 payments are being invested to provide infrastructure.	Registered Social Landlords, Housebuilders, Developers.	Improved strategic infrastructure planning identifying the priorities for infrastructure investment, underpinned by a clear funding strategy including the use of CIL/s106.

Barrier	Issue	Who has raised?	Potential solution
Developers are having to bear increasing levels of up-front infrastructure spend	Developer cashflow is being constrained by upfront infrastructure investment, and this is limiting the rate at which new sites can be built out.	Developers, Housebuilders.	Measures to improve developer upfront cashflows, including the use of public funds to forward fund infrastructure costs (such as the HCA-administered Home Building Fund”), and measures which secure early-stage cashflows, such as the upfront sale of affordable units to RSLs.
Local Plans do not adequately reflect the needs of the functional economic markets in which the local authority is situation	Lack of a spatial planning framework required to enable cross-boundary development and investment.	Private Sector Investment funds, Councils, Housebuilders, Developers.	A more integrated system of Local Plans informed by a joined-up strategic narrative for the area.
Misalignment between economic and housing strategies	Some Local Plans are not sufficiently conformed to local economic strategy, are misaligned with IDPs, and not delivering the infrastructure requirements sites needs.	Councils, Housebuilders.	Clarity about the longer-term economic strategy of key urban settlements within the Corridor. Up-to-date IDPs prepared in partnership with major developers and land promoters.
Slow housing delivery on major sites	Housing delivery on major sites such as Northstowe too slow.	Councils.	Greater public participation in sites. More sharing of infrastructure costs between public and private sector, funded by alternative funding models. Developers should be encouraged to offer a broad range of tenures, and a wide variety of new homes. More sales offices on large sites will generally increase the rate of new sales

Barrier	Issue	Who has raised?	Potential solution
Too many public sector stakeholders to deal with	A lack of clarity about the roles in the planning and development process of the multiple public sector stakeholders.	Developers.	<p>More “joined-up” governance across the Corridor.</p> <p>A “One front door” co-ordinating body with the remit to remove barriers and impediment to strategic site development.</p>
Lack of collaboration across the public sector	Opportunities missed for developers, councils and national stakeholders to work together for mutual benefit	Housebuilders, Developers, Councils.	<p>More “joined-up” governance, encompassing both public and private sector representatives.</p> <p>Strategic spatial framework to clearly identify prioritised development sites.</p>
Loss of employment sites	Housing development reducing land available as employment sites.	Councils.	Strategic spatial framework to clearly identify prioritised development sites and the intended use of each site.
Green Belt constraining growth	To avoid Green Belt development around Cambridge and Oxford, developers are having to leapfrog the Green Belt, requiring significantly higher levels of infrastructure investment for these sites.	Developers Housebuilders.	<p>Strategic spatial framework identifying prioritised sites, allowing selected allocation of key Green Belt sites in Local Plans.</p> <p>Consider longer-term Green Belt Review to avoid piecemeal Green Belt release.</p>
The Duty to Cooperate is not working properly.	Many stakeholders commented that the Duty to Co-operate is not working effectively across the Corridor (although this was balanced by examples of where it was working well).	Developers, Councils.	Effective spatial planning over a broader economic area would help address this, as it would -by necessity- encourage collaboration.

Barrier	Issue	Who has raised?	Potential solution
<p>Greater leadership is required to take long-term strategic development decisions which address the broader economic need of functional economic areas.</p>	<p>Communities feel there is little incentive to accept development in their area, and apply political pressure to councils and individual councillors.</p> <p>The Localism Act (2011) promotes the role of communities in the planning process. Localism is being cited as the reason why development should not take place.</p>	<p>Councils, Developers.</p>	<p>“Joined-up” models of local governance.</p> <p>Strong local economic narrative which guides local decision making and plan making.</p> <p>Strategic planning taking place across the functional economic area.</p> <p>Guaranteed infrastructure improvements clearly associated with the site(s) being developed.</p> <p>Effective financial incentives to communities to deal with negative externalities of development.</p> <p>Greater fiscal autonomy for councils so they retain a greater share of tax flows relating to property and economic growth.</p>
<p>Lack of long term strategic economic narrative for the area</p>	<p>Investors and developers need to clarity as to how the area in which they are investing/ developing will change over time, and how value will accrue to their sites from the further development of the locality.</p>	<p>Investors, Developers, Housebuilders.</p>	<p>A strategic economic narrative for each major functional market area, possibly within the context of an over-riding economic narrative for the Corridor. The economic narrative would inform the production of a strategic spatial framework, infrastructure and investment plans.</p> <p>In the short-term consider publishing a map of identified sites with existing infrastructure overlays to help developers/investors prioritise their short-term investment decisions.</p>

Impediments to individual site development

Site connectivity

Site connectivity, primarily transport links, was raised by almost all developers and housebuilders as a barrier to investment. This view was most strongly held by developers, who repeatedly made the case for the “last mile” transport infrastructure needed to secure site access. Their focus was therefore on the shorter journeys to/from nearby areas, or major routes into an area, such as A roads rather than inter-city connectivity.

The following examples were cited:

MoD bases around the Oxfordshire-Buckinghamshire border would be considered viable investment sites if a new junction on the M40 was built to connect them to the transport network; and,

The Woodlands site in Buckinghamshire has struggled because of inadequate access to the M40 which has held up the planning process.

Major employers also highlighted the need for improved last-mile connectivity: in Stevenage, the public transport link from the station to key headquarters’ sites was seen as an impediment to expansion, as it was in Cambridge. Poor bus and train station connectivity in Swindon was highlighted as the reason for low occupation levels at Kimmerfields, a 20-hectare regeneration site close to the town centre. Poor public transport links, coupled with road congestion, were also highlighted as key factors holding-up a £100m redevelopment in Swindon Town Centre.

The role of transport in bringing forwards former MoD sites was raised by both developers and local authorities. These sites have the potential for more than 55,000 new homes. However, these are also the sites with the heaviest infrastructure requirements. Because of their previous use, they were deliberately situated away from major urban centres, and they will require considerable investment in infrastructure to turn the sites into flourishing housing and employment locations. This infrastructure will extend beyond just transport, and will include utilities, schools, hospitals, places of worship, green space, broadband connectivity, etc.

Oxfordshire LEP and Oxford City Council mentioned two major road schemes which would help unlock significant housing growth. They cited a site in Oxfordshire, where improvements to the A40 are needed to unlock 2,750 houses. In Milton Keynes, the dualling of part of the A421 was seen as essential to unlocking proximate sites for development, whilst Northstowe in Cambridge is dependent on improvements to the A14.

The need for greater investment in connecting sites extends beyond just new roads. Rail and other mass transit solutions also have the potential to unlock sites. For example, uncertainty over the planned closure of a railway station in the central section of the Corridor is currently stalling a 5,000 home development.

Examples were given of places which had got last mile connectivity right, and in so doing, had unlocked substantial future investment. In Dunstable, a concerted focus on improving last mile connections initiated by the local council, which included a guided busway that reduced travel times to Luton train station, and improved M1/A4 links, were seen as having

encouraged investment, such as 500 jobs from a new Amazon distribution centre. Similarly, Bedford Borough Council told us that road improvements on the A420 had contributed to making Bedford a more attractive investment proposition.

Utilities

As with transport infrastructure, poor utilities provision was frequently cited as a major constraint on the delivery of new sites. Most concerns centred on the provision of electricity and water, and the impact this was having on the development of key strategic sites. One national housebuilder told us that at any one time 10-15% of all their sites nationally had serious utility connection issues, which were constraining the rate at which they could build new homes. We were given a number of examples where the internal communication within the utilities companies was lacking, with both developers and employers citing a lack of information-sharing between the sales and the delivery departments of these organisations. The Development Director of one major housebuilder described his dealings with one particular utility provider on a large strategic site as “murderous”.

There is a compelling need for a single point of contact for each major development site, of sufficient seniority to bring about the level of strategic co-ordination between these agencies needed to develop sites effectively. Local authorities were identified as being the bodies most appropriate to provide the single point of contact for each strategic site.

A cycle of planning permission and utilities investment was identified in some areas. Here, planning permission was in some cases (understandably) only granted when sites had existing or guaranteed utilities provision, yet it is only through planning permission that providers have a statutory requirement to provide utilities. In some cases, this was identified to have delayed planning permission and thence development. Indeed, one site in the Corridor had had planning permission for 8 years, and delays in installing the required services had been an important factor in the delayed development of the site. This is a problem for all fast-growth areas within the Corridor and extends to water, energy, and broadband.

Cambridgeshire and Oxfordshire have also suffered from problems with basic infrastructure. One key employment site was mentioned to us in a number of interviews. It has suffered from continuing electrical supply issues, which is holding back the further development of the site and the expansion of existing employment premises on the site.

Ultimately, there appears to be a disconnect between developers, local authorities and utilities providers which sits at the heart of many of these issues. A misalignment between the utility providers’ investment plans and councils’ Local Plans (compounded by the Local Plans’ inconsistency) is causing significant delay to the promotion of individual strategic sites. There is a feeling amongst some developers that in order to quickly progress their own projects they have to unfairly finance utilities provision to get the utility companies to discharge what are in effect their statutory requirements.

Planning

A number of housing stakeholders highlighted the impact of delays in processing planning applications. Some developers said that they would be prepared to pay higher planning fees if it would guarantee that the planning process would be speeded up and planners with the required levels of expertise would handle their application. Planning Performance

Agreements had been used in many instances, with mixed results. There were also mixed reports of the level of skills in some planning departments, largely reflecting the cuts to these departments in the wake of the recession.

CILs/s106 agreements

CIL and s106 agreements were a frequent cause of complaint. There was a general feeling amongst developers that their own contributions towards the cost of infrastructure in the form of CIL and s106 could be better spent by local authorities. Developers were not in general opposed to the rates *per se*, but sought transparency over how the funds would be spent. This was particularly true of the neighbourhood component of the CIL.

CIL itself, where it had been introduced, was generally mentioned as a positive factor, partially because of its easy application to small sites and because costs could be easily forecast. However, for larger sites, the prevailing view was that there was a requirement for greater variation of developer contributions to infrastructure than is possible with CIL. For these sites, developers would have preferred to have negotiated s106 agreements.

In the context of CIL and planning obligations, a number of local authorities talked about the importance of the infrastructure investment associated with new sites, in winning public support for the development. Huntingdonshire Council gave an example of a site in St Neots, where they had concluded that development could only be politically feasible if residents directly benefited from infrastructure improvements. This was corroborated by councils in Oxfordshire, where we were given examples of sites which had not been supported by local politicians because of a perceived lack of infrastructure improvements for local residents. A small number of rural councils were strongly of the view that the political viability of major developments was contingent on the schemes delivering improved infrastructure for local residents. Developers made a similar point but from another angle. They wanted to ensure that the public was made aware of the significant investment they make in improving infrastructure either directly through the development process, or through CIL and s106.

In the context of the pending CIL Review, any system which could build in the certainty and clarity of CIL, the scope for individual negotiations on large strategic sites, and transparency on the investment of proceeds, would be a clear winner.

Impediments to future investment/development

There was a broad consensus that wider constraints exist in releasing and incentivising the development of future sites. Underlying this is a widely-expressed concern that there is a lack of joined-up strategic spatial planning across the individual functional market areas which make up the Corridor.

LEPs and councils told us that in some parts of the Corridor, employment sites were not adequately protected because of a short-term drive for housing growth, whilst some employers expressed concern at the lack of connectivity between future housing locations and employment sites. Developers told us about a lack of co-ordination across neighbouring local councils, particularly for large strategic sites which required a degree of joined-up management and planning to ensure an appropriate level of connectivity where the housing and employment locations were in different local authority areas. All of these factors would

benefit from more joined-up governance arrangements and a form of strategic spatial planning.

Local Plans

Local Plans are considered at some length in the Savills report on the Property Markets, and we do not propose to cover it in any detail here. There is however one issue on which we have received feedback, and on which we comment below. This is the disconnect between economic planning and land use planning through the Local Plans. An area's economic strategy is generally promoted by the relevant Local Enterprise Partnerships supported by the constituent local authorities, and is usually formulated at the LEP-level. These economic strategies are often underpinned by an independent economic forecasting model (such as the Oxford Economics or Cambridge Econometrics Regional Growth models). Local Plans are compiled at the local authority level, and are largely informed by other sources which are disconnected from the economic planning process (for example, Sub-National Population Projections). In many instances, Local Plans are not conformed to the economic strategy, and there are considerable gaps between the housing, employment space and infrastructure requirements of the Local Plans and the economic strategy.

Cambridge Ahead made this point particularly convincingly. They argued that predicted employment growth in and around Cambridge is likely to be greater than the relevant Local Plans suggest, and this may mean considerably greater demand for new housing than is built into the Local Plans.

Housing variety

Many Local Plans rely on a small number of large strategic sites to deliver housing volumes. Whilst there are notable exceptions, particularly around Cambridge, a sales office on a good site may sell only 2-3 new homes a week. That is generally only achievable with a full range of housing units being developed across multiple tenures, involving multiple developers and housebuilders and with numerous sales outlets on each of the larger sites. This variety of tenure, house-size and specification, will be important in increasing the rate at which new homes are absorbed by the market. A related factor is the growth of custom-built homes and self-build schemes, which will all contribute to increased numbers of new homes.

Collaborative working between government agencies

The need for greater co-operation between Network Rail, the Department of Transport and the National Infrastructure Commission was raised with us by local authorities and developers alike.

We were given various examples where better collaboration would have assisted the development process:

- Uncertainty over the planned closure of a railway station in the central section of the Corridor stalling a 5,000 home development. We were told the development would potentially justify the station's continued existence, yet Network Rail cannot build this predicted demand into their plans, and thus the developer cannot assume the station's continuation;

- In Cambridgeshire, a key employment site would benefit from a new railway station. However, developers have reported how difficult it has been to persuade Network Rail to enter into any discussions; and,
- In St Neots, a major housebuilder on an important site is proposing a 3% affordable housing threshold because of uncertainty around nearby infrastructure improvements by Highways England. Council-commissioned planning consultants say that a mid-30s affordable housing target would be feasible if the transport improvements were made.

Developers would welcome greater clarity around the provision of new (and the maintenance/expansion) of existing transport hubs, and the opening of new transport routes to/from potential strategic sites would mean further sites could be brought forward for development.

Loss of employment sites

A number of councils and LEPs have raised concerns about the reducing number of employment sites in the Corridor. This problem has been particularly prominent in areas that have the highest house prices, such as Oxford and Cambridgeshire. High housing prices has been driving this shift, leading to the loss of important employment sites and reducing the ability of the Corridor to offer a full range of business space for occupiers of all sizes.

In West Oxfordshire, for example, Leafield Technical Centre was on the market with an established local company keen to buy it to develop employment space. The site was recently sold to a residential developer, and the employment space has now been lost.

Worryingly, it was noted that there were few remaining sites which would be suitable for large multi-national companies without very considerable investment in infrastructure. The CEO of Stevenage Bioscience Catalyst spoke compellingly of the need for “move-on” bioscience facilities. This is particularly concerning given the role bioscience is playing in driving high productivity growth in Cambridge and the wider area. Such concerns over the lack of employment sites in key locations were corroborated by commercial developers, LEPs and councils. We heard examples of world-leading technology firms whose expansion could be considerably constrained by a lack of nearby employment space, with the concomitant risk that they could leave the area, or potentially even the UK.

We also heard that employers’ decision timescales are compressing, with the time between identifying the need to move, and actually moving in some instances being as short as 12 months. This is particularly so for the logistics and warehousing sector. The need to have a range of “oven-ready” sites offering accommodation of different quality for companies of all sizes was a strong element of the feedback we received in promoting the attractiveness of the Corridor for new investment. This is a good example of why the Local Plans and an area’s economic strategy need to be closely integrated.

Green Belt

The Green Belt is a particular issue constraining development around Oxford and Cambridge. Some developers questioned the extent to which individual parcels of land within the Green Belt still satisfied the five Green Belt tests. They also pointed out that as a consequence of the Green Belt, a significant number of new homes are having to be built on land which is further from urban centres, and there are significantly higher costs incurred in

developing the required infrastructure for these sites. The additional costs are often matched with lower out-turn sales values, reflecting a “pinch” on the site’s profitability. It may be appropriate to undertake a strategic review of the Green Belt, which would consider amongst other things, the trade-off between the additional costs of infrastructure provision for these sites and the potential loss of Green Belt amenity if sites within the Green Belt are to be developed. Many local authorities will have already undertaken these reviews within the context of their Local Plans (e.g. Cambridge), but if one or more strategic spatial frameworks are adopted (see below), a Green Belt review should take place on a larger scale, involving a number of local authorities, to reflect the area covered by the strategic spatial framework.

The Duty to Co-operate

The Duty to Co-operate on local authorities was felt to be operating with different levels of success across the Corridor, with some local authorities working very effectively together, whilst it was felt others were less effective. Interestingly some local authorities also raised this concern of their neighbouring districts, with typically there being disagreement between city councils and some district councils over the fulfilment of housing need. Effective spatial planning over a broader economic area would help address this.

Land banking

A number of local authorities and LEPs highlighted the relative lack of competition in the housing sector and the possibility that this is leading to land banking. In our view there are financial incentives for organisations to hold on to land when values are rising fast and there is evidence that this does effect behaviour. There are a number of steps which developers and the public sector could potentially consider to address the rate at which new homes are being built.

There were two specific types of situations which were consistently raised by councils:

Unpermissioned land: Land for potential development is generally optioned or acquired by developers and specialised land promoters who then take that land through the planning process. This process can be lengthy and expensive, and developers and promoters will generally run several sites concurrently, depending on the size of the site and their financial investment in that site. There are many factors contributing to the cost and time-consuming nature of the planning process, and Section 8 of this report considers how Local Planning Authorities could use some of the current flexibilities of the planning system to speed up this process and to reduce the cost. The Housing and Planning Act 2016 may also provide some further options.

Permissioned land: Generally, it is only once planning permission has been granted and conditions discharged, that site remediation takes place, infrastructure and services are installed, and development platforms built. Historically, the regional development agencies and/or English Partnerships would have either undertaken some of these works, or helped fund them where the site was considered to be a major strategic site. These costs are now largely borne by the developer, although in some instances, particularly where the local authority owns part of the land, councils will part-fund these costs. In order to protect their cash flows, developers and builders tend to restrict the rate at which they spend on infrastructure and balance it with cash flow generated by sales of new homes or completed employment space. Any measures which improve the cashflow of the developer will help

address this constraint to growth. Government schemes to help cashflow the infrastructure costs (such as the HCA-administered Home Building Fund) are likely to have an effect, as will more local interventions. Cities like Liverpool, Birmingham and Manchester have established investment funds to effectively help cashflow early stage investment, and the major urban centres across the Corridor might wish to set up similar structures, potentially capitalised through Local Growth Funding or retained Business Rates.

What will encourage investors and developers to make a long-term commitment to the Corridor?

The long-term transformational change that will be necessary to lift the rate at which new homes and employment space is built to the levels implied by Scenarios 2 and 3, will require a high degree of partnership working between the public and private sector. This section focuses on two of the longer-term strategic issues that were raised by both large and smaller scale institutional investors and developers, both of which would potentially increase their appetite to commit long-term capital and resources to the Corridor.

The need for a strategic economic narrative

The need for a strong economic narrative was mentioned to us by a number of investors and developers. Investment in land and property is, by its nature, a long-term process. In assessing whether to develop and invest in an area, decision takers in both developers and in investment firms of all kinds want to understand the longer-term plans of the relevant place (and it is often local authorities in the plural as rarely are the functional economic markets on which developers rely to provide buyers for new homes and employers for new offices/warehouses etc. confined to just one local authority area). It was widely felt that a single narrative, underpinned by a spatial framework identifying key strategic sites, supported by an infrastructure plan and funding plan for each of the major urban areas, would stimulate greater private sector investment and speed up the pace of delivery. Whether large scale, such as sovereign wealth funds and pension funds, or more niche investment firms, all emphasise the importance of seeing clear income streams over the longer term, linked in a credible way to the future planning and governance of a place.

That said, the concept of the Corridor itself (comprising the 27 local authority areas), was not universally shared. Developers and investors who have existing knowledge of the area understand the economic potential of places within the Corridor, but were less convinced that the “whole would be greater than the sum of the parts”. Individual brands within the area are strong. This was mirrored in some of our conversations with employers, most notably Martino Picardo, CEO of Stevenage BioScience Catalyst. He emphasised that bioscience’s tendency to cluster around existing concentrations of industry and education meant that (despite a lack of bioscience facilities in the south-east) the industry would continue to cluster solely around existing bioscience hotspots irrespective of connectivity improvements.

There was consensus among the stakeholder group that the economic narrative for the Corridor should build on the importance of local clusters and urban areas, identifying both the differences and similarities between each such area, and drawing out the variation in investment opportunities.

An appropriate spatial framework

Throughout the interviews, the demise of regional planning was suggested to us as having had a detrimental impact on development. A reduction in the co-ordination between infrastructure and planning was specifically raised as being an issue across the Corridor, with Milton Keynes, Central Bedfordshire and Aylesbury Vale, and Oxfordshire being most affected. The lack of clarity and certainty around the longer-term economic, housing, employment and transport opportunities across the Corridor is a bar to long-term investment. This is not about a lack of opportunities *per se* but the way in which opportunities that do exist are aligned and co-ordinated. These issues could be dealt with by improved spatial planning, most likely at the functional economic market levels.

A spatial planning framework would address the following issues:

- The need for local authorities to improve their cooperation where strategic sites lie on cross-border areas or where one area is expected to support another, such as through the provision of housing;
- The prioritisation of major strategic sites. Not all sites can, or indeed should, be taken forward at the same speed. Limited resources need to be focused on agreed strategic sites;
- The lack of clarity as to infrastructure plans and routes;
- The need to improve the alignment of employment and housing opportunities, and infrastructure; and,
- It is a strong statement of strategic intent to potential investors and developers.

Some of the new combined authorities are beginning to consider the use of either statutory or non-statutory spatial plans to provide the necessary planning frameworks to enable the delivery of the economic strategy (Greater Manchester for example is introducing a Statutory Spatial Framework). In some instances, LEPs have reintroduced core strategies to provide the spatial focus needed to support the economic strategy. This needs to be considered alongside the governance arrangements for the Corridor. This is discussed in more detail in Section 8.

In the short term, much could be achieved by the production of a map identifying development sites and overlaying existing infrastructure provision along the lines of the Greater Manchester Development Map¹⁰⁰ and a similar map for the West Midlands which is being developed by the HCA. These are free online mapping tools which provide a comprehensive overview of the area's infrastructure by using open data to pinpoint a number of details included planned transport works, communications links, bus routes and other transport links, street lighting etc. These maps have two important uses. Firstly, they link short-term development activity to a longer term strategic vision, and secondly, they provide the basis for a longer-term view of the area's infrastructure requirements.

¹⁰⁰ The map can be accessed here: <http://mappinggm.org.uk/call-for-sites/development-sites.htm> (accessed 20 October 2016)

8 Improved delivery mechanisms

Introduction

Scenarios 2 and 3 will require a step change in the rate at which new infrastructure, homes and employment space are developed. In Section 7 we gave examples of how the planning process was constraining the delivery of new homes and employment space. We also showed how improved governance and spatial planning could attract further investment and improve the rate at which sites are developed. This section builds on these concepts and also considers the role publicly-owned land might have in the delivery of these scenarios.

Planning

It can take as long as 10 years to progress a site from the point at which it is first identified to the grant of planning permission. At that point, grant of planning permission is generally dependent on a number of conditions. It can take many months, or even years, for those conditions to then be satisfied by developers. In general, the greater the number of new homes the longer the planning process becomes. Research by Nathaniel Litchfield & Partners has demonstrated that there is a big step-up in time for sites of in-excess of 500 units¹⁰¹. As a consequence, many tens of thousands of new homes across the Corridor will be tied up at any time in the planning process.

There are a number of ways in which these delays can be tackled. At the heart is the need to adopt a pro-active approach to Local Plan making and implementation, which uses the powers and flexibilities inherent in the planning system. It is a truism, but in order to get more homes and employment premises bought, more permissioned land is required. This means land has to be allocated and released, and more planning permissions granted. For this to happen, there needs to be a robust and realistic system of Local Plans in place, which adequately reflects the economic growth ambitions of the area and is based on co-operation and collaboration between neighbouring authorities. Local Plans often temptingly rely on large sites to satisfy their housing supply. These sites generally take longer to get through the planning process, and there is a risk of “too many eggs being in one basket”. Local Plans need to include a range of sites of different types and sizes, underpinned by realistic assumptions about the length of time to get planning permission granted, and the rate at which the sites will be built-out.

Where delivery is falling short of Local Plan targets, the local authority needs to be prepared to look to other mechanisms to get sites permissioned. These include some of the mechanisms outlined in Table 22, some of which are awaiting further clarification from the government.

¹⁰¹ <http://nlplanning.com/nlp-insight/start-to-finish-how-quickly-do-large-scale-housing-sites-deliver> (accessed 8 November 2016)

Table 21. Summary of planning tools

	Advantages	Disadvantages	Application across the Corridor
Greater use of Local Development Orders	<p>The Council is seen to be more pro-actively managing strategic planning. They therefore represent a positive statement of intent on behalf of the Council.</p> <p>They create greater certainty, shorten timescales and reduce the cost of the planning process.</p>	<p>S106 does not apply, although developers can enter into voluntary agreements.</p>	<p>Best used in areas with defined boundaries e.g. Enterprise Zones, town centres or large masterplanned schemes.</p>
Planning Freedom Schemes	<p>Could modify or disapply planning provisions to facilitate an increase in the amount of housing.</p>	<p>Commencement Order required so not yet available to local authorities.</p> <p>Most likely just to apply to housing schemes.</p>	<p>Difficult to conclude without seeing the full details.</p>
Permissions in Principle	<p>Could give developers a greater degree of upfront certainty and prevent extensive costs being incurred before a planning “in principle” position has been agreed.</p>	<p>Secondary legislation needed to give effect, so not yet available to local authorities.</p> <p>Most likely just to apply to housing schemes.</p>	<p>Difficult to conclude without seeing the full details.</p>
Housing associated with nationally significant infrastructure schemes	<p>Potentially enables housing as part of a major infrastructure scheme to be brought forward as part of the Development Consent Order associated with the infrastructure.</p>	<p>Final briefing note still awaited from the Government.</p> <p>Probably limited to no more than 500 homes per NSIP.</p>	<p>Difficult to conclude without seeing the full details, but should allow the inclusion of housing schemes alongside major infrastructure proposals classified as NSIPs.</p>

	Advantages	Disadvantages	Application across the Corridor
Greater use of Planning CPOs	<p>They can be a very effective tool in the armoury of local authorities, to drive investment and regeneration.</p> <p>Properly implemented, they have very high success rates.</p> <p>They are an indicator of economic confidence in an area.</p>	<p>Some authorities prefer not to CPO on the grounds that they do not want to be seen to be compulsorily acquiring land. Others simply lack the necessary know-how to manage a large CPO process.</p> <p>CPOs need underwriting usually by a developer or the local authority. This in itself can be a deterrent.</p>	<p>Can land assembly to take place at scale and pace required for transformational change.</p>

Local Development Orders (LDOs)

These are discretionary orders made by Local Planning Authorities, which grant planning permission to specific types of development within a defined geographical area, rather than relying on developers to come forward and submit individual planning applications. As such, LDOs are designed to streamline the planning process. They also provide the local authority (and through consultation, the wider community) with an opportunity to more actively manage local planning and development. They are designed to create certainty, shorten the time to development, and reduce the costs of the planning process.

The NPPF says that Local Planning Authorities should consider using Local Development Orders to relax planning controls for particular areas or categories of development, where the impacts would be acceptable, and in particular where this would promote economic, social or environmental gains for the area, such as boosting enterprise¹⁰².

Other benefits of LDOs include:

- They represent a positive statement of intent on behalf of the Council and the LPA to developers, investors and occupiers;
- They can be implemented in a relatively short period of time (some LPAs have introduced LDOs within a 2-month period);
- There is well-defined process for introducing LDOs, involving preparation of the Order, public consultation and notifying the Secretary of State;
- The requirement for public consultation ensures that local communities' views are taken into consideration;

¹⁰² https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/6077/2116950.pdf (accessed 26 October 2016)

- They can be revoked or modified at any time (although an LPA wishing to modify an LDO may need to re-consult); and,
- They can grant planning permission outright or subject to conditions.

There are a number of downsides:

- LPAs are able to impose planning conditions on an LDO, whilst are similar to those that might be imposed on the normal grant of a planning permission. In order for LDOs to achieve their stated aim of speeding up planning and reducing cost, conditions need to be kept to the lowest possible number;
- S106 planning obligations cannot be required, however, this does not prevent s106 agreements being offered by a developer. If a CIL charging schedule is in place, the development is chargeable to CIL;
- Some LPAs have raised the loss of revenue from planning levies as an issue. In practice, the economic growth and other benefits from development should outweigh this concern; and,
- Critics of the system say that the same outcome be achieved through the greater use of Outline Planning Permissions.

LDOs are best used in areas with defined boundaries – such as Enterprise Zones (by far the majority of LDOs are for Enterprise Zones), town centres, or large masterplanned schemes. Within the Study Area, Swindon has actively embraced LDOs and currently has LDOs in place covering 7 employment sites. In July 2015, Cherwell District Council announced proposals for the first large-scale local development order for a large development at Graven Hill. The Council’s reasons for making the LDO were to facilitate and encourage self-build and custom-build housing by simplifying the planning process¹⁰³. Provided homes conform to a set of design guidelines, they do not require separate planning permission.

Planning Freedom Schemes (PFS)

A Planning Freedom Scheme is a new concept introduced by s154 of the Housing & Planning Act 2016, where a local planning authority may apply to the Secretary of State for “a scheme that disapplies or modifies specified planning provisions in order to facilitate an increase in the amount of housing in the planning area concerned”. The Act provides that national planning rules contained in, or made under, any Act of Parliament may be relaxed by a PFS. A PFS may be used alone, or in conjunction with other mechanism

The Act requires that 3 conditions must be satisfied for a PFS to be set-up:

- The LPA (or urban development corporation, if relevant) must have requested the Secretary of State to set-up the PFS;
- The Secretary of State must be satisfied that:

¹⁰³ <http://npa.cherwell.gov.uk/AnitePublicDocs/08271490.pdf>

- There is a need for a significant increase of housing in the relevant area;
- The PFS will contribute to an increase in the amount of housing; and,
- Adequate consultation must be carried out, and persons affected by the scheme must have had the opportunity to express their views;
- The LPA must have prepared a summary of the views expressed in the consultation and the Secretary of State must have considered the summary.

Section 154 is not yet in force, and a commencement order is required to give effect to these provisions.

Permissions in Principle (PiP)

The concept of a “Permission in Principle” was introduced in s150 of the Housing and Planning Act 2016. The PiP is effectively a new route for obtaining planning permission for “housing-led” development, which is designed to streamline the early phase of the planning process. For relevant sites, decision making on “in principle” issues (such as land use, location, and amount of development) will be separated from matters of technical detail (such as the detailed specification of building design).

The aim is to give developers a greater degree of up-front certainty that the fundamental principles of the development are acceptable to the LPA before requiring developers to establish the technical details of the development. Full planning permission, which would be determined in accordance with the Permission in Principle (there could be no further reserved matters) will only be granted once those technical details have been agreed. At this stage, the LPA will still have the opportunity to assess the detailed design, ensure appropriate mitigation of impacts, and to ensure that contributions to essential social and physical infrastructure are secured. If these details are not adequately dealt with, the LPA can still decide not to grant full planning permission. The new legislation will not replace the need to look at the NPPF and local planning policy in assessing planning applications.

A PiP may be granted either on application to the Local Planning Authority (LPA) or through qualifying documents, which would include, inter alia, Brownfield Registers or Local Plans. Many details will need to be resolved before PiPs are introduced - for example, it is not clear whether it will be possible to grant PiPs on existing Local Plans, or just future Local Plans, or the extent to which the full planning consent will be subject to s106 and CIL – and secondary legislation will be needed to give full effect to these provisions.

The PiP provisions are not yet in force, and will require secondary legislation to give effect to.

Nationally significant infrastructure projects

The Housing & Planning Act 2016 includes a provision to allow developers to be able to seek development consent for housing through a Development Consent Order (DCO):

- There is a functional need for housing (e.g. where housing is needed to support a 24-hour presence on the site for key workers); or,

- The housing is in geographical proximity to the project (e.g close to a rail station on a railway line).

Whilst a subsequently published guidance note said that it would be very unlikely that the Secretary of State would grant consent for more than 500 homes in a single DCO, it would be worth considering this provision in the consent of any nationally significant infrastructure proposals across the Corridor.

Compulsory Purchase Orders (CPO)

Local authorities and the Homes & Communities Agency have considerable powers to compulsorily acquire land and property. Many local authorities are hesitant in using these powers and some simply lack the required level of expertise following the cuts to planning and regeneration departments since the recession. CPO powers are likely to have an important role to play in assembling the land needed for future development, and it may be worth considering establishing a Corridor-wide CPO group able to advise local authorities on how to exercise CPO powers to best effect.

Changes to local governance

The way that local services and economic development are run in the Study Area reflects the historical identity of towns and cities and their relatively self-contained labour markets. There are 27 local authorities and plans for one combined authority operating in a mixture of two tier and unitary arrangements. There are currently 7 LEPs active in the area, 5 of which also cover places outside the Study Area.

The economic analysis and forecasting for this study shows that even in the baseline scenario population levels in the Study Area are likely to rise by circa 1 million people by 2050. Assuming the current trend towards increased urbanisation continues, then the majority of these people are likely to live and work in expanded existing towns and cities in the corridor. This is relevant when considering governance structures and systems. The politics of denser, more urban populations will have an impact, and arguably already is doing so, on both the local political level, support for infrastructure investment and the appetite for new approaches to governance locally.

From the research carried out for this study, summarised in Section 7, there is good evidence that the current complex local government structure is a relatively strong factor in several of the barriers to investment and growth that have been identified. This is particularly so for those that relate to the importance of a clear long term vision and strategy for a functional economic area, that has a strong spatial component and an achievable delivery plan. Quite simply, the way that investment in housing, transport and other services is managed is currently too fragmented to deliver the changes that are needed in the relationships between where people live, how they travel and where they work. This is a national issue, but it is particularly acute in an area that is seeking to increase housing growth, build on existing strengths in knowledge based businesses and is having to deal with the effects of the London-spillover.

The reports of the other work streams commissioned by the NIC suggests that the Study Area can credibly be seen as comprising four highly related but distinct economic areas. Our

research suggests that the importance of building a more integrated approach to investing in and planning for growth is recognised by local government, LEPs and other agencies operating in the corridor. Recent developments in governance in the Study Area are initial responses to these factors. For example, the proposed Mayoral Combined Authority for Cambridgeshire and Peterborough has a strong housing component, agreed with government precisely as a policy and funding solution to housing affordability issues in Cambridge. The Combined Authority proposals precisely recognise that the next stage of Cambridge’s housing and business growth will rely on working with neighbouring district councils. The Mayoral Combined Authority provides an excellent opportunity to develop a clear investment strategy for the Greater Cambridge area and put in place world class evidence and data on which to base investment decisions.

Milton Keynes’ 2050 Vision is a clear and thorough attempt to set out a long-term strategy for one of the major growth centres in the Study Area. On the other hand, at the western end of the Study Area, there is general agreement that the current system of two-tier local government in Oxfordshire may not be the most cost effective approach, nor able to deliver service reforms and strategic growth at the scale required. The fact that the debate about a potential solution is deeply tied into issues about the nature and location of housing and transport investment illustrates just how strongly the governance issue is connected to the ability to take long term strategic investment decisions across a wider economic area. Large scale sites, or proposals to link smaller sites together, require significant infrastructure investment, which often straddles administrative boundaries. To be dealt with effectively in the longer term, governance mechanisms will be needed that can operate across or instead of these boundaries.

Recent government policy on governance and devolution has been driven in part by a view that clear local accountability across larger geographies is needed if further powers and funding are to be devolved. This has been particularly the case for funding mechanisms and planning, where direct local political accountability has been seen as a prerequisite. A number of our suggested solutions would, under current policy, be likely to require some changes to local accountability. These include: MCIL (or its equivalent), larger scale spatial planning, and Mayoral Business Rate Levies, none of which are going to be achievable for most of the Study Area under current governance arrangements. Land Value Capture mechanisms are likely to feature heavily in a future investment. These mechanisms are heavily dependent on an understanding of the economic area on which the infrastructure investment impacts, which in many instances will be extend beyond the local authority area. It seems unlikely that these mechanisms can be used to best effect without a governance model which sits above individual local authorities.

There are essentially four building blocks to England’s current system of local government. These are local authorities, combined authorities, and mayoral combined authorities. Each is considered briefly below.

Local authorities

- Since 2009 Government has been wary of pushing for local government reorganisation, preferring to leave local places to bring forward proposals. However, the passage of the Cities and Local Government Devolution Act 2016 is a case in point, inviting local areas that did not wish to participate in combined authorities to propose “alternative governance arrangements”, which might include district council mergers, or the creation

of unitary authorities. It is conceivable that some local authorities within the Study Area might wish to consider how they would respond to this open invitation.

Combined authorities

- A combined authority is a legal structure which is established by means of an Order issued by the Secretary of State, at the request of two or more local authorities. These are essentially additional local government organisations which councils can choose to put in place to enable more than one local authority to combine its functions or to take on new functions. They can be focussed on growth, or take on wider service provision. Over the period 2016-2050 we can anticipate them being used increasingly to achieve economies of scale between councils.

Mayoral combined authorities

- The Cities and Local Government Devolution Act 2016 effectively allows a combined authority to establish a directly-elected mayor. There is strong international evidence that a single point of accountability and political mandate drives better growth focussed decision making in functional economic areas. This is particularly the case in cities, and London is the most developed UK example. The mayor generally chairs, and is a member of the combined authority. The powers and budgets conferred on the mayor differ in each of the devolution deals agreed to date, but generally include strategic transport powers, and varying degree of planning and housing-related powers. Cambridge is working through the process of establishing a mayoral combined authority at present, and we would expect other urban areas throughout the Study Area to consider this option in coming years as the mayoral governance model evolves.
 - The only planned combined authority in the Corridor, Cambridgeshire and Peterborough, is holding mayoral elections in May 2017. The establishment of combined authorities in different areas across the Corridor could deliver:
 - A more strategic approach to investment, intra-urban transport and housing expansion. This could include a revolving investment fund, which could make substantial contributions to infrastructure costs in an area.
 - Infrastructure levies and spatial plans to be established in their respective areas, to fund local infrastructure needs and ensure a joined-up approach to planning and housing delivery.
 - The establishment of place-based economic narratives, in order to secure the political support necessary for high levels of housing growth, and the associated infrastructure funding that is required to support it.
 - The potential for a growth and housing deal with central government. A deal would involve a plan being agreed for a number of major housing sites and related infrastructure, including the relevant utility companies and a plan for new schools and strategic reform of health care over the longer term (similar to the approach agreed for Greater Manchester).

- The basis for voluntary consolidation of local government, and the groundwork for potential unitarisation in areas of the Corridor to drive administrative efficiency.

Local Enterprise Partnerships

- Local Enterprise Partnerships are partnerships between local authorities and business which were initially created in 2011. Their role is to help determine local economic priorities and lead economic growth and job creation within the local area. In many instances, but not all, their footprint is more closely related to the underlining functional economic market than individual local authorities. Although they had a slow start, they have taken on an increasingly important role in long-term strategic economic planning. They produce strategic economic plans, and formulate proposals to Government for Local Growth Funding. LEPs vary in their effectiveness: the most effective LEPs have a significant impact on the local economy. Over time, it is quite possible that LEPs will play a strengthened role in the delivery of local economic growth. We might also expect changes to the geographical area covered by each LEP across the Corridor to reflect the changing patterns of local economic markets.

Development Corporations

- Urban Development Corporations were creatures of the 1980s, set up to oversee the regeneration and development of complex and often run down areas. Examples are Milton Keynes, Docklands, Merseyside, and West Northamptonshire. They had planning powers (in many instances they were able to determine strategic planning applications); they had a range of other specialist powers including the ability to acquire, manage and sell land and property, together with the powers to develop, invest and provide business support; and they generally managed very large regeneration and investment funds on behalf of the Government. The role of development corporations, their advantages and disadvantages, and their potential application to the Corridor, is discussed further in case studies in the SQW report.

Changes in governance should be accompanied by changes in funding. The London Finance Commission is pressing for the devolution of the full suite of property-related taxes (to include council tax, stamp duty, and planning levies and fees). There may be a case for evaluating the impact greater fiscal devolution might have on the Corridor in conjunction with a more co-ordinated “joined-up” governance model for the major urban centres within the Corridor, which brings greater control over “place-based” budgets.

Spatial strategies

The single most important impediment to investment and development raised with us as part of the stakeholder consultation exercise summarised in Section 7 was the lack of joined-up spatial planning. In considering any changes to governance arrangements across the Study Area, we recommend that due weight is given to the development of one or more spatial strategies reflecting the various functional economic market areas which exist across the Corridor.

This is a path which other authorities are considering. Many of the recent devolution deals, including Greater Manchester, Sheffield City Region and Liverpool City Region require the

creation of a new statutory spatial strategy. The Local Plans of the constituent local authorities will need to comply with the new spatial strategy. The precedent for these strategies is the London Plan, which is London's spatial development strategy, and with which all the individual boroughs' Local Plans must comply.

Some of the other devolution deals require a non-statutory strategic plan to be prepared, although how these plans will sit alongside the constituent authorities' Local Plans will need to be resolved.

The following case study summarises progress in implementing Greater Manchester's spatial strategy, the consultation for which has just been launched. Spatial strategies within the Corridor area would cover similar ground to the Greater Manchester Spatial Framework. Most importantly, they would set clear investment priorities for the economic area, potentially to be delivered within a broader regional economic framework, and they would identify and prioritise key strategic sites and the infrastructure required to deliver those sites. They would represent a clear statement of commitment to the investor and developers operating within the area covered by the spatial strategy.

Case study – Manchester Spatial Framework

- A consultation is underway on the draft Greater Manchester Spatial Framework.
- This will be the overarching planning policy framework within which the ten local planning authorities of each of the constituent members of the Greater Manchester Combined Authority will identify and manage the supply of land for jobs and new homes in Greater Manchester.
- The Spatial Framework, which begins by setting-out an economic vision for the Greater Manchester area, will include:
 - Determining how many new homes and how much land is needed for new jobs over the next 20 years;
 - Specifying broad locations for the development of new homes and employment space;
 - Identifying the infrastructure required to support the development; and,
 - Identifying how to safeguard green spaces and address environmental concerns arising from planned growth.
- As part of the process of preparing for the new spatial framework, the GMCA conducted a call for sites to help identify whether there are areas of land available for development that the WMCA were not aware of. We understand that this may have identified as many as 1,000 new sites.

Enhanced planning powers

Many of the devolution deals involve the transfer of some planning powers to city regions. As far as we are aware, mayoral planning powers, similar to those of the London Mayor, are not being granted to new Mayors. However, we have included a case study outlining the extent of the Mayor of London’s powers below, on the basis that a case for similar powers could well be made if as models of governance emerge over time across the Corridor. These powers could effectively provide “teeth” to the strategic spatial strategies. In many cases, the mere existence of a similar suite of powers may be sufficient to ensure appropriate support for significant strategic developments.

Case study – Mayor of London’s strategic planning powers

The Mayor of London is consulted on all planning applications that are of potentially strategic importance to London. These are known as “Referred Applications”, and currently include:

- All developments of 150 new homes;
- Development of over 30 metres in height; and,
- Development on Green Belt.

The Mayor does not have any powers to comment or intervene on any proposal that does not fulfil this definition of a Referred Application.

In considering how to respond to a Referred Application, the Mayor may either:

- Decide that the LPA should determine the case itself; or,
- Direct refusal; or,
- Use his call-in power, where he directs that he will become the LPA for an application.

Typically, the Mayor might be expected to exercise his call-in power if:

- The development would have a significant impact on the implementation of the London Plan; or,
- The development would have significant effects that are likely to affect more than one London borough; or,
- There are sound planning reasons for intervention.

Boris Johnson used the call-in power sparingly in his eight years as Mayor, calling in 17 applications, none of which have as yet been refused. It may be that simply the call-in power has been sufficient to encourage the London boroughs to take a less parochial view of development schemes than might have been the case had the Mayor not had call-in powers.

The role of public sector land in the Corridor

Analysis shows that there is still a lot of land in local authority areas that is in public ownership. Recent analysis by Savills and Telereal Trillium of Land Registry data suggests that at least 900,000 hectares, equivalent to 6% of all freehold land in England and Wales, is owned by public sector organisations¹⁰⁴. A split of one-third to two-thirds of this public sector land is owned by local government. On average, 15% of all land within urban local authorities is owned by the public sector. A number of strategic initiatives are under way to identify and release that land, including the One Public Estate work being led by the

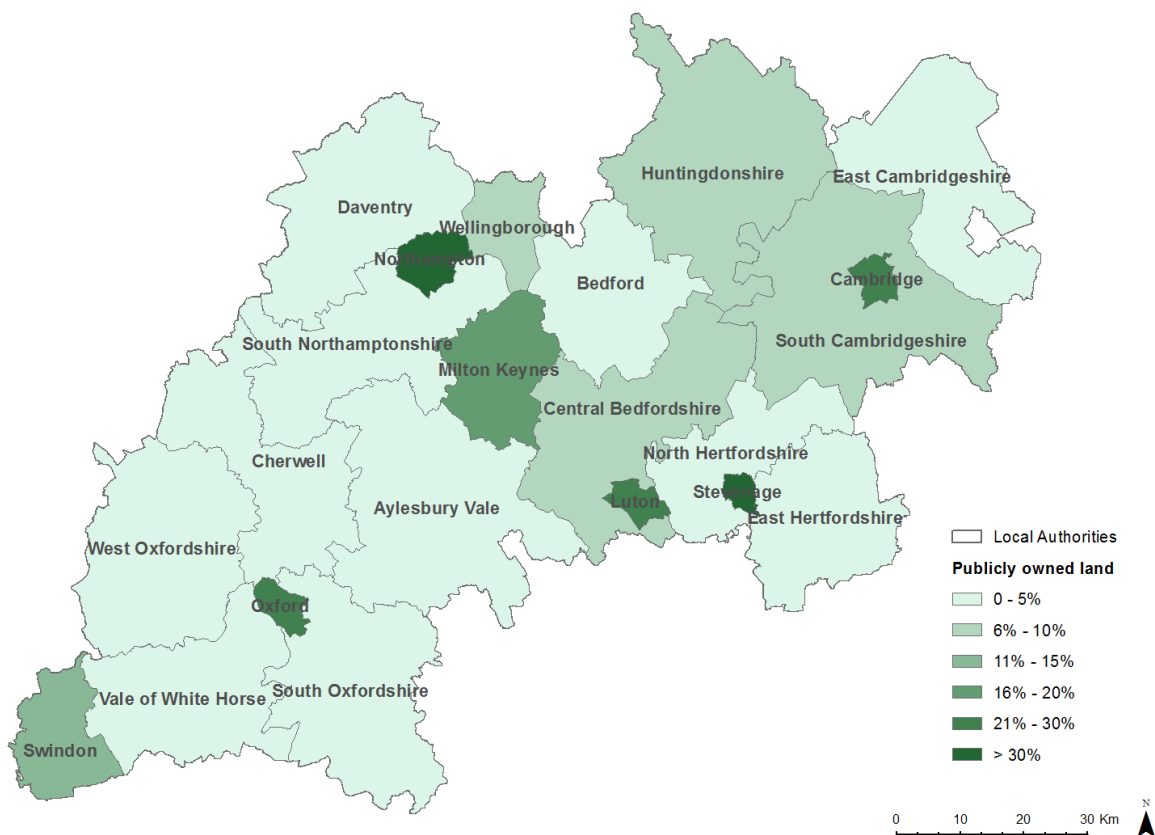
¹⁰⁴ <http://pdf.euro.savills.co.uk/uk/residential---other/new-homes-on-public-sector-land.pdf> (accessed 2 November 2016)

Government Property Unit, and the nationwide strategic reviews being completed by the NHS Clinical Commissioning Groups.

Many of the sites identified through surplus public sector land programmes have significant barriers to delivery. These will include the need to remediate brownfield plots, or alternatively, to provide significant supporting infrastructure. For example, former MoD sites in the Corridor could potentially provide plots for 55,000 homes. However, some of these sites are located in remote locations (which is precisely what made them so appropriate for MoD use), and will require significant investment in supporting roads, access and public transport to bring forward. This contrasts strongly with other types of public sector land, such as excess hospital land, which is often located in desirable locations near urban centres.

Figure 5, which is reproduced by permission of Savills and Telereal Trillium, demonstrates the extent of public sector land ownership within the Corridor. Although not all of this land is developable (it includes all currently operational land, as well as undevelopable land such as riverbeds) it nevertheless gives an idea of those authorities with the greatest public sector land holdings in the area.

Figure 5. Public sector land ownership within the Corridor



Source: Savills analysis of Land Registry title data

The 2016 Budget announced the Government’s target to unlock sufficient local authority-owned land to support 160,000 new homes by 2020. At the same time, the Local Government Association has said that it expects local authorities to raise £9.2bn in land sale receipts by 2018. Selling the land is one option. The issue is that the public sector is has a

duty to secure best value in the disposal or an interest in land. In assessing best value, consideration can only be taken into account if it has a commercial or monetary value which is capable of being assessed by a valuer. As it stands, a public sector landowner disposing of land cannot take into account broader economic or social objectives such as the creation of new jobs or the building of new homes, in arriving at its calculation of best value. This is potentially restricting landowners from taking a wider view of the best use of its surplus public sector land than might otherwise be the case, and is likely in itself to be restricting the building of new homes and business space. In any event, outright sale is likely to only be appropriate for straight forward sites without complicated remediation or infrastructure requirements. As an alternative to outright sale for these sites, some local authorities may also want to consider direct delivery. Birmingham Municipal Housing Trust set up by Birmingham City Council is a good example, which has so far directly built more than 900 new homes.

Larger, and more complex, sites are potentially better suited to joint venture arrangements, where the public sector landowner retains a significant equity ownership and benefits from the longer-term value created on the site. There are various levels of joint venture arrangements ranging from structures focused on getting planning, and providing the necessary infrastructure to enable the sale of serviced plots (at which point the public sector landowner receives its return), through to a full joint venture arrangement where the land is transferred into a Special Purpose Vehicle. In this case, the public sector landowner is generally a full partner and realises its return through the sale (or refinancing) of completed developments. These joint venture arrangements are more suited to larger, more complex sites, where there is a need for significant upfront infrastructure investment. The public sector landowner takes a far high level of risk than with outright sale, but this should be matched by a far greater return.

These more complex development models require varying levels of in-house knowledge, specialist legal skills to set-up, and sufficient resources to finance. Whilst a number of the larger authorities within the Corridor would have the necessary skills and resources to implement these development models, they are precisely the sorts of schemes which could be brought forward under the more collaborative governance arrangements set out above.

Appendix 1: List of acronyms

Acronym	Full name
“The CaMKOx Corridor”/the Corridor	The Cambridge, Milton Keynes and Oxford Growth Corridor
CIL	Community Infrastructure Levy
CIPFA	Chartered Institute of Public Finance and Accountancy
CPI	Consumer Price Index
CPO	Compulsory Purchase Order
DCLG	Department for Communities and Local Government
DfT	Department for Transport
EIB	European Investment Bank
EIP	Equal Instalment of Principal
ERDF	European Regional Development Fund
ESIF	European Structural and Investment Funds
EU	European Union
FCER	Flood and Coastal Erosion Resilience
GDP	Gross Domestic Product
GLA	Greater London Authority
GLIL	GMPF and LPFA Infrastructure LLP
GMPF	Greater Manchester Pension Fund
GPU	Government Property Unit
HCA	Homes and Communities Agency
IDP	Infrastructure Delivery Plan
JESSICA	Joint European Support for Sustainable Investment Cities in City Areas
LDO	Local Development Order
LEP	Local Enterprise Partnership
LGF	Local Growth Fund
LPA	Local Planning Authority
LPFA	London Pension Fund Authority

Acronym	Full name
MCIL	Mayoral Community Infrastructure Levy
MoD	Ministry of Defence
MSIF	Multi-Strategy Infrastructure Fund
NHB	New Homes Bonus
NIC	National Infrastructure Commission
NNDR	National Non-Domestic Rates
NPPF	National Planning Policy Framework
OBR	Office of Budget Responsibility
ONS	Office for National Statistics
PFS	Planning Freedom Scheme
PiP	Permission in Principle
PPP	Public Private Partnership
PWLB	Public Works Loan Board
RPI	Retail Price Index
RSG	Revenue Support Grant
RSL	Registered Social Landlord
RV	Rateable Value
s106	Section 106 Planning Obligations
SFA	Settlement Funding Assessment
SHMA	Strategic Housing Market Assessment
THFC	The Housing Finance Corporation
T&P	Tariff and Prospectus
TfL	Transport for London
UDC	Urban Development Corporation
UKMBA	UK Municipal Bond Agency
VOA	Valuation Office Agency

Appendix 2: List of consultees

Organisation	Name	Position	Industry
Barton Willmore	Carolyn Organ	Planning Associate	Consultant
Buckinghamshire LEP	Richard Harrington	Chief Executive	Local Enterprise Partnership
Cambridge Connect	Colin Harris	Founder	Transport policy
Cambridgeshire County Council	Graham Hughes	Executive Director, Economy, Transport and Environment	Local authority
Cambridgeshire County Council	Gillian Beasley	Chief Executive	Local authority
Central Bedfordshire Borough Council	Richard Carr	Chief Executive	Local authority
Corpus Christi College, Cambridge University	Tim Harvey-Samuel	Bursar	Employer/Landowner/Investor
Countryside Properties	Andrew Carrington	Director	Housebuilder
Daventry District Council	Ian Vincent	Chief Executive	Local authority
Daventry District Council	Simon Bovey	Deputy Chief Executive	Local authority
David Lock Associates	Heather Pugh	Partner	Consultant
East Hertfordshire District Council	Liz Watts	Chief Executive	Local authority
Endurance Estates	Tim Holmes	Chief Executive	Developer/Investor
Forward Swindon	Deb Heenan	Director	Economic development
Gallagher Estates	Spencer Claye	Projects Director	Strategic land promoter
Gardner Planning	Geoff Gardner	Director	Consultant
Government Property Unit	Bruce Mann	Head	Other
Greater Cambridge and Greater Peterborough LEP	Neil Darwin	Chief Executive	Local Enterprise Partnership
Grosvenor	Silvia Lazzarini	Senior Development Director	Developer/Investor

Organisation	Name	Position	Industry
Hertfordshire LEP	Neil Hayes	Executive Director	Local Enterprise Partnership
Hill	Rob Hall	Development Director	Housebuilder
Huntingdonshire District Council	Jo Lancaster	Managing Director	Local authority
Huntingdonshire District Council	Nigel McCurdy	Corporate Director	Local authority
Igloo Regeneration	Chris Brown	Chief Executive	Developer/Investor
L & Q	Jerome Geoghegan	Development Director	RSL
Miller Homes	Andy Evans	Strategic Planning Manager	Housebuilder
Milton Keynes Council	Duncan Sharkey	Corporate Director, Place	Local authority
Milton Keynes Council	Carole Mills	Chief Executive	Local authority
Nathaniel Lichfield & Partners	Mark Schmull	Associate Director	Consultant
Nationwide Building Society	Andrew Tuck	Head of Workplace Services	Employer
Nationwide Building Society	Martyn Eagles		Employer
Oxford Brookes University	Julie McLeod	Pro Vice-Chancellor (Student Experience)	Employer
Oxfordshire County Council	Llewelyn Morgan	Service Manager: Infrastructure, Innovation and Development	Local authority
Oxfordshire LEP	Nigel Tipple	Chief Executive	Local Enterprise Partnership
Smithson Hill	Emma Fletcher	Managing Director	Developer
South East Midlands LEP	Stephen Catchpole	Chief Executive	Local Enterprise Partnership
South Oxfordshire and Vale of White Horse District Councils	David Hill	Chief Executive	Local authority
Stevenage BioScience Catalyst	Martino Picardo	Chief Executive	Employer

Organisation	Name	Position	Industry
Suffolk Chamber of Commerce	Nick Burfield	Policy Director	Employer
Swindon and Wiltshire LEP	Paddy Bradley	Director	Local Enterprise Partnership
Swindon Borough Council	Andy Evans	Corporate Director of Economy, Regeneration and Skills	Local authority
Swindon Borough Council	Trudy Godfrey	Senior Commissioner, Growth and Regeneration	Local authority
Swindon Borough Council	Sam Howell	Strategic allocations planning manager and New Eastern Villages programme lead	Local authority
Telereal Trillium	Paul Disley-Tindall	Director, Corporate Real Estate	Developer/Investor
West Oxfordshire District Council	Christine Gore	Strategic Director	Local authority

Appendix 3: Cost of infrastructure extracted from IDPs by local authority

Local authority	Health £m	Education £m	Green infrastructure £m	Utilities £m	Social and community £m	General £m	Transport £m	TOTAL £m
Aylesbury Vale District Council		16.0					475.0	491.0
Bedford Borough Council		24.0				61.2	28.9	114.1
Cambridge City Council		73.2	1.7	21.8	34.0		1247.5	1378.2
Central Bedfordshire Council	28.0	224.0	73.0	84.0	55.0	55.0	1040.2	1559.2
Cherwell District Council		30.0		10.0	19.0		501.0	560.0
Daventry District Council		35.0					30.0	65.0
East Cambridgeshire District Council	7.4	140.5	12.2		7.5		209.0	376.6

Local authority	Health £m	Education £m	Green infrastructure £m	Utilities £m	Social and community £m	General £m	Transport £m	TOTAL £m
East Hertfordshire District Council								
Huntingdonshire District Council		34.1	27.0	10.0	34.1	192.4	1553.8	1851.4
Luton Borough Council		37.0		18.5			982.0	1037.5
Milton Keynes Council	94.2	207.4	42.2	129.0	109.9		343.0	965.4
Northampton Borough Council	12.5	48.0		109.6		235.0	138.7	543.8
Oxford City Council								
South Cambridgeshire District Council		61.2		9.5	148.4		417.0	636.1
South Northamptonshire Council		9.5		17.3		45.0	13.9	85.7
South Oxfordshire District Council		62.0			22.6		215.7	300.3
Stevenage Borough Council	28.0	46.0			15.0		203.0	292.0
Swindon Borough Council	14.5				76.7	42.0	171.0	864.2

Local authority	Health £m	Education £m	Green infrastructure £m	Utilities £m	Social and community £m	General £m	Transport £m	TOTAL £m
Vale of White Horse District Council		90.0		8.0	22.0		218.8	338.8
Wellingborough (Borough Council of)							118.0	118.0
West Oxfordshire District Council		39.6	22.0		25.0		71.8	158.4
TOTAL	184.6	1177.5	178.1	417.7	569.2	630.5	7,978.3	11,735.5

Note: As detailed in Section 4, several councils do not have relevant IDPs. Therefore, their rows have been left blank. Meanwhile, some IDPs do not contain projects of all of the categories above, and thus their boxes have been left blank.

Appendix 4: Projects removed from the Pipeline to minimise double-counting with IDPs.

The following projects have been removed from the Pipeline.

Project	Cost £m
Luton Airport	114.8
A1(M) Junctions 6 to 8	75.0
A14 Cambridge to Huntingdon	1,379.0
A428 Black Cat to Caxton Gibbet	241.7
A5-M1 Link Road	160.3
M1 J13-19	472.6
Milton Keynes Waste Management Project	No cost in pipeline
East West Rail	No cost in pipeline
TOTAL	2,443.4

It should be noted that due to the way projects are grouped and costed, there remains the possibility of some double-counting between the Pipeline and IDPs despite the removal of the above projects.

Appendix 5: CIL charging schedules by local authority

Local authority	Development type	Area	CIL rate per square metre £
Bedford Borough Council ¹⁰⁵	Residential Area 1	Shortstown (west), Cotton End, Elstow	40
	Residential Area 2	South Bedford, Kempston, Shortstown (east), Stewartby	55
	Residential Area 3	Bromham, Cardington, Carlton, Clapham, Cople, Dean and Shelton, Great Barford, Great Denham, Kempston Rural, Little Barford, Melchbourne and Yelden, Milton Ernest, Oakley, Pertenhall, Ravensden, Renhold, Riseley, Roxton, Stagsden, Stevington, Swineshead, Thurleigh, Turvey, Wilden, Willington, Wilstead, Wixams, Wootton, Wyboston Chawston and Colesden, Wymington	100
	Residential Area 4	North Bedford and Biddenham	125
	Residential Area 5	Bletsoe, Bolnhurst and Keysoe, Colmworth, Felmersham and Radwell, Harrold, Knotting & Souldrop, Little Staughton, Odell, Pavenham, Podington and Hinwick, Sharnbrook, Staploe & Duloe	120
	Care homes/extra care and other residential institutions		0
	Industrial/warehousing		0
	Offices		0
	Convenience based supermarkets/superstores/retail warehouses		120
	Other uses		0
	Residential Urban Zone		50

¹⁰⁵ Bedford Borough Council CIL Charging Schedule, available online at: <http://edrms.bedford.gov.uk/OpenDocument.aspx?id=0XiC8qAFI9woNu%2fOdJg0rA%3d%3d&name=CIL%20Charging%20Schedule.pdf>

Local authority	Development type	Area	CIL rate per square metre £
Daventry District Council ¹⁰⁶	Residential Rural Zone, sites at or above the affordable housing threshold		65
	Retail (excluding central zone)		200
	All other uses		100
East Cambridgeshire District Council ¹⁰⁷	Residential Zone A	Littleham and Soham	40
	Residential Zone B	Ely	70
	Residential Zone C	Rest of District	90
	Retail development		120
	All other uses		0
Huntingdonshire District Council ¹⁰⁸	Business, general industrial, storage and distribution, community uses, agriculture		0
	Health		65
	Class C2 uses		45
	Class C1 uses		60
	All A Class uses >500sqm		100
	All A Class uses <500sqm		40
	All other uses		85 (standard rate)
Northampton Borough Council ¹⁰⁹	Residential (excluding SUEs)		50
	Residential SUEs		50
	Retail (excluding central zone)		100
	All other uses		0

¹⁰⁶ Daventry District Council CIL Charging Schedule, available online at: <https://www.daventrydc.gov.uk/living/planning-policy/cil/>

¹⁰⁷ East Cambridgeshire District Council CIL Charging Schedule, available online at:

<http://www.eastcambs.gov.uk/sites/default/files/final%20charging%20schedule%2010.16.pdf>

¹⁰⁸ Huntingdonshire CIL Charging Schedule 2012, available online at: <http://www.huntingdonshire.gov.uk/media/1048/cil-charging-schedule.pdf>

¹⁰⁹ Northampton Borough Council CIL Charging Schedule, available online at: <http://www.northampton.gov.uk/cil>

Local authority	Development type	Area	CIL rate per square metre £
Oxford City Council¹¹⁰	A1 Shops		100
	A2 Financial and professional services		100
	A3 Restaurants and cafés		100
	A4 Drinking establishments		100
	A5 Hot food takeaways		100
	B1 Business		20
	B2 General industrial		20
	B8 Storage or distribution		20
	C1 Hotels		20
	C2 and C2A Residential institutions and Secure Residential Institution		20
	C3 Dwelling houses		100
	C4 Houses in multiple occupation		100
	Student accommodation		100
	D1 Non-residential institutions		20
	D2 Assembly and leisure		20
All development types		20 (standard rate)	
South Northamptonshire District Council¹¹¹	Residential Urban Zones and SUEs	Brackley and Towchester	50
	Residential Rural Zone, sites at or above the affordable housing threshold		100
	Residential Rural Zone, sites below the affordable housing threshold		200
	Retail		100

¹¹⁰ Oxford City Council CIL Final Charging Schedule, available online at: https://www.oxford.gov.uk/downloads/file/1403/cil_final_charging_schedule

¹¹¹ South Northamptonshire District Council CIL Charging Schedule, available online at: <http://www.southnorthants.gov.uk/CILChargingScheduleJan2016.pdf>

Local authority	Development type	Area	CIL rate per square metre £
	All other uses		0
South Oxfordshire District Council¹¹²	Residential Development Zone 1		150
	Residential Development Zone 2	Didcot and Berinsfield	85
	Residential Development: Strategic Sites	Didcot North East, Ladygrove East, Wallingford Site B	0
	Care homes/residential institutions		0
	Residential Rural Exception Sites		0
	Offices		0
	Supermarkets/superstores/retail warehouses		70
	Other retail development		0
	Hotels		0
	Other uses		0
Swindon Borough Council¹¹³	Residential Zone 1	Swindon's New Communities	0
	Residential Zone 2	Rest of Borough	55
	Retail Zone 1	Town Centre and Swindon's New Communities	0
	Retail Zone 2	Rest of Borough (excluding Town Centre and Swindon's New Communities)	100
	All other uses		0

¹¹² South Oxfordshire District Council CIL Charging Schedule, available online at: http://www.southoxon.gov.uk/ccm/support/dynamic_serve.jsp?ID=594778137&CODE=11B16498720D7CCC33AC58BE67280512

¹¹³ Swindon Borough Council CIL Charging Schedule, available online at: www.swindon.gov.uk/cil

Appendix 6: Impact of 100% business rates retention

Although the shape of the final business rate reforms is uncertain, we have undertaken some modelling of one possible outcome for 2019/20, the first year of the new system, based on the assumptions stated below. A fuller list of assumptions is given in Appendix 7.

Whilst it is likely that councils will enjoy a greater share of their business rates growth, it is unlikely to be 100%. For example, the split between county councils and district councils (under the current system districts receive 40%, counties 10% and the Government receives 50%) is likely to be revisited. The transfer of responsibilities to compensate for the rise in aggregate SFA with full business rates retention is likely to fall most heavily on county councils, and thus their share of the business rates take is likely to rise. For the sake of simplicity, and to reflect this increase in responsibilities, we have assumed that under the new system counties will retain 50% and districts will retain 50%. The figures for retained business rates for each council is shown in Column 3 of Table 23 below.

We have made various assumptions about the 2019/20 SFA for each council. The aggregate SFA across England for 2019/20 is projected to be £14.5bn, whilst the OBR's predicted business rates income is £30.3bn. Subtracting estimates for business rates relief (in 2014/15, 12.5% of all income was spent on business rate reliefs) we have calculated that the net aggregate business rates income across England in 2019/20 will be £26.94bn. This means that net aggregate business rates income is 86% higher than aggregate SFA (£14.5bn*1.86~£26.94bn). To reflect this, each council's projected 2019/20 SFAs have been multiplied by 1.86 to estimate their increased SFA from business rates retention (Column 4).

We have also increased councils' 2014/15 business rates income by 7.8% (the OBR's projected national increase in business rates income from 2014/15 to 2019/20) to estimate each council's business rate collection in 2019/20 (Column 2).

In Column 5, we have estimated the percentage uplift in SFA a 1% increase in business rates would have for each authority. This has been estimated by dividing 1% of total projected business rates retention (Column 3) by the calculated 2019/20 SFA (Column 4). The percentage result indicates the level of incentive each council has for policies which result in business rates increases. In essence, the higher the percentage, the greater the incentive a council has to adopt growth policies because of the proportionate effect these would have on their SFA. Table 23 shows this percentage for each council.

All of these figures must, however, be treated as only very precursory estimates. As previously mentioned, legislative uncertainty means that we cannot know what percentage of business rates growth local authorities will be allowed to retain. The modelling assumes that they will be allowed to keep the full growth in 2019/20, but this will almost certainly not be the case. Equally uncertain is the effect of 2017 revaluation. The revaluation will have an impact on each council's business rates collection and means these figures should again be treated as precursory estimates. Our figures also include business rates appeals, which can have a significant impact on a council's business rates income.

Table 22. Percentage increase in calculated SFA for a 1% uplift in business rates.

Local authority ¹¹⁴	2014/15 outturn SFA £m ¹¹⁵	Projected business rate take 2019/20 £m ¹¹⁶	Total projected business rates retention [Projected business rate take x precept amount] £m	Calculated 2019/20 SFA [Projected 2019/20 SFA x business rates retention result] £m	% uplift in Calculated SFA of a 1% increase in business rates [Total projected business rates retention/Calculated 2019/20 SFA]
District and unitary authorities					
Aylesbury Vale District Council	3.3	52.9	26.5	6.1	4.4%
Bedford Borough Council	37.6	66.1	64.8	69.9	0.9%
Cambridge City Council	4.2	98.1	49.1	7.8	6.3%
Central Bedfordshire Council	30.6	82.6	80.9	56.9	1.4%
Cherwell District Council	3.9	71.4	35.7	7.3	4.9%
Daventry District Council	2.0	38.3	19.1	3.6	5.3%
East Cambridgeshire District Council	2.5	19.6	9.8	4.6	2.1%
East Hertfordshire District Council	2.0	41.6	20.8	3.8	5.5%
Huntingdonshire District Council	4.5	56.6	28.3	8.4	3.4%
Luton Borough Council	59.0	63.40	62.1	109.7	0.6%
Milton Keynes Council	51.6	154.7	151.6	95.8	1.6%
North Hertfordshire District Council	1.6	39.2	19.6	3.0	6.5%
Northampton Borough Council	6.7	103.5	51.7	12.4	4.2%

¹¹⁴ All county council business rates figures only include business rates from the constituent district councils that are located in the Corridor.

¹¹⁵ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/277419/Key_Information_Table_for_LAs_-_FINAL.xls. Projected SFA for county councils is for the county council as a whole, not just constituent districts within the Corridor.

¹¹⁶ All counties have been allocated figures in this column for their constituent districts in the Corridor. This is therefore double counting with districts and is excluded from the total.

Local authority ¹¹⁴	2014/15 outturn SFA £m ¹¹⁵	Projected business rate take 2019/20 £m ¹¹⁶	Total projected business rates retention [Projected business rate take x precept amount] £m	Calculated 2019/20 SFA [Projected 2019/20 SFA x business rates retention result] £m	% uplift in Calculated SFA of a 1% increase in business rates [Total projected business rates retention/Calculated 2019/20 SFA]
Oxford City Council	5.9	79.3	39.7	11.0	3.6%
South Cambridgeshire District Council	2.0	72.6	36.3	3.6	10.0%
South Northamptonshire Council	1.5	19.4	9.7	2.8	3.5%
South Oxfordshire District Council	2.4	44.2	22.1	4.4	5.1%
Stevenage Borough Council	2.5	48.0	24.0	4.7	5.1%
Swindon Borough Council	36.3	111.1	108.9	67.4	1.6%
Vale of White Horse District Council	2.1	57.4	28.7	4.0	7.3%
Wellingborough (Borough Council of)	2.6	29.5	14.8	4.9	3.0%
West Oxfordshire District Council	2.2	34.2	17.1	4.1	4.2%
TOTAL	489.2	1383.6	921.3	496.2	4.1%
County councils					
Buckinghamshire County Council	92.3	52.9	26.5	61.7	N/A ¹¹⁷
Cambridgeshire County Council	130.2	246.9	123.4	107.1	N/A ¹¹⁸
Hertfordshire County Council	255.1	128.8	64.4	232.1	N/A ¹¹⁹
Northamptonshire County Council	185.6	190.7	95.4	188.1	N/A ¹²⁰
Oxfordshire County Council	144.7	286.4	143.2	121.0	1.2%

¹¹⁷ Not available as not all district councils in Buckinghamshire are in the Corridor.

¹¹⁸ Not available as not all district councils in Cambridgeshire are in the Corridor.

¹¹⁹ Not available as not all district councils in Hertfordshire are in the Corridor.

¹²⁰ Not available as not all district councils in Northamptonshire are in the Corridor.

Local authority ¹¹⁴	2014/15 outturn SFA £m ¹¹⁵	Projected business rate take 2019/20 £m ¹¹⁶	Total projected business rates retention [Projected business rate take x precept amount] £m	Calculated 2019/20 SFA [Projected 2019/20 SFA x business rates retention result] £m	% uplift in Calculated SFA of a 1% increase in business rates [Total projected business rates retention/Calculated 2019/20 SFA]
TOTAL	807.9	905.7	452.9	710.0	N/A
GRAND TOTAL	1,297.1	1,383.6	1,374.2	1,206.2	N/A

All district councils in the Corridor have their business rates tariffed, and they are therefore the most leveraged by business rates retention. This is partly because business rates will make up the entirety of their baseline funding by 2019/20, and also because they have such a low SFA relative to their rates income, such that any increases in business rates income would be substantial. As the graph above demonstrates, a 1% increase in business rates would see at least a 2% increase in each district council's SFA, and up to a 10% increase for South Cambridgeshire. Clearly the higher percentage rise in SFA as a result of business rates increases, the higher incentive a council has to invest in pursuit of business rates growth. Thus, unitary authorities, particularly those with a high level of relative need such as Luton, enjoy a lower incentive to invest for growth than any of the districts. Whilst the exact distribution of business rates for each type of authority is yet to be determined, district councils are unlikely to retain less than their current level of 40%. Therefore, it would be reasonable assumption to conclude that of all the councils in the Corridor it is the districts which have the greatest incentive to pursue growth producing policies and investment strategies.

There is no clarity at the moment as to whether the safety net or levy will be retained on the introduction of the business rate reforms, and we have therefore not taken this into account when looking at the impact of retention on business rate income. However, the graph does demonstrate that it is the districts in the Corridor which would be most likely to be effected by these policy changes. Districts such as South Cambridgeshire, Vale of White Horse, North Hertfordshire and Cambridge (with a high % uplift) would clearly enjoy a reduced incentive to invest for growth if the levy was high, and would be most affected by the removal of the safety net.

Impact of Local Plan projected growth on business rates income

This modelling has provided an indication of which councils benefit (or lose out) from policies which promote business rate growth. What they do not do is give any indication of the extent to which councils will benefit from the proposed growth implicit in their Local Plans. In order to model this, we have looked at the projected level of employment space growth in each council area, as extracted from each council's Local Plan. We have combined this data with VOA business rates projections (from which we have calculated average business rates income per square metre of employment land for each local authority), to estimate the annual increase in business rates for each authority in Column 7 in Table 23. The assumptions on which this analysis is based are detailed in Appendix 7 and briefly summarised below.

We have used 2017 draft revaluations from the VOA to estimate the calculated business rate income per square metre for each council. This has been calculated by aggregating the total projected rateable value for rateable properties in each council area, and dividing this by the total employment space in that area. Using 2017/18 projected multipliers, we have then calculated the business rate income per square metre for each council. As in Table 23, we have assumed that the benefits of business rates increases will be shared equally between districts and counties in two-tier areas, whilst unitary authorities are assumed to retain 98% of income.

Using Savills’ employment land growth estimates sourced from Local Plans (all of those which cover the period 2019/20-2025/26 and are over a 20-year period), we have calculated an average yearly growth in employment land. Using estimates from Savills (in the footnote of Column 6) on the relationship between hectarage and rateable values, we have calculated how this translates into growth in employment space. We have then multiplied our calculation for business rates for the council per square metre (Column 5) by this annual employment space growth figure to estimate the annual business rates income from employment space growth for each authority annually between 2020/21 and 2025/26.

This is an estimate and contingent on full business rates retention, the Local Plan growth being averaged and spread over the 6-year period, and no growth in enterprise zones (which is unlikely to be the case, but difficult to model). Furthermore, all buildings under £12k in value have been assumed to not pay business rates. Finally, all figures assume 2016/17 values (as the rateable values are draft values for 2017) and any growth is exclusive of economic impacts, changes in the economic cycle, business rates appeals and rateable revaluation. Figures therefore give a very high level estimate of potential take for each council, and should not in any sense be considered as a projection.

Table 23. Calculated annual business rates increase given predicted employment land growth

Local authority	Calculated 2019/20 SFA ¹²¹ £m	Total projected business rates collection 2019/20 ¹²² £m	Calculated business rate income per sqm £	Retained business rates per sqm £	Predicted annual employment land growth 2020/21-2025/26 Ha ¹²³	Annual income from employment space growth 2020/21-2025/26 ¹²⁴ £m ¹²⁵
District and unitary authorities						

¹²¹ Projected SFA for county councils is for the county council as a whole, not just constituent parts of it in the corridor.

¹²² All county council business rates figures only include business rates from the constituent district councils that are located in the Corridor.

¹²³ See Savills report. All county council figures are for the constituent districts located in the Corridor for which there are appropriate Local Plans in place. There is therefore a degree of double counting between districts and county councils. Where we have not received information from Savills on employment space growth for a local authority area, or the Local Plan does not cover 2020/21-2025/26, cells for columns 6 and 7 have been left blank.

¹²⁴ All county council numbers refer to their share of the growth of floor space in the constituent districts which have figures and are in the Corridor.

¹²⁵ In line with industry standard, any site allocated in Local Plans as B1 employment land (2 or 3 storeys generally) has been given an employment space ratio of 80%. All B2/B8 land has been given a ratio of 40%. Any unspecified land has been given a ratio of 60%. Any combination of B2 and B1 (C) have been given a value of 40%. Any Enterprise Zones that have been identified in Local Plans have also been given a value of 40%, to reflect the fact that although some land will be B1 employment land, there is no analysis of this land and their 5-year exemption from business rates (up to £275k over 5 years) reduces the business rates payable on these premises.

Local authority	Calculated 2019/20 SFA ¹²¹ £m	Total projected business rates collection 2019/20 ¹²² £m	Calculated business rate income per sqm £	Retained business rates per sqm £	Predicted annual employment land growth 2020/21-2025/26 Ha ¹²³	Annual income from employment space growth 2020/21-2025/26 ¹²⁴ £m ¹²⁵
Aylesbury Vale District Council	6.1	26.5	26.1	13.1	7.8	0.5
Bedford Borough Council	69.9	64.8	22.2	21.8	3.3	0.4
Cambridge City Council	7.8	49.1	78.4	39.2	0.8	0.2
Central Bedfordshire Council	56.9	80.9	17.5	17.2	3.9	0.3
Cherwell District Council	7.3	35.7	38.7	19.4	3.3	0.4
Daventry District Council	3.6	19.1	18.6	9.3		
East Cambridgeshire District Council	4.6	9.8	15.4	7.7	2.1	0.1
East Hertfordshire District Council	3.8	20.8	31.2	15.6		
Huntingdonshire District Council	8.4	28.3	17.2	8.6		
Luton Borough Council	109.7	62.1	29.0	28.4	2.4	0.4
Milton Keynes Council	95.8	151.6	32.6	31.9	6.2	1.0
North Hertfordshire District Council	3.0	19.6	24.9	12.5		
Northampton Borough Council	12.4	51.7	23.1	11.6		
Oxford City Council	11.0	39.7	54.3	27.2		
South Cambridgeshire District Council	3.6	36.3	39.1	19.6	2.2	0.4
South Northamptonshire Council	2.8	9.7	13.9	7.0	0.5	0.0

Local authority	Calculated 2019/20 SFA ¹²¹ £m	Total projected business rates collection 2019/20 ¹²² £m	Calculated business rate income per sqm £	Retained business rates per sqm £	Predicted annual employment land growth 2020/21-2025/26 Ha ¹²³	Annual income from employment space growth 2020/21-2025/26 ¹²⁴ £m ¹²⁵
South Oxfordshire District Council	4.4	22.1	29.2	14.6	0.8	0.1
Stevenage Borough Council	4.7	24.0	38.8	19.4	1.2	0.2
Swindon Borough Council	67.4	108.9	30.3	29.7	10.0	2.1
Vale of White Horse District Council	4.0	28.7	31.4	15.7	7.1	0.5
Wellingborough (Borough Council of)	4.9	14.8	16.1	8.1		
West Oxfordshire District Council	4.1	17.1	24.4	12.2	1.4	0.1
Average/total	496.2	921.3	652.4	389.8	53	6.6
County councils						
Buckinghamshire County Council	61.7	26.5	26.1	13.1	7.8	0.5
Cambridgeshire County Council	107.1	132.4	35.1	17.6	5.1	0.6
Hertfordshire County Council	232.1	64.4	31.2	15.6	1.2	0.2
Northamptonshire County Council	188.1	95.4	19.6	9.8	0.5	0.0
Oxfordshire County Council	121.0	143.2	36.4	18.2	12.6	1.01
Average/total	710.0	461.9	148.4	74.3	27.2	2.3
GRAND TOTAL	1,206.2	1,383.2	29.7	29.5	53.0	8.8

Note: all local authorities that have blank figures for Columns 6 and 7 do not have relevant Local Plans for the time period.

From this analysis, we estimate that the impact of proposed Local Plan development during the period 2020/21 to 2025/26 could be an annual uplift in business rates of around £9m. This figure relates only to those councils with Local Plans in place which has enabled us to model the impact of the business rate reforms. Given that only covers 15 of the 22 district and unitary councils, this is likely to be a significant under estimate.

As mentioned above, all figures in Table 23 are based on a number of estimates and assumptions, not least of all around how the business rates retention system will operate

in practice. Our assumption that all business rates growth will be retained by the relevant local authorities is a bold assumption. Our figures should therefore be treated as nothing more than broad estimate at this stage of the impact of one view of how the reformed business rate might work.

Our analysis does demonstrate how business rates per sqm vary significantly across the Corridor. Urban councils with strong local economies and property markets have the level of business rates per sqm, and therefore a strong incentive to invest for growth. For example, Cambridge and Oxford have the highest rates at £78.4psm and £54.3psm respectively.

This analysis also demonstrates how the incentive to invest for growth is determined by the type of council. Thus, unitary councils such as Swindon, Luton and Milton Keynes (with retained business rates of £29.7, £28.4 and £31.9 per sqm respectively) are assumed to have a 98% retention rate, and so enjoy a significant incentive to boost employment space growth. This compares favourably to districts and counties (which we are assuming will retain 50% each), and highlights the need for counties and districts to collaborate to fully capture value from projects.

In terms of investing in the infrastructure necessary to deliver the Local Plan growth, Swindon is projected to gain the most. As a unitary council with the highest level of employment land growth, our model assumes Swindon will receive over £2m a year of additional rates. Indeed, the success of the unitaries in developing employment land is a key finding in our work. All 5 of the Corridor's unitary authorities are in the top 8 councils for annual growth in employment land (out of 15). It is notable too that the other 3 district councils in the top 8 (Cherwell, Vale of White Horse and Aylesbury Vale) have much of their employment land growth driven by Enterprise Zones. Given that the unitaries lead the way in terms of projected annual development of employment space and benefit from a projected retention rate of 98%, our analysis suggests that the unitary councils will be amongst the largest financial beneficiaries from business rate reform in the context of their proposed investment strategies.

Appendix 7: Business rate modelling methodology

Assumptions for business rate modelling:

- **County councils:** Given SFA for county councils is total SFA for that county. However business rates calculations are only for its constituent district authorities that are located in the corridor.
- **In terms of timescale:** The entirety of business rates revenue (around £30bn) will be under the control of local authorities by 2020/21, and the main local government grant (the RSG) will be phased out. The total of this £30bn will be devolved to local government, being allocated as a proportionate increase to each council.
- **There will be no losers up to 2019/20:** Following the spirit of 50-per-cent retention in 2013, retention is defined at an aggregate level. The system will start out with no losers, with a system of tariffs and top-ups based on the Business Rates maintaining parity up to this point. Our determination of funding through the RSG has been updated from current calculated SFAs.
- **Projected business rates:** Business rates for each council area will rise from 2014/15 with the Office of Budget Responsibility average.
- **There will be no levy on disproportionate growth:** In line with recent government announcements, we are assuming there will be no levy on disproportionate business rates growth for councils, though this has not yet been confirmed.
- **Council will retain 100% of growth from the 2019/20 baseline:** There has been no guidance on this yet by the government, though in reality it is unlikely councils will receive full retention.
- **Revaluation:** The effects of revaluation on each council's 2014/15 business rates has been excluded.
- **Appeals:** The effects of business rate appeals on actual revenue has been excluded. Appeals can vary across each council and are difficult to model.
- **Inflation:** All results are published in 2014/15 prices.
- **Precepts:** Unitary authorities will receive 98% retention, whilst counties and districts will receive 50% retention each.

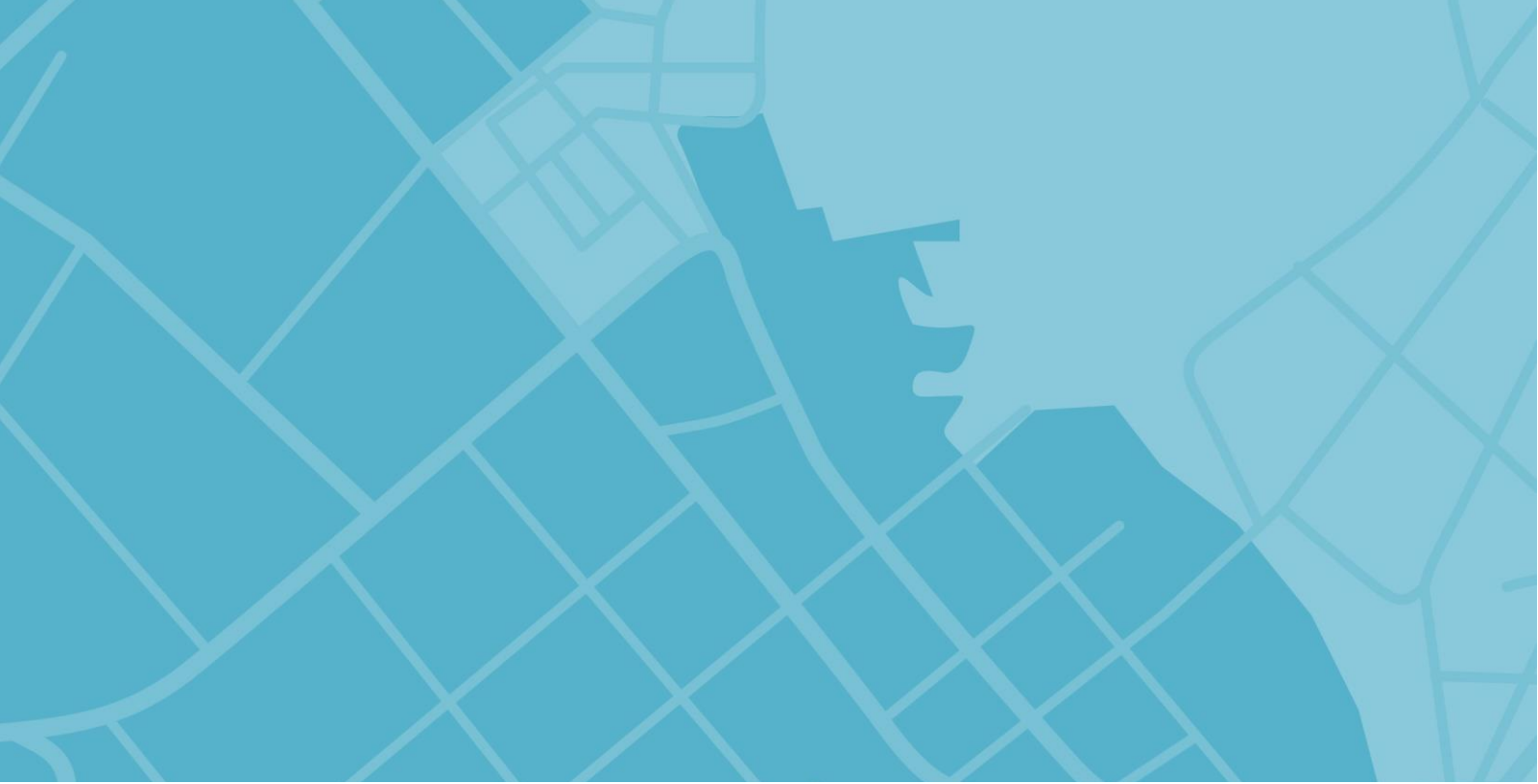
Assumptions for income per square metre modelling:

- **County councils:** All assumptions for county council figures in the footnotes. However, in short, all figures for Columns 6 and 7 are totalled from the councils that

have figures in their Local Plans. The figure for Columns 2,3,4 and 5 however is accrued from all constituent district councils that are in the corridor.

- **Rateable Values:** 2017 draft rateable values are used for the calculation of rateable vales per sqm.
- **2017/18 draft multipliers are used:** to reflect the impact of the draft rateable values.
- **There will be no successful business rates appeals:** This is very difficult to model, and any revaluation figures for challenged rates is almost impossible to predict.
- **Projected SFA 2019/20:** All assumptions from Table 22.
- **Projected business rates:** All assumptions from Table 22. Importantly, business rates take in 2014/15 relies on 2010 rateable values. We therefore expect the distribution of income to be different between councils as a result of the new changes.
- **Any properties below £12k RV will continue to be exempt from business rates:** Currently any business with a rateable value of £6,000 or less is exempt from business rates until March 2017. This is double the usual rate of 50%. Furthermore, the rate of relief goes down gradually from 100% to 0% for properties with a rateable value between £6,001 and £12,000. For the purpose of simplicity, and to make up for any additional discounts councils apply in their area it has been assumed that all properties with a RV below £12,000 pay no business rates.
- **All properties below £12k RV are not subject to business rates:** Therefore, assuming that no individual owns multiple properties, some of which are below £12k, making them eligible for business rates. This is impossible to calculate with the data available. This, coupled with the above, means that the figure is a likely under-estimate.
- **Business rate multipliers will remain the same:** In reality, this is unlikely to be correct as multipliers change every year. However, because of this uncertainty, it has been assumed that business rate multipliers will remain uniform across all local authorities in the corridor at the 2016/17 rate: 48.4p for small businesses (RV under £51k) and 49.7p for large businesses. This means that figures are in 2016/17 money.
- **All business rates growth is independent of the economic cycle:** The impact of the economic cycle is ignored when we assume that the years 2019/20-2025/26 will see average growth.
- **All increases in employment space will mirror the existing average:** With the same distribution of premise valuations. Although this is a broad assumption to make, it is necessary in order to project future income without far more specific knowledge of the size of premises on new office space.
- **No premises have been affected by local disruption:** This would make them eligible for a business rates discount, however this is impossible to project.
- **No properties receive rural relief:** this is impossible to project.

- **No employment space growth is in enterprise zones:** This is not accurate, but impossible to model.
- **Precepts:** Unitary authorities will receive 98% retention, whilst counties and districts will receive 50% retention each.
- **Employment land growth:** That is identified by Savills in the Local Plans will be met, and the years 2019/20-2025/26 will see average growth.
- **Ratio of employment land to employment space:** As described in the footnote to Table 23, we have estimated the relationship between employment land and employment space on the basis of estimates.



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